

Rural economic organizations and market restructuring:

What challenges, what opportunities for smallholders?

A global issue paper

PRELIMINARY DRAFT FOR COMMENTS AND SUGGESTIONS ONLY

"As rural market become more liberalized and integrated into global economy, local community will have to develop new skills and new institutions to interact with new set of actors whose decision will impact on rural family livelihood." (Berdegue and Escobar, 1997)

by

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1. THE GLOBAL EVOLUTION OF AGRI-FOOD SYSTEMS

The demand side

- *Agri-food³ and food consumption systems are undergoing a rapid evolution, characterized by profound changes in eating habits.*

As societies go through different development stages, their food consumption system evolves. Malassis differentiates three food consumption systems (*modèles de consommation alimentaire*)⁴: the traditional consumption system, mostly based on self-consumption; the “agro-industrial food” system that prevails in industrialized countries and the “satiety” system in high income countries, with the US representing the most salient example (see Malassis and Padilla, 1986, Table 1 and Rastoin, 2004).

Table1. Main food consumption systems

Activity	Traditional model	Agro-industrial model (modern society)	Satiety model (late modernity)
Production	-simple reproduction family farms - agricultural employees are a very high proportion of the total population	-the inputs and the agricultural product transformation are industrialised -the farm is integrated in the agro-food industry - agriculture employees are a small part of the total employees	-heterogeneity of techniques and flexible specialisation -the agricultural production process itself may be industrialised (biotechnologies) -re-evaluation of traditional techniques
Distribution	-local markets - exchange of food inside the community and parental groups	-international, global markets - access to food regulated by markets and entitlements (income, land ownership...)	-modern distribution has the most active role in the supply chain - segmentation of global markets
Preparation	- in the family, at home	- also outside home, at the workplace, in restaurants, etc.	- industrialisation and market provisioning of ready-to-consume food (catering, convenience food)
Consumption	-local choice, according to availability and status -nutritional inequality inside the society - abundance and scarcity alternate, depending on seasons and crops	-mass consumption of standard, durable food - nutritional inequality between, more than inside, societies	- individualisation, de-traditionalisation and fragmentation of consumption styles - de-structuring of meals -eating out
Ideological status, identity of food	-man at the top of food chain -agriculture as the material and symbolic base of life - symbolic value of food, as distinctive of ‘us’ and ‘the others’	-science and technical change give legitimation to the exploitation of nature - food as edible industrial product, coming from a filière, with no identity	-science and technology are considered doubled-edged and lose their legitimation power - risk, food safety concerns question the industrial techniques - food looks for identity

Source : Fonte (2002) and based upon Malassis and Ghersi (1996) and Beardsworth and Keal (1997)

³ The agri-food system consists of interdependent sets of enterprises, institutions, activities, and relationships which collectively develop and deliver material inputs to the farming sector, produce primary commodities, and subsequently handle, process, transport, market and distribute food and other agro-based products to consumers.

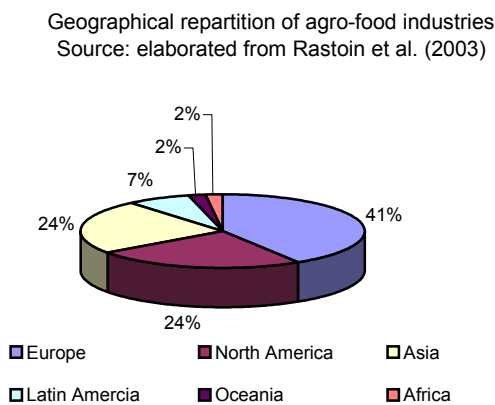
⁴ Following the ‘food consumption model’, consumption is seen as a process with different stages, comprising: how and where food is procured, what is procured, how food is processed and prepared, how and where it is eaten, and how wastes are disposed of.

The traditional food consumption system is giving way to the “agro-industrial food” system, as a result of the development of industries and services, the related urbanization process and the growing number of women working outside their home.

These transformations have implications on what and where we eat, and where we procure our food. Processed foods make up an increasing share of our diet; we also eat more outside the home (at work, in restaurants, fast food etc.), and we buy from discount stores, supermarkets and hypermarkets. Chonchol (2004) describes this process for Latin America where urbanization and export-oriented development have led to a steady increase in demand for processed food over the last two decades. These are global trends, affecting developed and developing countries as well, with profound implications for agricultural production systems and farmers.

- ***Supermarkets⁵ are rapidly expanding outside Western Europe and Northern America.***

In Latin America, East and Southeast Asia, Central and Eastern Europe and Eastern and Southern



Africa, supermarkets expansion is already well underway, and spreading to new areas of these regions⁶ as well as to other countries⁷. This trend is a long lasting one, driven as it is by saturated, low growth Western Europe and North American markets and attractive profit-making opportunities, such as in Central and Eastern Europe with "initially soft local competition, higher mark-ups on food, less constraining local planning, and growing markets" (Reardon and Swinnen, 2004).

- ***Agricultural producers tend to be disconnected from consumers and receive a reducing share of the value chain.***

Farmers are losing direct contact with consumers: they sell to agri-food industries and services, which in turn are selling to consumers. In France for example, supermarkets provide three quarters of the food products (Gereffi, 1999). Food production and consumption are de-linked: fresh food products are available for consumers whatever the season (*dé-saisonalisation*), and wherever they are produced (*dé-territorialisation*). Prices paid to farmers have been steadily decreasing (Mazoyer 2001) and farmers’ shares of the commodity value chain are reducing drastically. In the “satiety” model, only 10% of the final value of a food product accrues to farmers (Rastoin, 2004).

⁵ Following among others Weatherspoon and Reardon (2003), we use this term to qualify all large format 'modern' retail stores.

⁶ "In general, there has been a trend from supermarkets' occupying only a small niche in capital cities serving only the rich and middle class – to spread well beyond the middle class in order to penetrate deeply into the food markets of the poor. They have also spread from big cities to intermediate towns, and in some countries, already to small towns in rural areas." (Reardon et al., 2003)

⁷ See (Reardon et al., 2003), (Dries et al, forthcoming), (Weatherspoon and Reardon, 2003), (Codron et al. 2004).

- ***Supermarkets set their own quality standards and target mass consumption.***

Food product characteristics are no longer determined by producers and their area of origin, but by traders, supermarkets and agro-industries. Agri-food industries and supermarkets set their own standards, based on their understanding of consumer demand and existing regulations. These private standards often substitute for missing or inadequate public enforcement of safety norms, and are used in the competition with the informal sector, to claim superior food product quality.⁸

Supermarkets promote “mass consumption”: that is standard product quality and appearance, at the lowest price. In high revenue countries, 90% of food products are “mass consumption” (Rastoin, 2003). Supermarkets also require “durability”, an essential product characteristic for supermarkets to increase their geographical coverage and sell on distant markets (Friedmann, 1993).

- ***Supermarket development strategies: diversification and increasing coverage.***

The diversification of the mass consumption model (offering a range of food products, with different specifications and prices) is becoming the driving force for supermarket expansion in high income countries, building upon consumer growing purchasing power (Rastoin *et al.*, 2003). Another phenomenon is the development of hypermarkets, hard discounts⁹ and convenience stores that increase a chain's coverage of the market, drive prices down and allow product diversification (Dries *et al.*, forthcoming).

- ***Supermarkets and agro-industries procurement requirements generate profound changes in the organization of the agri-food systems.***

The rise of supermarkets resulted in most countries in the establishment of centralized buying and distribution centres¹⁰, with: (i) concomitant shifts from traditional brokers to new specialized/dedicated wholesalers¹¹ and (ii) a decline of traditional wholesale systems. The reliance on specialized/dedicated wholesalers usually results in a shift towards preferred suppliers' systems to select producers capable of meeting supermarket quality and safety standards.

⁸ See among others, (Reardon *et al.* 2001), (Reardon and Berdegue, 2002), (Balsevich *et al.*, 2003), (Dries *et al.* forthcoming).

⁹ A hard discount is a "store sized between a convenience format and a supermarket, selling a limited set of goods at low prices and with austere presentation." (Codron *et al.*, 2004)

¹⁰ Dries, Reardon and Swinnen (2004), among others, explain this change as follows: "*This is done in order to reduce coordination costs, generate economies of scale buying in larger volumes, work with fewer wholesalers and suppliers per unit merchandized, and have tighter control over product consistency in meeting standards. Typically chains make this move when they reach a certain volume threshold.*" Having a larger supplier pool from which to choose also helps in getting the cheapest and best quality products.

¹¹ As pointed out by Dries, Reardon and Swinnen (2004), these dedicated wholesalers are "*more responsive to quality, safety and consistency requirements of supermarkets than are traditional wholesalers who aggregate products over many producers and qualities with little capacity for segregation.*"

The supply side: inequalities and heterogeneity among farmers prevail

- *Supply of agricultural products is heterogeneous.*

Farming systems are very diverse, and dominated by small-scale family farming. Only 2 % of world farmers have a tractor and produce more than 1,000 tons/worker/year; 66 % of the world farmers produce less than 10 tons of grains equivalent/worker/year (Mazoyer, 2001).

- *Trade liberalization has increased inequalities among agricultural producers.*

Trade liberalization is promoting competition among farmers who do not benefit from the same supportive environment. As a result, inequalities between agricultural producers are increasing within and across countries (Litchfield *et al.*, 2003; Mazoyer, 2001).

% of world farmers	Production/worker/year in 1,000 kg equivalent grains
2 %	1,000
31 %	50
33 %	10
33 %	1

Development strategies shifted from import substitution to export promotion and economic liberalization. Private investments which were expected to replace public ones, did not materialize or were limited to large-scale farms and capital

intensive agriculture. These inequalities have been aggravated by: (i) the absence of appropriate credit policies for small-scale farmers; (ii) inadequate technical support and technological transfers systems, incompatible with small producers' absorptive capacities and not adapted to their needs for improvement; and, (iii) limited or no support for small-scale farmers to organize (Chonchol, 2004), (Losch, 2004).

2. TO WHAT EXTENT SMALL-SCALE PRODUCERS ARE SUPPLYING SUPERMARKETS IN DEVELOPING COUNTRIES?

- *Selling to supermarkets presents a number of advantages for small farmers among which sustainable incomes and potential access to technical assistance and credit.*

Supermarkets generally offer stable prices and a “guarantee” to buy large quantities under

Box 1: Selling milk-based products to supermarkets in Nicaragua: the case of San Francisco de Axis Cooperative (based on R. Mendoza Vidaurre)

In 1993, San Francisco de Axis cooperative decided to sell milk-based products to supermarkets. In 2004, 30 % of the cooperative revenues come from the sale of various types of cheese to supermarkets, 10% from cheese exports, and the remaining 60% from selling fresh milk on local markets.

Challenges met by the cooperative to sell to supermarkets were: (a) To obtain a legal status, sanitary certification, environmental compliance certification and commercial registration; (b) To register a cooperative brand; (c) To invest in packaging with bar code, nutrient data, and optimum purchase date for the products; (d) To rent supermarket shelf space.

To remain a supermarket supplier had to: (a) regularly supply product of standard quality without any formal commitment from supermarket, (b) pay for advertising of the products, (c) accept 15 to 30 days delayed payments; (d) lower prices (10 to 15%) at special times while the supermarket margin remains the same (32%); and (e) give one month notice before any price increase.

Milk price paid to members by San Francisco de Axis cooperative was lower than those of other cooperatives. The main advantage for members was a guarantee of sustainable incomes and that the cooperative will buy (and sell) all their production.

conditions of compliance with their requirements. Thus they can contribute to secure and stabilize farmers' incomes. In Nicaragua, the San Francisco de Axis Cooperative which was selling fresh milk to agro-industrial firms with seasonal ups and downs, decided to diversify its products and sell cheese to supermarkets to stabilize the income of its members (Box 1).

In addition, farmers sometimes receive targeted technical support from buyers, as part of a preferred supplier scheme, or from Government or NGOs, to meet supermarket requirements. Under a preferred supplier scheme, the wholesaler may also provide various incentives to meet retailers' requirements such as implicit contract, lower risk, price premia, etc. Selling to supermarkets may also facilitate farmers' access to credit. The supermarket chain's can provide evidence to banks of the existence of a contract or serve as a collateral substitute for producer. However, preferred supplier schemes are the exception rather than the rule.

- ***Indeed, in many cases supermarkets prefer procuring from large-scale farmers.***

Supermarkets deal with small producers only through intermediaries (wholesalers or producer organizations) that perform the following functions on their behalf:

- Identify and characterize the supply;
- Communicate quality and quantity requirements to farmers;
- Provide technical support to producer to help them meet supermarket demand and ensure quality, quantity and adequate timing of supply;
- Assemble agricultural products.

Without such an intermediary, it is more convenient for supermarkets to deal with large-scale producers: they have the capacity to deliver large volumes on a regular and timely basis and can

Box 2. Food safety labelling: an opportunity for small farmers to sell to supermarket; the Vietnam case by P. Moustier

Supermarkets development in Vietnam is rapid. They were none in 1990 and 70 in late 2001. In 2004, supermarkets represent less than 5% of total vegetable consumption. As in other countries of the world, this situation will change as soon as supermarkets are able to cut prices through economies of scale.

Supermarkets in Hanoi buy vegetable from one cooperatives that is able to label its products as "safe vegetable". In Ho Chi Minh City, supermarkets' supply is more diversified but the ability to deliver labelled safe vegetables remains a determining factor together with the price and physical quality of the products.

For pigs for example, supermarkets buy from private large-scale production enterprises and modern slaughterhouses where quality can be controlled, which is not possible when pigs come from traditional family agriculture and small-scale slaughterhouse.

Supplying supermarkets with regular quantity is a major challenge for small-scale Vietnamese farmers. The example of the "safe vegetable chains" is an example that small producers can take up the challenge when working collectively with retailers

more easily ensure food safety and quality standards. In South Africa, specialized wholesalers deal mostly with fruit exporters to European supermarkets, who have thus demonstrated their ability to meet food safety standards for all products. (Weatherspoon and Reardon, 2003). In some Eastern Europe countries, in the absence of large-scale producers, some supermarkets prefer to purchase their products from international markets instead of buying from small-scale local producers (Weatherspoon and Reardon, 2003). In Vietnam, supermarkets procure their pork meat solely from large-scale production enterprises and modern slaughterhouses, which have a higher capacity to control quality than the traditional chains

supplied by family agriculture and small-scale slaughterhouses (Moustier, Box 2).

- ***It also depends on the nature of the food products: perishable products offer more opportunities for local, small-scale farmers to access supermarkets.***

There is little room for small-scale farmers to penetrate bulky and highly standardized product markets (mass consumption markets), where international competition is high. For those products, supermarkets procure on internationally and/or from long distance commercial relationships. For perishable products, such as fruits and vegetables, for which proximity may be a source of better quality (freshness...), local small farmers stand a better chance to become supermarket suppliers. (Dries *et al.*, 2004). The production and marketing of organic products with the “safe vegetables” label illustrates this in Vietnam (Box 2).

- ***In some cases, buying from small holders may be preferable: they can be more reliable.***

The opposite also exist: in some cases specialized wholesalers are interested in buying from small and medium local producers who can meet their quality and volume objectives in order not to be completely dependent upon large-scale producers. Depending on prices, large-scale producers may choose to take advantage of more rewarding export markets. Small and medium-scale farmers who have less opportunities to export may then be more reliable. Such is the case with Hortifruti in Costa Rica with 70% of its suppliers being small holders (Balsevich *et al.* 2003).¹²

- ***Buying locally, from small producers: a marketing slogan.***

Supermarkets may be interested in selling small farmers’ agricultural products for marketing and political purposes: 'social equity' and other citizens’ considerations are used as an advertising tool

Box 3. Buying from local small holder: a marketing slogan, the case of Carrefour Colombia (by D. Sautier).

In 2000 in Colombia, the PNUCID (United Nations Program for the international control of) contacted several large enterprises to develop economic alternatives to illicit crops. Carrefour Colombia agreed to set up specific marketing schemes for a series of products.

During 6 to 18 month, PNUCID has invested into local cooperatives, working on: pre-selection of potential products, packaging, quality control and post-harvest technology. Carrefour also agrees to give commercial training to cooperative managers and to market their products with the "PNUD / Plan Colombia" logo, and the text "Unifying the communities".

Results are: (a) Carrefour discovered a economic interest in buying directly from organized producers and is buying other products from them, such as meat and dairy products, (b) Colombian consumers are better aware of the origin of the products they buy and tend to buy more local ones and (c) Producers have access to supermarkets “regular” income but with no price nor volume guaranty and 40 days delayed payment sometimes reduced to 20 or 30.

Only because they were supported by PNUCID, smallholders could engage in a partnership with Carrefour.

(Weatherspoon and Reardon 2003)¹³. In Zambia, when projects helped 'upgrade' small farmers’ capacity to meet supermarket requirements, the chains were eager to participate in these schemes

¹² As reported by Balsevich *et al.* (2003) in the case of Costa Rica, wholesalers are not too inflexible with producers so as to maintain their set of suppliers and improve products quality. Within its horticultural preferred suppliers scheme, Hortifruti, does not systematically de-list the producer when a quality or safety problem is detected. It rather gives specific technical assistance and training. And 70% of the suppliers for HortiFruti are small farmers (Gomez, 2003).

¹³ "Supermarkets chains in Africa may find increasingly that it is a good business for them to market products from small farmers, and thus find it in their interests to collaborate with development programs helping small farmers to

(Weatherspoon and Reardon, 2003)¹⁴. Shoprite, the largest supermarket chain in South Africa¹⁵ advertises on its website its commitment to source locally¹⁶. Carrefour in Colombia (box 3) buys from small farmers when projects support them to process and market their products.

- *In addition, there may be no other choices!*

In some places, the market is dominated by small/medium producers. Supermarkets procure from local production, through specialized wholesalers who develop direct procurement channels and ensure the enforcement of specific grades and standards. In some Eastern European countries, it resulted in the development of outgrowers' schemes¹⁷ with technical assistance packages to upgrade small farmers capacities to produce. Each package could include credit, inputs supply, provision of extension services, and even bank loan guarantees (Dries *et al*, 2004) .

3. SMALL HOLDERS' CHALLENGES WHEN SELLING TO SUPERMARKETS

Whatever the context and the food products, supermarket suppliers, large and small-scale producers alike, are subject to supermarket strict quality requirements and specifications as well as competitive strategies to drive prices down. Preferential arrangements are the exception.

- *Small holders lack the knowledge, information and resources, to meet quality standards and supermarket specifications.*

Producers have to improve their production, harvesting, handling and packaging practices in order to meet quality standards and supermarket specifications. Smallholders do not have the resources, knowledge and information to make these investments themselves, hence the need for technical assistance and technological investments. Projects, public institutions, NGOs, and in some case wholesalers themselves, provide technical assistance to small holders. In Costa Rica, (Box 4) HortiFruti, a private company, established a technical assistance and training program, to help small farmers make the transition to higher quality and safety standards. Producer organizations are playing a central role as a channel to provide many scattered small holders with information and technical assistance.

improve their supply chain to sell to large retailers. [...] This new niche marketing makes these firms appear to be leaders in conducting socially responsible business in Africa."

¹⁴ An example of this is the dambo small scale irrigation scheme farming associations of small growers who supply their vegetables to Shoprite stores in Chipata, Zambia. This was made possible by a project that supported the improvement of production and supply chain to begin producing high quality vegetables.

¹⁵ It represents approximately 40% of the supermarket sector, just as Pick'N Pay, the other major supermarket chain in South Africa. (Weatherspoon and Reardon, 2003)

¹⁶ www.shoprite.co.za (http://www.shoprite.co.za/default.asp?pageID=569869859)

¹⁷ "Because the FFV production base in many of the countries was narrow in terms of product diversity and seasonality, and with low productivity and quality, and with high transaction costs and risks, many of the new wholesalers placed great emphasis on importing FFV to supply the local market – in particular bananas and citrus and stone fruit from international markets. At the same time, some started small outgrower schemes to assure a domestic production base." (Dries, Reardon and Swinnen, 2004)

Box 4. Selling beans in Costa Rica (Huetar Norte region) by E. Maitre d'Hotel

Over the past decade, because of price difference¹, supermarkets in Costa Rica preferred import beans rather than buying them on domestic markets. As a result the number of beans' producers fall from 21,500 in 1994 to less than 8,000 in 2002 (Salazar J. 2004).

Some small farmers remain in the beans business because in 1996, the Centro Agrícola Cantonal (CAC) negotiated a contract with HortiFruti, a specialized retail supplier in fruit and vegetables (trading 50% of the bean consumed in Costa Rica) with 70% of its suppliers being small farmers (Gomez M. 2003). HortiFruti is buying from small Costa Rican producers because of its political commitment. The firm deals either directly with "preferred" producers, through formal contract farming or with organized producers such as CAC.

Contracts with HortiFruti are established before planting and referred to volume of procurement, quality and safety standards, as well as packaging requirements. Selling price is negotiated two weeks before harvest, based on expected volumes and quality. These prices so far have been the highest in the domestic market (Gomez M. 2003). In addition CAC members and farmers under contract with HortiFruti, benefit from technical assistance from the company as well as access to credit.

- ***Supermarkets do not offer formal contractual arrangements, a disincentive for small holders to invest to meet supermarket specifications.***

Supermarkets will purchase from farmers (large or small) as long as they meet the mandatory specifications and quality requirements. Rate of delisting of growers is very low in that case¹⁸. Quasi-formal and formal contracts are elaborated only in some specific cases to provide, "incentives to the suppliers to stay with the buyer and over time make investments in assets (such as learning and equipment) specific to the retailer specifications regarding the products." (Reardon *et al.*, 2003). Without the perspective of a formal contract, which makes the return to the investments uncertain, small holders hesitate to invest their scarce resources to improve their farming practices to supply supermarkets. Their financial capacity do not allow them to bear the risks that large-scale farmers can take. The case of Nicaraguan dairy producers who were able to organize and invest to meet supermarket requirements highlights these difficulties (Box1).

- ***Supermarkets shift risks to suppliers; payment conditions make it necessary for suppliers to support important cash flows.***

Supermarkets shift the risks resulting from consumer behavior to suppliers, including payment postponements (from 30 to 90 days), unsold food products returned to producers, obligations to offer "sale specials", the cost of which is to be born by suppliers as in the case of Costa Rica, Nicaragua and Peru (Box 1 and 5). In addition most supermarkets are charging taxes (VAT) to

Box 5. Small holders learning to be organized and efficient: cases from Peru by F. Boucher

The cheese producer association of Cajamarca tried to sell cheese to supermarkets in Santa Isabel. Although standards such as milk pasteurization, marketing and packaging requirements (vacuum packed, bar codes, specific label), etc. could be reached by small farmers, the cost of compliance for them were high and their products were no longer competitive. In addition supermarkets demanded 7 types of different discounts, delayed payment up to 90 days, admission fee (US \$ 500) and a first free delivery (which amounted to approximately US \$ 700) as well as payment to ensure a good place on the shelf within the supermarket. Small producers could not make all these prerequisite.

Although the attempt was not successful, small producers became aware of the necessity to be efficiently organized. They formed an association – the APDL – and developed a collective brand that is now formally recognized. They created with support from local NGOs, a vertical coordination structure which help them access information. They opened a little store at the airport of Cajamarca where they sell their cheese under the collective brand of APDL. They consider they are gaining experience to open other stores in Lima. They will resume negotiation with Lima supermarkets when they feel ready for it. The opposite happen with pineapple producers. A local supermarket chain from Lima – the Wong chain - contacted an organization of producers from Cajamarca and offered them to collect their pineapple directly at the farm gates, to pay within five days, to supply disinfected products to treat the pineapples and to provide cardboard box for packaging. Producers were not able to take up the offer because they could not supply the demanded 5,000 pineapples per week.

producers. This amounts to a lesser price to the small producers: they can not claim the VAT back because they do not pay income taxes. As a result of supermarket aggressive procurement strategies in Costa Rica, small scale bean producers' number has known a drastic reduction: they were 21,500 in 1994 and less than 8,000 in 2002.

4. SMALL HOLDERS' STRATEGIES TO SELL TO SUPERMARKETS

Small farmers develop different strategies to sell their products to supermarkets and modify the asymmetry of power that characterizes their relationships with them.

- *An efficient producer organization is a pre-condition.*

To be organized is almost a prerequisite: small-scale producers on their own do not stand much of a chance to enter the supermarket circuits. Producer organizations have to be managed efficiently: poorly managed organizations are unable to compete in the supermarket circuits. As in the case of South Africa (Box 6) and of Nicaragua (Box 1), small holders were able to overcome entry barriers, standardize and aggregate their production, meet agri-food industries and supermarket quality requirements and specifications and in the end, deliver products that were competitive in

Box n°6 The sugarcane industry in South Africa and the milk industry in Morocco. By P.-Y. Le Gal

In South Africa, payment system is to transfer profit based on large-scale farmers' quality improvement to the small-scale growers. The mid-term impacts of this policy are unpredictable. The future of the SA sugar industry is linked to the international sugar price trend, which itself depends on changes of both the petrol price and the agricultural policy in USA and UE (sugar subsidies).

The Moroccan milk industry case underlines the key role played by intermediaries since the end user of the milk cannot engage with the farmers' diversity as well as the importance of efficient co-ordination processes within the supply chain.

terms of quantity, quality and timing through an efficient organization. Even if a producer organization manages to timely supply the required quantities and comply with quality standards, the challenge remains to achieve all of this at a cost which enables producers to still make a profit, such as demonstrated by the Peruvian cheese producer association case (Box 5).

Through their organizations, small holders can build trustworthy relationships with other supply chain stakeholders, secure credibility and realize mutually beneficial actions and investments (Stockbridge, 2003). Efficient farmers organizations reduce risks of farmer contract default (through peer pressure, joint collateral, good communication within groups) and improve supply management (organization of collection, storage etc.). An efficient organization usually (Perret and Mercoiret, (2001), Collion and Rondot (2000) and Bosc *et al.* (2001)):

- operates in an enabling legal and political environment;
- deals with an economically viable and buoyant sub-sector;
- possesses "organizational viability" characterized by:
 - legitimate and dynamic leadership;
 - functioning governing bodies;
 - cohesion among members;
 - the existence of an efficient system of information;
 - an appropriate system of financing;
 - a transparent and efficient financial management and accounting system.

This kind of collective action is rarely spontaneous. In most cases, it is prompted by outside support to help small producers develop a strategy to challenge a specific market. Capacity

building programs in support of small holders' collective action have enabled small farmers to: (i) organize themselves to improve product quality, reduce production costs and participate in supply chain management; and (ii) build market intelligence capacity and design marketing strategies including strategic alliances with market entrepreneurs and/or consumers groups.

- ***Smallholders need to invest in coordination mechanisms to regulate the flow of products (quantity and quality).***

The need for efficient coordination mechanisms that regulate the flow of products (quantity and quality) from numerous small producers to a few retailers is pointed out in the South African case

Box 7. Building trustworthy relationship between producers, consumers and supermarkets: the case of the Aveyron and Ségala veal, by P.-M. Bosc

After the 1996 and 1999 European mad cow disease meat crisis, European consumers lost confidence in meat producers and distributions' systems. They started looking at specific quality meat products with a clear identification of the production process and origin of the product. The message was relayed by supermarket "Auchan" (in our case) to veal producers in the Aveyron and Segala region of France; As a response, 159 of them created a business company (SA4R) with the objective to organize veal producers, enforce animal conformation standards and guaranty a quality production label (Label Rouge and Indication of Protected Origin). The company allows veal producers to engage in a fruitful business partnership with supermarket "Auchan" an a slaughterhouse "Bigard", which resulted in a SA4R company turnover moving from 1.8 billion Euro in 1996 to 12 billion in 2001.

The success factors: a strong leadership and a rigorous management of the company that secured the enforcement of safety and quality standards that facilitated the construction of trustworthy relationship between producers, supermarkets and consumers.

(see box 6). The French Aveyron case (see box 7) illustrates the importance of coordinated activities and necessary dialogue platforms to help building trustworthy relationships among the supply chain stakeholders. In contrast, in Costa Rica, the absence of effective coordination mechanisms resulted in a drastic decrease in bean production from small holders.¹⁹

- ***Combining their organization with contractual arrangements enables smallholders to capture more added value procured by vertical coordination.***

Vertical coordination requires high organizational and management capacities. Combining farmers' cooperation with contract farming benefits both the farmers and downstream entrepreneurs, both parties gaining from lower transaction costs (Coulter *et al.*, 1997). Contractual relations between organized small producers and buyers is a win-win situation for both parties since it reduces risk of farmers contract default (peer pressure, joint collateral, etc.) (Biénabe *et al.*, 2004). Vertical integration²⁰ is also a small farmers' strategy to capture more added value when, as an organization, they engage in processing and marketing their productions as in the Nicaragua case.

¹⁹ The various RPOs mainly dedicated to bean commercialization (such as the Centro Agrícola de los Chiles, Camara de Granos Basicos, Cooperativa Llano Azul) did not reach to coordinate their actions which contributed to the huge decrease in Costa Rican farmers producing beans. No notable efforts were made to defend a common position to get more weight on the transactions with the retail sector. And previous intents to build a space for dialogue failed. A consortium (Consortio frijolero), gathering state representatives, RPOs involved in the bean sector and national general unions of cooperatives, was created en 1996 to organize bean commercialization; but producers and most of the RPOs were not allowed to participate to the decisions. Hence, most producers decided not to sell their production through the consortium anymore.

²⁰ Vertical integration involves the combination of two or more separable stages of production or marketing under a common ownership and management (Jaffee and Morton, 1995).

- ***Small holders differentiate their food products to increase their bargaining power with supermarkets, building upon consumer demand for safe and quality products .***

In Vietnam (Box 2), cooperatives that developed a labeling strategy ("safe vegetable" production) became the only vegetable suppliers of supermarkets in Hanoi. The Aveyron veal producers in France (Box 7) were able to develop mutually profitable partnership with local supermarkets when their product obtained an official label (certification of origin). In both cases, upgrading food product specificity improved small holder bargaining power with supermarkets. Consumer demand for "safe" and quality food products forced supermarkets to buy from producers who could differentiate their product and provide a certificate for the origin and the production process.

Alliances between small holders and consumers can stimulate the production of innovative food products that benefit smallholders. When consumers are interested in specific quality criteria, such as specific production processes or product origin, the price to be paid to producers is less of a priority for retailers, than the certification of the process or the origin. Hence, producers can claim higher prices than for *mass consumption* products, for which retailers negotiate down prices.

- ***Small holders diversify their outlets, selling only part of their production to supermarkets.***

In Nicaragua and Turkey (Boxes 1 and 8), farmer organizations successfully supply supermarkets while keeping part of their production for their traditional buyers. In many

Box 8. A successful story from Turkey by (Codron *et al.*, 2004) and (Coudel, 2003)

Marketing small farmers production through supermarkets is a challenge in Turkey despite efforts made by the Government. The challenge for small grower is to make the volume needed by supermarkets.

The mixed trade and agricultural co-operative of small cucumber growers (2,000 m² each) near Izmir sells 10% of its products to Bulgaria, 20% to Migros (a modern store), and the rest to Istanbul and Ankara auctions, where they get a better price than in Izmir. This cooperative was supported by the Agricultural Office but worked with a transporter who looked for buyers for their products. The cooperative fixes its selling prices on the basis of auctions prices in Izmir, Istanbul or Gazipasa. Producers are paid once a week and 1% of the sales goes to the cooperative. No specific control over the produce is made by the cooperative as producers trust each other.

developing countries, even if supermarkets are developing rapidly, they are not yet widespread.

Local population, with limited individual means of transportation, still find open air markets, kiosks, wet markets, mom and pop stores more convenient because of their proximity. Small holders are usually keen to maintain their

relationships with traditional wholesale and retail markets, not only because they can represent an important outlet alternative to supermarkets, and thus enhancing their bargaining power, but also because the transactions, based on preferred customer relationships, are attractive: small holders can obtain short-term credit from local market agents (while supermarket payments are deferred).

5. ELEMENTS OF CONCLUSION

The agri-food industry is one of the world's most growth generating manufacturing industries creating a steady demand for agricultural products (Rastoin, 2003). However, the evolution of the agri-food systems and especially the expansion of supermarket food distribution, while bringing potential benefits to rural areas, also poses "significant threats when inefficient or undercapitalized farmers cannot 'make the grade'." (Dries *et al.*, forthcoming).

Small holders have some comparative advantages to supply supermarkets. They can be highly competitive for certain products, such as perishable ones, for which “buying locally” may be a guarantee of freshness and higher quality. With growing purchasing power and increasing awareness on food safety, consumers are looking less for standard quality at the lowest price, i.e. “mass consumption” products. There is a growing interest for specific quality products, the ones with an indication of origin or certification of a specific production process that guarantees quality, such as biological production. Product diversification is becoming a growing supermarket expansion strategy in saturated markets. This trend constitutes a great opportunity for small holders since their production is still very much linked to a territory and embodies traditional know-how. Buying locally from small holders may be also part of a supermarket socially responsible strategy and become an advertising slogan in the highly competitive environment in which they operate. Whatever the situation, when the demand is there, small farmers, if supported, can organize themselves and participate in commodity chain association and obtain formal certification of their product specificity.

Existing literature and case studies reviewed indicate that although small holders have comparative advantages to benefit from opportunities generated by the global evolution of the agri-food systems, they are usually poorly equipped to respond to these evolutions and they face many constraints, technical, financial and organizational. A recurrent problem is the asymmetry in the relations between small holders and supermarkets. Significant levels of investments are required for small holders to be able to become supermarket suppliers while there is no commitment from supermarkets to buy small holders’ production, formal contracts still being the exception.

Lessons from case studies highlight that an efficient producer organization is key for small holders to overcome the constraints and make the necessary investments to take advantage of the opportunities offered by evolving agri-food systems. This, however, requires technical and organizational capacity building, that small holders cannot do on their own, at least in the beginning, and that governments, NGOs and donors may want to build into their programs to help small holders secure markets.

Depending on a country’s specific circumstances, emerging social, political and economic driving forces will lead to changes in various actors’ strategies which, combined, may result in a more favorable climate for small holders’ production and a reduction of the asymmetry between them and downstream operators. These changes may come from three sources, with: (i) Government policies to keep a thriving rural economy and prevent uncontrolled out migration; (ii) retailers’ expansion strategies through product diversification; (iii) consumer awareness and growing interest for specific quality products. World wide policy-makers need to develop a global vision of agriculture that would take into account the externalities generated by small holders and will respond to the following basic questions:

- Agriculture is providing employment opportunities to a vast labor force with limited “modern” qualification. What is the short to medium term alternative for them if they are prevented from farming for economy of scale reasons that is the on-going trend of evolving of agri-food systems?
- Who should pay and how for agriculture’s contribution to protection of the environment, maintenance of rural landscape and keeping alive rural cultural heritage for the benefit of the entire society and not only the farming community?

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Annex

Box n°1:

Selling milk-based products to supermarkets in Nicaragua: the case of San Francisco de Axis Cooperative

By M.-H. Collion, after R. Mendoza Vidaurre

In 1992, San Francisco de Axis cooperative with its 25 members began selling fresh milk to Prolacsa-Nestle y la Perfecta. Today, with 141 small and medium producers as members, the cooperative diversified its products, with 30% of its revenues coming from the sale of various types of cheese to supermarkets, 10% from cheese exports to El Salvador and Honduras, with the remaining 60% still coming from selling fresh milk.

Fresh milk prices are low, and in addition they decrease substantially during the winter. In 1993, to stabilize their incomes, cooperative members decided, on the basis of market studies, to enter the production and marketing of milk-based processed products to supermarkets.

The cooperative had to overcome a number of obstacles that can be regrouped into three categories:

- (i) entry barriers to process milk: legal status and sanitary certification, environmental compliance certification; commercial registration;
- (ii) entry barriers to become a supermarket supplier: a registered brand for the cooperative products; proper packaging with bar code, nutrient data, and optimum purchase date for the product; renting of supermarket shelf space;
- (iii) requirements to remain a supermarket supplier: regular product supplying; product advertising; 15 to 30 days delayed payments; obligation to lower prices (10 to 15%) at special times during the year such as Christmas (while the supermarket margin remains the same: 32%); one month notice before a price increase.

There is no contractual arrangement between the cooperative and the supermarkets, and therefore no agreement as to a continuing relationship, nor any technical advice or dialogue concerning product quality, price or product diversification.

Milk purchase prices may be lower than those of other cooperatives, but for the members, the main advantage is stable prices and a guarantee that the cooperative will buy all their production.

Lessons learned: The success of these small-scale producers becoming super market supplier is due to a number of factors:

- (i) the performance of their cooperative: the governing bodies are functioning well, there is accountability and transparency, strong leadership, and clear division of function between the president of the cooperative and the chairperson of the audit committee. Instead of redistributing gains, the cooperative provides social services which are not available otherwise and which promotes a positive image of the cooperative. There is a clear separation of functions between the leadership of the cooperative and the management of the processing factory. Finally collective action works the best a product with high perish ability and high added value.
- (ii) their ability as a group to identify market opportunities and exploit them. They were also able to recognize when some of their initial products were not doing well, and quickly made a decision to drop them.
- (iii) they remained in the traditional market of supplying fresh milk, while diversifying their products and their buyers.

They were able to overcome the difficulties of entering supermarket supplying through their organization.

Risks for the future. They are associated with globalization, supermarket concentration, and world wide procurement.

Box n° 2:
**Food safety labelling: an opportunity for small farmers to sell to supermarkets:
the Vietnam case**²¹
By P. Moustier

The supermarket diffusion

Although it is not as fast as in other countries of Asia, e.g. Thailand, the development of supermarkets is going at a steady pace in Vietnam. In late 2001, Vietnam could count 70 supermarkets, 32 in Hanoi and 38 in Ho Chi Minh City, while there were none before 1990. Consumers express a growing concern for the quality – especially safety – of food products. This demand has favoured the development of the sale of food products by supermarkets, and also by new retailing enterprises operating at market stalls or shops, for which efforts on visual quality (attractive presentation; packaging) and communication on product safety are major promotion tools.

At the moment the share of supermarkets is still limited, as it is estimated that they represent less than 5% of total vegetable consumption. This is mainly due to food prices being higher in supermarkets than in wet markets, and the Vietnamese poor households not having access to transport and being attached to corner street vending. Yet, as in other countries of the world, this situation may change if supermarkets are able to cut the prices through economies of scale.

The conditions of access by local farmers in the vegetable and meat sectors

The vegetable and meat sectors provide interesting examples of conditions of access to supermarkets by local farmers. As regards vegetables, supermarkets in Hanoi are all supplied by one of the four cooperatives who have been successful in the labelling of "safe vegetable" production. In Ho Chi Minh City, the supply of supermarkets is more diversified, both from the Dalat rural area and from the peri-urban area, but the ability to deliver labelled safe vegetables is also a determining factor of choice, as well as consideration of price and physical quality. As regards the pig sector, supermarkets have recourse to specific channels involving private large-scale production enterprises and modern slaughterhouses where quality can be controlled more easily than in the traditional chains supplied by family agriculture and small-scale slaughterhouse.

The share of local production in supermarkets is made fragile by the absence of an independent quality control. This lack of safety may also be a problem for imports as the problems on imported fruits in the summer 2004 have demonstrated: the discovery of dioxin on oranges led to the rejection of fresh food products sold in supermarkets by Hanoi consumers.

As regards regularity in quantity, the small-scale of Vietnamese production is a major constraint but can be circumvented by collective marketing or recourse to assemblers as is the case in the safe vegetable chains.

Hence, the context of Vietnam is quite challenging to evaluate how farmers' collective action and public support can help in taking advantage of opportunities provided by supermarkets, and compare them with what they can get in traditional distribution chains which still play a dominant role in the supply.

²¹ This question is investigated by MALICA in Vietnam (a consortium gathering CIRAD, VASI, RIFAV, Institute of Sociology, University of Ho Chi Minh City), in the context of two projects: (ii) sustainable peri-urban agriculture in South-East Asia (coordinated

Box n° 3:
Buying from local small holders: a marketing slogan,
the case of Carrefour Colombia

By D. Sautier

Context

In Colombia, the PNUCID (United Nations Program for the international control of) contacted in 2000 several large enterprises to develop economic alternatives to illicit crops in South of Colombia.

Carrefour Colombia agreed to set up specific marketing schemes regarding:

- palm hearts (palmito) from Putumayo,
- beans from South Bolivar Province and from Putumayo,
- and Cauca coffee.

These products are for the Colombian market, except organic coffee for export to Europe.

Motives:

- 1) Institutional image: Strengthen the national image of the enterprise. "Carrefour is getting involved in the country".
- 2) The scheme is supported by the UN and the Colombian government. In this scheme, Carrefour is an institutional partner, not just a commercial one.
- 3) The identification of products has been previously carried out by the PNUCID: "the only missing link was marketing".
- 4) Carrefour also aims at promoting exportation of local products to its other supermarkets in the world.

Organization:

The PNUCID invests into local cooperatives and commercial capacity as well as in the pre-selection of potential products. This preparation stage financed with public (PNUCID) funds lasts 6 to 18 months. The PNUCID also gives orientation for packaging and contracts consultants in quality control and post-harvest²².

Carrefour agrees on giving commercial training to cooperative managers. It markets the produce with the "PNUD / Plan Colombia" logo, and the text "Unifying the communities". And it monitors sales and product rotation.

Impacts:

For Carrefour, this operation has a good advertising effect. The product launch event was a success (Televisions and ambassadors were present at the press conference). The linkage of the company with the UN is another positive effect. Carrefour intends to keep buying through this official device.

Moreover, on the commercial side, Carrefour sees economic interest in buying directly, without intermediaries, and would like to buy more products that way such as meat and dairy products.

For the consumer: before the introduction of Putumayo Colombian palmito, rotation results placed 1/ Colombian trade mark; 2) Costa Rican trademark; 3) Ecuador trademark. After the introduction of Putumayo Colombian palmito, rotation results placed 1/ Colombian trademark and Putumayo palmito and 2) Ecuador trademark (maintained because of aggressive pricing). Costa Rican palmito lost its market share. It also results in a better identification of the products.²³

For the producers: for coffee, the operation involves 1024 producers in the COSURCO cooperative. Like any other suppliers, cooperatives linked to PNUCID must negotiate to obtain registration on the supermarket list. After that, volume and price sold depends on Carrefour's demand with no prior commitment. Carrefour pays with a 40 days delay, sometimes reduced to 20 o 30 days.

Lessons learned:

This operation can be seen as a win-win game: Cooperatives which were fighting to gain access to markets are benefiting from a secure market (albeit without any no price or volume commitment). Carrefour benefits from PNUCID's investments into the pre-marketing stages and product selection. Moreover, Carrefour also gains from buying directly from cooperatives (saving transaction costs involving

by AVRDC and CIRAD); (iii) making markets work better for the poor (ADB/DFID funded projects); the research also gets funding from CIRAD (e.g. for the work in Ho Chi Minh City).

²² For instance, it paid 2 months for a food engineer in order to resolve a storage quality problem with beans with ASSOCAUMA cooperative, Sul de Bolivar.

²³ The coffee packages "CAFÉ COSURCO ORGANICO" contain the following mentions: LTCG, "Mercados libres con responsabilidad social"; ECOCERT; Biotropico; Colombian specialty coffees; "Cafe de Colombia"; Plan Colombia / NU-ODCCP / USAID / "Plante": Plante Colombia, Siembra Paz.

intermediaries or a high number of individual producers) and it gets an excellent “citizen enterprise” impact.

Box n°4:
Selling bean in Costa Rica (Huetar Norte region)
By E. Maitre d'Hotel

1. Bean is part, with rice, of the Costa Rican diet basis and has been traditionally cultivated by small producers. The Huetar Norte region concentrates 62% of the bean domestic production. Before being distributed on domestic markets, the bean is dried, size sorted and packed.

2. Bean has been, for decades, protected by the State, through price, packing and distribution policies. But the State stopped supporting production and managing the packing and distribution system in 1994. In the same time, the Costa Rican State reoriented its agricultural support towards export products, mainly encouraging transnational companies implantation. This sudden State withdrawal from traditional sectors induced important restructuring, and obliged private actors to play an increased role in these sectors' regulation and coordination. While the production stayed fragmented, private firms appeared and gradually organised themselves, leading to a few distribution spots .

3. Over the past decade, there has been a rapid rise of supermarkets in Costa Rica that represent a 50% of total food retail (Reardon T. and J. Berdegue 2002). Because of an important price difference²⁴, supermarkets groups prefer to import bean rather than buying it on domestic markets. Nowadays, 75% of the bean consumed in Costa Rica is imported, whereas only 40% was imported in 1994 (Salazar J. 2004). Furthermore, supermarkets are imposing their quality standards and volume requirements, thus excluding a large part of small farmers from domestic market.

4. Small bean producers, threatened by the importations and by the supermarkets aggressive strategies, had to organise themselves to secure their access to domestic market. The farmers' strategies are various: some simply leaved agricultural activity or moved towards new productions; others managed to maintain themselves in the bean production, essentially through rural producer organizations. To give an idea of the small farmers exclusion phenomenon, the number of bean producers fall from 21 500 in 1994 to less than 8 000 in 2002 (Salazar J. 2004).

5. The Centro Agrícola Cantonal (CAC) is an "old" local organisation, set up in 1978 by the State. Located in an important bean production area, the organisation counts as members approximately 250 small farmers. After the state withdrawal, the CAC decided to search ways to secure domestic markets for the bean produced in its area. In 1996 was negotiated a selling contract with HortiFruti, a specialized retail supplier in fruit and vegetables (trading 50% of the bean consumed in Costa Rica). Part of HortiFruti policy is to support Costa Rican agriculture, and it is important to emphasize that 70% of the suppliers for HortiFruti are small farmers (Gomez M. 2003). Thus, in spite of a strong price difference, HortiFruti is buying bean to Costa Rican producers rather than importing it because of that political commitment. Plus, the firm deals directly with producers, through formal selling contracts. The preferred producers, who passed through a selection process, can be individuals, but also organized producers (e.g. the CAC).

6. By the selling contract, before the sowing, are determined the volume of procurement, quality and safety standards, packing requirements, and the selling price is negotiated between HortiFruti and its suppliers, two weeks before the harvest, in function of volumes and quality expected. This price is the highest in the domestic market (Gomez M. 2003). Furthermore, the farmers benefit from extended assistance, like occasional training courses on quality standards and new techniques, improved access to credit and political support for tariff extension. Technical assistance can be received by farmers directly from HortiFruti representatives or through a CAC representative, which has been trained before by HortiFruti.

²⁴ In 2001, the international price, mainly fixed by the two biggest producers (Argentina and United States), was of 320 US\$/t, when the national price was of 700 US\$/t. (Servicio de mercadeo del CNP, 2003)

Box n°5:
Smallholders learning to be organized and efficient: cases from Peru
By F. Boucher

Various attempts have been made by small producers of Cajamarca (North Peru) to supply local supermarkets, be it on producer or supermarket initiatives.

Among these attempts is the one pushed by a project supported by the US AID which purpose was to "create businesses". This project putted in contact a major chain of supermarkets located in Santa Isabel with the cheese producer association of Cajamarca and supported small cheese producers who made investment to fulfil supermarkets quality requirements. But even if producers could attain supermarket quality standards, no agreement could be made finally because supermarket proposed price could not even compensate for producers production costs.

In the cheese case, other approaches were intended by individual producers but supermarkets demand too high requirements for small cheese producers to be able to comply with them. These are high standards of hygienic quality with process constraints such as milk pasteurization, marketing and packaging requirements such as vacuum packed, bar codes²⁵, specific label²⁶. Supermarkets also demand 7 types of discounts, delayed payment of up to 90 days, admission fee (US \$ 500) and a first free delivery (which amounts approximately to US \$ 700) as well as payment to ensure a good place in the shelf within the supermarket. Moreover, supermarkets provide low prices compared to those obtained on the local markets or in the little specialized stores.

At the moment, no attempt has been successful. Nevertheless, this cheese producers' case is interesting in that they do not abandon the idea of entering supermarkets but they are aware of the necessity of being efficiently organized and of undertaking a learning process before being able of reaching this goal. These producers have been undertaken collective actions since 1998 when they formed an association – the APDL - which developed a collective brand formally recognized by the State. In addition to this horizontal organization which exclusively admit formal cheese producers²⁷ as members, these cheese producers have created with local NGOs, public institutions and upper intermediaries (raw material producers) a vertical structure of coordination which plays a role of information exchange, of negotiation, of promotion and of coordination of common activities and projects. Based on this joint horizontal and vertical coordination, the more dynamic producers intend to acquire a collective commercial experience. They recently opened a little store at the airport of Cajamarca where they commercialize the cheese under the collective brand of the APDL. This action is seen as a first step to gain experience to open other little stores, and finally to be able to enter collectively in negotiation with the supermarkets in Lima.

In the pineapple case, a local supermarket chain from Lima – the Wong chain - contacted an organization of producers from Cajamarca. Contrary to the cheese case, some facilities were made to the producers such as collection of the pineapple directly at the farm, payment within five days, supply of disinfectant products to treat the pineapples and of cardboard box for packing. This reflects the fact that supermarkets are more interested in local supply for some products such as fresh fruits and vegetables than for others. Nevertheless, producers were not able to supply the demanded quantity which was of 5.000 pineapples per week.

²⁵ To be able to bar code their products, producers have to be registered at the official service that deliver bar codes. Each product has a different bar code.

²⁶ These requirements are common. See for example Weatherspoon and Reardon (2003) who mention that producers selling to Freshmark, a specialized wholesaler owned by Shoprite, a major South African supermarket chain, are responsible for all post harvest activities: washing, packing, labelling, and bar-coding, so that produce are ready for the distribution centres to send on to the stores. Delayed payments are in that case of 20-30 days and producers are to make daily deliveries on their own.

²⁷ This means producers who are officially registered and pay taxes.

Box n°6:
The sugarcane industry in South Africa and the milk industry in Morocco
By P.-Y. Le Gal

1. Increasing market instability calls on firms to be reactive and flexible. It also implies the development of new forms of agro-food chains organization. In this context, the control of flow of food products from supply areas to processing plants, and from plants to markets is a critical factor of efficiency. Numerous elements interact within the supply chain, such as industrial capacities, production risks and diversity of farm structures. Finding organizational solutions that satisfy the objectives and constraints of all stakeholders is not a simple challenge.
2. This complexity increases when small-scale farmers are involved in the supply chain, because of their specific constraints regarding both resources availability and capacities to fulfill standards required by the plants. Intermediaries are needed to bridge the gap between individual producers and the industries when a high number of farms control the production process. The total efficiency of the supply chain is depending on both (i) the efficiencies of each stakeholder along the chain and (ii) the efficiency of the co-ordination processes that regulate supplies and secure quality of raw products.
3. In South Africa, payment system is to transfer profit based on large-scale farmers' quality improvement to the small-scale growers. The mid-term impacts of this policy are unpredictable. The future of the SA sugar industry is linked to the international sugar price trend, which itself depends on changes of both the petrol price and the agricultural policy in USA and UE (sugar subsidies).
4. The Moroccan milk industry case underlines the key role played by intermediaries since the end user of the milk cannot engage with the farmers' diversity as well as the importance of efficient co-ordination processes within the supply chain.

Generic issues to be addressed:

There is a need to support and improve (i) the management of flow of raw product (quantity and quality), (ii) financial management, (iii) information management, all along the supply chain stakeholders, including farmers' organizations, to increase its efficiency.

Services such as credit, input supply, training, are needed to improve the supply chain efficiency. Which institution should be responsible to deliver them: the industry? farmers' organizations? public agencies? What kinds of incentives are needed to encourage individual farmers meet the requirement of the industries?

Can all the farmers, including the small one remain in the chain? At what cost? Who will be in charge of farmers unable to adjust to the industries' requirements? In both cases, small farmers were able to benefit from this concentration of local retailers because of government tariff protection. The challenge is how long should government protect their farmers to allow small ones improve their competitiveness?

Box n°7:

Building trustworthy relationship between producers, consumers and supermarkets: the case of the Aveyron and Ségala veal

Partnership experience between a huge distribution chain and a producer group involved in a quality approach

By P.-M. Bosc

A difficult economic context for the bovine meat commodity chain in the 90s

The initiative reported here started at the end of the 80s in a difficult economic context for animal production in Aveyron. During this period, the bovine meat has known a structural crisis²⁸ and suffered from economic hazards some of which specific to the Aveyron region.

The creation of a commodity chain organization and the quality approach

In 1990, a small group of farmers promoted the creation of the regional Aveyron veal commodity chain organization. This organization developed a strict book of requirements for farmers committed to produce the Aveyron veal with rigor. But impacts for farmers who invested to comply with this book of requirements are not convincing. Market for this quality veal remains narrow and fragile. Nevertheless, this approach led to the obtaining of a French official quality sign – the Label Rouge – which recognizes the specific production process and is associated with a geographical denomination of origin ("Indication Géographique de Provenance") delimitating the Aveyron and Ségala veal basin of production.

In 1992 and 1995, producers, and among them particularly those who engaged in the quality approach, are faced with important crises on their traditional outlet, the North Italian market. One of the producers' most important preoccupations was not to keep on depending heavily on CAP subsidies.

The SA4R: creation and functioning

In 1996, 159 producers create the SA4R, an anonymous society of which they become shareholder. They are all engaged in the Label Rouge and IGP quality approach. The aim of the SA4R is to commercialize the Aveyron and Ségala veal. It is managed by a board of directors of 11 members, has no salaried employees and works on the basis of voluntary service of members, with 33 field managers relaying the directors work at the local level.

Its turnover increases from 12 billions francs in 1996 to 12 billions euros in 2001. The creation of the society was associated with the implementation since 1995 of a partnership with a French supermarket chain, "Auchan", and the Bigard slaughterhouse.

The SA4R specific objectives are then to organize the individual producers – downstream economic operators interface and particularly, to ensure the enforcement of animal conformation standards, to look at the organization of the supply in response to the distribution centre demands. Nowadays, almost 600 breeders supply the SA4R, which deliveries to the supermarket chain have increased from 2000 to approximately 11000 animals.

The construction of the partnership between the SA4R and the supermarket chain:

From the supermarket chain viewpoint, the interest was in strengthening their presence on differentiated quality and guaranteed origin products markets. The supermarket chain is looking for specific quality products able to restore the confidence of consumers particularly after the sanitary crises of 1996 and 1999.

The basic motive for producers to engage in such partnership was the will to ensure a significant outlet at the regional level instead of being trapped into a narrow quality niche market²⁹. Their reluctance to develop this partnership expresses in the joint definition of the rules including the mechanism for remunerating producers. The relationship was built progressively on the basis of repeated exchanges which supported the adjustment and finalization of the concrete rules and conditions of the commercial

²⁸ According to the breeding institute, bovine meat consumption has been decreasing between 1980 and 1995 at a rate of 5 kg per inhabitant and per year; specifically, veal meat has fallen from 6,7 to 4,9 kg per inhabitant and per year, and the greater part is battery farmed. And veal bred with their mother represents at most 10% of total veal consumption.

²⁹ In 1994, almost 70% of bovine meat production was sold in supermarkets in France.

relation: meat appearance, the quality of the cut out and of the packaging. This led to the involvement of the Bigard slaughterhouse in the partnership and to the definition of a tripartite charter between Auchan, SA4R and Bigard.

Periodic meetings are organized to supervise the organization of the relations between the 3 partners and the monitoring of the activities: demands planning, development actions and pricing forecasting. Various Auchan department managers have been invited to visit the SA4R. And the participation of producers to promotion activities within the stores on all the national territory are valorized by the producers first to better know the consumers demands and second to visit the places. This is part of the promotion policy jointly defined by the 3 partners.

The factors of success:

The SA4R organization is supported by a strong leadership as well as a strong rigor which allowed for the construction of a relation of trust with the supermarket chain, and beyond that with the consumers. The entrance of a new breeder as a SA4R supplier is conditioned to a probationary period of 6 months before the breeder is given a delivery reference (license), which allows him to deliver a given quantity of veal. This delivery reference is revised each year to account for producers' behaviours and guarantee the reliability of their engagement.

Each director is responsible for a sector and relies on the field managers who precisely know the delivery potential of each breeder. The potential supply of each sector can thus be known with enough time to mobilize other sectors according to the volume of demand of the supermarket chain. This mobilization was made possible by the proximity relationship and the reciprocal knowledge of the members. The functioning basically relies on the efficient organization based on the 11 directors relayed by the field managers.

The enthusiasm, the skills and the tenacity combined with a clear pragmatism have also been key factors in the success of the construction of this partnership.

Box °8:

Supermarkets in Low-income Mediterranean Countries and cooperatives: the case of Turkey

based on (Codron J.-M. Z. Bouhsina F. Fort E. Coudel and A. Puech 2004) and (Coudel E. 2003)

Even though standards are not yet very developed, marketing to supermarkets is a big challenge for small farmers in Turkey. A stringent limiting aspect for small growers is the volume to be marketed; no supermarket wants to negotiate small volumes with a multitude of small farmers.

However, despite a limited number of successful marketing cooperatives directly supplying supermarkets, the Turkish government is continuing to encourage such initiatives in order to support small farmers. It intends to support small farmers supply to supermarkets through advantages to cooperatives such as the authorization to market their produce directly to supermarkets without passing through the auction (normally obligatory for all wholesaler), or through access to low rate credit for collective marketing investments, such as packing equipment.

A successful example is a mixed trade and agricultural co-operative of small cucumber growers (2,000 m² each) in a village near Izmir who sells 10% of its products to Bulgaria, 20% to Migros³⁰, and the rest to the Istanbul and Ankara auctions, where they can get a better price than in Izmir. This cooperative started five years ago with the support of the Agricultural Office and with approximately 100 producers, all from the same village which represent around 80% of the producers of that village. Its number of members is more or less stable (96 in 2003).

To sell its production, the cooperative work with one intermediary in charge of the transport and of finding buyers. The cooperative is able to fix prices, basing itself on prices from the auctions in Izmir, Istanbul or Gazipasa, which producers can call with their mobile phone. Producers are paid for their produce once a week and 1% of the sales goes to the cooperative, to pay taxes, the five employees and the office rent. No specific control over the produce is made by the cooperative as producers trust each other.

In 2002, following the example of this cooperative, producers from two surrounding villages formed two other cooperatives.

³⁰ Migros: founded in Turkey in 1954 with the setting of the first modern stores on the joint initiatives of the Swiss Migros Cooperatives Union and Istanbul municipality. It became fully domestic in 1975, when its majority shares were transferred to Koc, a major Turkish conglomerate.