

Evaluating Tobacco Excise Sharing Fund as Policy Instrument for Farmers' Viable Alternatives in Indonesia: Case Study of Four Municipalities in Indonesia

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RESEARCH MANUSCRIPT SECTIONS

ABSTRACT

The Indonesia's Tobacco Excise Sharing Fund (DBHCHT) policy mandates that part of the fund should be allocated for tobacco crop diversification – reducing the farmers' reliance on tobacco industry as well as implementing Article 17 of Framework Convention on Tobacco Control (FCTC). However, very little is known on practical implication of this fund on tobacco farmers livelihood. We collected primary data from key stakeholders in four main tobacco producing municipalities. The data were analyzed using qualitative content analysis with NVivo 12. Numbers of challenges on DBHCHT utilization remained at sub-national levels. The sub-optimal use of DBHCHT could partly be explained by: (i) constantly changing central government regulation; (ii) farmers' unawareness of DBHCHT regulation; (iii) the delay in DBHCHT allocation; and (iv) supply and demand mismatch. Although Indonesia has not been a part of the FCTC ratification, the DBHCHT mandate is in line with the FCTC article 17, i.e., promoting economically viable alternatives for tobacco farmers. This study concluded that DBHCHT utilization needs to go a long way to void this mandate given the challenges at sub-national level. Therefore, this study recommends more technical and practical regulations involving multisectoral stakeholders and the use of DBHCHT to facilitate financial needs of crop diversification.

Keywords: tobacco control, tobacco farming, FCTC, Indonesia, public health

RESEARCH MANUSCRIPT SECTIONS

INTRODUCTION

The Article 17 of Framework Convention on Tobacco Control (FCTC) recognizes the importance to provide and support economically viable alternative activities for the livelihood of the groups impacted by the decrease in tobacco demand – one of which is tobacco farmers. This should provide as a counteractive argument to the prolonged perception that tobacco control measures could somewhat lead to detrimental effects for tobacco farmers' livelihood, which has not been supported by well-grounded research. Conversely, recent literature agreed that tobacco farming is a poor economic undertaking for many farmers globally[1-4]. As a result, tobacco farmers have been seeking a more lucrative plantation option through crop diversification or substitution. However, in many tobacco growing countries, farmers' uptake against the tobacco's economic viability remains a barrier[5]. Therefore, there should be a strong government's incentive to provide appropriate compensation and to accommodate crop diversification/substitution project[6].

Indonesia as a vast tobacco growing country addresses this concern by facilitating the funding for tobacco farming diversification. Indonesia has a specialized Revenue Sharing Fund of Tobacco Products Excise (DBHCHT) in which this fund sourced from the tobacco products excise and will be allocated to local governments based on their share of national tobacco production. The recent Ministry of Finance Regulation (PMK) No. 206/2020 mandated that this fund should be utilized for three main activities, e.g., social welfare activities (50%), law enforcement activities (25%), and public health activities (25%). DBHCHT funding for tobacco crop diversification – or tobacco farming activities – is part of the 50% social welfare activities. Of this figure, 15% is exclusively allocated for tobacco farming activities (i.e., for tobacco input material improvement) whereas the remaining 35% is distributed among tobacco

farmers and tobacco industry workers. The 35% fund aims to provide financial assistance for tobacco farmers and tobacco industry workers who wish to exit the tobacco farming/industry activities. The 35% fund also includes tobacco farming diversification to reduce farmers' dependence on tobacco crops.

Indonesia's tobacco excise figure has been increasing during the past decade. This trend is mainly supported by the continuous increase in tobacco excise tariff since 2015 – average of 10.92% increase annually. In 2021, Indonesia received over IDR3.48 trillion from tobacco excise. Of this figure, 77.15% went to two main tobacco growing provinces, e.g., East Java and Central Java. In addition to DBHCHT, local government also received 10% of local tobacco tax – 50% of which could also be utilized for mitigating the economic impact of tobacco control activities. Amidst the potential financing resources, Indonesian tobacco farmers are constantly living in unfavorable circumstances [7, 8], while very little is known on the effectiveness of DBHCHT financing in improving the tobacco farmers' livelihood. Considering this gap, this study aims to evaluate the DBHCHT utilization for Indonesian tobacco farmers, particularly in voiding the Article 17 of FCTC on tobacco crop diversification.

MATERIALS AND METHODS

Data collection

The study was conducted in two main tobacco producing provinces, e.g., East Java and Central Java. For each province, two municipalities with the largest tobacco production shares were chosen. East Java and Central Java each shared for 50.7% and 21.5% of national tobacco production in 2019[9]. We selected two municipalities in East Java, e.g., Pamekasan and Jember, sharing for 14.5% and 15.7% of East Java's tobacco production, respectively. Similarly, we selected Temanggung and Rembang for municipalities in Central Java. Each shared for 13.2%, and 14.3% of Central Java's tobacco production, respectively.

Two series of focus group discussions (FGDs) and two series of in-depth interviews (IDIs) were conducted. The first FGD was conducted with current tobacco farmers (N = 20) as the main informants while the second FGD invited ex tobacco farmers (N = 19) (i.e., no longer growing tobacco). Each series of FGD were conducted in four rounds (as there are four municipalities). FGD involved one researcher to provide the participants with guiding questions and one research assistant as note taker.

The first series of IDI was conducted at national level, involving key resource persons from Fiscal Policy Agency (Ministry of Finance), Directorate General of Plantations (Ministry of Agriculture), and Directorate General of Fiscal Balance (Ministry of Finance). Whereas the second series of IDI was conducted at sub-national level at each municipality. We conducted interview with key resource persons from Regional Agricultural Agency, Regional Development Planning Agency, Agriculture Instructors, Farmers Support Group, Farmers Association, Civil-Based Organization, and finally tribal/village chief. Similarly, each IDI involved one researcher to provide the resource person with guiding questions and one research assistant as note taker.

Patient and public involvement

Policymakers and public members were engaged in identifying informants and participants as well as developing and designing the key questions. Furthermore, the FGD participants were also actively involved in the discussion and were allowed to add additional questions to other informants/participants – aside from the key questions provided by the researchers. The key questions were informed by the researchers during the beginning of the discussion/interview. The results of the study were disseminated to the public members through a public webinar on late January 2022.

Data analysis

Each FGD or IDI was audio recorded and transcribed verbatim. The data is analyzed using content analysis technique whereby each data will be categorized based on certain theme[10]. The coding process was done using NVivo V.12 (computer software). We explored the informants' perspective on current DBHCHT utilization for tobacco farmers.

RESULTS AND DISCUSSION

Previous DBHCHT utilization

Prior to PMK No. 206/2020, no municipalities allocated DBHCHT for tobacco farming diversification. Following the preceding regulations, different municipalities applied different strategies for DBHCHT utilization. The variation of DBHCHT utilization across different municipalities were possible due to different local government regulations. Since 2016, there was no specific allocation for farming assistance from DBHCHT in Jember, hence farmers received nearly zero benefits from DBHCHT. DBHCHT was majorly distributed for healthcare and law enforcement programs. The case was similar in Pamekasan. In the absence of maximum of 25% allocation for healthcare mandate – which was explicitly mentioned in PMK No. 206/2020, the local government of Pamekasan had been mainly utilizing the DBHCHT for healthcare programs, primarily to support Universal Health Coverage (UHC) funding. However, tobacco farmers were still entitled to various production assistance programs ranging from vocational training to provision of varieties of agricultural infrastructure.

The major allocation for healthcare programs were also applicable in Temanggung. Following the preceding regulation of PMK No. 222/2017, the local government of Temanggung had been allocating over 50% of their DBHCHT funding for UHC programs. Of Rp31.47 billion of total DBHCHT funding received in 2019, only Rp6.19 billion (19.7%) was allocated for tobacco farming purposes. Whereas UHC received up to Rp17.09 billion (54.3%) from the total DBHCHT fund. Similarly, in Rembang, during 2016 – 2019, DBHCHT was allocated for the

provision of fertilizer and other agricultural infrastructure. In addition, the local government of Rembang had took the initiative to develop low-nicotine tobacco leaves as part of industry raw material and inputs advancement program funded by DBHCHT. However, the allocation of DBHCHT for tobacco farmers in Rembang only took up 10% of the total DBHCHT allocation – far below the mandated figure.

Box 1 Responses on DBH CHT Utilization in the Past (Before PMK No. 206/2020)
“Prior to PMK 206, we (the government of Pamekasan) focuses on social security, particularly for healthcare provision for the poor. We allocated nearly 50% (of the budget) for health insurance” – Regional Development Planning Agency of Pamekasan
“We (technical facilitators) have no practical knowledge on DBH CHT. We never know how much of DBH CHT are allocated for farmers. We only know how much this year the government receives this amount and will be allocated for this or that program” – Agriculture Instructor in Jember
“I personally never received any DBH CHT allocation” – tobacco farmers in Rembang
“DBH CHT allocation for farmers never even reached 10% of the total allocation” – farmers’ support group in Rembang

During 2021, the local government of Pamekasan has implemented the mandate of PMK No. 206/2020 along with other subsequent regulations (e.g., Ministry of Agriculture’s Regulation and Ministry of Home Affairs’ Regulation). The local government has accommodated the central government’s mandate by designing seven municipality’s programs for tobacco farmers. Four programs are dedicated to augment the tobacco farming’s production process while three others are part of tobacco farmers’ welfare improvement. However, our findings from field’s informants (i.e., farmers and/or agriculture facilitator) suggested that only three programs were implemented, e.g., vocational training, provision of agricultural chemicals, and direct cash transfer.

The tobacco farmers’ eligibility to receive direct cash transfer from DBHCHT were regulated under The East Java Regional Secretary’s Circular Letter (*Surat Edaran Sekretaris Daerah/SE Sekda*). This regulation allows tobacco farmers to receive direct cash transfer from DBHCHT

whilst also accepting other direct cash transfer programs – considering different objectives. This regulation is also the main reference for local government of Jember in allocating direct cash transfer for tobacco farmers. However, another SE Sekda on DBHCHT utilization slightly contradicts the central government’s regulations whereby this regulation limits the DBHCHT allocation for very few purposes (e.g., farming tools and equipment, agriculture chemicals, and farming infrastructure). This regulation overlooks the many programs as per central government’s mandates such as vocational trainings, capacity building, financial assistance for farmers who wish to build their own enterprises, and direct cash transfer. More importantly, tobacco diversification – which also has been postulated as part of DBHCHT “menu” in PMK No. 206/2020 – has not received any budget allocation from DBHCHT. Tobacco diversification across Rembang, Jember, Temanggung, and Pamekasan were largely farmers’ own initiatives.

Box 2 Responses on DBH CHT Utilization After PMK No. 206/2020
“We just held an audience with the government. Yes, indeed farmers who have received direct cash transfer (any other type) are eligible to accept DBH CHT. Previously (when the farmers were not allowed to receive double cash transfer), it was nearly impossible to identify eligible beneficiaries” – Tobacco Farmers Association of Pamekasan
“Even if we don’t allocate direct cash transfer, we still provide financing facilities. We also provide adequate infrastructure like farm road improvement to further facilitate the farmers” – Regional Development Planning Agency of Pamekasan
“PMK No. 206 doesn’t come with follow-up regulations providing technical guidance on the DBH CHT utilization, particularly for direct cash transfer. Hence, the governor (province) needs to pass on a circular letter so that each municipality won’t have their own regulation on this issue” – Regional Development Planning Agency of Jember

Challenges in DBHCHT utilization

The constantly changing regulation of DBHCHT have been identified as one of the main challenges in DBHCHT utilization by the local government. Since first implemented, the Ministry of Finance’s regulation on DBHCHT utilization has been revised four times. The first

PMK to mention about DBHCHT utilization is PMK No. 84/2008 followed by its amendment in PMK No. 20/2009. In 2016, the PMK No. 28/2016 annulled the preceding regulation followed by PMK No. 222/2017 and finally PMK No. 206/2020. All the five regulations had different implications for the local government as they implied different “menu” for DBHCHT utilization. Given Indonesia’s complicated bureaucracy process and complex regulation hierarchy, this results in inefficient DBHCHT utilization as the local government needs to constantly adjust with the changing regulation. In addition, the local government often mistranslates DBHCHT as a part of central government grant. Hence, the posts for DBHCHT utilization in local government budget might be incorrect and inconsistent with its main purposes – as DBHCHT is not a grant.

The local government’s confusion towards DBHCHT leads to farmers’ unawareness of DBHCHT. Neither agriculture technical facilitators nor farmer’s support groups were fully aware of the farmers’ rights on DBHCHT. This is the second main challenge for DBHCHT utilization. The technical facilitators were poorly informed about the DBHCHT utilization and therefore avoided being involved in the distribution’s process. With very little knowledge on DBHCHT, the technical facilitators prevent themselves for being charged guilty of any DBHCHT misuse.

The third challenge is the delay in DBHCHT utilization that frequently occurs in some municipalities. For instance, in Pamekasan funding for vocational trainings that were ought to be distributed prior to harvest season were late for many times. These trainings were meant to assist the farmers on post-harvest handling and to prevent them from post-harvest loss. With the delay in the distribution, the training may become less valuable and hence the program’s becoming less efficient. Furthermore, the delay in financing assistance debilitates farmers’ pre-harvest financing. Many farmers are heavily indebted due to pre-harvest financing issue. This may result in farmers’ reliance towards tobacco industry – and further tobacco industry

interference. Under poor pre-harvest financing situation, farmers will seek farming contracts and even loans from tobacco industry.

Finally, the fourth challenge for DBHCHT utilization is the mismatch between the total DBHCHT received by the municipalities (supply) and the number of farmers in the municipalities (demand). The number of farmers far exceeded the total DBHCHT fund available. In Jember, only approximately 50% of farmers successfully received financial assistance from DBHCHT. Similarly, in Pamekasan, only two out of 43 farmer's support groups received the funding. Aside from insufficient fund, the government's incapability of identifying eligible beneficiaries and farmer's unawareness were the main reasons for the inadequate DBHCHT distribution.

Policy recommendations to optimize the DBHCHT utilization

Local governments argued that the MoF mandates on DBHCHT allocation should be tied to each municipality's needs – given different locality's context. Some municipalities have fewer tobacco farmers and hence prioritizes allocation for health sectors. In contrast, some programs that are relatively less of priority (e.g., law enforcement which only contains regulation socialization) should receive less allocation to increase the DBHCHT allocation for tobacco farmers.

From the tobacco farmers point of view, DBHCHT, as it partly serves to improve tobacco farmers welfare, should be allocated for market's security rather than mere tools and equipment procurements. Tobacco farmers strongly agreed to PMK No. 206/2020 mandates on DBHCHT allocation for tobacco diversification, provided that the government ensures the alternative crop's prices and market's security as well as provides further technical assistance.

CONCLUSION

While extensive literature has provided insights on tobacco control measures, there are very few discussions on how the government accommodates impacted tobacco farmers in Indonesian context. This paper sheds the light on one of the government's noble policies to provide financing mechanism for tobacco crop diversification, i.e., DBHCHT. Our findings suggested that the inadequate DBHCHT utilization were mainly due to Indonesia's complex bureaucracy process and hierarchy structure. Following PMK No. 206/2020 mandate, DBHCHT utilization involves multisectoral agencies (e.g., finance, agricultural, health, manpower, and law enforcement agency). With multisectoral agencies involvement and complex bureaucracy process and hierarchy structure, DBHCHT monitoring, and evaluation narrowed down into mere financial reporting, ignoring the substantive purposes of DBHCHT. To establish measurable and sustainable outputs, PMK No. 206/2020 needs to be followed by more technical and practical regulations at both ministerial and local government levels. At the next level, a multisectoral taskforce at sub-national level (primarily in main tobacco growing provinces/municipalities) to convey overall DBHCHT implementation may be necessary. This will be particularly relevant for tobacco crop diversification as we found that tobacco crop diversification were mostly farmers' own initiatives – whilst government merely encourages with no practical support. Developing multisectoral taskforce to support tobacco control measures with specialized sub-national committee to support tobacco crop diversification has been proven by Bangladesh as a sustainable tobacco control measure[11] as it reduces farmers' reliance on tobacco industries[12]. In addition, strong engagement with local non-governmental organization and cooperatives could provide technical support for tobacco crop diversification and substitution as witnessed in Brazil[12].

Mere encouragement alone is insufficient to support tobacco farming crop substitution as some tobacco farmers are extremely attached to tobacco due to its perceived viability[13]. Whilst favorable financial access was mentioned as one of the factors driving farmers' persistence in growing tobacco[13], providing financial assistance targeted for crop diversification may compensate the farmers[6]. Hence, we strongly recommend DBHCHT allocation to facilitate the tobacco farmers crop diversification or to even facilitate the transition towards a complete tobacco substitution.

BACK MATTER

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