

PAPER 4

Access to Markets

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Food markets and government policies

Producers and consumers rarely meet nowadays at the same place, but are always connected by markets. Markets represent, therefore, both an institution and a mechanism for exchange between producers and consumers. In the process, markets provide employment and income to various layers of intermediaries who provide a variety of services in the markets (e.g., packaging, transporting, storage, quality assurance, insurance, etc.). Successful markets need Government support for the development and administration of markets in the form of physical, legal and administrative infrastructure for effective functioning of the markets.

The Noble Prize winning economist Amartya Sen published in 1976 his research on the Bengal Famine of 1943 in which some 3 million people (out of total population of 60 million) had died ('Famines as failures of exchange entitlements', *Economic and Political Weekly*, vol. XI, nos 31–33, pp. 1273–1280). Sen concluded, with supporting statistics that the famine was caused not by shortage of food, but by the failure of markets, which prevented the available food from being supplied to where it was needed.

By influencing the terms on which different groups (i.e., smallholders, contractors, commission agents, wholesalers, etc.) participate in a market, government policies and regulations also determine transactions costs of accessing a market, eventually affecting the incomes and livelihood outcomes at both farm and market levels. For example, the fact that growers of mango and citrus receive only less than half of the final price paid by the consumers of their produce is an outcome determined by the current state of market infrastructure and ownership of storage facilities for these commodities.

Together with market forces, policy interventions can also determine whether markets develop along an equitable or an inequitable development path. An equitable development path is one in which shifts towards farm and market commercialisation are associated with increased opportunities for alternative employment in off-farm activities, in urban areas and in alternative agricultural enterprises or industries. An inequitable development path, on the other hand, is one in which increased commercialisation at farm and market levels is associated with reduced opportunities and alternatives for small-scale farmers and market agents (Staal *et al.* 2008).

Policy issues

- How should government policies and regulations promote the expansion of agricultural markets in Pakistan?
- How should capacity of smallholders in particular of women, be developed to enable them to successfully engage in these markets?
- Which levels of government should be involved in market development and how should they coordinate their operations seamlessly?
- How public investment should be increased in rural roads and irrigation to reduce the impact of these two most important barriers to smallholder participation in the modern supply chains?
- What are the best ways of increasing public-private sector partnerships in the modernisation of agricultural market infrastructure, including cool rooms and storage facilities, to reduce Pakistan's high rates of post-harvest wastage of perishable foods and fruits?

Markets, smallholders and new supply chains

Supply chains for food products are becoming increasingly vertically integrated and impose stringent quality standards and strict consistency requirements on producers and suppliers. This transformation of supply chains is occurring due to several factors, including: the growth of urbanisation; the rise of supermarket chains; changing tastes and greater awareness for healthy foods and trade liberalisation (Gulati *et al.* 2006; Reardon *et al.* 2009). Supermarket chains also prefer to source their produce from those farmers who have access to irrigation and roads, because both these non-farm assets add to the likelihood of stable supply of produce. Reardon and Timmer (2005, 2009) argue that this so-called 'supermarket revolution' requires a new focus in agricultural research and policy formulation, for understanding the influence of a small number of large, multinational firms on the upstream and downstream segments of the agrifood system, on rural economies, and on trade.

To successfully compete in the new supply chains, smallholders need support of enabling policies for addressing the multiple entry barriers in accessing investment, technology and markets before for higher productivity can be realised. Even intermediate stages of sector consolidation, such as contract farming, appear to be undertaken at a scale well beyond that of the average smallholder farmer. Nevertheless, urban demand growth for food represents an important opportunity for all food producers, including smallholders, and offers potential for inclusive development. (Lipton 2006)

The Working Group on Agricultural Marketing Infrastructure and Post-harvest Management (Chairman: Professor Dr Iqrar Ahmad Khan, 2009) observed that while government policies have concentrated on increasing agricultural productivity, agricultural marketing reform in Pakistan has remained neglected and little attention was paid to the development of marketing infrastructure and post-harvest management of agricultural commodities. As a result, poor farm-to-market roads, inefficient factor and product markets, volatile prices, consecutive shortages and hoarding, inefficient storage capacity, poor implementation of grades and standards are some of the prominent challenges which need to be tackled by the government as top priority.

The state of Pakistan's current road network is also inadequate for providing year around services. Seasonally impassable roads or slow and infrequent transport services, coupled with poor storage, lead to enormous losses of many agricultural products, especially the perishables (milk, fresh vegetables and fruits) as they deteriorate quickly resulting in lower prices to farmers.

Isolation from markets increases the dependence of smallholder farmers on local contractors and middlemen, who typically exploit the farmers. For example, mango and citrus farmers receive only around 20% of the final price paid by the consumer. The isolation from markets also reduces the flow of information between farmers and markets, adversely affecting their livelihood strategies.

Post-harvest handling of milk and milk products is poor. There is a need to develop a cool chain network for milk and related products for realising the full potential of this sector and to enhance consumer welfare.

Lack of knowledge of SPS issues in both government and the food supply chains is another weakness of Pakistan's market-related capabilities, and the skills required to assess SPS measures applied by developed countries are lacking. While food safety and security have become increasingly important issues in the light of trade liberalisation, many food processors and manufacturers in Pakistan lack the requisite know-how and the capacity to meet the new food safety standards. This limits the country's capacity to export many food products to Europe and other quality conscious markets.

Trade development

Pakistan is surrounded by a number of large and rapidly growing markets for dairy and horticulture products. The imports of milk and fruits into these countries have been growing strongly and import values have been doubling every four-five years. Yet, Pakistan is currently supplying only 1.4% of these imports. In spite of the significant opportunities offered by the growing external markets for dairy products, mangoes and citrus, export performance of these subsectors remains poor.

Connecting smallholders directly with these markets is likely to be a challenge. But smallholders can benefit indirectly if larger farmers (of mangoes, citrus and milk) are able to penetrate into the foreign markets. This will create extra space in the domestic market for smallholders to sell their produce without reducing prices.

Field studies (preliminary) findings

Among the citrus farmers surveyed, 71% sell their crop to contractors before harvesting and only 9% sell directly into the market. This seems to be the farmers' choice, because 93% of them said there was no restriction on how and to whom they sell their produce. It is likely, however, that the farmers' choice is influenced by the fact that many farmers also rely on the same contractors for credit.

Among the Punjab dairy farmers surveyed, only 4% sell into the market directly or through collection centres. The remaining 96% sold milk to either 'gowalas' or to local households. More than a quarter of these farmers said they had a restriction on whom to sell milk, and that restriction was due to previously taken credit. Among the Punjab mango farmers, 62% sell through contractors – mostly before, but some after flowering. Nearly one-third of farmers sell directly in the markets. Most farmers are aware of the prices in the markets where their fruit is sold. Most of them also do not think their selling arrangements will change in the next 2-3 years.

Selected references

FAO (2012), Policies and Institutions to Support Smallholder Agriculture: On removing constraints facing small family farmers, FAO, Rome.

Staal S. J., A. N. Pratt and M. Jabbar (2008), Dairy Development for the Resource Poor, Part 3 Pakistan and India Dairy Development Case Studies, ILRI, PPLPI Working Paper No. 44-3.

WTO-OECD *Aid for Trade Initiative* aiming to help develop trade-related skills and infrastructure in developing countries.

For more information contact:
Professor Peter Sheehan
Victoria Institute of Strategic Economic Studies
Victoria University, Melbourne
Email: Peter.Sheehan@vu.edu.au