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IMPROVING SMALLFARMER ACCESS TO MODERNIZING VALUE CHAINS IN INDONESIA AND NICARAGUA

by **Thomas Reardon** reardon@anr.msu.edu, **Ronnie S. Natawidjaja** and **Francisco J. Perez**

The value of access

THE AGRIFOOD ECONOMIES of developing countries are undergoing a deep restructuring, with a rapid diffusion of supermarkets, fast food chains, modernized wholesalers, and large-scale processors. With globalization and rising competition, the food industry is moving away from reliance on the spot markets and brokers that dominated traditional product value chains. Early indications are that this profound transformation may tend to further exclude many smallfarmers from market participation.

Previous research has shown how asset-poor smallfarmers in Latin America generally were excluded from the benefits arising from the agro-export booms that followed globalization and market liberalization. Smallfarmers fared somewhat better from changes in agro-processing, with research in Latin America and Eastern and Central Europe showing mixed “inclusion” and “exclusion” impacts on smallfarmers. Whether smallfarmers found themselves able to participate in the markets was conditioned on the structure of the farm sector, quality demands by consumers, and the degree of restructuring of the processing sector, among other factors.

Now, emerging evidence suggests that the rapidly developing restructuring in the food industry tends to exclude many smallfarmers, especially those with poor asset portfolios. For example, research examining tomato growers operating in the transforming markets in Guatemala, Indonesia, and Nicaragua shows that, unassisted, asset-poor smallfarmers are excluded from modern channels, the governance of which is dominated by specialized/dedicated wholesalers and supermarkets. Only those smallholders with an adequate asset base are able to participate.

Our project will detail the extent to which the restructuring of product value chains, driven by the transformation of the food industry, affects smallfarmers’ access to markets. The findings will help in the design of programs and policies that enable poor farmers to build the assets needed to access the dynamic markets in a rapidly changing environment.

We will work closely with development programs that help producers access dynamic markets, and we will inform the technical assistance activities that, if replicated in part or in whole, would help profitably link smallfarmers to the restructured markets.

Determining participation

Smallfarmers dominate the horticulture sectors of Indonesia and Nicaragua, both of which are seeing a rapid restructuring of their food industries. By working in these two countries, the project can draw important Asia-Latin America comparisons and create south-to-south learning opportunities.

The project will gather data through key informant interviews with supermarkets, wholesalers and selected smallfarmers or farmer organizations along the product value chains. We will carry out field surveys of farmers participating in various market channels, and focus groups with farmers associations, women entrepreneurial groups, and other stakeholders. Participatory rural appraisals will help us understand the policy, organizational, institutional, and socio-cultural context of the study areas, and the constraints and opportunities in the markets and at the production level.

The first goal is to determine the nature of the restructuring of the product value chains and what factors drive the changes. We hope to learn the extent to which restructuring is driven by export or domestic retail transformation, and how government policies condition that restructuring.

We then will seek to detail the factors that determine the participation (inclusion or exclusion) of smallfarmers in the restructured market channels. We will look at the specific roles played by the range of assets a smallfarmer holds, both as to type of asset and as to thresholds needed to be a part of the restructured value chains. We will pay especial attention to how smallfarmer organizations and the way they are designed condition that participation, and how USAID and government policy and development programs can best improve participation.

Finally, we will detail the asset and income effects of market participation in modern versus traditional channels—the costs, benefits, and risks of participating in the differential channels. We will be able to test the extent to which a smallfarmer’s assets, local institutions, and government policy determine inclusion in the markets. We also will be able to show the extent to which participation in modern channels provides net benefits and lower risk than traditional channels. Our findings will allow us to form policy recommendations that bolster context- and country-specific policies intended to help smallfarmers build assets and improve their access to modern channels.

INDONESIA

The evidence that the rapid transformation of the retail and wholesale sectors in Indonesia tends to exclude all but the asset-rich elite smallfarmers has alarmed policymakers. Our project will aid efforts to create more broad-based participation in the modern markets.

We will undertake supply chain mapping studies for mangoes and mangosteen, which have strong market potential both domestically and as exports, and consequently are priority products in the Ministry of Agriculture’s long-term development plan. The national-level segments of the supply chain will be studied in the main urban zone of greater Jakarta. The local-level segments will be studied in the primary production zones for mango and mangosteen.

We will conduct village and wholesale market and off-market wholesaler surveys. Case studies will be drawn from interviews with modern retailers, the food and beverages industry, agriculture exporters, import companies, inter-island traders, wholesalers in the large traditional central markets, farmer associations, women’s entrepreneurial groups, and government offices.

The extremely poor state of the wholesale market infrastructure and institutions in West Java, one of the study sites, is a major impediment to farmers accessing the rapidly growing horticulture markets. The government hopes to upgrade the wholesale sector, with the first step to pilot a collection point system in rural areas. Our research project would immediately inform that local-level policy and investment effort. Also, the Indonesian researcher on our team has put forth a unique proposal to create quota wholesale areas for farmers’ groups to be present in the new wholesale market system.

Nationally, the horticultural value chains targeting the cities and exports are in alarmingly poor condition. The Ministry of Agriculture’s Horticulture Division has targeted value chains such as mango and mangosteen for major upgrading in order to include smallfarmers, reduce transactions costs, and reduce produce prices to the urban poor. Our Indonesian co-PI’s local institution is a key informant to the Horticulture Division, and our work will have a direct impact on government efforts to help poor farmers access dynamic markets.

NICARAGUA

The new government in Nicaragua is debating strategies to alleviate poverty in rural areas. The prior government had emphasized the development of large agribusiness firms that, in turn, would increase wage-employment for the rural poor. The new government is considering how to focus investments on small and medium rural enterprises and smallfarmers. The approach under debate is whether to create and strengthen “second floor cooperatives” (cooperatives of cooperatives) that will help producers to access dynamic and more stable markets. Also under debate is the provision of non-permanent subsidies to farmers.

Our study will address these issues as we analyze both the household and the cooperative/association levels in the value chain, and the constraints to accessing wholesalers, processors, and retailers. We will seek to determine key determinants of market access at these levels, and the best strategies to gain this access.

Our research also will directly address the informational needs for designing the “Zero-Hunger Program.” This initiative seeks to move away from food subsidies for the rural poor toward building their asset base, thus helping them access dynamic markets. One of the products the program targets is dry beans, which is one of the crops of our study.

Also, the government is promoting the formation of product-specific clusters, which are networks of government, NGOs, exporters, retailers, and producers. The goal is to increase competitiveness while providing market access for small producers. Our case study and value chain analysis will address issues of how to form these networks. Our findings concerning determinants of access, and thus micro-level requirements for channel entry, will help in the design of support programs for the clusters.

Our study zones in Nicaragua are in the rainfed lowland humid zones where plantains are a key crop, and rainfed semi-arid zones at a variety of elevations where dry beans are a key crop. Our surveys will give a full picture of smallfarmers’ assets, production, marketing, participation in organizations, access to services such as credit and technical assistance, and other household and individual characteristics and incomes.

Information collected at the farmer/household level will map the type of households that have access to dynamic markets (supermarkets, export markets, and modern wholesale and processing) versus those who have access only to traditional markets. An important goal is to determine what assets (human, organizational, physical, financial, social capital) were held *before* a household entered the dynamic market channel. This will allow us to infer threshold investments and to determine changes in marketing behavior and technology correlates over time and across households.

We will build on a previous study that generated data on household welfare measures from before the introduction of new market channels. By revisiting these households we can generate longitudinal data matching market participation patterns over time to agricultural technology choices and the evolution of household welfare indicators. This will allow for a clear understanding of the causal relationship between market participation and household welfare, taking into account both the timing and the extent of market participation. We also will be able to illustrate the role of women in the adoption of technology choices and access to markets.

Interviews with market channel participants will be conducted to complement the information collected in the survey. These interviews will be with participant NGOs, farmer cooperatives, and service providers. We also will visit local wet markets in metropolitan and rural areas to collect contrasting price data in order to describe transportation costs, intermediate prices and quality standards across supply chains. A case study methodology will be used to analyze the impact of organization differentiation on farmers. An in-depth analysis combining results from the supply chain analysis and the rural household surveys will be useful to determine successes and failures of organizations helping producers adopt a dynamic channel comparing success rates with scenarios where non-NGO assistance is provided.

Collaboration and policy

Our collaborating institutions are unique in their countries and regions in the ways in which they already combine research, extension, and teaching in product value chain and rural household economics. The project work will help these institutions to



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Authors

Thomas Reardon
Michigan State University, USA

Ronnie S. Natawidjaja
Padjadjaran University, Indonesia

Francisco J. Perez
Central American University, Nicaragua

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Comments encouraged:
Department of Agricultural and Applied Economics,
University of Wisconsin,
Madison, WI 53706 USA
basis-me@facstaff.wisc.edu
tel: +608-262-5538
fax: +608-262-4376
<http://www.basis.wisc.edu>

become sustainable models for other institutions and centers of excellence at a regional level.

In Indonesia, the prime collaborator is the Center for Agricultural Policy and Agribusiness Studies (CAPAS), which is a highly engaged and locally applied center with the ear of national policymakers. CAPAS will give the project access to extensive multi-stakeholder networks whereby training can be extended beyond the classroom to directly reach farmers groups, wholesalers, retailers, and extension agents in West Java, the “horticultural products basket” of Indonesia.

In Nicaragua, our main collaborator is Nitlapán, a research and development institute of the Central American University whose aim is to explore alternative ways to promote rural development. Nitlapán works closely with the national government in policy formulation. The project also will assist Nitlapán’s efforts to extend its work beyond national borders and to become a regional center of comparative research throughout Central America.

Through our collaborations, we will be able to turn project findings into policy recommendations for the development programs of the host-country governments and USAID missions.

In Indonesia, the project will directly inform the supply chain upgrading efforts and the buyer identification activities of the Indonesia Agribusiness Market and Support Activity. We also will be able to inform current efforts to expand microcredit to agroprocessors.

In Nicaragua, our project will contribute directly to the Mission objective of fostering trade-led economic growth and rural diversification through implementation of free trade agreements and improvements in the competitiveness and market linkages of Nicaraguan businesses. Several ongo-

ing or new Mission initiatives are strongly complementary to our project. Examples include the “Wal-mart Agreement,” which trains farmers in the supply chain to Wal-mart, and the Millennium Challenge Account activity administered through the Mission, which has a focus on improving infrastructure and rural business in order to improve market access for rural smallfarmers.



Related reading

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