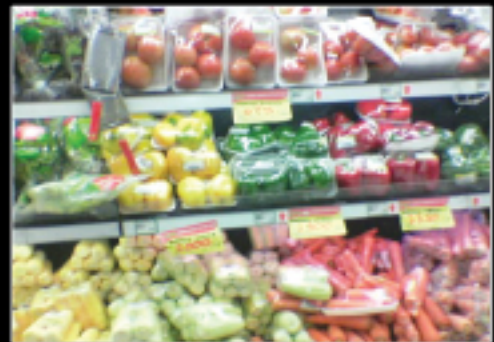


HORTICULTURAL PRODUCERS AND SUPERMARKET DEVELOPMENT IN INDONESIA



REPUBLIC OF INDONESIA



Report No. 38543-ID

HORTICULTURAL PRODUCERS AND SUPERMARKET DEVELOPMENT IN INDONESIA



REPUBLIC OF INDONESIA





THE WORLD BANK OFFICE JAKARTA

Jakarta Stock Exchange Building Tower II/12th Fl.

Jl. Jend. Sudirman Kav. 52-53

Jakarta 12910

Tel: (6221) 5299-3000

Fax: (6221) 5299-3111

Website: <http://www.worldbank.org/id>

THE WORLD BANK

1818 H Street N.W.

Washington, D.C. 20433, U.S.A.

Tel: (202) 458-1876

Fax: (202) 522-1557/1560

Email: feedback@worldbank.org

Website: <http://www.worldbank.org>

East Asia and Pacific Region

Rural Development, Natural Resources and Environment Sector Unit

Sustainable Development Department

Website: <http://www.worldbank.org/eap rural>

Printed in June 2007

This volume is a product of staff of the World Bank. The findings, interpretations, and conclusions expressed herein do not necessarily reflect the views of the Board of Executive Directors of the World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement of acceptance of such boundaries.



ABBREVIATIONS AND ACRONYMS

AARD	Agency for Agricultural Research and Development
ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ARMP	Agricultural Research Management Project
AIAT	Assessment Institutes of Agricultural Technology (BPTP)
BIPP/KIPP	District Center for Information and Extension
BPP	Agricultural Extension Office at Sub-district Level
BPPP	Provincial Center for Information and Extension
DGPMAP	Directorate General for Marketing and Processing of Agricultural Products
FO	Farmer Organization
GOI	Government of Indonesia
HORECA	Hotels, Restaurants, Catering
HRD	Human Resource Development
ICT	Information and Communication Technologies
IFC	International Finance Corporation
IPM	Integrated Pest Management
Kabupaten	District Government
KADIN	Indonesia Chambers of Commerce
M&E	Monitoring and Evaluation
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOT	Ministry of Trade
NGO	Non-Governmental Organization
PRA	Participatory Rural Appraisal
PPP	Public Private Partnership
RICA	Rural Investment Climate Assessment
RPO	Rural Producer Organization
TA	Technical Assistance
WB	World Bank
WISMP	Water Resources and Irrigation Sector Management Program

Vice President: James W. Adams, EAPVP
Acting Country Director: Joel Hellman, EACIF
Sector Director: Christian Delvoie, EASSD
Sector Manager: Rahul Raturi, EASRE
Task Team Leader: Shobha Shetty, EASRE





Acknowledgments

This report is a product of the World Bank's Rural Development, Natural Resources and Environment Sector Unit of the East Asia and Pacific Region.

The team leader for this report is Shobha Shetty (Sr. Economist, EASRE). Other team members include Richard Chisholm (Sr. Agriculturalist, EASRE), and Frans Doorman (Consultant). The principal authors of the report are Ronnie Natawidjaja (Padjadjaran University, Bandung), Thomas Reardon (Michigan State University), and Shobha Shetty (World Bank) in collaboration with Trisna Insan Noor, Tomy Perdana, Elly Rasmikayati (Padjadjaran University, Bandung), Sjaiful Bachri (Center for Agricultural Social Economics Research and Development, Bogor) and Ricardo Hernandez (Michigan State University).

The report was prepared under the overall guidance of Rahul Raturi, Sector Manager, EASRE. Peer reviewers were Stephen Jaffee (ARD), Peter Timmer (Center for Global Development), and Kees Van der Meer (ARD). Helpful comments were provided by Stephen Mink (Lead Agricultural Economist), William Wallace (Lead Economist), Neil McCulloch (Sr. Poverty Economist), and Enrique Aldaz-Carrroll (Economist). Dewi Sutisna (EACIF) provided valuable administrative assistance.

The support of Dr. Ahmad Dimiyati, Director-General Horticulture, Ministry of Agriculture and Mr. Ardiansyah, Director-General Domestic Trade, Ministry of Trade is gratefully acknowledged. Sincere thanks go out to all the key informants including the major retailers, wholesalers, suppliers, farmers and local government officials in the study areas who generously gave of their time, knowledge and advice.

Support from the Regoverning Markets Program (with funding from the United Kingdom's Department for International Development (DFID) and Canada's International Development Research Corporation (IDRC) is gratefully acknowledged. This study was also supported by the World Bank-Dutch Trust Fund (WBDTF) for Institutional Development and Capacity Building Program to Improve Indonesia's Trade Policy.

Photographs courtesy Ronnie Natawidjaja (Padjadjaran University)



TABLE OF CONTENTS

Executive Summary	vi
Chapter 1 : Introduction	1
Chapter 2 : The Rise of Supermarkets in Indonesia	11
Chapter 3 : Supermarket Produce Procurement Systems and their Links to Wholesalers and Farmers in Indonesia	19
Chapter 4 : Patterns, Determinants, and Effects of Farmer Participation in Modern versus Traditional Marketing Channels	27
Chapter 5 : Policy Issues, Challenges, and Implications	43
Annex 1. : Indo-Dutch Cooperation in Horticulture	53
Annex 2. : Preferred Suppliers and Changes in Procurement Systems	59
Annex 3. : Case Studies	65
Annex 4. : West Java Horticulture Production and Market Analysis	75
Annex 5. : The Tomato Value Chain from West Java Farms to Jakarta Retail	87
Tables and Figures	117
References	173





Executive Summary

Introduction

The value of fresh fruits and vegetables (FFV) output doubled in Indonesia over 1994-2004, to become a 10 billion dollar industry. While FFV expenditure was 50 percent of Indonesian rice expenditure in 1994, it had risen to 75 percent of rice outlays by 2004 – and in urban areas, was at 100 percent that is, urban Indonesians, nearly half the population, spend the same on rice and FFV. Nearly all of the FFV market is domestic: while imports of FFV nearly tripled over that decade, but by today are still very minor, accounting for about 3 percent of FFV consumption in Indonesia (the same as the developing country average).

This study focuses on the main vector of globalization change on it, via the rapid rise of supermarkets¹, in particular in the past five years. Supermarkets occupied a tiny niche in the food market through the 1980s. They were still confined to an urban upper income tiny niche by the mid 1990s, but after 1998 (spurred by liberalization of foreign direct investment in retail, a driver for the “takeoff” of supermarkets in many developing countries in the 1990s, complemented by income growth and urbanization and their concomitant changes) has grown very quickly to now occupy roughly 30 percent of overall food retail. Traditional retail loses about 2 percent of its share each year. Informed observers believe within a decade modern retail will dominate the majority of the food market in Indonesia. Key features of these changes are as follows:

(a) As in other countries, supermarkets in Indonesia have not penetrated FFV retail as quickly as they did processed and semi-processed foods, so that industry estimates of the share of FFV retail stand at about 10-15 percent share for supermarkets. This is still minor, but up from nearly zero a decade ago, and likely to continue to grow along with the overall retail transformation. Selling produce only began in earnest in the past five years among modern retailers.

(b) The wholesale sector has been differentiating and segmenting over the past decade, partly independently of the retail transformation, with the rise of large, and more capitalized, wholesalers in rural areas, and the decline of small field brokers.

(c) Recently there have emerged specialized/dedicated wholesalers focused on the supermarket and other modern food industry segments.

Selected Key Findings

First, while FFV sales by supermarkets moved from virtually nothing to 8 percent of supermarket sales and around 10-15 percent of urban FFV retail (as the industry estimate) in a short time, a high share (far higher than the share of imports in overall FFV retail in the country) of those FFV sales are of imported FFV. Approximately 80 percent of the fruit sold by supermarkets, and 20 percent of the vegetables, are imports, an average of about 60 percent. This is noteworthy from several angles. It is at least double to triple the imports share in supermarket FFV sales in comparable developing countries (Mexico, Guatemala, Thailand, and China). It is very rare for

¹ “Supermarkets” throughout the report is used as shorthand for the various segments of modern retail. The segments (hypermarkets and superstores, supermarkets and neighborhood stores, convenience and forecourt stores, and discount and club stores) are distinguished where the need arises.