Mapping of Marketing Initiatives by CSOs in Indonesia

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Value Chain Analysis Report of Organic Rice in Indonesia

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INTRODUCTION

This publication contains the initial outputs of the research component of AsiaDHRRA's Regional Project on Linking Small Farmers to Markets (LSFM) as implemented by Bina Desa (InDHRRA) in Indonesia. This report is part of the outputs of the participatory market researches and studies on specific commodities chosen in each pilot in four countries: tea in Vietnam, fresh calamansi fruit in the Philippines, free-range native chicken in Cambodia and organic rice in Indonesia.

These two studies, mapping of CSO marketing intermediation initiatives and value chain analysis involving organic rice, were initiated and participated by farmers themselves, the LSFM team of Bina Desa and its partner organizations, rural cooperatives and farmers organizations.

The researches and studies conducted under the LSFM project were intended to contribute to the process of effectively linking small farmers to market and maximize their benefits from the value chain. In addition, the studies also aimed to help decision-making of the project's in-country anchors and in formulating strategic directions, developing key linkages with industry partners and other institutions. To establish the link, strategies to integrate the Value Chain Analysis (VCA) to the competitive advantage of the small farmers should be developed.

All these would have not been possible without the participation and support of small farmers, the dedicated staff of Bina Desa, the advise of friends from the agribusiness and industry sector, the LSFM Project Management Team, and the support of the Vitoria-Gasteiz City Council, Basque Country, Spain; the World Rural Forum (WRF) and the ASEAN Foundation.

MAPPING OF MARKETING INTERMEDIATION INITIATIVES OF CSOS IN INDONESIA

DESCRIPTION OF SURVEY

The mapping of marketing initiatives survey was conducted by Bina Desa from late April until late May. The selection of survey respondents was done in coordination with the Natural Farming Working Network (Jaker PO) which was sheltering a number of marketing intermediation organizations of organic products in Indonesia. Scope of the survey was focused on marketing intermediaries in Java Island. The selection of this scope was done by considering optimum development of natural farming done in Java Island compared to other islands and also because of limited time of the survey

The survey involved two combined natural farming organizations which were Natural Farming Working Network (Jaker PO) and Indonesia Organic Alliance (AOI), and Bina Desa had chosen 20 member organizations of those alliances to be the survey respondents. Selection of the respondent was based on the type of marketed organic products and operation area of the respondent.

The utilized instrument in this survey of marketing initiatives was the instrument recommended by AsiaDHRRA with some changes to adjust the condition in Indonesia. Those changes were made according to the meet-

ing results of LSFM Indonesia. Survey was carried out in 3 methods which were direct survey, survey by e-mail, and survey by phone. Those methods were done to obtain data effectively and efficiently in consideration of time, distance and available manpower.

Generally, the respondents gave positive responses to the LSFM program, some respondents hoped that the application of LSFM program could strengthen the intermediation mechanism of organic product in Indonesia.

RESULT OF SURVEY

Map of marketing intermediation organizations of organic products generated from the survey was divided into 4 provinces, which were: West Java, Central Java, Yogyakarta, and East Java as shown in figure 1. Explanation about the working area of marketing intermediation organizations can be seen in appendix 2.

Bina Desa chose Java Island as the target of survey in consideration of some factors, which were:

- Organic products which are developed by small scale farmers are partly done by small scale farmers in Java island, the focus of cultivation are organic rice and organic vegetables,
- Cultivation and natural farming organizing outside Java island are less developed, the land outside Java island are mostly big farm land and forest,
- The distance problem makes coordination of commodity based organizing is rarely done, for example, production of forest honey is done in far separated location which are Jambi (Sumatra), Sentarum lake (Kalimantan) and Nusa Tenggara,
- The price of natural farming products is still lower than natural farm products, better purchasing power of the people will strengthen the development of those organic product.

Figure 1. The focused location of marketing intermediation mapping survey, Province of West Java (1); Province of Central Java (2); Province of Yogyakarta (3); Province of East Java (4);

Based on the type of marketed organic products, we divided marketing intermediation in this survey into 4 groups, which were organic rice, organic vegetables, organic fruits, and other organic products. The data of organic products marketed by each marketing intermediation organization can be seen in appendix 1.

Number of each type of marketing intermediaries can be seen in Appendix 3.1. The comparison to national scale commodity production can not reflect the actual development condition of those organic product types, but can be the picture of prospect and opportunity for each type of organic product compared to the development of national scale commodity production (shown in appendix 3.2).

The farmers involved in cultivation of organic products and marketing intermediaries of organic products are mostly small scale farmers. Their number and ratio with the farmers involved in non-organic product agriculture can be seen in appendix 3.3.

Just like the marketing of other products, payment contract is one of important factors in marketing intermediation of organic products.

Determination of payment contract must be able to make small scale farmers receive the biggest benefit. The survey result shows that payment contract with cash disbursement when goods are taken from the farmers' locations becomes the major choice in implementation of marketing intermediation of organic products. Intermediaries facilitate the farmers so they can get the benefit directly and prepare for next cultivating season. Weakness this cash disbursement system is that the intermediaries must prepare big working capital for products purchasing.

Not only as a marketer, marketing intermediation organizations also give support to the farmers to increase their capacities and improve their products' quality. The generally done supports are cultivation consolidation management, internal control system, and distribution. Product packaging improvement, production SOP making and cultivation funding are also done by most intermediaries to support the development of farmers' capacity.

Approach and selection of appropriate market by marketing intermediation organizations will impact on sustainability of the operation and improvement of the productivity. The most chosen market for marketing of organic products is distributor of organic products. Characteristic of distributor market is large buying quantity so it will make the products marketing easier for the intermediaries. However, the weaknesses of this distributor market are the lower selling price and possibility of a very high end user price so it quite risky for the marketing stability of those organic products.

Natural farming is an area that still developing in Indonesia, including the marketing of its products. Coordination approaches are always done by intermediation organizations to strengthen the position in the market of organic products. The backgrounds of marketing approach done by marketing intermediation organizations are:

a. Very limited market information of organic products,
b. Very highly fluctuated price of organic products,
c. Very long market chain of organic products.

Organization strengthening by market planning, developing the monitoring and evaluation systems to face the challenges in coordinating marketing of organic products. The main faced challenges are:

a. Maintaining the quality of organic product,
b. Maintaining the continuity of organic products,
c. Maintaining flow of information from farmers to farmers.

Besides the organization strengthening, the making of appropriate rules and laws in marketing initiatives can strengthen the marketing initiatives. To maintain the initiatives stability, marketing intermediation organizations make rules and laws as follows:

a. Buying contract with the farmers,
b. Contract of product's type and quota,
c. Participatory quality assurance.

ANALYSIS AND RECOMMENDATION

We categorized marketing intermediation organizations based on the type of marketed organic products into 3 groups, which were:

1. Marketing intermediaries of organic rice;
2. Marketing intermediaries of organic fruits and vegetables;
3. Marketing intermediaries of other organic products (forest honey, organic coffee, etc).

Marketing intermediaries of organic rice is type of organizations with big marketing capacity, has strong mechanism in coordination of cultivation but not yet stable in marketing mechanism. The marketing instability problem is a consequence of weak consistency of the product as an impact of increasing demand without considering production ability level. Competition through conventional trade system of rice products also gives an impact on marketing mechanism instability of organic rice.

Differ from organic rice, marketing intermediaries of organic fruits and vegetables usually has stability in coordination mechanism of cultivation and marketing. Varied methods of product introduction and promotion facilitate

the marketing intermediaries of organic fruits and vegetables to be accepted by the market. Low level of competition, big market opportunity and product variation give more extra points for organic fruits and vegetables marketing.

Other organic products are products that are cultivated organically besides organic rice, vegetables and fruits. Marketing intermediaries of other organic products, especially naturally produced products, is an innovator type which try to offer better quality in products besides organic rice, fruits and vegetables. Natural agricultural system is not the only advantage in promotion strategies. More than that, product innovation must be done to strengthen product competitiveness. Those products' marketing conditions has been started for a long time and kept developing till now. Marketing capacity depends on type of the producer (small scale intermediaries to big company) and bigger market.

From 20 respondents, 12 are marketing intermediaries of organic rice. Practically, the increase of organic rice production is faster than the other organic products. Some evaluation criteria below are the reason to recommend organic rice as the commodity whose marketing intermediation mechanism will be developed and strengthened.

Growth Potential

Production level shows an increase but there is no proper marketing channel yet, therefore many products still using conventional marketing system. Opportunity and chance of production expansion are huge but a mechanism that fair for the farmers must be established. Fair mechanism and commitment of each involved party can give competitive advantages to organic rice in national market and export.

A balanced support between development of technology and transfer of technology for the farmers is always done by farmers' partner organizations, education and research institutes without leaving the values of natural farming. Establishment of Government's program Go Organik 2010 strengthens the opportunity to increase the marketing of organic rice.

Poverty Reduction Potential

The knowledge about natural farming can solve the problem of farmers dependence on agricultural input from outside. The involvement of their families in supplying agricultural input besides can give role for women, can also increase the capacity and income of farmers' families.

Scope

Development of organic rice marketing intermediation mechanism makes direct impact on the farmers through support of natural agricultural methods, improvement of role and income. Integral coordination from marketing intermediation organizations is aimed to generate better bargain position in marketing so the improvement of production and marketing can be done by reducing interference of opportunist parties.

Prospect of success

The basic of natural farming and marketing intermediation has been planted in collaborating farmers of intermediation organizations. Coordination of organization done by Natural Farming Working Network has also established with joint supervision. These conditions can create good prospect by the making of collective marketing institution for farmers' products.

Aspect associated with program or institution

The government's program Go Organik 2010 and the opening of premium rice export are part of opportunities of organic rice development. Reduction of outside agricultural input in natural farming avoids farmers from the dependence on subsidized chemical input. These things are expected to give impacts on government's support toward organic rice farmers.

APPENDIX

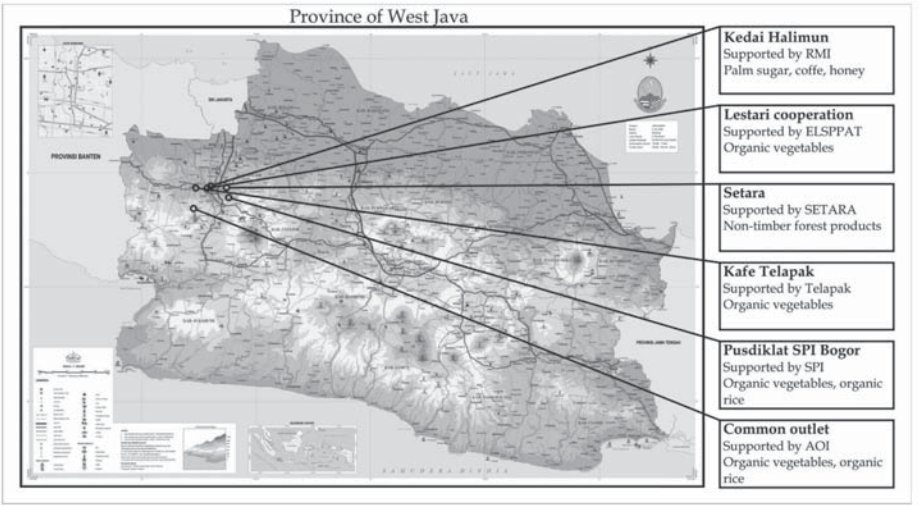
Appendix 1.
List of Respondent Organizations of Marketing Intermediation Survey

No.	CSO	Location	Marketing Commodities
Province of West Java			
1	Rimbawan Muda Indonesia	Sempur, Bogor	Palm sugar, coffee, honey
2	ELSPPAT	Cimanggu, Bogor	Vegetables
3	Yayasan Setara	Bogor baru, Bogor	Non-timber forest product, handicraft
4	Telapak	Baranangsiang, Bogor	Vegetables
5 6	Serikat Petani Indonesia Aliansi Organis Indonesia	Cibeureum, Bogor Budi Agung, Bogor	Vegetables, rice Vegetables, rice
Province of Central Java			
7	Lestari Mandiri	Pulisen, Boyolali	Rice, gingger, wild-gingger, turmeric, flour chips, tea, honey, salted egg, banana, soybean, peanut, galangale
8	Kelompok Usaha Manunggal	Klego, Boyolali	Rice
9	Gita Pertiwi	Colomadu, Surakarta	Rice, peanut, vegetables, vegetable seeds, soy sauce
10	Paguyuban Petani Organik Tani Manunggal	Sragen	Rice, organic fertilizer, onion
11	LPTP	Sambeng, Surakarta	Rice, VCO, gingger, sugar, sweet potato, kolong, dried cassava
12	Pokja KTB Blumbang Tawangmangu	Tawangmangu, Karanganyar	Sweet potato, vegetables
13	KSM Mekar	Polokarto, Sukoharjo	Garut starch
14	Kelompok Pemuda Tani Sukoharjo	Bendosari, Sukoharjo	Sesame oil, empon-empon, VCO
15	LSK Bina Bakat	Banjarsari, Surakarta	Beras, spices, mushroom, cashew, Gnetum gnemon fruit chips, gingger, coffee
16	Serikat Paguyuban Tani Organic Thoyyibah	Ngawen, Salatiga	Rice, vegetables, handicraft
17	SPPQT	Susukan, Salatiga	Rice powder, rice
18	LPPSLH Purwokerto	Sumampir, Purwokerto	Rice, molded sugar
Province of Yogyakarta			
19	Sahabat Niaga Petani	Palagan, Sleman	Rice, VCO, coffee, brown sugar, palm sugar, tea, peanut, soy sauce, tuber starch
Province of East Java			
20	PPLH Seloliman	Trawas, Mojokerto	Rice, honey, vegetables, crispy chips, fruits

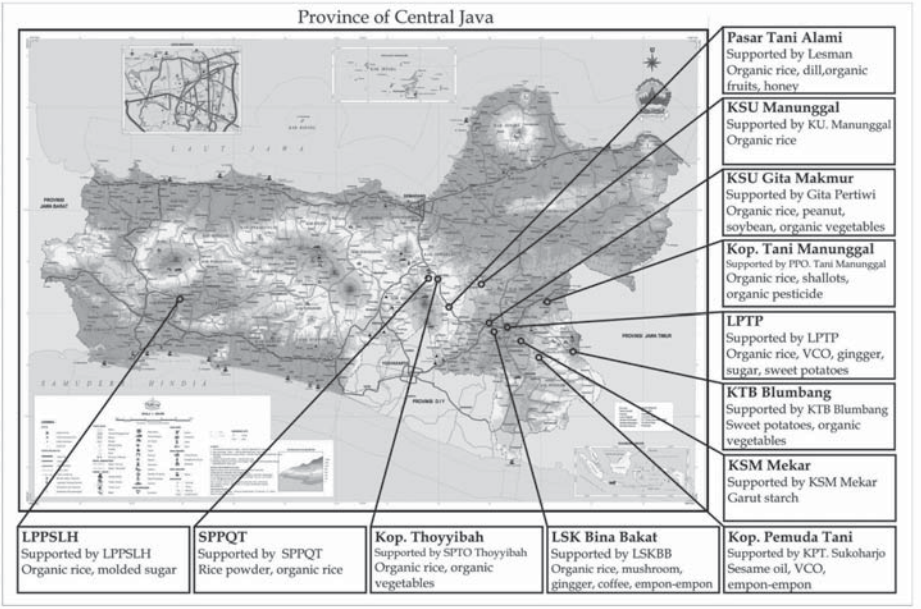
Appendix 2.

Working area of respondent organizations of marketing intermediation survey

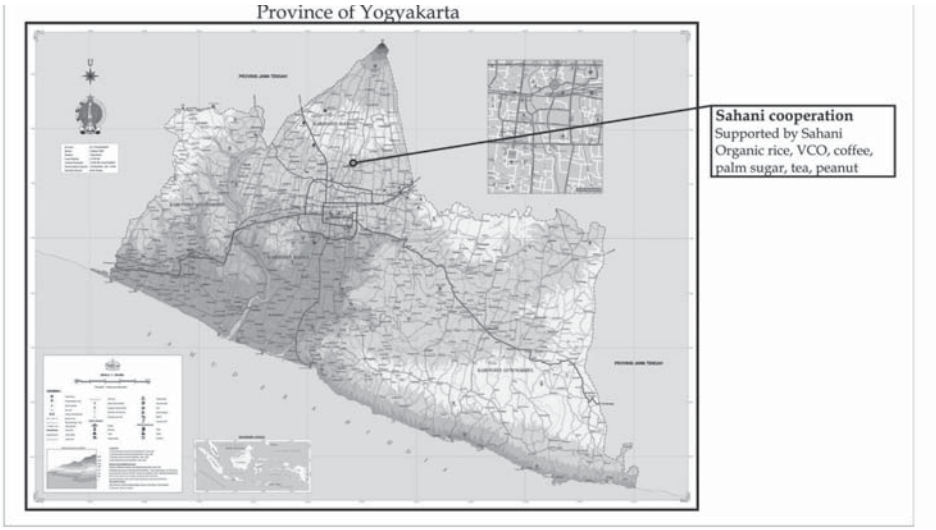
Appendix 2.1. Marketing intermediation in West Java



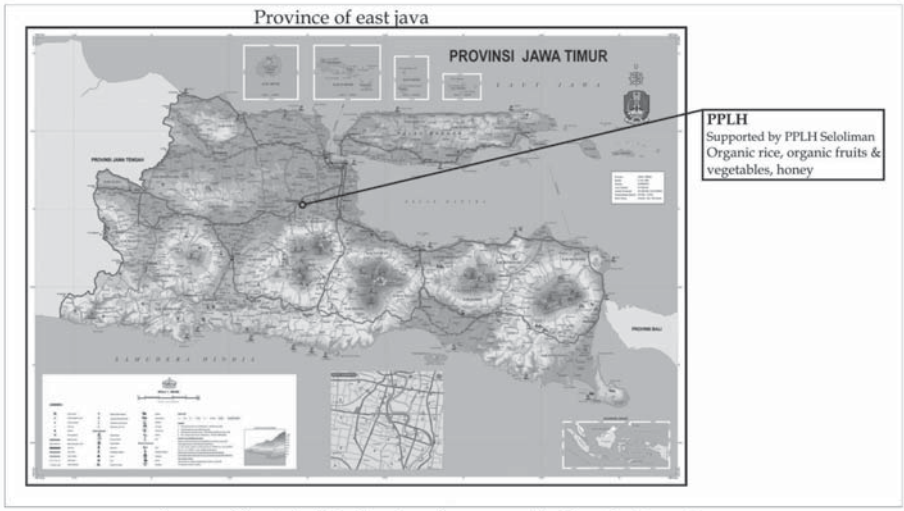
Appendix 2.2. Marketing intermediation in Central Java



Appendix 2.3. Marketing intermediation in Yogyakarta



Appendix 2.4. Marketing intermediation in East Java



Appendix 3.

Volume of marketed products and Number of involved farmers (Compared to national scale Production and Number of farmers)

Appendix 3.1. Type of marketing intermediaries of organic products based on intermediaries' product and characteristic

Type of marketing intermediaries	Marketed products	Number of CSO respondent (trend analysis)
Marketing intermediaries of organic rice	Rice, brown rice and rice products	11
Marketing intermediaries of organic vegetables and fruits	Vegetables (spinach, mustards green, lettuce, pak choy, etc.); fruit vegetables (string bean, chickpea, red pepper, chili eggplant, etc.); tubers (yam, curcuma, turmeric, etc.)	5
Marketing intermediaries of other organic products	Farming products and its processed products(coffee, tea, palm sugar, VCO, etc.), non-wood forestry products (forest honey, essential oil, sesame oil)	4

Appendix 3.2. Volume of marketing initiatives compared with national production and production on Java (tons/year)

Product groups	Volume of marketing initiatives	National production	Production in Java
Organic rice	1,627.76	54,402,014	29,960,767
Organic vegetables[1]	82.42	4,649,663	3,240,761
Organic fruits[2]	26.60	12,127,026	6,385,342
Other organic products[3]	277.18	4,786,656	2,043,358

Explanations:
[1] National vegetables production are the production data of onion, onion leaf, potato, cabbage, mustard greens, and carrot in 2006
[2] National fruits production are the production data of mango, durian, orange, banana, papaya, snake fruit in 2006
[3] Mass people farm products, non-wood forestry products

Appendix 3.3. Involvement level of Farmers in marketing initiatives of organic products

Descriptions	Number of involved farmers	Percentages[a]
National farming[1]	101,600,000	45.73%
Natural farming[2]	23,608	0.02%
Marketing initiatives of organic products[3]	3,372	14.28%
Marketing initiatives of organic rice [4]	2,358	69.93%
Marketing initiatives of organic vegetables and fruits [4]	345	10.23%
Marketing initiatives of other organic products [4]	669	19.84%

Explanations:

[a] Percentage toward different factors, explained below
[1] Percentage toward population of Indonesia
[2] Percentage toward number of national farmers
[3] Percentage toward number of organic farmers
[4] Percentage toward number of involved farmers in marketing initiatives of organic product

VALUE CHAIN ANALYSIS OF ORGANIC RICE IN INDONESIA

BACKGROUND OF STUDY

Rice is the main food source of Indonesian people. Production of Indonesian rice in 2006 was reaching 54,45 million tons and 55,01% of that number was produced in Java Island. Implementation of green revolution in Indonesia at new order was directly affecting cultivation and rice trading system has changed in Indonesia since then. The aim of green revolution was production improvement by using agricultural intensification and extensification. However, green revolution also gives negative impacts like extending pest, soil damage, loss of some local rice varieties, and declining income of farmers.

Introduction of natural farming is one of opposition form from farmer partner organizations against the failure of green revolution. Organic rice, rice that is produced by natural farming system, is developing in Indonesia especially influenced by the development of market knowledge which getting more considered to health in consuming rice. Indonesian Bank reported that in 2004, production of organic rice in Indonesia was reaching almost 11.000 tons and mostly produced inside Java Island.

Coordination of organic rice trade system has not been specifically regulated by the government. Some farmer partner organizations through natural

farming network and some agricultural alliance have performed those coordination roles. Flow of information becomes one of the challenges in the development of organic rice in Indonesia. Strong and stable mechanism was needed to maintain the development of cultivation and trade system of organic rice in Indonesia. Marketing mechanism as one of important aspects in trade system of organic rice must be managed and controlled so it can keep on right direction. Marketing mechanism assessment function can be done by study of organic rice's value chain.

Objectives of Study

Study of organic rice's chain value was aimed to:

1. Have an overview of organic rice's chain value including assessment of the role of each player and determination of added value on each chain level, as reference to planning for a more efficient, appropiate and fair intermediation mechanism
2. Became the basic consideration when planning the form of more efficient and fair intermediation mechanism.

Framework of study

Value chain was used to understand value creation activity by breaking the system that was used into a series of activities which generated added value (Michael Porter, 1985). The objective of value chain was to offer a level of value that was appropriate and above the cost of activity to the buyers, so it couldgenerate reasonable profit for every value-producing level.

In the relation to CSO marketing initiatives, value chain analysis is needed to create an even and fair profit distribution, and also to find out better market chain to guarantee the market access of small scale farmers. Profit of each level of market chain depends on the effectiveness and efficiency of performance from each level of the value chain, so the value paid by the consumers is higher than the cost expensed for each activity inside the value chain. Competitive advantages can be achieved by rearranging the existing value chain to produce lower cost or higher margin.

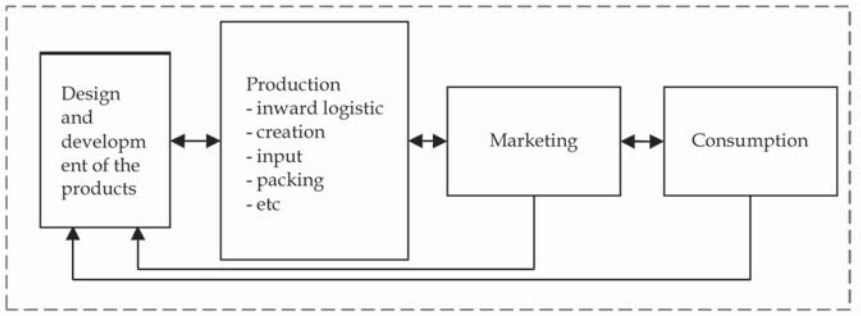
Actually, value chain of marketing intermediaries for market competitiveness is included in one bigger flow of activity which is value system. Porter

(1985) described the value system as a combination of value chain of supplier, value chain of processor, value chain of distributor and value chain of buyer. However, these systems will be considered as one unity of value chain of organic rice marketing initiatives. The framework used in this study is shown on figure 1.

Figure 1. Value system for single product

General framework of value chain is adapted from the concept of simple value chain by Kaplinsky and Morris (2002) as shown on figure 2. Although the value chain is generally described as a vertical chain, the relation that is more frequently happened is two ways relation – for example, marketing intermediaries of organic rice are not only influencing retailers and end users about quality and quantity of marketed organic rice, but also influenced by the taste and habit of consumers on the end chain link in value chain. Practically, there are many value chains that more complex and tend to have many chain links inside the value chain.

Figure 2. Framework of value chain



METHODOLOGY

The world of production and exchange which we are observing is complex and heterogeneous. Not only do value chains differ (both within and between sectors), but so, too, do national and local contexts. So there is no

mechanistic way of applying value chain methodology. Each chain will have particular characteristics, whose distinctiveness and wider relevance can only be effectively captured and analyzed though an understanding of the broader issues which are involved. Consequently, to be useful, the methodology which follows needs to be read in the context of the theoretical discussion about value chain in previous parts of this handbook.

Methods of value chain of organic rice study were consisted of primary data collection and tabulation of former study results and supporting data published by organizations or government. Primary data collection was coordinated by Bina Desa assisted by ELSPPAT and AOI as well as results of interviews with Lesman and LSK Bina bakat as marketing intermediaries of organic rice in area of study, Central Java *(sub districts of Boyolali, Karanganyar, and their surroundings)*. The value chain study of distributor and buyer outside Java Island was done as comparative analysis. Those studies were the results of survey and research done by LSK Bina bakat in Bali, Nusa Tenggara and Jakarta.

Insight of Value chain

At the simplest level, as reflected in Figures 1, value chain analysis plots the flow of goods and services up and down the chain, and between different chains. This is in itself a valuable task.

One of the powers of value chain analysis is that it goes beyond firm-level analysis. That is, a narrow focus on the competitiveness of individual producers, or indeed even a chain of producers, may not explain their success in global markets. This is because each of these producers needs a point of entry into markets, which are they need to be connected. The point is that different forms of connecting intermediaries will affect the terms of entry into global markets and the capacity of individual producers to upgrade. In terms of orders of importance, therefore, knowledge of the ways in which disparate producers are connected into different final markets is of particular importance to value chain analysis;

The implementation of VCA and marketing initiatives of organic rice are aimed to connect farmer groups to bigger markets through the approach of production competitiveness factors. Actual conditions of value chain of

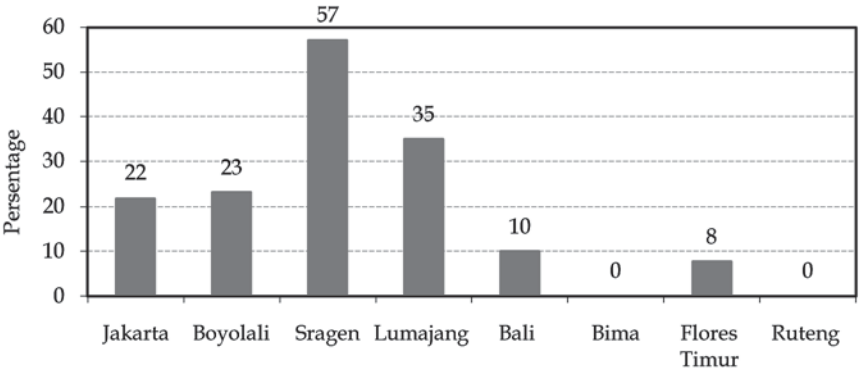
rice in Indonesia become the comparator for implementation of marketing mechanism of organic rice facilitated by farmers partnering organizations, especially in Boyolali, Karanganyar and their surroundings as one of natural farming centers. Government and private parties' role in value chain of rice are very big.

On one side, their existence are needed to reduce fluctuation of national rice's price, maintain stock, and accept excessive harvest from the farmers. However, roles that are too big can cause a relation that tends to be in one direction and place the farmers as the lowest authoritative sides in the chain. The principle of value chain in village farming development is to prioritize an evenly distribution of benefits based on the role and risk in the value chain of rice.

MARKET MAP OF ORGANIC RICE

Who are the consumers of organic rice?

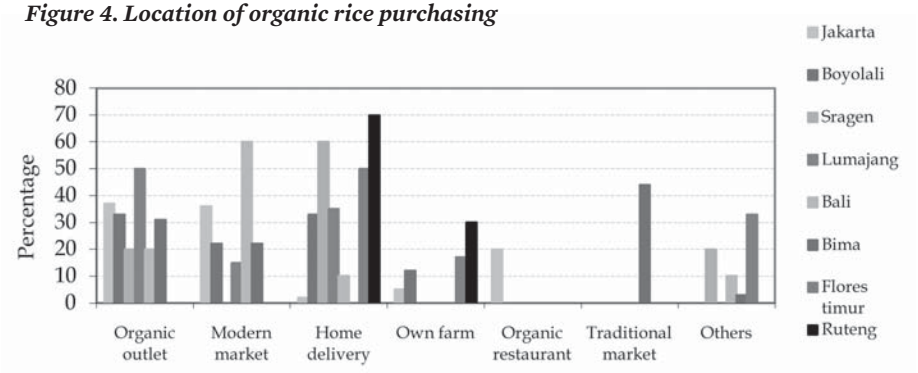
Figure 3. Percentage of organic rice consumers



Consumers of organic rice on Java and Bali are larger than on East Indonesia. This is affected by condition of the regions, availability of the products, number of place to sell product, promotion media and the rapidity of natural farming activities.

Places that usually supply and used by consumer to buy organic rice are organic outlet, modern market, rounds man (home delivery), own farm, organic restaurant, traditional market, and other places which have organic rice.

Figure 4. Location of organic rice purchasing



What is the Pattern of Relation between Consumers and Producers?

Characteristic of Organic Consumer

In this context, consumers are organic rice users that get the product from merchandising intermediaries which are collectors, merchants, distributors or importers. Specifically, consumers' behavior are observed to see the needs, prospect, their view and insight about the existence of these products, with the aims to obtain conclusion about the importance of consumers' insight developing and understanding to use healthy foods in fulfilling their needs of food.

The research was done randomly by LSK Bina bakat in every research region to understand the level of knowledge about these products. Potential consumers that had been gathered in this research were interviewed directly on the shopping centre or by phone. From all the respondents, women were more dominant than men, which were 56%. This result was possibly affected by the selection of survey area on shopping centre, general market, etc. From their age, consumers of organic rice were generally above 30 to 40 years old. Educational backgrounds of the consumers were bachelor and high school graduate. The results showed educated groups that characterized with easy access to information. These groups of consumers tended to

be moderate on accepting input from outside through promotion, discount or enlightenment campaign.

Purchasing power and consumption capacity
Consumers' financial power are very influencing their pattern of consumption for purchasing of goods including organic products. The factors of knowledge, insight and consumers' needs are also influencing the level of consumption. Almost every customer in the research area except Jakarta make their budget for organic products for less than Rp. 50.000 per month. In Jakarta, Bima and Ruteng spend their money for organic products for more than Rp.50,000 to Rp.200.000 per month. And just few of the consumers that budgeting their expenditure for organic products for more than Rp.200.000 per month.

Accessibility of organic distribution channel
The highest consumption frequency of consumer for organic products is every day, followed by once every 2 -3 days and every weeks. Almost all of the customers in the research area rely on one single channel to acquire organic products especially by home delivery system (house/office), or buy it in the orgaic outlets as well as modern markets that sell these products.

On Boyolali and Ruteng region, because of the availability of land, they also try to produce their own consumed organic products. On some region like Jakarta, Bogor, Boyolali, Sragen, Bima and Ruteng, there are also found a model of distribution which is the combination of few systems, for example, there is a combination of delivery and general supermarket in Bogor. These conditions show that there are distribution channel development of organic products that are not only from producer/distributor to consumer, but also collecting in outlet and self servis market then distributed to the consumers. The results of this survey show the distribution channels of organic products are still partial or different for each product or group of products.

Market Map of Organic Products and its Problems
The analyzed marketing aspects were the relation between producers and consumers and the role of merchants and collectors as marketing intermediaries of organic product as well as the advantages and problems that had been faced by both.

Partnership relations
The most implemented collaborative relations between producers, intermediaries and customers in marketing of organic rice are direct trading relations with producers, trading relations with intermediaries and pre-harvest purchase. Model of trading relations with intermediaries is generally done in Bali and Boyolali. Pre-harvest purchase is done in Bima dan Flores timur. In Jakarta that is far from the farmers, there are quite many consumers that directly trading with the producers.

Other partnership relations include purchase directly from producers then sell it directly to end user with or without repacking. The survey result shows that marketing of organic rice are developing with partnership model variations between producers, consumers and intermediaries (collectors, suppliers or distributors). Most of the Partnership model variations are found in Jakarta.

Written collaboration contract were applied mostly by organic rice marketer in Jakarta, Bima and Flores timur. In the other regions which are Boyolali, Sragen, Jakarta, Bali and Bima, producers and consumers are not using written contracts. Partnership relations with written contract gives certainty to producers and consumers or intermediaries in organic rice trading. The certainty for producers is certainty of products purchasing by customers, and for costumers or intermediaries is certainty of products' supplies.

Organic products trading
Trend of organic products has opened new form of marketing for organic products's intermediaries. Most of the merchants starting to change their rice composition between organic and non-organic rice. From the results of research, the highest percentage of organic rice merchants are in Jakarta and Bima which are 28,6%. While 14,3% merchants in Sragen and Bima have an even selling ratio of organic and non organic rice. The survey results show that organic rice have already had good bargaining position in rice market in some part of Indonesian region. In Florest Timur, general merchants start to change their organic rice selling ratio to be higher than non organic rice.

Organic rice trading is getting favoured by the consumers with various reasons which are health benefit that they get and helping environment

conservations. From this research, the profit of organic price producer in Jakarta, bima and Bali are ranging from 5% to 20% of selling price. There are just few producers that can make profit above 20 % of selling price.

Product standarization problems are also used by the intermediaries in selling organic rice to the consumers. Scope of applied standarization vary from pesticide free, residue free as well as chemical free.

Prospect of organic rice marketing is also marked by the development of various group of customers and intermediaries. Now in Jakarta, there are more than 11 suppliers and in Bima there are 8 suppliers counted. In Sragen and Boyolali, there is only 1 organic supplier found. Suppliers of organic rice are institutions and individuals.

CURRENT VALUE CHAIN OF RICE

Pre-harvest purchasing system

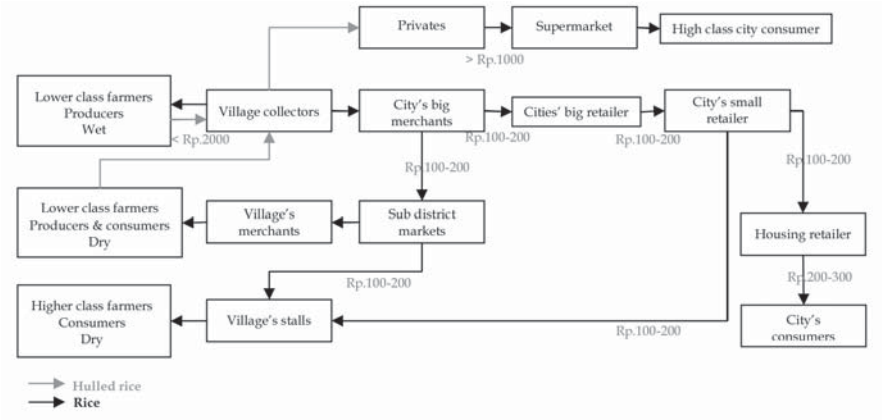
Value chain of rice has many types of variations depend on the region and type of rice. However, most of the value chains of rice give significant roles for broker. Pre-harvest purchasing systems that happened in some regions in the province of Central Java (Karanganyar, Boyolali, Surakarta, and its surroundings) give role to village broker as the only buyer of farmers' harvests. Basically, brokers' roles as collector of harvest are very good to control price fluctuation. However, pre-harvest purchasing system by buying farmers' harvest with fixed price before harvesting is very troubling for the farmers.

The farmers involved in pre-harvest purchasing system are farmers with average farm wide of 0.3 ha. With 1.740 kg dry milled rice harvest, farmers' gross profit is Rp.3.480.000. brokers' buying price is around Rp.2.000/kg dry milled rice. This amount will be budgeted for the next cultivating season, social needs, and household primary needs. With pre-harvest purchasing system, impacts received by the farmers are low production value, low selling price of hulled rice and the farmers will not have any food reserves on level of families and groups.

Scheme of value chain of rice with pre-harvest purchasing system can be seen on figure 5. Village brokers are the only one connector between pro-

ducing farmers with city big merchants and private parties in the marketing of rice and hulled rice. In this system, role of the government is not too significant because the balance of supply and demand is already formed well.

Figure 5. Value chain of rice with pre-harvest purchase system



In rice chain with pre-harvest purchase system, the players that have too big roles are described as follows:

Village's collector merchants. Village collectors as the owner of rice mill so they can mix the rice as the buyers wishes. Village collectors have higher social status and have the capital so they have the abilities to collect the rice and become the pillars of farmers when they need loans.

City's Big Merchants. Big merchants have bigger capital so they can give capital loan to the village collectors and city retailer. City big merchants usually have big warehouse tokeep the rice in large quantities.

Intermediation organizations develop some value chains that aim to balance the role and profit margin from all the players in the value chain of rice. Two types of relations inside the value chain that are developed are direct relation between producers and consumers and partnership with private parties. Relations between farmer groups as the producers and city consumer groups are aimed to increase farmers' selling prices and supply good quality rice with reached price for the consumers. The target markets are middle to

low class people that have awareness for rice quality and pay less attention to product packaging.

Partnerships with private bodies are aimed to link farmer groups to private groups in organic rice selling. In this case, private parties direct the marketing to middle to hign-end market that pay more attention in quality and packaging and don't mind with higher price.

In this system, there is also seen that some level groups of farmers receive rice supply for their household needs from merchants and brokers. It underlines how low the added value received by the farmers.

Scheme of value chain of rice in province level
The scheme assessment of value chain of rice in province level was focused on 3 provinces in Java Island that had high quantity of rice selling. Those provinces were Jakarta, West Java, and Central Java. Each province had different characteristic and role of actors as well as different flow proportion of quantity. The detailed scheme can be seen on appendix 1.

Main market of rice and government (by the role of Indonesian Bureau of Logistics) become the most significant actors in value chain of rice in Jakarta and West Java. The role of government in Central Java is less than the other provinces and the main market of rice as the main trading center of rice does not have any significant role in the value chain.

Main market of rice
Main markets of rice receive the rice supply from West Java, Banten, East Java, Lampung, Palembang, Makassar and some other provinces. The total value of trade reaches 4 thousand tons per day with the main supply destinations to Jakarta and its surroundings as well as the regions outside Java Island. In the value chain of rice in Jakarta, the main market of rice receives supply of 22% of millers' production with 59% of main flow of supply to the wholesalers in some regions and 39% to stores and retailers in Jakarta and its surroundings.

In the value chain of rice in West Java, the supply done by main market to the stores, retails and markets was acquired not only from West Java, but

also from other regions. Stores and retailers receive 78% of supply from main market and the rest are the supply for the general markets. In value chain of rice in Central Java, the role of main market of rice is less significant than the role of private parties, in this case are rural cooperatives, millers and collector merchants.

Indonesian Bureau of Logistics (BULOG)

Indonesian Bureau of Logistics has double roles which are the controller of rice supply and price in farmer level and collectors as well as price balancer in consumer level. The supplying mechanism of Indonesian Bureau of Logistics is done by absorbing the surplus marketed by the farmers during harvesting period. Absorption of harvest surplus is done through various channels especially working partners and task forces.

The role of Bulog in the value chain of rice in Jakarta and West Java is very dominant in absorbing the farmers' harvest. In Jakarta, 91% of farmers' harvest is absorbed by Bulog through their working partners (collector merchants). While in West Java, Bulog absorbs almost all of the farmers' harvest through some marketing channels.

In Central Java, Bulog receives the rice supply from working partners joined in Rural Cooperatives. 23% of rice supply from the farmers is absorbed through those farmers' cooperation. Differ from the other two provinces, the role of Bulog in Central Java is littler than the big and small millers.

The pre-harvest purchasing system explained before hold most of the rice production in this province.

Value chain of rice developed by intermediaries

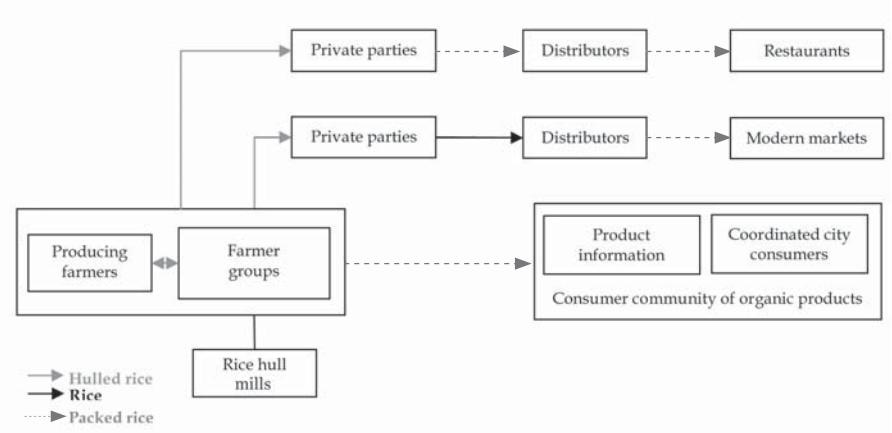
Intermediaries are the connector parties between farmers and retail or end consumers. Intermediaries are supported by NGO which focusing their activities on natural farming. Beside as the connector, intermediaries are also give capacity developing program for the farmers as the basic to access alternative and bigger markets.

As shown on figure 6, value chain of rice has shorter chain links by decreasing the roles of brokers and other opportunists in the value of chain. The

basic difference of chain value of rice developed by intermediaries is the intensive relation built between farmers in the farmer groups and communities of organic products' consumers. Forum of producers-consumers is one way to unite them, proposing ideas and suggestions that give strengthening effect for the relation to become more than the relation of buyers-sellers. High social care from these consumer groups makes easier establishment of consumer community organization which involving local societies, educational institutions, private parties and local government.

Beside the intensive relation with communities of organic products' consumers, the main targeted markets in this value chain of rice are restaurants, modern markets, etc. The marketing management for these target markets is given to the distributors as the working partners of private parties. The role of private parties as the collector of farmers' harvest through the farmer groups is very dominant, so the intermediaries make a bonding agreement as well as benefiting both parties for long period of time.

Figure 6. Value chain of rice developed by intermediaries



The impacts from role changes of the actors of value chain of rice developed by the intermediation organizations compared with before are:

1. Changes in farmer groups
Functions of farmer groups in this value chain of rice are very important. Farmer groups that previously play roles only as food reserve institutions

when famine comes, now extended also as manager of rice marketing in the scope of groups.

2. Village's collector merchants
Rice mills owners that previously play role as rice collector, now they only play role in supplying the rice milling services for farmer groups.

3. Products' changes
The changes of cultivation system are done with tighter quality control functions. These functions are done by the farmers with insight help from intermediation organizations.

4. Changes in consumer level
Producers partnering with private parties to enter the city market with middle to high class of income. The private parties are also act as initiator of producers and big retailers' partnerships in the cities.

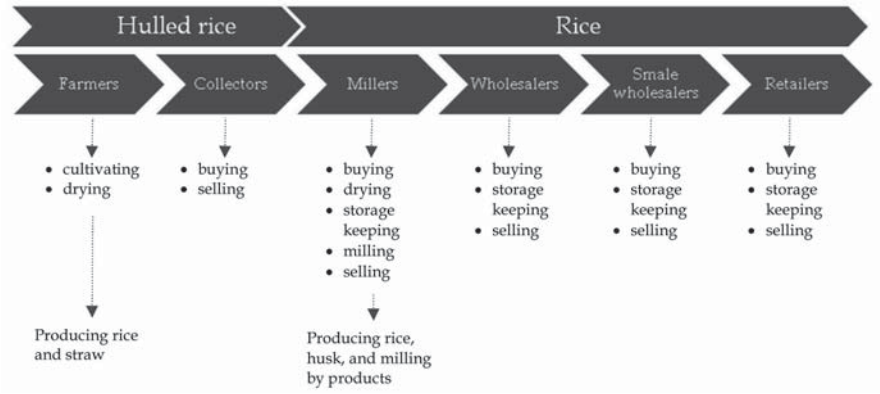
Beside of that, producers are also related directly to city's consumers with standard income. High social care from these consumer groups makes easier establishment of consumer community organization which involving local societies, educational institutions, private parties and local government.

ACTIVITIES AND COST FLOW IN THE CHAIN VALUE OF RICE

Activities of the actors in the value chain of conventional rice as well as value chain of organic rice can be divided into 7 main activities which are cultivating, drying, buying, selling, transporting, storage keeping and milling. Each activity has its own core activity with different post and expenditure.

Figure 7 shows the scheme of actors' general activities in value chain of conventional rice. Market actors are categorized into 6 groups based on the similarities of characteristic and role in the value chain. Collectors, wholesalers, small wholesalers, and retailers are not grouped into one same group because they have different roles despite of the similarities of their roles in the market chain. That is why the value chain of conventional rice becomes very long.

Figure 7. The actors' activities in value chain of rice



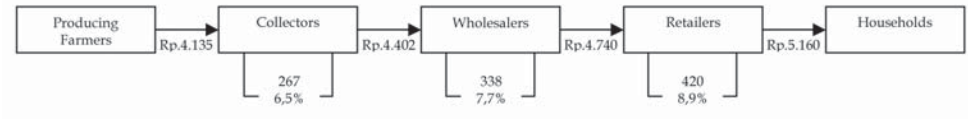
Millers are the actors who dominate the role in a market chain. From 7 main activities, millers perform 6 of them except cultivating. Beside of that, their handled product quantity is bigger than the other actors so the total of received added value is bigger than the other actors. Table 1 show that millers (big or small) indeed generate the highest added values which are Rp.919 and Rp.903. However, with quantity which is bigger than the others, the total add value they received become the biggest of all.

Farmers, in this case the farmers' families, generate bigger added values per kg than the other actors which are Rp.2,267 – 2,632. However, small production quantity and requirements of next cultivating system make the farmers difficult to spare their money for household needs.

Table 1. Cost and added value of conventional rice per kg

Actors	Farmers		Collectors		Small millers		Big Millers		Wholesalers		Agencies		Retailers	
	min	max	min	max	min	max	min	max	min	max	min	max	min	max
Cost	907	1,351	41	94	359	410	342	426	42	42	3	66	104	211
cultivating	907	1,227												
drying	0	124			46	97	46	99						
buying			1	8	47	47	44	48	10	10	0	11	11	36
selling			0	9	10	10	10	10	13	13	3	15	71	95
transporting			40	77	159	159	152	159	18	18	0	15	0	0
storage keeping					2	2	1	4	1	1	0	25	22	80
milling					95	95	89	106						
Added value	2,267	2,632	12	94	398	903	183	919	28	177	35	239	13	194
Gross profit	3,174	3,983	53	188	757	1,313	525	1,345	70	219	38	305	117	405

Figure 8. Scheme of price changes between distribution points of general rice



Differ from conventional rice, categorization of market actors in value chain of organic rice is done into 3 groups based on the similarities of characteristic and role in market chain. Shorter value chain with bigger total added values gives bigger added value for each of the actors. Farmer groups that shelter some farmers perform cultivating and drying activities. Although they have the same activities with the farmers in value chain of conventional rice, total added value they received is bigger because of the lower production input cost, shorter value chain and cash selling system. The range of added value for the farmers is between Rp.1,984 – 2,448 per kg.

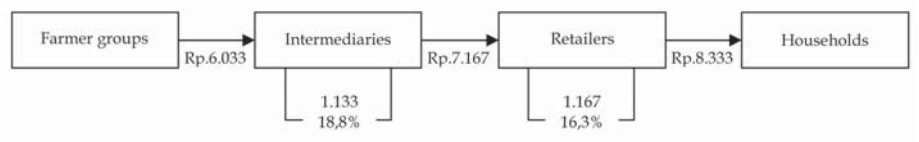
Intermediaries act as the products buyer from farmers and millers and as the rice supplier to retailers. The functions of three actors done by intermediaries are the results of high support from farmers partnering organizations as well as the abilities in accessing alternative markets. The acquired added values of Rp.373 – 460 are very suitable with the activities done in the value chain.

Table 2. Cost and added value of organic rice per kg

Actor	Farmer groups		intermediaries		Retailers	
	min	max	min	max	min	max
Cost	2,146	5,489	403	1,031	415	1,061
cultivating	1,948	4,353				
drying	198	1,135				
buying			57	145	58	189
selling			12	41	242	411
transporting			218	555	50	109
storage keeping			2	8	64	352
milling			114	282		
Added value	2,448	1,984	460	373	473	384
Gross profit	4,594	7,473	863	1,404	888	1,445

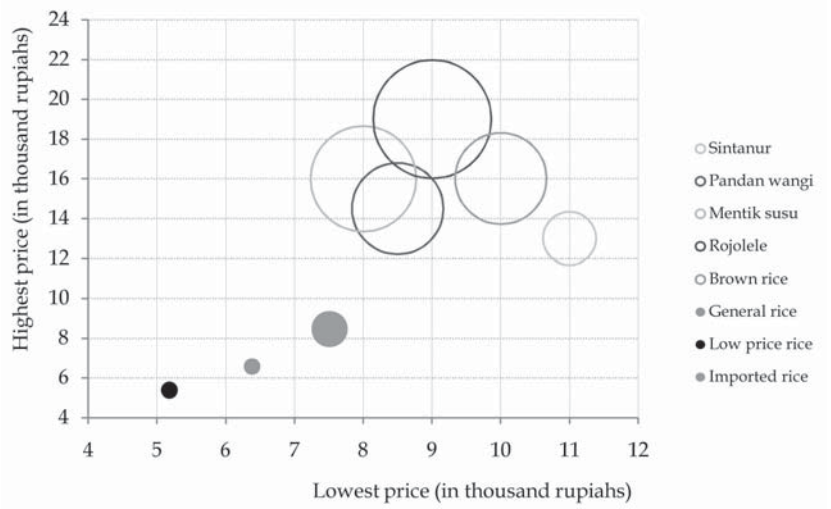
Private parties and distributors are included in retailer groups. The difference between both of them is the quantity of marketed products. Private parties are able to distribute bigger quantity of rice than the distributors. However, the added value per kg generated by both is ranging from Rp. 384 to 473.

Figure 9. Scheme of price changes between distribution points of organic rice



One of the weaknesses of organic rice marketing compared with conventional rice is the price offered by retails in one period has wider range of selling price. Figure 10 point out that the group of organic rice (sintanur, pandan wangi, mentik susu, rojolele, and brown rice) has the selling price range of Rp.2,000 – 10,000, shown as the circles with bigger diameter, than general rice, low price rice, even imported rice. The last three, shown as the solid circles, have the highest price per kg range of only Rp.942.

Figure 10. Comparison of retailers' price in 2008



RECOMMENDATIONS

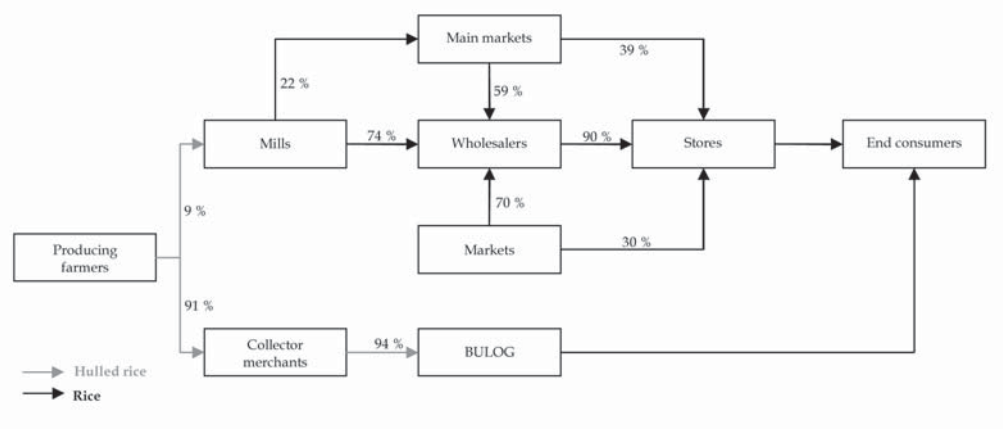
Value chain study was focused on 3 matters which were mapping of organic rice targeted markets, analysis of existing value chain, and the proportion of added value generated by each of the actors in value chain.

Issues and recommendations are:

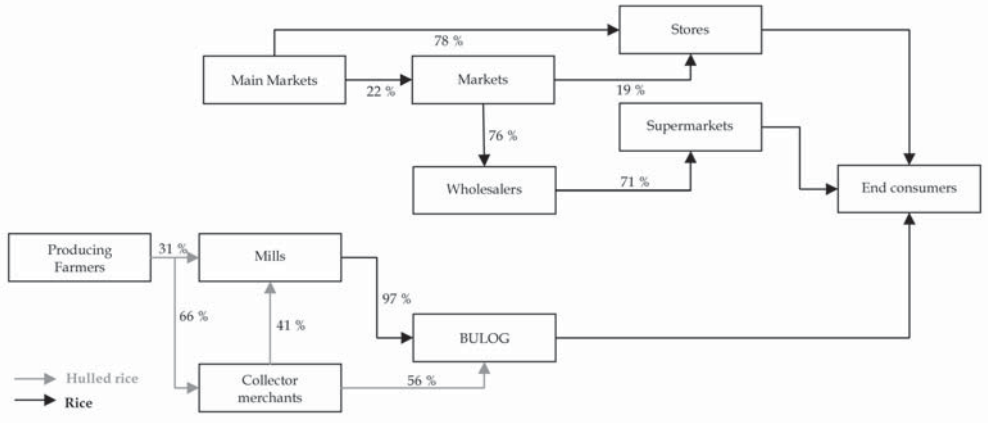
- The existing targeted markets are the consumer groups which have better information access, better income, better awareness of health and closer access to marketing locations. Improvement of production capacity and implementation of internal control system must be done in integrated actions so the marketing intermediation mechanism that is produced can maintain its performance, although there are noted changes in either internal or external factors,
- Analysis of existing value chain of rice in the studied regions showed that trading mechanism are still generating higher range of selling price for end consumers. The end consumers as the receiver of added values still haven't considered buying price as the main factor in buying decision. This condition can be improved by establishing a price balancing role in the value chain. Beside of it, that value chain needs an interrelation between each actor,
- The actor's bargaining position toward the others in the value chain as well as the market mechanism becomes the main factor in producing added value on each level of actors. Without the price balancing role, this system will tend to be a free market system which will have impact on lower value produced by farmers as the first actors. In this case, implementation of evenhanded principles has to be done according to the role and function of each actor in value chain. Value chain of rice also needs medium period plan about price optimizing so it can reach the competitive price.

APPENDIX

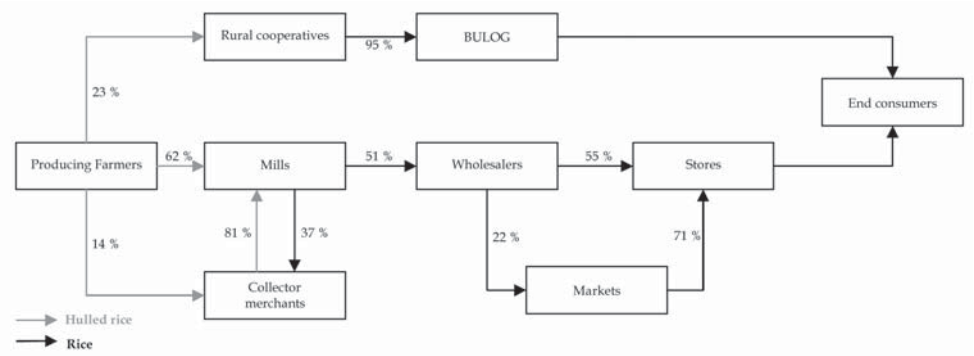
Appendix 1a. Main flow of rice distribution in Jakarta



Appendix 1b. Main flow of rice distribution in West Java



Appendix 1c. Main flow of rice distribution in Central Java



Appendix 2.

Regulations of Indonesian rice export

1. Rice exports are only done by BULOG if national stock exceeding national needs for certain type of rice with permission from department of commercial and considering recommendations from price stability coordination team,
2. The specific types of rice are: Type of rice for seed needs (HS 1006.10.00.00), non thai homali aromatic rice (HS 1006.30.19.00) with highest broken level of 5 % and other types of rice (HS 1006.30.90.00) with broken level of 5 – 25 %,
3. Stock of national rice is enough (exceeding the needs), marked by:
   - Price development is in stable condition
   - Condition of national stock is exceeding the needs if the stock in BULOG reaching 3 million tons
4. Rice export for sticky rice type (HS 1006.30.30.00) can be done by every enterprise after having export permission from general director of overseas commercial with consideration of recommendation from general of agricultural products processing and marketing of agricultural department.

About the LSFM Program

The fast pace of agricultural trade liberalization and the opening up of various market offers both threat and opportunity for small farmers in Asia.In the liberalized market, small farmers and agricultural producers are unable to maximize the benefits of their production efforts. The income derived from farming is low because they are unable to benefit from the price differential that happens after their produce leaves the farm and reaches the consumers. Moreover, various studies have already shown that most small farmers have lost their livelihoods due to the influx of cheap agricultural product from other countries. However, there are also successful cases where farmers with appropriate support were able to capture opportunities in the liberalized market.

This project will focus on building the capacity of women and men leaders of small farmers' organization and cooperatives together with their partner NGOs/agri-agencies to respond to agricultural marketing issues confronted by small farmers and producers. It shall undertake the formation and or strengthening marketing intermediation mechanisms that will link small farmers to the markets, reduce transaction costs and increase the benefits of small farmers in the process of engaging with the market.

LSFM is currently being piloted in Cambodia, Philippines and Vietnam with the support of the ASEAN Foundation and in Indonesia with the support of the Vitoria-Gasteiz City Council, Basque Country, Spain and the World Rural Forum (WRF).

www.asiadhrra.org

About AsiaDHRRA

The Asian Partnership for the Development of Human Resources in Rural Asia (AsiaDHRRA) is a regional partnership of eleven social development networks and organizations in ten Asian nations that envisions Asian rural communities that are just, free, prosperous, living in peace and working in solidarity towards self-reliance. Its mission is to be an effective promoter and catalyst of partnership relations, facilitator of human resource development processes in the rural areas and mobilizer of expertise and opportunities for the strengthening of solidarity and kinship among Asian rural communities. AsiaDHRRA's regional policy advocacy work has always been anchored on its commitment to bring forward the voices of its partner peasant organizations to the frontline of the advocacy arena. AsiaDHRRA organized the five Farmers' Exchange Visits which eventually led to the formation of the Asian Farmers Association for Sustainable Rural Development (AFA).

About the WRF

The World Rural Forum Association (WRF) is a forum for meeting, analysing and observing rural development. It has established agreements with universities and other educational or research centres, with farmers' associations and with NGOs which have solid links with grass-roots organization. As a result of this work, we avail ourselves of reliable information which enables us to analyse the problems of farmers (men and women), stock-breeders and the inhabitants of rural areas throughout the world and draw up proposals for courses of action.

The WRF is a non-lucrative Association of an international nature, whose activities are carried out in a world context. It defines itself as a network which amply covers the five continents and is formed by people and public and private institutions, committed to the achievement of sustainable and equitable development, particularly in the field of rural development. In the quest for achievement of rural development, the WRF also promotes projects for cooperation in various rural areas of the world.

About the ASEAN Foundation

Established by the ASEAN Leaders on 15 December 1997 during ASEAN's 30th anniversary, the ASEAN Foundation aims to help bring about shared prosperity and a sustainable future for the peoples of ASEAN whose member countries are Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. The Foundation has two objectives:

- promote greater awareness of ASEAN, and greater interaction among the peoples of ASEAN as well as their wider participation in ASEAN's activities inter alia through human resources development that will enable them to realize their full potential and capacity to contribute to progress of ASEAN Member States as productive and responsible members of society
- endeavour to contribute to the evolution of a development cooperation strategy that promotes mutual assistance, equitable economic development, and the alleviation of poverty.