The Supermarket and Smallholders Revolution in Developing Countries

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Abstract

A "supermarket revolution" has been underway in developing countries since the early 1990s. Supermarkets (here referring to all modern retail, which includes chain stores of various formats such as supermarkets, hypermarkets, and convenience and neighborhood stores) have now gone well beyond the initial upper- and middle-class clientele in many countries to reach the mass market. Within the food system, the effects of this trend touch not only traditional retailers, but also the wholesale, processing, and farm sectors. The supermarket revolution is a "two-edged sword." On the one hand, it can lower food prices for consumers and create opportunities for farmers and processors to gain access to quality-differentiated food markets and raise incomes. On the other hand, it can create challenges for small retailers, farmers, and processors who are not equipped to meet the new competition and requirements from supermarkets. Developing-country governments can put in place a number of policies to help both traditional retailers and small farmers pursue "competitiveness with inclusiveness" in the era of the supermarket revolution. Some countries are already taking such steps, and their experiences offer lessons for others.

KEYWORDS: Supermarkets, Impacts, Development and smallholders.

INTRODUCTION

Supermarkets in the developing regions of Africa, Asia, and Latin America have spread in three established waves (see Table 1). Supermarket sales in the third-wave countries are growing at a spectacular rate, far faster than those countries' rapid growth rates in gross domestic product (GDP). A fourth wave is just barely emerging in the poorest areas, such as Bangladesh, Cambodia, and West Africa. It may take another one or two decades before supermarket diffusion in the fourth wave areas is appreciable. Although urbanization and increased incomes have been important in the rise of supermarkets, other factors also played important roles. A crucial factor was the liberalization of retail foreign direct investment (FDI), which sparked an avalanche of FDI (and competitive or at times anticipatory domestic investments) through the 1990s and into the 2000s. Intense competition, consolidation, and multinationalization in the supermarket sector have also accelerated the spread of supermarket chains seeking to improve their competitive positioning. In addition, domestic policies have often included tax incentives for supermarkets and hygiene and location regulations for supermarkets. Finally, the modernization of supermarkets' procurement systems has reduced costs and made supermarkets more competitive with traditional retailers.

IMPACTS ON THE AGRIFOOD SYSTEM

Impacts on Consumers

Supermarkets tend to charge consumers lower prices and offer more diverse products and higher quality than traditional retailers—these competitive advantages allow them to spread quickly, winning consumer market share. In most countries supermarkets offer lower prices first in the processed and semi-processed food segments. Only recently, mainly in the first- and second-wave countries, have supermarket prices for fresh fruits and vegetables been lower than traditional retailers' (except in India). The food price savings accrue first to the middle class, but as supermarkets spread into the food markets of the urban poor and into rural towns, they have positive food security impacts on poor consumers. For example, in Delhi, India, the basic foods of the urban poor are cheaper in supermarkets than in traditional retail shops: rice and wheat are 15 percent cheaper and vegetables are 33 percent cheaper.

Impacts on Traditional Retailers

As supermarkets spread and their market share grows, the market share of traditional retailers declines. This decline happens at different rates over product categories and locations. The traditional sector is declining fastest in large cities and among small general stores selling processed foods and dairy products; they tend to have trouble competing with supermarket chains that buy in bulk and have economies of scale. Declines are slower among urban traditional retailers who modernize to compete. Given that many traditional retailers are poor, it is important to help them modernize and compete or obtain assets and skills to transition to other employment.

Modern retail can also create jobs

Some of this new employment is a swap with traditional sector employment. Depending on the formats used by modern retailers, however, the expansion of the consumer market facilitated by modern retail plus small-format innovations, such as the "pushcart chains" pioneered by ITC and Acme in India, can expand employment. How well the government and the private sector raise the skills of workers in the distribution sector and enable the transition will determine whether the transition has poverty-creating or poverty-alleviating effects. In India's medium-size supermarkets, for example, the employment ratio (workers per square meter) is similar to that of traditional retail. Employment in the modern sector is better paid, with better conditions, but it also requires more skills and education than employment in the informal retail sector.

Impacts on Processors and Farmers

When supermarkets modernize their procurement systems, they require more from suppliers with respect to volume, consistency, quality, costs, and commercial practices.

Supermarkets'

impact on suppliers is biggest and earliest for food processing and food-manufacturing enterprises, given that some 80 percent of what supermarkets sell consists of processed, staple, or semi processed products. But by affecting processors, supermarkets indirectly affect farmers, because processors tend to pass on the demands placed on them by their retail clients.

DEVELOPMENT OF SUPERMARKETS

The determinants of the diffusion of supermarkets in developing regions can be conceptualized as a system of demand by consumers for supermarket services, and supply of supermarket services, hence investments by supermarket entrepreneurs. On the demand side, several forces drive the observed increase in demand for supermarkets services (and are similar to those observed in Europe and the United states in the twentieth century). The "demand incentives" side forces include urbanization, with the consequent entry of women into the workforce outside the home, which increased the opportunity cost of women's time and their incentive to seek shopping convenience and processed foods to save cooking time; and supermarkets, often in combination with large-scale food manufactures, which reduced the prices of processed products.

The contribution of family farmers and smallholder farmers to food security, poverty reduction and sustainable development were specifically recognized in 2014 and led the United National General Assembly to declare the year the "International year of Family Farming." In Africa, the African Union branded 2014 the "Africa Year of Food Security." Building on the momentum, UNCTAD carried the topic of smallholders into 2015, a pivotal year in the international development agenda, by devoting its Commodities and Development Report to the theme of smallholder farmers. This paper is a chapter of this Report.

The realities and problems of our growers and markets are as follows. The market is fragmented, unformatted, unstandardized. The growers produce low quality products, use bad harvest techniques, there is a lack of equipment and transportation, there is deficient post-harvest control and infrastructure, and there is no market information. There are high import barriers and corruption. The informal market does not have: research, statistics, market information, standardized products quality control, technical assistance, and infrastructure.

THE PRODUCTIVITY LINKAGE BETWEEN SUPERMARKETS AND LOCAL SUPPLIERS

As mentioned in section I and further documented later, empirical analyses find that farmers in the supermarket sup-ply chain are more productive than traditional farmers. Of course, the direction of causality is an issue of debate. Delivering foods to supermarkets may increase the productivity of farmers through backward linkages, but at the same time supermarkets are likely to select the most productive suppliers. We offer a model specification that takes both directions into account and captures the endogenous interaction between supermarkets' choice of suppliers and agricultural productivity. Numerical simulations show how the two-way relationship between supermarkets and local farmers acts to reinforce dynamic processes (either decreasing the chances of escaping a low productivity trap or strengthening technological catch-up), and is important to capture the dynamic effects of the super-market expansion.

The model specification separates between rural and urban labor, where the first is employed in traditional and commercial agriculture. The rural labor force is further divided into skilled and unskilled workers. The aggregate rural skill share is the share of skilled workers in the rural labor force and is exogenous (as we do not model the supply of skilled workers endogenously). Rural skilled labor is traditional agriculture is per definition equal to zero.

Since rural unskilled labor is allocated between the agricultural sectors based on marginal productivities, the share of skilled workers in the labor force of commercial agriculture develops endogenously. The model thus separates between the exogenous aggregate rural skill share (which is our broad measure of the extent of constraints facing local farmers) and the endogenous skill share in commercial agriculture (which enters the productivity specification outlined in section 2).

SMALLHOLDERS IN DEVELOPING COUNTRIES

Smallholders in developing countries are the main actors of agricultural production systems. They contribute to food security, environmental conservation, and foreign currency earning through commodities exports. However, despite their importance, smallholders have suffered from policy neglect over the years. As a result, several constraints hamper their direct ad full access to input and output markets. An econometric analysis illustrates how smallholders become more exposed to the vagaries of international commodities markets following economic liberalization policies adopted in the 1980s and 1990s with no means to protect themselves again the negative effects of this exposure. Development policy should acknowledge smallholders as important economic actors and create an environment where they can thrive and operate as profitable small businesses.

Helping smallholders to participate in input and output markets by offering the right incentives would not only improve their welfare but also increase their contribution to economic growth, benefitting society at large. For instance participating in well-functioning agricultural inputs markets provides the opportunity for farmers to increase yields and hence produce a marketable surplus, contributing to economic growth. If sold in competitive output markets, these surpluses permit smallholders to attract better prices and increase their incomes. Higher incomes in turn enhance the welfare of rural populations and help these farmers to strengthen their capacity to cope with risks, shocks and other related agricultural market problems (IFAD, 2011). A better linkage to markets therefore livelihood choice. Furthermore, successful linkage of farmers with markets and overall agricultural development are argued to be preconditions for the development of manufacturing and services in most developing countries (Wiggins et al., 2011). Ultimately, a better integration of smallholders in markets contributes to an inclusive and sustainable economic development.

CONCLUSION

As parts of the globalization process, multinational supermarket chains enter the markets of developing countries, both in Latin America, Asia, and most recently in Africa. There is no consensus in the empirical literature on whether the agricultural sector benefits from the presence of supermarkets. Empirical analyses find that supermarkets represent both opportunities and challenges for local farmers. Our contribution is the construction and calibration of a Ramsey growth model to identify the consequences of supermarket expansion for agricultural productivity and structural change. The methodological approach clarifies the underlying adjustment mechanisms involved , and allows for endogenous interaction between agricultural productivity and supermarkets dependence on local suppliers. Numerical simulations show how the two-way relationship between Supermarkets and local farmers acts to reinforce dynamic processes, either decreasing the chances of escaping a low productivity trap or strengthening technological catch-up. This kind of model simulation supplements econometric analyses that struggle with causality issues and are unclear about the channel of effects.

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