



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Improving Market Access for Smallholders: Challenges and Opportunities

Maria Fay Rola-Rubzen^{*} and *J. Brian Hardaker*[†]

The advent of globalisation has brought many opportunities in trade, capital and labour flows and in exchange of information and technology. For agricultural producers, globalisation offers the possibility of expanded markets. But integration into the global economy is fraught with challenges, particularly for farmers in developing countries. Not only are they faced with increasing competition from other farmers within their countries, but also from producers around the world. The challenge is to find how farmers in developing countries can access these markets to share in the benefits of globalisation. This paper discusses the challenges and threats faced by smallholder farmers and outlines some strategies to improve market access by smallholders.

1. Introduction

Global concern over world poverty has led countries to institute the Millennium Development Goals (MDGs). The MDGs aim to cut the number of poor people by half by the year 2015. The establishment of the MDGs offered new hope for the poor because, this time, there seemed at last to be a genuine concern and a concerted effort by many nations to reduce poverty substantially through a global strategy with specific targets related to all facets of poverty – health, education, child mortality, gender equality and income.

A decade after the MDGs were established, significant work still needs to be done. Despite some progress in reducing poverty, the number of poor people remains high. World Bank data show that about 2.7 billion people live below \$2 a day, and in some regions, such as in Sub-Saharan Africa, close to half of the population live below \$1 a day¹.

Many of the poor live in rural areas and are comprised of smallholders, especially those with little land, and landless people. Most of the landless in rural areas also rely directly or indirectly on agriculture as their source of livelihood. Some are employed as farm labourers either on a permanent or on a seasonal basis; while some are employed in processing agricultural produce or in other small-scale rural industries. For these people, agriculture (directly or indirectly) will play a significant role in the quest to move them out of poverty.

For smallholders², the prospect of using agriculture to escape poverty relies to a large extent on their ability to improve productivity and access markets. There are emerging global issues that affect their chances of success – some favourable and some posing a challenge.

^{*}Department of Agribusiness, Muresk Institute, Curtin University of Technology, Northam, WA 6401, Email: F.Rola-Rubzen@curtin.edu.au

[†] School of Economics, University of New England, Armidale, NSW 2351, Email: jbhardaker@northnet.com.au

¹ The latest poverty figures available both from the World Bank and the UN websites are for 2001.

² For the purpose of this paper, the term smallholders refer to the smallholder farmers in developing countries.

2. Emerging global issues: challenges and constraints

Never in the history of mankind has the world witnessed significant progress globally as we have today. Many countries have recently registered high economic growth. Key drivers of this growth have been increasing globalisation, trade liberalisation, increasing incomes in some countries, particularly in Asia and Latin America, and the changing nature of markets. The question most developing countries face is how to capture the advantages of these developments and use them to reduce poverty.

One of the major factors affecting developing countries is globalisation. Stiglitz (2002) defined globalisation as the closer integration of countries and people of the world brought about by the large reductions in costs of transport and communication and the breakdown of artificial barriers to the flows of goods and services, capital, knowledge and, to a lesser extent, people across borders. Globalisation is brought about by a number of factors. Rapid developments in transport and communication are driving down costs, making it easier and more affordable for both people and goods to move from one country to another (although in practice movements of goods and especially people remain heavily regulated). Developments in information and communication technologies are also breaking down geographical, social and economic barriers.

Trends in global trade have also been influenced by trade liberalisation which can be considered both a cause and a consequence of globalisation. As countries move towards trade liberalisation, markets for produce are growing. Overall, world trade expanded by 10.2 per cent in 2004³ (World Bank 2004).

For smallholders, globalisation and trade liberalisation offers the potential for new markets. In theory, no longer are they limited to selling produce locally. Farmers' coffee produced in Brazil can be enjoyed by Starbucks consumers across the globe. Oranges from China can reach supermarkets in Australia and the United States, and cut flowers from Kenya can grace European households. In practice, however, this is easier said than done. While some countries have been successful in entering international markets, for the most part, this is yet to happen for many farmers, particularly smallholders in developing countries.

Despite the increased opportunities, there is concern that many developing countries, particularly the less developed countries (LDCs⁴), will not be able to benefit much from globalisation and trade liberalisation. Much of the problem lies in the trade arrangements which are currently biased against developing countries. While there is much discussion of trade liberalisation, trade barriers still remain one of the greatest hurdles faced by their agricultural sectors in accessing overseas markets (McCalla 2001; Stiglitz 2000, 2002; Jabati 2003). Although in general tariffs of developed

³ A large portion of this growth can be attributed to China, which was responsible for more than 20 per cent of the increase in world merchandise trade in 2004. Much of China's rapid growth in trade reflects the positive impact of its accession to the WTO as well as the high rates of investment and increasing consumption demand in importing countries (World Bank 2004).

⁴ Currently, there are 50 countries classified as LDCs. They include Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, the Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia.

countries have fallen, tariffs for many agricultural commodities are still high, particularly for those traded by developing countries. Likewise, certain restrictive trade rules in developed countries, such as tariff escalation, are removing the incentives for developing countries to value add to earn more income and reduce their commodity dependency (UNCTAD 2004). Dumping of subsidised produce onto international markets by the developed countries makes it difficult for developing country farmers to compete (Diaz-Bonilla *et al.*, 2002; Stiglitz 2002; Jabati 2003). While this issue influences market access by developing countries, there is little that can be done by smallholders, at least until more equitable trade arrangements are reached. Hence, the importance of thinking of ways of improving market access.

Another issue affecting developing countries is increasing incomes in many nations. Partly as a consequence of globalisation and trade liberalisation, developed countries and a number of developing countries have been experiencing high economic growth. Developing regions are now experiencing higher growth rates than the average growth rates in the 1980s and 1990s. World Bank figures show that the average real GDP growth in all developing countries from 2003 to 2004 was 6.1 per cent, much of which is due to the economic boom in China⁵ (World Bank 2004).

This strong economic performance of developed countries and the increasing incomes in many developing countries, including those in Asia and Latin America, are changing the structure of demand for food and other commodities. There is strong growth in demand for types and forms of produce with high income elasticities. Armed with higher disposable incomes, consumers are able to purchase high-value food products such as meat, milk, fruits and vegetables. They are also able to pay more for non-price attributes such as quality and food safety.

Increasingly, food safety, concerns over the (yet largely unproven) effects on health and the environment of genetically modified (GM) food and recent global concerns such as bird flu and mad cow disease, have meant that consumers are no longer looking at price alone, but are demanding food safety assurances and traceability. Informative labelling is nowadays commonly demanded in markets. All these pose challenges for farmers in developing countries.

Finally, the continued growth of supermarkets in developing countries and their advent in developing countries in Asia, Latin America and Africa (Hagen 2002; IFPRI 2003; Gale 2004; Reardon 2004; Chen, Shepherd and Da Silva 2005; Shepherd 2005) has led to a shift by corporate food businesses to supply-chain integration/management, implying changed marketing conditions for farmers. Supermarkets often have specific requirements in terms of volume, timing of supply, price, method of production (e.g., organic, GM-free, environmentally-friendly, etc.) and quality standards. Cost considerations mean that supermarkets usually prefer to deal with a few supplier(s) rather than many small suppliers. Most farmers in developing countries are small and, individually, will find it difficult to supply to supermarkets.

In an effort to improve efficiency, profitability and food traceability, supermarkets are forming alliances with other market participants. The increasing preference of supermarkets to utilise global food chains represent both an opportunity and a challenge for farmers. Farmers who are able to participate in these chains stand to

⁵Growth varies between regions, with sub-Saharan Africa having the slowest growth at 3.2 per cent from 2003 to 2004 (World Bank 2004).

benefit. However, for most farmers, breaking into these chains will not be an easy task.

The lack of information most smallholders have about what is needed to meet requirements of new domestic and global markets such as food safety and quality requirements, variety, size, appearance, form and other quality attributes; their lack of knowledge and skills in modern methods of production; and their lack of size economies are impediments smallholders in developing countries will need to address if they are to compete in the evolving market place.

3. Competing in the global market

One of the main challenges that comes with globalisation and trade liberalisation is the increased competition faced by producers. While globalisation can potentially herald new markets, the corollary is that producers also face greater competition not only from other domestic producers but also from foreign producers seeking to supply their domestic markets. As UNCTAD (2004) pointed out, this will bring a new challenge for developing country producers who, in general, will find it difficult to compete with producers from other countries and the marketing efforts of large food companies. For smallholders, accessing markets means they need to be able to compete not only in terms of price but also in meeting the ever changing and increasingly stringent requirements of the market.

With these new developments in the market scene, smallholders in developing countries appear to have three options. The first is to continue to sell only in traditional markets. Across developing countries in Asia, Africa, Latin America and the Caribbean, traditional (wet) markets are still common. As long as there exist consumers who are price conscious and price discriminating, it is likely that these markets will persist (see for example the growth of farmers' markets and roadside stalls in countries such as Australia). Perhaps for some smallholders, particularly those unable to meet the stringent requirements of the more modern markets, supplying to these traditional markets will be the best option. In this case, often the middlemen, who operate in most LDC produce markets, may play an important role. They buy from small-scale growers to resell in retail markets. Despite widespread suspicion of them, they can offer a useful service because they are able to reap some size economies and may also have special marketing skills that farmers lack.

The second option is to supply to supermarkets domestically; the third option, to target global markets (or possibly, both domestic and international markets), perhaps by linking into value chains. In either case, accessing these markets require farmers to meet specific quantity, quality and other requirements already mentioned above. Few smallholders will be able to enter these markets except through intermediaries such as wholesalers, exporters or buyers representing the supermarkets. For those farmers who can supply these markets, the potential rewards can be high. What then can be done to improve the access of smallholders to more lucrative markets?

4. Private and Public Role in improving market access

While it is widely held that it is often better for governments not to intervene in market, there are some areas where government intervention may be crucial. Olson (cited in *The Economist* 2000) put forward an argument for government intervention. Quoting Olson (*The Economist* 2000, p. 76):

The crucial difference lies not in markets that exist, but in markets that are entirely missing. Markets in the poorest countries generally conduct

'self-enforcing' transactions with goods exchanged on the spot for money or other goods. Transactions involving distance or especially time are not self-enforcing: a promise to pay for goods next week for goods received this week is a risky contract for the seller. If such contracts can not be made with confidence, the corresponding market may not exist at all.

The problem is how governments can create markets when they are missing. Should they provide incentives to encourage private sector participation; do it themselves, through statutory marketing authorities (SMAs)?; or perhaps there is a case for public or public-private, or NGO intervention to get markets working such as the Fair Trade model.

There is a case for government intervention when the issue at stake is a public good. For instance, information asymmetry is a problem in developing countries but development of market information systems for farmers is often not profitable for the private sector because it is difficult to keep the information exclusive to clients who pay for it. In such cases, there might be a role for the government in developing better information systems, or more importantly providing the communication infrastructure that will help improve farmers' access to market information – increasingly critical in this competitive world.

Similarly, improving farmers' awareness of health and food safety standards is likely to help them to meet stringent marketing requirements. They also need to be told about grading and standardisation procedures. These and other standards may need to be enforced by a government agency since detected failure or cheating by just one or two supplies can lead to loss of the market for all (just like one reported incidence of mad cow may affect the entire livestock industry in a country). Traceability requirements and some consumers preference for special attributes (i.e., pesticide free, GMO-free, environmentally-friendly products, etc.) also mean that farmers will need to be cognisant of market-required production practices (e.g. use of pesticide free production methods; sustainable farming, etc.). Governments may have a role to play in capacity building for nascent marketing individuals, firms or cooperatives. Because of the potentially huge externalities and hence, market failure of food safety and quarantine issues, there is a strong case for government regulation and monitoring of food safety and quarantine compliance. But while it is relatively straightforward to teach basic business skills, it is probably outside the proper scope of governments to offer advice on the very risky business of new marketing ventures; though governments can play a facilitating role by making the environment attractive for private sector involvement in the provision of this service. International organizations, NGOs and emergent private certification companies can also complement government efforts by helping establish domestic grading and standardisation (GS) systems such as that in Guatemala (Reardon *et al.* 2001).

There are also emerging opportunities for new public-private partnerships, for instance to improve infrastructure provision which can reduce transport and communication costs and for ICT delivery in rural areas (IFPRI 2000). In the Philippines and in India for example, the entry of private companies in the cell phone business has resulted in the unprecedented uptake of mobile phones in rural areas, which has helped some farmers to access new markets. In Jamaica, a joint public-private venture put in place a comprehensive agribusiness information systems to enable smallholders to get print and web-based information about products, markets, registration requirements and technical assistance (IFPRI 2000).

5. Strategies for improving market access for smallholders

The main barriers affecting the long-term ability of smallholders to supply global markets are market access constraints and supply side constraints. These constraints are well known and have been discussed widely in the literature (Hayami and Ruttan 1971; McNamara 1973; Lele 1975; Rola-Rubzen and Hardaker 199; Rola-Rubzen, Hardaker and Dillon 2001). The constraints faced by farmers can generally be summarised into the following. The first two are related to supply side constraints; and the last to both supply and demand constraints.

- 1 physical constraints (such as poor roads and infrastructure, lack of storage facilities, poor communication and other infrastructure that adversely affect their terms of trade);
- 2 capacity constraints (such as lack of credit and financial services that inhibit them from improving their productivity, lack of access to inputs and other agricultural technologies, lack of organisational support, lack of skills and knowledge on new technology that would increase their production, poor knowledge of market requirements such as quality, health and safety standards); and
- 3 policy constraints such as domestic policies that disfavour the agricultural sector (red tape and overly restrictive legal frameworks; excessive licensing requirements; poor legal framework to support farmers such as contract enforcement) and trade policies that distort the real exchange rate, turning the terms of trade against agriculture.

To improve the ability of smallholders to participate in emerging markets, these constraints need to be addressed. Below, we explore some strategies to improve market access by smallholders.

5.1 Dealing with supply-side constraints: The role of agricultural productivity

A mixture of climatic problems, low levels of technology, lack of capital to purchase inputs and access technology (and sometimes, civil disturbance in war-torn areas), mean that many smallholders in poor countries have low levels of agricultural productivity. In addition, climatic conditions and the absence of risk-mitigating measures (such as irrigation in drought-prone areas; or seeds that are adaptable to drought-prone conditions), mean that production is often at the mercy of Mother Nature to a greater extent than in more developed countries.

A pre-condition for successful participation in the market is the ability to supply market demand. The first requirement to do this is to improve agricultural productivity to allow smallholders to generate a marketable surplus. There is also a need to improve the stability of production. Hence, there is a need for developing countries governments to take steps to improve agricultural productivity to make farmers more competitive.

Often farmers initially are not able to produce more because of factors such as poor and outdated farm technology, lack of skilled labour, poor transport, lack of post/harvest handling facilities (Rola-Rubzen, Hardaker and Dillon 2001; Stefanova 2006). Increasing productivity requires investments in the development of yield-augmenting technologies and also in land and water resource development. In many

developing countries, interventions are needed in terms of the development and improvement of farmers' access to productivity-enhancing technologies such as irrigation and modern seed varieties that are suitable to local conditions (e.g., disease-resistant & drought-resistant varieties) and technologies that will reduce post-harvest losses. As recognised by UNCTAD (2004), Asian countries that have maintained technical support to farmers have been successful not only in improving domestic food security but also in promoting exports.

5.2 Addressing infrastructure constraints: the road to better market access

A general lack of infrastructure in rural areas is a common feature in developing countries. Absence of storage facilities and poor road conditions are not unusual in many countries. In some areas the roads are not passable at some times of the year. Provision of better infrastructure such as good roads and bridges, communication facilities and the like that will link farms to markets will improve farmers' terms of trade by reducing their transaction costs. Improvements in information and communication flows will improve farmers' access to market information - reliable, affordable and easily accessible telecommunications encourage market exchange and facilitate effective arbitrage (Richardson 1997; IFPRI 2000; *The Economist* 2001; World Bank 2002b; Bertolini 2004). Information and communication technologies (ICTs) are important tools by which farmers can reach markets globally. According to Bertolini (2004), ICTs can integrate farmers into regional, national and international trade systems. They increase the quantity and quality of information available, reducing uncertainty and enhancing market participation. IFPRI (2000) cites the example of Veerampattinam, a coastal village in Southern India, where an internet-enabled computer has improved farmers' information access, including to market price reports.

5.3 Transaction costs and the role of new institutional economics

Market access by smallholders is severely hampered by their inability to meet the quantity required by modern markets. The diseconomies of size of individual farmers and the reluctance of buyers to deal with many small farmers often bars them from participating in these markets. High transaction costs can mean that some important markets are currently missing for many smallholders. The so-called 'new institutional economics, (Coase 1937; Williamson 1975; Coase 1998; Klein 1999) may offer some solutions, particularly looking at the role of institutions.

Agribusiness firms and new marketing arrangements by global companies mean that partnerships between farmers and the private sector are the main ways by which smallholders can access markets that would otherwise be missing for them (Eaton and Shepherd 2001; ADB 2005). The private sector can also help farmers to overcome credit, risk, input, information and other constraints that impede them from producing and marketing. In discussing new models of linking farmers to markets, Chowdhury *et al.* (2005) note that modernising food chains offers some means by which farmers can reduce transaction costs. A more efficient chain in which supermarkets streamline the linkage between producers and consumers will mean reduced information asymmetry since supermarkets can relay to farmers what consumers want.

Innovations in the ways farmers are linked to markets are needed, maybe even reinventing some methods used in the past.

5.3.1 Cooperatives and producer organizations

One way of circumventing the problem of scale diseconomies is by smallholders banding together to form producer cooperatives. Cooperatives can help farmers by allowing them to reap some economies of size that will allow them to compete with larger producers or bargain with buyers who prefer to deal with only a few sellers. For example, the Dairy Cooperatives in Kenya and Ethiopia are reported to have been successful (Chowdhury *et al.* 2005). Cooperatives can also facilitate access to inputs, credit, market research, technical training, improve marketing coordination and gain better bargaining position (Hussein 2001; Ada 2002; World Bank 2002b; Bingen *et al.* 2003, Chirwa *et al.* 2005). They can also be a means by which farmers can link to markets through collaboration in a value chain or supply chain. Cooperatives may also reduce some risks (although it can create others if the cooperative fails due to bad management).

The answer, however, is not simply the formation of a cooperative. Although there have been some successful cooperatives, there are more that failed (Lele 1981; Stringfellow *et al.* 1997, Chirwa *et al.* 2005). Although, farmers themselves often have to initiate the formation of producer groups, the government can facilitate the development and improve the long-term prospects of success by assisting start up and providing capacity building. To increase a cooperative's chance of success, it may need support in terms of technical and capacity building assistance in the establishment and management of the cooperative, understanding and meeting safety standards, responding to market needs, financial management, and operation on sound business principles (Collion and Rondot 2001; Chirwa *et al.* 2005).

Organisational innovations such as cooperatives and rural telecentres can help reduce transfer costs and enhance market access. A study by Chowdhury *et al.* 2005 showed that market institutions can play a catalytic role in reducing barriers and costs to exchange and hence encourage greater market integration between rural and urban areas. Central to this is the ability to gain access to new technologies and services including credit (Chowdhury *et al.* 2005).

5.3.2 Contract farming

Studies have shown that contract farming can be profitable for farmers (ADB 2005a, 2005b; Simmons undated). By linking with agribusiness firms, farmers are able to access thin or missing markets. Other benefits from contract farming include improved access to credit and farm inputs (as the agribusiness firms usually provide forward payments or provide inputs), better technology (as agribusiness firms often provide technical assistance to farmers to meet tight quality requirements); better management of risk (resulting from the provision of start up capital or assistance, operating cash, forward payments for farm inputs and forward guarantees by the contracting firm); and additional employment for household members (Simmons undated).

Despite the benefits of contract farming, though, it may not necessarily work in all cases (Gow, Streeter and Swinnen 2000; Vietnam News 2004; ADB 2005b; Simmons undated). Factors influencing success or failure include degree of understanding of risks inherent in contracts, whether market forces are strong enough to encourage both farmers and the agribusiness firm to forge a working contract together, and farmers'

degree of familiarity with contract farming. According to Simmons (undated), while contract farming can improve societal welfare, it is not a sufficient condition for such improvement. Sometimes smallholders can be excluded from contracts because of selection bias by agribusiness firms. Likewise, as agribusiness firms normally concentrate contracts within single communities for cost reasons, this may also generate second-round effects on income distribution through price and income effects. Contract farming may also result to narrowing markets for non-contract producers (Simmons undated).

Contract farmers may find pressure on them to work for less and less return and may end up getting paid only a basic wage. That will happen if there are too few agribusinesses offering contracts to make the market competitive (which may often be the case). To address this issue, government action may be needed to put in place measures to ensure that agribusiness firms do not abuse their market power (*The Economist* 2000; Simmons undated).

Some farmers are reluctant to enter contract arrangements because of the inadequate rules in enforcing contracts. According to *The Economist* (2000, p. 76), ‘a feature the poorest countries have in common is that contract rights and property rights are badly defined or weakly enforced. Such rights necessary for advanced markets, which in turn are necessary for rapid growth, are themselves a kind of public good’. According to Simmons, governments can also encourage agribusiness firms to facilitate new contracts and to provide support to farmers to make them suitable for contract selection.

The rise of multinational agribusiness firms and some negative experiences in labour practices by some firms have also caused a degree of mistrust. There is an increasing belief that multinationals should pay remunerative prices that keep farmers out of poverty and commit to providing working conditions that comply with international standards and national laws. Oxfam (2004) suggested an anti-trust mechanism to combat the problem related to massive concentration of corporate power in the global economy. According to Oxfam, multinational and agribusiness companies must meet their social and environmental responsibilities. But it is not clear how they are to be held accountable. Perhaps government policies can aid by ensuring that appropriate market and labour regulations are in place and are enforced. The philanthropist billionaire, George Soros once said,

Markets are amoral: they allow people to act in accordance with their interests, but they pass no moral judgment on the interests themselves. Yet society can not function without some distinction between right and wrong.

George Soros (2002)

5.4 Knowing the market: The role of market research

Because of the rapid changes in markets and the volatility of demand and prices, market research may be vital in improving market access. There may be a case for special market research units to identify specific market needs as well as niche markets. Niche markets, in particular, come and go, so the speed by which farmers respond to market signals will be important in capturing new opportunities. An example of such a unit is the Agricultural Diversification Unit (ADU) set up by the Organisation of Eastern Caribbean States (OECS), a sub-regional grouping of island states in the Eastern Caribbean. The OECS developed the ADU to accelerate the

process of diversification of the agricultural sectors of member countries and to explore avenues for joint marketing. One of the components of the program is the development and maintenance of a market intelligence system that monitors UK and Canadian markets, monitoring of crops exported and quality assessment of exports (OECS 1990). In the initial stages, some problems were identified in that while the information was being utilised by exporters, it was not reaching what they call the frontline people – agricultural planners, researchers and extension workers. To remedy this problem, OECS developed a strategic approach to marketing which included an analysis of the system's environment, segmentation and needs assessment of its clients, information audit of existing systems and analysis of market and product opportunities. Information was then targeted towards specific needs of clients (e.g. exporters, extension workers, etc.) ensuring that information is also available to agricultural planners and farmers so they can better respond to market demand (Evan-Wong 1996).

5.5 Agricultural and other domestic policy reforms: Pro-agriculture policies

As mentioned in section 2, the farm sector will benefit from improving terms of trade if the policy bias against the agricultural sector is removed, for example, the reduction of protection of the non-farm sector at the expense of the farm sector. Government policies fostering a sound macroeconomic environment can serve as an incentive for farmers to increase production (IFPRI 1999). Governments can adopt policies that will encourage development of industries in rural areas, for instance rental markets for agricultural machines, through policies to encourage private investment in rural areas. An example come from Ethiopia where, upon the government approving more cargo flights to Adis Ababa, an export company was able to expand its business to European markets. This in turn resulted to increased markets for farmers, more jobs created and increased farm production, raising incomes of rural and farming households (Stefanova 2006).

5.6 New approaches to statutory marketing agencies

Where markets are missing or thin, there may be a place for statutory marketing agencies (SMAs) to help farmers access global markets. Most economists are sceptical of the merits of SMAs, partly because of their generally poor performance in developing countries, but also on the neo-conservative principle that private enterprise is always best. Yet there have been SMAs that have performed well for many years. The problem seems to be that most such bodies tend to become inefficient, if not corrupt, with time, especially if vested with monopoly powers. A new approach to statutory marketing agencies may be needed, perhaps using them to provide markets where none currently exist, but without monopoly powers. An example is tea marketing in Kenya where multiple agencies exist and tend to keep each other honest by the power of competition. The tea industry in Kenya is fully liberalised and tea marketing is carried out independently by trade members of the Tea Board of Kenya (TBK 2006). It might also be possible to set up an SMA with a sunset clause requiring its eventual privatisation, as has happened to SMAs in Australia. A variant is to offer start-up grants and other support to private operators – individuals, companies or cooperatives.

5.7 Linking with NGOs

Some NGOs have been successful in improving market access for farmers in developing countries. An example is Oxfam and Fair Trade. Fair Trade is an NGO-initiated system of doing business that links farmers in developing countries to global markets. It is based on the principle that farmers are paid fair prices for their produce and that they and their communities benefit from profits derived (Fairtrade 2004, 2005). To be registered with Fair Trade⁶, farmers have to be members of a registered cooperative or producer organization which have to undergo inspections and monitoring by Fair Trade to ensure probity and accountability standards are met. Fairtrade products are sold by companies/businesses in developed countries which have in turn registered with Fair Trade (and hence carry the Fair Trade logo). First introduced 50 years ago, there are now about 433 member producer organizations in 49 countries. Over 5 million farmers, workers and their families are said to have benefited (Fairtrade 2005). Premiums received for products sold are used to fund cooperatively agreed social and economic developments such as water and sanitation, education and agricultural diversification (Krier 2001; Taylor 2002; Mendez 2002; Raynolds 2002; Eshuis and Harmsen 2003; Renard 2003).

Some of the large corporations (including supermarkets) might want to improve their public image by channelling funds into NGOs pushing for just such marketing improvements. The supermarkets would stand to reap direct benefits in the longer run from increased supplies of products with growing demand, as well as immediate public relations benefits.

6. Conclusion

Globalisation and the emergence of modern markets have opened up opportunities but also brought challenges to developing country agriculture. For smallholders to tap into new or expanding markets, there is a need to address their impediments to market access. In this paper, we explored some options for improving smallholders' market access. The problem is that 'one size does not fit all'. We believe that solutions are almost inevitably likely to be context specific, affected by several factors. These will include the market being targeted (is it the fresh or processed market?); the structure of agricultural production (smallholder vs plantations); the geography (separation from market and infrastructure), the political, socio-legal, peace and order situation; the socio-economic structure and the extent to which marketing systems have already been developed (e.g., missing markets vs. existing markets functioning fairly well).

We suspect that the current position is that too little is known about which strategy will work under which sets of conditions. What are the success factors? What can we learn from past successes and failures? There seems to be a need for more complete documentation of experiments in improving market access to be able to draw conclusions with any confidence. The failures are at least as important as the successes – although seldom written up – because of the lessons they embody.

We believe marketing systems research is needed, something akin to the farming systems research approach (Fleming 1990; Fleming and Hardaker 1993). That entails getting out into markets, talking to market participants to find what constraints they face as a first step to diagnosing how the systems can be improved. Better understanding the marketing system, including farmers' needs and the needs of other

⁶ The trading arrangement is called Fairtrade in Australia and Fair Trade in the UK.

chain participants is likely to lead to prescriptions and policy actions that will improve marketing efficiency and smallholders' market access.

While we are still at an early stage in this study, we believe that the extent of the emerging problem of market access by smallholders in developing countries has not been widely appreciated. For example, the issue appears to get much lower priority from aid donors, including NGOs, than microfinance. While the two aspects are not unrelated, it seems to us that the balance needs to shift. We hope this paper will have stirred some interest and we look forward to contributions from others as we seek to take our investigations further forward.

References

- Ada, R. 2002, 'Direct supply relationships with Japanese Consumer Co-operatives – A market opportunity', *Agribusiness Perspectives*, Paper 33, [Online], Retrieved: 17 June 2002, <http://www.agrifood.info/Review/Perspectives/2000AdaJapanCoops.htm>.
- ADB 2005a, Linking farmers to markets through contract farming, Proceedings of M4P-An Giang University Workshop, Asian Development Bank, Hanoi.
- ADB 2005b, 'Linkages between farmers and enterprises for contract farming must be improved', *ADB News Release*, Vietnam Resident Mission, Asian Development Bank, Hanoi.
- Bertolini, R. 2004, 'Making information and communication technologies work for food security in Africa', IFPRI 2020 Vision, International Food Policy Research Institute, Washington, D.C.
- Bingen, J., Serrano, A. and Howard, J. 2003, 'Linking farmers to markets: different approaches to human capital development', *Food Policy* 28, 405-419.
- Chen, K., Shepherd, A.W. and Da Silva, C. 2005, Changes in Food Retailing in Asia: Implications of Supermarkets Procurement Practices for Farmers and Traditional Marketing Systems, Agricultural Management, Marketing and Finance Occasional paper 8, Food and Agriculture of the United Nations, Rome.
- Chirwa, E., Dorward, A., Kachule, R., Kumwenda, I., Kydd, J., Poole, N., Poulton, C. and Stockbridge, M. 2005, 'Walking tightropes: Supporting farmer organizations for market access', *Natural Resource Perspectives* 99 (November), 1-6.
- Chowdhury, S. Negassa, A. and Torero, M. 2005, Market Institutions: Enhancing the Value of Rural-Urban Links, IFPRI Discussion Paper 195, International Food Policy Research Institute, Washington D.C.
- Coase, R. 1937, 'The nature of the firm', *Economica*, 4 (November), 386-405.
- Coase, R. 1998, 'The new institutional economics', *The American Economic Review*, 88(2), 72-74.

- Collion, M. and Rondot, P. 2001, Investing in Rural Producer Organizations for Sustainable Agriculture, The World Bank, Washington, D.C.
- Dervis, K. 2005, Interview, *IFPRI Forum*, International Food Policy Research Institute, September.
- Diaz-Bonilla, E. 2001, Globalisation, Poverty and Food Security, Putting Globalisation to Work for the Poor, Sustainable Food Security For All by 2020, 2-6 September, Bonn, Germany.
- Eaton, C. and Shepherd, A.W. 2001, Contract farming: Partnerships for Growth, FAO Agricultural Services Bulletin 145.
- Eshuis, F. and Harmsen, J. 2003, Making Trade Work For The Producers: 15 Years Of Fairtrade Labelled Coffee in the Netherlands, Max Havelaar Foundation, The Netherlands.
- Evan-Wong, S. 1996, Marketing agricultural information services in the Eastern Caribbean', *Library Management* 17(3), 22-28 [online], Retrieved: 04 July 2002, <http://global.umi.com/pqdweb?TS>.
- Fairtrade 2004, Fairtrade Foundation: Review of UK Supply Chain, Returns to Producers and Retail Margin Issues, [Online], Retrieved: 5 January 2005, <http://www.fairtrade.org.uk>.
- Fairtrade 2005, The Fairtrade Foundation: Highlights of 2004, [Online], Retrieved: 5 January 2005, <http://www.fairtrade.org.uk>.
- Fleming, E. and Hardaker, B. 1993, 'Integrating farming and marketing systems approaches in agricultural development project planning', *Agricultural Systems* 42(1), 227-44.
- Fleming, E.M. 1990, 'Proposal for a marketing systems research approach in agricultural development planning', *Agricultural Systems* 32, 97-111.
- Gale, F. 2004, Supermarket Development in China: Implications for US-China Trade in Food Products, International Conference on Supermarkets and Agricultural Development in China: Opportunities and Challenges, 24-25 May, Shanghai.
- Gow, H.R., Streeter, D.H. and Swinnen, J.F.M. 2000, How private contract enforcement mechanisms can succeed where public institutions fail: the case of Juhocukor a.s., *Agricultural Economics* 23, 253-265.
- Hagen, J. M. 2002, Causes and Consequences of Food Retailing Innovation in Developing Countries: Supermarkets in Vietnam, Working Paper 2002-26, Department of Applied Economics and Management, Cornell University, Ithaca, New York.
- Hayami, Y. and Ruttan, V.W. 1971, *Agricultural Development: An International Perspective*, Johns Hopkins University Press, Baltimore and London.

- Hussein, K. 2001, Farmers' organisations and agricultural technology: Institutions that give farmers a voice' *Development* 44(4), Sage Publications.
- IFPRI 1999, 'Symposium in Vietnam grapples with globalisation issues', *IFPRI Research Perspectives* 21 (1), 1-2.
- IFPRI 2000, Bridging the digital divide, 2020 Vision News and Views, September 20, International Food Policy Research Institute, Washington, D.C.
- IFPRI 2003, Will supermarkets be super for small farmers?, IFPRI Forum, International Food Policy Research Institute, Washington, D.C.
- IMF 2002, Globalisation: Threat or Opportunity? IMF Issue Briefs 00/01, [On-line], Retrieved: 18 Jan 2002, www.imf.org/external/np/exr/ib/2000/041200.html.
- Jabati, M.C. 2003, Market Access for Developing Countries of Africa – The Reality, Food and Agriculture Organisation of the United Nations, Rome.
- Klein, P.G. 1999, New Institutional Economics, Department of Economics, University of Georgia, 457-489.
- Krier, J. 2001, Fair Trade in Europe 2001: Facts and Figures on the Fair Trade sector in 18 European Countries, European Fair Trade Association, Maastricht.
- Lele, U. 1975, *The Design of Rural Development*, Johns Hopkins University Press, Baltimore.
- Lele, U. 1981, Co-operatives and the poor: A comparative perspective', *World Development* 9, 55-72.
- McCalla, A.F. 2001, 'What the developing countries want from the WTO', *The Estey Centre Journal of International Law and Trade Policy*, 2 (1), 165-177.
- McNamara, R.S. 1973, *Address to the Board of Governors at the Nairobi Meeting*, World Bank, Washington, D.C. Mendez, V.E. 2002, Fair Trade Networks in Two Coffee Cooperatives of Western El Salvador: An Analysis of Insertion Through a Second Level Organisation, Colorado State University.
- OECS 1990, What is the Agricultural Diversification Co-ordinating Unit?, Agricultural Diversification Co-ordinating Unit, Organisation of Eastern Caribbean States, Roseau, Dominica.
- Phillips, L., Page, S. and te Velde, D.W. 2005, Aid for Trade: What Does it Mean? Why should aid be part of WTO negotiations? And how much might it cost? ODI Opinions, Overseas Development Institute, [on-line], www.odi.org.uk/publications/opinions.
- Raynolds, L.T. 2002, Poverty alleviation Through Participation in Fair Trade Coffee Network: Existing Research and Critical Issues, Background paper prepared for the Community and Resource Development Program, The Ford Foundation, New York.

- Reardon, T. 2004, The Rapid Rise of Supermarkets in Developing Regions: Implications for Agricultural Development, Speech delivered in the International Conference on Supermarkets and Agricultural Development in China: Opportunities and Challenges, 24-25 May, Shanghai.
- Reardon, T. Codron, J., Busch, L., Bingen, J. and Harris, C. 2001, 'Global change in agrifood grades and standards: Agribusiness strategic responses in developing countries', *International Food and Agribusiness Management Review* 2(3/4), 421-435.
- Renard, M. 2003, 'Fair trade: quality, market and conventions', *Journal of Rural Studies* 19, 87-96.
- Richardson, D. 1997, The internet and Rural and Agricultural Development: An Integrated Approach, Food and Agriculture Organisation of the United Nations, Rome, [On-line] Retrieved: 16 April 2004, <http://www.fao.org/docrep/W6840E/W6840E00.htm>.
- Rola-Rubzen, M.F. and Hardaker, J.B. 1999, 'Rethinking development: refocussing strategies on agriculture', *Development Bulletin* 49 (July), 17-21.
- Rola-Rubzen, M.F., Hardaker, J.B. and Dillon, J.L. 2001, Agricultural Economists and World Poverty: Progress and Prospect, *Australian Journal of Agricultural and Resource Economics*, 45(1), 39-66.
- Shah, A. 2005, Poverty Facts and Stats, [On-line], Retrieved: 12 January 2006, <http://www.globalissues.org/TradeRelated/Facts.asp>.
- Sharma, M., Morley, S. and Diaz-Bonilla, E. 2001, Growth and Poverty, 2020 Focus 8: Shaping Globalisation for Poverty Alleviation and Food Security, Brief 3, International Food Policy Research Institute, Washington, D.C.
- Shepherd, A.W. 2005, The implications of Supermarket Development for Horticultural Farmers and Traditional Marketing Systems in Asia, Agricultural Management, Marketing and Finance Services, Food and Agriculture of the United Nations, Rome.
- Shiva, V. 2001, The violence of globalisation, *Anglican Messenger*, April/ May issue.
- Simmons, P. undated, Overview of smallholder contract farming in developing countries, Graduate School of Agricultural and Resource Economics, University of New England, Armidale.
- Soros, G. 2002, *On Globalisation*, Public Affairs, New York.
- Stefanova, K. 2006, Expanding Ethiopia's Agricultural Exports, E-Journal USA Economic Perspectives, [Online], Retrieved: 1 Jan 2006, <http://usinfo.state.gov/journals/ites/0805/ijee/sidebar.htm>.
- Stiglitz, J.E. 2000, 'Two principles for the next round or, how to bring developing countries in from the cold', *The World Economy* 23 (April), 437-454.

- Stiglitz, J.E. 2002, *Globalisation and Its Discontents*, W.W. Norton and Co, Inc., New York and London.
- Stringfellow, R. and Coulter, J. 1997, 'Improving the access of smallholders to agricultural services in sub-saharan Africa: farmer co-operation and the role of the donor community', *Natural Resource Perspectives* 20, ODI, London.
- Taylor, P.L. 2002, Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Synthesis of Case Study Research Question Findings, Report prepared for the Community and Resource Development Program, Ford Foundation, New York.
- TBK 2006, Marketing of Kenya Tea, The Tea Board of Kenya, [Online], Retrieved 8 Jan 2005, <http://www.teaboard.or.ke/marketing.asp>.
- The Economist 2000, Out of anarchy', *The Economist*, 19 Feb issue, p. 76.
- The Economist 2001, 'Getting better all the time', A survey of technology and development, *The Economist*, 10 Nov issue, 1-16.
- The Economist 2005a, 'Tired of globalisation', *The Economist*, 5 Nov issue, pp. 11-12.
- The Economist 2005b, 'Special report Brazilian agriculture: The harnessing of nature's bountry', *The Economist*, 5 Nov issue, pp. 69-71.
- The Economist 2005c, 'World trade talks: In the rough', *The Economist*, 5 Nov issue, pp. 73-74.
- UNCTAD, 2004, *Development and Globalization: Facts and Figures*, United Nations Conference on Trade and Development, New York And Geneva.
- Vietnam News 2004, Farmers and Buyers face contract difficulties, 28 Jan issue.
- Williamson, O.E. 1975, *Markets and Hierarchies: Analysis and Anti-trust Implications*, Free Press, New York.
- World Bank 2002a, *From Action to Impact: The Africa Region's Rural Strategy*, The World Bank, Washington, D.C.
- World Bank 2002b, *Information and Communication Technologies: A World Bank Group Strategy*, The World Bank, Washington, D.C.
- World Bank 2004, *Global Economic Prospects 2005*, The World Bank Washington, D.C.
- World Bank 2005, *Global Development Finance*, The World Bank, Washington, D.C.
- World Bank 2006, Poverty Net, [On-line], Retrieved: 12 January 2006, <http://webb.worldbank.org/wbsite/external/topics?extpoverty/extpa/0,contentmdk>.