



BACKGROUND

High-value agriculture products have real potential to drive growth, employment and incomes. However, in Indonesia the competitiveness of this sector is constrained by low levels of adoption of improved technologies, low investment in new technologies, inadequate infrastructure and high transports costs to move products to the markets, underdeveloped agribusiness practices and lack of policy incentives. The following provides a brief summary and description of USAID/Indonesia's new AMARTA II project as well as other activities aimed at improving the competitiveness and strength of the agricultural sector.

AMARTA II

From 2006 through 2011, the first Agribusiness Markets and Support Activity (AMARTA I) project addressed the development of selected high-value crops (coffee, cocoa and horticulture crops). The main activities were technology transfer, farmer training, training extension workers, facilitating the formation of farmers groups and agribusiness alliances and linking producers with domestic and export marketing agencies. AMARTA I was implemented in selected districts in five regions (South Sulawesi, North Sumatra, West Java, Bali and Papua). Over 200 active farmer associations were established and/or supported by the AMARTA I project. AMARTA I was implemented in close collaboration with the national and regional authorities at the district and sub-district levels. Several beneficiary groups and high level district authorities as well as private sector groups have requested continued technical assistance and support for the comprehensive development of the three value chains. AMARTA II is intended to be the vehicle by which USAID is responding to these requests.

Agricultural Markets and Support Activity (AMARTA II) is a follow on to the AMARTA I. Its design benefits from AMARTA I's successful interventions over the last four years. AMARTA II will also receive support from the USAUD-funded agricultural research projects for pest management, vegetable research and development and the biosafety project. The solutions under AMARTA II will be demand-driven based on small farmer needs and contribute to the results and outcomes of USAID's Strategy.

AMARTA II will continue to focus on the improvement of selected high-value crops through technology transfer, training of farmers, strengthening farmers groups and associations, promoting market linkages, and supporting policy and regulatory changes through advice by stakeholders. Towards this end, it will provide technical assistance across the key value chain links, train farmers, strengthen farmers associations, support the growth of small and medium agribusiness enterprises, including domestics and export marketing, and will work with and support GOI institutions involved in agricultural technology transfer and technology development. AMARTA II is designed to enable USAID and the Government of Indonesia to respond to the urgent need for improved productivity and quality of high-value crops, producers' access to markets and finance, and private sector-led improvement of agriculture and agribusiness sector policy and regulatory environment – essential ingredients of any program designed to mitigate rural poverty and unemployment through increased incomes of large number of smallholders.

AMARTA II's program design is based on the substantial results accomplished under the pilot activities implemented by AMARTA I, which strengthened the value chains of three high-value commodities (coffee, cocoa and horticultural crops). These successes in high-value crops have to be institutionalized and scaled up for far reaching private sector-led impacts on smallholder incomes, poverty reduction, and to generate multiplier effects in rural areas.

Sound economic policy and transparent regulatory environment and its implementation are essential to achieving rapid, inclusive and sustainable economic growth. Pro-poor policies and effective rural and private sector institutions are needed to reduce poverty. The agriculture policy component of AMARTA II will provide information to the stakeholders which is required for policy advocacy and regulatory reform, including evidence-based information for action by the policy makers. Supplying sound analyses of policy and

regulatory issues, including implementation constraints, to key policy makers and advocates will help the reform process, leading to better policies and better implementation. In turn, the transparent and predictable business environment will encourage investment, economic growth, and the creation of employment, which will help to reduce poverty.

In addition, AMARTA II is directly aimed at assisting smallholders who can be targeted better and their production and marketing practices made more effective by applying appropriate technologies and agriculture-as-business principles. To promote sustainability, the project will utilize and strengthen the private sector-led agribusiness environment across the value chains. Indonesian institutions, especially farmer support institutions, will be strengthened to access credit, production, processing and marketing services.

AMARTA II COMPONENTS

USAID's Agricultural Markets and Support Activity II program has three components organized around the development of value chains of three groups of high-value commodities: horticulture (vegetables, fruits and flowers), cocoa and coffee. The components of AMARTA II are:

Value Chain Development AMARTA II implementation will build on the successes and experiences of AMARTA I. AMARTA II activities will further improve value chains for horticulture crops (vegetables, fruits and flowers), cocoa and coffee. AMARTA II will provide technical assistance across the key value chain links, train farmers, strengthen farmers associations, support the growth of small and medium agribusiness enterprises, including domestics and export marketing, and will work with and support GOI institutions involved in agricultural technology development and transfer. These activities will increase productivity, incomes and employment in the target regions. AMARTA II will be implemented in four provinces (Java, N. Sumatra, South Sulawesi and Bali). While continuing implementation in these provinces, AMARTA II will identify additional regions and districts that are major producers of the target commodities and thus seeks to increase the number of beneficiaries. However, this expansion will depend on the additional resources that will be forth coming from various partners.

Facilitating Access to Credit AMARTA II will provide technical assistance to banks participating in the USAID-funded Loan Guarantee Program. Under a separate arrangement with USAID/Development Credit Authority (DCA), USAID/Indonesia will fund an agricultural loan guarantee program to enable access to credit by farmers and small and medium agribusinesses. AMARTA II will provide technical assistance to work with these banks to facilitate upstream and downstream credit processes.

Agriculture Policy and Regulatory Analyses: AMARTA II will: 1) Conduct in-depth policy and regulatory analyses especially as they affect the target commodity groups, agribusinesses, and the agriculture sector in general; 2) Establish a forum for advocacy and promotion of policy and regulatory reforms; 3) Strengthen stakeholder groups' advocacy capacity; 4) Work with Bank of Indonesia to clarify, improve regulatory environment for financial inclusion and promote the use of mobile money and mobile banking; and 5) Support advocacy activities.

IMPLEMENTATION STRATEGY

In order to achieve these goals, AMARTA II has identified the following activities that will be implemented over the next five years.

Analyze other potential high-value crops (value chains)

AMARTA II will evaluate the potential of high-value crops beyond the five foci crops. This will include intensifying certain aspects of current high-value crop value chains. For example, AMARTA II will consider storage and transport tolerant products that have implications for household food security and for selling to food and livestock feed processors. AMARTA II will also work to identify opportunities for developing artisanal (village-based) packing industries for packing fresh produce; using locally available material should be explored to increase rural employment.

Improving smallholder productivity and income through technology transfer, training and market linkages

In addition to transferring technology, AMARTA II will include new approaches to farmer training, working with local extension systems and commodity directorates of the Ministry of Agriculture (MOA) as well as coordinating with research institutions and private associations. Approaches to providing farmers with improved planting material, improved seeds, grafting/pruning tools and

solar drying units will be included in the project. AMARTA II will continue to focus on successful, cost-effective approaches and methodologies identified in AMARTA (e.g., developing a cadre of trained farmers to lead and conduct site-based training, farmer field schools). AMARTA II will also integrate a “multi-channel” approach to training, complementing face-to-face training with ICT-enabled approaches.

Coordination with research and development institutions

AMARTA II will provide for the identification of improved technology needs of smallholders producing target high-value crops and their inclusion in Indonesian agricultural research institutions’ annual research plans. Specific constraints and problems identified will be addressed for enhancing value chain productivity. In this regard AMARTA II will work with research programs funded by USAID to ensure that farmer-identified technology needs are included in the annual research agendas. USAID is funding a number of R&D programs in Indonesia the areas of IPM, biotechnology, biosafety and development/introduction and testing of new varieties of vegetables which could be valuable project activities. Coordination with research institutions to conduct on-farm testing and demonstrations will be a priority during the project’s implementation.

Identify opportunities for improving product quality and value-added product development

AMARTA II will examine opportunities to enhance agro-processing of selected commodities, based on the identification of market potential, overcoming technical, attracting private investment and removing any policy constraints. These opportunities in developing agro-processing will be realistic as to their achievable results. AMARTA II will leverage private investment through agribusiness alliances.

Assess and develop strategies for market linkages/penetration

There is a continuing need for improving producers’ linkages to markets for high-value target crops. AMARTA II will work with other donor partners implementing similar activities and will identify domestic rural and urban markets and regional markets that either exist and could be expanded or could be developed. As part of the market penetration strategy, policy and transport constraints will need to be dealt and evaluated.

Develop appropriate technology and market information products

AMARTA II will develop information products which are relevant to the communities of the focal value chains based on market research and with the support of USAID ICT experts.

Identify geographic areas of focus:

AMARTA II’s geographic focus will be driven primarily by the location of the focal high-priority value chains. However, the geographic focus will also take into account the need to address gaps not addressed by the AMARTA I program. The provinces where AMARTA was implemented (except Papua) will continue to be the primary areas of project interventions. The objective is to consolidate the progress that has been accomplished and needs sustained support.

Identify constraints and provide innovative private sector solutions for improving access to key inputs

Considering private sector extension models from other countries, AMARTA II will coordinate with other programs and donors to develop innovative private sector solutions and alternatives to address the constraints faced by producers in accessing vital inputs. These solutions will include advice on input supply and market information.

Develop and implement a strategy for integrating grades and standards into priority value chains

In coordination with the Indonesian government, AMARTA II will develop interventions to improve and implement grades, standards, export certifications, and overall quality of products to meet consumer and market requirements.

Develop new and innovative means for accessing finance

AMARTA II will work with smallholders, farmer’s organizations and other value chain entrepreneurs to develop profitable value chain-based business plans. In addition, AMARTA II will work with financial institutions to develop alternative ways to assess traditional collateral requirements for providing agricultural credit and develop other acceptable collateral guarantees. One innovative approach to improving access to financial services for smallholder farmers is the use of mobile money and mobile banking, which may be included in AMARTA II, following feasibility studies.

Agribusiness policy analyses

AMARTA II will perform detailed analysis of agribusiness policies and establish an appropriate forum for regular government and stakeholder dialogue for promoting policy changes. This analysis will include agriculture sector and trade policies that will impact on the production and marketing of high-value crops.

Identify and leverage resources

AMARTA II will develop public-private partnerships to leverage resources from clients, beneficiary groups and private sector firms and organizations. Resources may also be leveraged/generated through co-funding and/or coordinating activities with other donors working toward similar objectives in the AMARTA II intervention areas. Leveraged resources are expected to contribute to additional resources for the project as well as to the sustainability of activities after AMARTA II concludes.

Evaluate the transport and other relevant infrastructure constraints

AMARTA II will evaluate and make recommendation as to development options to address infrastructure constraints as part of its on-going involvement with value chains and related issues for achieving market access. Farm-to-market roads with related transit infrastructure, irrigation infrastructure, warehousing, post-harvest and cold storage facilities etc. will be evaluated and recommendations will be provided to determine how best to facilitate and implement needed actions by the government.

Ensure environmental sustainability

Given the nature of the project, there is a potential for negative impacts on the environment such as unsustainable land use, deforestation and the excessive use of agro-chemicals. AMARTA II will conduct appropriate Environmental Impact Analyses and pesticide reviews. The results of the environmental analyses will be incorporated into the activities supported by AMARTA II. In addition, AMARTA II projects will follow "best agricultural practices" that minimize any potential adverse environmental impacts.

EXPECTED OUTCOMES

AMARTA II expects several positive outcomes from this project's activities.

1. Increased use of improved inputs and the adoption of Good Agricultural Practices
2. Increased incomes of smallholders in the project intervention areas
3. Increases in production of priority food and cash crop commodities that are being sold in domestic and regional markets
4. Increased quantities of value-added/processed target commodities marketed
5. Increased agribusiness related activity and private investment in the sector
6. Increased value-chain financing by banks and/or other relevant financial institutions
7. Reliable and widespread use of market information through innovative means
8. Transformation of informal sector economic activities to formal commercial economic activities
9. Increased domestically-produced fresh produce sold in major supermarket chains

ESTIMATED COST AND USAID CONTRIBUTION:

AMARTA II will be a 5-year project estimated to be funded at USD \$20M. The project is expected to begin implementation in July/August 2011 and continue through mid-2016. USAID expects to generate additional resources through alliances with the Government of Indonesia and private sector partners.

USAID AGRICULTURAL DEVELOPMENT PROGRAMS SUPPORTING AND COMPLEMENTING AMARTA II

Improvement of high-value crop value chains requires new policies and technologies, especially new varieties that are resistant to pests and diseases, are high-yielding and are of the high quality demanded by consumers. Lack of such varieties, especially in vegetables and fruits, was frequently reported by farmers. Recognizing this as a strategic need for Indonesia, USAID has funded the following programs that directly support AMARTA II as well as and Indonesia in the long run.

PROGRAM FOR BIO-SAFETY SYSTEMS

USAID's Bio-Safety Systems Program aims to improve food safety and food-handling related policies and processes. Project funding is USD \$500,000 and involves partnering with Indonesia's Biotechnology Commission as well as other related institutions. Technical assistance is provided by the University of Michigan and IFPRI. The project will remain active through 2011.

INTEGRATED PEST MANAGEMENT PROGRAM

USAID's Integrated Pest Management (IPM) Collaborative Research Support Program aims to strengthen Indonesia's food-to-market sector by developing and transferring integrated pest management technologies for vegetable, coffee, cocoa and rice crops. Project funding is USD \$500,000. Two Indonesian universities, IPB and UNSRAT, and two Indonesian Agricultural research institutions, IVEGRI and ICCRI, are partnering with Clemson University (USA) and Virginia Polytechnic Institute. The project will remain active through 2015.

MOBILIZING VEGETABLE GENETIC RESOURCES AND TECHNOLOGIES

Vegetable research and development under this program seeks to promote the introduction and testing of selected high-value vegetable varieties and production practices and transfer these to the farmers. This project partners with IVGRI, UniUdayana University (Bali), BPTP and DINAS (East Java and Bali). Technical assistance is provided by the International Vegetable Research and Development Center (AVRDC). This program aims to develop, introduce, and monitor new vegetable strains to Indonesia, increasing the market value of Indonesia's horticultural agricultural sector. Project funding is USD \$1.5M, and it will remain active through 2014.

COCOA VALUE CHAIN, SULAWESI

USAID's Cocoa Value Chain Program aims to increase female farmer income levels through improved cocoa production and processing. Project funding is USD \$1M, and it will remain active through 2014.

FURTHER INFORMATION

If you are interested in receiving further information regarding the AMARTA II program, please contact:

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