

Transformation in the Indonesian Agrifood System: Away from Rice

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INTRODUCTION

Current agricultural development policy is heavily focused on rice, despite the fact that consumer demand is shifting toward high value and nutrition-rich foods. In 2010, urban consumers in Indonesia spent 16% of their food budget on rice, 15% on fruit and vegetables, and 22% on animal protein (meat, fish, eggs, and dairy). Rural consumers spent 24%, 17%, and 20% respectively. The policy debate and research is also more focused on farming perse, with much less attention paid toward the off-farm components (processors, traders, and logistic agents) and foreign trade. The farm component accounts for only 30-60% of the cost and value-added of the supply chains.

Indonesia's urban population has increased from 40 million in 1984 to 134 million in 2014 or from 25% to 53% of its total population. Urban population makes up an even larger share of the overall food economy, roughly 70%, depending on the product. Hence, overall, the urban market is the main consumer of the Indonesian farmer. The purpose of this note is to summarize the main evidence related to the transformation of the agrifood system in Indonesia.

Highlight from recent research

Supermarket company investments in the past decade have been substantial which led to supermarket penetration in the overall urban food market (about 20%), and positively correlated with household income. Furthermore, it is projected that in the next 15 years the share of supermarket will account for nearly 40% of urban food spending. Another finding concluded that urban consumers who shop more in supermarkets, eat at restaurants, and fast-food chains, and higher incomes tend to have higher percentage of processed-foods expenditure. As far as horticulture is concerned, policymakers are not yet sold to the idea that small horticulture farmers cannot meet quality and safety standard, since modern retail is still only a market niche in horticulture.

A case study on wholesalers of shrimps shows that larger traders have cost advantage and are more efficient compared with their smaller competitors, owing partly to better access to factor markets and their use of contract with shrimp suppliers. Another market study on chilis finds that selling chilis to supermarkets substantially increases farm income, and participating in this channel requires greater efforts to produce and sort for specific standard, requiring new growing and handling techniques and new equipment and storage units. This channel is still very small, only 5% of chillies go to supermarkets and processors. This result highlights the importance of specialized and dedicated players in linking farmers to the markets.

An article related to buyer's attributes concluded that farmers place more importance on buyer attributes related to payment than on those related to the provision of information and inputs. The farmers' preferences point to their desire to enter into long-term commercial relationships to minimize the risks of non-payment. However, the rankings differ substantially across different types of farmers. Farmers with larger, better-irrigated farms, for example, are more likely to sell to large companies compared to their counterparts and are also more likely to place more importance on the provision of inputs, especially certified seeds.

CONCLUSION

The recent rapid growth in the horticulture and animal-protein sectors in Indonesia, linked to the increase in incomes and in urbanization, is a great boon to farmers. Producing these products rather than more rice returns per hectare also allows farmers to climb the value ladder. This diversification also gives consumers better access to animal protein, vitamins, and minerals. For Indonesian farmers to have a chance to compete, the government needs to implement policies that actively support agricultural diversification—especially away from rice—as well as to invest in public infrastructure needed for efficient supply chains for perishable products. This includes investing in water control, road and electricity infrastructure, training by extension agents, and wholesale market infrastructure.

The new market channels and actors are emerging to develop and mediate Indonesia's rural-urban value chains. Downstream, these entrants include supermarkets and fast-food chains. Midstream, they include processors and modernizing (urban) wholesalers that reach into rural areas, and specialized and dedicated wholesalers that serve modern downstream companies and link to farmers, transmitting the companies' standards and commercial requirements.

Supermarkets and fast-food chains in Indonesia are in the early stages of emergence and yet are already placing considerable demands on public policy. They will continue to grow, regardless of the policy environment. Consequently, over time, the government will need to adjust its policies to support farmers who want to meet rising quality and safety standards. Such support would also benefit urban consumers, who will make up three-quarters of the food market in Indonesia by 2030.

REFERENCE

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