

P R A K A R S A *Policy Brief*

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Promoting Justice: Reforming Government Incentives in the Fisheries Sector for Workers' Welfare and Sustainability

Key Points:

- The dominance of incentives focused solely on capacity enhancement, without adequate consideration for sustainability, can exacerbate overfishing and increase the risk of human rights violations.
- Various forms of government assistance in the fisheries sector have yet to show significant impacts on the welfare of workers in this field.
- The government needs to evaluate and reform assistance schemes in the fisheries sector to ensure they are targeted effectively, thereby ensuring the fulfillment of human rights and the welfare of workers within the supply chain.



Economic Potential of the Marine Sector: Exploring the Threats Behind It

The fisheries and marine sector play a crucial role in Indonesia's economy. In 2019, this sector contributed approximately USD 27 billion to the national economy. Indonesia's dependence on this sector is higher compared to neighboring countries in the region. The contribution of the fisheries sector to Indonesia's Gross Domestic Product (GDP) reached 2.6 percent, surpassing that of China (1.4%), the Philippines (1.5%), Malaysia (1.1%), and Thailand (0.67%).

In terms of production, Indonesia's capture fisheries produced an average of 7.2 million metric tons per year from 2017 to 2022, making Indonesia the second-largest producer in the world after China. In 2020, the export value of Indonesia's fishery commodities reached USD 4.8 billion, accounting for 3.8 percent of global market demand. Indonesia even recorded the sixth-largest trade surplus in fishery commodities globally, with a net export value of USD 4.4 billion.

However, the current high production levels do not guarantee sustainable long-term growth. The main challenge faced is overfishing, which can significantly deplete fish stocks and damage marine ecosystems. Additionally, illegal, unreported, and unregulated (IUU) fishing practices further exacerbate this situation. The decline in fish stocks not only affects the sustainability of catches but also hinders the achievement of economic growth targets, job creation, food security, as well as government revenue and exports in the fisheries sector.

Fishing beyond biological limits will reduce fish reserves, lower yields, and negatively impact food sources, livelihoods, and future income. Many fish stocks in Indonesia are now threatened due to overfishing. According to the Ministry of Marine Affairs and Fisheries (KKP) in 2022, 38% of capture fisheries in Indonesia have been overexploited, and 44% have been fully exploited. This situation threatens the sustainability of biomass and future catches, as well as limiting the benefits of fisheries for future generations.

Tracing Human Rights Violations Behind Fishing Practices

One of the causes of declining fish stocks is Illegal, Unreported, and Unregulated (IUU) fishing. The losses caused by illegal fishing not only impact the degradation of aquatic environments but also result in significant economic damage. In 2019, ASEAN countries experienced economic losses exceeding USD 6 billion, with Indonesia facing the largest losses (Lee & Viswanathan, 2020). Globally, unreported fishing accounts for 8-14 million tons annually, leading to economic losses between USD 26-50 billion and a tax revenue loss of USD 2-4 billion. Although specific data for Indonesia is not yet available, the losses from illegal fishing are estimated to significantly impact the country's tax revenues.

IUU fishing practices harm the environment and have serious implications for human rights. These activities often lead to inhumane working conditions, including forced labor for crew members. A Greenpeace report (2019) revealed that 13 foreign fishing vessels were involved in

various human rights violations, such as withholding crew wages, excessively long working hours, physical and sexual abuse, and non-compliance with labor contracts. Similar conditions were reported for crew members of vessels operating from Jakarta (PRAKARSA, 2024).

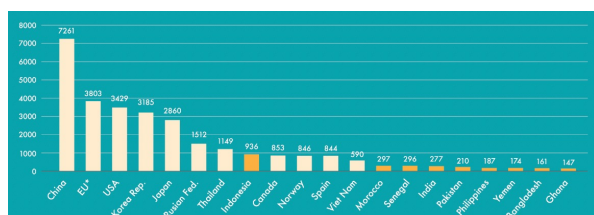
Moreover, human rights threats also arise along the supply chain, particularly in the processing sector of fish catch, where workers face poor working conditions and inadequate wages. The capture and aquaculture sectors are estimated to employ around 2.7 million and 3.3 million workers, respectively, with over 1 million involved in the processing and marketing of fish products. For example, PRAKARSA (2024) indicates human rights violations in a seafood processing factory in North Jakarta, where female workers labored over 40 hours per week earning below the Provincial Minimum Wage (UMP). Additionally, they lacked safety equipment, basic medical supplies, and adequate rest areas. These threats worsen the welfare of workers in this sector and push them further away from decent working conditions (PRAKARSA, 2024).

Coastal communities reliant on the fishing sector also face numerous vulnerabilities. They have a higher poverty rate compared to the national average. In 2021, Indonesia's 10.86 million people lived in poverty, with approximately 1.3 million or 12.5 percent residing in coastal areas. The extreme poverty rate in coastal regions reached 4.19 percent, higher than the national figure of 4 percent (Office of the Vice President of the Republic of Indonesia, 2021). According to Cahagi and Gurning (2018), the poverty rate in coastal villages is 1.27 percent higher than in non-coastal areas, with fishermen's incomes falling below the minimum wage. This situation exacerbates poverty in the small-scale fishing sector.

Urgency of Fiscal Incentive Reform in the Fisheries Sector

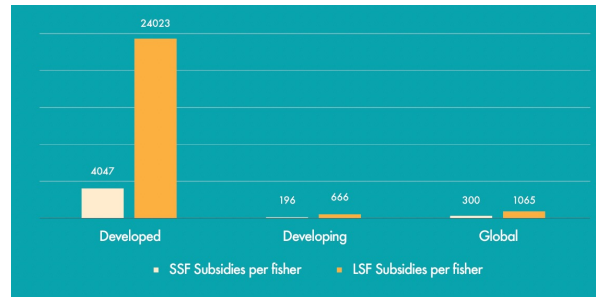
Fiscal policy plays a strategic role in the economic development of the fisheries sector. The Indonesian government has allocated significant subsidies to support this sector. In 2019, Indonesia provided subsidies amounting to USD 936 million, which is higher than other developing countries such as Vietnam (USD 844 million) and the Philippines (USD 210 million) (Sumaila, 2019). However, these subsidies are still far lower compared to developed countries, which allocate larger budgets for their fisheries sectors. This disparity in fiscal support could affect the competitiveness and sustainability of Indonesia's fisheries sector.

Graph 1. Comparison of Fisheries Subsidies by Country (in Millions of USD)



Sumaila (2019) via Focus on the Global South (2023)

Graph 2. Comparison of Fisheries Subsidies per Fisherman in Developed and Developing Countries (in USD)



Source: Schuhbauer (2020) via Focus on the Global South (2023)

Disparities in subsidy allocation also exist between developed and developing countries, as well as between small-scale and large-scale fisheries. Subsidies per fisherman in the large-scale fisheries (LSF) sector in developed countries are reported to be 36 times higher than in developing countries. In the small-scale fisheries (SSF) sector, subsidies per fisherman in developed countries are 21 times greater than those in developing countries (Schuhbauer, 2020). Figure 1 shows that in developed countries, subsidies for large-scale fishermen (LSF) are significantly higher, reaching USD 24,023 per fisherman, compared to only USD 666 in developing countries. For small-scale fishermen (SSF), developed countries provide subsidies of USD 4,047 per fisherman, while developing countries only offer USD 196.

Negotiations regarding the elimination of fisheries subsidies at the WTO remain contentious, as developed countries advocate for their removal, which is viewed as unfair by developing countries. Developing nations like Indonesia still require fiscal incentives to enhance the capacity and productivity of their fisheries sector. Many communities in these countries rely on fisheries, making government subsidies crucial for improving productivity and social welfare.

On the other hand, although Indonesia has allocated substantial funds for fisheries subsidies, their effectiveness needs reevaluation. Currently, government assistance in the fisheries sector is dominated by fiscal incentives focused on capacity enhancement, such as capital assistance and infrastructure. This type of support accounts for 60% of total assistance, potentially leading to overfishing, creating artificial profits, and worsening the overfishing problem. Therefore, a significant contribution from this type of assistance requires a thorough evaluation regarding its effectiveness in achieving sustainable welfare goals.

Fuel subsidies for the fisheries sector are the most significant form of government assistance within the capacity enhancement category. Fuel subsidies are crucial for small fishermen to survive in this sector. However, these subsidies do not always have a positive impact, as in areas with overexploited fish stocks, such as the northern Java Sea, these subsidies only increase fishing frequency without improving catch yields (IISD, 2021).

Unfortunately, traditional and small-scale fishermen, who are in greater need, often lack access to these subsidies. Since 2012, fuel subsidies have only been granted to vessels under 30 GT with limited monthly quotas. While different

registration and verification procedures based on vessel capacity help reduce inequality between large-scale and small-scale fishermen, this system is still imperfect. A survey by KNTI and the Kusuka Coalition (2022) indicated that in 10 provinces, approximately 82.8% of small fishermen lacked access to subsidized fuel in 2020 and 2021. Additionally, fuel subsidies tend to benefit vessel owners and operators more, while crew members do not experience improved welfare, with incomes still below the provincial minimum wage (IISD, 2021).

Fiscal incentives aimed at promoting fish stock growth through conservation and sustainable processing remain inadequate, contributing only about 33% of the total subsidies provided by the Indonesian government. These subsidies support fisheries management, research, and the development of Marine Protected Areas (MPAs) (Sumaila et al., 2012; Willis & Bailey, 2020). The low level of support for this category has resulted in MPAs facing challenges such as limited staff and financial resources (Napitupulu, 2022). Yukri et al. (2024) also highlight that the quality of management in these areas still receives insufficient attention.

Furthermore, social protection programs have significant potential to improve the welfare of coastal communities but have not been optimized. Fishermen with health and accident insurance experience significant improvements in economic welfare (Maisandi & Halimatussadiah, 2022). Well-targeted assistance can help enhance the sustainability of the fisheries sector by ensuring that benefits reach the neediest fishermen and avoiding illegal, unreported, and unregulated fishing (IUU Fishing) (OECD, 2006). However, the allocation for this assistance remains very limited, at only 0.5% of total fisheries aid in Indonesia.

Overall, fisheries subsidies in Indonesia play a crucial role in maintaining the sustainability of the fisheries sector and the welfare of coastal communities. However, the current allocation of subsidies and fiscal incentives is still dominated by capacity-enhancing assistance, such as fuel subsidies, which in some cases exacerbate overexploitation and misallocation. Additionally, support for conservation programs and social protection for fishermen remains very limited, leaving many coastal communities unable to fully benefit from these incentives.

Synergy of Policies for Successful Fiscal Reform in the Fisheries Sector

The success of fiscal reform in Indonesia's fisheries sector depends on synergistic policies; otherwise, it will hinder the achievement of the expected sustainability goals. However, inconsistencies often occur in fisheries subsidy policies that obstruct environmental and social objectives. This is influenced by various factors, such as ineffective policies and coordination among stakeholders.

Unharmonized regulations and authorities managing the fisheries industry often create confusion and non-compliance, ultimately obstructing the implementation of effective policies. For example, to protect workers' rights in the fisheries sector, employment policies must align with fiscal policies that provide incentives to companies adhering to human rights and sustainability standards. The Ministry of Marine Affairs and Fisheries Regulation No. 35

of 2015 on the Human Rights System and Certification in Fisheries Business is one progressive policy aimed at protecting workers' rights in the fisheries sector. However, its implementation is hampered by a lack of cross-sector coordination and policy harmonization. As a result, regulations intended to provide human rights protection in the fisheries sector are not effectively enforced due to insufficient integration among fiscal, labor, and marine policies.

Furthermore, policies are still not fully aligned with international norms such as the ILO Work in Fishing Convention and the Maritime Labour Convention, which provide human rights protections for fishery workers. Ratifying these conventions, accompanied by supportive fiscal policies, would create a stronger legal framework and encourage Indonesia to meet global standards in fisheries management (Mohammed et al., 2017).

Additionally, fiscal policies focusing on sustainability and equity should ensure fair distribution of benefits for coastal communities and small-scale fishermen. In practice, a holistic approach, such as tax incentives for companies, has not yet incorporated standards that could promote adherence to human rights and sustainability.

Policy Recommendations

Based on the above analysis, several recommendations can be made for various stakeholders:

1. **The ASEAN Secretariat** should ensure that all policies and initiatives in the ASEAN Blue Economy Declaration incorporate human rights principles, with an emphasis on protecting workers' rights in the fisheries sector.
2. **The Ministry of Maritime Affairs and Fisheries** and the Ministry of Finance should evaluate existing incentive policies, focusing on increasing contributions for vulnerable actors in the supply chain, and ensuring that these incentives provide direct benefits to small-scale fishermen and coastal communities.
3. **The Ministry of Maritime Affairs and Fisheries** should revise Regulation of the Minister of Maritime Affairs and Fisheries No. 17 of 2018 regarding the management of Marine and Island Conservation Areas (KKP3K) by establishing financial incentives to support conservation activities and strengthening collaboration between the government, NGOs, and local communities in managing conservation areas.
4. **The Ministry of Maritime Affairs and Fisheries** should revise Regulation of the Minister of Maritime Affairs and Fisheries No. 29 of 2020 regarding Fuel Oil Subsidies for Fishermen by changing the subsidy structure to support the use of sustainable fishing technologies and reducing subsidies for vessels operating in areas with threatened fish stocks.
5. **The Coordinating Ministry for Maritime Affairs and Investment** and the Ministry of Maritime Affairs and Fisheries need to review Law No. 45 of 2009 on Fisheries and ensure mechanisms for law enforcement and sanctions for offenders involved in illegal fishing practices and human rights violations at all levels.

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