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Short Article

Super Markets and Small Farmers

The supermarket is coming. In 2004, it was estimated that supermarkets accounted for 30-50 per cent of food purchases in South East Asia, while in South Asia and China, where supermarkets entered the scene much later, it is estimated that supermarkets account for 5-10 per cent of food retail sales. The share for fresh fruit and vegetables is estimated to be half that of less perishable foods (as the logistics of supply are much more complicated and supermarkets' competitive advantage is not as great). In some countries in Asia, supermarket sales are growing at double-digit rates (Reardon and Hopkins, 2006; Fritschel, 2003).

Supermarkets not only change the way we shop, but also radically change food supply chains and producer-retailer relations through new procurement practices. In Asia, changes to supply arrangements wrought by supermarkets are not as advanced as in other regions, but procurement practices appear to be heading in the same direction as other regions (Reardon *et al*, 2005). It is thus instructive to look at the direction of these changes.

Firstly, supermarkets in Asia will establish closed supply chains parallel and separate from traditional wholesale markets, complete from producer to retailer. This has begun in Asia with the use of specialized and dedicated wholesalers, which enforce standards on behalf of supermarkets, guaranteeing a certain level of quality. These wholesalers also sometimes contract production, rather than relying on wet markets or collectors. Secondly, supply chains will become increasingly centralized through 'distribution centres' which procure for dozens of stores, an occurrence not yet common in Asia (Chen *et al*, 2005). Thirdly, supermarkets will also implement internationally consistent food quality and safety standards such as guaranteeing a safe water supply, providing toilets and hand washing facilities for workers, packing houses with cement floors and stringent bookkeeping procedures (Tallontire and Vorley, 2005).

Although it is still early days yet, it appears that these changes will result in the gradual exclusion of the smaller and poorer farmers from supermarket supply chains. Supermarkets demand large quantities of produce at consistent quantity and quality every day of the year. Thus, where possible, supermarkets source their products from large farmers, or if there are insufficient large farmers, as is the case in Asia, specialized wholesalers, who in turn tend to source from farmers who are better endowed with capital, organization, skills, education and land area (Fritschel, 2003). The centralization of procurement excludes those without access to fast and reliable transport infrastructure. Supermarket-imposed standards will favour farmers with large amounts of capital who can absorb large fixed costs, requiring investments such as cooling sheds, refrigerated trucks, irrigation equipment, greenhouses and packing machines (Reardon and Hopkins, 2005; Vorley, 2005).

For those farmers who are able to supply supermarkets, production costs increase. Farmers must undertake risky investment in equipment, new crops and varieties and in the long run rely on only a few crops (Shephard, 2005). Supermarkets are unwilling to give loans to famers prior to the harvest, as traditional wholesalers do, and will even delay payments up to 90 days. Based on case studies conducted in Asia, there is some evidence, however, of higher net benefits for farmers supplying supermarkets through higher profits and more reliable prices and demand, particularly for non-commodity products (Moustier *et al*, 2005).

However, Asia is currently in an intermediate phase of supermarket development, and the net benefits of supplying supermarkets are likely to diminish as the market consolidates. If food markets in Europe and North America are any guide, as the market consolidates producers will see farm-gate prices decline. A report by the Competition Commission in the UK, where the top four firms account for 75 per cent of the market, found a direct correlation between supermarket market share and their ability to extract favourable terms from suppliers, and thus farmers and farm labour. Low farm-gate prices are passed on to consumers and shareholders. In regions where the supermarket penetration into the food market is more advanced, many small farmers have simply gone out of business. Small dairy farmers in South America, for instance, could not afford to buy equipment required to meet supermarket safety standards and as alternative markets declined, lost the market for their product (Tallontire and Vorley, 2005).

It appears that small farmers in Asia are in for a rough ride. Farmers in Asia will not have the luxury of a gradual transition as occurred in Europe and North America where farmers had decades to respond to changes in their markets, had more capital and received more public support than farmers in developing countries (Reardon and Hopkins, 2006). However, the shape of government policy is a crucial determinant in how small farmers will cope, by regulating (or not) supermarket development, as well as enabling farmers to sell to supermarket chains through assistance with capital and training. ■

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(References available upon request)

Flash BREAKING

Think Small for Water Management

Over half of the gross value of food is produced under rainfed conditions on 72 per cent of the world's harvested cropland where many of the world's poorest people live. A report by the International Water Management Institute recommends enhancing agricultural systems that rely on rain, by improving moisture conservation and providing supplemental irrigation through a focus on small-scale, individually managed water technologies such as small pumps, water storage and low-cost drip irrigation. Semi-arid and arid areas are expected to be the hardest hit by climate change; better water systems will be essential if people are to cope with dry spells. Upgrading these rainfed lands through better water management holds the greatest potential to increase productivity, and decrease poverty.

Sreelata, M., 2007. Think Small for Water Management, Say Scientists. SciDev Net, http://www.scidev.net/, (22 March 2007).

Food Prices to Soar Worldwide

Prices of food will soar world wide. India, a food exporting country, has now turned into a food importing country. In China, steady shrinking arable lands due to demand for land for industrial complexes has resulted in decline for farm products. Corn, palm oil, sugar cane and other crops are being used for ethanol and biodiesel, a relatively new market that has increased prices of all farm products. Global grain stocks are at their lowest in the past 30 years. India and China are appearing to be reaching a point at which nothing but a bumper harvest could prevent a crisis. Yet, higher farm prices are not bad for all, as they will boost the income of farmers in developing nations who, up to now, have gained very little from the growth of manufacturing and services sectors.

Rashid, Fazle, 2007. Food Prices to Soar Worldwide. The Financial Express, http://www.financialexpress-bd.com, (11 April 2007).

Small Loans in Rural Areas Make a Big Difference

In late December 2006, the China banking regulator scrapped working capital limits for rural financial institutions, encouraging commercial banks, private enterprises and even individuals to engage in the sector. The establishment of new financial institutions, including village banks, rural lending companies and co-operatives will not only help meet farmers' financial needs, but will also help stimulate the restructuring of the rural financial sector as a whole, through much-needed competitive pressure on China's national network of rural credit co-operatives, the backbone of rural finance.

Lu, Zhang, 2007. Small Loans in Rural Areas Make Big Difference. The Star Online, http://biz.thestar.com/, (2 April 2007).

Good News for Mekong Farmers

The Core Agriculture Support Program (CASP) is a new programme that aims to foster cross-border trade and investment in agriculture, contribute to food security and poverty reduction, and promote environmental protection and sustainable use of natural resources. The programme was endorsed by the agriculture ministers of Cambodia, People's Republic of China (Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam, which make up the Greater Mekong Subregion (GMS). A major thrust of the CASP is to ensure that the benefits from new opportunities opening up in agriculture through biofuel crops and attendant technologies, and the opening of borders among GMS nations will be spread equitably among farmers, especially smallholders.

ADB, 2007. Good News for Mekong Farmers, http://www.adb.org/, (10 April 2007).

Poverty and Agriculture Research

International agriculture research can do more to help the poorest farmers in marginal areas. Why have many poor farmers not benefited from crop research? While returns on research investment in productive areas can be high, crop research for marginal areas does not pay. What are the challenges to serve those farmers? Developing and carrying out crop research that benefits poor farmers in marginal areas of the developing world is complex and difficult. It requires not only strong technical and scientific skills but also a commitment to creating research that is targeted, relevant and appropriate for these farmers, their families and their communities. In addition, environmental variability across regions makes it more difficult to apply good results from one location directly to another. What tools can be used, or are being used? Perhaps the most useful is to bring farmers directly into crop research thereby allowing farmers to identify the problems to be tackled, ensuring that the research is relevant and appropriate for their communities and cropping systems. Farmers' extensive experience of environments in which they live and work also helps to overcome some of the scientific and technical difficulties of breeding for diverse environments. Another useful tool is GIS, which enables researchers to gain a bird's eye view of the factors that may be associated with rural poverty. GIS can also help researchers compare communities across the globe, identifying with greater accuracy locations that are similar and thus making it easier to share the results of research for marginal environments. ■

Based on CGIAR News, 2007. Being There and Standing Back, http://www.cgiar.org/, (20 March 2007).

Agriculture and Environment: Time to Act Globally

An FAO report says agriculture has a central role in environmental governance at a time when about 60 per cent of the 'ecosystem services' evaluated in the UN Millennium Ecosystem Assessment are being degraded or used unsustainably. The report highlights three crucial environmental challenges for the agriculture sector - conservation of biodiversity, mitigation of climate change and the global shift towards bioenergy. Biodiversity must be managed more adaptively to promote sustainable increases in agricultural productivity while conserving wild and cultivated diversity. Agriculture practices - such as deforestation, cattle feedlots and fertilizer use are part of the greenhouse gas emission problem. Agriculture is also part of the solution through carbon conservation, sequestration and substitution, and establishing systems that can buffer extreme events. The growing market for bioenergy feedstocks has potential for significantly increasing farm incomes. However, the shift to bioenergy raises concerns for food security, as land and other productive resources are taken from food production. Today, these calls for world agriculture to play a variety of roles lead to considerable and difficult trade-offs. They involve major changes to global agricultural production objectives, that hare difficult to evaluate in terms of overall ecological impact, effects on food security, food prices, agricultural labour prices, the terms of trade between countries and regions, and access of the poor to land, and social equity. It is 'time to act globally', to anticipate likely future changes and begin to shift production practices. To be effective, planning that foresees major adjustments in agriculture must evaluate all consequences at global level, including phytosanitary risks as well as changing uses of genetic resources and agricultural inputs. ■

Based on Agriculture 21, FAO, 2007. Agriculture and Environment: Time to Act Globally, http://www.fao.org, (April 2007).

Agribusiness Boom: Toward a 'Coherent Vision' for Small Farmers

Food and agricultural systems in developing countries are undergoing profound changes that have significant implications for growth, poverty and food security, according to an FAO report. Rapidly expanding markets offer farmers new value-adding opportunities and exporters and agro-processing enterprises are supplying crucial inputs and services to the farm sector. Rapid development however could displace small farmers, processors, stores, and traders who depend on traditional marketing and distribution channels. A key challenge is to address such trade-offs between agro-industry development and poverty reduction, as well as overcoming constraints such as complicated business regulations, ineffective enforcement of property rights, inadequate commercial services and infrastructure, and weak information systems. Many governments have launched programmes to support development of specific agro-industries and value chains by strengthening business linkages, reducing transactions costs and improving market intelligence. However, only a few governments have a coherent vision for the sector. Coping with this complex challenge exceeds the capacity of most public sector agencies. Thus, it is necessary to increase the capability of the public sector to perform diagnostic analyses on agro-industries and value chains, identify development strategies, and create information and knowledge management systems for agribusiness and small-scale producers. To support agro-industries and value chains, options include linking small farmers with commercial farmers, exporters or agro-processing firms in long-term relationships improving the capacity of small farmers and small agro-enterprises to participate in chains for high value products, and linking public funding with private sector resources. ■

Based on Agriculture 21, FAO, 2007. Agribusiness Boom: Toward a "Coherent Vision", http://www.fao.org, (April 2007).

Changing Rural Markets in Viet Nam

Viet Nam has experienced 20 years of implementing the Doi Moi (Renewal) process and joined the World Trade Organization (WTO) but rural people in the country are still experiencing poor commercial services. While consumer-goods distribution chains such as large shops, supermarkets and trading centres are mushrooming in major cities, agricultural product distribution networks remain weak in rural areas, which account for more than 70 per cent of the national population. Agricultural services, including fertilizer, pesticide and animal feed in the Mekong River Delta -the granary of the country- are far from being able to match consumer goods distribution systems with foreign giants. Selling goods has never been the strength of farmers or producers. They are unfamiliar with market prices, product quality and where to buy products. Therefore, their products are sold at low prices. In order to boost the development of the rural market, Vietnamese enterprises should map out solutions for developing the national economy and supporting services such as finance, banking and information and setting up distribution systems. They should join hands with producers in the renewal process to meet the requirements of the rural market, which boasts great potential for development. To bridge the gap between rich and poor, between rural and urban areas, it is essential to help farmers gain access to modern commercial systems and ensure the fairness of distribution. It is time to issue policies aimed at encouraging entrepreneurs to develop commercial services in rural areas with a view to boosting production and expanding outlets to improve people's living standards. ■

Based on BVOM, 2007. In Focus: Rural Market, http://www.bvom.com/, (12 March 2007).

Flash EVENTS

International Conference on Agribusiness and Food Industry in Developing Countries: Opportunities and Challenges
10 - 12 August 2007
Lucknow, Uttar Pradesh, India
Deadline for registration: 31 July 2007

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Website: www.iiml.ac.in/events/ICABFI.htm

First International Development Conference (IDC 2007): Assessing Global Successes of Poverty Alleviation Programmes
20 - 23 September 2007
Toronto Congress Centre, Canada
Deadline for abstract: 1 June 2007
Deadline for early registration: 1 August 2007

Contact:
Mr. A. Doherty
Website: www.cefard.org

5th International Symposium on New Crops and Uses: Their Role in Rapidly Changing World
3 - 4 September 2007
University of Southampton, Southampton, UK

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Website: www.underutilized-species.org

The Socio-economic Impact of Modern Vegetable Production Technology in Tropical Asia
3 - 6 February, 2008
Lotus Pang Suan Kaew Hotel, Chiang Mai, Thailand
Deadline for abstract: 30 July 2007
Deadline for registration: 30 November 2007

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Book Review

Delivering on the Promise of Pro-Poor Growth:
Insights and Lessons from Country Experiences

Timothy Besley and Louise J. Cord (eds.), a co-publication of Palgrave Macmillan and The World Bank, 2007. ISBN 0-8213-6515-0.

The book presents lessons learned from eight developing countries in implementing pro-poor growth strategies. From Asia, Indonesia, Bangladesh, India and Viet Nam are covered. A central lesson of the book is Peter Timmer's notion of a three-tiered strategy for pro-poor growth. Under this strategy, households are connected to the macroeconomy by lowering transaction costs, so that the rate of poverty reduction depends on sound macroeconomic policy and the consequent pace of GDP growth.

In the Indonesian case, interactions between macroeconomic policy and poverty reduction are found to be important because of the relatively smooth interface between the tradeable and non-tradeable sectors. Investment in agricultural infrastructure was doubly pro-poor as it uses labour-intensive techniques and improves income distribution. Conversely, pro-poor public expenditure and targeted subsidies to the poor played a minor role in poverty reduction. Nowadays, the political economy of pro-poor growth is complicated by the transition to democracy and absence of effective institutions to insulate economic policy making from populist rhetoric.

Bangladesh achieved impressive growth and poverty reduction in the 1990s through increasing macroeconomic stability, trade openness, resilience to shocks natural disasters, and improving rural infrastructure and agriculture. The challenge now is to generate momentum for continued broad-based growth. Political attention must be shifted to ensure the gains from trade liberalization and structural transformations reach the poor.

Although it offers a complicated model, the spectacular success of Viet Nam in achieving pro-poor growth over the 1990s provides some important lessons. It underlines that a long-term sustainable strategy for pro-poor growth should be based on investment in human capital and public infrastructure. The private sector is also crucial to pro-poor growth, providing the potential for employment creation, especially in poorer regions. Private sector growth can also contribute to a more regionally balanced growth process and can counter the increasing gap between rural and urban income opportunities.

The Indian experience is unique in many ways. Due to its decentralized political structure, India provides an excellent policy laboratory. Indian states with more accountable governments, more pro-business investment climates, greater access to finance and human capital, greater extension of property rights to the poor, and greater economic inclusion of women have been more successful in reducing poverty. Historical experience suggests that the current high rates of growth in India should lead to an extensive reduction in absolute poverty. To sustain economic growth and poverty reduction physical and human capital must be accumulated, institutional reforms must be implemented, the business climate must be improved, and the accountability of elected officials must be increased.

Tunisia and Brazil represent successes in poverty reduction by improving the quality of human capital -education, health, and birth control- that tend to make growth more pro-poor, while at the same time increasing growth. On the other hand, Ghana's sustained growth level, reflects political stability, sound policies, greater trade openness, increased public spending, and large inflows of aid and remittances. Uganda experienced mixed success with pro-poor growth strategies. Despite the existence of good policies and programmes, translation into desired outcomes was undermined by political economy inconsistencies and institutional weaknesses.

Five policy interventions to raise agricultural earnings of poor households can be drawn from the case studies: improving market access and cutting down the transaction costs, strengthening property rights, creating an incentive framework that benefits farmers, distributing technology to smallholder producers, and assisting the poor and small producers to cope with risk. In addition, the country cases underscore four broad policy options for increasing non-agricultural earnings for poor households: improving the investment climate, designing labour market regulations to create attractive employment opportunities, increasing female and secondary education, and increasing access to infrastructure.

Three challenges to accelerate poverty reduction through broad-based growth are highlighted. First, a movement from agricultural to non-agricultural employment depends on increasing workers' education and access to job opportunities. Second, where growth is uneven across the regions within countries, public investment strategies that can address sub-regional growth and poverty are important. Third, the political economy often affects the distribution of structural and investment policy outcomes at the expense of poor households. Public policies for enhancing the poor's ability to participate in and influence government processes warrants further exploration.

In general, the book is quite interesting and easy to digest, as the country case studies used a similar approach and method. In addition, the conclusion is clear and convincing. One shortcoming of the book is the lack of a clear typology of poverty reduction strategies across countries. ■

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