



Towards An Enhanced Understanding of Restructuring Markets Through R&D

Sanur Paradise Plaza Hotel
Bali Indonesia

Nerlita M. Manalili
Regional Advisor For Asia (Market
Access)
VREDESEILANDEN





- **Understanding Markets
is an Initial and Crucial Step
to Finding ways of Accessing Them**
- **Research and Development Initiatives
help stakeholders understand markets better
and how best to meet their
requirements**
- **A Better Understanding of Markets
lead to informed decisions
Where Chances of Sustainable Market
Access
higher and Consequent Integration is**



Aim of the Presentation

walk through results of global R&D initiatives

**Regoverning Market Project Phase 1
(focus on Southeast Asia)**

Global Forum for Agricultural Research

(development forum)

to better understand

market dynamics

the challenges confronting various

development

stakeholders (NGO,

farmer groups included)

the roles each one can take in the process of

linking farmers to markets



Regoverning Market Project (Phase1)



Identified and empirically assessed the strategies

by which smaller-scale producers and rural entrepreneurs respond to agri-food restructuring in ways that strengthen the resilience of rural economies

... and thereby understand the *keys to inclusion* into agri-food systems under different levels/degrees of restructuring



Regoverning Markets: Securing Small Producers Participation in Restructured National and Regional Agri-Food Systems

- an international research project, 7 regions, 16 countries



Region	Country	Commodities
Latin America	Ecuador	Dairy, Potatoes
	C. America	Tomatoes, meat
Central and Eastern Europe	Hungary	Dairy, FFV
	Romania	Dairy, FFV
	Poland	Dairy, Potatoes
Southeast Asia	Philippines	FFV, mango
	Vietnam	Potato, dairy
	Thailand	FFV, Rice
China	China	FFV, meat or dairy
South Asia	Pakistan	Dairy, FFV
	India	Dairy, soya
Southern Africa	Banglades	Dairy + fish, FFV or poultry
	South Africa	Dairy, potatoes, tomatoes
	Zambia	Dairy, potatoes, tomatoes
East Africa	Kenya	Dairy, FFV
	Uganda	Dairy +?



The extent and speed of change



- From large cities to small poor countries
Malaysia, Thailand, Philippines, Vietnam
- From capital cities to rural towns
Capital cities to regional urban centers
- From upper/middle to working class
high end consumers to middle to low

rise of share as % of food retail

- Latin America (front runner)
 - 15 % - 1990
 - 60% - 2000
- USA
 - 50 years to reach its 80% supermarkets share of the food retail
- Southeast Asia
 - 5-7 years behind but even faster growth rate than LAC



The Drivers of Change



Demand Side	DRIVERS		
	Philippines	Thailand	Vietnam
Population	81 M	63 M	82 M
	young population (strong buying group)	relatively youthful (less purchasing power)	youthful but gradually aging
	More women in labor force		
Real Income	<ul style="list-style-type: none"> - Emergence of middle class - Double salaried HH - US\$6 B yearly remittances of Overseas workers 	<ul style="list-style-type: none"> Improving farm income Recovering tourism 10-11M tourists/yr 	<ul style="list-style-type: none"> Growing tourism industry -33.1% (safe tourist destination) Hotel occupancy is 80-90%



Supply Side

	Philippines	Thailand	Vietnam
FDI, 2002	6.8	21.9	7.0
5 Yr Ave (1998-2002)	(2.5)	(11.86)	(2.56)

Policy related drivers

- Liberalization of retail
- Investment of the state
- Supportive government policy

----- Varying levels -----





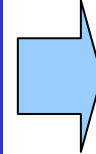
Country	Regulation
Philippines	<p>trade Liberalization Act of 26 March 2000</p> <p>approved entry of foreigners & given 2 year investment window to own 100% of retail ventures</p> <p>Price Smart: S&R Price SM: Watson, Makro : Mall foreign investors gradually entered the country</p>
Thailand	<p>Foreign Business Act (FBA) 2000</p> <p>superceded Alien Business Law (ADL) of 1977 where aliens not allowed to do business without BOI capital requirement certificate</p> <p>50% or more of shares owned by alien and cannot own land.</p>
Vietnam	<p>Laws not always clear with legislative restrictions</p> <p>Dual price system for nationals and foreigners</p>



Patterns of restructuring: **Procurement**



- Local, decentralized procurement
- Traditional wholesalers as procurement agents
- Use of spot markets
- Informal standards



- Centralized & regionalized procurement
- Specialized/dedicated wholesalers
- Use of a preferred supplier system
- Private standards, first of quality
- then of food safety



Patterns of restructuring: Impacts of centralised & dedicated chains



Increased competition

Local producers must be competitive at the national or regional level, not just at the local level

More formal and secure relationship with the buyer

Possibility of services such as technical assistance, credit and transport.

But also increased dependency and leverage.

Transactional and technological requirements for preferred suppliers

Many requirements relating to volume, consistency, quality and perhaps safety, are difficult to meet for many small producers.

Spill-over into traditional chains





Market inclusion and exclusion:

small producers



Procurement Systems

Philippines

Thailand

Vietnam

Fresh Veggies

- one seller, one store
- broker
- own buyer (Big R)

Processed food

MANGO

- Retailers buy directly from processors(SMCR FM)
- 90 days
- consignment basis (2-4% by SM)
- export winner (84% of total dried fruits)

- full time assembler
- grower cum supplier thru grower groups (40 members; verbal contract)
- grower turned into direct supplier

RICE

- Group supplier
- Sell and deliver to supermarket and hypermarts

- procurement is local government Coordinated
- location specific

MILK

- Processors buy directly from farmers
- high standards required
- fixed milk prices
- costs shouldered by farmers (rejects, containers, others)



Entry Procedure for Supermarkets



Philippines

- Appoint exclusive importer/distributor
- Engage services of trading firm (may act as distributors)
 - eliminate inconvenience of registration as local company
 - no personnel hiring
 - no customs and importation inconveniences
- Register with Philippine Bureau of Food and Drug (exclusive to Filipino entities)

Thailand

- Supplier approach the store headquarter
- Submit product sample and match with store's specifications (including traceability of products)
- Offer price/price bargaining
- Contract signing

Vietnam

- Certification from local authority
- Sign contract on long term basis but trading terms are renewed
- Invoice from farmers are needed and these are provided by the government
- The shelves for fresh produce are labeled on where the vegetables are grown. (traceability)





Issues and Concerns: National Level

- Development of new forms or modes of “linking” small producers to markets counteracts buyer driven chains, enhance market access
- There is value on **niche marketing, (identification/promotion)**
- Formulation of policies that will level the playing field not to drive a wedge between producer and retail prices
- Protection of small farmers through a uniform national grading system with which farmers are familiar (Japan)
- Decentralization of Information services
Farmers need information more on markets where they sell their goods than national data, they need prices at local markets.





National Level

- Turn constraint into an opportunity by looking at supermarket as a means to widen market base at continuing levels
- Identification of most viable organizational modality that will best provide market access to farmers
- Broker in small producers participation into the process
 - they cannot do it alone
 - they need time and support to adjust to supermarket needs
- Identify Institution that will monitor contracts and protects smallholders rights
- SMEs are at the forefront of trade and agriculture, how best to empower SMEs
- Harnessing corporate social responsibility to enhance smallholder participation





Issues and Concerns: National Level

Corporate Social Responsibility and Regulation

- Social pressure works
 - being part of the community (local suppliers, employees)
 - paying local tax (advantage for promotion)
- Protecting local retailing business thru regulation
 - Limit expansion of foreign joint ventures
 - a. Set price floor
 - b. Limit service hours
 - Regulating foreign trade
 - a. Will all the more increase economic rent of existing large retailers
 - b. Could be passed on to consumers/suppliers





Issues and Concerns: Regional

Move for certification and harmonization of standards

Address Food Safety Concerns

Move for regional monitoring of trade and agriculture

**Review of Impacts of trade agreements on regional
sub-regional country developments**

Enhanced Regional Integration

Enhanced Market Research (profiling market, etc)

**Address unfair trade practices and gaps on quality,
safety, payment**





Issues and Concerns: Global

- Country outlets used as conduit to supply F&V of their outlets in other countries, some are direct importers)
- Will Development of an International Code of Ethics work?





Policy responses

Delaying the penetration of supermarkets

Influencing the nature of change

Reforming markets to improve pro-poor incentives and remove or diminish anti-poor biases

Strengthening the capacities of the poor to take advantage of an improved set of incentives

Investment in the traditional sector



Recommendations



- Construction of *innovative policy platforms*, including dialogue with private sector actors (processors, wholesale chains, retailers..) around incentives for inclusion of small producers and SMEs in supply chains.
- The need for a reassessment of *investments in traditional markets*, including hygiene standards, infrastructure, weights and measures and improved efficiency and competition
- The importance of alignment of agricultural sector policy to an understanding of the processes of restructuring, including within national processes such as poverty reduction strategies.





Global Forum for Agricultural Research Initiative

**Multi Sector, Multi Regions
and
Multi Country Representations**





Areas for Research

Sub-plenary

Rural Knowledge

Agro-based SMEs

Agriculture & Livestock

Organizational Partnership for ARD

Science and Technology

- Food Quality and Safety
- Energy and Agriculture
- Impact Assessment of innovation
- Indigenous/scientific innovation
- S&T impact on cost/benefit
- Competencies required for interactions

Global Trade/Marketing

- Globalization Impact to smallholders
- Cost Benefit of Health SPS
- Market opportunities/prospects
- Market linkages
- Impact on production cost/environment
- Quality and standards
- Changing market structure
- Export Requirement

Stakeholders

Farmers Organization

NARS

NGO

IARC

ARI

Areas for Research

Sub-plenary

Rural Knowledge

Agro-based SMEs

Agriculture
& Livestock

Organizational
Partnership
for ARD

Social Capital

- Participatory system
- Collaborative processes
- Conflict Resolution
- Social economic dimensions methodologies

Institutional Arrangement and Support

- Good governance
- Institutional innovation
- Enabling environmental factors

Partnership and cooperation

- Inertia/dynamics of donor driven innovation
- Power relationships
- Nature of partnerships
- Case studies/best practices
- Experiential ship sharing

Stakeholders

Farmers
Organization

NARS

NGO

IARC

ARI



The challenge:

- to localize these R&D findings
- to serve as basis for action



Thank you!