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Useful Strategies for Developing Countries Striving to Improve Food Marketing Systems

Three major issues dominate any discussion of strategies for the development of more effective marketing systems which, through the provision of economic incentives and the stimulation of innovation will make a major contribution to economic development. These are:

- (a) the need to design marketing systems able to deal satisfactorily with the increased food supplies required to feed rapidly growing urban populations;
- (b) the means by which the subsistence and semi-subsistence producers can be integrated into the marketing system; and
- (c) the effective use of pricing policies as an important stimulant of agricultural production.

This paper will review the first two of the above mentioned issues, namely urban and rural marketing organizations and will focus on the type of applied marketing research and training considered necessary to bring about the desired improvements. The paper will not deal with pricing policies as these have already received wide attention in other publications,¹⁰ particularly so far as the price level needed to stimulate agricultural production is concerned. Reference will, however, be made to aspects of price policy implementation as related to (a) and (b) above.

The need to direct more attention to the promotion of efficient internal marketing systems is highlighted by the fact that rapid urbanization coupled with agricultural and economic specialization will expose internal marketing systems to continuous stresses as they develop more specialized, diversified and complex systems requiring the application of greater managerial skills. The volume of food that will have to be handled by internal marketing systems in the year 2000 will be about three times greater than in 1975 if account is taken of rapidly growing urban populations and the higher level of food exchange in rural areas.

* The views expressed in the paper are those of the author and do not necessarily represent those of FAO.

TABLE 1 *Growth of urban populations in developing regions*

Region	1971 '000 millions	2000	Annual growth rate in % against 1975
Africa	98.2	377.6	4.3
S. America	137.8	811.0	3.7
Asia	595.6	1,386.4	3.1
Near East	73.6	202.4	3.5
Total	905.2	2,207.4	3.6

Source: UN Population Estimates and Projections, April 1974.

STRENGTHENING FOOD MARKETING IN URBAN AREAS

The pressure to provide food at low prices to urban centres, an important political factor to most governments, is likely to increase in the years to come. The question raised constantly is whether full advantage has been taken of all opportunities available to organize food marketing on a least cost basis. An analysis of the problems of food marketing in large urban areas, say of more than 0.5 million inhabitants, should distinguish between the issues that arise at the retail and wholesale level.⁸

RETAILING

Of the three main traditional food retail outlets in developing countries, namely public retail markets, grocery stores and self service stores, the first named are still the most popular and often account for more than 50 per cent of total food sales, particularly highly perishables. The main problems facing public retail markets are those of organization and management.

Finance. Because of pressure from retailers, the fees charged for use of the market are often so low that they are barely sufficient to cover maintenance costs let alone provide for the recovery of invested capital. Most municipalities with responsibility for markets are, therefore, unable to undertake an expansion of the existing facilities or to increase their number. Consequently, markets become overcrowded and antiquated, and increasingly inefficient.

Maintenance. Many markets are badly maintained, and have low standards of hygiene and waste disposal.

Planning. The few new markets that are built are often planned on the basis of architectural considerations or as prestige projects without due attention to the economic sensitivity of the investment. The markets that have been built are often not used to capacity. In this connection, the

steady pressure of unemployed people for more market buildings as a means of providing job opportunities in marketing has to be recognized. This pressure has induced politicians, as for instance in Latin American cities, to authorize the expenditure of scarce financial resources for new market investments far in excess of the capacity that can be economically utilized. To remedy this situation, better planning, management and financial methods are essential. In planning new retail food markets, particular attention has to be paid to the size and capital outlay to ensure that this is realistic. Account has to be taken of alternative retail food outlets such as zonal and central retail markets where customers are in the habit of purchasing at weekends, retail markets, where customers within walking distance of their homes are able to attend daily, and the availability of other independent grocery stores. Financing food retail markets can be strengthened by setting fees at a level that covers not only administrative and cleaning charges but also allows for the amortization of capital costs. Private entrepreneurs can be encouraged to invest in public markets by being allowed to purchase or rent stalls on the same basis as in "shopping centres", a course that has already been adopted in Argentina, Brazil, Mexico and Indonesia.

Apart from the food retail markets, there are the neighbourhood or grocery shops which serve as major sales outlets for staple or dry foods. The main issues bearing on their productivity are related to:

- the establishment of optimum stock assortments to enable all customers to be adequately supplied;
- the minimization of stocks, i.e., higher stock rotation; and
- group purchasing to improve their bargaining position and to obtain lower prices by bulk purchase. This would, at the same time, promote vertical co-ordination and encourage a larger scale of operations.

All three measures can be applied effectively through closer vertical co-ordination with the wholesale trade in the form of retailer co-operatives and voluntary chains. Some experiments have been made in Bogotá, Colombia, which led to a strengthening of some privately owned store groups. As these measures constitute a realistic attempt to improve the efficiency of distribution, efforts should be made to launch pilot schemes to test such operational procedures under different conditions, as proposed by Link for Argentina.⁷ Consumer co-operatives, with their popular appeal, have barely made a start in the developing countries in spite of the support they have received, notably from Scandinavian aid. One problem has been the difficulty they experience in competing with small-scale retailers whose opportunity costs of labour are generally well below the salaries and social charges payable for the sales assistants employed by consumer co-operatives; in addition their overhead costs are usually higher.

WHOLESALING

The more obvious problems in food wholesaling in the developing countries arise out of the lack of appropriate and adequate wholesale market facilities, so essential for highly perishable foods such as fruit and vegetables, meat, fish and dairy products which by their nature call for fast and timely handling. In most cases where congested and unhygienic wholesale market facilities constitute a major bottleneck, the establishment of new wholesale markets on the periphery of the cities they are intended to serve is the only answer to the present unsatisfactory situation. Again, the key to the problem is not so much lack of available finance restricting investment but more the dearth of reliable economic and technical feasibility studies. The information and analysis needed for a feasibility study has been set out in recent publications.⁸ Still there are a number of major issues that call for more careful consideration:

Size and layout of stalls. Experience has shown that many new market stalls are too large and therefore difficult to rent on a cost-covering basis.

Types of buildings. In spite of frequent indications that economically viable projects can afford only low cost simple buildings, architects are still inclined to suggest sophisticated and prestigious structures which wholesalers are unable to support financially and which cannot reasonably be amortized.

One or more wholesale market? While it is argued in some advanced countries that one central wholesale market is the answer, in multi-million cities served mainly by small traders who do not own a motor vehicle, one central market able to deal with 50 to 60 per cent of total supply, supplemented by satellite distribution markets, may be preferable. The satellite markets provide a convenient supply point for the small-scale retailers in outlying residential areas who must rely on non-motorized means for moving their purchases.

Co-operation with wholesalers. In principle, wholesale markets are constructed for use by wholesalers, but wholesalers are often not involved, or are even ignored, in the planning of new markets. This often tends to reduce the possibility of the market being used by or supported by wholesalers because it does not provide adequately for their needs.

Policies on rents. Unduly low rents are often a major impediment to new investments in wholesale markets and an obstacle to increasing productivity and promoting the growth of more efficient organizations.

Dynamic management. A major constraint on the modernization of wholesale markets has often been the absence of an autonomous agency, fully supported by both local government and the trade, that is able to succeed in achieving a concerted approach by the various groups and vested interests involved as well as being competent to prepare and implement plans effectively.

To summarize the situation, there is considerable scope for improving the planning and operation of food marketing for urban areas, but while

the basic principles of planning are understood, research based on case studies could help considerably in promoting concepts suitable for profitable adoption in particular cases. Areas calling for applied marketing research are:

The changing role of different types of retail food outlets, such as retail markets, including street markets, grocery stores and self service stores as the process of economic development unfolds, and the factors that determine the most favourable combinations of retail outlets in different conditions;

The changing role of wholesale markets in different stages of economic development and the factors that determine number, size and layout in various conditions;

The nature and degree of intensity and vertical co-ordination of wholesale and retail food marketing possible and necessary in different conditions and stages of development.

There is also much scope for specialized training for different types of personnel such as those responsible for:

The planning and implementation of wholesale and retail food marketing facilities at city and enterprise level. Such training has to include the installation of practically orientated concepts of marketing planning and operation;

The marketing of food, such as wholesalers and retailers, on food handling methods, sales promotion and business procedures. This training has to be specific and tailored to the individual needs of particular target groups and has to be organized in close co-operation with, and preferably through, trade associations. It has to be preceded by a detailed survey designed to highlight existing shortcomings, be organized in close co-operation with the trade, and be aimed at removing shortcomings. At present, this approach is undertaken in Brazil with some success by a local agency in co-operation with FAO.

As important as the wholesale market, or even more so, is the food wholesaling enterprise. No other business has, in recent years, been subjected to such regular criticism and been held responsible for various evils in marketing, particularly hoarding and conflict with government price policies, than the food wholesaler. Since he must play an increasingly important role as "channel captain", and as main co-ordinators of the marketing channel, government policies will, in future, have to give greater recognition to the key nature of their role. Government marketing and price policies have to take into account the condition at the enterprise level to recover capital invested in stocks and storage facilities and the labour costs of marketing operations.

Only if future policies succeed in providing requisite incentives for investment and offer a consistency of policies, will wholesalers be induced to play to the full their role, particularly in respect of extending the marketing system effectively to the rural areas.

In summing up suggested strategies for improving food marketing systems for urban areas, there has to be a sharper focus on the systematic planning of the marketing system to make better use of scarce resources. There has to be adequate recognition then of the importance of vertical co-ordination in a fragmented system and higher priority for training of personnel. Price policies have to be designed to provide greater incentives to the trade to make investments in facilities and for improving their operational procedures.

PROMOTING SMALL FARMERS INTO THE COMMERCIAL SECTOR

Bringing 700 million small farmers into the commercial sector is an important priority⁵ if they are to participate in the growth stimulated by the need to feed expanding urban populations. The minimum "marketing mix" or minimum package of marketing and credit services required at farm level to achieve the proposed development target remains in many conditions an open question in view of the complexity of the problems, which are not only economic but also human and social in nature. It may, therefore, be of value to review some of the more important components of the marketing package in this context:

Physical infrastructure. The provision of an appropriate infrastructure at village level, access roads, and the availability of effective communication services, particularly the telephone and mail service, is generally a high priority. There is a question as to the extent this infrastructure could be provided through some form of self help organization, which would mobilize at least some local resources for construction and maintenance. Considerably more thought and evaluative work is required to analyse the factors which determine the success of self help projects and the manner in which they must be phased in order to achieve maximum success.

Farmers' marketing co-operatives have been the chosen instrument for development of many governments and bilateral aid agencies in the last decade, but they have not often achieved the results expected. After many failures, those concerned have become much more realistic as to what can be achieved through co-operative marketing enterprises.¹⁰ A much more careful approach and a more realistic phasing of the co-operative development, including consideration of alternative forms of marketing organization, is needed for a better use of scarce resources.

Vertically co-ordinated production-processing-marketing schemes. Various attempts have been made to advance the progress of smallholders by integrating them into closely co-ordinated smallholder production-export marketing schemes. This has been done for tea (Kenya, Tanzania, Ruanda), bananas in Central America, flowers in Kenya, palm oil in Malaysia, tobacco in various countries and cotton in

the Francophone countries of Africa. It has been demonstrated that smallholders respond favourably to involvement in closely co-ordinated production-export schemes provided the requisite highly qualified management skills can be developed quickly enough and the necessary technical expertise and discipline can be grafted on to a traditional farming community framework to meet export requirements in a relatively short time. Where this management ability was not available and the task of training the farmers was underestimated, schemes have failed.

Rural markets as service centres. Rural markets are the main market outlet of the small farmer. The price he receives there determines to a large extent his income. A rural market is also an important centre of communication and innovation and a convenient point for the provision of additional services. For these reasons policy makers have in recent years given increasing attention to the need to strengthen rural market centres. The Government of India has expanded the regulated market system designed to ensure fair and competitive prices for small farmers and to offer better physical conditions of marketing. The extent to which rural markets can be developed as *dynamic service centres* for small farmers by providing such additional services as credit, marketing promotion, marketing extension and inputs, requires much more investigation, trial and development work. The mere building of new markets and their regulation is not enough. A rural market has to be co-ordinated vertically with the next wholesale market or with the wholesale supply agent in the case of agricultural input supply. The form and degree of forward and backward linkages of the rural market must be determined with accuracy. A stronger dynamic note for rural markets could be developed if the management of such markets were made fully aware of their potential position and if they were able to mobilize to the full all available resources of the production-marketing system. A manager of a rural market, for instance, should be fully aware of the farmer's potential in the market procurement area and be able to co-ordinate fully the efforts of both farmers and traders. There is, therefore, much scope for developing efficient and dynamic managers for rural markets if such markets are to become centres for small farmer development. The rural market centre should, however, never be considered as an objective in itself but only as a means to achieve small farmer development in a practicable and efficient manner.

The role of rural assembly markets will of course change as development proceeds. As vertical co-ordination proceeds, more produce will move directly to wholesale markets as is the case now in South Korea, where rural markets have declined in popularity at the expense of direct marketing. Elsewhere in developing countries, grain is delivered directly to millers and wholesalers, thus bypassing the rural assembly market. The decisive question is for what commodity and in which situations is selling at the nearby rural assembly market more favourable than is selling

directly to wholesalers. To facilitate this decision, competing alternative channels must be available.

The role of private traders. One of the major problems experienced in developing government strategies for rural development has often been attitudes more critical than constructive towards the private trade. In many instances, the private trade is considered responsible for all the shortcomings of the marketing system including the instability of government policies. The numerous conflicts which developed between government policies, particularly price policies, and those at enterprise level in the past few decades have discouraged the private trade from making a greater contribution to rural development and have definitely discouraged the flow of investments into the marketing system, including storage and processing. Small rural traders, with links to wholesale buyers, including government grain market stabilization agencies, could become much more effective agents of change if they were fully integrated into a rural development strategy. The rural trader can become more effective in the distribution of agricultural inputs if he is given technical support and expertise so that he can become an adviser on fertilizer application to the small farmer with whom he is in frequent contact. Access to institutional credit can help the trader to finance a more timely purchasing and stock holding of agricultural inputs and purchase of farm output. A change in the basic pattern of behaviour and attitudes in the private trade sector is needed if it is to become a dynamic force for rural development. This requires government understanding and co-operation in mobilizing local entrepreneurial abilities.

A brief review of the various forms of marketing organization at the rural level reveals the variety of approaches that can be followed. What matters more in moulding future development is not so much the form of ownership be it private, co-operative or state, but more important is the development of adequate managerial capacity in the marketing sector. It must be able to recognise shortcomings, to identify the minimum package of marketing improvement services required and to decide who is best able to implement them most effectively.

Vertical co-ordination of production and marketing activities to integrate the trading sector into rural development as strategic potential "change agents" calls for much greater attention than it has received in the past.

DEVELOPING MARKETING RESEARCH AND TRAINING UNITS TO ADVISE ON NATIONAL POLICIES

An analysis of existing shortcomings in marketing organization and methods shows that these are not primarily due to a lack of finance but are more a question of decision-making, management, institution building, motivation and incentives. Two supporting services which in most of the developing countries are at present extremely weak or non-existent

require strengthening, namely, field orientated marketing research and advisory services and practical training.

More development orientated marketing research

According to the type of economy applied marketing research and planning services are needed for central and provincial government, the larger municipalities and major marketing institutions and universities. In recent years, some governments have strengthened their marketing advisory services. The Government of Tanzania has established a Marketing Development Bureau, and the Government of Mali an Office Malien de Betail, a marketing advisory and planning institute for the livestock industry. Many others lag behind and need assistance in developing effective marketing advisory services.

A distinction can be made between three major areas of marketing research: market analysis, including market forecasts and market information; marketing organization and methods; and government marketing intervention.

In market analysis and forecasting the main problems are in establishing an adequate data basis to provide for timely and accurate forecasts for government decision making on price and market intervention policies. More accurate and timely data on production, production prospects, supply and storage are, for the time being, more important than the development of more sophisticated methods and models.

There is a growing interest on the part of governments to improve the performance of marketing systems by the introduction of more efficient marketing techniques such as packaging, refrigeration, improved handling of grains in bulk as opposed to bags, the marketing of meat as against livestock. These all have an impact on the scale of operations and the type of marketing organization required. In order to comply with the proposals for changes in the type of marketing organization and methods an effective advisory service is required which is technically competent to advise on these issues and to guide systematically the changes required in the marketing system.

Since marketing development is, in many conditions, basically a learning process, any well conceived applied research work will continue to leave open a number of questions. These could be clarified more systematically if greater use were made of well planned and organized pilot operations. Such pilot operations would, for instance, clarify more clearly the time and training involved in bringing about the required changes in the behaviour of personnel. Such pilot operations have been particularly useful where it is intended to reach new markets, to test new packaging and grading standards or to develop new forms of vertical co-ordination as, for example, required in the introduction of voluntary food supply chains for large urban areas. Much greater use could be made of the pilot marketing project by the market researcher. This would help to identify more clearly the most critical factors likely to determine the success or failure of a project and would accelerate development.

In spite of the progress that has been made in recent years in the formulation of development principles, there is still considerable scope for refining concepts of marketing development, particularly for operational purposes. For example, the determination of an adequate standard of performance for a marketing system under well defined conditions and objectives, and how it has to move over time as the general data on economic development change, is still subject to personal judgement.

The project on the rural market centre development in Asia recently instituted by FAO^{8,11} in co-operation with the governments concerned, has already illustrated that aspects of pricing and innovative efficiency in rural markets require considerably more research before they are to be useful for practical operational advisory work. Another issue is the attainment of the optimum scale of marketing operation under different conditions which depends largely on the cost relationship of labour and capital and the structure of the markets to be supplied or served. A further issue is how to determine with precision the right type of package of marketing services required for a specific target farmer group. These issues are closely related to the development of dynamic entrepreneurship in marketing which is so essential in developing countries, particularly in those cultures where levels of entrepreneurship are very low. More conceptually orientated marketing development research work, supplemented by comparative case studies could make a considerable contribution to our knowledge as to what makes a marketing system more dynamic in one situation, as opposed to another. In many conditions this would probably require a multidisciplinary approach in order to cover the non-economic aspects as well.

The various government marketing intervention schemes, as they have developed over the last decade, in the domestic grain, sugar and fertilizer trade, in export marketing and in food retailing in urban areas call for regular evaluation in terms of the objectives established, the means applied, costs and margins involved and the pricing policies followed. Since it is likely that government intervention schemes will show greater expansion in view of the social objectives which many governments hope to achieve by operating special marketing schemes, the demand for regular reviews of these government initiated schemes will tend to increase. In this connection, reference is made to subsidized food distribution programmes to low income groups² and subsidized fertilizer distribution schemes to specific target farmers. It is necessary not only to analyse whether the objectives could be achieved more effectively by other means than through the marketing system but also to determine how the schemes could be organized at lower cost, by such means as improving the productivity of the personnel engaged, or sub-contracting operations to independent operators under competitive conditions. The question of providing adequate incentives in administered countries is a critical issue in many conditions.

More development orientated marketing training at various levels

Many problems of marketing development and the lack of understanding about issues are due to inadequate training in marketing concepts and principles. A recent review of training programmes devoted to agricultural and food marketing initiated by FAO at African and Asian Faculties of Agriculture, has revealed that present training programmes are not meeting development requirements.^{3,4,12} The number of hours devoted to marketing at undergraduate level must be extended and directed to satisfying local development needs. While these undergraduate courses can only provide an appreciation of marketing development problems, there is a need for more specialized courses, either at a postgraduate level in the form of a master's programme or as a diploma course for people who would like to specialize in agricultural and food marketing. Such programmes should be set up in developing countries and should give adequate attention to aspects of agribusiness and micro economics at present neglected. The training has to be supported by field research programmes which at present are extremely weak and this would tend to bring many teachers into closer contact with reality. Another major constraint is the lack of medium level marketing personnel and marketing technicians. A number of reasonably well formulated policies are simply not implemented or only partially implemented because the necessary number of sufficiently motivated and qualified middle level managers and foremen are not available. Government must give a higher priority to middle level training; so little has been done in this field in the past. The trading sector has itself to play a vital role in the organization of such training programmes in order to ensure that training is directed to the attainment of well defined and realistic goals.

CONCLUSION

In conclusion it is proposed that future strategies for the development of effective marketing systems call for greater emphasis on:

the systematic planning of food marketing systems intended to serve large urban areas; this should include the promotion of vertical co-ordination of marketing functions, and the training of personnel;

alternative forms of marketing organization at farm level, meeting the differing requirements of target farmers and promoting the integration of trading sectors into rural development programmes;

marketing facilitating services particularly applied marketing research, designed to provide more systematic policy guidance and practical advice in the development of more complex marketing systems including the promotion of pilot marketing schemes to test new methods and forms of organization;

strengthening training programmes in marketing and agribusiness

management and offering programmes more tailored to development requirements.

promoting the exchange of experience and technical co-operation in marketing development between developing countries.

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DISCUSSION OPENING – JUAN PABLO TORREALBA

Dr Mittendorf has presented a useful summary of the problem areas in the marketing systems of developing countries, together with a set of orientations useful to find concrete solutions in each country, or better, in each situation. The basis of his paper is his large experience as technical

advisor of FAO and important studies and conferences, some of which are listed in the paper's references.

The paper refers to "developing countries", which is becoming increasingly a less meaningful category as more knowledge and data is available. This is especially true if we are talking about strategies in marketing, which commonly have to be designed in a "tailor-made" way.

The paper emphasizes the issue of the need to improve the food marketing system's evaluation techniques. Market performance evaluation criteria can and should be reviewed; least cost cannot always be the decision criterion, but, rather, a set of criteria which must be consistent with development goals. Employment and income distribution considerations would then be considered. This revision of performance criteria would allow the presentation of better quantitative strategies as applied to given situations and policy objectives.

Public retail markets and wholesale markets no doubt can help in reducing food marketing costs. However, there is evidence that undesirable employment and income distribution effects might result if project planning does not consider the marketing organization of the wholesale and retail trades.

Dr Mittendorf refers to small farmer marketing, which is of great importance in Latin America since there is a great number of small farmers facing great difficulties to enter effectively into the marketing systems. Large farmers, on the other hand, generally have been able to create and modernize their marketing channels to capture market opportunities.

The paper shows us the successes and limitations observed in the strategies outlined to incorporate small farmers; unfortunately without referring to the kinds of farmers, product markets or organizational characteristics. This is limiting the lessons of the conclusions arrived at, for comparative purposes or for orientations, since there is no such concept as a "small farmer" but, rather, a wide variety of farmers with different characteristics and potentiality.

At the Inter-American Institute of Agricultural Sciences we have developed a marketing strategy for small farmers which is based on the selection of groups of farmers, by micro-region and production potential, which have a reasonable probability of success in group or associated marketing operations. The implementation of the strategy calls for specially designed marketing services directed to these groups. The strategy assumes that not all small farmers can be selected and that marketing improvements cannot always increase substantially the well being of small farmers.

Finally, I must mention some issues that could be discussed by this select audience:

1. In the latter years a great deal of information and analysis of marketing in developing countries has been done, yet little has been done to construct further the theory of marketing development – in quantitative terms. This could considerably help in diagnosing problems, in

- medium and long range market planning as well as in setting better project goals. Recognition must be given to the Latin American Market Planning Conference at Michigan State University for advances in this area.
2. There is a need to increase research on the impact of small farmer marketing projects and their methodologies, as well as the need to increase the training of small farmers and technicians.
 3. As Dr Mittendorf suggests, more marketing research and training is needed, but it must be orientated to develop “necessary” or “appropriate” marketing systems.
 4. Research and methodologies of economic evaluation of post-harvest losses is urgently needed.

GENERAL DISCUSSION – RAPPORTEUR: LEONARD KYLE

A speaker from India commented that rural markets in that country had operational problems. More emphasis was needed on off-farm storage and more linkage between the public sector and growers. In response to a question about guaranteed fixed prices, Dr Mittendorf commented that without a seasonal incentive a guaranteed fixed price produced a glut on the market near villages of small farms. More storage was needed and competitive prices were preferable. A single government fixed price is sometimes inefficient although it can be used effectively in the case of export crops.

Other speakers wondered how small farmers could be motivated to integrate into the marketing system and why the present paper was optimistic while that of Dr Abbott (also from FAO) was on the pessimistic side.

In reply, Dr Mittendorf agreed that efforts to include small farmers must be built into new and existing programmes for market development. The need for such development has to be appreciated by governments. At present the response was rather variable.

Participants in the discussion included R. Thamarajakshi, M.L. Desward, T. Dams and Hans G. Hirsch.