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DEVELOPMENT OF NATIONAL MARKETS IN LATIN AMERICA
SUMMARY CONCLUSIONS & RECOMMENDATIONS

I. Introduction

In this paper, an attempt is made to focus on those factors that generally inhibit the growth of the Latin American national markets and which are relatively susceptible to favorable change without substantial additions of public capital or expansion of human resources. With this in mind, deterrents to market growth arising from land tenure, infrastructure, supervised and other forms of credit, and problems of agricultural technology (education, research, and extension) are not stressed. Most Latin American governments are now making substantial investment in these areas.

The pressures of demand on supply of agricultural product are now generally recognized. It appears, however, that too little attention has been given to the market structure, which, on the one end of the distribution chain, increasingly exerts a price squeeze on the farmer and, at the consumption end, results in excessive costs to the urban consumer.

It is to be noted that urban working and lower middle class Latin American families on the average spend more than 50% of disposable income on food requirements; add to this their housing needs, and there remains only a sharply restricted market for consumer goods of all other types. Meanwhile, the rural population, usually substantially more than one-half of the total, is able to consume only a small fraction of manufactured goods, either imported or domestically produced, and these by and large are limited to articles of prime necessity.

In most countries strenuous efforts are being made to assist the farmer through research, extension services, credit, improved land tenure, and by other methods. It is by no means implied that these efforts should be diminished.

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In fact, increases may well be justified in some areas. This paper suggests, however, that one of the principal ingredients, motivation, is largely absent from the rural scene. Until there are incentives to produce in greater quantity and at quality standards, reluctance to grow special crops, to employ more modern technology, utilize credit, or make capital investment will persist. Large rural population groups depending wholly upon subsistance agriculture, in cultural and physical isolation, present additional problems to which this paper does not immediately apply).

It is understood that an essential element in market development is favorable governmental policies. This paper assumes that efforts will continue to promote such policies as a framework within which the development of National Markets can be accelerated.

II. Conclusions

The recommendations for action contained in this paper stem from three basic conclusions:

1. Efficient marketing of farm products is dependent upon a modern urban-based distribution system.

2. Efficient farm production is dependent in substantial part upon predetermined quantitative and qualitative demand for marketable agricultural crops.

3. Efficient urban-to-rural marketing is dependent upon increased farm incomes, specialized production of inexpensive commercial and consumer goods, improved rural exposure to buying opportunity, and adequate rural consumer credit.

4. Urban-based operations generally offer the most appropriate point of application for efforts to develop national markets because of their relatively superior communications within and outside the country.

(It should be noted that it is an essential feature of National Market Development to deliver agricultural products to the urban consumer at lower prices, thus

increasing his purchasing power, while assuring greater total income to the farmer, so that he may purchase the products of urban areas.)

A. Efficient rural marketing is dependent upon a modern urban-based distribution system.

Om general, Latin American urban marketing structures have the following characteristics:

1. Farm produce production, already inadequate to satisfy the pressure of demand, suffers excessive losses between grower and consumer through lack of market information, transport, storage, freezing and drying and other processing facilities; absence of standards of quality grades and shipping containers; and perpetuation of archaic central market systems.

2. Expansion of meat supply is deterred by unrealistic price controls, lack of price-related grading systems, inefficient slaughtering practices, and sbsence of wholesale-retail meat cut standards. Poultry and fish production and marketing has not been properly encouraged and developed as lower-priced high-protein foods.

3. Commercial and consumer goods (soft, durable, and processed foods) industries have been geared largely to import substitution products at volumes and prices for distribution only to the upper middle class and carriage trade consumer. Current distribution systems, based upon the exclusive distributor, especially in the processed food field, have contributed heavily to low-volume, high-price operations. Export taxes and regulations have tended to discourage the seeking of export markets, either within or outside LAFTA, to augment volume in manufactured goods for cost-price reduction. Excessive tariff protection has reduced competitive incentives to maintain quality, improve technology, lower costs and spur re-investment.

Inadequate or non-existent legislation and enforcement of labeling regulations and standards of grades and qualitieis, coupled with outdated advertising, promotion, and packaging practices, have delayed the adoption of modern retailing techniques and the establishment of domestic production lines which should break down traditional consumer preferences for higher priced imported products.

Improved product development lags because management of manufacturing industry is trained and oriented largely toward the product rather than the market. Absence of reliable market data makes production and marketing decisions highly speculative and tends to encourage undue conservatism.. Specialized marketing management is in the minority and distribution costs are rarely known.

4. Substantial expansion of retail sales volume, in durable goods and certain categories of soft goods, is limited by the working capital available from proprietary resources and short term high cost commercial credit, in the absence of institutions specialized in factoring or discounting installment sales instruments.

5. Particularly in food stuffs, there are an excessive number of small and often specialized retailing establishments in relation to the urban family unit population; this causes highly fragmented purchasing power, low volume high cost marketing, and costly servicing by suppliers.

B. <u>Efficient farm production is dependent in part upon pre-determined quantitative and qualitative demand for marketable agricultural crops.</u>

Typically, Latin American farm production is characterized by:

1. Non-specialized subsistence farming, with a small surplus or cash crop.

2. Random marketing of excess product at the nearest gathering point, i.e., wholesale-retail public markets.

3. Farm income from sales determined by forces and distribution channels outside the control of the farmer, resulting in low level farm incomes and high cost product to the urban consumer.

4. Lack of profit or other incentives to apply modern agricultural techniques or to make capital farm improvements.

C. Efficient urban-to-rural marketing is dependent upon increased farm income specialized production of inexpensive commercial and consumer goods, improved rural exposure to buying opportunity, and adequate consumer credit available at the point of purchase.

As a broad generalization, rural consumption of urban produced manufactured goods remains at low levels due to:

1. Lack of purchasing power, consumer credit, or access to savings institutions (e.g., credit unions) for capital accumulation.

2. Failure of urban based manufacturing enterprises to produce the types and qualities of goods required or desired by the rural consumer at prices within his purchasing capacity.

3. Lack of effort and incentives to develop improved channels of distribution and methods of marketing to effect larger range of product exposure to rural consumers.

III. Recommendations

1. Objective. To establish integrated wholesale-retail market systems, the various units of which would have sufficient purchasing power for large scale central procurement and warehousing of foods (fresh and processed), allied products, and other high traffic consumer goods, with efficient distribution to modernized retail outlets to reduce the cost of product, distribution, and selling price to

consumers. Such units may be corporate chain, voluntary chain (wholesaler sponsored or retailer owned), or consumer cooperative in legal form, may involve food brokers, and should develop retailing operations designed to serve working and middle class families.

2. Possible Actions by Governments or Institutions

i) Special tax and capital investment amortization incentives, domestic investment guaranties, preferential loans, and such other incentives as may be required to stimulate the expansion or establishment of food processing industries and related production of packaging materials, commercial and industrial refrigeration, standardized store fixtures, etc.

ii) Similar incentives in the import-export field, on a unilateral basis and through LAFTA and CACM.

iii) Legislation establishing labeling regulations for all processed products and standards of quality and grades with suitable enforcement to create and protect consumer confidence in local products.

iv) Legislation as required to create a favorable climate for investment in corporate or voluntary chains and the formation of consumer cooperatives.

v) Encouragement and partial financial support of advisory services to be administered by an Association of Food Retailers, Productivity Center, or other appropriate institution, available to all food retailing establishments seeking to modernize operations.

vi) Encouragement and partial financial support of an independent packaging institute to provide technical and design guidance in modern sales packaging of consumer goods in support of domestic and export marketing effort.

vii) Encouragement and partial financial support of a food processing experimental pilot plant and quality testing service for industry, possibly in cooperation with an agrarian university so as to provide continuing training facilities in food technology.

viii) Encouragement of competition and discouragement of monopoly.

B. Recommendations for Increasing Farm Production and Income

1. Objective. To provide motivation and resources for farmers to produce specialized quality grade commercial crops and livestock, individually and/or collectively, through direct contract with institutional buyers, food processors, and integrated wholesale-retail market systems.

2. Possible Actions by Governments or Institutions

i) Review of policies on sales price controls to permit free pricing in the market place of various grades of produce, livestock, meat cuts, etc. to provide farm income incentives for investment in improved output.

ii) Legislation establishing standards of grades and quality for fruits, vegetables, livestock, meat, poultry, and fish, and for standardized shipping containers for domestic and export transport.

iii) Organization and/or support of a market news service that will provide effective communication between farmer and buyer of current and projected supply and demand.

iv) Legislation as required to encourage the formation of farm production and marketing cooperatives.

v) Initiative in providing capital and/or credit to establish strategically located storage, drying, canning or freezing facilities to reduce the impact of wide market price fluctuations on preservable products.

vi) Encourage the direct contract procurement of farm product from growers to meet government needs by large government buying agencies, i.e., military forces, public hospitals, etc. against grade standards and coordinate this activity with existing extension services and agricultural credit institutions. Provide, if required, special credit facilities and extension assistance to growers who cooperate in producing commercial agriculture crops under direct contractual arrangements with processing industries.

C. Recommendations for Increasing Urban Production for Rural Consumption

1. Objective. To encourage the production of low cost commercial and consumer goods and its distribution to rural consumers.

2. Possible Government Actions

i) Special incentives (tax, credit, amortization, etc.) to encourage private sector investment in production and marketing facilities for categories of low cost commercial and consumer goods (clothing, household and farm equipment, etc.) needed for and susceptible to rural consumption. This should include study of means to use existing under-utilized capacity, through new product lines, etc.

ii) Eliminate export taxes on manufactured goods to stimulate lower cost production through enlarged market potential.

iii) Study the advisability of internal transport subsidies for marketing cost equalization to encourage private investment in and decentralization of small-market-scale, labor intensive industries, particularly in food processing and basic consumer goods, i.e., apparel, shoes, household furnishings, etc.

iv) Organize and support consumer credit facilities specially structured for the rural buyers (crop to crop credit) at preferential interest rates.

v) Study the possibility of establishing an effective rural free delivery postal system that would encourage the usage of the mail in distributing small unit size consumer goods.

vi) Study the feasibility of governmental underwriting, on a time-limited pilot scale, of a mobile marketing system for distributing staple foods and a limited assortment of basic necessity consumer goods to rural villages on a scheduled basis.

vii) Investigate incentives that might be required to encourage urban large scale retailing units to establish satellite, surplus, or manufacturer outlet type stores in smaller towns in rural areas, through direct operation or by franchise, in order to expose farm buyers to wider assortments of commercial and consumer goods.

Potential External Resources to Assist in Expanding National Markets

While national market integration and expansion is dependent upon a substantial range of inter-actions between government, private entrepreneurs, farmers, and financial, technical and educational institutions at all levels, certain types of financial and technical assistance can be focused on critical sectors to aid in speeding the process. Some of these types of resources are listed below.

A. Investment

New private investment in food processing production, packaging, refrigeration, and related industries, should be encouraged by all means, including assigning a special high priority for this in both AID's extended risk guarantee program to U.S. investment-lenders and in Cooley loans (where available) for U.S. overseas subsidiaries or joint venture corporations (50% or more U.S. citizen ownership). Broadening of AID's assistance through Title IV investment surveys, through revised legislation, should be considered, with particular encouragement for joint ventures.

AID loans to intermediate industrial and agriculture credit institutions should contain in the terms of agreement a high priority criteria for sub-loans to projects identified as contributing to national market objectives. Corollary efforts should be made to induce national industrial development institutions and external financing organizations with equity financing capabilities to place emphasis behind national market goals.

B. Distribution. Special programs may be required to modernize distribution patterns in some cases, where adoption of high-volume low-markup distributing methods is not accomplished unaided through the actions of producers from one end or retailers and retail groups on the other. Modernization in food distribution may be accelerated through direct contacts with existing private firms and groups to stimulate pressures for such changes, and conversion of distributors into brokers may be appropriate in some cases.

C. Technical Assistance - Loans and Grants

In any or all of the foregoing recommendations relating to suggested governmental action, contract or other specialists could be supplied to (1) assist in the technical aspects of legislative requirements, (2) provide training, or (3) direct pilot or demonstration projects. Many of the external skills required currently are to be found in personnel under contract arrangements with AID Missions in Latin America and assigned to host country institutions or are with FAO, OAS, or ILO. A coordinated effort could be made to focus these skills on projects supporting growth of national markets. Additional specialists, as required, could be assigned to national market development programs either through a technical assistance component in loan projects or by grants.

D. Surplus Equipment

Consideration should be given to the use of surplus equipment to stimulate

the formation of small enterprises manufacturing goods to meet rural needs, with the income generated by installment sales converted to revolving loan fund for working capital requirements of small industry. This could be coupled with industrial park programs that make available factory shells at lease-option-to-purchase arrangements.

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