

# STRATEGIES FOR IMPROVING COORDINATION BETWEEN THE PUBLIC AND PRIVATE INSTITUTIONS FOR AGRICULTURAL AND RURAL DEVELOPMENT

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## ABSTRAK

Sektor pertanian memiliki peranan yang strategis dalam penyerapan tenaga kerja, pembentukan kapital, penyediaan pangan, dan menyediakan bahan baku untuk industri dalam negeri. Globalisasi secara serta merta telah merubah kebijakan pemimpin-pemimpin nasional dalam menangani pembangunan pertanian dan agribisnis. Berbagai negara menjadi lebih terbuka menuju ke arah demokrasi. Melalui dampak desentralisasi, pemerintah telah beralih dari sikap mendominasi di masa lalu menuju pada partisipasi masyarakat. Hal ini berimplikasi kepada semakin besarnya peran sektor swasta dalam pembangunan pertanian di pedesaan. Dengan visi baru ini, maka pertanian tidak lagi dipandang sebagai sektor yang terpisah-pisah, namun menjadi lebih luas, dimana mencakup aktivitas-aktivitas yang terkait mulai dari subsistem hulu sampai hilir. Pemerintahan yang baik dituntut untuk mendorong koordinasi antara institusi swasta dan publik mencakup: pengembangan infrastruktur, pengembangan industri benih, pengembangan dan penguatan agroindustri di pedesaan, pengembangan informasi pasar, merestruktur pasar dan kebijakan perdagangan, pengembangan sektor swasta, usaha mikro, kecil, menengah, stabilitas ekonomi makro, deregulasi pasar lahan, penguatan pemerintahan, keberlanjutan lingkungan, dan peningkatan produktivitas pedesaan. Semua kebijakan ini mestilah dilakukan secara transparan dan dikomunikasikan kepada seluruh stakeholders yang terlibat dalam pembangunan pertanian dan pedesaan.

**Kata kunci :** *kelembagaan, pembangunan pedesaan, agribisnis, pembangunan pertanian*

## ABSTRACT

Agriculture/agribusiness plays a strategic role in labor absorption, capital formation, foreign exchange, providing food supply, and supply a market for domestically produced industrial goods. Globalization has suddenly changed the way leaders of nations in managing agriculture/agribusiness development. Many countries are more open, moving toward democracy. Through the impact of decentralization, the government is shifting from dominating development in the past to people participation. This implies that the private sector will play a more active role in agriculture/agribusiness and rural development. With the new vision, agriculture should not be seen as a separate sector (on-farm), but in a more broad way which is agribusiness consisting of all related activities from upstream to downstream agribusiness subsystem. Good governance is a prerequisite to encourage private institutions to participate in agriculture/agribusiness and rural development. Policy measures to improve coordination between public and private institutions includes: infrastructure development, development of seed industry, develop and strengthen agro-industry in rural areas, develop and strengthen market information, market restructuring and trade policy, development of the private sector, micro, small, and medium size enterprises, macroeconomic stability, land market deregulation, strengthening of governance, environment sustainability, and improving rural productivity. All of these measures must be transparent and communicated to all stakeholders in agriculture/agribusiness and rural development.

**Key words :** *institution, rural development, agribusiness, agricultural development*

## INTRODUCTION

In most developing countries, agriculture remains the main source of income and

employment. It is also the predominant source of foreign exchange earnings. Effort to significantly reduce unemployment through industrialization is not feasible. The required growth of industrialization to reduce unemploy-

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## NEW VISION OF AGRICULTURE AND RURAL DEVELOPMENT

ment and to absorb the growing labor force is beyond the limited resources and managerial ability of developing countries. Consequently, employment opportunities must be expanded in the agricultural sector and related activities in the field of rural development.

For long time agriculture and rural development has been neglected regardless the importance of agriculture and rural development for welfare of the people. Reasons for this are many, but critical factors are i) poor commitments of countries, and (ii) declining international interest in rural issues.

In the meantime the world today is characterized by rapid and fundamental change toward a new global economic change. Geopolitical change and the increasingly rapid development of science and technology are quickly driving the world economy into the era of globalization.

Obviously, globalization will affect national economies as well, including the agricultural sector and all of its various activities. We also observed that many countries are more open, moving toward democracy. Eastern European countries have changed from socialist to a more democratic system. China and the former Soviet Union also experienced rapid change. Indonesia has just moved from authoritarian into a democratic country. All of these transformations suddenly changed the way leaders of nations in managing agriculture development.

For the past 32 years Indonesia's agricultural development has been centralized, and mostly dominated by the government. Recently after deep crisis, the paradigm has drastically changed in two things: *first* the so called decentralization or regional autonomy, and *second* shifting role of the government from dominating development in the past to people participation (*from command and control to people empower*). The role of government is to encourage the emergence of entrepreneurs and to provide conducive socio-economic climate, *steering rather than rowing*. This implies that the private sector will play a more active role in agriculture/agribusiness and rural development. At issue is how to improve coordination between the public and the private sector.

Most western development economists of the 1950s and 1960s did not view agriculture as an important contributor to economic growth. Lewis (1954) in his two sectors model (capitalist sector or modern/industry sector vs. non-capitalist or traditional agriculture sector) viewed there will be transfer of labor from traditional sector to the modern sector which expands through reinvestment of profits. Expansion in the modern sector continued until earnings in the two sectors were equated. The Lewis model implies that modern sector must be prioritized.

The relatively little attention to agriculture's potential positive role in facilitating overall economic growth was based on the empirical observation that agriculture's share of the economy inevitably declines during the course of development for at least two reasons. **First**, the income elasticity of demand for unprocessed produce is less than unity and declines with higher incomes; hence the demand for raw agricultural products grows more slowly than consumption in general. **Second**, increasing labor productivity in agriculture means that the same farm output can be produced with fewer workers, implying a transfer of labor to other sectors of the economy. Because agriculture's share of the economy was assumed to be declining, many economists downplayed the need to invest in agricultural sector in the short run.

Similarly, Hirschman in his influential book '*The Strategy of Economic Development* (1958)', using the concept of linkages, argued that government investment should be concentrated in activities where the linkage effects were greatest--manufacturing is superior. Investment in industry would lead to a more rapid and more broadly based economic growth than would investment in agriculture.

By contrast, in a seminal article '*The Role of Agriculture in Economic Development*' (1961) Johnson and Mellor argued that far from playing a passive role in development, agriculture could make five important contributions to the structural transformation of

the Third World economies: **provides labor, capital, foreign exchange, and food to the growing industrial sector** and could **supply a market for domestically produced industrial goods**. They argued that the interrelationship between agriculture and industry at various stages of development have important implications for the types of agricultural and industrialization strategies that would be most likely to succeed.

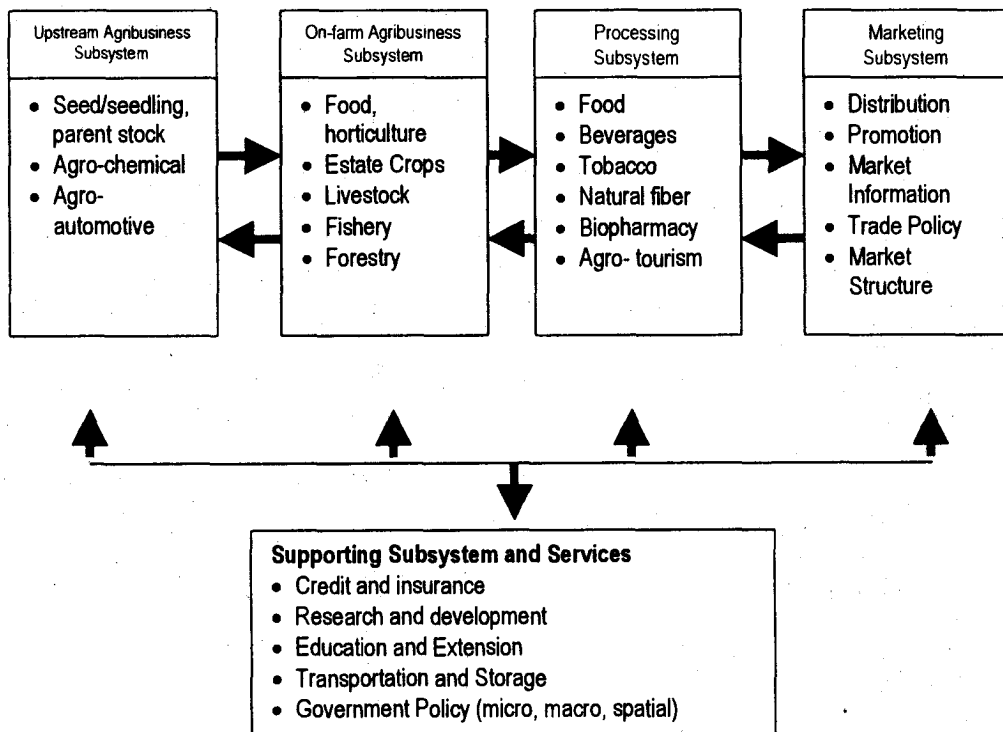
Johnston and Mellor's article and William H. Nicholls's influential article *'The Place of Agriculture in Economic Development'* (1964) view instrumental in encouraging economists to view agriculture as a potential positive force in development, and they helped to stimulate debate on the interdependence of agricultural and industrial growth.

Davis and Goldberg in their book *'The Concept of Agribusiness'* (1957) stressed the inter-linked between the agriculture and industrial sectors. *'The agricultural world and*

*the industrial world are not two separate economies having merely a buyer-seller relationship. Rather, they are so intertwined and inseparably bound together that one must think of them jointly if there is to be any sound thinking about either one or the other* (Davis & Goldberg, 1957).

This view leads to different way of seeing agriculture. Agriculture sector should not be seen in a narrow perspective that is on farm, but in a more broad way which is agribusiness. In this view, agribusiness integrates at least agriculture, processing, and marketing.

The concept of agribusiness as a system represents the totality or unity of agribusiness performance, comprising (1) upstream agribusiness subsystem, including economic activity to produce farm inputs, information, and technology; (2) farming system subsystem, including the primary agricultural production, crops, livestock and fishery; (3) agri-



**Figure 1. The Scope of Agribusiness System Development.**

business processing subsystem (agro-industry); (4) agribusiness marketing subsystem; and (5) agribusiness supporting subsystem, including infrastructure and services, and conducive environment for agribusiness development. Figure 1 shows in brief the interaction between the five subsystems of agribusiness development.

In the development of agribusiness system the five subsystems and the enterprises within the system need to be developed simultaneously and harmoniously. The task of development management is to *orchestra* the development of the five subsystems in a harmonious and synergic fashion.

The development process represents the process of planned change to move from the present condition to the better condition in the future. In this regard, the development of agribusiness is directed to utilize the existing comparative advantage of a country to become a strong competitive advantage.

What does the new paradigm of seeing agriculture imply on rural development? Agribusiness development implies growth and equity simultaneously such that in the long run there will be inter-sectoral equilibrium. This also will create *meaningful employment* outside of agriculture sector particularly in agro-industry, reducing the agriculture sector's capacity in labor absorption and hence improves efficiency. Because most resources exist in rural areas, agribusiness development means to develop rural areas, inequality between urban and city reduced, outmigration from rural could be prevented because more job opportunities exist in rural areas. Therefore agribusiness development is identical to rural development.

## **THE ROLE OF GOVERNMENT AND PRIVATE SECTORS IN AGRICULTURE AND RURAL DEVELOPMENT**

### **Good Governance as a Prerequisite for the Successful Development**

Nearly all development organizations, donors and multilateral institutions, have now recognized good governance as a vital factor and incorporated it into their policy setting.

The state governance also noticed that this is the key factor to achieve the goal of the development effectively and efficiently.

Governance has three legs namely economic, political, and administrative. Economic governance has implications on equity, poverty alleviation and improving quality of life. Political governance is a decision making process to formulate policy. Administrative governance is implementation system of policy process. Therefore, institutions of governance include 3 domains namely state or government, private sector and society.

The government's role is to provide conducive environments for politics, regulation and the whole development, private sectors creates jobs and income, meanwhile society positively plays in social, economic, and political interaction.

From the economic point of view, good governance includes the transparency, and accountability of state institutions, efficiency in administration and development-oriented budgeting. Meanwhile, the political definition request the opportunities for popular participation and the need for a social safety net as part of market economic system.

Without good governance, the scarce funds available are not generally put to their best use in reaching the goal of development. Good governance is necessary if all aspects of development will be achieved effectively and efficiently. Prerequisite for the good governance are popular participation, transparent and reliable legislation, reformed administrative bodies, and promotion. Government should devote more in social expenditure to strengthen the capabilities all of the fabrics in the society for the long-term objectives.

### **The Role of Government in a Modern Regime**

The collapse of communist regime in the end of eighties brought about the growing democratization in the world. Authoritarian or centralist government has been seen as the failure of the development. Amartya Sen, the Nobel winner 1998, has found empirical proof that serious famines and poverty is closely related with the low people participation in the

decision process and the absence of free press.

Decentralization has become issue in discussions about the appropriate and efficient governance systems in both developed and developing countries for the last few decades. The global movement towards decentralized models of development as a means of promoting key principles including regional autonomy, government accountability and transparency, economic efficiency and effectiveness and equitable access to services has been going on ever since.

The aim of increasing decentralization is to improve the planning and implementation of public services provision by incorporating local needs and conditions while meeting regional and national social and economic development objectives. The main principles of decentralization are the promotion of regional autonomy, bottom up planning, full participation by all stakeholders in democratic processes, greater regional control of financial resources and the more equitable sharing of resources between the center and the regions.

Compared to other countries, the process of decentralization in Indonesia is relatively slow. Efforts to promote decentralized planning and implementation of rural services have surged forward with the promulgation of two new laws governing regional governance and autonomy - *Undang-Undang* No. 22, 1999 on Regional Government and its companion document *Undang-Undang* No. 25, 2000 on Fiscal Balance between the central and regional governments. The two laws have been effectively started by first January 2001 and have dramatically changed the environment for planning, implementing and financing public services, with a more substantial emphasis on regional governments as the focus in decision making.

Traditional roles of government in agriculture/agribusiness and rural development are to provide basic physical infrastructure, conduct services and ensure the conducive climate for investment and fair markets in which all the stakeholders may fully participate. The government maintains the stabilization of macro-economy, social, politics, security, and law enforcement.

The World Bank recognized 6 (six) important general governmental roles in developing economy based on the experience of the USA and East Asian countries (Stiglitz, 1996). **The first** role is promoting education, general public education. **The other roles** are promoting technology, supporting financial sector, investing in infrastructure, preventing environmental degradation, and **the last** is creating and maintaining a social safety net. In their implementation, those roles should be supported by **sound macro economic policy**.

Adapting these roles in developing agriculture/agribusiness and rural development, the government should educate new entrepreneurs, businessmen and the agriculture community on the importance of markets, agro-industry and good production practices. Promoting technology may be aimed at improving quality, increasing productivity through high yielding varieties, reducing the dependency on the natural factors and innovating new features of agricultural products. Preventing environmental degradation is absolutely necessary to conserve natural resources for the future. Creating and maintaining a social safety net such as issuing relevant laws, refining and enforcing commercial laws and regulations fairly covering all segments in the community and controlling administrative abuses are definitely required to support the conducive climate for the overall growth of development.

According to Boomgard (1993) the primary responsibilities of the government in promoting broad-based agribusiness can be grouped into four broad headings namely: creating a business climate conducive to agribusiness growth; creating a level playing field for small firms and farms; strengthening resource and support institutions; and providing needed investment infrastructure, public goods and human resource development.

A supportive business climate is indicated by political and economic stability and influenced by several specific factors such as reducing barriers to entry, promoting competitive markets, improving and enhancing efficiency of any public services, controlling administrative abuses and unfair practices,

and refining and enforcing fair commercial laws equally.

Creating a level playing field for small firms and farms is a must. Policies and regulations have different effects on enterprises of different sizes. The element of business climate should be applied proportionately not discriminating against smaller economic units. Small firms and small farms do not require protection from the forces of the market since there is plenty of room for small enterprises to prosper in competitive situations.

The governments through providing different inputs and services such as research and development, information, standards, technical assistance, consulting and financial services may develop strengthening resource and support institutions. Some of those services may be maintained by the government itself and the other may be handed over to private or independent sectors.

Providing needed investment infrastructure, public goods such as communication, power, roads and transportation, as well as human resource development, are other responsibilities of the government. The government should also encourage the complementarity of public and private investments for agribusiness.

During the implementation of all the government's roles, such strategies should be considered. The government should have service orientation and a problem solving attitude, play as catalyst and broker having flexibility and responsiveness fairly, and develop creative and innovative solutions.

### **Private Sectors as the Engine of Growth**

The financial crisis sweeping Southeast Asia in the late 1997 has raised enormous new challenges for the governments. That phenomenon has wide impacts in Indonesia, contracting the economy and dropping the income per capita to be just a half of the value prior to the crisis. The crisis becomes multi-dimensional bringing about rapid change in national leaderships. The New Order regime under Suharto which had strongly governed for 32 years fell-down, followed by the transition period under BJ Habibie for only less than 2

years. The freely elected government under Abdurrahman Wahid was left to deal with massive internal discontent and calls for enhanced regional autonomy and greater transparency in government. Wahid's regime has been replaced recently by his Vice President, Megawati. The frequent political changes impede the recovery of national economy, so that Indonesia needs holistic and synergetic approaches to bolster the growth.

To maintain the competitiveness and ensure that the benefit goes to the right targets i.e. the community, it is urgent that the government responds the demands of efficient economy and transparent government. Considering that private sectors are the key to accelerate the economic growth, the government has been taking privatization as one of economic measures. Privatization has been applied not only to the state owned enterprises but also to some of provision services in the community.

Privatizing services and promoting community-based service provision are approaches that have proved successful in improving the quality of services and reducing the financial and administrative burdens on government. An example of success story on privatization is New Zealand. In 1984, this country embarked on an exercise aimed at de-bureaucratization and "*reinventing government*" in which privatization featured prominently. For a decade from 1984, New Zealand reduced the number of civil servants by 60 %, substantially reducing the public wage bill. Government expenditure as a proportion of GDP fell by 22 % while economic growth rate doubled to 6 % between 1991 and 1995. This success must be supported by excellent plan and prudential as well as consistent implementation.

The most public services provision in Indonesia has been traditionally dominated by the public sector. The role of the private sector in providing services was essentially non-existent. In the early years of independence, government programs focused on political stabilization, and almost there were little resources allocated to providing social and productive services or supporting small scale producers including farming enterprises. Entrepreneurs essentially carried out their

activities independently, assuming all the inherent risks by themselves. Notably accomplishment of agricultural development was the introduction of Mass Guidance for rice production in 1963. This program was totally top-down funded by the central government.

The government of Indonesia began to focus on developing economy started when oil boom in mid eighties. Special attention was paid to promoting growth in key sectors-agriculture, education and health. The country embarked on a period of rapid growth of economy indicated by construction of schools, public health care posts, supporting infrastructure such as roads and possibly most importantly expanding agriculture/agribusiness and natural resources sectors. The mode of operation in relation to these production-oriented programs was highly top-down and the central government in Jakarta making all of the major decisions including the type of commodities to be promoted and services to be provided. The programs tended to be implemented uniformly across the country no matter the various locally specific needs, conditions or aspirations.

To pace the public revenue and the economic growth, the government also runs the state owned enterprises (SOE) like private business having social function to assist a number of small to medium enterprises. Unfortunately, many SOEs were not profitable due to the inefficient and less professional practices as well as to many unnecessary interventions from the elite politics. Therefore the additional tasks to assist the SMEs were also unsuccessful.

Private sector can deliver services more efficiently and effectively than the public sector because they have greater flexibility and competition tends to drive the price down. However, the government should ensure that services are accessible to all, and are of a sufficient quality. Services providing benefits to the general public or allow the government to address issues of equity should probably not be privatized. Community based services may provide a useful alternative and they provide another route to streamline government burden.

## **STRATEGIES FOR IMPROVING COORDINATION**

The foregoing discussion implies that government, private sector and society needs to interact each other to achieve better agriculture/agribusiness and rural development. Various interests should be considered carefully in order to minimize conflicts. From the public sector perspective government should deliver the services to attract private sector investment in agriculture/agribusiness and rural areas. Private sector voices its interests in doing their business. Citizens, through their representative in legislative demand what is best for their welfare. Following are the policy measures to improve coordination between public and private sector.

### **Providing Infrastructure**

One of the problems facing agriculture/agribusiness and rural development is weakness of infrastructure. This is common in almost all developing countries. As infrastructure is a prerequisite for agriculture/agribusiness, government should expand and improve infrastructure supporting agriculture/agribusiness such as farm roads, irrigation, water, electricity, and rural markets. This will lower production costs, and attract private sector investment in agribusiness. A master plan for infrastructure development must be designed and implemented. In addition, government should encourage private sector participation in this project.

### **Develop and Improve Strong Seed Industry**

The future of agriculture/agribusiness depends much on high yield seeds. In many countries seed industry is monopolized by the government. This should be changed by inviting private sector to invest in seed industry. Joint cooperation among researchers from universities and abroad needs to be initiated. Strong seed industry will benefit farmers and investors.

## Develop and Strengthen Agro-industry in Rural Areas

Public investment should be directed more toward downstream industry such as agro-processing industries. Incentive should be provided for small scale agro-industries supporting with working capital, information, technology, and quality improvement assistance. Positive impacts of this project are to absorb labor from agriculture/agribusiness sector, improved quality, and increase income of farmers and private sectors.

## Develop and Strengthen Market Information

With a more open global market, it is crucial to develop market information system to make information symmetrical for all economic actors, including farmers. With more access to market information, farmers and the private sector can make better production planning. Bargaining position of farmers also improved.

## Market Restructuring and Trade Policy

Efficiency and competitive advantage of a nation is determined by market structure. With more open and transparent global market structure, Indonesia realizes a need to restructure its market. Currently Indonesia is restructuring its market by eliminating the monopoly, oligopoly, monopsony and oligopsony rights in many sectors, and the Law on Fair Competition has been launched in 1999.

Since the poor groups are vulnerable to the free trade, the government has to ensure that the market work better for the poor. Only in this way can we improve the rural terms of trade and strengthen the structure of rural economy as a renewable resource-based for agricultural products. Policies that discriminating agriculture/agribusiness must also be avoided, such as low import tariff and existing export tax for certain agricultural products. It is also important to eliminate complicated procedures.

### Profile

#### Nusa Indah II Small Farmer Group Guwo Village, Pati District-Central Java

The village is located in the mountain area where most villagers are farm-workers. In 1993, before forming a group, husband was the only income earner for family with income equivalent to 308 kg rice/capita/year.

In September 1993, 10 wives of farm-workers formed small farmer group named '**KPK Nusa Indah II**', and started a small business, marketing vegetables, sauces, processed foods and fruits facilitated with **first** credit amounted of Rp. 1.000.000. Family income started to increase and the group members started to save. All credits were paid back on time. Then the credit increased, the **second** credits was Rp. 1.650.000, then the **third** was Rp. 2.000.000, and the **fourth** in 1997 was Rp. 2.000.000, all credits were paid timely.

At the end of 1997 income level has reached equivalent to 680 kg/ rice/capita/year—more than doubled compared to that in 1993. Business activities including trading, opening kiosks, raising sheep, making chips, feed, and organic fertilizer. Other activities were saving within the group amounted Rp. 1.929.200 and saving in bank amounted Rp. 982.250,-. House condition improved with better furniture, and children could reach higher education.



## **Development of the Private Sector**

Government must treat the private sector as partner. Administrative simplification and promotion of competitiveness will contribute to private sector participation in agriculture/agribusiness and rural development. Government should provide opportunities for private sector to deliver public services such as electrical power and telephone distribution. This measure will increase private sector involvement, raise local government tax revenue, and better public services.

## **Micro, Small, and Medium Enterprises**

Support micro, medium, and small production units, especially through financial and technical assistance and access to markets (see box). Rural incubator program will create new agribusiness entrepreneurs for local people, and absorbs labor.

## **Macroeconomic Stability**

From fiscal policy standpoint it is crucial to enhance the efficiency of government expenditure and revenue. More budgets for rural infrastructure will lower production costs. Progressive land tax system will improve land distribution that benefits small farmers.

Effort to reduce inflation improves terms of trade in favor of agriculture. Policy to establish micro-financial system in rural areas can improve access to credit for farmers and SMEs to start business. It is also important to further progress in decentralization and deconcentration, with community participation.

## **Land Market Deregulation**

The government has to create securing land market. According to Quan (2000), in order to ensure the land market for the poor, the government should intervene on the following:

- Customary tenure systems should be recognized by, and integrated into, the legislative framework, with land registered in the name of communities.
- Tenants rights should be extended, and initiatives taken to encourage the development of rental markets.

- Women's rights and access to land should be promoted, in particular through the reform of inheritance laws.
- Governments should facilitate the management of natural resources at the community level.
- Governments should promote the participation of stakeholders in the development of land policy.

## **Strengthening of Governance**

Consolidate good governance in the country and strengthen democratic participation process. Strengthen NGOs' and developmental organizations' structures and their role as promoters of citizen participations. Government must continue introducing accountability mechanisms regarding the use of funds and transparent procurement procedures in accordance with law.

## **Environment Sustainability**

Regulation needs to be set to improve sustainability of natural resources by protecting the environment. Promotion for environment protection is conducted with local government civil society and central government among others through environmental education programs.

## **Improving Rural Productivity**

Many of the self-employed in developing countries are poor, and improving their productivity, income, and welfare is a high priority. It is very strategic to improve rural skill through involvement of NGOs, agricultural/agribusiness extension, and training for rural self-employment for rural youths.

A matrix showing policy measures to improve coordination between public and private sector is presented in Table 1.

To implement the policies effectively it is urgently needed to create a formal forum to decide on various operational coordination issues in more details. The suggested forum is '*The National Forum for Agribusiness and Rural Development*'. The forum consists of government officials, the Center and Regional

Board of Commerce, Universities, NGOs, Legislative, and interested professional associations.

The task functions of the forum are as follows:

- (1) planning, coordination, implementation, and monitoring the development of the cross-sectoral and integrated agriculture/agribusiness and rural development at the national level,
- (2) to ensure the effectiveness of the involving sectors in agriculture/agribusiness and rural development will private institutions' participation,
- (3) to find the solution of the operational field problems in case conflicts arise, which are beyond the capacity of the regional agencies to resolve, and hence the support of the central government is called for.

At the regional level (province and district/municipality), the management of the agriculture/agribusiness and rural development is under coordination of '*The Regional Forum for Agribusiness and Rural Development*'. The forum consists of the Regional Board of Commerce, Regional legislative, NGOs, professional associations, and the Universities. The task functions of the Regional forum are as follows:

- (1) to coordinate planning, implementation, and monitoring of agriculture/agribusiness and rural development in an integrated fashion
- (2) to ensure the effectiveness of the support of involving sector in agriculture/agribusiness and rural development
- (3) to synchronize field operation

## CONCLUSIONS

For most developing countries agriculture/agribusiness plays a strategic roles in labor absorption, capital formation, foreign exchange, providing food supply, and supply a market for domestically produced industrial goods. Nevertheless, for long time agriculture/agribusiness and rural development has been neglected regardless the importance of agri-

culture/agribusiness and rural development for welfare of the people.

As a result of globalization many countries are more open, moving toward democracy. Eastern European countries have changed from socialist to a more democratic system. Indonesia has just moved from authoritarian into a democratic country. All of these transformations suddenly changed the way leaders of nations in managing agriculture/agribusiness development.

With the new vision, agriculture is not anymore seen as a separate sector (on-farm), but in a more broad way which is agribusiness. In this view, agribusiness integrates (1) upstream agribusiness subsystem, (2) farming system subsystem, (3) agribusiness processing subsystem (agro-industry); (4) marketing subsystem; and (5) agribusiness supporting subsystem.

For long time agricultural/agribusiness development has been centralized, and mostly dominated by the government. However, the paradigm has drastically changed through the impact of decentralization, and shifting role of the government from dominating development in the past to people participation (*from command and control to people empower*). The role of government is to encourage the emergence of entrepreneurs and to provide conducive socio-economic climate, *steering rather than rowing*. This implies that the private sector will play a more active role in agriculture/agribusiness and rural development. Government should consider private sector as a partner.

Good governance is a prerequisite to encourage private institutions to participate in agriculture/agribusiness and rural development. It includes transparency and accountability in economic, political and administrative aspects. Good governance insures the best allocation of scarce resources for agriculture/agribusiness development.

The government role is to provide public investment to attract private investment such as promoting training and education, technology, develop financial sector, build up infrastructure, preventing infrastructure degradation, and maintaining a social safety net

supported by sound macroeconomic policy. Government must also induce a level playing field for micro, small, and medium firms. Creating a business climate conducive to agriculture/agribusiness growth require laws and regulations. With this atmosphere private sector will create more jobs in rural areas.

Policy measures to improve coordination between public and private institutions includes a) infrastructure development, b) development of seed industry, c) develop and strengthen agro-industry in rural areas, d) develop and strengthen market information, e) market restructuring and trade policy, f) development of the private sector, g) macroeconomic stability, h) land market deregulation i) strengthening of governance, k) environment sustainability, and l) improving rural productivity.

All of these measures must be transparent and communicated to all stakeholders in agriculture/agribusiness and rural development. A communication forum (in central and regional) for agriculture/agribusiness and rural development consisting of government, private associations, NGOs, legislative needs to be established to insure good coordination from planning through and implementation stages. If this happens agribusiness enterprises will grow, and rural areas developed, and the country rich.

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