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Alternative Forms of Marketing Enterprise for the Developing Countries

The focus on rural development and equity in the 1970s stimulated appraisal of marketing mechanisms in terms of their contribution to these goals as well as the more immediate dimensions of marketing efficiency. They were judged not only for their ability to move produce to the best available markets with a minimum of waste and cost, but also for the consideration and assistance they gave to the smaller producers. For these farmers the main considerations are whether they are treated fairly at the local buying stage, how far the marketing system helps and protects them against larger rivals in the same production area, how far the system helps them to match their level of quality of output and to gain access to the techniques and inputs needed to achieve this and credit until sales proceeds come in.

FORMS OF MARKETING

Broadly, the following organisational systems for marketing have been used in providing marketing and associated services for farmers' produce in the developing countries:

—Independent private firms operating within some institutional framework such as assembly and central markets or exchanges, possibly with some mechanism for cushioning extreme price fluctuations.
—Transnational companies bringing processing technology, economies of scale and established market outlets.
—Farmers' associations or co-operatives.
—Marketing boards or other state agencies including special area and development authorities.

The most favourable position for the small farmer has generally been that of participant in a production/marketing contract system for a particular crop organised by an enterprise with assured market outlets for the crop after processing. He receives a full set of services on credit. The quality of the extension assistance provided far exceeds that available normally because it is tailored to the needs of the market outlet served and the processes used. It is likely to be based on specific research and be backed up by the direct provision of seeds, pesticides, fertiliser on credit, etc., together with day-to-day advice on how and when to carry out production operations and the harvesting and handling of the product. Typically this kind of marketing service has been offered by the transnational – B.A.T. for tobacco, Unilever subsidiaries for oilseeds, Cadbury for cocoa in India, cotton in francophone Africa, for example.

Only a proportion of small farmers have obtained access to such contracts. For the great majority the first buyer of their produce has been a private enterprise trader in their village or at a nearby market. The tenor of many government policy initiatives has been to direct farmers elsewhere. The establishment of co-operative or state enterprise marketing systems has been their main action line. Determining factors have been the political preferences of national leaders, a desire to appear to be doing something new quickly and lack of reliable information on the realities of market performance in their own countries.

External aid agencies tended to back up these preferences for much the same reasons, and for administrative convenience; they needed an 'official' counterpart agency to which they could tie their aid or loan. International fellowships for advanced training in marketing went mostly to government officials, rarely to the sons of merchants. Aid resources were concentrated on government sponsored marketing enterprises.

Awareness of the costs of maintaining these bodies in the face of declining government revenues and aid inflows since the recession of the early 1980s has brought a new realism to the policy area. It appears timely in this context to review alternative types of marketing enterprise in terms of characteristic attributes, the advantages they offer and the support needed from governments. The goal is to show for what purposes and under what conditions each performs well. As a basis for this, case studies of enterprises that were generally recognised as successful were assembled from FAO, World Bank and university research sources. The criteria taken for success were that the enterprise had:

—operated continuously for five to ten years without external aid;
—shown little evidence of farmer or consumer complaint;
—shown little evidence of inflated costs and functional inefficiency;
—made a clear contribution to agricultural and general economic development;
—no senior officer who had been sent to prison.

The findings are not new. Together, however, with the case study summaries they constitute useful material for policy guidance and training.

Indigenous private enterprise

Individual private marketing enterprises are well adapted to provide a range of positive contributions towards marketing efficiency and economic development. They have demonstrated themselves well suited to:

1. Take advantage of and exploit unforeseen opportunities and follow up new ideas.
2. Start up and go a long way with very little capital. Private marketing enterprises are great builders of capital assets. Their operators tend to be economical, even parsimonious, in their personal expenditure, very careful in their business outlays, stringent in their requirements of performance from salaried staff.
3. Operate at very low cost. Only those staff are employed who make a positive contribution to the enterprise. Full use is made of family labour available at no cost. Outlays on equipment and other capital expenditure are commonly kept to the minimum and delayed until proved indispensable.
4. Because decision-making is concentrated, these enterprises tend to show ready initiative and a quick response to changing situations.
5. Family ties and kinship linkages can often be used to extend the marketing operation with high confidence and low risk. Where the infrastructure for marketing is at an early stage of development, reliable means of communicating information, sales commitments and financial proceeds are important.
6. A continuing sanction against inefficiency in a private enterprise is that, unless there are barriers to the entry of new firms, it will lose customers and go out of business.

Areas of marketing where private enterprises tend to perform better than others include:

1. Perishable products. Variability in quality, a tendency to deteriorate quickly if not held in special storage or processed, and sharp changes in price in response to variable supply call for rapid responses on the part of the enterprises marketing such products.
2. Livestock and meat. The variability of the product, the need for judgement in appraising quality and value and for care in handling to avoid losses give an edge to direct decision-making. The predominance of private enterprise in the marketing of livestock and meat also reflects a reluctance of many people to come close to the realities of this trade.
3. Combined purchase of produce and sale of farm inputs and consumer goods. When the quantities supplied and taken by each customer are small and varying, considerable local knowledge, patience and willingness to serve over a wide range of hours and locations is needed. Prices may have to be adjusted at each transaction and complex small-scale credit arrangements provided, if such an enterprise is to serve its clientele well. Often only a family enterprise, with a wife or child minding a shop while the husband goes out on rural purchasing and sales rounds, can provide this service economically.
4. New and highly specialised activities in marketing. Characteristically these are the outcome of an individual initiative, not a planned development by a committee or a government department. Not all such

initiatives are successful over the longer run. Nevertheless, to shut the door on the exploitation of unforeseen opportunities by leaving no legal scope for private marketing enterprise is manifestly negative to progress.

Transnationals

Potential contributions of the transnationals to marketing development and efficiency are:

1. Finance. Generally they are in a position to mobilise capital from the lowest cost sources. They can bring this into a country directly to acquire land and facilities and provide a working base. It can also be brought in as equipment, improved seeds, strategic supplies and skilled management and technology for which foreign exchange would be needed in any event.
2. Applied technology. Developing countries face the risk of selecting unsuitable designs and equipment and the problems of putting new plants into operation and maintaining them. Engaging an enterprise with demonstrated experience in applying a desired technology and in a position to keep it up to date is often the safest, and, in the long run, least expensive way of acquiring it.
3. Management. When qualified management experienced in the specific lines of product marketing comes with a transnational it is an immediate advantage. Local personnel can learn from it by working with it. The cost of maintaining expatriate managers will lead the transnational into promoting nationals into their place as soon as they are sufficiently competent.
4. Quality standards and presentation. The transnational experienced in meeting such standards can help a country overcome such barriers to successful marketing. It can also reduce quality risks to domestic consumers and help adapt domestic agriculture to produce raw materials with the required attributes.
5. Market access. In export sales a close link with an enterprise which has established outlets in major import markets is a great advantage. Experience shows that when prices turn down exporters with continuing distribution arrangements in the importing countries hold on to their market and the independents lose out.
6. Brands. These carry great weight with consumers and the wholesalers and retailers who serve them. An agreement to sell through the owner of an established brand enables the producer to share in the benefits of past outlays on its promotion.

Export marketing This is the transnational field par excellence. Here knowledge of the required technology, close familiarity with the import market's requirements and an established position there are strategic. Processed products sold by brand with substantial value added have priority, e.g. pineapple and soluble coffee. Also favoured are perishable products that can reach a distant market under integrated management and be sold by brand, e.g. bananas.

Farm supply marketing. Economies of scale favour transnationals in the development and distribution of higher yielding seeds and poultry strains, and specialised livestock feed ingredients, pesticides, etc. Fertilizer, however, is not an important product of the transnationals. Whilst they helped promote its use, most developing countries now purchase by ingredient specification and branding is not significant.

Domestic marketing. Here the main opportunity for the transnational is in the application of advanced technology and associated commercial management. This can be backed up by use of an established proprietary brand. By introducing into Pakistan their technology for extracting valuable starch products from maize Corn Products Inc., for example, expanded greatly its cultivation with attendant benefits to agriculture.

Co-operatives

The marketing efficiency of a group of farmers is increased by selling together where they can benefit from economies of scale in the use of transport and other services through increasing the volume of a commodity handled at one time and raise their bargaining power in sales transactions.

Conditions recognised as favouring co-operative marketing are:

specialised producing areas distant from their major markets;
concentration and specialisation of production;
homogeneity of production and output for market;
groups of farmers dependent on one or a few crops for their total income.

Factors favouring successful co-operative marketing are:

availability of local leadership and management;
a well-educated membership;
members all belonging to one family grouping, i.e. with strong kinship ties or integrated by religion.

In developing countries co-operatives have shown themselves well suited to undertaking the assembly of fairly standard not very perishable products, such as coffee and cotton, for sale on pre-established markets where the price risk is small; and the distribution of a fairly standard not very perishable farm input such as fertilizer where pricing is pre-established.

Thus the assembly of coffee for export has been a successful area of co-operative marketing in various African countries – generally channelled to a monopoly export marketing board as in Kenya, Uganda and Tanzania. The West Cameroun Cooperative Union exports arabica directly to France. The Windward Islands Banana Association works well as assembling agent for the Geest Company with pricing based on independent observation of the destination market. Most of these assembly arrangements are reinforced by distance from the market and by official protection.

Fertilizer distribution is a classic area of farmer co-operative activity in Western Europe, North America and Japan. In developing countries coffee, banana and other co-operative systems combine it conveniently with marketing the crop on which it is used. This then constitutes a practicable basis for distribution of inputs on credit.

Parastatals

These are autonomous in day-to-day operations but directly responsive to government instructions. They are convenient vehicles for the application of public capital, implementation of government price policies, and assignment of marketing monopolies where these are judged advantageous.

Parastatal marketing bodies have been found advantageous to:

1. *Moderate supply and price fluctuations* on domestic markets by buying into and selling from a buffer stock. The parastatal operating a buffer stock in parallel with other enterprises is specifically adapted to moderating fluctuations in market supplies and prices of products intended for domestic consumers. Most African, Asian and Latin American countries have established such mechanisms to implement minimum prices to producers of major food grains and to protect consumers against prices likely to cause hardship. Sharp variations in price can be caused by marginal surpluses and deficits; buying into a buffer stock some 5 to 15 per cent of the marketed supply of the product concerned is normally sufficient to eliminate wide price extremes. Confining the operation to such proportions limits the capital and subsidy required from the government. It leaves the bulk of the trade to existing marketing enterprises generally able to operate at lower cost, because they have lower overheads and can select their transactions to match their resources and convenience.

2. *Operate export marketing monopolies.* These can obtain higher returns for their growers if they control enough of the total volume going on to a particular market to be able to influence prices. Within its own seasonal niche in the UK market the Cyprus Potato Board has done this very well. With 40 per cent each of the export market for the long staple varieties cotton export monopolies in Egypt and Sudan manage well the markets they dominate. In Zimbabwe the benefits from maintaining high-quality standards for specific buyers have been demonstrated. Where buyer preferences are varied a monopoly board may obstruct price signals from industry seeking to adjust production to its requirements, as in Nigeria in the early 1980s. When the Commonwealth West African export monopolies were set up and sold together they dominated

the main export markets for cocoa, but this is no longer the case. Export markets for coffee are subject to International Coffee Organisation quotas. It is in an exporting country's interest that its best quality coffee goes out in the quota. So some control mechanism is advantageous, but not necessarily a monopoly export board.

3. Operate monopolies in domestic marketing. These are assigned to parastatals to concentrate sales of produce through a particular processing plant to justify the investment, to facilitate collection from small farmers of credit repayments and other dues, and to implement market separation programmes whereby higher overall prices can be obtained.

There are commodity marketing situations where parastatals are common and others where for practical reasons, they have been found less convenient and effective. Major food grains – maize, rice and wheat have priority. Less 'political' grains and pulses, including those often used by lower income consumer groups, receive less attention – because of governments' needs to limit activities that might call for eventual subsidisation. Coffee, cocoa and cotton typically sold by standard quality specifications are widely handled by parastatals. Tea and tobacco requiring direct examination of samples are more often sold by open auction. Livestock and meat, perishable fruits and vegetables and relatively perishable tubers also tend to be left aside.

CONSTRAINTS AND SUPPORT MANAGEMENT

Private enterprise The classic concern about a structure of private marketing enterprises is that they will collude to keep prices down to producers and up to consumers. The remedy is the entry of new enterprise. So government policy will be to encourage the development of competing enterprises facilitating access to information and to capital and to provide local and central market infrastructure.

In various developing countries private marketing enterprises have been considered too many and too small. In an economy where small-scale producers and low-income consumers are also numerous, small marketing enterprises have a role that is strategic. They tend to operate more economically than larger enterprises and provide services that would otherwise not be available. Provided conditions are favourable, some will develop to a national scale. Building on family and religious ties, a few private enterprises in Sudan pushed their shares of some commodity markets up to 80 or 90 per cent. The capital they accumulated appears to have been ploughed back into family businesses which then diversified into agricultural and industrial production. Because this was integrated through the marketing enterprise it led to an effective economic development.

Transnationals The reservations of developing country governments *vis-á-vis* the transnationals have focused on the risks of becoming dependent on them, and so dominated by them. A recent illustration was the concern over the proposed withdrawal of Gulf and Western Inc. from its major sugar and other operations in the Dominican Republic. In fact, much of the steam has now gone out of the issue of transnational power:

1. Because of the uncertainties of foreign investment the transnationals have tended to shift from production in a developing country to the sale of technology, management services and marketing.
2. The panorama of transnationals is now much wider – no longer conspicuously USA-based with its aura of neocolonialism. It includes many with their headquarters in other countries including Japan and in some developing countries.
3. The form of transnational is becoming more varied and more flexible including banks, retailing firms, consulting firms and training agencies.
4. Transnationals have learned to accommodate themselves more to the needs of the developing countries.

Transnationals have been shown very much subject to organised labour and political pressures. Alternatives are available to take their places. The situation has become one where the government of a developing country can assess the benefits that a transnational investment or collaboration can bring to its economy and bargain over the terms.

Co-operatives. Characteristic handicaps of marketing co-operatives are (a) lack of own capital and (b) group decision-making. These follow directly from the democratic principles of the co-operative. If equal capital shares are to be subscribed by all members then they cannot be large: otherwise small farmers would be excluded. This means that most co-operatives depend on government finance for both fixed and working capital. Such capital tends to come on a standardised basis under decisions made at a distance. There is little commitment by the members themselves. Group decision-making implies less enterprise and ability in responding to changing marketing opportunities. Directing committees of farmers often lack management and marketing experience. This also reduces their willingness to offer an attractive salary and bonus to a paid manager. They can be diverted from their long-run interests by influential groups and local politicians.

Stemming also from group direction and the democratic principle is the need to maintain relatively complicated accounts. It can become a major preoccupation in environments where educational qualifications are limited, yet still not protect members against misdirection of funds.

While co-operative systems may not be able to match the cost efficiency of many private enterprises, it is often argued that they should be maintained as an alternative channel. In India some 6 million tons of fertilizer are channelled to farmers annually through a co-operative system operated in parallel with private channels. It is protected by government allocation to it of about 40 per cent of the total supply.

A protected role as handler for the government, or for a marketing board, of some standard product does provide a base from which a farmers' co-operative with the necessary leadership can undertake a range of other activities to help its members, as evidenced in Korea and Taiwan (China).

There are a number of functions for which farmer co-operatives are well suited and of situations favouring successful operation. Promotion of co-operative marketing irrespective of those parameters, particularly as a means of recouping production credit, can involve governments in high support costs for the results achieved.

Parastatals Autonomy in day-to-day operations is vital for an enterprise engaged in practical marketing. While the autonomous parastatal is certainly better suited to marketing operations than a government department, many are still tied too closely to civil service salaries and conditions of employment. While ways are found to add staff, many parastatals find it extremely difficult to terminate them. Management capacity must be sufficient to overcome traditional attitudes and competing loyalties of staff, and the depredations of politicians.

The cost to the government in subsidies for foodgrain stabilisation parastatals are often a continuing burden. These can be kept down by maintaining a wider margin between its buying and selling prices and price differentials for location, quality and storage. It can employ as local buying agents enterprises which already have an operating base and so incur lower overhead costs than direct purchasing stations. Buying costs per bag of maize in Kenya were recently estimated at 4.80 shillings for private agents, 6.15 for direct buying and 7.0 for a specialised co-operative.

If a parastatal is given a monopoly it is in a favourable position to avoid losses that must be met by government, but adequate checks on its efficiency are difficult to devise. In the absence of legal alternatives producers and consumers will be obliged to use its services. It is on them that the burden of its costs will fall. Over the years 1971–9 the costs incurred by the monopoly board of Jamaica in marketing bananas in the UK averaged \$100 per ton higher than those of bananas marketed in Germany from Ecuador. Along this channel a national private enterprise was in competition with two transnationals. If a parastatal monopoly is maintained there should be a clear technical justification – that it permits a certain marketing function to be carried out more efficiently than would be feasible otherwise.

In determining the most appropriate enterprise for a particular situation local conditions can be decisive to an extent that is often glossed over. Where family allegiances are dominant and the commercial infrastructure is uncertain the more elaborate marketing organisations are handicapped.

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DISCUSSION OPENING I – J. NARVÁEZ-BUENO

I would first like to focus my attention on Dr Abbott's confirmation of the importance of non-economic relationships in the agricultural marketing of developing countries.

The governments of developing countries created, during the late 1950s, 1960s and 1970s, public institutions to be in charge of agricultural marketing. Those institutions had a lot of tasks ahead of them, and only a slight idea of the economic reality of their countries. In spite of this, the really successful enterprises were the ones based on family ties and other non-economic links between their members. The knowledge of this fact implies that some of the policy measures taken by the governments were wrong, and so the policy-makers seemed to have forgotten that in those developing countries the anthropological relationships are at least as important as the economic logics in the developed countries. Nevertheless, the public institutions which I have already mentioned should remain, because sometimes they are used as safety nets by individuals and the private sector. There is also a need to study whether the efficiency of the private sector is due to the lack of efficiency in the public sector.

Regarding Dr Schmitt's paper, I would like to make a clear distinction between his theoretical analysis and the final conclusions he draws through this analysis.

In the economic analysis of the political process, I would insist on the various different meanings that the word democracy could be given. More than a welfare function, which is determined by the aggregation of individual welfare functions, in my opinion the more realistic approaches of today are those which consider government policies as a function of the preferences of a group, *influenced* by the preferences of the individual voters, but not *determined* by them, and this function is imposed prior to all other possible welfare functions, due to the voting results of the democratic election.

I do not consider it completely correct to use the example of the EEC as the basis of the conclusions, mainly due to the many historical implications of the Community; because it could serve in the same way to show that, independently of the farmers' group dimension whose interests are discussed, there are many more interests engaged in the discussion, which are not connected with the farmers.

In negotiations of agricultural prices, each nation's representative seems to place the national interest above his farmers' interests and the advantages he obtains are in general part of a more complex strategy.

So I think that in practice the method used by Dr Schmitt is not the best one to study the basic aspects engaged in the elaboration of agricultural policy. Nevertheless, it is a very valuable approach, and many more efforts like his would be very desirable and fruitful for the world economy.

DISCUSSION OPENING II – OLOF BOLIN

Professor Schmitt has in a skilful manner demonstrated the need for a more holistic theory to make us understand the characteristics of present agricultural policy. His approach includes elements of the traditional market as well as elements of the political market, bureaucracy and interest groups acting together in a complex set of institutional relationships.

The main results of his analysis are that agricultural policy (favouring farmers and often not very efficient) is an ideological commitment of society to farmers and that economists have to accept that in their work what they believe are third-best solutions might in fact be first-best solutions according to the political preferences of society.

This 'new institutionalism' is a young art of economic science and many of the findings I think should still be regarded as hypotheses to be tested empirically.

Referring to my and my co-authors' post-session paper, an alternative approach might be appropriate, at least for the Swedish case. It includes elements of time (dynamics and irreversibility) as well as failures of policy and bureaucracy to correct (possible) failures of the market, or in other ways to represent the preferences of society.

This approach combining Professor Mancur Olson's theory of collective action with theories of bureaucracy and political behaviour, is based on self-interest rather than on ideological commitments of society to agriculture.

Consequently, my basic questions on Professor Schmitt's paper are:

1. What is the empirical basis for the statement that agricultural policy is an ideological commitment? Are other hypotheses possible?
2. What about the time element in the theory? Are we not today the victims of a policy that was set up in an economic and political world quite different from that of the present? Has not time in itself made it possible for different actors and interest groups to organise efficiently a strong resistance to changes? We must have in mind that today agricultural

policy is a matter of rather many interest groups and that the policy is capitalised in high land values, high salaries, safe jobs, etc., so, much money is at stake for the persons involved. It might be extremely hard to get rid of a bad agricultural policy (if it is bad).
3. If that is true, cannot economists contribute to a better state of affairs by studying failures of decision-making procedures used by politicians and bureaucracy? They might well be as fatal as the failures of the traditional markets.

While Gunther Schmitt tries to explain institutional behaviour John Abbott tries to evaluate it, according to its marketing performance for certain types of enterprises in the developing countries.

I can shortly summarise my comments in four questions:

1. Is it really possible to evaluate the performance of different enterprises and what is the empirical technique used to judge whether an enterprise fulfils its (often not very transparent) goals or somebody else's goals? Some might be profit-maximisers, others are bureaucracy controlled and still others might be lobby-oriented rent-seekers and used to organise interests etc. I do not think there exists a single norm for society to judge their performance.
2. Has not society the kind of enterprises it deserves according to, for instance, restraints in competition and monopolistic opportunities often supported by the government?
3. Is not free entry the relevant test of behaviour? Without entry barriers sound enterprises survive and inefficient ones have to go out of business.
4. Anyway, it is not enough to know how enterprises develop. To go further and make use of that knowledge we must know *why*. That means that we have to go back to Günther Schmitt's approach to see how the institutional setting works in order to be able to implement a new order of things.

GENERAL DISCUSSION – RAPPORTEUR: JOHN STRAK

It was commented, with reference to Swedish agricultural policy, that it was possible to see policy being influenced by political markets, economic factors and ideological changes in society. Another speaker felt that behind every institution there was an idea and that we could look, for example, at the Federal Reserve Board in the USA and the ideas that lay behind it. Other comments were that the paper needed a dynamic context and that we needed to involve the interaction of technology and institutions. More discussion of the role of ideology in Dr Schmitt's paper was required and the definition of institution might be questioned. Should we distinguish between market and non-market institutions? Farming should not be considered as just a business operation.

Regarding Dr Abbott's paper, the question was asked as to whether the author had used the survivor technique for evaluating marketing enterprise. It was suggested that co-operative marketing enterprise should be encouraged. Another speaker wondered if enough countries were encouraging their local entrepreneurs and what policies would the author recommend for such encouragement?

Günther Schmitt replied to the various commentators by saying that he felt market co-ordination and institutional flexibility were really concerned with the same thing. He also said that there was no difference between the self-interest of farmers and questions about ideology. He agreed that the time element was important and that we should study market failures as well as political failures.

In reply John Abbott agreed with the discussion opener that evaluation was a problem because so few enterprises were eligible over time. He also said that different enterprises had complementary roles, co-operatives worked quite well where their main selling function was undertaken by another organisation or enterprise. Finally, he agreed that even the removal of apparently trivial obstacles to transportation or production could make a large difference to the performance of the farm sector – for example, providing access to larger trucks or to bank credit.

Participants in the discussion included Ewa Rabinowicz, A. B. Lewis, G. S. Bhalla, Peter Soderbaum, Sven Holmstrom, Julian Briz, A. D. Indraratna and Barry Prentice.