UNIVERSITI PUTRA MALAYSIA

WELFARE IMPACT OF IMPROVED BOAT MODERNISATION SCHEMES (IBMS) IN PEMALANG REGENCY, CENTRAL JAVA, INDONESIA

INDAH SUSILOWATI

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WELFARE IMPACT OF IMPROVED BOAT MODERNISATION
SCHEMES (IBMS) IN PEMALANG REGENCY, CENTRAL JAVA,
INDONESIA

BY

INDAH SUSILOWATI

Thesis Submitted in Partial Fulfilment of the
Requirements for the Degree of Master of Science
in the Faculty of Economics and Management,
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August 1991
Dedicated to my beloved:

Papi and Ibu,
brothers and sisters,
my perpetual husband Mas Udin,
my lovely daughter Dinda (Tholit2) and,
Simbah 'Kung and 'Ti Pemalang
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGMENTS</td>
<td>iii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>x</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xi</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>xiii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>xiv</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>xvi</td>
</tr>
</tbody>
</table>

## CHAPTER

I INTRODUCTION ........................................ 1

The Role of Marine Fisheries in Indonesia .... 2

Marine Fisheries Management and Development ........................................ 7

The Socio-Economic Conditions of Pemalang Regency ............................... 13

Marine Fisheries Profile ........................................ 15

Fish Marketing and Distribution ............ 30

Statement of the Research Problem ............ 33

Objectives of the Study ........................................ 37

Hypotheses of the Study ........................................ 38

Significance of the Study ........................................ 38

Organisation of the Study ........................................ 39
## II REVIEW OF LITERATURE ........................................ 40

- Technological Change in Fishery .......................... 40
- Welfare Economics and Surplus Concepts ............... 45
  - Welfare ........................................ 45
  - Surplus Concepts ............................... 46
- Alternative Measurement for Producer's Welfare ........ 49
  - Profit ......................................... 50
  - Producer's Surplus and Quasi-Rent ......... 51
- Alternative Measurement for Consumer's Welfare ........ 53
- Welfare Analysis of Stable Market Condition .......... 57
- Welfare Analysis of Technological Change ............. 59
- Studies on Welfare Impact and Technological Change 62

## III METHODOLOGY .................................................. 71

- Model Construction and Data Requirements ............. 72
  - Model Construction ............................. 72
  - Data Requirements .............................. 78
- Estimation Procedure and Statistical Considerations 84
  - Estimation Procedure .......................... 84
  - Statistical Considerations .................... 89
- Determination of Welfare .............................. 92
- Data Collection .................................... 95
IV  EMPIRICAL RESULTS AND DISCUSSION          97

Supply Model                      97
Demand Model                      102

Forecasting Performance of Estimated
Supply and Demand Models          108

Estimation of Welfare Impact       116

Estimation of Equilibrium Price and
Quantity of Fish Before IBMS       116
  Supply Function                  116
  Demand Function                  117
  Equilibrium                      118

Estimation of Equilibrium Price and
Quantity of Fish After IBMS        118
  Supply Function                  119
  Demand Function                  119
  Equilibrium                      119

Estimation of Producer's and
Consumer's Surplus                 123
  Before IBMS                      124
  After IBMS                       126

V  SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS . . 132

Summary and Conclusions           132
Policy Implications and Recommendations    138
Limitation of the Study            141

BIBLIOGRAPHY                     143

viii
APPENDICES

A Summary of Data Input .......................... 148
B Specification of the Marketing Units
in Pemalang Regency .............................. 151
C Test of Equality Between Coefficients
Obtained from Different Samples
Using Chow Test ................................. 156
D Identification Status of Models ............. 159
E Estimated Supply and Demand Models:
Method 0 ........................................ 162
F Run Test for the Determination of
Autocorrelation in the Models ................. 165
G Zero-order Correlation Matrix
Coefficients of Estimated Supply and
Demand Models ................................. 171
H Determination of Numbers of the
Principle Components (PC) Used in
the Models Before and After IBMS .......... 174
I Derivation of Validity Measurement
of the models ................................ 176
K Glossary ....................................... 183
J Major Types of Operated Boats and
Gears in Pemalang Regency ..................... 186

BIOGRAPHICAL SKETCH .............................. 197
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fish Production in Indonesia, 1970-1987</td>
</tr>
<tr>
<td>2</td>
<td>Fishery Contribution to the Local Income During REPELITA IV (1984 to 1988)</td>
</tr>
<tr>
<td>3</td>
<td>Statistics of Potential Fisheries of North Coast of Central Java Regency, 1988</td>
</tr>
<tr>
<td>4</td>
<td>Fisheries Production Composition of Pemalang Regency During REPELITA IV (1984 to 1988)</td>
</tr>
<tr>
<td>5</td>
<td>Composition of Fisheries Export of Pemalang Regency from 1986 to 1989</td>
</tr>
<tr>
<td>6</td>
<td>Statistics of Potential Fisheries of Pemalang Regency as of 1989</td>
</tr>
<tr>
<td>7</td>
<td>Code Names and Definitions of the Standardised Variables Used in the Models</td>
</tr>
<tr>
<td>8</td>
<td>Estimated Supply Model</td>
</tr>
<tr>
<td>9</td>
<td>Estimated Demand Model</td>
</tr>
<tr>
<td>10</td>
<td>Summary of Forecasting Performance of Estimated Models</td>
</tr>
<tr>
<td>11</td>
<td>Summary of Welfare Estimation Results</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Map of Indonesia by Province Showing the Location of Pemalang Regency</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Map of Pemalang Regency Showing the Location of the Five Fish landing</td>
<td>14</td>
</tr>
<tr>
<td>3</td>
<td>Fisheries Production Composition of Pemalang Regency (1984-1988)</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>Composition of Fisheries Export of Pemalang Regency (1986-1990)</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>Structure of Fish Marketing in Pemalang Regency</td>
<td>32</td>
</tr>
<tr>
<td>6</td>
<td>Sustainable Yield Curve for the Unregulated Fishery</td>
<td>42</td>
</tr>
<tr>
<td>7</td>
<td>Comparative Statistics: Change in Productivity</td>
<td>43</td>
</tr>
<tr>
<td>8</td>
<td>The Demand Curve</td>
<td>47</td>
</tr>
<tr>
<td>9</td>
<td>Consumer's and Producer's Surplus</td>
<td>48</td>
</tr>
<tr>
<td>10</td>
<td>The Level of Production for the Firm</td>
<td>49</td>
</tr>
<tr>
<td>11</td>
<td>Consumer's Surplus, Compensated Variation and Equivalent Variation</td>
<td>55</td>
</tr>
<tr>
<td>12</td>
<td>Producer's Surplus with Different Intercept Values of Supply Function</td>
<td>58</td>
</tr>
<tr>
<td>13</td>
<td>Welfare Changes Obtained from Technological Improvement</td>
<td>61</td>
</tr>
<tr>
<td>14</td>
<td>Actual and Predicted Supply Models Before the IBMS</td>
<td>112</td>
</tr>
</tbody>
</table>
15 Actual and Predicted Supply Models
After the IBMS .................................. 113

16 Actual and Predicted Demand Models
Before the IBMS ................................. 114

17 Actual and Predicted Demand Models
After the IBMS .................................. 115

18 Structural Changes of Estimated
Supply and Demand of Fish in the Market .... 121
LIST OF ABBREVIATIONS

CS : Consumers' Surplus
CV : Compensating Variation
EEZ : Exclusive Economic Zone
EV : Equivalent Variation
FYDP : Five Years Development Plans (in bahasa Indonesia is called as REPELITA)
GI : Geometric Index
GRDP : Gross Regional Domestic Product
GT : Gross Ton
HP : Horse Power
IBMS : Improved Boat Modernisation Schemes
KIK : Kredit Investasi Kecil (small-scale credit)
KMKP : Kredit Modal Kerja Permanen (permanent working capita credit)
MEY : Maximum Economic Yields
MSY : Maximum Sustainable Yields
mt : Metric Ton
NSW : Net Social Welfare/loss
PC : Principle Component
PERDA : Peraturan Daerah (local regulation)
PS : Producers' Surplus
RCP : Rural Credit Project
IBMS : Improved Boat Modernisation Schemes
TPI : Tempat Pelelangan Ikan (fish landing and fish auction)

xiii
Abstract of thesis submitted to the Senate of the Universiti Pertanian Malaysia in partial fulfilment of the requirements for the degree of Master of Science.

WELFARE IMPACT OF IMPROVED BOAT MODERNISATION SCHEMES (IBMS) IN PEMALANG REGENCY, CENTRAL JAVA, INDONESIA

by

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August 1991

Supervisor: Dr. Nik Mustapha Raja Abdullah

Faculty : Economics and Management

The overall objective of this study is to examine the welfare impact of the IBMS programme in Pemalang Regency Central Java, Indonesia. To achieve this objective, supply and demand models for fish were estimated. The simultaneous equation model consists of supply, demand, and identity equations. The Two Stage Least Square (2SLS) was utilized to estimate the model using time series quarterly data from 1976.2 to 1990.2. All the key variables in the model were found to be consistent with postulated behaviour and theoretical expectations.

All variables specified in the supply model had expected signs and significant except for the fishing effort and the probability to catch fish. As expected the supply function was
found to be positively related with respect to its own price. However, its price elasticity in pre-IBMS is greater (0.224) than in post-IBMS (0.126). This shows that the rate of increase in fish production from additional input is diminishing after IBMS as evidence to the existence of overexploitation of the resource in the study area.

All of the signs of estimated parameters in the demand model were consistent with the theory except for the lagged price of fish variable. Results also showed that all of coefficient parameters were greater than half of their standard errors except for the intercept and lagged quantity demand at pre-IBMS. Furthermore, the price of substitute goods and income were found to be the major determinants of the quantity of fish demanded. The elasticity of fish demanded with respect to its own price is greater (-0.676) at post-IBMS than at pre-IBMS (-0.295). However, the income elasticity of demand for fish was found to be more elastic before (0.740) than after (0.580) IBMS.

The welfare analysis showed that the IBMS programme was ineffective. The overall impact showed that welfare loss to the society was 142.86 percent from the original condition. The biggest loss (two-third) was incurred by consumers and the remainder was incurred by producers.
Abstrak thesis yang dikemukakan kepada Senat Universiti Pertanian Malaysia sebagai memenuhi sebahagian daripada syarat dikurniakan Ijazah Sarjana Sains.

KESAN KEBAJIKAN DARIPADA PEMBAIKAN SKIM PEMODENAN BOT DI REGENSI PEMALANG, JAWA TENGAH, INDONESIA

oleh

Indah Susilowati

Ogos 1991

Penyelia : Dr. Nik Mustapha Raja Abdullah
Fakulti : Ekonomi dan Pengurusan

Kesemua variabel di dalam model ini mempunyai tandaan seperti yang dijangkakan dan signifikan kecuali variabel keupayaan perikanan dan kebarangkalian untuk menangkap ikan. Seperti mana yang dijangkakan, model penawaran didapati berhubung secara positif dengan harga ikan. Walau bagaimanapun keanjalan harga bagi masa sebelum IBMS (0.224) adalah lebih besar daripada selepas IBMS (0.126). Ini menunjukkan kadar pertambahan di dalam pengeluaran ikan daripada penambahan input adalah menurun selepas IBMS. Penemuan ini membuktikan keadaan eksploitasi sumber yang berlebihan di kawasan kajian.

Semua parameter yang dianggarkan di dalam model permintaan memberikan tandaan yang konsisten dengan teori kecuali variabel harga ikan untuk jangka masa lepas. Keputusan kajian juga menunjukkan semua angkali parameter adalah lebih besar daripada setengah sisihan piawainya kecuali bagi intersep dan kuantiti permintaan di masa lepas untuk masa sebelum IBMS. Sementara itu, harga barangan pengganti dan pendapatan merupakan penentu utama bagi kuantiti ikan yang diminta. Keanjalan harga permintaan ikan didapati lebih besar (-0.676) pada masa selepas IBMS berbanding dengan sebelum IBMS (-0.295). Walau bagaimanapun, keanjalan pendapatan permintaan ikan didapati lebih anjal pada sebelum (0.740) berbanding dengan selepas (0.580) IBMS.

xvii
CHAPTER I
INTRODUCTION

Agriculture plays an important role in the Indonesian economy. It contributed 24.09 percent to Gross Domestic Product (GDP) and 55.80 percent to employment in 1988 (BPS, 1989). Among the agricultural sub-sectors, the fishery contributed 1.70 percent of the total GDP. Nonetheless the number of people involved in the fisheries sector reached 1.3 million people excluding those engaged in the processing plant in 1986 (Martosubroto, 1987).

Fish is the primary source of animal protein. It provides 67 percent of animal protein of the total Indonesian diet, whereas meat, milk and egg contribute 21, 7, and 5 percent respectively (Naamin, 1987). Moreover, it is relatively cheaper compared to other sources of animal protein. In 1984 the annual fish consumption was estimated to be about 15 kg per capita per year but fell short of the national target of 18 Kg.

The Indonesian archipelagic and territorial sea covers an area of about 3.1 million sq km, excluding 2.7 million sq km area of marine water which is under the Exclusive Economic Zone (EEZ) (Anon, 1983). Therefore, Indonesia is considered as having a high potential in water resources with various stock
of fish and other marine animals (Costa, 1988). The geographical location of Indonesia is shown in Figure 1.

The Role of Marine Fisheries in Indonesia

Like many other developing countries, Indonesia also has National Development Plans, embodied under REPELITA. The first of these plans known as the First Five Year Development Plan (FYDP I), covered the period between 1969 to 1973. This was then followed by FYDP II (1974-1978), FYDP III (1979-1983), FYDP IV (1984-1988), and to the present FYDP V (1989-1993). These plans consist of development programmes and projects which include infrastructural and non-infrastructural developments.

In addition, the objectives of fishery development strategy underlined in FYDP V are as follows:

1. To increase production in terms of quantity and quality in order to fulfill the food, nutrition, raw material and or export requirements,

2. To increase the productivity of fisheries and value added activities and fishermen income,

3. To extend the productive employment opportunity in the fisheries and to support the regional development, and

4. To promote resource management and achieve better control of resource utilization throughout the country.
Figure 1: Map of Indonesia by Province Showing the Location of Pemalong Regency
Realizing the National importance of this sector, the government has set a target in REPELITA V (1989-1993)\(^1\) to increase fisheries production by 5.78 percent per annum (from 3,007.9 thousand ton in 1989 to 3,765.7 thousand ton in 1993). The highest estimated growth rate however is assumed to be recorded by culture fisheries at a rate of 17.12 percent per annum, while the lowest is to be achieved by inland fishery at 2 percent per annum.

In addition, the objectives above are considered to be the goals of the long-term planning strategy. To fulfil these objectives, a range of government policies and programmes have been implemented with the aim at providing enough nutrition to the society as well as increasing income and employment opportunities to the small-scale fishermen. Improved Boat Modernisation Schemes (IBMS) have been part of this programmes, which among others, have been launched to benefit the small-scale fishermen who have been playing a significant role in enhancing fishery production.

Since the second REPELITA (1974-1979) the government has provided additional fishery infrastructures such as landing site, fishing and processing facilities. To date, the government has built 24 fishing ports and 149 landing sites which are scattered along the coastal areas, especially those

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\(^1\) Bina Program issues, Directorate General of Fishery. 1988
in the vicinity of potential fishing grounds around Java, Sumatra, Kalimantan and Sulawesi. During this period, the government has also established six fishing companies, two of which dealt with shrimp fishing and four other with tuna fishing. Besides undertaking fishing business, they also serve as development agencies to help small-scale fishermen to market their catch. All of these efforts are basically aimed at uplifting the economic well being of the fishermen community.

Table 1 shows the trend in fisheries production in Indonesia from 1970-1987. In 1987, total fish production was about 2.67 million mt, with the largest production coming from North Coast Java (0.76 million mt) and Malacca Straits (0.47 million mt). In terms of share of production by sector, the marine and inland fisheries contributed 2.02 million mt (75.54 percent) and 0.65 million mt (24.46 percent), respectively. This clearly indicates the predominance of the marine sub-sector in Indonesian fisheries.

The estimated potential production of marine fishery in Indonesian territory is about 4.5 million ton per year. (with excluding the EEZ amounting to 2.1 million ton per year) Nonetheless, this potential seems to be primarily dominated by small-scale operations, which are typical of Indonesian fisheries, which are dictated by low technical input as well as productivity and income. However, the potential contribution of small-scale fisheries to the National fish
Table 1

Fish Production in Indonesia, 1970-1987

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (million mt)</th>
<th>Index (1970 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>1.23</td>
<td>100</td>
</tr>
<tr>
<td>1971</td>
<td>1.24</td>
<td>100.8</td>
</tr>
<tr>
<td>1972</td>
<td>1.27</td>
<td>103.3</td>
</tr>
<tr>
<td>1973</td>
<td>1.28</td>
<td>104.1</td>
</tr>
<tr>
<td>1974</td>
<td>1.34</td>
<td>108.9</td>
</tr>
<tr>
<td>1975</td>
<td>1.39</td>
<td>113.0</td>
</tr>
<tr>
<td>1976</td>
<td>1.48</td>
<td>120.3</td>
</tr>
<tr>
<td>1977</td>
<td>1.57</td>
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<td>1978</td>
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<tr>
<td>1979</td>
<td>1.75</td>
<td>142.3</td>
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<tr>
<td>1980</td>
<td>1.85</td>
<td>150.4</td>
</tr>
<tr>
<td>1981</td>
<td>1.91</td>
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</tr>
<tr>
<td>1982</td>
<td>2.00</td>
<td>162.6</td>
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<tr>
<td>1983</td>
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</tr>
<tr>
<td>1986</td>
<td>2.53</td>
<td>205.7</td>
</tr>
<tr>
<td>1987</td>
<td>2.67</td>
<td>217.1</td>
</tr>
</tbody>
</table>


production is substantial. Inevitably, the marine fishery occupies a very important place in Indonesian economy. At the same time, Martosubroto (1987) estimates, more than 60 percent of fishermen live below the National poverty threshold, which has originally been pegged at 320-480 kg of rice equivalent. Accordingly, the fishery sector has also a great role to play in improving the economy of the fishermen as well as the welfare of the society as a whole.