

Services and Agriculture

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Background

- Market forces have resulted in the development of new retail services, such as supermarkets, hypermarkets and food processors.
- Food value chains directly connect food producers with these outlets
 - These chains also operate across international borders.
- The origins of these systems lie in
 - the changing demands of consumers,
 - the growth of new forms of modern food retailing and processing and
 - the emergence of specialist providers of services relevant to these chains.



Dilemma

- The dilemma is that previous research has shown that these new business models often exclude smallholders due to
 - potentially high transaction costs of dealing with a large number of heterogeneous sellers,
 - smallholders' inability to meet new market requirements as a result of lacking the necessary skills, technology, financing,
 - and/or inadequate infrastructure.
- Yet, farmers who are able to participate are found to have significantly higher incomes by a factor of 3 to 4 times.



Questions

- What are the poverty reduction opportunities, distributional implications and efficiency effects of smallholder participation?
 - Two research questions dominate the literature:
 - (i) do small producers participate or are they excluded from modern retail chains? and
 - (ii) if they participate, what are the growth, equity and development consequences?
- What policy action helps capture those opportunities?

Global Food Studies at the University of Adelaide

- GFA was established in January 2013 as a new team within the Faculty of Professions, with applied research and postgraduate education programs focused on economic, agribusiness and policy issues facing global and local food systems.
- GFS research addresses issues related to food and nutrition policy, food security, the economics of food value chains, resource and environmental economics and the role of agriculture in growth and development.
- In addition to conducting research on issues facing food systems in Australia, GFS has projects in the EU, Indonesia, North America, the Pacific Islands, South Africa and Vietnam.
- The team has strong research partnerships with agricultural, food, health and environmental scientists and research centres, as well as industry, government, NGOs and policy makers.

GFS/ACIAR project

- Are smallholders excluded?
- What are the benefits of participation?
- What are the adoption barriers
 - extends beyond adoption of new varieties to new practices and new products and to adopting new markets
 - ie who do I sell to and why?
- Today, we can draw out results for the services sector and services policy.

The value chain framework

- To simplify, a supply chain framework examines the product flow, focusing more on efficiency of the chain and the firms along the chain.
 - The overall objective is lower costs, efficiency.
- The value chain framework focuses on what the consumer wants and what the consumer is willing to pay for.
 - It's okay if the chain adds costs, as long as the consumer wants the 'added value'.
- The value chain focus is on profits, the functions of firms/actors along the chain.
 - Not just the product flowing, but now add in how information flows up and down the chain.
 - And how relationships develop up and down the chain.

Case study – Cocoa in Vanuatu

- The value chain approach is focused on understanding and meeting consumer needs.
- The value chain approach was applied in a project on cocoa production in Vanuatu.
- The project was well-timed to coincide with growing interest in producing single source chocolate from a number of high-quality chocolate makers,
 - eg from South Pacific cocoa



<http://aciarblog.blogspot.com/2014/03/champions-for-chocolate-smallholder.html>

Case study (cont.)

- Some companies have since become invaluable project participants.
 - Chocolate companies are providing support.
- They assess cocoa bean quality and recommend how farmers can change practices to reach higher standards and receive premium prices.

- For example, Bahen & Co produced chocolate from different Vanuatu cooperative cocoa samples and then went back to Vanuatu with the research team to carry out taste-testing sessions with the farmers.
- They identified quality defects resulting from smoke taint and under fermentation
 - This was a very powerful exercise considering some farmers had never tasted chocolate before.
- Guided by the companies' feedback, researchers are working with the farmers to, for example, improve bean-drying practices and avoid smoke tainting—a common quality issue across the South Pacific.



Bahen & Co
Papua New Guinea 70% Cacao 75g

Connecting the value chain



Services story



...the breaking of a clay pot to sendoff the 7 container trucks heading to Tanjung Priok Port

- The possibility for smallholders to gain arises from the development of the services sector
- But missing services inhibit their participation

How to identify the missing services?

- GFS research involves working with small networks of stakeholders to identify and address local impediments.
 - Networks might include NGOs, government agencies, traders, processors, retail enterprises, among others.

Missing services

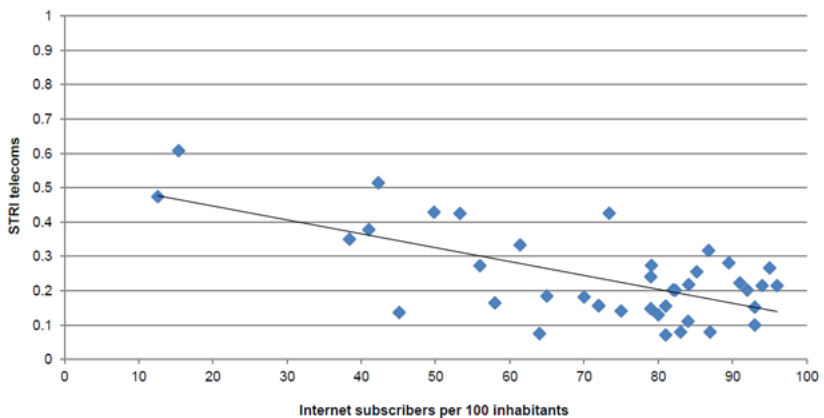
- Examples for different products
 - logistic services,
 - track and trace systems,
 - branding services,
 - specialized wholesalers,
 - cold storage,
 - information services, etc.
- Further work to explain why they are missing
 - Scope for specialization and capacity for contracting will be important
 - And policy matters, for competition – entry, price and quality

Missing services

- Further work to explain why they are missing
 - Markets are still developing – new specialist wholesalers who supply the supermarkets are emerging
 - Scope for specialization and capacity for contracting will be important
 - Information and entrepreneurship matters
 - Infrastructure quality matters
 - Market structures may have to be challenged
 - Niche market smaller retailers sourcing supplies in a system previously dominated by big brands
 - And policy matters, for competition – entry, price and quality

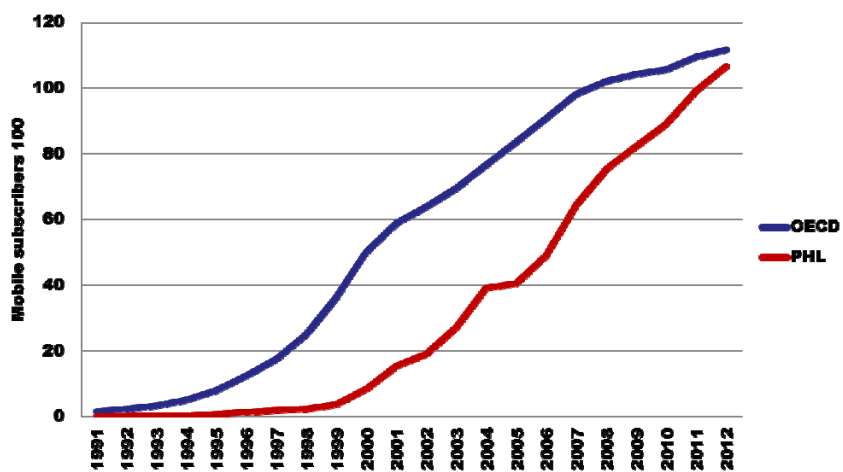
What's the connection between services restrictiveness and performance?

Figure 7. STRI and performance in telecoms



Source: <https://www1.oecd.org/mcm/MCM-2014-STRI-Policy-Brief.pdf>

PHL Mobile Subscribers per 100



Partnerships with the public sector

- Joint research with a consortium of chocolate makers.
 - Public sector helps finance meetings/workshop and visits to small farmers so the chocolate makers identify gaps in the chain and help refocus public sector research on productivity, disease management, post harvest, track and trace.
- Linkages
 - Public funding for a ‘platform’ with two or three retailers to assess their purchase practices, explore bottlenecks, and do field work to set up new types of procurement programs involving small farmers, training traders, etc.
- Business models
 - Funding to review and classify different business models for smallholder engagement and translate into action through capacity building activities
 - Scope for cooperation with APEC and ABAC

Good services help value chains extend across borders



The Director General of Domestic Trade and the Regent of Brebes Launch the Export of Brebes Shallots to Thailand in October 2014.

“Shallots that are exported are the results of the **cooperation between shallots exporter, PT. Cahaya Anugerah Abadi Sejahtera, and 100 Farmers** that are joined together in the Indonesian Shallots Association (ABMI) of Brebes, **Indonesia**. These shallot seeds that are exported are Batanis seeds imported from the **Philippines** that especially grown by farmers to be exported to **Thailand and Vietnam** which are currently not at harvest.”

<http://www.kemendag.go.id/en/photo/2014/10/11/13/brebes-perdagangan-dalam-regeni-dan-Supati-brebes-luncurkan-ekspor-bawang-merah-brebes-ke-thailand?id=152306640>

Wider application of this methodology...

