

# **Value chain strategies in developing countries**

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A stylized, layered mountain range graphic in shades of teal and blue, located in the bottom right corner of the slide.

# The 'supermarket revolution'

Reardon *et al* (2007) argue that the 'supermarket revolution' in developing countries was due to:

- ◆ **Demand factors:**
- ◆ **Investment liberalisation**
- ◆ **The modernisation of supermarket procurement systems**

# The 'supermarket revolution'

- ◆ This paints a picture of the spread of supermarkets in developing countries as part of the processes of globalisation, and specifically the globalisation of the agri-food system.
- ◆ Morgan *et al.* (2006: 8) argue that this characterises changes in the system as much like the types of change taking place in other sectors of the economy.

# Globalisation of the food sector

However, they argue that the globalisation of the food sector differs from that of other sectors because of **nature** and **culture**:

- ◆ The food sector is based on agriculture; hence the processes of globalisation are also constrained by **nature**.
- ◆ Biology mediates social processes of industrialisation and constrains the extraction of value from the food system, despite many efforts to overcome its effects in order to maximise productivity gains (e.g. to overcome problems of seasonality or perishability).

# Globalisation of the food sector

- ◆ Efforts to overcome seasonality often result in food being transported over ever-longer distances, something made possible by the decline in transportation costs. However, this is not merely a further step towards standardisation of food: nature bites back (e.g. BSE, salmonella, *E. coli* poisoning), pressurising producers and processors to worry about food safety, and consumers to prefer the local as safer than 'industrial' food.
- ◆ The result: '*an increasingly differentiated and fragmented food market*' with global products (Mars Bars, Coca-Cola, McDonalds), local products (saltmarsh lamb') and products that combine the local and the global (Parma ham, Aberdeen Angus beef').

# Globalisation of the food sector

- ◆ Food cultures across the globe are not homogeneous; hence the processes of globalisation of the sector are constrained by **culture**.
- ◆ This is partly because of the issue of provenance: people know their local circumstances better; therefore they trust local food more.
- ◆ Yet there is also a cultural dimension, as *'local food is likely to be produced in line with long-standing traditions, that is, by artisanal rather than industrial processes.'* Furthermore, food consumption and peoples' tastes are culturally embedded.
- ◆ The result has been increased interest in Designations of Origin and Geographic Indicators, not only in the EU (see also Josling, 2006).

# Globalisation of the food sector

- ◆ Morgan *et al.* (2006) provide an interesting footnote to this argument, namely the uneven distribution of such marks of origin over space: by 2001, there were more than 500 registered in the EU, with 75% coming from southern Europe, i.e. largely from the Mediterranean region.

# Globalisation of the food sector

- ◆ The conclusion, therefore, is that while there is agreement on the important role played by the modernisation of supermarket procurement systems, this should not be conceptualised as merely another step on the road to the industrialisation of the agro-food system.
- ◆ **In other words, changes to these procurement systems are driving changes to the entire retail sector, not only supermarkets, and for a diverse range of goods.**
- ◆ Diao and Roe (2004) argue that this is less a supermarket story rather than a story about globalization and its impact on the transformation of agriculture.

# Globalisation of the food sector

- ◆ The processes of industrialisation of agriculture have resulted in a **'deterritorialisation'** of the agro-food system, while the relatively new phenomena identified above result in a **'reterritorialization'**, defined as *'a process whereby local and regional geographies come back again to play a central role in reshaping food production and consumption systems.'*

# Quality and the agro-food sector

- ◆ Morgan *et al.* (2006: 71) argue that the conceptualisation of 'quality' as a competitive economic and spatial 'battlefield' opens the way to an understanding of the rise of alternative agri-food sectors, as explained in Figure 3.
- ◆ This view is shared by Ponte and Gibbon (2005), who also emphasise that value-chains are becoming increasingly buyer-driven.

**Figure 3: Rural space as competitive space and ‘battleground’ between the conventional and alternative agri-food systems**

Type of spatial relationships	Delocalisation Conventional agri-food	Relocalisation Alternative agri-food
<b>Producer relations</b>	Intensive production ‘lock-in’; declining farm prices and bulk input suppliers to corporate processors/retailers	Emphasis on ‘quality’; producers finding strategies to capture value-added; new producer associations; new socio-technical spatial niches developing.
<b>Consumer relations</b>	Absence of spatial reference of product; no encouragement to understand food origin; space-less products.	Variable consumer knowledge of place, production, product, and the spatial conditions of production; from face-to-face to at-a-distance purchasing
<b>Processing and retailing</b>	Traceable but privately regulated systems of processing and retailing; not transparent; standardised vs. spatialised products.	Local/regional processing and retailing outlets; highly variable, traceable, and transparent; spatially referenced and designed qualities.
<b>Institutional frameworks</b>	Highly bureaucratised public and private regulation; hygienic model reinforcing standardisation.	Regional development and local authority facilitation in new network and infrastructure building.
<b>Associational frameworks</b>	Highly technocratic – at a distance – relationships; commercial aspatial relationships; lack of trust or local knowledge.	Relational, trust-based, local, and regionally grounded; network rather than linear-based; competitive but sometimes collaborative.

Changing competitive spatial boundaries

# Concentration in farming

- ◆ One important impact has been on farm size structure. In the USA, for example, the proportion of farms that accounted for 50% of total output declined from 8.1% in 1969 to 3.6% in 1987 (Buttel, 1997).
- ◆ In 2005, the average size of farms with sales of over \$500 000 was 1070 hectares (2643 acres), compared to the national average of 179 hectares (USDA, 2006).
- ◆ In South African commercial agriculture average farm size was 1881 hectares in 2002, compared to 1414 hectares in 1993. This trend towards concentration of production among larger farms is found globally.

# Concentration in farming

- ◆ Similar trends can be found throughout Africa:

Cultivated land per agricultural person (hectares)

	1960-69	1970-79	1980-89	1990-99
<b>Ethiopia</b>	0.508	0.450	0.363	0.252
<b>Kenya</b>	0.459	0.350	0.280	0.229
<b>Mozambique</b>	0.389	0.367	0.298	0.249
<b>Rwanda</b>	0.215	0.211	0.197	0.161
<b>Zambia</b>	1.367	1.073	0.896	0.779
<b>Zimbabwe</b>	0.726	0.664	0.583	0.525

Source: FAOSTat website: Source: FAO Stat database: [www.faostat.fao.org/](http://www.faostat.fao.org/)

# Concentration in farming

## Characteristics of smallholder farmers, Zambia 1999/00

	N=	Farm size (ha)	Asset values (US\$)	Gr. Rev., maize sales (US\$)	Gr. Rev., crop sales (US\$)	Total hh income (US\$)
Top 50% of maize sales	23,680	6.0	1,558	690	823	2,282
Rest of maize sellers	234,988	3.9	541	74	135	514
Households not selling maize	762,566	2.8	373	0	36	291

# The power of supermarkets

Another important shift has been the rising **power** of supermarkets in the value chain. Morgan *et al.* (2006: 66) ascribe this to three factors:

1. Their increasing share of retail sales
2. The rise of store brands in competition with the traditional processors' brands, and
3. Their ability to manage 'space-time relations'.

# The power of supermarkets

- ◆ The greater market power of supermarkets is evident in South Africa (and undoubtedly in other parts of the developing world – see again Vander Stichele, *et al.*, 2006) and has important consequences for farmers and food processors, one of which is **decreased transparency of price setting mechanisms** in markets, and **market access** that is increasingly controlled by non-market 'quality' criteria (Morgan *et al.* 2006: 70).

# The power of supermarkets

- ◆ Reardon (2006: 92-95) identifies the major innovation of supermarkets in supply chain management as central sourcing, based on growing use of specialised/dedicated wholesalers and logistics firms and a shift toward preferred suppliers.
- ◆ Another major emerging trend is the rise in the implementation of private safety and quality standards in the supermarket sector.

# The power of supermarkets

- ◆ Vander Stichele *et al* (2006: 102) argue that the adoption of these standards (ethical trade, EurepGAP, fair trade, which they classify as part of Corporate Social Responsibility, and which usually include human rights, labour rights and environmental issues) has come about as a result of pressure from stakeholders (NGOs, labour unions, consumers). They question the effectiveness of such standards in furthering the goals of sustainable agriculture.
- ◆ Reardon (2006: 79) on the other hand, uses a wider definition of standards, adding product quality and safety standards, actions taken in the production process to produce these, and the process of reporting on such standards. In their view, these **reduce** coordination costs in procurement systems.

# The power of supermarkets

- ◆ However, while there are clear advantages for farmers who are able to become preferred suppliers, buyers are looking for consistency in supply and in quality, and preferred suppliers have to incur investment costs related to changing production practices (e.g. the introduction of Integrated Pest Management programmes, more sophisticated packaging facilities).
- ◆ In short, supermarkets will favour medium to large scale farmers, and not small farmers (Reardon, 2006: 102).

# The power of supermarkets

- ◆ There are two interesting footnotes to the use of these private standards. First, food processors and supermarkets do act morally when they compete in the supply chain. In the words of Morgan *et al.* (2006: 168):

*"We are not of course suggesting that these corporate leviathans recoil from striking the most advantageous deal, but that they do so ... in the context of prevailing moral norms ... multinational retailers clearly have the power, at least in theory, to secure much lower prices from their developing country suppliers than they enjoy at present. The fact that they refrain from doing so in practise is a testament, however, modest, to the tempering (and civilizing) effects of prevailing moral norms that have been established through a messy combination of multilateral political agreements, NGO pressure, and the moral sentiments of affluent consumers at home."*

# The power of supermarkets

- ◆ Second, recall that verification of compliance with such standards is costly. In South Africa (and no doubt in other developing countries) domestic supermarkets favour farmers who are EurepGAP compliant (i.e. are already active in the export market), as the costs of monitoring have already been covered. Once again, small farmers are not favoured.

# The power of supermarkets

- ◆ This bias against small farmers is problematic in large parts of Eastern and Southern Africa. Large farmers are often from other ethnic groups (white farmers, Indian farmers) as are supermarkets.

# Synthesis

Roe (2007) synthesizes the argument regarding the impact on small farmers well:

- ◆ *When ...education and training is poor in rural areas ... land rental markets and supporting institutions are weak in handling problems of moral hazard, and the emergence of the new marketing system is relatively capital intensive, the labor from the [small farm sector] finds alternative opportunities scarce, and immizerization can occur ... Nevertheless, this is a desirable process in terms of the social benefits ... provided to consumers ... and the development of a more ... efficient agriculture. The challenge is to choose policy instruments that can be targeted to those facing the costs ... policies that virtually keep most [small farmers] ...at a subsistence level forever, may NOT be viewed as development policy, it is a welfare policy. And, this may be a fairly efficient and well targeted welfare policy, but as such, it should most likely be a policy supporting transition*

# Summary

- ◆ The rise of 'Alternative Food Networks' (Morgan *et al.*, 2006: 187) is important, but the arena still dominated by retailers and the 'industrialisation' process.
- ◆ AFN could help developing countries, but only if there is economic justification (i.e. only if they are competitive), and only if there is the capacity within multiple layers of government to support such initiatives.

# Summary

- ◆ Even then, AFN may not help small farmers, whose beneficial involvement is even more dependent on capacity to organise, and arena where they are by definition lacking.
- ◆ In the traditional supply chain, the adoption of private standards also favours large over small farmers.
- ◆ Policies to support small farmers that keep them at a subsistence level forever, are NOT development policy.