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DEVELOPMENT IN INDONESIA



Study on the Rice Marketing System in Indonesia Term of Reference, Draft

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Introduction (1)

- In Indonesia the management of rice prices and supplies was a very important political and economic issue.
- In term of price policies, each year the government sets and defends floor and procurement prices.
- By using a combination of quota-tariff policy & import ban during harvest seasons, the government insulates the domestic prices from short-run fluctuations in the world prices.
- The rice markets has been under intervention of Bulog.
 - The agency operates as a classic buffer-stock authority in the rice markets. Bulog also has Raskin program.
 - On average, Bulog accounts for about 10 % of total rice trading activities.

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Introduction (2)

- Localized surpluses (scarcities) may be neutralized by procuring marketed surpluses (releasing buffer-stocks).
- Monitoring rice trade between regions would be very important to create a more efficient and effective price stabilization program.
- The relatively steady economic progress and income growth during the last three decades have affected the rice marketing system.
- As the economy develops, the agricultural sector faces increasing demand for larger quantities & more diversified agricultural products caused by growing incomes and population growth.

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Introduction (3)

- Changes in consumption pattern combined with rapid development of modern retailing have encouraged transformations of the downstream sector:
 - Rapid expansion of supermarkets in urban areas has raised questions that how the expansion impacts traditional wholesale markets.
 - Food consumption has improved. Food consumption pattern have changes in response to income growth. The income elasticity for rice quality is positive. There has been a growing market share of premium quality rice.

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Objectives of Study

- To formulate research methods to estimate inter-provincial trade (IPT) in Indonesia, especially for rice commodities.
- To formulate research methods to review the rice marketing system:
 - To evaluate the role of the Cipinang Rice Wholesale Market as the most important indicator of the Early Warning System.
 - To assess the growing role of modern retail outlets (supermarkets, hypermarkets & minimarkets).
 - To assess the increasing role of premium rice market share in the rice marketing system.

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Method of Analysis

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A. Inter-Provincial Trade (1)

- The rice trade between provinces is done mostly by rice millers/traders.
- Wholesale markets have been the important outlets for the millers and traders.
- Inter-provincial trade is mostly in the form of milled rice.
- The quality of the rice traded are medium and premium.
- Quantities and directions of the trades may change seasonally.

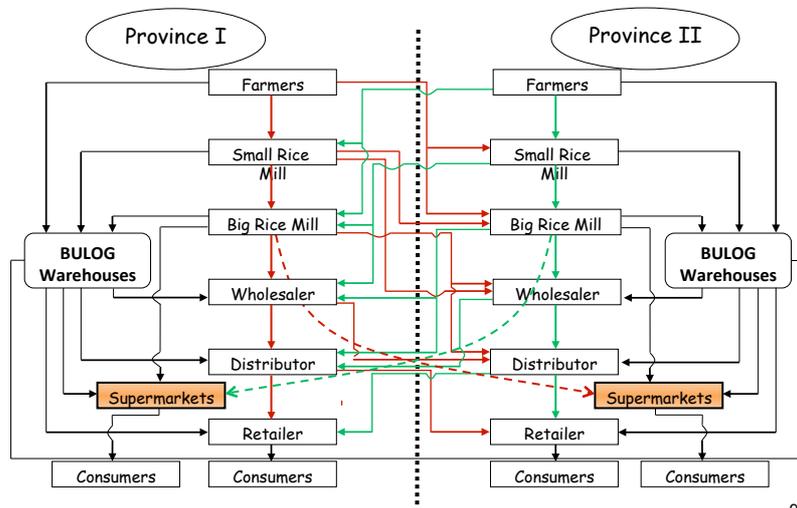
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2 Rice Marketing Chains

1. The traditional channel: farmers to intermediaries/collectors, to small rice mills, to large and modern rice mills, to wholesale markets (or to large rice traders) to distributors, to street markets (or to local food stores);
2. The large-supermarket channel: farmers to intermediaries/collector, to small rice mills to large rice mills, and to supermarkets.

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INTERPROVINCIAL RICE TRADE



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Objective of the Study

- To have a more accurate map of rice surplus and deficit regions;
- A better understanding of how rice stocks move around the country;
- More effective and efficient policies to improve the efficiency of flow of rice and to prevent the emergence of localized rice crisis.

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Inter-Provincial Trade (2)

- A survey of inter-provincial trade for rice will be conducted
- Information will be obtained from a specific target group, i.e. rice millers/traders.
- Sampling methods would be multistage sampling.
- Geographical locations of the study will be selected and provincial sampling will be chosen by purposive sampling method.
- Sample of millers/traders will be chosen by implementing stratified random sampling.

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B. Evaluation of the PIBC (1)

- At present time, the government uses the PIBC) as an important indicator of the EWS.
- As Indonesia goes through the development process, modern food retailing has emerged in urban areas.
- Rapid of supermarket chains has raised questions that how the expansion impacts the traditional wholesale markets.
- The objective of the study would be to know whether or not the role of PIBC has been declining due to changes in the rice marketing system.

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B. Evaluation of the PIBC (2)

- To indicate the linkages, co-integration tests between weekly price series will be applied between PIBC and other wholesale markets.
- Co-integration tests will also be conducted between PIBC and retail and farm prices, respectively.
- Co-integration indicates about the extent of the wholesale markets are connected geographically and temporally in the long run.
- The tests will indicate that whether or not PIBC is still an important indicator in the rice marketing system.
- The tests will also indicate whether the PIBC is still a significant driving force in the rice price formation, both in Java and outside Java markets.

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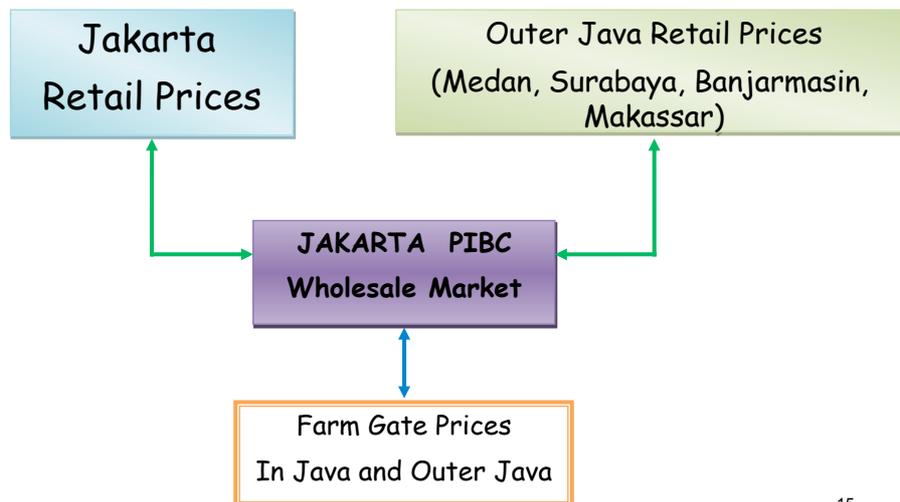
Inter-Linkages Between PIBC and Other Wholesale Markets



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Role of PIBC in Rice Price Formations in Farm and Retail Markets



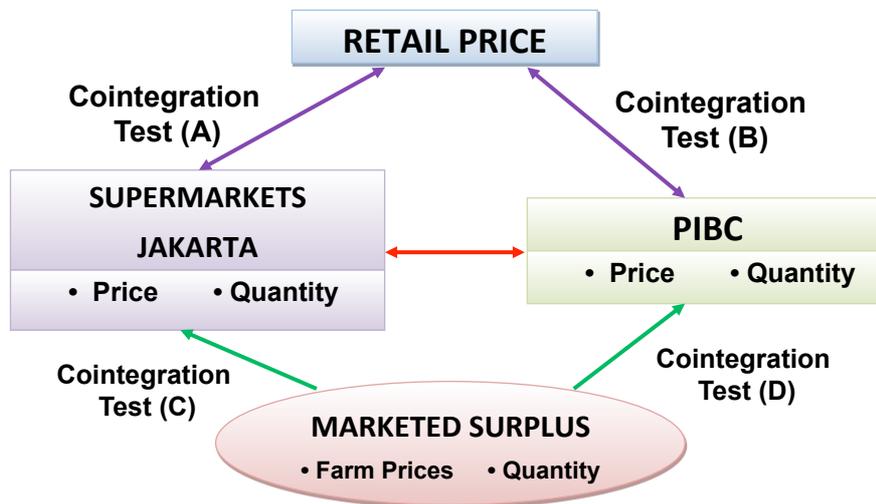
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C. Evaluation of the Role of Supermarkets

- There exists rapid expansion of supermarket in many big cities in Indonesia.
- a growing consumers are shopping at these stores because the modern retailing can provide high quality, safety and standardized products.
- The objective of the study would be to know whether or not the modern chains have captured a growing share of food retail over time.
- Co-integration tests between supermarket price series and price series at farm and retail markets, will be conducted. Relationships between monthly marketed surplus and the quantity flows at supermarkets, as well as the quantity flows at the PIBC will also be tested.
- Comparisons of the tests will show which one (the PIBC or the supermarket) is a more more significant market indicator in the rice marketing system.

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Linkages Between Farm & Retail Prices with PIBC & Supermarket Prices



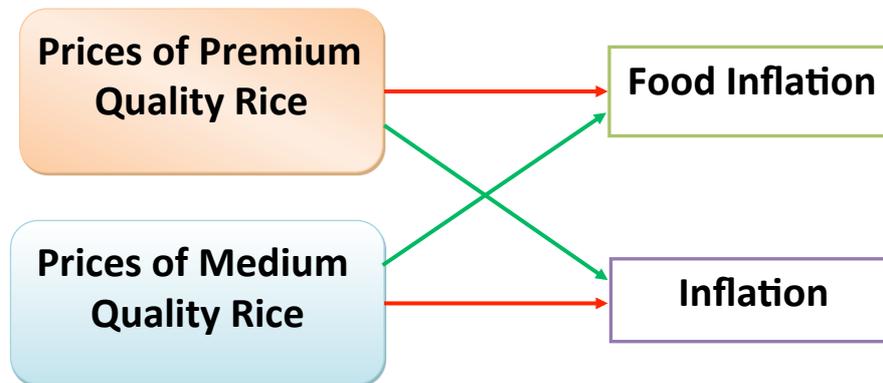
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D. Evaluation of the Market Share of Premium Rice

- There has been a growing market share of premium quality rice due to demand-side drivers, income growth and taste preference change.
- The objective of the study is to know whether there has been a growing market share of premium quality rice. The role of premium quality in inflation rate measurement will be evaluated.
- Co-integration tests between rice price series (both premium and medium qualities) and inflation rate series (both food inflation and general inflation rates) will be conducted in chosen cities out of 66 cities. The tests will indicate which quality of rice is more important in the inflation rate measurement.

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The Roles of Premium & Medium Rice Qualities in Inflation Measurement (2)



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Expected Summary & Conclusions

1. Expected Summary & Conclusions:
 - a. The IPT study will produce a more accurate map of surplus and deficits regions in different seasons so that the government has capability to respond quickly to changing demand to minimize the risks of rice deficit.
 - b. The tests will indicate whether PIBC still has significant role to integrate the dispersed rice markets, and remains an important wholesale market which is able to transmit all of the market shifts to prices across spatial markets.
 - c. The tests will answer the question whether the supermarket is a substitute or just a complement to the role of the PIBC?
 - d. The analyses will provide information about whether the premium rice has more or less important role than the medium rice in inflation rate measurements.

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Expected Implications

2. Policy implications to the EWS:
 - a. The results of the IPT study would imply on the government policies on food security and the rice price stabilization program.
 - b. Evaluation of PIBC & supermarkets: the significant markets could be used more significantly in the rice price stabilization programs.
 - c. If the role of premium rice is more significant, then it would imply that the government should consider to use the premium rice in the policy to control inflation rates.

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Thank You

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