

Wholesale Market Development – FAO’s Experience

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by

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Introduction:

Wholesale markets are an essential component of any agricultural marketing system, especially for horticultural crops and FAO has been addressing wholesale market development issues in all continents for the past forty years. There currently is a debate as to whether wholesale markets are needed, in light of the rapid changes taking place within the food marketing chain. These changes include an expansion in direct marketing between large farmers, either in groups or as individuals, and the increasingly integrated food marketing chains, represented by hypermarkets, supermarkets and chain stores. Despite such changes I believe that the correct question to ask is not: “Do food wholesalers and retailers still need central wholesale markets”, but, “Do farmers still need food wholesale markets “?

There is no doubt that developments in food retailing, especially the growth of vertically integrated distribution arrangements, have significantly affected the functioning and viability of wholesale markets, particularly in the developed economies. However, one should also examine the effect of this increasing concentration of purchasing power in terms of whether farmers are indeed better off under an increasingly oligopolistic marketing structure.

I believe that in those countries where the farm structure and the marketing system remain fragmented and co-operatives and farmer groupings are largely underdeveloped (as is the case in most developing countries and in most of the CIS countries), wholesale markets are still needed to provide farmers with effective and profitable marketing outlets for their produce. In addition to facilitating farmers’ access to the marketing system, wholesale markets, if adequately located, sized and managed, are basic instruments for promoting competition and improving public health and food quality control. This thereby lowers and stabilises consumer prices and reduces post harvest losses as well as urban congestion and pollution. The high rates of urban growth in African and Asian developing countries, will continue and create a need for both expanded and new wholesale markets, especially in the rapidly expanding ‘secondary’ cities in many countries.

2. FAO’s Activities in Wholesale Market Development

FAO has provided assistance to a large number of countries on issues relating to wholesale market development and improvement. In the 1960s, FAO actively assisted many Latin American countries (such as Argentina, Bolivia, Colombia and Mexico) in undertaking planning and feasibility studies for new wholesale markets. In the 70s, this support was also provided to countries in the Near East, Africa and Asia. Since then, when assessing marketing constraints for fresh produce, FAO teams have identified the poor state or the non existence of wholesale markets in some countries as key impediments and implemented projects to improve the management of existing wholesale markets or planned for new markets, such as in Uganda, Tanzania, Kenya, Swaziland, India, Indonesia, Egypt, Nepal and Thailand. A Market Planning and Design Centre was established in India through an FAO

project to assist the Government in planning new Wholesale Markets and in drawing up State Market Master Plans. Since the mid 1980s FAO's Investment Centre, in association with the World Bank and the EBRD, has been involved in undertaking feasibility studies for new wholesale markets in a number of countries e.g. Egypt, Indonesia, and in Central European Countries such as Poland and Croatia.

In view of the need to support improvements in wholesale and retail market planning, design, management and operations, which could not be done through the format of individual country projects, FAO has produced a number of Guides or Manuals. These are: Wholesale Markets - Planning and Design Manual (AGS Bulletin 90, 1991), Retail Markets Planning Guide (AGS Bulletin 121, 1995), Wholesale Market Management (AGS Bulletin 140, 1999) and Market Infrastructure Planning- a guide for decision makers (AGS Bulletin 141,1999). These guides are all available in English and some also in French, Spanish and Arabic. Workshops held with various Regional Marketing Associations in the Near East, Asia and Latin America have discussed the issues covered in the various Bulletins. The importance of efficient and well managed wholesale markets is also an important factor in FAO's initiative on "Food Supply and Distribution to Cities" which focuses on sensitising governments, municipalities and local authorities on the need to further their knowledge and plan for the rapidly increasing food needs of their expanding cities. Efficient food supply and distribution systems are a key factor in determining the population's access, especially that of the poor, to affordable and safe food products and issues affecting the efficiency of wholesale and retail market infrastructure need to be addressed.

3. An overview of Wholesale Market Development

In this part of the paper, I shall briefly review the development of wholesale markets in some Regions around the World and highlight various trends and issues.

Significant development has taken place in wholesale markets in most Asian countries. In the 1970s, the Indian Government realised the importance of wholesale market development and introduced the concept of 'markets of national importance' in which it promoted the development of wholesale markets in each of the States and encouraged States to formulate Market Master Plans to promote the development of regulated wholesale and assembly markets. From the 286 regulated markets in 1950, India now has 7161 regulated markets (March 2001). The predominance of New Delhi as the main wholesale market of the country and its role both as a Terminal market and a Transit market is a matter of concern in India. It is estimated that over 30 per cent of the produce going through New Delhi's Azadpur wholesale market is in fact produce originating from a different State and going to another by transiting through Delhi due to its transport links and the belief that Azadpur is the market that truly reflects market prices. One can imagine the savings that might accrue to farmers and consumers if produce was directly transported from the producing State's market to those in the consuming States.

Like India, Korea has strongly invested in wholesale market development. In 1985, the Government was unhappy with the conduct and performance of the existing private wholesale markets and embarked on a Public Wholesale Market Development programme, which envisaged the construction of 34 new large wholesale markets to serve all major cities. In 1985, the Seoul Wholesale Market began operating and 21 wholesale markets had been constructed by 1999 while a further 11 are under construction today. The Central Government

provides 70 per cent of the financing costs while the remaining 30 per cent comes from the local governments. Just as in India, the Government of Korea has intervened in the conduct of wholesale market operations and trading practices.

Thailand has the most diversified wholesale market ownership and management structure with wholesale markets being owned by the Government, Co-operatives and private sector. The largest wholesale market in Thailand is the privately owned Thalaad Thai Market in Bangkok. In Chang Mai public, private and co-operative wholesale markets can be found. A new wholesale market has recently been opened in Kathmandu, Nepal following assistance in its planning and establishment received from FAO.

Many Asian cities need to upgrade their wholesale markets because their size and management structure have become serious constraints to efficient marketing. In Lahore, Pakistan, one of the four fruit and vegetable wholesale markets, which were developed at least 20 years ago, has never functioned, while the other two are only partly functioning. The only fully functioning wholesale market (Ravilink Road Fruit and Vegetable Market in Badami Bagh), is facing a serious congestion problem due to the high number of lorries, tractors, trolleys and trucks. Additional problems are poor parking, berthing, storage and drainage as well as lack of water and sanitation facilities. This situation, compounded by inadequate packaging practices, results in poor hygiene and high food losses. Similar conditions are encountered in the wholesale market for cereals, grains, spices and vegetable oil - Akbari Market, one of the most ancient in Asia - which is located right in the city centre. The lack of implementation of existing laws exacerbates problems. Services and facilities being provided by market committees are insufficient for the proper grading, packing and storage of food items. These agencies only spend a minimum percentage of their earnings on the provision of required facilities (The Market Committees' funds have been frozen since 1993 and this makes any maintenance and improvement impossible).

In the formerly centrally planned Asian economies, wholesale markets are being increasingly recognised as essential components of the produce marketing system. The most rapid development, in terms of numbers, can be seen in China where, following the liberalisation of the state marketing system, wholesale produce markets have been established in every major town and city. Some have been custom built, such as those in Beijing, whilst other markets have been established on the sites of former fruit and vegetable companies, which now rent their premises as storage facilities and wholesale selling areas to private traders. It is interesting to note the impact of rapid urban growth on the life cycle of urban wholesale markets in a city like Beijing. With the progressive increase in traffic and the construction of new ring roads (there are more than six surrounding Beijing), markets built five years earlier on the then outer ring roads and heavily patronised, gradually lost business as the city expanded and access to the market for producers and traders became progressively difficult. These earlier markets have lost out to new, better located and more accessible markets.

New wholesale markets have been built to serve the rapidly growing cities of Jordan, Egypt and Morocco. Cairo and Amman have new wholesale markets to replace inadequate ones in heavily congested city centres, to meet the growing volumes of trade. The planning of new markets has not always been ideal, such as in Amman, where a new market was designed over a wider area to tackle the problems of lack of display space and inadequate stands. However, closer consultation with the market users to obtain a better understanding of their precise requirements for space and storage would have prevented some of the design flaws

now being encountered in the new market. The Amman wholesale market handles more produce than that required by the city itself. In fact, it is estimated that only 40 percent of produce handled is consumed in Amman, while the rest is redirected, primarily for export to other cities.

In Rabat (Salé), Morocco, a law obliging all food products to transit through a wholesale market, increases costs (transport, market taxes and fees), which unnecessarily increase consumer prices; such regulations can even turn wholesale markets into a constraint to the development of more modern forms of food marketing. The fruit and vegetable wholesale market facilities in Damascus, Syria, badly need improvement to accommodate the increasing quantities of food products passing through it.

Following a flurry of activity in Latin America between the 1960s and 70s, when nearly every major Latin American capital embarked on ambitious improvements to their food marketing infrastructure, including the construction of wholesale markets, the turn of the new century now sees those cities facing serious challenges due to obsolete facilities (Sao Paulo; Mexico City; Bogotá;) and because food marketing systems have failed to keep pace with new developments in food marketing, such as the emergence of supermarket chains and hypermarkets. Some countries have seen their marketing infrastructure deteriorate significantly in recent years (Caracas and some Central American capitals), as city authorities fail to recognise food marketing as one of their main concerns. In Bolivia, the city of La Paz did not follow up its original enthusiasm for a new wholesale market after the completion of a feasibility study which identified three possible sites. Conversely, in Quito, Ecuador, the new wholesale market built in the late 1970s, is still underutilised.

In Santiago, Chile, a private sector developed fruit and vegetable wholesale market has been operating below capacity due to the failure of municipal authorities to facilitate public transport services to and from the new market. This failure apparently derives from the concern of local authorities to keep receiving revenues from the existing wholesale markets located in the city centre, in spite of the problems of traffic, health and environmental risks.

Following liberalisation and democratisation in Eastern European countries and the countries of the former Soviet Union in the 1980's, there was great interest in building wholesale markets to meet the needs of the newly privatised farming sector. Farmers found that the former marketing arrangements had disappeared and that the marketing of their produce now directly depended on them. The former planned distribution system had to become a marketing system overnight. The low development level of the wholesale trading sector, in many Eastern European countries, coupled with the slow development of farmer groupings, meant that if local farmers were to be able to sell their produce, in many cases, their only option was to take their produce to the markets themselves, as is the case in Warsaw, Poland.

International financial institutions such as the World Bank and the European Bank for Reconstruction and Development together with bilateral donors such as Switzerland and Germany all saw the need for wholesale market development in E. Europe as a means to underpin agricultural development. These agencies provided financing for the construction of new markets in Poland, Bulgaria, Hungary, Romania and Croatia . However, in recent years a number of problems have risen from these projects stemming, in part, from the terms of their financing and the time between the original decision to plan the markets and their subsequent entry into operation. Problems of low occupancy and low revenue generation have brought

into question in some people's minds whether new wholesale markets are indeed needed in these countries. Upon closer inspection, the problems being experienced by these markets stem from an inadequate appreciation by the promoters of the degree of competition that existed or would arise in the provision of wholesaling facilities from the time when the markets were first planned until they came into operation. During the intervening period, private informal wholesale markets opened up capturing some of the potential trade, but designs for the new markets were not modified in the intervening period to take this into account. The problem was accentuated by the lack of involvement and commitment by the concerned municipalities and governments in the success of the new market projects. Failure by the concerned parties to enforce applicable laws and regulations, related to land allocation for markets and minimum provisions of infrastructure, and their failure to enforce market regulating laws, even when these were in place, are behind some of the problems faced by some of the new markets. For example, in Bucharest and Warsaw, 'informal' private wholesale markets were already operating when the planning of the new markets was undertaken and these informal markets, which did not provide the facilities of the planned new markets, were in full operation when the new markets came into operation. When the new markets opened, after various delays, they faced the problem of competing with the already operating wholesale market, which charged lower rentals and was in a more convenient location, even if the facilities available were less than adequate. This had the effect of reducing the rentals in the new markets and consequently lowering the revenues which were necessary to pay back the loan financing. The situation was further compounded by the lack of phasing of market construction. All planned market buildings were built at the outset rather than in phases, as business would dictate, leaving parts of the markets unoccupied and not generating funds to cover building costs. In addition, inadequate attention was paid, at the planning stage, to getting 'core' importers and traders into the new markets in order to ensure a volume of trading sufficient to make the market attractive to other smaller traders.

Another issue regarding wholesale market development in Eastern Europe was the general insistence by the Banks on full cost recovery from the newly created market companies. These markets provide development support and public services and, as such, it might have been expected that some of the funds might have come from the municipality or central government. This is in contrast with the practice adopted in Italy and Korea, for example, where the Government or local authorities consider funding up to 70 per cent of wholesale market construction costs. An interesting feature of the cash flow plans for some markets in Italy and in E. Europe is the incorporation of land within the new market area, which is greater than the needs of the market at its inception or needed for future expansion. This has been the case for many of the Italian markets and for the Warsaw and Bucharest markets. As the market develops the land around it increases in value as allied enterprises are attracted to the area and the market is then able to sell some of its land to raise funds to repay its establishment costs. The cash flow plan of the market should envisage land sales over time as the land values will increase over time and premature sales in early years will deprive the market of the opportunity to realise land value gains in future years.

Wholesale market development in Africa has essentially lagged behind the needs of most of the countries. In general, dedicated wholesale markets are only found in the capital cities and these often serve a combination of wholesale and retail marketing functions with the concomitant problems of heavy congestion, waste, pollution and generally inadequate facilities. In many cases the wholesale markets were erected during colonial times, when the cities were much smaller and the traded volumes were much lower, with the result that today

the markets are too small and spill over into adjacent, unplanned and generally unsuitable areas.

In many countries, secondary towns and cities have retail markets in which wholesaling takes place, without dedicated facilities for wholesaling being available. This situation most probably reflects the fact that, in many African countries, the predominance of the capital city as the main 'market' and centre of population has meant that this is the only place where large-scale wholesaling is considered feasible. However, secondary cities in most of these countries are growing rapidly. The development of up-country markets as assembly or secondary wholesale markets has increased but, there has generally been inadequate planning for these to take on an expanding role. With the exception of South Africa, no country has a wholesale market network. Wholesale market networks appear increasingly justified, not only because of the rapid expansion of secondary cities, which require their own wholesale market, but also as a means to reduce congestion in existing markets in capital cities.

In Africa wholesale markets are generally viewed as public facilities which are financed, built, owned and managed by municipalities. Dedicated market corporations have been established in the newer markets e.g. Kariakor Wholesale Market in Dar es Salaam. Wholesale market revenues are seen as important sources of revenue for the municipalities and, in many cases, they make little or no provision for the maintenance and development of the market facilities with the consequence that many markets rapidly fall into a state of disrepair and cannot maintain adequate facilities and services.

4. Ownership Issues

There is an increasing tendency by donors and international financial institutions to regard investments in new wholesale markets only as private sector investments. As intimated above, there is an element of markets being 'public goods' which provide services that are considered to be in the public interest (such as competitive and transparent marketing practices and enforcement of health and hygiene standards etc.). The state or municipality should provide these facilities for the benefit of all. There is a danger of taking one view or the other, when perhaps it would be more appropriate to take a middle view whereby markets are looked upon as a partnership development between the public and private sectors. Apart from the traditional sources of private capital, such as banks and financial institutions, traders and merchants can also be considered as sources of capital for facilities that they will directly use (stands, storage facilities etc). The public sector's involvement could be in the form of land provision, supply of basic infrastructure and utilities and road infrastructure to and from the new market.

The partnership approach would also encourage the local government or municipality, if it involves equity participation in the market, to be more committed to the success of the project and provide the necessary enabling environment and regulations to ensure that the market can operate successfully.

5. Issues arising in Wholesale Market Development

It is pertinent here to highlight those issues that need to be considered in wholesale market development, taking into account developments in various parts of the world:

- a. Wholesale markets are an essential component for the food marketing system in most developing areas and their continued development is still relevant for most countries. Even in outwardly modern countries, the scale of production and the degree of co-operation of farmers is such that farmers continue to need a direct point of access to the marketing system and a well organised place where they can meet a plurality of buyers;
- b. When planning new wholesale markets, the long-term urban development plans for the city should be considered when choosing their location and the fact that, in certain cases, more than one wholesale market may be needed to meet the needs of the city;
- c. The planning of wholesale markets requires identification of a site that is appropriate in terms of size and in line with the development of transport links to and within the urban area;
- d. In order for new markets to be acceptable to market users, their planning must involve all stakeholders - farmers, traders, transporters, retailers – so that user reactions to proposals, including fee increases, can be obtained. Markets should ensure adequate access to local farmers to sell their produce and provide dedicated space and facilities if required;
- e. Professionalism in wholesale market management is essential if markets are to succeed and meet the needs of market participants. Conduct of business in the market must not only be a concern of the government but also that of market management in order to ensure fairness and transparency. Management boards with a preponderance of appointed, rather than user-elected, members are rarely able to meet the expectations of their clients. Market management must recognise the importance of maintaining good relations with their clientele (farmers, traders, buyers) and with the concerned government and municipal officers so that they fully recognise and appreciate the importance of the market and support its operations and further development;
- f. Market management must increasingly search for diversification opportunities to enhance the services offered by the market and thereby increase its revenue base. The involvement of markets in quality enhancement and quality assurance programmes can be instrumental in enhancing the reputation of the market and its utility to market participants;
- g. Wholesale markets require to be at the forefront of changes in the marketing system and provide the services required to meet the needs of a changing clientele. The importance of introducing 'logistic platforms' in wholesale markets to meet the needs of large and sophisticated buyers, such as supermarket and hypermarket chains, for dedicated facilities needs to be recognised;

6. Co-operation between wholesale markets

Wholesale markets are dynamic entities within a rapidly changing operating environment. Most markets have problems and challenges that have been solved by markets elsewhere. There is a lot of scope for technical exchanges between existing wholesale markets in various areas of market planning, design, operation and management. This does not necessarily mean learning the "best" or adopting the most "modern" practices. One must guard against focussing on what is considered to be the most modern and copying what might be appropriate in one country but not in all. The experience gained by market authorities in LDCs and their mistakes may all prove useful to cities sharing similar conditions and be more relevant than "top of the line" market experiences.

I hope that the World Union of Wholesale Markets and their member markets, together with their local authorities, will actively promote such technical assistance. First and foremost, I hope that this Congress and future ones will become fora for participants to identify experiences they want to share. FAO stands ready to assist in this process.

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