



Series **The agrifood system and the challenges of COVID-19**

5

The role of wholesale markets in the pandemic: challenges and opportunities


Introduction

When the pandemic started to spread in Latin America and the Caribbean a few months ago, it was already anticipated that governments and civil society would have to take on more responsibility to ensure food security and nutrition effectively. According to estimates by the Economic Commission for Latin America and the Caribbean (ECLAC, 2020), nearly 46 million Latin Americans and Caribbeans will return to poverty in 2020, bringing the region's total in this situation to 231 million, all of which as a result of the economic recession associated with COVID-19.

Access to a healthy diet is another component of this equation. Social isolation and a reduction in the pace of economic activity have led to a

considerable increase in unemployment and the worrying closure of businesses, especially micro, small and medium-sized enterprises (MSMEs). The International Monetary Fund (IMF) forecasts are not encouraging in general, and particularly bad for Latin America and the Caribbean: while the world's economy is expected to shrink by 4.9 percent, twice as much is expected in the region – a 9.4 percent fall. (IMF, 2020).

On the other hand, the International Labour Organization (ILO) reckons that during the second quarter of this year the number of hours worked – in relation to the last quarter of 2019 – will fall by 14 percent worldwide, 19.2 percent in the Caribbean and 20.6 percent in South America, making these sub-regions



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the most affected on the planet (ILO, 2020). It is also estimated that fewer hours worked will result in a 5.4 percent increase in the unemployment rate in Latin America and the Caribbean (CCSA, 2020). Besides, ECLAC estimates that the regional population living in extreme poverty will grow by almost 30 million people, reaching 96 million, equivalent to 15.5 percent of the total population. In such a situation, and taking into account the reduction in demand for food and the interruption of public programmes such as school feeding, this population finds itself under pressure from falling incomes, resorting mainly to cheaper, ultra-processed and lower quality food (IICA, 2020).

Due to transport difficulties, order cancellations and import restrictions, the crisis also manifests itself on the supply side in the reduced availability of fresh food for domestic consumption. However, for the regional agricultural sector as a whole, the crisis has shown a positive side. Driven by the devaluation of the exchange rate and the gaps in trade disputes between the United States of America and China, agricultural exports are expected to grow slightly in 2020 (ECLAC, 2020; FAO and ECLAC, 2020). On the other hand, higher external demand and the devalued exchange rate have caused instability in the prices of agricultural products in the domestic market, thus creating a new challenge for production and distribution systems.

The importance of wholesale food markets

The Food and Agriculture Organization of the United Nations (FAO) highlights the fundamental role that wholesale food markets play in ensuring access to low-income populations and the possibility of promoting healthy eating (FAO *et al.*, 2019). In fact, since a large part of the region's population resides in urban areas – mainly in “megalopolises” – a significant proportion of agricultural production is marketed in wholesale centres, and then goes to supermarkets, medium and small markets, restaurants, cafeterias and hotels.

In order to know about the number, distribution, operating structure and dynamics of wholesale markets, FAO carried out a study (not published) in 2017, which identified 294 wholesale markets in the region, distributed in 22 countries. Subsequently, at the end of 2019, a survey was conducted with the participation of 40 markets, that is, 44 percent of eligible food wholesale markets in Latin America and the Caribbean, considering all operational sizes.¹ Although there are no exact data on the quantity of products traded in these markets, it is possible to indicate that a significant part of agricultural production for domestic

consumption circulates in the main national reference markets in the region. According to Intini, Jacq and Torres (2019), wholesale markets still play a very important role in the supply of traditional retail in several Latin American countries: they distribute more than 70 percent of agricultural production in Mexico, 80 percent of fresh vegetables in Argentina and 90 percent of fruit consumed in Chile. These important hubs stand out in food consumption because they establish marketing standards, determine prices, type of packaging and labels used, and other product characteristics. For this reason, supply centres tend to be considered “food authorities” in their countries.

Concerning their administration, most of these markets are characterised by public (42.5 percent) or mixed (17.5 percent) management, which further reinforces their role as agents of each country's food security and nutrition policy. It is not easy to imagine a food supply policy without the assistance of an operational arm such as wholesale markets.

Furthermore, most of these markets can be considered as reference markets. There are two other types: regional wholesale markets,

¹ Ninety eligible markets were surveyed, considering only those recognised by the regional representatives of the Latin American Federation of Supply Markets (FLAMA, by its acronym in Spanish), the Brazilian Association of Supply Centres (ABRACEN, by its initials in Portuguese), the National Confederation of Supply Centre Merchants' Groups of Mexico (CONNACA, by its acronym in Spanish) and others. Besides, only the main management organisation was considered, since it controls other wholesale markets.

which bring together wholesale markets of various sizes that supply regions far from the countries' metropolitan reference centres; and local wholesale markets, which complement the previous types of market and offer food products for metropolitan regions. In this category, we can also find small markets, support centres or farmer's markets that perform retail functions.

Historically, large national reference markets began to be created in the second half of

the 1960s. As a matter of fact, about two-thirds of the region's wholesale markets were founded 50 years ago or more, and their modernisation has been only marginal in recent decades. With the advance of urban development and the incorporation of facilities into the set of equipment and services offered in their environment (banks, health stations, police stations, nurseries, transport, trade in complementary items, others), wholesale food markets became part of the landscape of modern Latin American and Caribbean cities.

Impacts and response of wholesale food markets to COVID-19

Wholesale food markets are the main marketing channel for hundreds of thousands of farmers, especially family farmers. They are responsible for supplying food to a vast and diverse network of small and medium enterprises. Wholesale markets also operate as retailers, receiving direct consumers and buying groups in their spaces. Therefore, from the beginning of the pandemic, FAO and other regional organisations – jointly with governments and wholesale market management – developed strategies to ensure that the health crisis does not turn into a supply crisis, to avoid the closure of wholesale supply centres or markets, facilities and farmers' fairs in the region.

Initially, with the interruption of transport, the operators quarantined, and the border closure with sanitary barriers, the markets had difficulty in selling perishable products from the field. Shortly afterwards, some demanding sectors such as hotels, restaurants and cafes stopped their purchases. This mismatch between supply and demand led to occasional price increases and shortages of some items, although markets continued to function normally, ensuring food supplies.

Wholesale markets have not been disrupted during the pandemic, which at the height of the pandemic created great concern among health authorities, given the massive flow of people walking through the market spaces. In this regard, the aforementioned survey carried out by FAO reported that a significant number of markets have implemented preventive measures such as: the mandatory use of masks, information campaigns, control of pedestrians and vehicles with the closure of certain routes, reduction of opening hours and installation of sinks and washrooms for

the public, among others. Measures were also taken to prevent workers in these markets from contracting the disease.

In the framework of the agreement between FAO and the Latin American Federation of Supply Markets (FLAMA, by its acronym in Spanish), four surveys were carried out to understand the measures and difficulties, the price, supply and demand situation in the region's wholesale markets (see Table 1).



Table 1. Summary of FAO-FLAMA COVID-19 surveys.

Period	Topic	Operational results	Conjuncture results
May 2020	Measures to reduce the effects of COVID-19.	The markets acted quickly and implemented protocols to prevent contamination of traders, workers and buyers. Digital platforms and direct sales were implemented.	Markets with stable prices. Slight reduction in demand.
June 2020	Platforms for buying and selling, and to reduce food loss and waste.	Broadened use of digital platforms to carry out transactions. Most markets made direct donations and donations to food banks.	Increased prices of some items due to seasonality, and import difficulties. Reduction in demand.
July 2020	Investments to control the effects of the pandemic.	Own capital for investments. Digital economy is in the spotlight.	Prices are moderately up: mainly imported grains and fruit. Strong reduction in demand and supply of imported fruit and grains.
September 2020	Obstacles to the modernisation of markets.	Informality and lack of knowledge about the use of digital platforms for buying and selling. Markets provide health conformity certificates that allow virtual transactions.	Stable prices or moderate increase, except for imported fruit. Stabilisation of supply and demand, except for fruit and meat.

Source: The authors.

The **first survey** aimed at obtaining information on the general operating picture of the wholesale markets impacted by the pandemic in the first months of 2020. Among the findings, it is worth mentioning that:

- Most markets acted quickly and implemented protocols to prevent traders, employees and buyers from being infected.
- In terms of marketing, the data indicated that 67 percent of the markets were already using buying and selling platforms, and 33 percent were making direct sales to final consumers, indicating greater openness to retail trade.
- Finally, some bottlenecks were also identified, the main one being the reduction in demand.

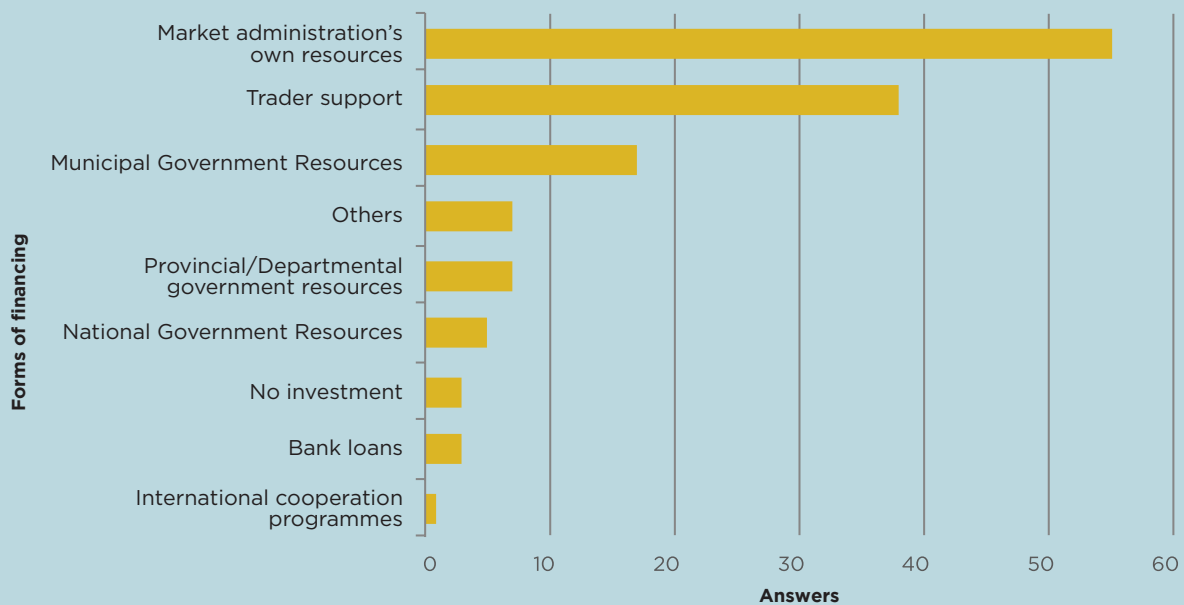
The **second survey**, conducted in June with the participation of 64 markets, focused on the management of food loss and waste. Among its main findings were:

- The growth in the use of digital platforms for transactions, reaching 73 percent of the markets surveyed.
- Direct delivery of food in baskets or packages was already practised in 50 percent of the markets surveyed.
- As for bottlenecks, the demand situation had worsened, reaching 92 percent in relation to the previous month.
- More than two out of three markets (72 percent) pointed to rising prices as a problem.
- Finally, concerning food loss and waste, the survey yielded a surprising finding: 69 percent of markets made direct donations and 56 percent made donations to food banks.

The **third survey** was carried out in July 2020, involving 71 markets, intending to deepen the data on the impact of COVID-19 on marketing. It was observed that:

- Fifty-four percent of respondents reported falls of up to 50 percent in trading volume.
- Considering that the wholesale markets invested heavily to control and minimise the effects of the pandemic, the origin of these resources was sought, finding that 55 percent of the markets use their own capital alone or in combination with the resources of the traders (38 percent).
- Few markets were supported by municipal (17 percent), provincial (7 percent) or national (5 percent) governments, and they had to use most of their own funds (see Figure 1).

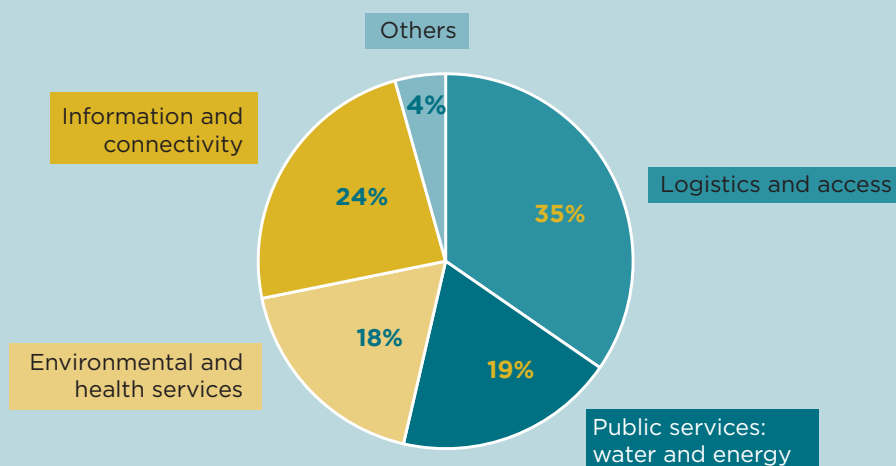
Figure 1. Investment resources to combat COVID-19.



Source: FAO and FLAMA (2020).

Finally, the research sought to deepen the issue of post-pandemic investments and the results indicate that there is investment readiness. These investments should be directed precisely to the area of information technologies and systems, as well as to better control of access. In fact, adding up all the actions planned for the digitalisation of operations, these surpass other initiatives in the field of cleaning or infrastructure services. In this regard, see the table below, which presents the data collected in a July 2020 survey.

Figure 2. Investment priorities to improve market functioning (%).



Source: FAO and FLAMA (2020).

The **fourth survey** was conducted in September and involved 51 markets. This research identified the main barriers to the adoption of virtual platforms for food sale.

- For 41 percent of the respondents, the certification system is essential for traceability and for the operation of a digital platform; the same percentage was indicated for a reliable electronic payment system.

- On the other hand, the informality of the agents working in the markets (producers and traders) and the lack of specialised personnel have been the main factors that have pushed the implementation of digital systems of purchase and sale (55 percent and 35 percent, respectively).



Towards the modernisation of wholesale markets

The restriction to the functioning of open markets present in most countries at the beginning of the pandemic, along with the difficulties encountered by small food businesses indicate a growth in self-service structures (convenience shops, supermarkets, hypermarkets, etc.), with concentration in food retail.

While it is true that the supply centres and/or retailers have taken some measures, we present below an agenda of short and medium-term actions, focused on quality, aimed at modernising these commercial spaces. This agenda seeks to transform the physical structure, which in some cases leads to the need to relocate facilities (as is being done in the *Mercado Modelo* in Montevideo and the CEAGESP in São Paulo), and to introduce or improve digital trading platforms.² These actions cannot happen at once; they must follow a sequence that contributes to their success and can be coordinated by the wholesale markets. The adoption of these sequences makes it possible to reduce production and transaction costs.

- 1.** Standardise fresh products marketed in supply centres by type, size, colour and ripening.
- 2.** Incorporate information on the origin of the product, date of harvest or production, and date of packaging to ensure traceability.
- 3.** Incorporate basic information on the food safety attributes of the product: organic or conventional, presence of genetically modified organisms, compliance with current amounts of pesticides, etc.
- 4.** Use standard product-specific packaging, preferably disposable and electronic labels with national – and, if possible, international – validity with all product information.
- 5.** Accredite companies, cooperatives or producer groups for the certification process of marketed products.
- 6.** Create or improve a digital platform with “real-time” information on product prices, according to their classification, quantities traded, and price practised in other markets.

- 7.** Adapt the facilities of the supply centre to function as a logistics platform, controlling the flow and schedule of trucks, computerised ordinance and registration of all transactions made in the physical or virtual space of the wholesale market.

- 8.** Install or modernise cold rooms for the short stay of products on sale.

- 9.** Train staff to develop new administrative and operational functions (forklift operators, refrigeration technicians, laboratory analysts, etc.).

- 10.** Adopt a policy of total transparency in the transactions carried out, in addition to direct communication with producers – via rural technical assistance, and with traders – with teams of nutritionists and sales technicians.

Clearly, the process of implementing the ten steps presented is medium- to long-term, which may be incompatible with the emergency arising from the new environment for food trade. However, this is an opportunity and nothing prevents this process from being implemented in parts, by type of product or market. As always, it is essential to note that there are no immediate solutions and no direct purchase and sale application will modernise the operating system without the foundations for it being in place.

The responsibility of wholesale food markets, as food authorities, to maintain city supplies grew in the wake of the pandemic. Their major challenge is to modernise in an inclusive and transparent manner.

² As is happening in Argentina with *Tienda Cooperativa*; in Chile with the government platform *Mercado Campesino Online*; and in Costa Rica with the application *La Finca Agropecuaria*.

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