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Improving the participation of smallholder mango farmers in modern retail channels in Indonesia

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Demand for fresh fruits and vegetables in Indonesia has been continuously growing as the result of increasing incomes, high growth of the urban population, and modern retail development. The growth of modern retail chains in Indonesia in the last few decades has intrigued some development experts and practitioners because it had been expected to provide greater opportunities for linking small farmers to high value globalized market chains. The modern private sector would, it was hoped, incorporate small producers with the goal of both securing supply and contributing to poverty reduction. However, in terms of mangoes, previous studies have indicated that only a very small proportion of local production is marketed to modern retail chains and/or exported. The main objective of this study is to identify the factors affecting farmers' participation in modernizing retail channels. The study randomly selected 636 mango farmers from the two main mango production zones in Indonesia, West Java and East Java provinces. The study shows that an expansion of the modernized retail segment has not always benefitted local producers, especially smallholder farmers. It is demonstrated that smallholder farmer participation could be higher when the level of commercialization in the market is high and/or retail procurement was already more modernized. Factors that increase farmer capacity to participate in the modern retail chain are irrigation, farm tools, and infrastructure. To increase smallholder farmer participation, the study suggests a policy of encouraging enforcement of quality standards at wholesale markets, technical assistance to farmers relating to value-adding postharvest activities, and improvements in rural infrastructure.

Keywords: modern retail; commercialization; Indonesia; supply chains; procurement

Introduction

Rapid food demand restructuring and the growth of modern retail chains in emerging countries have excited many development experts and practitioners because they have been expected to provide greater opportunities for linking small farmers to high value (globalized) market chains. The growing trade in high value commodity and processed foods, both within emerging countries and internationally, has major implications for the employment of small farmers (Liapis 2011). This effort to connect such farmers to modern retail chains has come to be known in development circles as an 'inclusive market' strategy or 'pro-poor policy' approach (Murphy 2010).

Food demand restructuring in Indonesia in the last decade has been driven by high growth in both incomes and urban population (Natawidjaja, Reardon, and Shetty 2007).

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