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Strategies for Market Development:

A Technical Paper

by

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1. Introduction

- 1.1 This document is designed to facilitate decision-making in agricultural marketing development. It focuses on one part of marketing development only: emphasis is on the rural development approach and on the problems of the small farmers. This is a relatively neglected area in development planning, in international cooperation and in scientific research..
- 1.2 In the light of the widely accepted concepts of the basic needs strategy adopted by the UN World Food Conference in 1974 and the World Employment Conference in 1976, a small farm is defined as one that is marginal to the commercial economy. The small farmer is a central element in the disadvantaged group of the rural poor. To improve their lot therefore, they must be more fully integrated into the development process.
- 1.3 Poverty in rural areas relates to the low productivity of farmers itself caused by a number of severe constraints. Besides lacking resources, there are specific small farmers' constraints which paralyze his resources for better use, and which hamper more rapid development. Rural development must remove these limiting factors; the role agricultural marketing can play in this then becomes the major theme of this paper.

2. The Agricultural Marketing System and Development.

- 2.1 Marketing is the performance of business activities that directs the flow of goods and services to consumer or user; there are technical functions - of transport, storage, processing, etc. - as well as economic and commercial functions whereby the value of the product marketed is determined and ownership is transferred. Thus the marketing process reallocates scarce resources, sets signals about changes in supply and demand and guides future economic activities. Marketing has a mobilization as well as a coordination function, steering production and supply with respect to place, time, form and ownership utilities.
- 2.2 More specifically, marketing is related to the process of development in three important ways. Firstly, the marketing system serves as a major channel for capital movement. At early stages of development, capital, in terms of food and commodities, flows from the traditional to the

advanced sector, allowing for accelerated growth rates of industrialization. At later stages, capital moves back into the agricultural sector in order to raise its productivity and level of output. Still, the net capital surplus has to be drained for fostering economic growth.

Secondly, the marketing system is a major tool for integrating the farming community into the market economy. It links various rural and urban areas with a network for communication and exchange which forms the basis for coordination of social and economic activities.

Thirdly, marketing becomes an important economic subsector itself. The average marketing margin is, even in developing countries where limited services are offered, between one-third and two-thirds of the consumer price. As the marketing system expands, it provides opportunities for increased employment and the development of an entrepreneurial spirit. The absorptive capacity of labor can grow because of the extension of the marketing system with development. At the same time, the comparatively low labor productivity increases in the service sector as a whole.

- 2.3 A specific effort is required for marketing to fulfill its role in helping small peasant farmers. In the first instance, they are not attractive clients for the trading community. Their production is largely oriented towards meeting subsistence needs; decision making is household centered; risk immunizing behavior is characteristic; their marketable surplus is small and unstable and; seasonally they lack cash.

Assurance of a market outlet is vital in inducing farmers to increase production beyond their household needs. If they can obtain at least a guaranteed minimum price, the risk involved will be diminished and they will be encouraged to include marketing aspects in their household decision making process. The crucial point, at this stage, is that all farmers should have access to marketing organizations offering fair treatment and which encourage them to go further into commercial production.

- 2.4 Marketing performance should be evaluated only against the economic, social and political goals of a particular society. An assessment must be based on four major questions:

a. Is the set of marketing functions undertaken in line with the needs of society, particularly as required by the development process?

- b. Are these functions performed effectively, i.e., do they meet farmers', consumers' and national needs?
- c. Are the functions performed efficiently, i.e., at reasonable cost?
- d. Does adequate performance of the functions provide equitable benefits in living conditions, welfare and wealth?

3. Deficiencies of Present Marketing Systems

Statements on marketing deficiencies, particularly those bearing on smaller farms, are limited by the quality of information available. Only recently have studies differentiated between larger and smaller farms and statistically reliable data on the prices farmers actually receive begun to be assembled. Only rarely has consideration of the disadvantages of some of the remedies proposed also been taken into consideration.

Nine major areas of short-comings are discussed below:

- 3.1 Market information. There is strong evidence of lack of market information at nearly all levels of marketing decision making. Small farmers know little about prices prevailing for their products in markets other than their traditional trading points. Public price information systems are hardly effective because their outputs is not timely, accurate and comprehensive. The marketing organizations often lack information on short and medium term marketable surplus and stock, which limits their ability to make reliable forecasts and modify marketing policies accordingly. Lack of accurate marketing information leads to higher risk in production and marketing and therefore to higher costs and margins than under conditions of full market transparency.
- 3.2 Management capacity. A severe constraint on marketing development is lack of marketing and business management capacity. As trade volume increases, numbers of suppliers and distances covered grow; likewise, the methods used become more capital intensive and the organizational network more complex. Skilled people are needed to run a marketing enterprise, be it at local or national level. Education and training of marketing personnel is sadly neglected in nearly all developing countries.
- 3.3 Insecure market outlets. A vital incentive for small farmers in entering cash crop production is reliability of market outlet. Many feel their risk of not being able to sell their produce is too high because of lack of storage facilities, lack of collection services and sharp fluctuations in price due to uncoordinated supplies and lack of competition.

- 3.4 Post-harvest losses. Wastage of food supplies between production and consumption is a long standing problem in the developing countries. Losses in the range of 20 to 30 percent are often reported. Physical losses occur during assembly, transport, storage, preparation, distribution and use of food in homes. Deterioration in quality causes additional economic losses. Poor methods of processing and food preparation may reduce the nutritional value of some foods.
- 3.5 Infrastructure and supporting services. Facilities and services for marketing are still very limited in many countries. Congested traffic and markets in urban consumption centers and lack of all weather access to farming areas are common constraints. Market places need better weather protection, more hygenic flooring, drainage and more space. Lack of standard sales units and grades and of credit facilities reduce small farmers' bargaining power and the prices they receive.
- 3.6 Government intervention. It is generally accepted that governments will endeavour to adjust socio-economic subsystems to achieve policy objectives, particularly in agriculture on which so many people depend. However, arbitrary measures can both hamper marketing efficiency on the one hand and hamper participation and mobilization of the rural population on the other.

Some government sponsored institutions, including cooperatives set up primarily on administrative lines, do not pay enough attention to the interests of the rural poor. At the same time, they have no business orientation. They are often very highly centralized, lack timely and accurate information for effective decision making and operate at considerable cost.

- 3.7 Pricing Policy. One of the most critical factors in mobilizing rural resources is the level of agricultural prices. Often governments are tempted to keep prices to consumers artificially low to help low income urban populations, to fight inflation and to satisfy labor union politics. The corresponding prices to farmers then provide little incentive to increase market production and depress rural income. Frequently, prices are fixed at each stage in marketing without adequate seasonal and spatial differentiation and without much economic consideration. Administrative resources and capital are then taken up unnecessarily in controlling inter-area movements of agricultural products.
- 3.8 Marketing development assistance. Capital aid and technical assistance have increased considerably over the last decade. However, the share of this assistance going to marketing is minute. Neither bilateral nor multilateral aid agencies have committed enough resources to go very far in overcoming the development constraints mentioned above. Marketing specialists with the necessary developing country experience are not being developed in sufficient numbers and the few available are over-burdened with administrative detail.

3.9 Marketing Research. One major reason for inadequate marketing development is sheer lack of knowledge of the marketing processes themselves. The necessary information for determining government policies and especially intervention is still lacking or incomplete. In only a few countries applied marketing research has received any priority in national research programs. Indeed this explains why so little is known on how to identify and assess accurately deficiencies in marketing, how to determine their causes and how to design appropriate policies for incentives, institutions and investments.

4. Research Approach

- 4.1 The question of small farmers' access to markets is the principal focus of the investigation, forcing analysis to relate to all questions of market structure, price policy, cost effectiveness, etc., directly to the condition of the small farmer. As such then, what is desired is a shift away from pure market efficiency questions to equity questions from the point of view of the disadvantaged small farmer. This shift does not imply that efficient markets per se are not necessarily desirable as a mechanism for improving the socio-economic condition of the small farmer. Indeed, the argument can be made that certain efficient market structures actually decrease the small farmers' access, relative to other, less efficient market farms. For example, efficiency criteria usually dictate a minimum lot size far exceeding the capacity of the smallest farmers and usually dictate minimizing the number of points of sale. In contrast, a usable marketing system that serves the need of the small farmer may require a large number of traders, each dealing in very small amounts, and a greater than minimum number of transactions.
- 4.2 The analysis should focus on:
- a. An analytical description of the purposes and outputs of marketing projects.
 - b. A typology of small-producer marketing problems,
 - c. An analytical framework for conceptualizing small farmer marketing problems,
 - d. A preliminary strategy for developing information and design market interventions appropriate for improving small-farmer marketing problems,
 - e. In depth case studies which will serve two purposes:
 - (i) they will provide basic data on existing marketing problems and patterns and relate this information to structural variables characterizing the small farm population,

- (ii) they will fill the gaps in information available through existing literature and studies and projects, filling out the typology of producer marketing structures and problems.

Specific cases should be selected on the basis of two criteria:

- (i) how well they represent unique marketing conditions not already documented in existing studies and projects,
- (ii) the availability of information on macro-economic and relevant social conditions .

The data thus generated combined with the existing information from the literature, on-going projects, and special studies, will provide the foundation for the development of a set of useful generalizations about social and economic trade-offs inherent in alternative marketing systems implemented in the various socio-economic environments.

- 4.3 Specific kinds of trade-offs to be examined, as related to the general question of optimization of small farmer access to markets should include:

- (i) unit marketing costs vs. increased availability of market outlets for small farmers,
- (ii) producers cooperatives vs. a private trade network,
- (iii) public sector intervention vs. assistance to the private sector,
- (iv) marketing efficiency vs. employment,
- (v) small-farmer net income vs. consumer prices.

5. Methodology

- 5.1 The complexities of the marketing system and the interrelationships between economic activity, the legal system, the culture, communications, etc., leads to the concept of a multi-disciplinary team approach for research organization. There is need for simultaneous presentation of data. Economists, for example, often say that they cannot use the microcospic data of the anthropologists for policy purposes; likewise the anthropologists tend to ignore the macro-effects of the farm firm. In both cases, each discipline has tended to reject a useful body of knowledge for understanding the needs of the small farmer. When forming

a team therefore, each discipline should make an input from the beginning of the project design stage.

- 5.2 The choice and size of the task force will have to depend on the budget and the specifics of what is to be studied. Nevertheless, experience shows that certain disciplines in addition to agricultural economics should be included. For farm and rural market studies, anthropology offers keen insights into the organization of economic and social activity in the rural community. Often agricultural economists tend to ignore the existing power relations and equally, if not more important, the power relationships affecting the economic structure being proposed. Often a newly created institution develops its own interests, quite different from those whose interests it was designed to serve: political science deals with many of these issues. Also, when dealing with the workings of the distribution system, it will be helpful to include someone with expertise in managerial marketing (eg. merchandising, packaging, physical distribution and retail management).
- 5.3 Along with the conceptualization of a multidisciplinary approach and task force, research should probe the marketing process at different levels of operation with different tools of analysis seeking insights into the operation and structure of the system and its resulting performance.
- 5.4 The levels that would lend themselves to realistically approaching the marketing problems of small farmers are:
 - a. the task environment of the small farmer;
 - b. a profile of the small farmer;
 - c. marketing institutions;
 - d. the communication system.

6. Market System Policies

- 6.1 Irrespective of the orientation of the economic policies of a country there are common principles of socio-economic development allowing for common elements of marketing improvement programs. These include the optimal development of national resources, the equitable distribution of income and the harnessing of incentives to achieve these goals.

- 6.2 Small farmers need advice in adapting their output of food and other products to market demands and in identifying sales opportunities on national and export markets. Official market information services may have to be established or strengthened to provide accurate and timely information on current supplies, on market requirements and on prices. Market forecasts over the medium and longer term are an essential part of such services.

Market information has to be analyzed quickly and disseminated in a form easily understood by farmers, traders and consumers, and that which can be acted upon.

- 6.3 For major products in general consumption, governments will often be called upon to establish pricing policies that protect the interests of domestic consumers. They have the responsibility of balancing these against the need for production incentives. If farmers are to purchase the inputs needed to expand their output and make the longer-term investments in land improvement, irrigation and equipment needed for further expansion in the future, there must be an adequate incentive. Continuing attention to what constitutes a sufficient incentive is essential if government pricing policies are to be realistic under conditions of inflation, political pressure from urban consumers and import/export prospects. Measures to ensure that the smaller farmers participate in the benefits of such price policies include the regulation of assembly markets, provision of price information, implementation of minimum price guarantees through bufferstock schemes and improvement of credit services. The goal of these measures is fair pricing at rural markets.
- 6.4 To encourage investment in storage facilities, particularly in rural areas, and to reduce the load on central buying agencies, there must be an incentive to store grains at the producer level and in marketing channels. Official price policies must therefore permit a seasonal increase in prices sufficient at least to cover the actual costs of storage.

A base price set on a national level should also be differentiated regionally according to whether areas are normally in surplus or deficit. This is needed as an incentive to develop local transport services and promote the allocation of productive resources and inputs on a country-wide basis of comparative advantage.

- 6.5 Requirements for an effective marketing, particularly for one leading to positive rural development include an adequate institutional building to assure services for efficient marketing. In some developing countries, governments assume the whole responsibility to establish such institutions. However, in a great number of developing countries, government policies

take into consideration the idea of self-help groups built up by small farmers. This concept can lead to a higher motivation of small farmers and the establishment of their own institutions covering production and marketing as well.

6.6 Effective marketing links are needed to keep the smaller farmers within the incentive system for commercial production. These links will include:

- a. group action by farmers to reduce transport costs and improve bargaining power (the classic cooperative assembling agency). On the basis of a simple operation and minimized risk as an assembly agency for a marketing board, such a cooperative can handle credit and function as a local agent for an agricultural bank or central cooperative financing system.
- b. production and marketing contract systems for crops adapted to cultivation by small farmers. These are especially advantageous where they tie in assurance of a market outlet with provision of technical advice, essential inputs and credit. For a small farmer credit system to operate smoothly he should be able to grow at least one cash crop that is handled under an integrated input supply, extension, credit and marketing system so that credit repayment can be secured through the marketing agency. Most suitable to such systems are those handled through fairly centralized processing and marketing systems.
- c. fostering positive action by private entrepreneurs to fill gaps in the linkage to a central purchasing system, to provide an alternative to cooperatives that have come under special domination, and to open a flexible and responsive channel to new market opportunities.
- d. extending assembly market systems further into rural areas to provide local assembly centers where farmers can count on competitive purchasing and protection against unfair practices.
- e. the extension of fertilizer and input distribution systems to reach the smaller and more outlying farmers. This too will proceed fastest if there are at least two competing channels: a cooperative or government system and a private enterprise wholesale and retail linkage.

Government and non-government organizations have complementary responsibilities in ensuring that these links provide the service expected. It is important that government programs leave room for self help groups built up by small farmers. This can lead to a higher motivation of small farmers and the establishment of their own production and marketing organizations.

6.7 Public provision and maintainance of essential market infrastructure, (roads, wholesale markets and storage facilities) is vital for the efficient movement of products from rural areas to urban consuming centers. Appropriate assembly market facilities are also needed and can be coordinated with a rural distribution system for farm inputs, food and other consumer goods. While an official lead in planning, financing and supervision is important, this is an area where local participation can also make its contribution, not only in ensuring that such facilities are adapted to local requirements but also in speeding up their provision and maintaining their serviceability. Thus rural communities can be encouraged to develop local, self help road building projects to improve farmer access to local assembly markets. Farm labor can be mobilized with great advantage for such work during the seasons when agrucultural activity is low. Credit and technical assistance can be instrumental in stimulating investment in marketing facilities, including processing plants for transforming raw products into less perishable and more convenient forms for consumers. A careful watch is needed particularly where local participation is marginal, to avoid wasteful over-construction. Objective third party feasibility studies can help greatly against costly mistakes. Particular attention should be paid to the relative advantages of labor intensive as against capital intensive technologies and to flexibilities in adapting new conditions over the expected life of the investment.

Agenda for Workshop on
Small Farmer Marketing Systems in
Developing Countries

Monday April 14

- 9:00 a.m. Opening remarks
- 9:10 a.m. Chairman's remarks
- 9:30 a.m. - 12:45 p.m.
- 9:30 a.m. Scarlett Epstein
- 10:00 a.m. Weber /
Finan /
Fox /
- 11:00 - 11:15 a.m. Break
- 11:15 a.m. Appelby /
- 11:45 a.m. Schwimmer
- 12:15 p.m. Comments of discussant: Argento
- 12:45 - 2:00 p.m. Lunch Break
- 2:00 - 4:00 p.m.
- 2:00 p.m. Lewis
- 2:30 p.m. Trager /
- 3:00 p.m. Narendran /
- 3:30 p.m. Comments of discussant: Benedict

Tuesday April 15

- 9:00 a.m. Case study Thailand
- 10:00 a.m. Guatemala
- 11:00 a.m. Cameroon
- 12:00 a.m. Discussion
- 1:00 - 4:00 p.m.
- 2:00 p.m. PID review
- 4:00 p.m. Chairman's closing statements