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Progress Report  
On Research Contract No. AID/csd-786  
With Michigan State University

Title: A Comparative Study of Food Marketing Systems in Latin American Countries

I. Introduction

This is the fourth biennial progress report on this project which began in April, 1965 and is scheduled for termination on February 28, 1968. The first phase of the study was conducted in Puerto Rico between June, 1965 and June, 1966 with the analyses and report writing extending into 1967. Preliminary arrangements had been made to conduct the second phase of the study in Argentina. However, the sudden change of governments in June, 1966, made it necessary to shift operations to Northeast Brazil where field work was initiated in November, 1966.

In the Brazilian phase of the study we have merged the activities of two U.S.A.I.D. contracts into one field operation - csd-786 and la-364, The Latin American Market Planning Center. This has made it possible to broaden the scope of work to include other dimensions of national market development and to make provisions for activities to implement the results and recommendations derived from the research.

II. Major Activities and Accomplishments

- A. Phase I - The major activities have been report writing and additional computer analysis of Puerto Rican survey data. Kelly Harrison completed a Ph.D. thesis, Agricultural Market Coordination in the Economic Development of Puerto Rico. Copies of the thesis were sent to Puerto Rican agencies that cooperated in the study and to the Market Development Officer, Latin American Bureau, U.S.A.I.D./Washington. John Wish has been making final revisions in his Ph.D. thesis, Food Retailing in Economic Development: Puerto Rico 1950-1965. John Griggs (Latin American Market Planning Center) has

completed a draft of his Ph.D. thesis, Using Systems Analysis to Develop a Mathematical Model of an Economic System, which utilizes data and information generated by csd-786. Mrs. Idalia Rodriguez, Department of Commerce, Commonwealth of Puerto Rico, has supervised the tabulation of a series of summary tables from the 1964 consumer survey by the Department of Labor. She has also drafted additional materials for her Master of Science thesis at the University of Puerto Rico and the consumer chapter of the Puerto Rican project report. However, we are still awaiting the completion of Master Theses by three other University of Puerto Rico students who worked with us on the project. Two of these students are working full time with the Department of Commerce. The other is an agricultural extension agent.

Under the direction of Vincent Farace and David Lindley, the Puerto Rican survey data on attitudes and communication has been further analyzed at the M.S.U. Computer Center. A detailed outline for this segment of the final report has been prepared and the drafting of the manuscript is now in progress.

We have continued to distribute copies of the 112 page report, The Role of Food Marketing in the Economic Development of Puerto Rico, a summary of the seminar held in San Juan, June 8-10, 1966. An additional 200 copies were run off to replenish the original run of 400 copies.

Some results of the Puerto Rican phase of the research project are listed below:

1. A review of marketing literature in Puerto Rico and other developing nations indicated that the atomistic and imperfectly competitive market channels were characterized by high risk, primitive production methods, and ineffective transmission of consumer demand to producers. Three commodity studies in Puerto Rico indicated that where government and private efforts to improve market coordination arrangements have altered atomistic market conditions, these have shown rapid productivity improvements.
2. Three dynamic performance criteria were used to evaluate progress in the production and distribution of milk, eggs, and fruits and vegetables

since 1950. The criteria were (1) costs of production and marketing, (2) progressiveness and (3) product quality. The conclusion of the analysis are:

- a) milk and egg producers and distribution have performed quite well with respect to these criteria. These performance improvements were associated with significant changes in the structure of competition and market coordination;
- b) there has been little progress with respect to these criteria in the production and distribution fruits and vegetables where producers and distributors remain atomistically competitive and ineffectively coordinated. The market structure, competitive conditions and performance remain virtually unchanged from that which existed in 1950.

3. The evidence indicates that special efforts in milk and egg markets to improve the coordination between various stages of production processing and distribution have been associated with lower product costs, improved product quality, rapid adoption of production and marketing innovations, and greater market stability. Simultaneous and joint action by participants at various stages in the production marketing process was required to bring about coordination improvements. In the case of eggs, there is some indication that large scale retailers played an especially critical role by providing a strong and stable demand for higher quality eggs. Similarly, the stabilization of retail milk prices through government milk regulation was critical in the dairy industry.

4. There is evidence to suggest that the rapid increase in the importance of supermarkets did not result in increases in unemployment.

The share of food passing through retail stores was 44% in 1949 and by 1963, 63% passed through food stores. Meanwhile, changes in the efficiency of food retailing continued; in 1963, sales per employee in supermarkets was \$40,000, for smaller stores sales per employee was only \$5,000. Employees in food retailing increased from 23,000 to 47,000. Analysis of these data and adjustment for price level and population changes still indicate that the marketing reforms resulted a net increase in employment.

B. Phase II - The major activities have been the planning and organization of the Brazilian study. The first phase of the plan has been carried out.

1. Organization Staffing and Funding - The last progress report (October 15, 1966) described the initial negotiations with U.S.A.I.D./Brazil and the Government of Brazil concerning the placement of our market development program in Northeast Brazil. On the basis of a preliminary understanding we began to deploy staff members to Recife in September with a continued build-up to our present permanent resident task force of six full time M.S.U. professional researchers. The names of resident staff, their area of specialization, source of project support and date of arrival in Brazil are specified below.

<u>Name</u>	<u>Area of Specialization</u>	<u>Project</u>	<u>Date of Arrival</u>
	Chief-of-Party	1/2 L.A.F.S.	
Kelly Harrison	Agr'l. Econ.	1/2 L.A.M.P.	11/17/66
Donald Larson	Agr'l. Econ.	L.A.M.P.	9/5/66
Joseph Weiss	Agr'l. Econ.	L.A.F.S.	1966
Robert Nason	Mktg. & Transpt.	L.A.F.S.	10/14/66
Thomas Webb	Mktg. & Transpt.	L.A.M.P.	11/4/66
Mark Doctoroff	Management	L.A.F.S.	1/14/66

The campus based M.S.U. project staff have participated in planning activities and in addition have spent considerable time at project site in Recife, in total nearly 6 man months.

<u>Name</u>	<u>Area of Specialization</u>
Professor Charles C. Slater	Marketing and Transportation
Professor Harold Riley	Agricultural Economics
Professor Donald Taylor	Marketing and Transportation
Professor James Shaffer	Agricultural Economics
Asst. Professor Vincent Farace	Communication
Research Assoc. John Griggs	Marketing and Transportation

The M.S.U. task force has been positioned in SUDENE, (Superintendency for the Development of the Northeast of Brazil). Within SUDENE our group is operating as a detachment of the Division of Agricultural Supply. The task force is jointly administered by our M.S.U. Chief-of-Party, Kelly Harrison and Mr. Ferdinando Neves an individual with considerable marketing experience from SUDENE. Two additional SUDENE marketing technicians were assigned to the project last November, but their participation in project activities have been limited up to this time, in part because of uncertainties as to the outcome of the project expansion to be implemented when CONTAP (local currency) funds are made available.

In early April, the Recife task force consisted of the following:

<u>Professional Staff</u>	<u>No. of Persons</u>
M.S.U. Resident Staff	6
SUDENE Technicians	3
<u>Administrative, clerical and student assistants</u>	
Officer Manager	1
Secretaries	5
Translators	4
Librarian	1
Student Research Assistants	<u>6</u>
TOTAL	26

2. The Plan of Work and Memorandum of Agreement - In early November, the campus based project staff of the two contract projects met for three days to discuss plans for the Brazilian operation. In late November and early December, Professors Slater, Riley, Shaffer, and Farace came to Recife to further plan and organize our work with the resident staff. It was at this time we encountered significant difficulty in reaching a detailed

working agreement with the SUDENE staff. Considerable time was spent in discussions with SUDENE representatives as we worked up a plan of work and incorporated this into a Memorandum of Understanding. As a result of the negotiations with SUDENE the project activities were expanded beyond the resource capabilities of the M.S.U. contract projects funded by U.S.A.I.D./Washington. For this reason, U.S.A.I.D./Recife suggested that we request supplemental funding from CONTAP sources (Brazilian cruzeiros). We were assured that these funds could be made available and that it would be reasonable to expect a fund allocation by February 15, with a smaller amount by late January. On the basis of this information we prepared detailed requests for cr \$218,000,000.00 to support SUDENE project participation and cr \$82,000,000.00 to supplement the M.S.U. local logistical budget. After several interactions with the local CONTAP screening committee the proposals were revised and scaled down to a total of cr \$215 million (about \$80,000 at present exchange rate of 2700 cr to 1 dollar).

These funding requests were finally approved on March 27, 1967 assuring us that the funds will be made available. However, further delays in actual release of funds stems from the recent change in government heads from the President on down through top level administrative positions.

During the negotiations for CONTAP funding SUDENE personnel other than Mr. Neves have made minimal contributions to the ongoing work of the project. We have had to delay the filling of 6 professional marketing technician positions and have been unable to hire survey supervisors or make definitive plans for hiring survey interviewers. As a result, the project is at least six weeks behind on the work plan developed in December and incorporated into the Memorandum of Understanding with SUDENE. There will likely be further delays until CONTAP funds are actually released to M.S.U. and SUDENE. In the meantime we are being encouraged by Phil Smith, U.S.A.I.D./Recife and Richard Newberg, U.A.I.D./Rio to go ahead with the work in anticipation of receiving CONTAP funds.

In light of the delays described above it appears increasingly clear that it will be necessary to

either reduce the scope of work or to consider some extension in funding and the termination date for the project.

3. Accomplishments - With excellent support from U.S.A.I.D./Recife our resident staff were able to settle into the community with a minimum of difficulty. All M.S.U. staff and some of the wives have been taking concentrated language training in Portuguese. However, there have been substantial delays in receipt of personal vehicles and project equipment from Puerto Rico.

During November and December a preliminary plan of work was developed (See Memorandum of Understanding, December 16, 1967). This plan was further elaborated into a PERT chart showing detailed scheduling of activities.

Specific accomplishments are listed below:

- a) Collection and organization of secondary data, search for reports of previous studies, and the organization of a library and data retrieval system.
- b) Field trips and reconnaissance activities to observe the conditions in the Northeast and to interview participants at all levels in the production and marketing system.
- c) Approximately 150 semi-structured depth interviews have been conducted and written up in memorandums (both in English and Portuguese). The primary purpose of these interviews is to provide information that can be used in planning more systematic surveys of market participants.
- d) Five of the M.S.U. research specialists prepared research proposals on assigned areas of investigation.
- e) Outlines were developed for the final project reports on the urban food marketing system and a commodity report on beans. The bean report outline will serve as a prototype for the other commodity reports. The hypotheses to be tested were incorporated into the report outlines.

- f) Preliminary survey questionnaires have been developed for wholesalers and retailers, bean farmers and assembly market buyers, and reproduced in both English and Portuguese. These questionnaires are being pretested in early April.
- g) Preliminary sampling plans have been worked out for the retailer and farmer surveys but the farmer surveys still pose some especially difficult problems.
- h) Discussions have been held with the Faculty of Economic Sciences at the Federal University of Recife to arrange for student participation in our research program. Six students are now working on a part time basis. Several additional students will be recruited for field interviewing. Some of the faculty members wish to participate in the study but their roles are still to be defined.
- i) Arrangements for data processing have been investigated both in Recife and at M S U. Present plans are to do most of the processing of survey data at M S U Computer Center.
- j) A preliminary study of legal regulations affecting conduct and performance of markets was carried out in February and March.

### III. Plans for the Six Months (April 15 to October 15, 1967)

#### A. Phase I - Puerto Rico

1. Completion of Ph D theses by Wish and Griggs.
2. Completion of M S theses by three University of Puerto Rico students.
3. Preparation of a draft of a comprehensive report on the Puerto Rico study.

#### B. Phase II - Northeast Brazil

1. Complete Brazilian staffing when CONTAP funds become available. Alternatively, a reduced program of interviewing will be conducted with less emphasis on commodity study.

2. Complete approximately 2000 field interviews (with CONTAP funds and a smaller number if these funds do not materialize at the time we must make a decision) with farmers, intermediaries, wholesalers, retailers and consumers.
3. Edit, code and punch survey data on I.B.M. cards. Make preliminary analyses of data.
4. Prepare preliminary reports on selected aspects of the marketing system, e.g., the transportation system, storage facilities, price relationships over space and time for selected products, cooperative activity in the marketing of food and agricultural inputs, legal and attitudinal barriers in marketing.