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Impact of Modern Value Chains on Small Holder Farmer Practices at The Production Centers of Vegetables in West Java Province

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Policy Background

- Fresh vegetables in Indonesia are mostly produced at the upland production centers. The most popular production centers in West Java Province are: **Lembang, Cianjur, Pangalengan, and Garut**
- The Upland area is also known for its natural scenic beauty. This makes them ideal for tourist destinations and creates **a high opportunity cost for land (high cost of land rent)** and more pressure for land use conversion into villas, hotels, and other tourism facilities, which **threaten the sustainability of upland agricultural production.**



Policy Background

- Until the end of the 1990s, smallholder farmers heavily relied only on the traditional market system to sell their harvest.
- Natawidjaja (1994) found that **vegetable farmers in West Java sold 90% of their harvest to the local collectors and wholesale traders of the traditional market system** ungraded, mainly leading to the **Traditional Kramatjati Central Market**.
- The traditional market system believes to be inefficient and gives smallholder farmers low prices **because of the long market chain and many actors involved**. But that **is only a myth**.



The Traditional Market System

- The traditional system has a low value-added, almost no post-harvest handling and value addition along the chain.
- In this system, the farmer's harvest went through different market actors without value added, only changing the sack/packaging and adding extra cost.



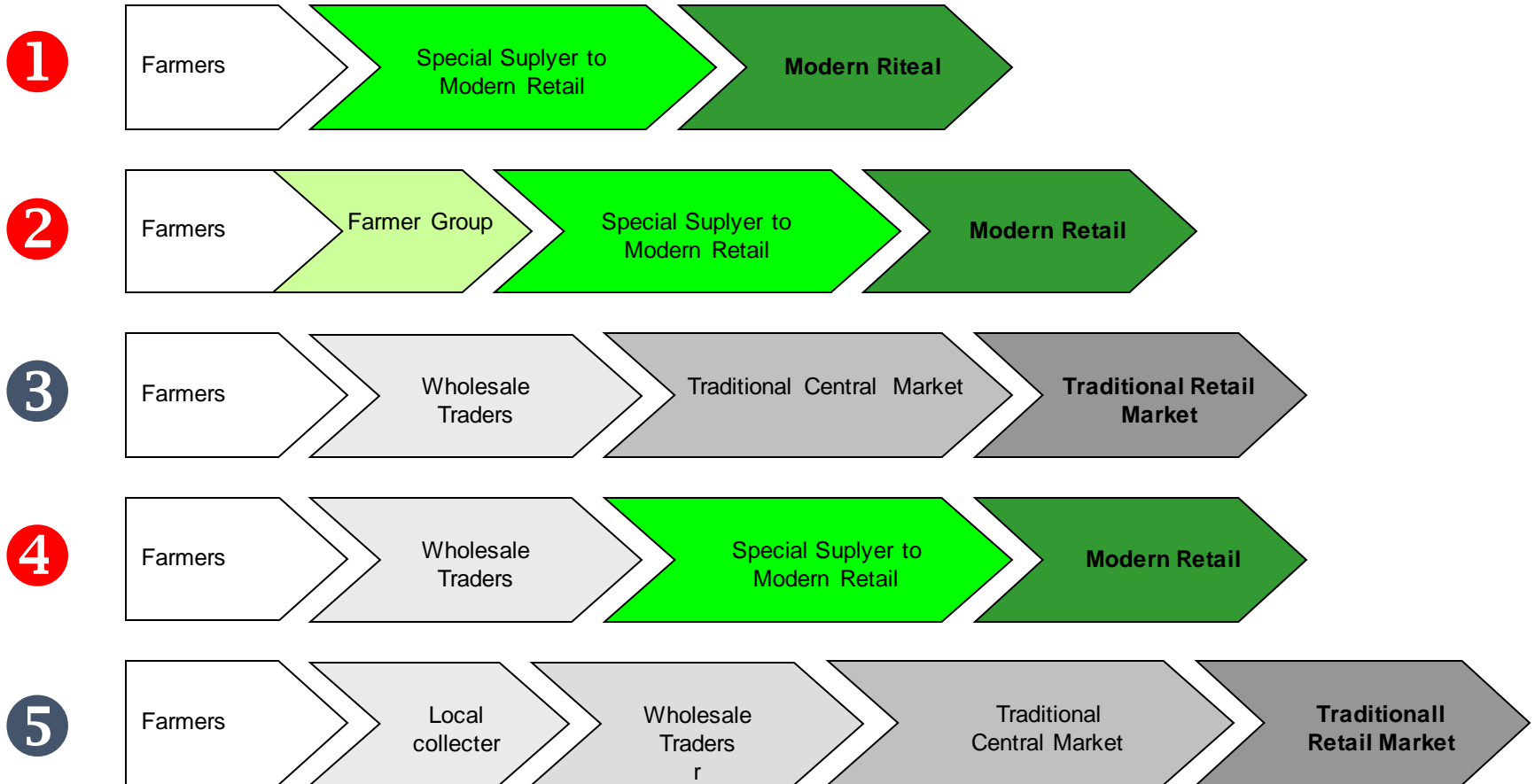


Disruptive Modern Value Chain

- The Traditional Market System **was disrupted** by a modern value chain growth, mainly led by the **development of the supermarket chain in Indonesia** after the restriction for foreign investment in the retail sector was removed in 1990 as part of the agreement with the IMF.
- **Modern Value Chain creates more value-added and demand for higher quality and more variety (SKU) of vegetable production**
- Supermarket Development has also induced the **development of the food and beverages processing industry**, which also creates more demand for the raw materials

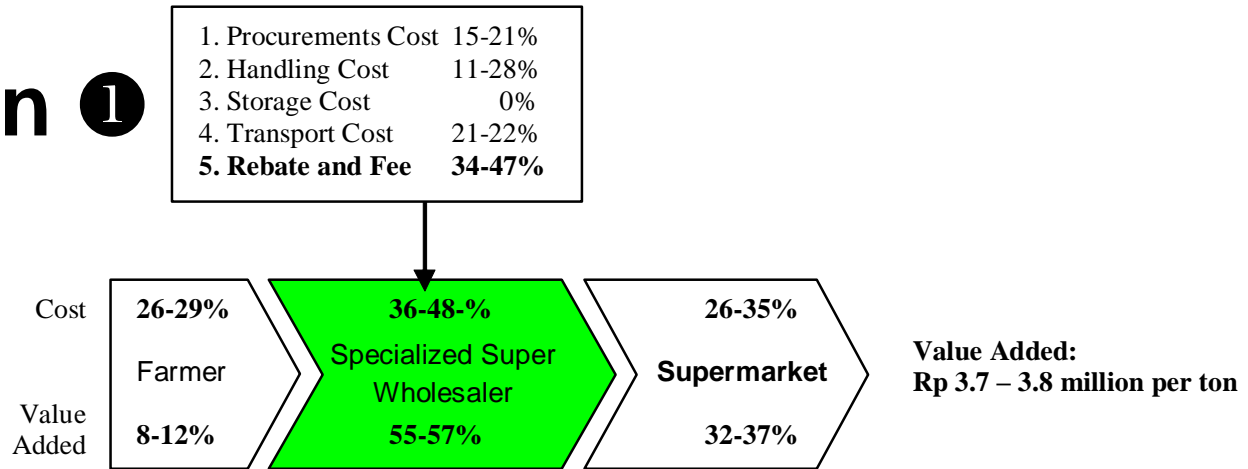


Value Chain of Tomatoes to Jakarta

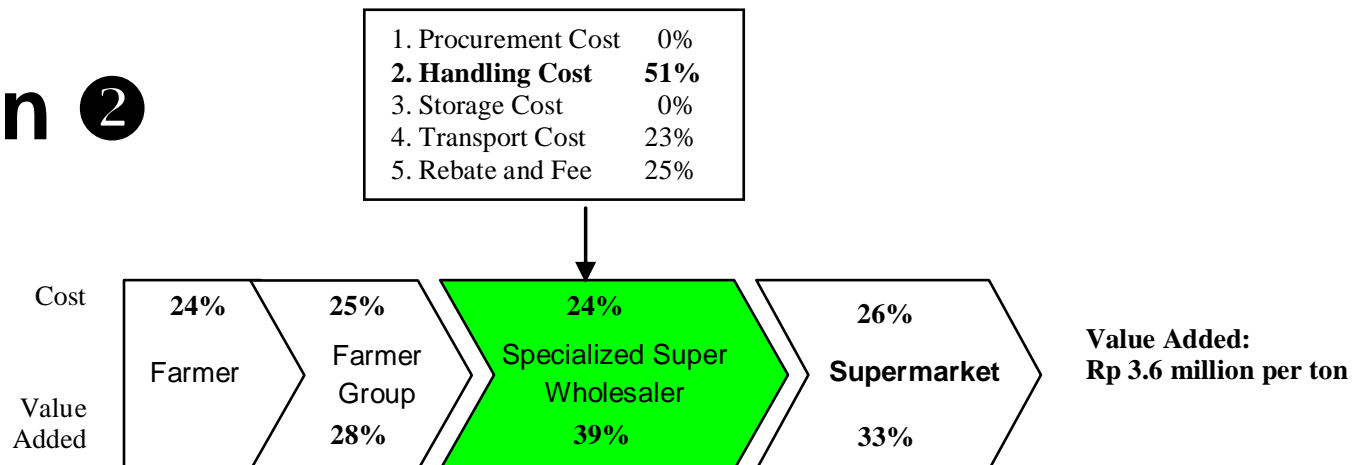


Detail Value Chain per Channel

Chain ①



Chain ②



Detail Value Chain per Channel

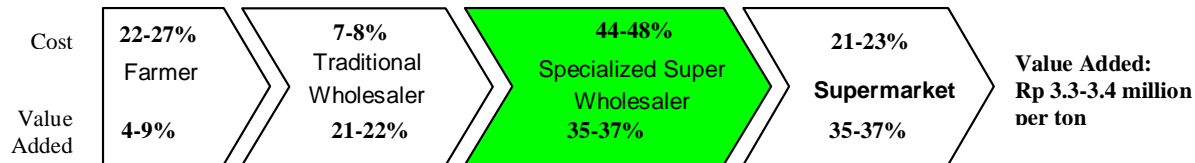
Chain ③

1. Procurement Cost	60-72%
2. Storage Cost	7-16%
3. Loading-Unloading Cost	12-33%



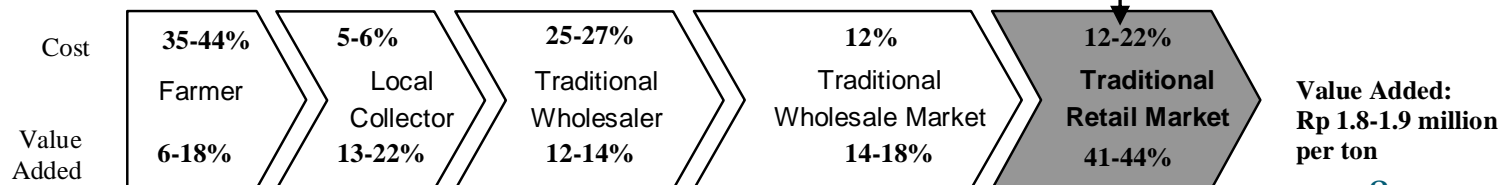
Chain ④

1. Procurement Cost	22%
2. Handling Cost	34%
3. Storage Cost	0%
4. Transport Cost	14%
5. Rebate and Fee	30%



Chain ⑤

1. Procurement Cost	58-69%
2. Storage Cost	8-13%
3. Loading-Unloading Cost	23-29%





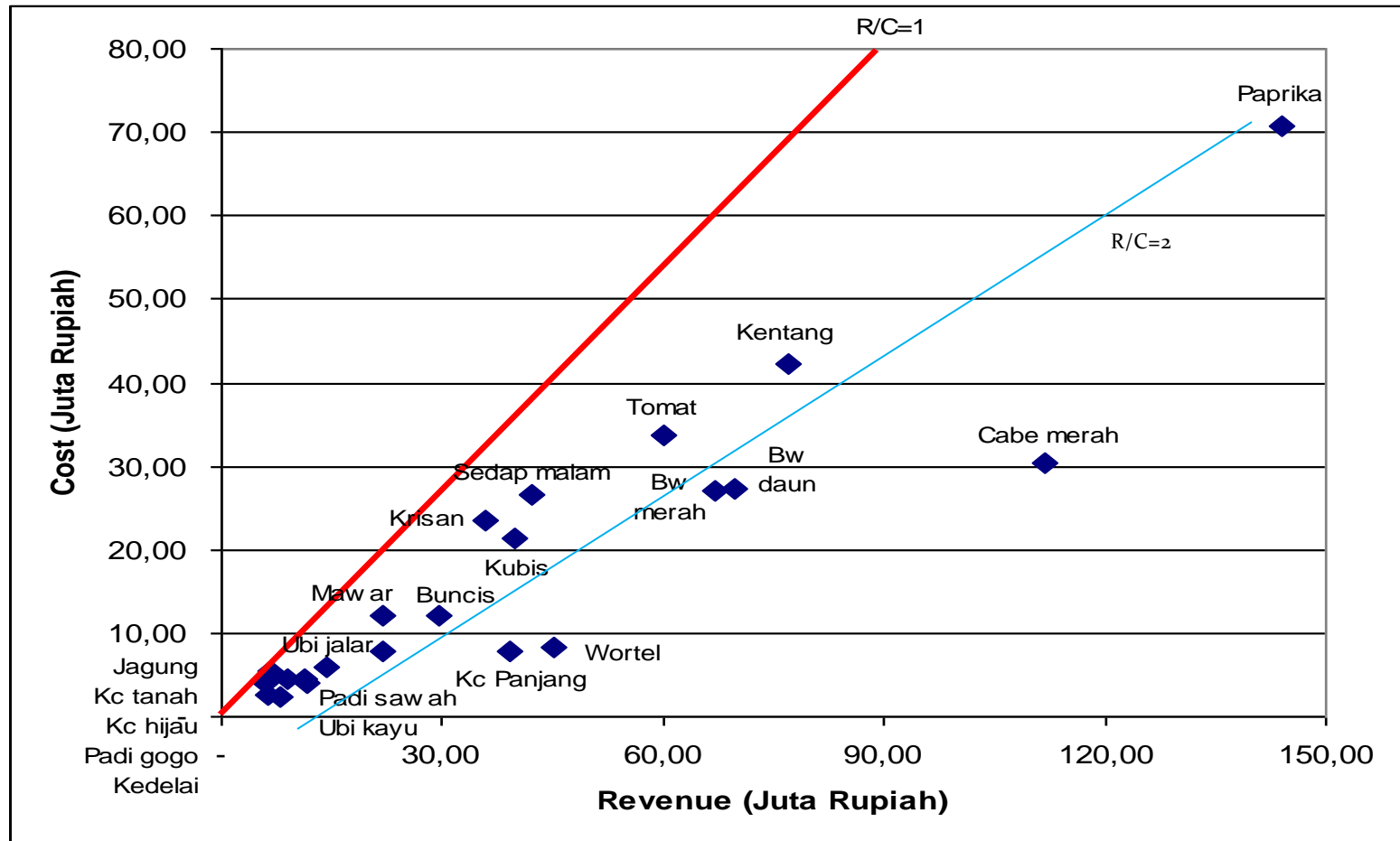
Changing Downstream Market of Tomatoes from West Java Production Centers in 2006

No	Downstream Market Destination	Percentage Share According to the Downstream Market			Average %
		Lembang	Pangalengan	Garut	
1	Local Traditional Market	0	5	0	2
2	Kramatjati Central Market	66	66	73	68
3	Inter Island Trade	10	4	8	7
4	Modern Ritel (Supermarket)	14	12	7	11
5	Hotel and Restaurant	1	4	3	3
6	Small Scale Industry	1	1	4	2
7	Large Processing Industry	6	6	5	6
8	Export	2	2	0	1
	Total	100	100	100	100

Source: Natawidjaja et. Al., 2007



Value Ladder of Cultivating Food and Horticultural Crop





Value Ladder Effect

of Modern Value Chain Transformation

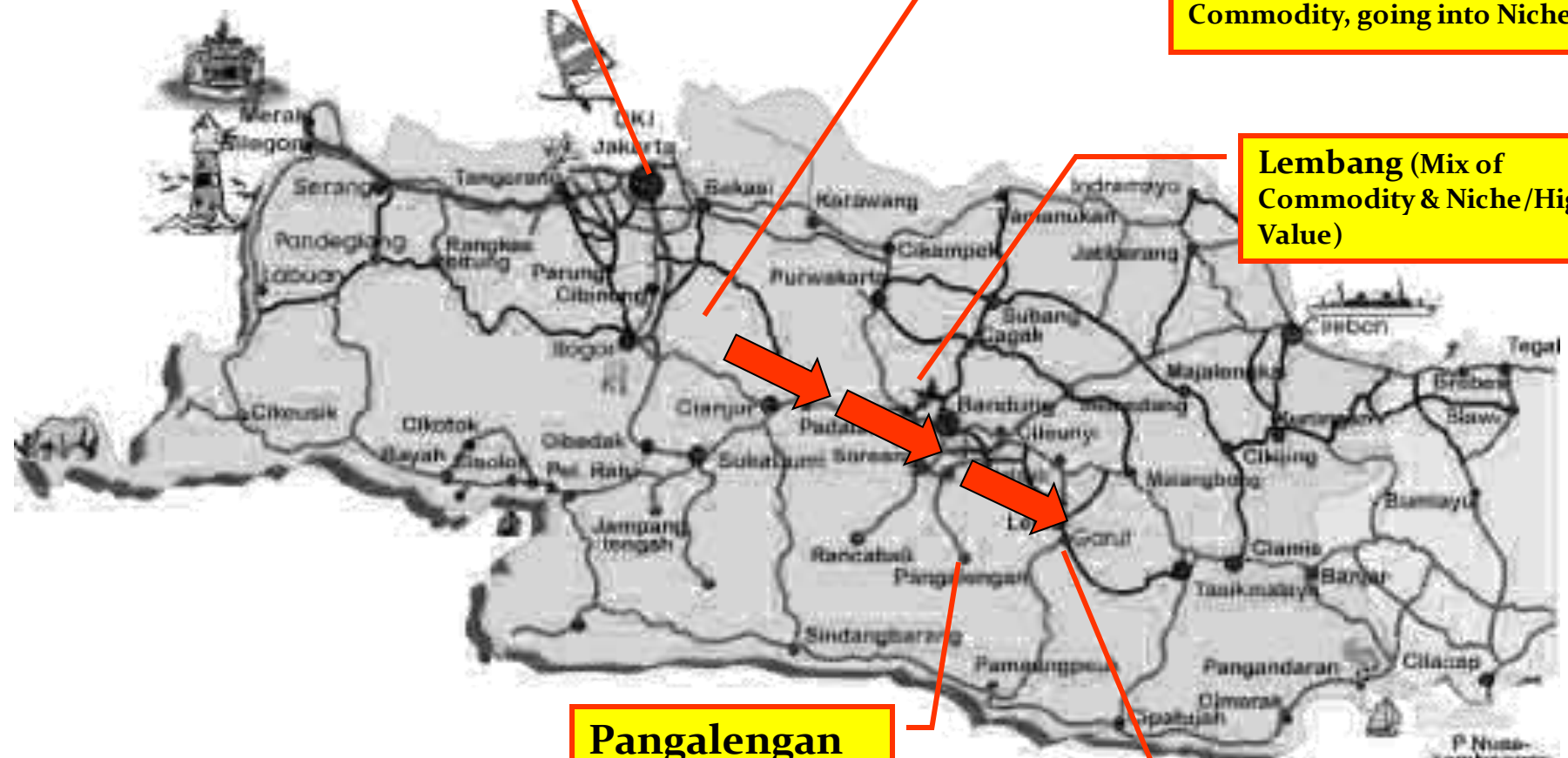
Jakarta

Cianjur/Puncak (Before Commodity, going into Niche)

Lembang (Mix of Commodity & Niche/High Value)

Pangalengan (Commodity)

Garut (Commodity)





Value Ladder Effect

of Modern Value Chain Transformation

- Transform commodity value (*value ladder*), from
 - **High-Value commodity**
(brocoli, paprica, Japanese Vege, ect.)
 - **Medium-Value Commodity**
(exp: tomatoes, carrot, green onion, ect)
 - **Low-Value Commodity** (exp: corn, casava, sweet potato)
- It is like a **professional promotion for the farmer** to move up the commodity ladder, which requires higher skills in tech and marketing competency.



Conclusion

This paper demonstrated that :

- Small-holder farmers have been proven to have the ability to transform and adapt to an inclusive modern value chain
- The role of a specialized supplier is very important as an agent of change in the modern value chain who connects, and assisted farmers with eco-technical and market information since all connected to the market incentive for farmers to move up on the value ladder
- An Inclusive Modern Value Chain is needed as pro-market instrument and should be part of the policy strategy to implement a sustainable landscape strategy of Indonesia.



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