



Short Article

Certification: Linking Small Farmers to Dynamic Markets

In the May issue of the **CAPSA Flash**, the short article explored the literature on dynamic markets (supermarkets, hypermarkets, etc.) and small farmers. The article mentioned that if Asia follows Europe in its food retail procurement systems, supermarkets will eventually establish closed supply chains parallel and separate from traditional wholesale markets, complete from producer to retailer. In Asia this trend has perhaps begun with the use of specialized and dedicated wholesalers that procure produce directly from farmers and/or from specialized markets near production centres and enforce standards on behalf of supermarkets, guaranteeing a certain level of quality.

This article presents a new type of market link from Indonesia where the intermediary is not a wholesaler buying from farmers and delivering to the supermarket, but a 'certifying' agent with a close relationship with a supermarket. For a fee, the agent provides the farmers, or in this case farmers association, access to the supermarket's supply chain. The supermarket also gains in that the agent assures everything required by the supermarket will be delivered. The agent is different from a traditional wholesaler as they play no part in the physical delivery of the product. They are also different from a traditional third party certification agent as they do not just evaluate the produce for quality but also ensure the product is delivered and accepted by the retailer.

Close observation reveals that what is being 'certified' is not only the produce in terms of quality and delivery, but also liability in case of failure to provide the product to the supermarket by the farmers. So the service concerns certification in a broader sense, including providing commercial links between the farmers and the supermarket. To achieve these objectives, the agent has developed four innovations: institutional, marketing, financial, and technological.

The institutional innovation is that the agent organized the small farmers into a group large enough to be able to supply the volume required by the supermarket, as well as providing business organization systems and mechanisms, and building a culture that enabled the sustainability of the group. The marketing innovation is that the price and some other marketing related decision parameters, such as quality, delivery arrangement, volume, and so on are largely under the control of the farmers' group. For example, price is determined directly through negotiation by the farmers' group with the supermarket, initially with the help of the agent. The

financial innovation is that the agent provides funds needed by the farmers for operational costs prior to harvest, such as input costs. Finally the agent introduced technological innovations in the form of a particular production technology and constant updates on the latest technologies.

Is there any existing theory that can explain this observed behaviour? I would say, emphatically yes. Supermarkets are business entities. The bottom line of every business is profit and long-term growth. The agent also is a business entity and from the agent's perspective linking farmers and their produce to supermarkets is a business opportunity. The innovations then are merely an effort on the part of the agent to tap the opportunity presented by supermarkets' need for reliable produce.

What we observe here is a 'virtual integration' of decoupled business entities, with the supermarket at one end and the farmers' association at the other. As a supermarket is a business entity, farmers have to be aligned to become a business entity within the 'virtual integration' in order to create an efficient supply chain. The supply chain is managed 'virtually' by a kind of 'invisible hand', where each entity involved in the supply chain pursues their business with the aim of improving efficiency and responsiveness in close co-ordination with other entities. Each focuses on its core competencies and partners with other units that have complementary capabilities for the best mix of response and efficiency in delivering the products and services for the market (Napitupulu, 2006).

It then appears that every effort of linking small farmers to dynamic markets is a business undertaking for the pursuit of profit, inherently involving a process aligning all parties toward one objective, the bottom line. In this particular case, the role of the agent is to align farmers through the innovations. This also should explain the seemingly less inclusion of small farmers, in particular poor farmers in the dynamic markets as many asserted. ■

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(References available upon request)

Flash **BREAKING**

Asia Shows 'Impressive' Drop in Poverty, but Inequality Rises: UN

Asia has made impressive strides in reducing its rates of extreme poverty on the heels of rapid economic growth, but is also facing rising inequality within countries, according to the annual UN Millennium Development Goals Report 2007. Poverty reduction was most impressive in Eastern and South-Eastern Asia, and although reductions in Southern Asia were less dramatic the region is still on track to achieving the first of the eight Millennium Development Goals, which aims to halve extreme poverty by 2015. However inequality within countries is rising rapidly, particularly in Eastern Asia where the share of income of the poorest quintile of the population declined from 7.1 per cent in 1990 to 4.5 per cent in 2004.

Yahoo Asia News, 2007. Asia Shows 'Impressive' Drop in Poverty, but Inequality Rises: UN, <http://asia.news.yahoo.com/> (2 July 2007).

UN Climate Change Chief Warns of Impact on Poverty, Hunger

The UN's climate change scientist urged the world body to take greater account of the impact of global warming on hunger and poverty. There will be two types of impacts on the poor and hungry. Firstly the health implications from temperature increases. Secondly are the effects on agriculture. About two-thirds of the world lives in rural areas and the bulk of them are in developing countries. Already sparse agricultural yields will be cut, food stocks which are already vulnerable to flooding and drought will decline further, while food prices will rise. Rising sea levels also threatened coastal areas. One of the most vulnerable areas of the world will be the nine heavily populated megadeltas of Asia.

WBCSD, 2007. UN Climate Change Chief Warns of Impact on Poverty, Hunger, <http://www.wbcsd.org/> (5 July 2007).

China to Promote Green Farming for Food Safety

The Chinese government will support the development of environmentally friendly farming practices, such as organic cultivation, to help raise food safety standards. In the past three years the area of land under cultivation using 'harm free', 'green' or organic methods has grown fourfold and now accounts for one-fifth of China's agriculture. China has several different certification systems for food produced without chemicals, or with fewer chemicals than normal, and relatively little of such produce would be considered in Europe or North America to be truly organic. The government has also been trying to wean agriculture off over-use of pesticides and fertilizers.

Reuters AlertNet, 2007. China to Promote Green Farming for Food Safety, <http://www.alertnet.org/> (18 June 2007).

Campaign Seeks to Change Public View of Industry

Malaysia's Agriculture and Agro-Based Industry Ministry is undertaking a RM9mil publicity blitz to promote the agriculture industry as modern, dynamic and competitive, aiming to change the public's view of the industry as a 'third-class industry' to one which could act as a growth catalyst for the Malaysian economy. The Minister Tan Sri Muhyiddin Yassin said that it was hoped the campaign would attract more graduates to work in the industry as well as boosting investments in the industry and disseminating information on the latest technologies. In line with this, he said, Malaysian farmers should take steps to improve their farming methods and strive to be 'price competitive' to compete globally.

Hee, Eileen, 2007. Campaign Seeks to Change Public View of Industry. The Star, <http://biz.thestar.com.my/> (10 July 2007).

UN: Policymakers Must Rethink Desertification

A new policy report from the United Nations University (UNU) urges governments to adopt a more co-ordinated approach to desertification. The report, "Rethinking Policies to Cope with Desertification", was presented on June 28 at the UN headquarters, and is based on the input of 200 experts from 25 countries. Desertification - land degradation in arid and semi-arid areas - is a pressing global environmental challenge. Currently, an estimated 100-200 million people are affected and about 2 billion (one-third of the world population) are potential victims. Desertification could bring about mass migration as people are forced to leave lands that can no longer support them, posing an 'imminent threat to international stability', according to the report's authors. The number of people at risk of displacement is 50 million over the next ten years. According to the report, the global community has failed to address desertification because policies have been made in isolation by different environmental conventions, aid efforts, countries and even ministries within one country, and contain many inconsistencies. The authors urge better co-ordination at national, regional and international levels and recommend that land-use policies are changed to combat factors such as unsustainable irrigation and overgrazing. They also recommend educating and providing incentives for land-users to safeguard against desertification and establishing alternative livelihoods for dry-land communities. Policy formulation has been hindered by a lack of concrete data, therefore more scientific research into desertification is essential. The report urges to explore links between desertification, climate change and biodiversity, to help reverse climate change and simultaneously combat desertification. ■

Based on Hepeng, Jia and Jing, Xu, 2007. UN: Policymakers Must Rethink Desertification. SciDev Net, <http://www.scidev.net/> (28 June 2007).

Time to Stop Growth of Inherited Poverty

While people are talking about 'the second-generation rich' as family wealth is passed down to their children, there is increasing concern about 'the second-generation poor' - the adult sons and daughters of the poor who missed these opportunities. Max Weber remarked that personal resources fall into three categories: economic wealth, political power and social prestige. Economic wealth is the most easily passed down the family line. Clearly, poverty is also inherited. The children of the poor remain at the bottom of society. They are sons and daughters of laid-off workers, or the new generation farmers-turned-urban-workers. Because of high tuition costs they can not participate in education and are therefore unable to make a decent living. They have to marry those coming from the same humble background, and so the cycle goes on. Surveys conducted in Chengdu, Chongqing and Xi'an in 2006 found that people in the disadvantaged groups feel they are stuck. Among the surveyed farmers-turned-urban-workers, 43.5 per cent said they don't expect to change the status quo of their lives by own efforts. Only 0.3 per cent say they expect to do so. The surveys indicate that people's income is proportional to their education. As the cost of education keep rising, it is increasingly out of reach of the disadvantaged. Mechanisms guaranteeing opportunities for the poor to raise their social status constitute a vital component in optimizing the social structure. ■

Based on Liping, Sun, 2007. Time to Stop Growth of Inherited Poverty. China Daily, <http://www.chinadaily.com.cn/> (21 June 2007).

Alternative Energy and Organic Farming in Hill Communities in Northern Thailand

The Global Environment Facility's Small Grants Programme, which is administered in Thailand by UNDP, has funded a number of projects in rural communities across northern Thailand. In Baan Mae Korn a small community of around 200 households nestled among the steep hills of Chiang Mai province, the programme supports a holistic project combining renewable energy, organic farming and reforestation. Manure from a household's pigs is concentrated in a collector, wastewater is added, and the resulting methane gas is piped into the household kitchen for use as a cooking fuel. The biogas collectors mean that households have to spend less money than if they bought household cooking gas and less time than if they collected wood. For the environment, the collectors mean less deforestation and less carbon added to the atmosphere. The programme also promotes organic farming to replace the unsustainable farming of cash crops prevalent in Baan Mae Korn. Instead of growing only corn, participating local farmers grow a range of organic vegetables which are then sold through a growing network of 'toxic-free' markets in Chiang Mai province. "Whether you are talking about using pesticides or using precious forest wood as fuel, these are not problems that just stop at borders," says UNDP's Poonsin. "By giving people alternatives, these projects don't just help improve local ecosystems – they help solve global problems." ■

Based on UNDP, 2007. Alternative Energy and Organic Farming in Hill Communities in Northern Thailand, <http://www.undp.or.th/> (2 July 2007).

If We're Smart, Why are We Poor and Hungry?

Food is a basic human need, but for many Filipinos is insufficient or unavailable. In March 2007, it was reported that 19 per cent of Filipino families experienced involuntary hunger. The most important food commodity in the country is rice, a major food expense for the poor. Despite hundreds of billions of pesos poured into the rice self-sufficiency, growth in rice productivity and farm incomes is low. What has gone wrong? Low farm incomes simply reflect low levels of productivity. Chronic food insecurity and poverty are the results of the poor performance of the agricultural sector and the failure to secure rapid expansion of employment opportunities outside the sector. The question is, what policies are in place for the future agricultural development in the Philippines? The simulation results under Governance & Market Recovery (GMR) give reasons to be optimistic, when domestic policy reforms are undertaken simultaneously with trade policy reforms that enable the country to comply with its WTO commitments. The scenarios indicate the critical role of public investment particularly in irrigation, research and development, and extension to help farmers realize higher yields and incomes. The simulation results suggest that agricultural and rural development is central to any strategy for broadly based growth and rapid poverty reduction. In conclusion, the country's food problem is a domestically generated one, not an outcome of globalization or of the agricultural policies of the developed countries. ■

Based on Balisacan, Arsenio M., 2007. If We're Smart, Why are We Poor and Hungry? SEARCA, <http://web.searca.org/> (May-June 2007 issue)

Flash EVENTS



Southern Engines of Global Growth: China, India, Brazil, and South Africa

7 - 8 September 2007

Helsinki, Finland

Abstract deadline: 14 May 2007

Info:

<http://www.wider.unu.edu/conference/conference-2007-2/conference-2007-2.htm>

International Conference on the Future of Forests in Asia and the Pacific: Outlook for 2020

16 - 18 October 2007

Chiang Mai, Thailand

Abstract deadline: 30 June 2007

Info:

<http://www.fao.org/forestry/site/33592/en/>

Fifth Trondheim Conference on Biodiversity

29 October - 2 November 2007

Trondheim, Norway

Info:

<http://www.trondheimconference.org/>

Asia-Pacific Regional Implementation Meeting (RIM) for the 16th Session of the Commission on Sustainable Development (CSD)

November 2007

Venue to be confirmed

Info:

<http://www.unescap.org/esd/rim/16th/>



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Book Review

Dancing with Giants: China, India and the Global Economy

L. Alan Winters and Shahid Yusuf (eds.), a co-publication of the World Bank and the Institute of Policy Studies, Washington, D.C., USA, 2007.
 ISBN 0-8213-6749-8.

The rise of China's and India's economies is an almost daily media item. Never before have such huge nations experienced such fast economic growth over such a long period of time. For some, the rapid growth and development of China and India, has caused a considerable amount of anxiety, as they see these two countries dominating the world economy, and consuming the world's natural resources to support their growth. Others are more curious and wonder how long this extraordinary growth can be continued, as well as seeking to learn from these exceptional cases. This fast growth raises many questions not only about China and India, but also other countries and the world as a whole. "Dancing with Giants" tries to shed some light on some of these issues by taking a critical look at what's happening in China and India.

The book contains seven chapters: an introduction chapter and six essays on important aspects of the growth of the giants, namely global industrial geography, winners and losers, the international financial integration, local and global energy and emissions, inequality, and governance. The authors are World Bank and university economists.

The book starts with an extensive introduction written by the editors, describing where the countries are now in comparison to other nations. Interestingly, this shows that the giants are actually (still) relatively small. For instance, in 2004, the USA accounted for 28.4 per cent of global GDP, whereas China represented only 4.7 per cent. Prognoses for 2020 show that despite continued growth China will still remain small in relationship to the USA, accounting for 7.9 per cent of global GDP, contrasted to USA's 28.5 per cent.

The essays start in chapter two by describing the size of domestic markets in China and India, especially the manufacturing sector. It discusses the strategy and pattern of development and gives some conclusions on the long-term outlook for China, India and their trading partners. The authors state that the giants will perhaps reshape, but not dominate the manufacturing world in the long term. Their success will change their market positions, as rapid increases in wages will create opportunities for other low-wage countries, especially in the case of China. Chapter three shows some simulations to investigate the key features of China's and India's trade, in particular their rapid growth of exports.

Simulation experiments show that China and India can expand their growth without hurting each other; and this could be beneficial to nearly all other countries. The international financial integration of China and India is discussed in chapter four. Expectations are that growth will continue and that it will reshape the nature of the integration, as both countries, and in particular China, hold large amounts of foreign currency.

Chapter five touches upon the environmental effects of the giants' rapid growth both at local and global level. Calculations are made for energy demand including pollution for a business-as-usual scenario for 2020-2050. Even though the picture painted is not pretty, calculations show China and India once again being dwarfed in this respect by the USA. The unequal distribution of benefits of growth is analysed in chapter six. The chapter states that the exclusion of some parts of their societies from the benefits of growth threatens continued growth, especially in China. The last chapter examines the role of governance in economic growth. The political situation in both countries is very different, yet overall, they appear to have a similar performance for governance. One aspect they have in common is checks and balances executed by their governments.

The informative tables and graphs make the book a good source of information, much of which is surprising, for instance, the fact that China's and India's economies are still relatively small. However, the main conclusions of the book are not very surprising. The idea that sticks to one's mind is that open markets and growth including that of China and India is good for everybody. This reader feels that a truly critical look is missing. Addressing some well-known negative effects could shine a different light on the matter. By analysing the effects on countries other than China and India solely on national level, the authors stay clear of discussing negative effects at, for instance, sub-national level such as short-term disruptions of national production markets, unemployment, and labour conditions. These effects are especially hard felt in poor countries without the basic conditions such as capital and education to swiftly change to develop and compete in other markets. ■

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