

REVENUE COLLECTION IN NON-EXTRACTIVE NATURAL RESOURCE SECTORS IN INDONESIA

BRIEF: POTENTIAL STATE REVENUE FROM THE REGIONAL FISHERY SECTOR AND ITS PROBLEMS

BRIEF FACTS

Number of fishing companies: 86 (2015)

Number of fishing boats: 639,708 (2015)

Production of capture fisheries:

- Total: 6,037,654 tons (2014)
- Sold in fish markets: 621,099 tons (2014); 535,712 tons (2015)

Number of capture fishery households: 643,105 (2014)

Tax revenue: IDR 941.8 million, 0.02 percent of total revenue (2015); IDR 839.5 million, 0.01 percent of total revenue (2016)

Non-tax revenue: IDR 79.27 million, 0.03 percent of total collections (2015); IDR 62.11 million, 0.14 percent of total collections (August 2016)

PDB contribution: 267.75 trillion (2015)

FISHERY SECTOR IN INDONESIA

Indonesia's fishery sector has the potential of reaching Maximum Sustainable Yields (MSY) of 6.5 to 9.9 million tons per year. In 2015, the recorded production of captured fish reached 6.2 million tons.

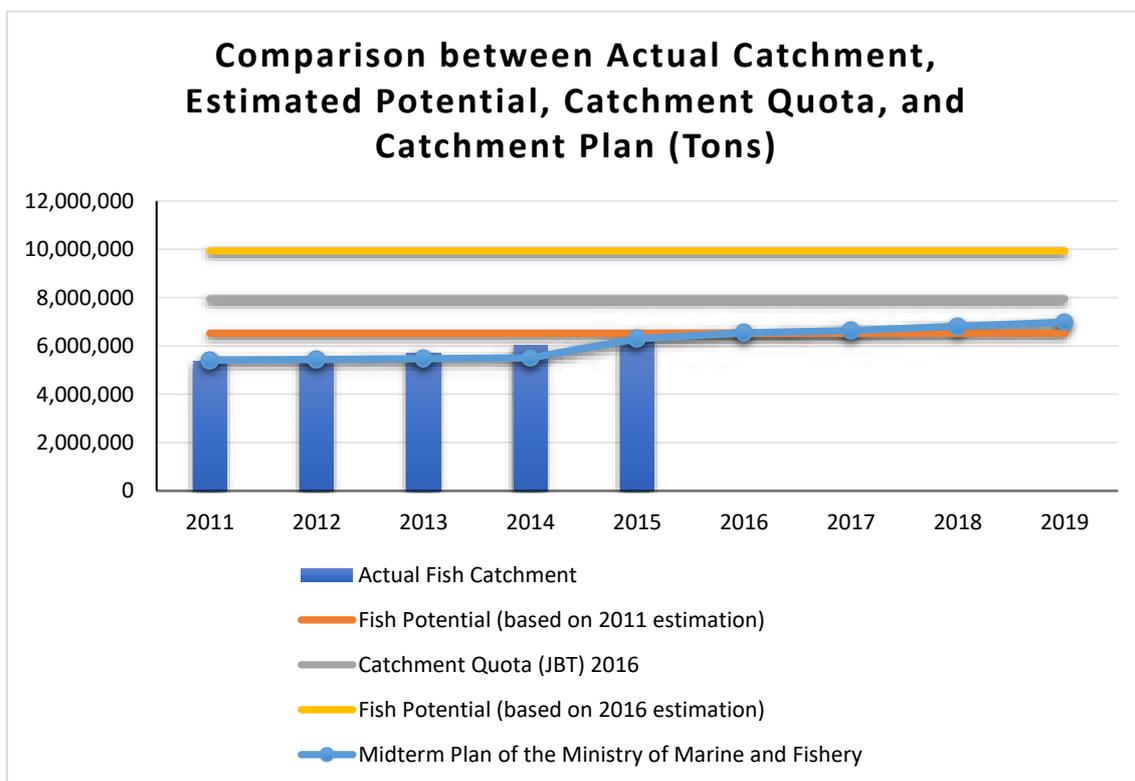
The contribution of the fishery sector towards local livelihoods is enormous and the sector has become the backbone for coastal communities in Indonesia. The recorded number of capture fishery households reached 643,105 in 2014. (Capture fisheries are those that harvest natural occurring resources in both marine and freshwater.) From a financial and economic standpoint, the contribution of the sector towards state revenues, while still small, has increased in recent years. Tax revenues reached IDR 839.5 billion in 2016, just 0.01% of total taxes. Non-tax state revenue (PNBP) reached IDR 362.11 million in 2016, 0.14% of total PNBP. The contribution of this sector to GDP reached IDR 267.75 trillion.

"Indonesian losses due to illegal fishing amounted to 25 million dollars" (Susi Pujiastuti, cnnindonesia.com, December 16, 2015)

"There are indications of several Thai vessels operating under the guidance of corrupt government officials in West Kalimantan" (Susi Pujiastuti, cnnindonesia.com, December 10, 2015)

The potential contribution of the fishery sector to state revenues is even larger. Estimates suggest that in 2016, potential tax collections equaled IDR 3.62 trillion. In contrast, actual collections totaled just IDR 839.5 billion, a gap of IDR 2.78 trillion. Similarly, actual non-tax state revenues lagged potential revenues, with just IDR 362.1 collected as of August 2016 as compared to a target of IDR 950 million.





FINDINGS IN THE FIELD

The findings of this study: 1) describe the management of state revenues from the regional fishery sector; 2) estimate potential state revenue collections; 3) examine possible losses due to manipulation and corruption; and 4) identify issues affecting the sector, such as extortion. In terms of governance, the most significant problem results from overlapping authority and inconsistency between central and regional regulatory frameworks. Another problem is the practice of illegal payments, which far outweigh the small fees charged for required permits. This results from the complicated and difficult licensing process, along with the lack of clear information on the fees required to obtain a permit.

Fishmarket management is also problematic. Fishmarkets are often monopolized by a number of middlemen who determine the price paid for fish. The presence of middlemen creates problems since it reduces the bargaining power of the fishermen. Moreover, there are groups that claim to represent fishermen, but that do little to help them in practice. These individuals represent brokers who suppress fishermen and charge illegal payments.

There are several modes of manipulation by various actors that reduce potential revenue collections. Officials often complain that fishermen are not honest and provide inaccurate information on their income, production costs, fishing gear, and other aspects of their business. Even when they do report production, fishermen often underreport their catch to reduce the amount of taxes owed. Fishermen also underreport the capacity of their ships to reduce or evade paying taxes. Other forms of manipulation allegedly used by businesses, including fishermen, include the sale of capture fishery production to larger vessels or in illegal ports and outside of quays and official fishmarkets. Fishermen also install Fish Aggregating Devices (FADs) without the permission of government officials and, due to the weakness of the regulatory authority, are beyond the scope of the authorities' control.

Meanwhile businesses complain that fishmarket auctions are often dishonest, closed, and vulnerable to manipulation regarding the amount and value of fish that is bought and sold. This practice is considered to be detrimental to fishermen. Often, with or without the knowledge of fishermen, fishmarket auctions understate the value of fish that is sold to reduce the amount of fees owed to the state.

Another problematic practice in the fishery sector, especially in capture fisheries, is the various illegal payments imposed on many business actors. Fishermen are often required to pay for permits that should be available at no cost. Other permits are



Photo: Irna

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difficult to obtain and expensive, causing fishermen to use one license for several vessels. In addition, there are reported cases of fishermen using false or expired permits in an attempt to avoid citation for regulatory violations, which can result in fines of up to tens of millions of rupiah.

At sea, small fishermen often have to compete with fishermen with larger boats that should not be allowed to fish near the coast. In addition, when ships land at the quay, they are often required to make illegal payments to the government and thugs, from small fees (3 *cakalang* fish) to big ones (millions of rupiah). Fishermen are in a powerless position since their products are perishable and have to be immediately preserved and sold. At the time of the auction, fishermen often have no control over fish prices due to the presence of middlemen that intervene between fishermen and fish buyers. The closed nature of the markets limits the entry of new agents and brokers, preserves the power of existing agents, and reduces the bargaining power of fishermen.

IMPLICATIONS

These research findings have a number of implications for the well-being of fishermen and the revenues generated by the fishery sector. The incomes of small fishermen are often reduced by costs imposed by both government officials and non-officials starting from before the departure to sea until the time they return to port. Therefore, it is understandable, even if not justifiable, that some fishermen engage in practices that increase their profit, such as manipulation of licenses or selling their catch in the middle of the sea or at illegal ports.

The practices undertaken by business actors and government officials and non-officials also have implications for the loss of potential state revenues. The full revenue generating potential of the sector cannot be realized due to weaknesses in the regulatory system and the illegal practices of public officials and other actors which discourage businesses from obeying regulations and ultimately reduce state revenues from taxes and non-tax revenues.

CONCLUSION

There are major problems in the management of the fishery sector. While the revenue generating potential of the sector is large, its contribution to state revenues is still very small. The practices of officials and businesses appear to contribute to the low level of state revenues generated by this sector, as well as the low level of economic well-being of the sector's main actors, the fishermen.

Because of this, major improvements in the governance of the sector are

needed, which will require conscious and joint action. These improvements will ensure that the fishery sector provides the greatest benefit towards the welfare of citizens, increases state revenues, and maintains and ensures the sustainable use of renewable natural resources.

Jean Ross prepared this brief as a consultant to the International Budget Partnership in October 2018

