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High-value Food Supply Chains, Food Standards and Small Farmers in Developing Countries. the Case of Horticulture Exports from Senegal

MIET MAERTENS

Catholic University Leuven, LICOS - Centre for Transition Economics, Belgium

Abstract

Agricultural supply chains are changing globally with increased importance of food standards, increased vertical coordination and large modern retail chains. The impact of these changes for developing countries and for small farmers in those countries is not yet well understood. We analyse the developments in high-value, high-standards food supply chains and the effects for small farmers and rural households for the case of horticulture export production in Senegal. We use a unique dataset derived from company level interviews and household surveys in the main horticulture zone in Senegal. Pervasive food standards have led to structural changes in the supply chain with a shift from contract-farming with small-scale producers to large-scale vertically integrated estate-farming. A comprehensive econometric analysis shows that the restructuring of the value chain has enhanced an equitable distribution of rents among the rural population. Contract-farming, on the one hand increases the gains from high-value production and trade that accrue to the rural smallholder population but on the other hand, leads to the exclusion of the poorest farmers. Estate-farming and associated rural employment have a smaller (albeit still significantly large) effect on rural incomes and probably increase the rents from high-value agricultural trade that are extracted by large agro-industrial companies but add to the income of the poorest households. This challenges the argument made in the literature that high-standards food production needs to integrate small farmers as suppliers if it needs to benefit rural development and increase the welfare for the poor. Our study suggests that a dualistic structure in high-standards supply chains — with smallholder contract-farming and large-scale integrated estate-farming, and with small farmers integrated as suppliers and as wage workers — is most likely to bring about a balanced development impact with both equity and efficiency concerns addressed.

Keywords: Contract-farming, high-value supply chains, poverty, rural development, vertical coordination