

Commitment by Main Supermarket Chains to Buy Locally

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1. What, in brief, is the solution?

A global commitment by main global wholesale and supermarkets' chains operating in the Global South, to source, by 2030, at least 1/3 of the net value of its fresh products supplies from local small producers (directly or via coops or farmers' groups) when possible.

2. What was/were the source(s) from which this solution emerged?

The solution is inspired by the recommendations draw on the outcomes of the CFS High-Level Forum on Connecting Smallholders to Markets, and particularly on its recommendations #18 (*'promote short food supply chains that enable smallholders to obtain a better income from their production'*) and #24 (*'facilitate smallholders' capacity to increase their bargaining power and control over their economic environment, and participation in food value chains by acting collectively'*) and also on the CSM Analytical Guidelines on Connecting Smallholders to Markets.

The solution is also grounded on existing evidence, referenced in hyperlinks along this document, as well as in other sources, including, inter alia:

- Anderson, C. et al (2013)- Following up on smallholder farmers and supermarkets
- Dannenberg, P. (2013)- The rise of supermarket chains and the challenges for small-scale farmers in South Africa
- Emongor, E. (2009) - The impact of South African supermarkets on agricultural development in the SADC
- Zonin, V.J. (2014)- Supermarket chains and small farmers in Africa: A new look from the perspective of New Institutional Economics
- McCullough, Ellen B ; Stamoulis, Kostas ; Pingali, Prabhu. (2008). The Role of Santiago Wholesale Markets in Supporting Small Farmers and Poor Consumers.

3. What problem is it trying to address within food systems?

The last decades have shown that the rash diffusion of formal modes of retailing into developing countries has threatened the livelihood of many smallholders who fail to adapt to retailers' standards. In Latin America, South Asia, Sub Sahara Africa and elsewhere, urban consumers are increasingly shopping their food supplies in this way, instead of via street merchants and informal small-scale food stores. This change in the food supply networks reflects in an increasing integration and control by the large retailers. Suppliers of large retail companies are expected to meet wide-ranging requirements, in terms of quality, reliability and volume, that most local small-scale farmers cannot meet. Sourcing from smallholders presents numerous challenges: productivity and crop quality are often low; smallholder suppliers may lack knowledge on how to mitigate social and environmental impacts; poor logistics, lack of contacts with distributors, poor farm management skills, and lack of aggregation reduce smallholders' ability to achieve scale. Hence, they become less competitive, and retailers will privilege import foodstuffs of producing from larger farmers and agribusinesses.

In fact, limited access to agricultural markets by smallholder farmers in rural areas represents one of the most important challenges confronting policymakers in developing countries. Supermarkets will continue with international expansion whether smallholders are ready or not.

Fresh food wholesale markets are places where a wide variety of seasonal and local produce is sold, and smallholder farmers are key in the traders' supply within these markets. Nevertheless, also they need to

examine solutions so that this is sustained, and smallholder farmers remain as one of the preferred channels of supply.

4. Why is addressing that problem important for achieving the goal of your working group?

A sustainable future for smallholders and family farmers/producers is one in which their incomes and living standards rise, so that current and future generations see smallholding as viable and attractive.

Small farmers in the Global South risk being swept out of agriculture by a wave of supermarket expansion unless they can participate in the new market. If we don't help small farmers tap into the supply game and become players in this new market they will be left on the sidelines. To stay competitive, farmers have to supply larger volumes per client and transaction. Smallholder farmers, with few economies of scale, poor knowledge of the markets and limited investment in inputs or infrastructure, are often squeezed out. Compounding problems of scale are markets' (mostly supermarkets) own stringent private standards and aggressive business practices.

5. How can this solution address that problem (theory of change)?

Global, regional, and large national wholesale and supermarkets' chains operating in the Global South (Africa, Latin America South and South East Asia, Maghreb and Middle East) will voluntarily solemnly, and publicly commit to exercise preferential sourcing at least 1/3 of the net value of its fresh products supplies (fruits, vegetables, dairy, milk, fish, etc.) from local small-producers by 2030.

Main activities proposed:

- A detailed draft of the Commitment, defining all the specific elements, will be produced by an international independent commission. E.g., 'sourcing 'from small-producers' shall be understood as sourcing from small-scale farmers and/or business structures that aim to share value with farmers and workers, and that guarantee a living wage or income of the farmers, such as cooperative groups, SMEs or women's collective enterprises.
- A relevant International Organization (such as the CFS Secretariat, or the FAO) will operate as main sponsor of the initiative, inviting large global wholesale and supermarkets and other big food retailers to adhere to the Commitment. The intention will be to get as many adherences as possible, so the Commitment will become self-regulated (or so-called 'soft legislation') for the entire sector, everywhere.
- The sponsor, via a third-party mechanism, will monitor the adherence by the signatories to the principles agreed in the Commitment, as well as the pathway towards accomplishing the target.
- The wholesale and supermarkets will put forward themselves, the means and ways to reach the target, undertaking the necessary investments. It will likely require a combination of these or similar activities:
 - Helping organizing cooperatives and/or other forms of effective associations in order to be able to meet the scale and volume needed to supply the wholesale and supermarkets.
 - Establishing credit schemes for the farmers or their organizations to obtain the technology needed to be able to meet the quality and safety standards demanded by the wholesale and supermarkets
 - Promoting contract farming schemes (agricultural production being carried out on the basis of an agreement between the buyer and farm producers) and/or similar arrangements
 - Facilitating knowledge dissemination to place farmers in a stronger position to increase productivity and quality.
 - Fresh food wholesale markets could collaborate with supermarkets providing access to smallholder farmer supplies to ensure the commitment is sustained.

Main assumptions:

- The majority of the large wholesale and supermarkets will sign the Commitment - this way, the Commitment will not have a significant direct or immediate impact in terms of modifying the competitiveness of any of the signatories, because they all will adhere to the same policy, and face the same constraints and advantages.
- Wholesale and supermarkets will be ready to invest, if necessary, in order to accomplish the commitment. Some supermarkets are already investing on corporate social responsibility. Adhering to this commitment will provide to all of them a unified framework to focus current CSRs resources to be more targeted-driven. Although the level of investment required to fulfil the target will likely exceed the current levels of CSR, it will also bring several opportunities to the wholesale and supermarkets. By adhering to the Commitment, these markets will ensure reliability of the supply and ensure more resilient value chains (shorter value chains).
- The demand of fresh food in the Global South will continue expanding, so despite this commitment, the current market size for current suppliers other than small-scale farmers (e.g. exports, large farmers) will not necessarily be affected – this, in principle, should reduce the risk of opposition by these market players towards the proposed solution

6. Why does this solution align to the definition and criteria for a ‘game changing solution’ developed by the Summit?

Impact potential at scale. The initiative will be global, implemented in dozens of countries where large wholesale and supermarkets operate. It is anticipated that a significant critical mass of large wholesale and supermarkets will be initial signatories of the Commitment, and that soon it will become a standard practice for the entire industry. The number of small-scale farmers that will benefit from this initiative, and increase thanks to these new market opportunities and the investments the industry will require to undertake to ensure it fulfilled the target, can be estimated, at least, in 3% of the total number of small-scale farmer global, i.e. 15 millions of small-scale farmers and their families. Beyond income improvements, the initiative will also contribute to healthier and more diverse diets, GHG emissions reductions (shorter value chains, hence, less transportation) and other social and environmental impacts.

Sustainability. The solution is highly sustainable - it does not require a complex institutional arrangement. Experience demonstrates that smallholders, territorial, and wholesale markets are in many respects better equipped to deal with global challenges, such as increasing climate and price shocks.

Actionability. The main driver of this process is commitment, and there is sufficient evidence that the idea will get traction, especially because it will be proposed as a commitment by the entire wholesale and supermarket sector, so it will not modify the competition status quo.

7. Existing evidence supporting the argument that this solution will work, or at least achieve the initial outcomes?

Evidence shows that there is a huge opportunity for wholesale and supermarkets in the global South to further link small-scale farmers with those markets:

- Despite the perception that supermarkets in the Global South already substantially source from small-scale farmers, surveys from India and elsewhere indicate very low market penetration.

Hence, there is a great deal of opportunity for expanding these kinds of linkages between small-scale farmers and supermarkets.

- Traders in wholesale markets in the Global South that sell fresh food generally source large shares of their produce sold from smallholder farmers. For example, in the wholesale markets of Santiago, Chile. These markets are places where a wide variety of seasonal and local produce is sold, and smallholder farmers are key in this supply. Fresh food wholesale markets could collaborate with supermarkets with access to smallholder farmers to ensure this commitment is sustained.
- There is abundant evidence that small-scale farmers, if they get the right support, can link with the supermarkets, and that small-scale farmers' cooperatives can allow their members to aggregate their produce, supporting marketing and a stronger bargaining position with supermarkets.
- Evidence from Vietnam suggests that farmers' collective action plays a crucial role in the supply of supermarkets in that country. Supermarket development in Vietnam has benefited from innovations brought on by public support and farmer initiatives to meet new consumer demands.
- Evidence from Madagascar demonstrates that smallholders' micro-contracts, combined with farm assistance and supervision programs can help the farmers fulfill the complex quality requirements and safety standards of the supermarkets. Small farmers that participate in these contracts have higher welfare, more income stability and shorter lean periods.
- Analysis by Oxfam suggests that it is entirely possible for small-scale farmers and workers to earn a living income in supermarket supply chains. Supermarkets and other supply chain actors would need to invest only a marginal amount to close the gap between prevailing and living incomes or wages in comparison to the end consumer price.

8. What is the current and/or likely political support for this idea?

There is currently high political support for initiatives to improve the equitable access of small-scale farmers to supermarkets' value chains, including e.g. policy frameworks in the Global North economies, particularly in Europe, conducive to promote that type of farmers/supermarket links:

- In response to the growing interest in short food supply chains, in 2009, France started promoting, via various incentives, an action plan to foster and develop farms whose output could be marketed through local wholesale and supermarkets and other short food supply chains.
- The current EU rural development policy puts emphasis on short food supply chains. Producers wishing to involve themselves in local wholesale and supermarkets can benefit from several measures co-financed by the European Union.

In the Global South, although these policies currently rarely exist, there is a widespread recognition by governments of the high toll that small-scale farmers have to overcome to sale their produce to supermarkets on fair conditions, for wholesale markets this is less so as many of its traders are themselves smallholder farmers. There is also a high political interest in potential drivers for change, e.g., voluntary commitments by wholesale and supermarkets.

9. Are there certain contexts for which this solution is particularly well suited, or, not well-suited.

The solution is particularly well suited for geographical contexts where a significant portion of the small-scale farmers are already operating in the markets via cooperatives and other business-oriented groups, such as most of Latin America, Southeast Asia, South Asia, the Middle East and Maghreb, the Caucasus,

and certain countries in Sub-Saharan Africa like Ethiopia or Kenya. However, it will also apply to countries with a less small-scale farmers integration/organization; where in fact, the solution can operate as a trigger to accelerate the process towards farmers' market-cooperation.