

## The Pivotal Importance of Good Access to Markets for Farmers

The majority of farmers face expanding markets of paying customers. To them, investing in agriculture is good business.

*By Isabelle Tsakok*

### Summary

Good access to lucrative markets is vital for farmers to be profitable and productive. This is evident in all agricultures that have successfully transformed. Unless they sell profitably, farmers risk acting against their financial interest by being productive, resulting in surpluses, which lead to price falls when there are gluts, as demand for basic food is typically price and income inelastic.

Therefore, if governments want to transform their agricultures, they must provide an environment that enables their farmers to be productive and to sell profitably. Governments that have succeeded in providing such a conducive environment over decades have used a variety of ways, acting along the entire value chain from production, through processing, marketing—domestic and foreign, and on to final consumer demand.

Since “no country has ever grown sustainably without growing exports,” the current rise of protectionism and the increasing inequality of incomes are threatening to undermine the very engine of growth the global economy and that agriculture and agro-processing need. Governments, however, can do much to assist their smallholders to gain market access. In fact, only they can lay the public foundations of successful market access.

The challenge for governments is still to find ways of expanding market access for their farmers that are win-win for all parties involved. In developing countries, measures to expand market access should help smallholders reduce poverty and increase their food security by promoting their productivity growth in a climate-resilient agriculture under climate change, while delivering quality products to consumers at affordable prices.

## Introduction

One of the five conditions common to all cases of successful agricultural transformation is that the majority of farmers operate in expanding markets with paying customers (Tsakok, 2011: Summary).<sup>1</sup> In our globalized world economy, the task of accessing expanding markets is even more challenging because the competition is now global. This challenge is particularly tough for smallholders whose operations are not integrated in a value chain, national, regional, or global, primarily because they have no policy and investment support. For these smallholders, there is a major risk of being completely bypassed by the “Supermarket Revolution”<sup>2</sup> (Reardon, Timmer & Minten, 2012).<sup>3</sup>

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This policy brief sets out why this condition is important for agricultural transformation; what it takes in terms of basic infrastructural and institutional requirements to gain access to lucrative markets; what some governments have done to assist their farmers successfully access domestic and foreign markets; and what governments in developing countries, especially in Sub-Saharan Africa (SSA), can and must do for their market-deprived smallholders, if sustained income and productivity increases among smallholders is a national priority.

1. Tsakok, Isabelle. 2011. *Success in Agricultural Transformation: What it Means and What Makes it Happen*. Cambridge University Press.

2. The “Supermarket Revolution” in developing countries refers to a worldwide phenomenon which started in the early 1980s whereby there has been a “rapid increase of modern retail shares in food retailing at the expense of traditional shops and wet-markets.” This increase has occurred in three “waves”: first in Latin America, Central Europe and South Africa; second it spread from larger to smaller cities; from upper to middle and lower income groups; from processed to semi-processed and fresh; and from domestic to multinationals; third “procurement by modern retail was only from the spot wholesale markets, and few standards were used. Gradually, sourcing became increasingly direct from preferred suppliers, consisting of dedicated wholesalers (DWs), food companies, cooperatives, or farmers. Finally, distribution centers and national and regional networks (involving intraregional trade within a chain) were developed, using private standards.” From the late 1990s and early 2000s, supermarkets have been spreading in Asia—East, Southeast and South. Source: Reardon, Timmer and Minten. PNAS, July 31, 2012.

3. Reardon, Thomas, C. Peter Timmer, and Bart Minten. July 21, 2012. “Supermarket Revolution in Asia and Emergent Development Strategies to Include Small Farmers.” Proceedings of the National Academy of the Sciences of the United States of America (PNAS). (Accessed June 23, 2018) <http://www.pnas.org/content/109/31/12332>

## Why this condition is important for agricultural transformation

This must seem obvious to the layperson: any business produces to sell profitably. Smallholders are family businesses. Unless smallholders can sell profitably on a regular basis, they remain at best subsistence farmers. As long as low productivity prevails among smallholders, agricultural stagnation will persist. Successful agricultural transformation requires sustained growth in productivity and such growth in turn requires market access.

## What it takes to start with— basic infrastructure and market institutions

Nearly one billion people worldwide live in rural areas without access to a paved road network (Asher and Novosad, June 2018: Abstract).<sup>4</sup> In much of SSA, the constraints to marketing for smallholders are deficient basic infrastructure – e.g., network of roads, electricity, and market places.<sup>5</sup> By far, the largest deficiency is in the power sector, with generation capacity and household access at about half the level achieved in South Asia, and about one-third the level observed in East Asia and the Pacific. It is estimated that SSA’s deficient infrastructure may be costing as much as one percentage point of per capita growth (Foster et al, 2009: xv).<sup>6</sup>

Paved, year-round rural roads while necessary are, however, far from sufficient to link agriculture to rural and urban centers of opportunity and growing agri-food demand. At a minimum, affordable and reliable transport -- farm-to-sales points must be complemented by some system of telecommunications that can also generate up-to-date market information; as well as the assurance of physical safety and contract enforcement. More generally, what is required is not only the hardware of marketing infrastructure—e.g., roads, rails, bridges,

4. Asher, Sam and Paul Novosad. June 2018. *Rural Roads and Local Economic Development*. World Bank Policy Research Working Paper (WPS) # 8466. (Accessed June 24, 2018)

<http://documents.worldbank.org/curated/en/204301528246225577/pdf/WPS8466.pdf>

5. Maritz, Jaco. 19 March, 2014. “Sub-Saharan Africa’s top five retail stores”. Also, Ighobor, Kingsley and Aissata Haidara: “Pushing African Agribusiness to the \$1 tr. mark” In *How we made it in Africa*, Africa Business Insight. (Accessed Aug 09, 2018)

<https://www.howwemadeitinafrica.com/sub-saharan-africas-top-five-retail-markets/36913/>

6. Foster, Vivien, William Butterfield, Chuan Chen, and Nataliya Pushak. 2009. “Building Bridges: China’s growing role as infrastructure financier for Sub-Saharan Africa”. World Bank and Public-Private Infrastructure Advisory Facility (PPIAF). *Trends and Policy Options*, # 5.

wholesale centers, air and sea connections—but also the software—e.g., enforcement of competitive rules of market operations (as opposed to monopolies and cartels); standardized uniform weights and measures; health and food safety standards; public information on evolving market prices; and improved literacy and education necessary for all operators along the value chain to understand the public market information disseminated.

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SSA has taken key steps to address the infrastructure problem but much more is needed. A 2014 assessment of infrastructure development in SSA shows that, despite progress in some areas (e.g., density of fixed and mobile phones has risen sharply since 1994), the region is severely deficient in four categories of infrastructure, namely telecommunications, electric power, transport, and water and sanitation (Calderón et al, May 2018: Abstract, Tab 5).<sup>7</sup> In all dimensions of infrastructure development that were assessed—quantity, quality, and access, SSA ranked at the bottom of all developing regions, with a score of 2.91.<sup>8</sup> Fully aware of this major deficiency, SSA organizations have some important ongoing initiatives. Thus, the Programme for Infrastructure Development in Africa (PIDA) has set out a long-term vision for infrastructure development and provides a platform for countries to engage with investors and development partners. The Presidential Infrastructure Champion Initiative (PICA) has eight projects championed by African Heads of State. In addition, there are regional corridors to link Africa's landlocked countries to the sea; the most prominent of these is the Trans-Africa-Highways (TAH) network (UNECA, Dec 2015: Tab 1).<sup>9</sup> China is also becoming one of the most important non-OECD infrastructure financiers in SSA.<sup>10</sup> According to AidData, Chinese aid in transport

and storage (2000-13) totaled USD 29 b; and in energy generation and supply, USD 25 b.<sup>11</sup>

## What actions some regions and governments have taken to improve market access for their farmers

### Creating and sustaining a supportive incentive and marketing environment – the OECD approach

Policy intervention at the macro and trade level is one of most effective set of tools that governments have taken to assist their farmers' access markets. When the intervention is a component of a regional approach, it is even more powerful. A well-known case is the Common Agricultural Policy (CAP, 1962), which successfully enlarged markets for its member countries. Originally consisting of six founding<sup>12</sup> member countries, it has grown to 27 today (2018). The CAP has been heavily criticized for "mountains of butter and lakes of milk"; for excessive bureaucracy; for its variable levies and export refunds, which discriminated against developing country agricultural and food exports into the EU. While these criticisms are largely founded, it is also true that the CAP has undertaken successive reforms over the years, and many of these problems have disappeared.<sup>13</sup>

Under budgetary and other geo-political pressures, price support measures have evolved significantly. It is however undeniable that the CAP enlarged markets for its member countries and complemented this enlargement with measures of support which developed EU agriculture into a powerhouse.<sup>14</sup> In addition to investments in transport and marketing infrastructure, which were largely undertaken by individual member countries, the CAP currently (i) makes direct payments to farmers to support

11. Chaorong Wang. April 2018. Understanding the Top Sectors for Chinese Foreign Aid in Africa. The Blog. (Accessed Sept 13, 2018) <http://borgenproject.org/top-sectors-for-chinese-foreign-aid-to-africa/>

12. The six founding member countries are: Belgium, Holland, Luxembourg, France, Germany, and Italy

13. Packer, Sir Richard. Jan 06, 2017. "Britain will break free of the Common Agricultural Policy – but we will still need to subsidise farmers". London School of Economics and Political Science website. (Accessed June 25, 2018) <http://blogs.lse.ac.uk/brexit/2017/01/06/britain-will-break-free-of-the-common-agricultural-policy-but-we-still-need-to-subsidise-farmers/>

14. It is also undeniable that CAP policy of price support contributed to overproduction and trade discrimination against agriculture exports in developing countries. See for example Tedesco, Llaría, Alessandra Pelloni, and Giovani Trovato. OECD Agricultural Policy and Poverty Rates in Lower Income Countries. International Journal of Food and Agricultural economics. Vol, 3, # 2. Special Issue, 2015. Pp 31-49. (Accessed June 27, 2018) <http://www.foodandagriculturejournal.com/vol3.no2.pp31.pdf>

7. Calderón, César, Catalina Cantú, and Punam Chuhan-Pole. May 2018. Infrastructure Development in Sub-Saharan Africa: A Scorecard. World Bank Policy Research Working Paper (WPS) # 8425. (Accessed June 24, 2018) <http://documents.worldbank.org/curated/en/866331525265592425/pdf/WPS8425.pdf>

8. The index values range from zero to seven; the higher scores indicate more competitiveness.

9. UNECA, Commission on Regional Cooperation and Integration. Dec 5, 2015. Report on Infrastructure Development in Africa in 2015: Priority Areas and Interventions. (Accessed June 24, 2018) [https://www.uneca.org/sites/default/files/uploaded-documents/RITD/2015/CRCI-Oct2015/report\\_on\\_infrastructure\\_development\\_in\\_africa\\_2015.pdf](https://www.uneca.org/sites/default/files/uploaded-documents/RITD/2015/CRCI-Oct2015/report_on_infrastructure_development_in_africa_2015.pdf)

10. The other countries are India, and the Gulf States.

their income<sup>15</sup> and remunerate them for using production measures that are environmentally sustainable, and that preserve biodiversity; (ii) undertakes market measures to address difficult market situations such as a sudden drop in demand and market prices; and (iii) funds specific rural development programs. To EU farmers, the CAP provides access to an enlarged market, as well as income support and insurance against sharply negative market developments.

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More generally, many OECD entities/countries – e.g., the EU, USA, Japan—protect their farmers and subsidize them. However, the overall support as measured by the Total Support Estimate (TSE) declined from 1.3 percent of OECD aggregate GDP (1995-97) to 0.7 percent (2015-17) (OECD, 2018: 45, Fig 1.2).<sup>16</sup> Support relative to the size of their AG GDP was highest (in percent) in Switzerland (160), Japan (93) and Korea (82) and less than (15) in Australia, Chile and New Zealand. Australia and New Zealand governments have been aggressively developing trading partnerships with countries, especially after their preferential treatment with Great Britain ceased in the 1960s (Tsakok, 2011: 202-204, 209). Chile's small domestic population and market requires that it exports successfully to grow. Chile's successive governments have actively negotiated Free Trade Agreements (FTAs) with countries accounting for 80 percent of global population and 85 percent of global value added (Foster and Valdes, 2017).<sup>17</sup> The share of agricultural trade in exports has significantly grown: from 10 percent between 1960-70; 30 percent under Pinochet; 60 percent between 1990-98; and 80 percent since 1999 (OECD, 2008: 31).<sup>18</sup> The average rate of support for the EU was 42 (percent of AG GDP) while in emerging and developing countries, support ranged from one in Vietnam to 30 in the Philippines! It is clear that budgetary and marketing support is so much less in countries where agriculture is so much more important.

15. Farmer incomes are still on average 40 percent of non-agricultural incomes.

16. OECD. 2018. Agricultural Monitoring and Evaluation 2018. [https://read.oecd-ilibrary.org/agriculture-and-food/agricultural-policy-monitoring-and-evaluation-2018\\_agr\\_pol-2018-en#page46](https://read.oecd-ilibrary.org/agriculture-and-food/agricultural-policy-monitoring-and-evaluation-2018_agr_pol-2018-en#page46)

17. Valdes, Alberto and William Foster. 2017 "Agricultural and Rural Policies in Chile", ch. 13 in the Handbook of International Food and Agricultural Policies; Volume 1: Policies for Agricultural Markets and Rural Economic Activity. Meyers, William H and Tim Josling (Eds).

18. OECD. 2008. Review of Agricultural Policies – Chile.

## Expanding demand for primary agriculture by modernizing agro-processing operations

Modern, high productivity farming is demand driven. This means that the existence of demand creates its supply, not the other way round.<sup>19</sup> Governments, which have systematically acted upon promoting the demand for primary agricultural goods through developing market access and/or developing agro-processing, made a huge difference to the transformation of their agricultures.

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The Government of Malaysia is a case in point. Newly independent Malaya (1957) and the Malaysia Federation (1963) represented primarily commodity exporting economies, heavily dependent on tin and rubber, and therefore vulnerable to the inevitable ups and downs of volatile commodity markets. In addition, the demand for tin was threatened by the increasing use of plastics and other modern packaging materials; and the demand for rubber, by the development of synthetic rubber (first created in 1909; commercial use expanded greatly during and after WW II).<sup>20</sup> The Government of Malaysia (GOM) wanted therefore to diversify away from tin and rubber. It developed other tree crops, such as cocoa, and in particular, oil palm. It not only intervened at the production level—settling and supporting smallholders on oil palm plantations—but also invested in the processing facilities, working with the private sector. It used the existing nucleus estate structure to integrate smallholders into the oil palm value chain, thus enabling them to benefit from economies of scale in the collection, marketing, processing, and exporting of oil palm. Its approach to rubber development was similar: though acreage declined in response to world market conditions, the GOM invested in the value-adding activities of processing and manufacturing. The smallholders at the production stage have a ready market in the downstream activities. The

19. Thus, Say's Law, that supply creates its own demand, does not apply to modern commerce, agricultural and non-agricultural. Jean Baptiste Say (1757-1832) was a French classical economist. The Great Depression (1929-33) proved him wrong. John Maynard Keynes The General Theory of Employment, Interest and Money (1936) showed that it is demand not supply that is the key variable determining the general level of economic activity. His thesis was revolutionary. Government intervention and not reliance on the free market is the determining factor in economic life. The question is thus not whether government intervention, but what kind. Keynes changed the basic question of economic policy.

20. Wikipedia: Synthetic Rubber. (Accessed June 27, 2018) [https://en.wikipedia.org/wiki/Synthetic\\_rubber](https://en.wikipedia.org/wiki/Synthetic_rubber)

GOM built on its 120 plus years of experience in rubber planting & processing to produce new rubber products; e.g., tires; latex products such as high quality medical devices and gloves; and rubber footwear. In the 21st century, Malaysia has become a major exporter of catheters, latex thread, and rubber gloves (Yusof & Bhattasali, 2008: 13). Similarly, smallholder cocoa production is complemented by value addition through the processing of cocoa butter. Thus, although cocoa production has declined in response to persistent low international prices, cocoa butter has become a major source of export earnings from cocoa (Arshad et al, eds., 2007: 438).<sup>21</sup> As a result, for the three tree crops, the GOM assisted smallholders not only at the production stage, but also linked them to downstream—the processing, manufacturing, and export stages. In fact, because of such assistance downstream, smallholders have been able to profitably remain in these risky commodities, which experience the inevitable difficulties of international markets.

## Conclusion

### Options for accelerating the integration of SSA smallholders in domestic & global value chains in an age of the “Supermarket Revolution”

Given the increasing dominance of supermarkets, it is critical for smallholders to be integrated as suppliers in value chains that have the potential to be a promising path towards sustained income growth. For developing countries, Reardon (2015: 46)<sup>22</sup> points out that domestic markets tend to dominate in the food economy of a region: 90-95 percent is domestic; 5-10 percent is international trade. This is good news to millions of smallholders because standards required in domestic markets are likely to be less demanding in terms of food safety, health, and the environment. For SSA, an important positive development is the rising African middle class. Consumer spending is projected to increase to USD 2.2 trillion by 2030, up from USD 680 billion in 2008, according to the African Economic Outlook 2015 (Ariño, 2015).<sup>23</sup>

21. Arshad, Fatimah Mohamed, Nik Mustapha R. Abdullah, Bisant Kaur, Amin Mahir Abdullah. Eds. 2007. 50 Years of Malaysian Agriculture: Transformational Issues – Challenges and Direction. Penerbit Universiti Putra Malaysia, Serdang.

22. Reardon, Thomas. “The hidden middle: The quiet revolution in the mid-stream of agri-food value chains in developing countries” in Oxford Review of Economic Policy, Vol. 31, Number 1, 2015, pp 45-63.

23. Ariño, Africa M. “Western Retailers entering Sub-Saharan African markets” 10/06/2015. (Accessed Aug 09, 2018) <https://blog.iiese.edu/africa/2015/06/10/western-retailers-entering-sub-saharan-african-markets/>

Evidence from Latin America and Asia show that middle and large farmers and processors are preferred sources of supply for supermarkets, because they combine scale with reliability and quality. Moreover, under constant competitive pressure to reduce costs while increasing quality, direct bulk procurement at wholesale markets instead of spot markets is becoming more common, thus eliminating the myriads of small intermediaries between farmers, processors, and retail supermarkets. Smallholders are typically disadvantaged in terms of consistent quality, scale and timeliness of supply.

Governments can help smallholders achieve scale and consistent quality in several ways: e.g., by (i) giving them incentives to join or form producers’ associations and other cooperatives; (ii) bringing markets closer to the farmers; e.g., developing wholesale markets in rural areas as in China; or hubs where a multiplicity of services—such as storage, banking, technical assistance, health—is offered as in rural India; (iii) developing public-private partnerships in the form of mega food parks and integrated agro-food parks as in India; and (iv) providing technical assistance, including developing enforceable resource-provision contracts (Reardon et al, 2009),<sup>24</sup> and strengthening non-land assets of smallholders. Reardon et al (2012) argue that smallholders who did better are those who had more non-land assets such as education; irrigation; specialized knowledge of farming and market conditions; and membership in an association. As in India, government leadership in setting up the public infrastructure can attract not only private business but also NGOs, which can provide technical assistance, credit and other services small farmers need (Reardon et al, 2012).

Governments that want to integrate their smallholders to this major engine of growth generated by the “Supermarket Revolution” have extensive worldwide experience to draw upon. Experience to date shows that the driving forces at the macro and global levels include the ICT revolution (Information and Communications Technologies); liberalization and globalization of trade - in particular in food processing and retail FDI; and structural changes such as continued urbanization, diet transformation, and income growth. At a country level, which of the above forces are most important for integrating smallholders in value chains, depends on several factors including the nature of the output and the demand (current and

24. Reardon, Thomas, Christopher B. Barrett, Julio A Berdegue, and Johan F. M. Swinnen. 2009. “Agrifood Industry Transformation and Small Farmers in Developing Countries” in World Development, Vol. 37, Number 11, pp 1717-1727.

expected); whether smallholders of the region/country/context are aggregated or not; and the nature of the missing public marketing infrastructure, hardware and software. In no case, has smallholder integration been the result of a *laissez faire* approach.

If reducing rural poverty and increasing food security through increased smallholder incomes is a national priority, it is urgent for governments to integrate their smallholders to value chains—domestic, regional, and foreign—given the fast pace of the “Supermarket Revolution,” the structural disadvantages of smallholders still trapped in low productivity agricultures, and the long lead times needed to build the physical and institutional infrastructure needed.

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