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# Examination of the Creation and Development of Agricultural Market Institutions in Selected OIC Member Countries

*“Country Case Studies on Agricultural Market Institutions:  
Indonesia, Tunisia, and Uganda”*

**10TH MEETING OF THE COMCEC AGRICULTURE WORKING GROUP**  
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**Standing Committee  
for Economic and Commercial Cooperation  
of the Organization of Islamic Cooperation (COMCEC)**

# AGENDA

- Introduction
- Indonesia Country Case Study
- Tunisia Country Case Study
- Uganda Country Case Study
- Conclusions



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# INTRODUCTION

# COUNTRY CASE STUDIES' STRUCTURE



- Overview of agricultural and food sectors and markets



- Agricultural and food market institutions



- Effectiveness of agricultural and food market institutions



- Need assessment analysis



- Conclusions and lessons learned

# SELECTION OF COUNTRIES



**Indonesia**

- Volume of agricultural FDI
- Large food exporter
- Relatively high domestic food price
- Unique geography



**Tunisia**

- Agricultural FDI represents only small share of total FDI
- Stable agricultural and food market
- Relatively large shares of land suitable for agricultural purposes and rural population



**Uganda**

- Strong attractiveness to agricultural FDI
- Large food export
- Large rural population
- Quarter of national economy.
- Government actively engaged in modernizing its agricultural and food sector.



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# INDONESIA COUNTRY CASE STUDY

# OVERVIEW OF AGRICULTURAL & FOOD SECTORS AND MARKETS

- **Production**
  - Traditionally small-scale rice farming, complemented by large-scale plantations.
  - 35% of domestic employment, equaling more than 40 million jobs.
- **Handling and storage**
  - Storage challenges and poor post-harvest management impede parts of Indonesia's agricultural marketing system.
  - The Government of Indonesia has designed a WRS in an effort to mitigate fluctuating commodity prices, which is managed by COFTRA.
- **Processing and packaging**
  - Indonesia has been going through a process of industrialization but value-added upstream and downstream activities are limited.
  - Farmers are reluctant to get engaged in value-addition activities, enforcing the power of traders.
- **Distribution and market**
  - Distribution is impeded by relatively high logistics costs and poor infrastructure.
- **Consumption and trade**
  - Traditionally been a net exporter of agricultural products though Indonesia continues to import large volumes of rice to match its growing demand.

# POLICY & REGULATORY FRAMEWORK

- 1970s -1980s: strong Government intervention in the agricultural sector.
- 1980s -1990s: liberalization, de-regulation, and economic reforms.
- Current agricultural policy looks to
  - Balance support for agricultural producers
  - Stabilizing food prices for consumers
  - Ensuring the availability of food at reasonable prices
- Existing intervention mechanisms include:
  - National stock piling
  - Pricing policy
  - Input subsidies
  - Import restrictions, tariffs, and requirements
  - RASTRA/RASKIN “rice for the poor” distribution program

# AGRICULTURAL & FOOD MARKET INSTITUTIONS



- BULOG

- **Type:** Marketing Board
- **Function(s):** Exchange & Physical



- PTPN III

- **Type:** State-Owned Economic Enterprise
- **Function(s):** Exchange & Physical



- PT Pupuk Indonesia

- **Type:** State-Owned Economic Enterprise
- **Function(s):** Exchange & Physical



- COFTRA

- **Type:** Licensed public warehousing company
- **Function(s):** Physical & Facilitating

# EFFECTIVENESS OF AGRICULTURAL & FOOD MARKET INSTITUTIONS

- General
  - Government intervention requires US\$ 2 billion of public money (2014).
  - Positive NRA rates for import competing agricultural commodities (e.g. rice, sugar, soybeans, and maize)
  - Negative NRA rates have been registered for exportable commodities (e.g. coffee, tea, rubber, and palm oil).
- BULOG
  - Evidence shows mixed picture:
    - Rice prices went up from just 8% above international prices in 2000 to 2002 to 60% in 2010 to 2012.
    - Stabilization of rice prices as ratio of the domestic wholesale price to the c.i.f. import parity price rose to 36% in 1999-2000 compared to an average of 17% from 1990 to 2000.
- PTPN III
  - Operational challenges
  - Cost challenges
  - External challenges

# NEED ASSESSMENT ANALYSIS

- Creating New Market Institution(s)
  - Fragmented coordination of Indonesia's agricultural marketing system and market intelligence.
  - Lack of diffusion of technologies and farming practices.
  - Lack of agricultural value-addition and specialization.
  - Lack of diffusion of standards.
- Developing Current Market Institution(s)
  - BULOG
    - High opportunity and budgetary costs
    - Operational re-structuring

# CONCLUSIONS AND LESSONS LEARNED

- Indonesia's agricultural agenda continues to be set by addressing several bottlenecks:
  - Improving Indonesia's self-sufficiency with respect to basic food products and staple foods.
  - Encouraging industrial competitiveness, value-addition, and the downstream processing of agricultural products within the country. Diversifying Indonesia's agricultural production to generate more and different forms of rural employment; and
  - Protecting agricultural producers as opposed to only ensuring reasonable and stable food prices for consumers.
- These four bottlenecks basically relate to the inability of Indonesia's farmers to get integrated in the agricultural marketing system.
- The existing agricultural policy instruments generate considerable opportunity and budgetary costs and require a considerable amount of public funding. Policies and intervention may be re-focused to anticipate on different scenarios of food security.



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# TUNISIA COUNTRY CASE STUDY

# OVERVIEW OF AGRICULTURAL & FOOD SECTORS AND MARKETS

- Production
  - Tunisia's agricultural production structure has been marked by a two-tier structure.
  - About 85% to 89% of Tunisia's 570,000 farmers own less than 20 hectares.
  - No Government authority exists to authorize farmers and grant them an official document enabling non-farmers to benefit from farmer subsidies.
- Handling and storage
  - Lack of sufficient post-harvest management and storage capacity, particularly undermining potential for fresh perishable products.
- Processing and packaging
  - The current situation requires Tunisia to diversify the agricultural product portfolio and appliances of traditional commodities by moving to upmarket segments, diversifying traditional products, and shifting to more high value-added products.
- Distribution and market
  - Distribution is challenged due to absence of economies of scale.
  - Tunisia's biggest wholesale market, Bir El Kassaa, managed by the Tunisian Company of Wholesale Markets (SOTUMAG), a public limited company.
  - Bir El Kassaa is complemented by municipal markets.
- Consumption and trade
  - Tunisia, despite its considerable export of olives and olive oil, has been a net importer of agricultural products for the last two decades.

# POLICY & REGULATORY FRAMEWORK

- Existing intervention mechanisms include:
  - Border protection
  - Subsidized inputs
  - Fixing a guaranteed minimum price
  - Direct market intervention
  - Investment incentives

# AGRICULTURAL & FOOD MARKET INSTITUTIONS (1)



- **UTAP & IPAAAs**
  - **Type:** Commodity market regulation authority
  - **Function(s):** Exchange, Physical & Facilitating
- **SOTUMAG**
  - **Type:** State-owned economic enterprise
  - **Function(s):** Exchange, Physical & Facilitating
- **ONAP**
  - **Type:** Commodity market regulation authority
  - **Function(s):** Facilitating
- **ARRU**
  - **Type:** Commodity market regulation authority
  - **Function(s):** Physical

# AGRICULTURAL & FOOD MARKET INSTITUTIONS (2)



- **ONH**
  - **Type:** Marketing Board
  - **Function(s):** Exchange & Facilitating
- **OC**
  - **Type:** Marketing Board
  - **Function(s):** Exchange & Facilitating
- **STS**
  - **Type:** State-owned economic enterprise
  - **Function(s):** Exchange & Physical
- **OCT**
  - **Type:** State-owned economic enterprise
  - **Function(s):** Exchange & Physical

# EFFECTIVENESS OF AGRICULTURAL & FOOD MARKET INSTITUTIONS

- Dichotomy between export-orientated and domestic-orientated agricultural producers.
- Effectiveness of selected agricultural market institutions is undermined by:
  - Withdrawal from the Government since 2011.
  - High taxes and large number of intermediaries.
  - Strong need for intervention in times of low agricultural production to limit the rise in prices through imports
    - OC: US\$600 million in 2014
    - STS: indebtedness of US\$11.5 million in 2010

# NEED ASSESSMENT ANALYSIS

- Creating New Market Institution(s)
  - Absence of an integrally coordinated approach.
  - Absence of farmer authorization.
  - Lack of commercialization specific commodities.
- Developing Current Market Institution(s)
  - Seek for diversification of the product portfolio and appliances of traditional commodities.
  - Fragmented small-scale nature.
  - Financial position.

# CONCLUSIONS AND LESSONS LEARNED

- Tunisia's agricultural agenda continues to be set by addressing several bottlenecks:
  - Missing coordination between the various market participants of Tunisia's agricultural market channels.
  - Absence of post-harvest management.
  - Ineffective overall management of the agricultural market.
- Furthermore, the presence of (too) many intermediaries in combination with (high) market taxes, leads to informal and inefficient distribution channels.
- Tunisia's existing agricultural market institutions have responded to (some of) these three most urgent challenges:
  - UTAP pilot project for creation of distribution cooperatives.
  - UTAP project on private cereals cooperative.



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# UGANDA COUNTRY CASE STUDY

# OVERVIEW OF AGRICULTURAL & FOOD SECTORS AND MARKETS

- Production
  - Uganda’s agricultural production structure can be marked by a two-tier system, consisting of “traditional” and “improved” systems.
  - The land tenure system in Uganda furthermore challenges the agricultural production channel.
- Handling and storage
  - The absence of storage facilities leads to an imbalanced agricultural market.
  - WRS implemented by UWRSA.
- Processing and packaging
  - The combination of limited storage facilities, poor post-harvest handling techniques, and high electricity costs have reduced the potential for local value-added activities such as processing and packaging.
- Distribution and market
  - Distribution of Uganda’s agricultural products is hampered due the absence of nearby markets and poor connections between the production areas and final markets, leading to high transportation and freights costs and reduced agricultural profits.
- Consumption and trade
  - Historically, Uganda has been an exporter of a wide variety of raw agricultural products, which continue to account for nearly half of Uganda’s exports. Despite Uganda’s considerable export of raw agricultural products, Uganda has been a net importer of food.

# POLICY & REGULATORY FRAMEWORK

- 1970s - 1980s: Government intervention in the agricultural and food market in Uganda traditionally included a number of participants, particularly some concerned Ministries and their state-owned enterprises.
- 1980s - 1990s: The Government of Uganda followed international developments and trends with respect to market institutions.
- The Agriculture Sector Strategic Plan 2015/16 – 2019/2020 sets the institutional context, which includes four key areas of intervention:
  1. Increase production and productivity;
  2. Provision of high-quality seeds, inputs, and planting materials to smallholders;
  3. Improve market access and value addition with a focus on twelve prioritized commodities selected on their potential for food security and exports.
  4. Improving institutional capacity of extension services, standards, and quality assurance. This also includes addressing the mentality of farmers, who need to become more entrepreneurial.

# AGRICULTURAL & FOOD MARKET INSTITUTIONS (1)



- UCDA
  - **Type:** Marketing Board
  - **Function(s):** Exchange & Facilitating



- DDA
  - **Type:** Marketing Board
  - **Function(s):** Exchange & Facilitating



- CDO
  - **Type:** Marketing Board
  - **Function(s):** Exchange & Facilitating



**Uganda Warehouse Receipt System Authority**



- UWRSA
  - **Type:** Licensed public warehousing company
  - **Function(s):** Physical & Facilitating

# EFFECTIVENESS OF AGRICULTURAL & FOOD MARKET INSTITUTIONS

- UWRSA

- Functioning as “white elephant”:

- Insufficient quantity of agricultural produce.
    - Uncertainty about exchange of storage coupons.

- Requires

- The creation of farmer groups and cooperatives to improve the volume of products to be stored and, hence, the performance of UWRSA and the agricultural market system, particularly post-harvest handling and storage.
    - Intensification of market intelligence, particularly in (future) prices.

# NEED ASSESSMENT ANALYSIS

- Creating New Market Institution(s)
  - Uganda's agricultural sector is fragmented:
    - High degree of small-scale farmers involved in the sector.
    - Complicated land ownership and indebtedness.
    - Under-capacity of production.
- Developing Current Market Institution(s)
  - Absence of (enforcement of) regulations for quality of inputs.
  - Absence of handling and storage infrastructure leads to a loss of value of agricultural products.

# CONCLUSIONS AND LESSONS LEARNED

- Uganda's agricultural market system is challenged by:
  - Fragmented agricultural sector
  - Poor infrastructure and weak linkages
  - Liberalized nature and limited Government intervention
- The Government of Uganda does not directly interfere in any of the five stages of the agricultural market but is confined to supporting research, extension services, and quality assurance.
- Overcoming these challenges requires the Government of Uganda to create an enabling environment attractive to agriculture.
- A first step to do would be to create a market institution responsible for authorizing farmers.



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# CONCLUSIONS

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**INATRADE**

LAYANAN PERIJINAN DI BIDANG PERDAGANGAN  
SECARA ELEKTRONIK



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Gıda, Tarım ve Hayvancılık Bakanlığı

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