



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

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## Traditional food supply channels in a pandemic: suggestions for their modernisation

### Introduction

The coronavirus pandemic (COVID-19) has altered the normal functioning of the agrifood system, both in terms of activities (production, processing, distribution, food trade and consumption) and outcomes, particularly regarding food security and social welfare. There are also other phenomena generated by COVID-19 that affect the region, including the following:

- i. decline in economic activity of its main trading partners and its associated effects;
- ii. fall in the prices of primary products;
- iii. disruption of global value chains;
- iv. lower demand for tourism services; and
- v. intensified risk aversion and worsening global financial conditions (FAO and ECLAC, 2020).

The course of the COVID-19 pandemic has shown changes in the consumption patterns

of the population. Consumers have tended to prefer less nutritious, less fresh and less expensive diets. A significant decrease in household income could explain this decision, as well as the mobility restrictions imposed to prevent the spread of coronavirus and the disruption of traditional channels, limiting access to fresh and nutritious products and, consequently, to healthy eating (FAO and ECLAC, 2020).

Hence, according to the SOFI 2020 report (FAO, 2020a), the cost of a healthy diet today exceeds the international poverty line. This report points out that healthy diets could be up to five times more expensive than one that only meets one person's calorie requirements. (FAO, 2020a). In Latin America and the Caribbean, the cost of a healthy diet that provides the essential nutrients and energy each person needs to maintain an active life and well-being is also the highest in the world, averaging USD 3.98 per person per day (FAO, 2020b).

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In this context, the traditional channel arises, namely the route by which the products of family agriculture, artisanal fishing and harvesters reach consumers – via free fairs and popular markets (Sáez *et al.*, 2015). This channel plays an essential role in dietary diversity and access to fresh and healthy food, as well as in the generation of jobs for thousands of families, given the large number of people involved in the primary production and extractive sector (retailers and wholesalers, warehouse employees and shopkeepers, among many others). Such a channel is relevant. Yet, it poses some challenges. In fact, according to Sáez *et*

*al.* (2015), this channel is immersed in a paradox, since, despite its importance, it **has the highest levels of irregularities and precariousness**. This can be explained by the lack of public policies that attend and benefit the sector, giving access to financial, technological, regulatory and technical resources for its functioning.

Considering this situation, this document analyses the performance of the traditional channel during the current pandemic. It allows for the systematisation of some recommendations to ensure its normal functioning and modernisation.

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## Behaviour of the traditional channel during the pandemic

Historically, Latin American consumers have depended on traditional trade for their food above all other channels, making it a key place for many low-income consumers. In fact, the traditional channel accounts for more than 50 percent of total sales in Latin America, while offering the convenience of proximity, cheaper prices and lower outlets to low-income consumers (Nielsen, 2020).

As mobility restrictions remain in place and retail outlets for basic goods remain closed, consumers will be increasingly concerned about ensuring their health and food supply. In such a scenario, to meet their daily needs, they are likely to turn to small or informal places of purchase that offer mainly low prices and smaller outlays (for example, public markets, traditional trade, discount shops and

wholesalers). In Mexico, for example, 66 percent of low-income households report stocking up in traditional shops – nearly half of which report stocking up in public markets – while, in contrast, 80 percent of households at higher socioeconomic levels report stocking up in supermarkets (Nielsen, 2020).

This situation can be explained because most consumers in Latin America have less money in their pockets and are becoming increasingly cautious when it comes to future spending (Nielsen, 2020). Thus, in the current and future scenario of restrictions on household spending, marketing channels that allow access to food at lower prices become even more critical. The situation of the main establishments selling food from the traditional channel is reviewed below: wholesale markets and free trade fairs.

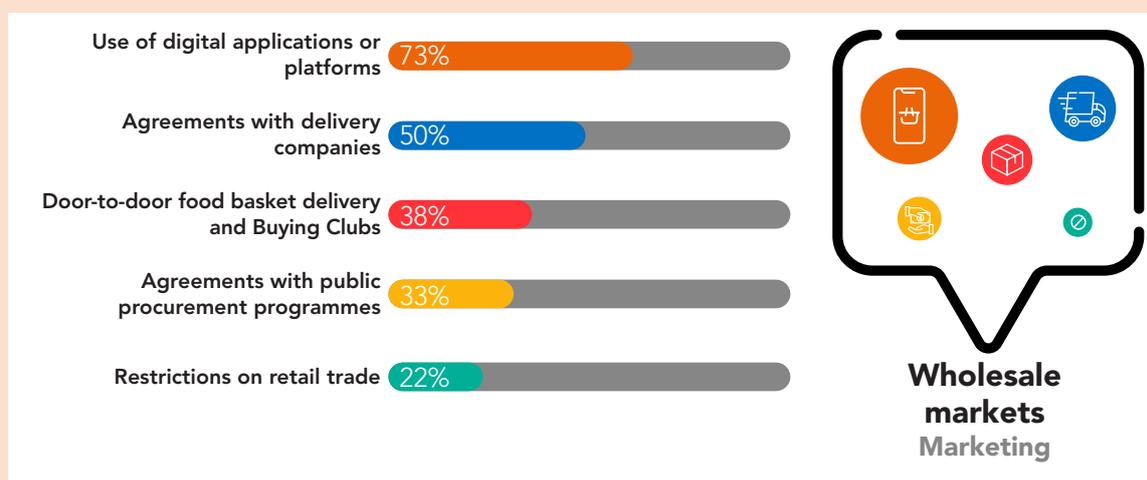


## Wholesale markets

Wholesale markets in Latin America have proven to be fundamental organisations in the fight against the effects of COVID-19. They managed to maintain a constant flow of food, avoiding speculation and excessive price volatility. Their work, together with other institutions, has helped to ensure that this unprecedented health crisis is not also a food crisis (FAO and FLAMA, 2020). Markets have promoted a series of measures to ensure their uninterrupted functioning and to fully comply with their strategic role in urban food supply, reducing the risks of contagion among their operators, suppliers and those who visit them to buy food. There are about 300 wholesale markets in Latin America and the Caribbean, which are vital in maintaining the food supply of the population, especially in urban areas. (FAO and FLAMA, 2020).

In response to the pandemic, wholesale markets implemented **new ways of marketing products**. A regional survey conducted by the Food and Agriculture Organization of the United Nations (FAO) and the Federation of Supply Markets (FLAMA, by its acronym in Spanish) indicates that nearly three out of four wholesale markets (73 percent) report having adopted application-based selling systems or digital platforms for remote food deliveries. In the same vein, it should be noted that, according to the same survey, half of the markets have reached agreements with delivery companies to deliver to homes, businesses and distributors. Other solutions also point to market innovation and the role of markets as agents for the implementation of public policies, such as agreements with public procurement programmes (33 percent) (FAO and FLAMA, 2020).

**Figure 1.** Marketing strategies developed by the region's wholesale markets to address COVID-19.



Source: FAO and FLAMA (2020).

On the other hand, in several countries in the region, wholesale markets have implemented measures that restrict marketing to protect the security of market operators, traders and customers. These measures include actions such as “*pico y puesto*” (odd and even date entry restriction) (Rodríguez Gómez, 2020) and, in some cases, restricting retail sales and assistance to people belonging to high-risk groups (FAO and FLAMA, 2020).

## Free trade fairs

The region's free trade fairs have also made significant efforts. In Chile, for example, the National Confederation of Free Trade Fair Organizations (ASOF, by its acronym in Spanish) launched an emergency plan to deal with COVID-19 that seeks to avoid supply problems for families, particularly in the most vulnerable sectors. To this end, it contemplates several lines of work but basically aims to preserve the functioning of the supply channels in more than 1,100 fairs in the country (ASOF, 2020).

Some sanitary measures implemented at the fair and workplace stand out:



- washing (sanitisation) of the streets or places where the free fair is located;



- washing and disinfection of trucks, equipment, fairground infrastructure;



- cleaning of the workplace; and



- use of gloves to clean work stations, scales, digital payment machines, among others. (ASOF, 2020).

Some health measures to be adopted by the trade fairs:



- influenza vaccination of vulnerable groups, mainly the elderly and pregnant women;



- in case of any symptoms of a cold or respiratory condition, workers should avoid attending their workplace;



- use of mask and rubber gloves; and



- hand washing (ASOF, 2020).

In Costa Rica, for example, in order to continue offering fresh and top-quality products to consumers, the Farmers' Fairs, in coordination with the corresponding health authorities, further strengthened mitigation and prevention measures to avoid COVID-19 infection. The guidelines established for the Farmers' Fairs must be complied with on a mandatory basis throughout the national territory by administrators, producers who come to sell, and consumers, as part of the preventive and mitigation actions dictated by the Ministry of Health to address the COVID-19 alert (Costa Rican Ministry of Health, 2020).

The micro, small and medium-sized enterprises operating in the food sector (warehouses, small shops and grocery stores, mini-markets) have taken the necessary preventive measures and continue to operate. Thus, they have become a crucial element in the food supply of the population, particularly in urban areas, in the stages with the highest mobility restrictions (quarantines).

## Impact of contingency measures on the traditional channel

The crisis caused by the pandemic has reduced access to fresh food such as fruit and vegetables, given the restrictions imposed on local fairs and other markets where people bought these products. It has also changed the way food is accessed for final consumption: the use of e-commerce for ready-made products and the purchase of food, in general, has increased. These options are more accessible to households with greater purchasing power, as they depend on the availability of Internet connection and electronic means of payment. (FAO and ECLAC, 2020)

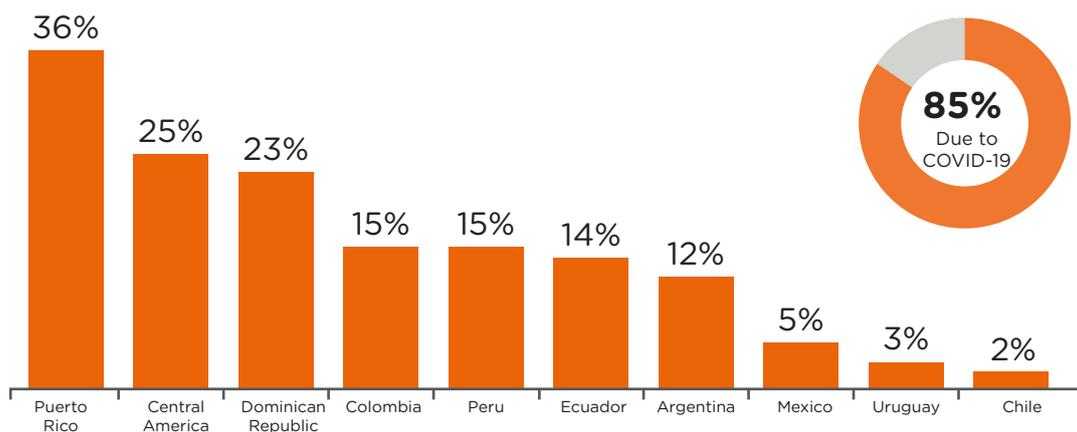
The contingency caused by COVID-19 has put some components of the traditional channel at risk. Thousands of outlets in several countries have closed for various reasons, such as fear of contagion and government restrictions, to name the main ones. The sharp fall in people's purchasing power is worth noting, and it will continue to worsen. The

Economic Commission for Latin America and the Caribbean (ECLAC) (2020) projects that the number of people living in poverty in the region will increase by 45.4 million by the end of the year. It is estimated that if the effects of COVID-19 lead to the loss of income of 5 percent of the economically active population, poverty could increase by 3.5 percent (FAO and ECLAC, 2020)

Considering the "consumer behaviour" - consumers with scarce resources mainly -, during the pandemic, the traditional channel faces significant challenges in maintaining adequate portfolios. Besides, their limited cash flow does not allow them to add stock to meet increased demand, which is leading to the closure of traditional shops in the region (Nielsen, 2020).

Shopkeepers represent a segment giving negative signals in its performance, as shown in the graph below.

**Figure 2.** Shopkeepers in the region who declare to have closed their shops.



Source: Nielsen Survey of Traditional Shop Owners 23-30 March.

In the face of the pandemic and as a consequence of the above, the traditional channel is giving up market share to the modern channel because it depends heavily on foot traffic and impulse buying. Since both have been reduced, the impact on the channel is evident; it resulted from the contingency measures which have caused a notable decrease in the flow of people in the street (Sánchez, 2020). A reduction in purchases in the traditional channel, associated with an accelerated growth of online sales channels provided by supermarkets, has caused shops to experience loss in their sales and reduce their presence in the market (Bain & Company, 2020).

Currently, the markets are being modernised, forcing the traditional channel to introduce logistic and commercial innovations, using modern technologies for the commercialisation of products. On the other hand, the traditional channel has to generate policies to potentiate and position itself and to keep the retail distribution channels open, encouraging new mechanisms of distance buying and delivery. This implies digital transformations in sales management of the traditional channel, as well as optimising its value proposal with new healthy products.

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## Suggestions for modernisation

Given the pressure to maintain supply, traditional trade has the opportunity to adapt, survive the pandemic and project a more favourable post-pandemic scenario by incorporating innovation and technology, modernising itself, in short. To do so, it is necessary to make the most of the strengths offered by the channel:

- proximity to buyers' homes;
- more points of sale than the modern channel;
- main medium for sales of staple categories; and
- a variety of products that meet the limited needs of consumers in smaller packages and lower outlets.

Concerning the last point, for example, the Association of Chilean Municipalities (AMUCH, by its acronym in Spanish) concluded that during June, fruit and vegetables at free fairs were 32.7 percent cheaper than in supermarkets (AMUCH, 2020).

In short, the traditional channel must be modernised, for which it is necessary to:

- Implement health protocols, defined in conjunction with the authorities, that provide clear incentives for compliance.
- Expand the use of digital food marketing technologies to more local fairs and markets, following the successful examples of several countries.

- Establish electronic payment alternatives.
- Venture into online shopping experience and home delivery.
- Consider new product categories for sale and financing.
- Maintain competitive prices for various products and/or services to improve their offer.
- Optimise customer service for those who are geographically close
- Join spaces of dialogue and agreements with actors such as local, state and national governments in the evolution of traditional points of sale, since the evolution of their business model is necessarily required (Barrenechea, 2020). If such spaces are not available, they must be set up, and their creation encouraged.

### **Recommended strategic actions for the operation of the traditional channel in times of pandemic and post-pandemic**

As noted, the above trends indicate specific challenges that the channel must address in order to continue to ensure food supply. To this end, short and medium-term actions are proposed, as shown in the table below.

**Table 1.** Summary of short- and medium-term strategic measures for the traditional food trade channel.

| Actions   | Category of importance | Responsible organisations   |
|---|------------------------|---|
| - Set up electronic platforms that promote electronic product marketing processes.  | Necessary              | <br>Wholesale markets  |
| - Modernisation in management that includes concepts of circularity, management of sanitary measures, and reduction of loss and waste.  | High                   |   |
| - Improve market transparency, supported by the use of public access platforms for food prices.   | High                   |   |
| - Improve the coordination of actions with national governments in compliance with performance standards, handling of protection measures for operators, traders, etc.  | Necessary              |   |
| - Establish spaces for dialogue and agreement with sub-national governments through a permanent action coordination table that has a agrifood system approach where wholesale markets actively participate in local development strategies.   | Necessary              |   |
| - Make arrangements to organise and manage market demand and connect it to the supply that family and smallholder agriculture can potentially offer.  | Necessary              |   |
| - Define minimum operating standards in coordination with local and national authorities and trade fairs, such as number of traders and distribution of product market stalls; operating hours; access to disinfectant gel dispensers; temperature control for traders and customers; consumer circulation routes defining entrances and exits for the fair; formation of teams to control compliance with minimum sanitary measures; product packaging and storage standards; restriction of access to people with high levels of vulnerability; and limitation of the number of customers per family, among others. | Necessary              | <br>Free trade fairs |
| - Establish protocols, and implement health measures, develop prevention campaigns for COVID-19, both for traders and customers.  | Necessary              |   |
| - Develop regulatory/legislative frameworks that recognise the social and economic contribution of fairs to ensuring food security and nutrition and establish provisions for their operation and operational and financial support.  | High                   |   |
| - Modernise trade fairs with the use of automatic billing technology for the sale of their products, to reduce the use of cash for customers.   | High                   |   |
| - Design standard models of fairs that incorporate criteria in line with new trends in urbanisation, with new solutions to maintain and improve the quality of life in cities. This can be achieved by providing innovative models that encourage healthy consumption patterns, diversification of the family diet and cultural relevance, making these spaces a critical reference point for improving the local economy, people's health and social cohesion.   | Necessary              |   |
| - Establish agreements with the central government aimed at providing financial support for free trade fair organisations   | Necessary              |   |

| Actions  | Category of importance | Responsible organisations   |
|--|------------------------|---|
| - Define protocols that establish capacity, operating hours, personnel protection and the availability of supplies for hand disinfection, sanitisation and display of products on hangers.               | High                   | <br>Neighbourhood shops and warehouses |
| - Make arrangements with new suppliers to expand the supply of fresh produce and thus meet the requirements of consumers – especially in urban areas – who are unable to access local fairs and markets. | Necessary              |   |
| - Take steps to make access to credit more flexible so that shops and warehouses can remain in operation.  | Necessary              |   |
| - Improve the use of electronic payment to reduce the use of cash by customers.  | High                   |   |

Source: The authors.

In this highly complex scenario, it is necessary to support the sectors of the population most affected by the socio-economic crisis due to the pandemic. It is also vital to establish a series of long-term structural measures aimed at dealing with future pandemic episodes, as well as the socio-economic crisis resulting from the current health situation.

## Recommendations

Public and state entities have the urgent task of looking after the design of policies, plans and programmes to support traditional channel entities that commercialise products. This support can consist of credits and subsidies to working capital, reductions and/or remissions of income taxes, subsidies and soft loans to investment for reconversion and modernisation, and their integration into public markets, just to mention the main lines. One of the most relevant and innovative initiatives that can be taken by local governments is the stimulation of the development of food supply circuits at a territorial level, within the framework of a general territorial planning that includes the complexity of the actors, their subjectivities and conflicts, among others (Nicola *et al.*, 2020). Besides, the municipalities have a fundamental role in the articulation and efficient application of public policy instruments in the territories, especially those designed at higher levels of the state structure. In short, empowering local governments with adequate resources, a clear mandate and appropriate links to national government programmes can make a significant difference in preventing a food security crisis following a health emergency or another emergency (FAO, 2020b).

Concerning the actions from the private sector involved, it is recommended to establish all types of alliances and innovations related to the improvement of the logistics process (storage, transport, etc.); for example, the improvement of the infrastructure of the supply and wholesale markets, impact on the optimisation of sales processes to small warehouses, shops and suppliers of free trade fairs. Another imperative is to bet on trade union efforts (associations of trade fairs, micro, small and medium food companies, among others) for the modernisation of processes, such as the incorporation of e-commerce and the sustainable establishment of the measures described in this document.

In conclusion, we can say that it is necessary to incorporate territorial analysis in the planning of urban and surrounding rural spaces, in line with FAO's Framework for the Urban Food Agenda (FAO, 2019).

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