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Making Retail Modernisation in Developing Countries Inclusive

A Development Policy Perspective

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Abbreviations

DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment and Development Corporation)
DFID	Department for International Development of the United Kingdom
EUREGAP	Euro-Retailer Produce Working Group’s Good Agricultural Practice
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
GAP	Good Agricultural Practice
GAIN	Global Agricultural Information Network
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GLOBALG.A.P.	Global Good Agricultural Practice
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HACCP	Hazard Analysis and Critical Control Point
IFC	International Finance Corporation
ILO	International Labour Organization
INDAP	Instituto de Desarrollo Agropecuario (Institute of Agricultural Development), Chile
MSME	Micro, small and medium-sized enterprises
NABU	Naturschutzbund Deutschland e. V. (Nature and Biodiversity Conservation Union)
NGO	Non-governmental organisation
OECD	Organization for Economic Co-operation and Development
TNC	Transnational corporations
TRIMs	Trade-related investment measures
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USD	United States dollar
WTO	World Trade Organization
WWF	World Wide Fund for Nature
ZAR	South African rand

Executive summary

The diffusion of supermarkets in developing countries has profound implications – not only for existing retail stores and informal vendors but also for millions of producers and intermediary traders in the respective supply chains, and for consumers in these countries. Overall, societies are likely to gain from retail modernisation, given that it implies the use of new technologies and exploitation of economies of scale, and thus results in higher productivity, increased convenience and lower consumer prices. However, the fast roll-out of large foreign retail chains in poor countries with very traditional and low-productivity production and retail structures has the potential to destroy the livelihoods of thousands or even millions who currently earn a decent living through traditional farming or intermediary trading or sales. Moreover, manifold trade-offs need to be taken into account: what benefits certain producer or consumer groups may harm others.

Developing countries and their international development partners therefore see the challenge ahead as one of managing this transformation in such a way that the harsh effects of structural change are mitigated and local stakeholders have sufficient time and opportunity to adapt to the new business environment. Ignoring retail modernisation and trying to keep modern retailers out of national markets is neither desirable (because the productivity effects will fail to be realised) nor feasible in the long term (due to the prevailing overall trend towards trade and foreign direct investment liberalisation). Delaying the inevitable adaptation of local retail systems to international best practices may imply higher adaptation costs in the future.

The challenge is to proactively shape the way national systems adapt to the global retail revolution. Despite the far-reaching impact of the supermarket revolution, this challenge has so far hardly been debated in development policy circles. This omission is possibly due to the cross-cutting nature of the topic: managing the supermarket revolution concerns agricultural development, urban planning and consumer protection alike, and there is usually no central authority or coordinated system for managing the process. Likewise, only a handful of donor agencies tackle retail modernisation, and those that do mainly focus on the micro level – e.g. by training small farmers rather than assisting in the development of comprehensive strategies.

Our study reviews a wide range of policy options. It shows that governments have significant leeway for shaping retail modernisation in an inclusive way. Developing country governments display very different attitudes towards retail modernisation and liberalisation, ranging from unconditional liberalisation to bureaucratic overregulation. We argue in favour of a sequenced approach that, on the one hand, supports productivity development and competition and, on the other, fosters technological learning and applies safeguards for the poor. Working collaboratively with retail corporations is, of course, a key element of such an agenda, but this study also presents a host of additional intervention options. It also highlights the potential contribution of donor agencies, which can bring in international expertise, facilitate dialogue and strategy-building, and encourage pilot projects with corporate partners. Furthermore, it introduces the concept of inclusive business and documents how retail corporations can contribute to host country development and improve their performance and corporate image at the same time.

Introduction

Globally, modern retail formats such as supermarkets, hypermarkets and discounters have replaced or are gradually replacing traditional small-scale retail formats like family-owned neighbourhood grocers. This process started in the USA and subsequently spread to Western Europe. In the early and mid 1990s the 'supermarket revolution' began to catch on in Africa, Asia and Latin America (Reardon and Berdegué 2006), in most cases driven by foreign direct investment (FDI) from established US and Western European retail chains.[1] That said, while Walmart, Carrefour, Tesco and others now operate worldwide networks of subsidiaries, in sub-Saharan Africa retail modernisation is being strongly driven by chains based in the Republic of South Africa.

The entry of multinational retail companies into countries with hitherto very traditional and fragmented small-scale retail structures is driving fast-paced and radical structural change. Conversely, in North America and Europe the transition from local family-run stores to giant global retail chains came about gradually over several decades, giving small firms the time to learn and adapt. Some shop owners organised themselves into retailer cooperatives, some developed specialised formats such as convenience stores, while others moved into new occupations.

The current situation in developing countries is very different. Here, well-organised global retail chains enter traditional retail markets with all the benefits of unprecedented economies of scale, advanced technology and globally established brand names. The playing field for the existing – and often not even formally registered – small shops and microenterprises is therefore vastly uneven. This not only makes it difficult for these businesses to upgrade sufficiently to be able to compete; it also threatens their survival. Furthermore, the number of traditional retail businesses is generally much higher in developing countries at the outset of the retail modernisation process. As such, many more people's livelihoods are likely to be adversely affected by this change in the retail market. Finally, education and vocational training systems tend to be less developed, which means there is less capacity to retrain people and ease their transition into alternative occupations. More than that, the structural changes engendered by the entry of multinational retail companies go far beyond the retail economy proper. When retail sectors are fragmented and small-scale, they are able to sell the produce of small farms and products of small manufacturing firms. In this paradigm lots of petty traders act as intermediaries, buying small quantities from producers and reselling them to retailers. All these activities, which take place upstream in value chains, are incompatible with the procurement systems of modern retail multinationals.

The 'supermarketisation' of value chains does also give rise to many positive outcomes. Market restructuring drastically increases productivity, offers consumers better choices, and can improve food safety. It may therefore be regarded as a desirable – and, in any case, ultimately inevitable – process of modernisation. Denying rationalisation and productivity growth in the retail sector is unlikely to be a wise strategy because inefficiencies in traditional retail systems tend to be high. These inefficiencies increase the

1 In a number of countries that have a strong middle-class with significant disposable income (e.g. Chile and South Africa), large-scale retailing evolved nationally rather than as a consequence of or response to the entry of foreign firms.

productivity gap relative to foreign chains and thus make adjustments at a later stage even more costly. That said, radically opening up national markets to foreign retail chains and allowing unfettered asymmetric competition may also incur very high social costs. In such conditions, not only traditional retailers but also huge numbers of small suppliers and intermediary traders have little opportunity to adapt, which often leads to disproportionate job losses and the take-over of retail businesses by foreign investors. For these reasons, retail liberalisation has been fiercely opposed in many countries.

The challenge is therefore to understand the costs and benefits of retail liberalisation and to design a strategy and interventions that carefully sequence liberalisation with accompanying measures for increasing productivity and accelerating technological learning in and the upgrading of local retail and its respective supply chains. Designing and implementing this kind of gradual strategy and related activities is, however, easier said than done. Despite the radical development impacts that retail liberalisation can deliver, so far there is little consensus about what 'inclusive'[2] or development-focused retail modernisation should look like, how reforms should be sequenced and which policy instruments should be used to this end. Not a single government has, to our knowledge, designed a comprehensive national strategy for managing retail modernisation and the entry of retail multinationals in an inclusive way.[3] Instead, policy measures have, to date, generally been developed and delivered in an ad hoc way, covering only certain aspects of the value chain. In cases where these measures lead to social conflict, they sometimes end up being reversed. Donor agencies have similarly neglected this issue: there are neither comprehensive cooperation programmes for making retail liberalisation more inclusive nor policy handbooks or other repositories of good practice.

This study attempts to close this gap. It takes stock of what we know about retail modernisation in developing countries and its development effects, and it disaggregates these effects on different groups of stakeholders – e.g. the existing retail sector, farmers, industries, intermediary traders, and consumers – while paying special attention to the poor. This study therefore takes a political economy perspective. It explores who stands to gain and lose if retail is modernised and what drives the behaviours of key actors. In this way the power struggle behind retail modernisation is unveiled. We come to understand that there are vested interests working for and against retail modernisation, and that the policies adopted and those actually implemented are not necessarily what would be best in terms of sustainable development.

In addition to a thorough general literature review, this report draws on three specially commissioned studies: an unpublished systematic review of the structure and socio-economic impact of retail liberalisation in developing countries (Kulke et al. 2014), an unpublished overview of international policy experiences with inclusive retail liberalisation in developing countries (Reeg 2014) and an empirical research project on retail liberalisation in India (Hampel-Milagrosa et al. 2014).

2 By 'inclusive' we refer to a strategy that takes into account social and environmental considerations – for example, a strategy that focuses on the integration of traditional producers, traders and retailers while, at the same time, not undermining the positive effects of modernisation.

3 When Walmart wanted to take over Massmart in South Africa, the country's Competition Appeal Court commissioned studies to assess the expected effects on South Africa's trade balance, jobs and SME development (Morris 2012). This approach is the nearest thing to an integrated national retail modernisation strategy that we have identified.

This report comprises five chapters. Chapter 1 identifies important international trends in retail modernisation in developing countries. Chapter 2 explores its development effects. Chapter 3 reviews the policy options that governments can adopt to make retail modernisation inclusive and sustainable as well as what donors can contribute in this regard. Chapter 4 reviews actions taken by international retail corporations to improve their impact. Chapter 5 summarises and identifies issues for future research.

1 Trends in retail modernisation in developing countries

From their early beginnings in North America and Western Europe, modern forms of retailing have since rapidly spread across the developing world. This trend truly took off in the 1990s, facilitated by ever-fiercer competition in North America and Europe and then, subsequently, by the acceleration of economic growth rates and changing consumption patterns in the global South and by the stepwise liberalisation of trade and investment agreements. This expansion, unfolding in a series of distinct regional waves, has transformed the face of retailing worldwide.

This chapter provides an overview of the most important trends in retail modernisation in developing countries. It starts by discussing the driving forces of retail modernisation and globalisation (1.1), and then introduces important differentiations. Retail modernisation implies the emergence of chains in many different product categories including, for example, food, pharmaceuticals and clothing, and it covers single-brand as well as multi-brand retail chains. The focus of this report is on food retail where, even within this one category, big differences exist between formats like hypermarkets, supermarkets, retail cooperatives and discounters. As the report shows, these display important differences in terms of geographical distribution and development effects (1.2). We then analyse historical and geographical patterns of retail modernisation and internationalisation, exploring how these processes evolved in several waves that spread unevenly across and within developing regions (1.3). We then go on to distinguish multinational retail chains' different modes of entry into developing-country markets (1.4) and, finally, to reveal a relatively new phenomenon: the internationalisation of retail chains *from* developing countries (1.5).

1.1 Driving forces of retail modernisation and globalisation

The development of modern retailing and wholesaling began in the USA in the 1930s, with Western Europe following shortly behind, and continued up to the 1990s. In the rest of the world, these activities remained much more decentralised and small-scale. No big lead-firms emerged to exploit economies of scale, and productivity gains remained at very modest levels. Since the 1990s, however, retailing has become a global phenomenon, spreading across all developing regions. Established retail and wholesale chains from the USA and Western Europe have expanded globally. At the same time, their business models have been emulated by local firms, many of which have been able to build enormous retail networks and even to expand internationally.

The driving force behind the globalisation of the retail and wholesale revolution that occurred in the 1990s was the increasing competition among retail chains in the USA and

Western Europe, which had drastically reduced profit margins in the sector. Moreover, economic growth rates in these economies remained modest, whereas many emerging markets had started to experience a historically unprecedented economic boom. Indeed, the distribution of global wealth is now shifting rapidly from OECD to non-OECD countries: in 2000, the former accounted for 60% of global GDP, but this share is expected to decrease to 43% by 2030 (OECD Development Centre 2010). At the same time, middle-class consumption has been skyrocketing in emerging economies and stagnating in the USA and Western Europe (Kharas 2010). In light of these trends, retail chains have begun entering emerging markets where they not only can expect long-term growth but also can secure an early-mover advantage as brand owners and experienced organisers of retail operations.

Demand for new retail formats in emerging economies was further accelerated by structural changes in infrastructure and living conditions. This included the growing degree of urbanisation, more private car ownership and better access to public transport, women's increasing participation in the labour market (which, in turn, boosts demand for shopping convenience and processed foods as time-savers) and the increasing prevalence of refrigerators in private households. These changes were crucial factors for the supermarket revolution when it occurred in the USA and Europe, and they are critical drivers of change in today's emerging markets (Reardon, Timmer and Berdegué 2004, p. 169).

In parallel, retail markets have been progressively liberalised since the 1990s. In Central and Eastern Europe, the retail systems and respective regulatory frameworks inherited from the former socialist economies broke down, giving way to a rapid penetration of discounters and other retail formats from Western Europe. Also, the World Trade Organization's General Agreement on Trade in Services (GATS) has contributed to the liberalisation and standardisation of the regulations for international service transfers (Neumair, Schlesinger and Haas 2012, pp. 131f.). WTO member states agreed in 1995 to establish transparent national regulations that would guarantee the equitable treatment of all the actors concerned and would open up these states' national markets to competitors. Nation states still, however, retain a strong influence over the level of liberalisation that occurs because the WTO failed to draw up detailed binding agreements and many exemptions are still allowed, especially for poor developing countries. Bilateral and multilateral regional trade agreements have also contributed to the further opening up of markets with, on the one hand, developed countries seeking to deregulate service markets and, on the other, a number of developing countries trying to keep restrictions on foreign retail companies in place. The pros and cons of retail liberalisation as well as the political economy behind protective measures are discussed later on in the policy chapter (Chapter 3).

As a result of market growth, structural change and the liberalisation of investment rules, massive retail-related foreign direct investments (FDI) were made in developing countries. This, in turn, drove competition in these economies, prompting local retailers to upgrade their offers and, in some countries, resulting in the emergence of major domestic retail chains. New types of wholesaler, new distribution and transport networks, new procurement systems and new trading standards have been introduced, enabling retailers to achieve better quality and greater product diversity, to secure efficiency gains and economies of scale, and to coordinate cost reductions. This ultimately leads to lower selling prices, which fuels the further diffusion of and investment in new stores (Reardon et al. 2004, p. 170).

1.2 Different retail formats

Supermarkets aimed at high-income consumers were historically the first formats of modern retailing, with hypermarkets being added later on to extend services to middle- and lower-middle-class consumers (Weatherspoon and Reardon 2003). Traditional retailers organised themselves in retail cooperatives to keep up with the scale requirements of the new formats. Over time, various other retail formats evolved, such as discount stores. New formats have also been developed to serve densely populated inner cities where restrictions of space or regulatory requirements make the installation of large-scale supermarkets or hypermarkets impossible. Figure 1 presents a typology of modern retail formats. [4]

Figure 1: Typology of formats in modern retailing

- **Small service store**: less than 100 m^2, sells groceries, often specialised in certain products (e.g. meat, fish, fruit, vegetables)
- **Small self-service store**: less than 400 m^2, self-service with central cashier, broader assortment of groceries
- **Supermarket**: more than 400 m^2, self-service, central cashiers, broad and deep assortment of groceries and limited assortment of non-food articles
- **Hypermarket**: more than 4,000 m^2, self-service, central cashiers, broad and deep assortment of groceries, broad assortment of non-food articles
- **Discount store**: up to 1,000 m^2, self-service, central cashiers, low-priced standardised/limited assortment of groceries
- **Cash and carry/warehouse clubs**: more than 400 m^2, self-service, central cashiers, broad and deep assortment of groceries, accessible to members/firms only

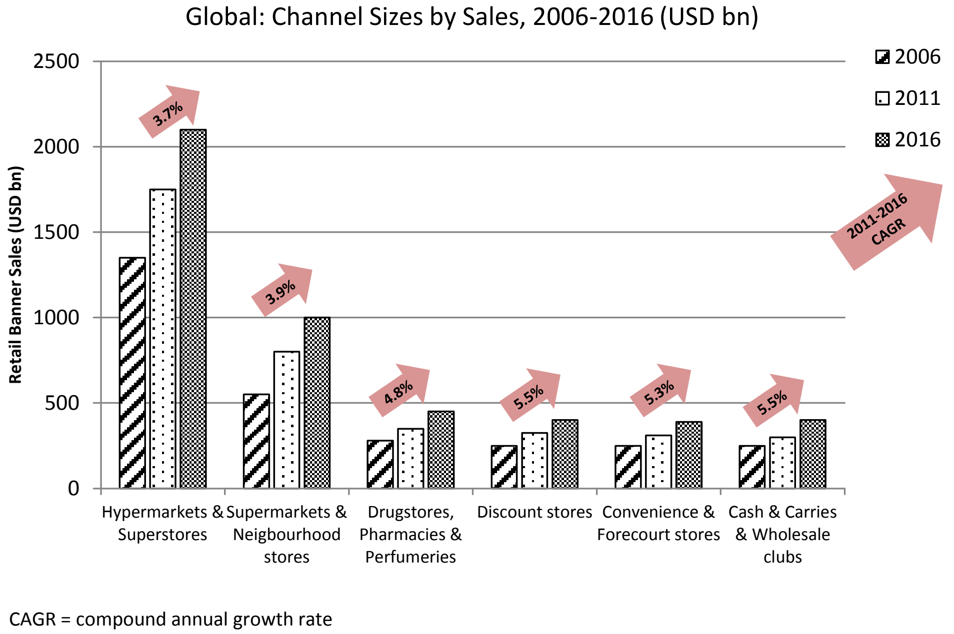
Sources: Reardon and Berdeguwird (2002), and Kulke (2010)

Globally, supermarkets and hypermarkets are the dominant store format for the sale of groceries, and in developed economies they take the highest share of total sales. In the USA hypermarkets are a core institution, but in Western Europe, where urban areas are more densely populated, space is limited and more people use public transport, there are greater physical constraints when setting up larger retail formats. Also, regulatory authorities in many European countries prohibit the entry of large store types in central locations. In response, retail chains tend to set up smaller supermarket formats such as small self-service stores.

In some countries, especially in Germany, the UK and the USA, hypermarkets and supermarkets have recently come under pressure from discount stores, which are rapidly expanding and capturing a significant share of traditional supermarkets sales. Discount stores offer a low-priced, limited and standardised assortment of articles, allowing them to reduce their costs (Acker 2011; Jürgens 2011). In general, hypermarkets and supermarkets appear to be approaching their peak market share in developed countries and can therefore only achieve low sales growth rates (see Figure 2, which uses a slightly different classification).

4 The term ‘supermarket’ is often used as a synonym for all ‘modern retail’ formats such as hypermarkets, supermarkets and discount stores (see Reardon and Hopkins 2006, p. 525). Consequently, the so-called supermarket revolution is not limited to supermarkets alone.

Figure 2: Global sales and sales growth rates by retail format (2006–2016 in billions of USD)



Source: PlanetRetail (2012)

Wholesale and retail corporations specialise in different retail formats or combine various formats in their corporate strategies. These can be classified as follows:

- A mixed portfolio strategy comprising a broad spectrum of formats that is dominated by hypermarkets and supermarkets as flagship stores operating under their own brand – e.g. Carrefour (France), Casino (France, in part) and Walmart (USA).
- A cash and carry/warehouse club strategy – e.g. Costco (USA) and Metro (Germany).
- A predominantly supermarket-oriented strategy with quality and private label products in the store assortment – e.g. Edeka (Germany), Kroger (USA) and REWE (Germany).
- A discount store strategy with price leadership – e.g. Aldi and Schwarz (both of Germany).

Limited opportunities for market expansion, strong competition from other chains and high cost pressure on the domestic markets of developed economies led some large wholesale and retail chains to expand into developing economies. The most widely internationalised retail formats are hypermarkets and supermarkets. The market shares currently held by discount stores are low in most developing regions (but high in certain markets like Central and Eastern Europe), but they are expanding rapidly.

Only a handful of grocery retailers can be considered to be truly global players, with high sales shares abroad and branches in many countries. The current global leaders are Walmart, Carrefour and Metro (Figure 3). Many more retail chains still operate exclusively in developed markets.

Figure 3: The top ten supermarket retailers

Name	Country of origin	Retail revenue in 2011 in M$ USD millions	Operational formats	Countries as of 2011	International sales as of 2008
Walmart Stores	USA	446,950	hypermarket/ supercentre	28	26%
Carrefour SA	France	113,197	hypermarket/ supercentre/ superstore	33	57%
Tesco PLC	UK	101,574	hypermarket/ supercentre/ superstores	13	30%
Metro AG	Germany	92,905	cash & carry/ warehouse club	33	61%
The Kroger Co.	USA	90,374	supermarket	1	24%
Costco Wholesale Co.	USA	88,915	cash & carry/ warehouse club	9	24%
Schwarz Unter-nehmens Treuhand	Germany	87,841	discount store	26	51%
Aldi Einkauf GmbH	Germany	73,375	discount store	17	48%
Groupe Auchan SA	France	60,515	hypermarket/ supercentre/ superstore	12	53%
Aeon Co.	Japan	60,158	hypermarket/ supercentre/ superstore	9	~

Sources: Deloitte (2013), and Wrigley and Lowe (2010) for the share of international sales in 2008

1.3 Historical and geographic patterns of retail modernisation

As mentioned above, the internationalisation of retailing was initially dominated by market entries between developed economies in Europe and North America. In the last 20 years, this international expansion has accelerated and included more and more countries in South America and East and Southeast Asia as well as a few countries in Africa. Lately, also South Asia and low-income countries in other world regions have become targets for the expansion of food retailing chains from the global North.

Reardon, Timmer, Barrett and Berdegué (2003) distinguish four waves of supermarket expansion that have encompassed different regions and countries (Figure 4).

The first wave took place in the early 1990s and included countries from South America (Argentina and Brazil), East Asia (the Philippines, the Republic of Korea, Taiwan and Thailand), Central Europe (Czech Republic) and South Africa. The second wave, which started in the mid 1990s, included parts of Southeast Asia (Indonesia), Latin America

(Colombia and Guatemala) and South-Central Europe (Bulgaria) as well as Mexico. The third wave occurred in the early to mid 2000s and involved the spread of supermarkets to other parts of Central and South America (Bolivia, Nicaragua and Peru) and Southeast Asia (Viet Nam), and to certain areas of China, India and Russia. A few supermarkets were even introduced at this time in a number of African countries (Kenya, Zambia and Zimbabwe), but the penetration of supermarkets in these countries remains fairly low. The fourth wave mainly comprises African countries (Angola, Mozambique, Tanzania and Uganda) that received South African FDI in the mid 2000s but have not yet substantially restructured their traditional retail sectors.

Figure 4: Retail transformation waves in emerging markets (spatial expansion outside North America and Western Europe)

First wave: early 1990s

South America, East Asia (outside China and Japan), parts of Southeast Asia (e.g. the Philippines and Thailand), North-Central Europe (e.g. the Baltic states and Poland) and South Africa

Second wave: mid to late 1990s

Mexico and parts of Central America, much of Southeast Asia (e.g. Indonesia), South-Central Europe and South Africa

Third wave: early 2000s

China, Eastern Europe, Russia, other parts of Central America and Southeast Asia, and India

Fourth wave: late 2000s

South Asia (outside India), sub-Saharan Africa (outside countries falling under the second and third waves), and poorer countries in Southeast Asia (e.g. Cambodia) and South America (e.g. Bolivia)

Source: Wrigley and Lowe (2010) based on Reardon et al. (2003)

Retail chains adopt different modes of entry when accessing new markets. Figure 5 distinguishes four types of entry: Retail corporations may open up new wholly-owned subsidiaries; they may offer franchises, which reduces capital requirements and risks; they may take over existing retail chains; or they may engage in joint ventures with local partners. The numbers clearly show that retail corporations prefer wholly-owned subsidiaries in Europe and North America but mainly opt for franchises and acquisitions in developing countries. There are several possible reasons for this. Wholly-owned subsidiaries are easier to run where markets are similar to the parent company’s home markets and where legal frameworks are relatively homogeneous thus ensuring the enforcement of property rights. In more distant markets – not only in terms of physical distance but also with regard to cultural differences – investors prefer strategies that allow them to incorporate local knowledge and minimise capital outlays. Moreover, some governments do not allow full ownership of subsidiaries (e.g. Brazil, China and India).

These differences are important as they imply different opportunities for technological learning in the host countries. Joint ventures enable local shareholders to gain insights into the foreign retailer’s corporate strategies – which explains why they are not so popular among foreign companies. Franchises build on local entrepreneurship within narrowly defined boundaries – i.e. local investors set up stores and benefit from proven business models, but are not allowed to deviate from predefined business practices and develop their own strategic capabilities. Wholly foreign-owned subsidiaries transfer little know-how directly but, even here, some cases of technological learning have been documented involving the emulation of business practices by local companies or the hiring of managers by local competitors (Franz and Hassler 2011; Dannenberg 2013).

Figure 5: Entries by the top 250 global retail enterprises into new markets (i.e. new countries) in 2011 (absolute numbers)

	New own subsidiaries	Franchises	Acquisitions	Joint ventures
Europe	32	10	8	–
Central/South America	5	6	–	1
Asia/Oceania	9	10	2	2
Africa/Middle East	2	17	12	1
North America	1	–	–	–

Source: Deloitte (2013), p. G17

The geographical analysis of sequences of retail internationalisation confirms that retail corporations prefer to expand to markets that are physically closer and culturally more familiar, as this reduces risks as well as transportation and transaction costs. This is especially relevant in the case of food retailing, which presupposes reliable local supply chains and well-functioning logistics. The sequenced expansion from nearby and familiar to further-afield and less-well-known markets is particularly evident in the international expansion processes of Walmart and Metro. The US Walmart group operated in the mid 1990s in North America and the large, highly urbanised countries of South America (e.g. Argentina, Brazil, Mexico and Puerto Rico). In the mid 2000s it expanded into Western Europe (Germany and the UK) and East Asia (Japan and the Republic of Korea), and it has only recently established branches in Africa and some of the smaller South American countries. The German Metro Group started to expand internationally in the 1970s, moving into Central and Western Europe. In the 1990s it moved into North Africa and by the middle of that decade was setting up in Eastern Europe and China. Metro is currently in the process of expanding into South and Southeast Asia (Franz 2011).

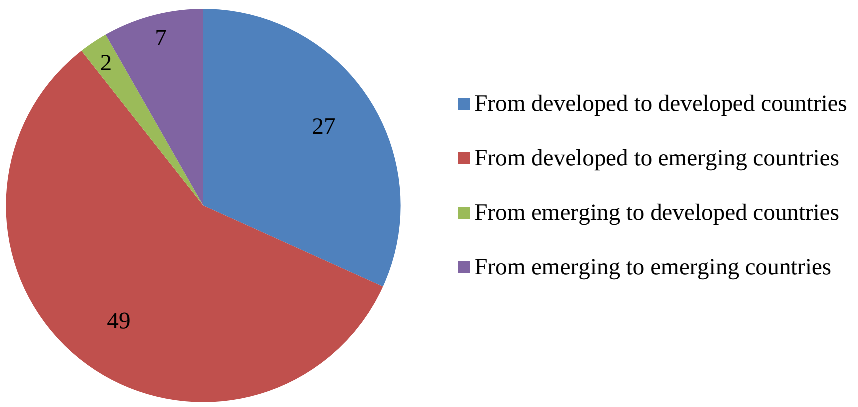
The diffusion of modern retail formats follows a relatively homogeneous pattern *within* countries too. A country’s first supermarkets and hypermarkets are typically set up in the largest conurbations and serve small, wealthy consumer groups. As distribution centres are established and supply chains evolve, subsidiaries usually spread to mid-sized cities and eventually to smaller towns. At the same time, they expand their customer base from high-income clientele to the middle classes, and ultimately reach out to rural areas and lower-income groups. This implies that direct competition with traditional retailers and small producers in the periphery will occur only at a more advanced stage of modern retail penetration. In some cases, formats are adapted to local conditions. In Indonesia, for example, some supermarkets have added fresh food sections that resemble the local wet markets (Sunanto 2013).

1.4 The internationalisation of retail chains from the South

Although the classic paradigm of North–South expansion remains dominant, many Southern retail chains have emerged in recent years. The list of the 250 largest global retailers (food and non-food retailing in 2011) shows that 88 chains are based in Europe, 86 in North America and 58 in Asia. A total of 11 companies are based in Latin America and 7 in Africa (Deloitte 2013, p. G16). Moreover, as Figure 6 demonstrates, retail chains from developing countries have already started to expand internationally. Prominent examples include Cencosud from Chile and Shoprite, Spar and Pick n Pay from South Africa. Shoprite Holdings currently operates stores in 14 other African countries. More recently, some retail chains from less developed countries have started to expand. Choppies from Botswana grew rapidly from just two stores in 1999 to 125 in 2014 and is now aggressively expanding into South Africa and Zimbabwe. Choppies's plans for 2015 were to open stores in Tanzania and Zambia and to purchase 10 outlets from a chain in Kenya (das Nair and Chisoro 2015). Similarly, Kenyan retail chains Nakumatt, Tuskys and Uchumi have expanded to Rwanda, Tanzania and Uganda (Dihel 2011).

Typically, the first step in knowledge acquisition occurs through the emulation of business models from established 'Northern' brands. Domestic newcomers start setting up supermarkets or hypermarkets in their home countries, occasionally using names similar to well-known international chains (see Box 1 below on the Bangladesh experience). Once companies have gained experience in running modern formats and organising the supply of food-retailing chain stores, they launch into South–South internationalisation and expand into neighbouring countries (see Box 2 for the example of the Chilean retailer Cencosud).

Figure 6: Total number of market entries into foreign countries by the 500 largest food and non-food retailers in Q3/2012, Q4/2012 and Q1/2013



Source: PlanetRetail (2013)

Box 1: Case study from Bangladesh – learning from others and gaining experience in an expanding market

The evolution of supermarkets in Bangladesh is, to date, a 'home-made' development, as foreign supermarket chains have not yet entered the market. That said, 'modern' food retail in Bangladesh is inspired by lessons learned from abroad. In recent years, food scandals and discussions on the increase of disease (e.g. diabetes) have led to a growing awareness of health, food quality and hygiene issues, particularly among higher-income customers. Against this background and motivated by their personal experience of convenient 'modern' shopping abroad (e.g. in the USA and Western Europe, but also in Sri Lanka and Malaysia), Bangladeshi entrepreneurs set up modern food-retail formats in their own country.

Bangladesh entered the supermarket era in September 2000, when the first supermarket outlet was launched in the capital city, Dhaka. The country's current supermarket landscape is highly dynamic and shaped by the three largest and most popular supermarket chains, Agora, Meena Bazar and Swapno, by a number of smaller chains with typically two or three outlets, and by a multitude of single-outlet supermarkets. Formats such as hypermarkets or discounters have not yet been established. The vast majority of supermarkets are currently located in Dhaka. Agora, Meena Bazar and Swapno are, however, gradually expanding their operations to other large cities. Bangladeshi supermarkets target the country's middle- to high-income families. The development of supermarkets in Bangladesh is still at an embryonic stage: Bangladeshi supermarket owners estimate their market share to be around one to two per cent of total food retail in Bangladesh (GAIN 2013) and not more than five per cent of total food retail in Dhaka. Weak and unreliable supply chains, customers' reluctance to embrace modern food retail as well as high import tariffs on food are some of the factors that hold back the development of a modern food-retail sector. In an effort to overcome these constraints, the Bangladesh Supermarket Owners' Association is working hard to promote supermarket development in Bangladesh by lobbying authorities and key government organisations for more attention and support. BSOA has in fact managed to influence government decisions in its favour, achieving the withdrawal of a supplementary import duty on supermarket equipment (Saha 2013) and the reduction of value-added tax on supermarket sales (Mala 2014). In addition, the country's large supermarket chains have rolled out their own supplier development programme.

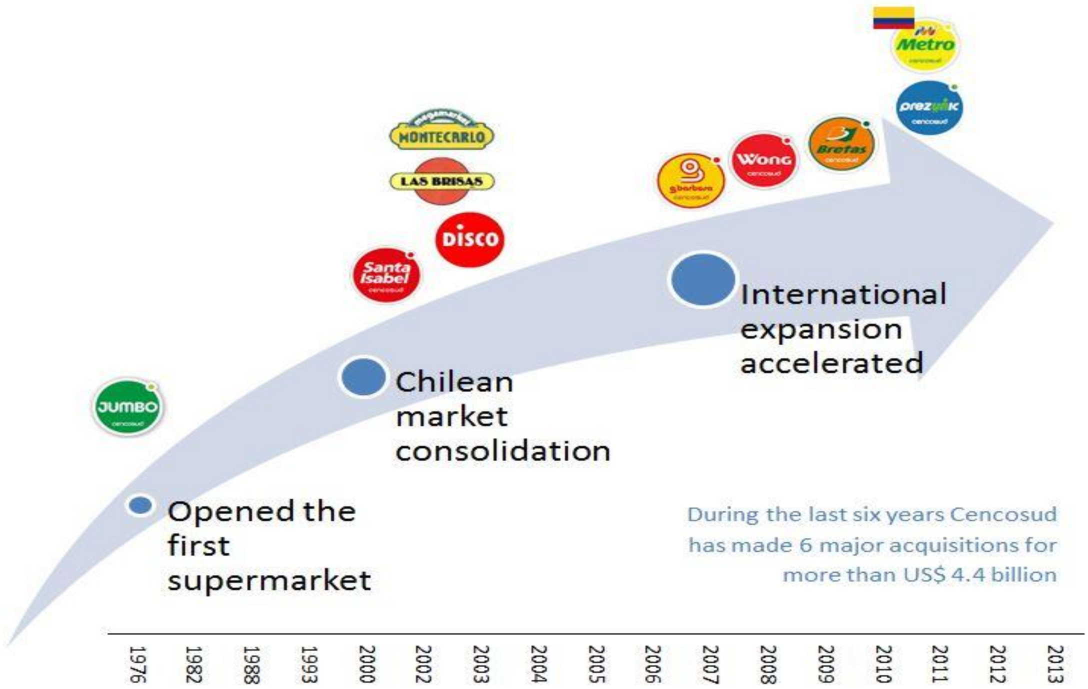
Bangladeshi supermarket managers reported that their efforts at 'copying the Western model, but translating it into a Bangladeshi theme' involved a process of 'trial and error' and 'learning by doing'. Besides observing and imitating the activities of competitors in Bangladesh and abroad, the country's large chains in particular bring in foreign consultants or employ Bangladeshi staff with the required work experience gained abroad as a way to transfer external know-how to their ventures. Agora, for instance, currently has a French CEO with extensive experience working in large supermarket chains in Europe and Southeast Asia. At the national level, expertise and knowledge is also being shared across enterprises, as experienced staff move between companies or launch their own outlets.

Although Bangladeshi supermarket owners mentioned that initial approaches have been made by transnational supermarket chains, so far foreign ventures find little incentive to invest in Bangladesh's food retail sector owing to the low purchasing power of the population and the country's significant infrastructural deficits and political instability. Bangladeshi supermarket owners are nonetheless expecting the entry of foreign supermarket chains in the foreseeable future. In interviews, Bangladeshi entrepreneurs claimed to generally welcome foreign supermarket chains as a significant boost to the development of the Bangladeshi food retail industry. However, managers of big supermarket chains in particular clearly stated that they would not allow the government to favour foreign chains over domestic enterprises and that they would want to have a say in 'how foreign chains enter the country'. In this context, Bangladeshi supermarket owners frequently referred to their neighbour, India, with its restrictive regulations towards foreign direct investment in (food) retail, as a role model to be considered.

Source: Hobelsberger (2013)

Box 2: South–South expansion of Cencosud SA (Chile)

The Chilean firm Cencosud is the largest retailer in Chile, the third largest in Latin America and an illustrative case of South–South expansion in grocery retailing. Cencosud operates supermarkets in Argentina, Brazil, Chile, Colombia and Peru (Cencosud, 2014). Although it pursues a multi-format strategy (supermarkets, department stores, home improvement stores and shopping centres) throughout Latin America that provides work opportunities for more than 100,000 employees, three-quarters of Cencosud's almost USD 19 billion of revenue is generated by supermarkets in the food sector (Banco Penta 2012).



After the launch of its first supermarket in Chile in 1976 and retail market consolidation between 1993 and 2000, Cencosud ventured an initial public offering at the Santiago Stock Exchange in 2004. This event accelerated the company's international expansion beyond Chile (see Figure 16) and, between 2005 to 2012, following six major acquisitions totalling USD 2.2 billion in neighbouring countries (Cencosud, 2014), Cencosud quadrupled its total retail revenue (Deloitte 2007 and 2014, and Herrera 2012). This made Cencosud one of the top three companies in all the markets in which it operates (Banco Penta 2012). While the biggest Latin American grocer, Brazil's Grupo Pão de Açúcar, was acquired by France-based Casino in 2012 (Deloitte, 2014), the acquisition of Cencosud is highly unlikely due to its unique ownership: 60.8% of all its shares are held by the German-Chilean Paulmann family and 17.8% by Chilean Pension Funds, with the remaining 21.4% in public float (Banco Penta 2012).

Sources as indicated

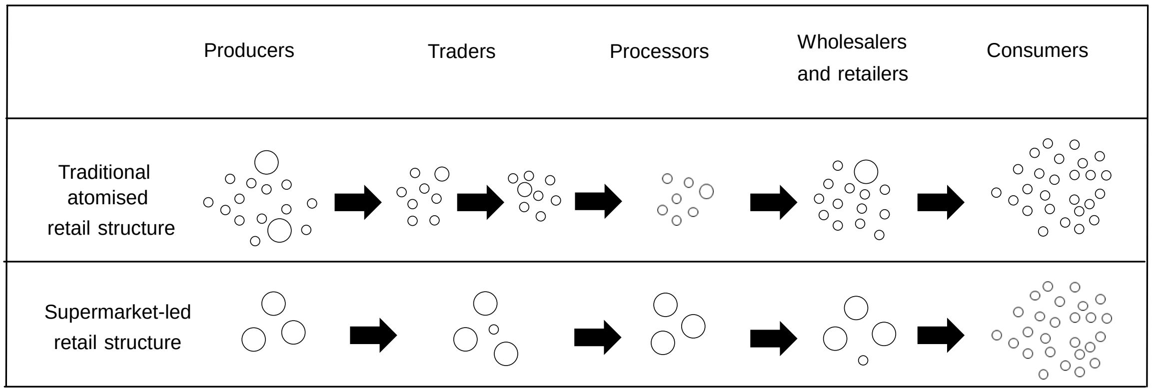
2 Development effects

Chapter 1 has shown how and why supermarkets are spreading all over the world, and it has revealed a considerable market dynamism. This chapter sets out to assess the retail revolution's effects on the socio-economic and environmental situation in developing countries. It consists of six sections. Section 2.1 provides an overview of the main socio-economic and environmental effects of retail modernisation. The subsequent sections then analyse in more detail the effects of this modernisation on producers (2.2), on intermediary traders (2.3), on domestic retailers (2.4), on consumers (2.5) and on the natural environment (2.6).

2.1 Overview: the complexity of development effects

The expansion of modern large-scale wholesale and retail formats changes the socio-economic structure in many ways. Figure 7 illustrates a stylised transformation of value chains from traditional to modern brought about by the emergence of (or entry of foreign) large-scale businesses. It shows how the number of retailers reduces and how this leads to secondary concentration processes among primary producers, processors and intermediary traders. As a general rule, large wholesale or retail companies demand higher quantities, compliance with more sophisticated standards, and lower unit prices. All this raises barriers to entry for small firms upstream in the supply chain and plays into the hands of producers who dispose of the necessary technologies and 'financial muscle' to benefit from economies of scale. Some, but not all, intermediary traders end up being cut out of the supply chain. Those who remain, however, will generally increase their sales and will often be able to increase the sophistication of their products and business models.

Figure 7: Main supermarket-induced changes in value chains (stylised)



Source: author's own

Concentration and technological learning will in most cases lead to higher incomes among the upgraded suppliers, unless the power balance between wholesalers/retailers and their suppliers is such that the former can squeeze the latter's profit margins excessively. Consumers are obviously also affected in different ways, with increased product diversity and shopping convenience for those who can afford it, through increasing or decreasing prices, and through changes in lifestyle and nutrition. Last but not least, the shift to supermarkets has manifold environmental impacts due to the implementation of environmental standards and to the spatial segregation of shopping areas, which, relocated away from the places where people live and produce goods, generates transport needs.

Development effects are therefore manifold, with some effects very desirable, others less so. Figure 8 provides a (somewhat stylised) synopsis of all these effects. Grouping them into five categories, it reveals a complex overlay of positive and negative effects. How big these positive and negative effects end up being, depends on the country context. The synopsis also suggests that there may be policy trade-offs: what is good for consumers, may not be good for suppliers; and what boosts sales and increases incomes in the supply chain may harm the natural environment. So, if good policies are to be adopted, *all* these effects need to be thoroughly weighed up. The following sections review the existing empirical evidence for each of the five categories.

Figure 8: Main development impacts resulting from the establishment of modern retail formats

Domestic suppliers	Intermediary traders	Domestic retailers	Consumers	Natural environment
(–) Loss of employment and income in traditional firms (+) Higher productivity and income in the remaining firms (+) Firms included in the supply chain benefit from knowledge transfer		(–) Crowding out of small shops (+) Partial imitation of modern formats by remaining local retailers	(+) More convenient shopping, more choices (+) Improved quality assurance and market transparency (+/–) Change of con-sumption habits (+/–) Increased food security due to reduced loss in the supply chain, but considerable waste of blemished products	(–) Industrialisation of agriculture (–) Increased transport of goods and customers over larger distances leading to higher energy consumption and carbon emissions (+) Higher environmental standards and better control of compliance throughout the supply chain

Source: author's own

Before moving on to the detailed analysis below, it should be noted that the available evidence is sketchy. To our knowledge, no systematic cross-national evaluations have ever been conducted to assess the socio-economic and environmental impacts of retail modernisation in developing countries in a comprehensive way. This is probably due to the complexity of the related processes of structural change as well as to the lack of a counterfactual case – i.e. we cannot compare in a laboratory how things evolve in a given setting with and without retail modernisation. Also, modern retail formats are treated here as a homogeneous group, yet their respective effects are likely to vary in practice (e.g. retail cooperatives allow for more distributed entrepreneurship than international discounter chains). The following sections collate the bits and pieces of evidence that are available and draw conclusions on the basis of plausibility. Also, it is stating the obvious that actual impacts are highly location specific – depending on, among other things, the maturity of local industry, levels of income, the market size and the policy framework – and therefore need to be assessed on a country-by-country basis.

2.2 Effects on domestic suppliers

When retail chains expand to another country, they do not have local supply chains in place. As such, they initially tend to import a large share of their supplies from their home base or from other countries where they already operate. Over time, the share of local sourcing tends to increase. For sub-Saharan Africa, Cattaneo (2013) estimates that, in the first phase of operations in a new country, 80% or more of a supermarket's products are imported from that retailer's home country. However, over time, local sourcing increases to between 60% and 80%.

How much supermarkets source locally and how fast they substitute imports for local products depends on a range of factors. The most important factor is the readiness of local producers to meet the quality standards, minimum quantities, reliability and prices expected by the retail chain. The larger the competitiveness gap is between the retailers' established suppliers and the local candidates, the more likely it will be that retailers import goods and end up crowding out local firms. It is reasonable to assume that large chains requiring very high minimum levels of supplies and chains demanding sophisticated standards are less likely to source locally. Also, foreign-owned firms can be expected to import more than supermarkets with a local home base, especially if the foreign retailers are still relatively new to the market in question. National supply chains will emerge earlier where local producers have advantages – for example, in the case of perishable agricultural products.

For local suppliers, economies of scale and also product and process standards constitute barriers to entry that are difficult to overcome. Instead of the spot market relations of traditional wholesale markets, modern retailers increasingly use coordination mechanisms that tighten hierarchical linkages along the procurement chain. It is common for retailers or specialised wholesalers to list preferred local suppliers in order to ensure the year-round consistency of products as well as on-time delivery. Moreover, supermarkets purchase large quantities and often demand compliance with predefined product or process standards that specify food safety and other quality features as well as social and environmental requirements. Many of these involve high compliance costs for the supplier. Larger suppliers find it easier than small suppliers (e.g. smallholders and manufacturing SMEs) to comply with the relevant standards and to deliver both the quality and quantity demanded by the retail chains. Furthermore, retail chains prefer to cooperate with larger units because it is easier to handle a limited number of reliable partners than a large number of small suppliers, especially when the latter are less well organised and therefore less reliable. As a consequence, many small-scale suppliers are excluded from supply chains when retail becomes concentrated in big chain stores. Barrientos et al. (n.d.) found that barriers to entry for farmers are highest in the case of foreign-owned retail chains. However, as regional and domestic retailers expand, they create opportunities for smaller producers who are unable to meet the standards of international supermarkets.

Several empirical studies document the exclusion of small-scale farmers in locations including South Africa (Sautier, Vermeulen, Fok and Bienabé 2006), Central America (Berdegué, Balsevich, Flores and Reardon 2005) and the Mercosur area (Farina and Reardon 2000). Other studies from Asian countries found that supermarkets did include smallholders in their supply chains, most likely because of agricultural policies that limit private land ownership and thus oblige buyers to purchase from a large number of small farms (Gulati, Minot, Delgado and Bora 2007). Evidence suggests that it is quite difficult for small farmers to meet the supermarket chains' scale and quality requirements, and inclusion therefore only happens by default. This is very much the case in India, where large-scale suppliers are scarce because of regulatory ceilings on land ownership. One important way small farmers can enter supermarket supply chains is by organising themselves into cooperatives, which allow them to collectively meet the scale requirements of supermarket chains and to share the costs related to agricultural modernisation and/or the implementation and certification of standards (Dannenberg 2012). The farmers and other small-scale producers who manage to establish supplier relations with supermarkets benefit in a number of ways. The main such advantage is demand stability. Contrary to traditional markets where demand (and hence producer income) tends to fluctuate considerably, supermarkets have a strong interest in stable and reliable supplies and, in most cases, seek contractual arrangements with sellers to minimise supply risks. As Box 3 shows, while contract farming may benefit farmers, it is no panacea for inclusive development.

Box 3: What farmers can gain from contract farming
Reviews suggest that contract farming arrangements enable small farmers to achieve higher yields, diversify into new crops and increase incomes. Contracts with retail corporations can therefore enable participating farmers to accumulate capital, modernise and grow. Surveys with contract farmers – in this case, Madagascan growers of vegetable produce for export (Minten, Randrianarison and Swinnen 2007) – documented that a stable income throughout the year (66% of farmers responded with 'very important'), access to inputs (60%) and learning new technologies (55%) were, in their eyes, the key advantages. However, contracts between retail corporations and smallholders are based on extremely asymmetrical power relations and make farmers fully dependent on their customers. Also, there are limits to the inclusivity of contract arrangements (see, for example, Kirsten and Sartorius 2002, Singh 2002, and Bijman 2008). While contract farming may benefit medium-size farmers, poor farmers are mostly unable to meet the basic conditions (in terms of know-how, finance, farm size, etc.) to ensure stable and homogeneous supply. Minot (2007) therefore points out that contract farming schemes may not be an adequate instrument for addressing rural poverty and development. While the success of contract farming depends on a broad range of framework conditions and socio-economic factors, research has revealed some generally applicable success factors. These include the design of the contract, regular communication between parties, a high level of trust, a middling degree of competition in product markets, and the effective representation of each party's interests (Dorward 2001; Dorward, Kydd and Poulton 2006; Minot 2007; Bijman 2008).
Sources as indicated

It should be noted that supermarkets can also create new markets for locally grown high-value products that have previously not been marketed locally, as happened with asparagus in Costa Rica. Furthermore, farmers who manage to join supermarket supply chains tend to learn new approaches and increase their productivity – for example, learning how to economise by cutting unnecessary fertiliser and pesticide use (Rao, Brümmer and Qaim

2012). This comes about in some cases through deliberate knowledge transfer efforts and, in others, merely as a response to pressure from the new customers.

Market assurance can increase the supplier's ability and willingness to make productivity-enhancing investments, specialise in higher-value products and/or achieve economies of scale. In comparison with non-integrated farms, farms holding delivery agreements with retail chains innovate more. Long-term income security allows farmers to invest in production system enhancement. In addition, they often have better access to information because retail chains, special traders and supervisors transfer knowledge on how to improve production processes and product quality. Also, retail chains have sometimes paved the way for their preferred host-country suppliers to become exporters, enabling them to supply to either the retailer's chain stores abroad or other customers (Nordås, Geloso Grosso and Pinali 2008). However, these positive effects refer primarily to a relatively small number of larger and more innovative suppliers.

Research on agricultural suppliers has shown that retail chains often, but not always, pay higher prices for farm produce compared to those paid by other traders. Reddy, Murthy and Meena (2010) find that smallholder farmers integrated into the modern value chain gain higher margins than smallholders in the traditional chains. Rao and Qaim's (2011) findings for Kenya suggest that participation in supermarket supply chains increases per-capita household incomes by 48%, with small farmers even gaining a disproportionate benefit of 67%. This tendency is confirmed by Andersson, Kiria, Qaim and Rao who conclude – also for Kenya – that 'for smallholder vegetable farmers [...], supermarket participation is associated with a large and positive income boost' (Andersson et al. 2013, p. 17). Maertens and Swinnen (2008, p. 2) also confirm that, in general, modern agrifood trade increases rural incomes and reduces poverty in developing countries. A study on Nicaragua, however, found that supermarkets did not pay higher prices (Michelson, Reardon and Perez 2012).

Whether suppliers receive high or low prices for their goods depends on many factors, but particularly on the relationship between supply and demand. Especially in the case of fresh produce, prices may fluctuate considerably with harvesting cycles. Also, new market entrants may temporarily have to pay high prices until they manage to establish a reliable supply base that allows them to negotiate prices down. Generally, large retail chains have a much stronger bargaining position than small-scale suppliers. That said, a large part of these chains' assortments is usually provided by multinational brands, which tend to have similar bargaining power. Retail chains increasingly offer house brands as well as their suppliers' own brands. Suppliers with established own brands can in most cases capture higher margins than those whose products are marketed under the retailer's house brand.

A very important aspect of the establishment of and integration in supermarket value chains is how these activities increase or decrease gender inequality across the value chain. Box 4 shows that integration in modern value chains can have a variety of impacts on the role and function of women in agricultural production.

Box 4: Gender impacts of supply chain modernisation in developing countries

Gender is a particularly important factor in the agrifood supply chain, because women make up around 43% of the world's agricultural labour force (albeit with large regional variations; FAO 2011, p. 35). Until now, however, systematic and representative research on the gender implications of supply chain modernisation has not been carried out, and it is not easy to draw generalisable lessons because of enormous interregional differences in terms of women's role in society, types of production and land use, levels of institutional development, etc. The research that is available focuses on horticultural export production to high-income markets where social codes of conduct and labour standards play a more significant role than they do for production for domestic or other developing country markets (Blowfield 2000; Cagaray 2001; Narrod, Roy, Okello, Avendaño, Rich and Thorat 2009).

Barrientos and Kritzinger (2004) state that gender inequality and discrimination with regard to wages, contracts, job security, social protection and working conditions is commonplace. Agrifood supply chains (whether catering for modern retail or not) have generated considerable additional female employment, particularly in packing and processing; yet women are most often segregated into low-technology occupations, which limits their opportunities to develop new skills and thus their future professional development (FAO 2011, p. 18).

Diversification of the rural economy has increased employment opportunities for women but does not automatically lead to greater gender equality. The evidence is inconclusive. Maertens and Swinnen (2008, p. 2) find that modern agrifood trade *reduces gender inequality* in developing countries. Large-scale estate production and agro-industrial processing in particular require a substantial number of employees, and women make up a significant share of these workforces (Maertens and Swinnen 2008, p. 13; Rao and Qaim 2013). Wages in such systems tend to be higher and working conditions better and more gender-neutral than in agricultural labour markets, partly due to compliance with ethical standards and certification schemes (Maertens and Swinnen 2008, p. 21; Deere 2005, p. 35). Furthermore, female control of the household income increases in the case of paid employment outside the family farm (FAO, IFAD and ILO 2010, p. 80). There are, however, studies that provide evidence of *increasing gender disparities*. According to Dolan (2001), in Kenya, export-contract farming has increased gender inequality. Overall, it was found that women had lost control of the traditionally female domain of subsistence horticulture in terms of profit- and decision-making power. Female farmers tend to be excluded from contracting with exporters due to a lack of access to capacities like land and capital and they tend to lose control of whatever income is generated, despite bearing the brunt of the work that comes on top of unpaid household and subsistence responsibilities (see also Porter and Philips-Horward 1997; Singh 2002; Eaton and Shepherd 2001).

Sources as indicated

2.3 Effects on intermediary traders

Value chain modernisation and increasing economies of scale also have considerable knock-on effects on intermediary traders. Where intermediaries fail to create added value, they are cut out by modern retailers in order to ensure lower transaction costs, smoother coordination and better control over products and specifications. This typically involves the replacement of traditional middlemen such as village merchants or commission agents, many of whom in low-income countries are very poor. The remaining suppliers tend to increase their sales and benefit from a steadier demand.

Supermarket procurement chains are therefore typically centralised and short (Boselie, Henson and Weatherspoon 2003). The top global retailers and leading domestic retailers in developing regions have even shifted away from local and national to international and sometimes truly global procurement strategies. While this implies extra movement of goods and may increase transport costs, it enables large retail chains to achieve year-round availability of products, a broad assortment and lower retail prices due to economies of scale in procurement (Reardon et al. 2004).

At the same time, there is a trend towards the emergence of specialised and dedicated 'new-generation wholesalers' and 'third-party logistics providers'[5] who concentrate on value-adding activities and use specific logistics equipment (Boselie et al. 2003; Coe and Hess 2005). New-generation wholesalers are larger and financially in a better position than traditional brokers. Before selling to supermarkets these intermediaries procure, select, sort, pack and deliver the goods to chain distribution centres (Balsevich, Berdegué, and Reardon 2006). To some extent they also deal with inventory management and marketing aspects, and undertake supply chain investments to finance deficits in traditional procurement services. Third-party logistics providers work on behalf of multinational customers without buying the products they handle. Services outsourced from retail transnational corporations to these new intermediaries are for the most part transport, warehousing and inventory management.

Overall, retail modernisation therefore also revolutionises intermediary trade. Fewer employment and income-generating opportunities remain in these activities, but new types of highly efficient new intermediaries emerge. These new activities require investments in specialised facilities as well as close coordination with the retail chains and are therefore likely to be taken up by a few large (and in developing countries often foreign) firms.

2.4 Effects on domestic retailers

Before the advent of modern retail, traditional formats like wet markets and small traditional stores dominated the retail sector. These formats were characterised by local sourcing and relatively small trade volumes. Barriers to entry for newcomers in these businesses were low, both in terms of the start-up capital needed and the skills requirements. Small stores or stalls at wet markets could be managed after short periods of on-the-job learning, but their productivity was low compared to modern retail chains. For these outlets, the modernisation of retail structures, and particularly the entry of large international retail chains, radically changed the rules of the game (Coe and Wrigley 2007).

The downside here is that increased competition may force low-productivity retailers to exit the market, leading to significant job losses. It should be noted, however, that new jobs are being created at the same time in the modern supermarkets, including low-skilled jobs for packers, cleaners and checkers. As Barrientos, Gereffi and Rossi (2011) have shown, such demand for low-skilled employment has created new income opportunities for women, which, in turn, has had substantial positive effects in restructuring gender relations. However, the fact that labour productivity is much higher in supermarkets than in informal and family-based retail stores implies a net reduction of jobs in the retail business.

On the positive side, the entry of foreign supermarket chains has important dynamic effects in terms of increasing competition and bringing in new productivity-enhancing

5 The first party is the shipper/supplier; the second party, the buyer; and the third party, the logistics firm as an external intermediary provider.

technologies and business models. Knowledge about new technologies is transferred through a variety of mechanisms – e.g. the emulation of business models or the hiring by national retail companies of managers from international retail chains (Dannenberg 2013). Several studies show how national retail chains upgraded by emulating and adapting know-how from North American or Western European retail chains (Bell, Lal and Salmon 2004; Goldman 2001; Coe and Wrigley 2007). Modern chains contribute to improving the product standards and, on average, they offer better and more stable jobs. Their retail systems require a wider range of qualifications, as the division of labour and task specialisation steadily increases (see the example of Taiwan in the 1990s described in Trappey and Lai 1996). The establishment, organisation and maintenance of a store network, appropriate locational decision-making, the operation of a smooth supply chain, and the diversification of the product range all necessitate better qualified – and thus better paid – personnel (Dawson, Mukuyama, Chui and Larke 2003). Last but not least, modern supermarkets are subject to taxation whereas unregulated petty traders can easily evade taxation.

The size of these positive and negative effects varies strongly across countries, depending above all on the attractiveness of host countries for large retail operations, the openness of domestic markets and the adaptive capacity of local retail firms.

Countries with small middle classes, low levels of car ownership and poor public transport services are not very attractive for big retail corporations, regardless of whether or not these countries provide an investor-friendly policy environment. Low-income customers cannot afford to buy large quantities in a single visit. Low per-capita sales volumes go hand in hand with high shopping frequency, which favours local retail services and thus helps small neighbourhood stores to survive. Local shopkeepers often build personal relationships characterised by trust and familiarity with their customers (this effect is described in the Indian context in Dholakia, Dholakia and Chattopadhyay 2012, pp. 258–259), which further helps their businesses to survive.

Some countries – India being the most prominent example – are still largely closed to foreign retail investments, which means the retail revolution has barely got underway in these places. Even here though, some domestic modern chains do emerge and foreign retail corporations sometimes test the market by opening up a limited number of city-centre stores. In these protectionist contexts, informal traders and small shops can still capture a large proportion of the retail market. Both the emerging domestic retail chains and the traditional retailers, middlemen and market personnel typically lobby to keep foreign investors out. In India, initiatives to liberalise retailing have, in recent years, spurred strong and sometimes violent resistance by civil society actors. This resistance has not only targeted foreign companies but also modern retailers of Indian origin such as Reliance Fresh (Franz 2010).

Finally, the adaptive capacity of local retailers varies. While crowding-out effects have been very strong in some countries, incumbent national retailers – both traditional format operators and emerging national supermarket chains – have shown a remarkable ‘local retailer resilience’ (Booz Allen Hamilton 2003) and/or have developed successful defence strategies. These defence strategies include

- incorporating new technologies and management techniques from international retail formats (Coe and Wrigley 2007; for Chile, see Bianchi and Ostale 2006),

- specialising in certain niche markets (Gutman 1997; Faigenbaum, Berdegué and Reardon 2002; Maruyama and Trung 2012) or
- complementing supermarket services. For example, poor townships in South Africa are peppered with small informal shops that are often tacked on to residences. These ‘spaza shops’ typically buy their goods from large formal supermarkets and discounters and break them up into smaller units for sale to low-income local residents.

Also, some governments support their local retailers by providing them with low-cost capital in order to prevent foreign retail chains from becoming too dominant (for China, see Reardon 2005).

2.5 Effects on consumers

The supermarket revolution affects consumers in very different ways:

- It increases shopping *convenience*, as supermarkets provide consumers with additional choices and the opportunity to purchase a wide range of products of guaranteed quality in one place.
- It may improve *consumer literacy*, as customers are usually offered a larger range of options with product information attached.
- It affects *consumer prices*, lowering prices for some items but demanding higher prices for others.
- It influences consumer behaviour, which may have positive or negative repercussions for *nutrition and health*.[6]

Modern retail formats have one major advantage: *convenience*. Supermarkets offer a wide range of options in one store. Moreover, streamlined procedures and modern technologies such as barcode scanners make transactions fast, easy and reliable. Shopping in supermarkets is therefore time-saving and, at the same time, offers a greater variety of product categories. As female labour market participation rises in most emerging economies, convenience becomes more relevant and supermarkets more attractive, particularly for wealthy urban citizens. Poor consumers who earn daily wages or lack refrigeration, in contrast, tend to make very small purchases and shop more frequently to meet their immediate needs. For such consumers, the kind of shopping convenience offered by supermarkets is less relevant. Traditional food retailers located in the immediate neighbourhood who offer loose products, low-priced value packs and single-use sachets (Goldman, Krider and Ramaswami 1999; Minten, Reardon and Sutradhar 2010) are therefore more suited to the demands of poor consumers (Neven, Reardon, Chege and Wang 2006; Dholakia et al. 2012). Supermarket managers at a workshop in Cape Town argued that low-income consumers tend to make purchases in supermarkets immediately after having received their monthly salaries but turn to neighbourhood stores for the rest of the month.

6 The supermarket revolution may also affect food security, but empirical evidence is lacking. The overall effects are likely to be positive because less food is lost in inefficiently organised supply chains, but there can also be negative effects when large proportions of edible but blemished products are rejected or removed from the shelves.

Supermarkets often provide a lot of information with their products and thereby allow consumers to make informed decisions (‘*consumer literacy*’). Differentiating products that have traditionally been offered as a homogeneous commodity is an important strategy for adding value. Hence hens’ eggs can, for example, be sold at different prices if (credible) background information is provided – e.g. whether they come from battery, free-range or organically fed hens. Coffee can be labelled as ‘highland’, ‘fair-trade’, ‘peasant’ or ‘organic’, or come with a designation of geographic origin. In this way, consumers can choose which attributes they want to pay for. Modern retailers therefore have a greater share of labelled food products and more intra-product diversity than traditional markets (Minten et al. 2010). Product differentiation and labelling can thus make consumer demand explicit and contribute to changes in the supply chain. Supermarkets in particular can, given their market power and economies of scale, pave the way for new markets – for example for organic or healthy foods or for products sourced from the home region. Some examples of this are provided in Chapter 4.

Furthermore, the goods offered in supermarkets are often *priced differently*. As a general rule, modern retailers benefit from significant economies of scale in procurement and direct relations with manufacturers, which give them significant pricing advantages over individual retail shops. Non-food and processed food items, including main staples such as rice or flour, therefore tend to be cheaper in supermarkets. In contrast, given the high perishability of fresh items, setting up reliable procurement systems for (domestically grown) fresh produce is far more complicated than for dry goods, which have a long shelf life and do not require cold chains. Making a profit from selling fresh food items therefore requires that modern food retailers invest heavily in their procurement systems, especially if quality and safety standards are to be assured (Reardon et al. 2003; Reardon and Berdegué 2006). This may result in substantially higher prices for fresh products in modern retail formats (see, for example: Goldman et al. 1999, for Hong Kong; Neven et al. 2006, for Nairobi; and Schipman and Qaim 2011, for Bangkok), making them affordable for middle- and higher-income consumers only. Also, modern food retail initially tends to focus on imports that are very expensive and less sought-after by poorer consumers (Goldman et al. 1999; Minten et al. 2010), and it has a higher share of labelled or branded – and therefore higher-priced – products.

Overall, we may conclude that the price effects of supermarkets tend to benefit consumers. Wealthy consumers pay lower prices for some items and are willing to pay higher prices for fresh products given the convenience of getting all the daily supplies in one store with increased choices in individual product categories. For low-income consumers, a number of case studies show that they typically combine buying non-perishable foods at modern food retail outlets and fresh foods at traditional retailers (Minten and Reardon 2008; Neven et al. 2006, for Nairobi; Maruyama and Trung 2007, for Viet Nam; Tessier, Traissac, Maire, Bricas, Eymard-Duvernay, El Ati and Delpeuch 2008, for the Greater Tunis area). It should be noted, however, that these benefits only accrue if modern and traditional retail formats can be combined. Poor consumers are tied to traditional retailers for a number of reasons including their knowledge of and trust in traditional retailers (Isaacs, Dixon, Banwell, Seubsman, Kelly and Pangsap 2010; Dholakia et al. 2012) and the opportunity to negotiate prices or even be supplied with informal credit (Goldman et al. 1999; Tessier et al. 2008; Minten et al. 2010; Dholakia et al. 2012). Also, small retailers purchase large packets of daily items from wholesalers and repack them into smaller quantities that are affordable for slum dwellers with extremely low incomes, even if unit prices increase (see Dihel 2011, p. 7, for India).

Supermarkets can enormously affect consumers' behaviour, which can influence their *nutrition and health* in positive or negative ways (Tessier et al. 2008; Timmer 2009; Kelly, Banwell, Dixon, Seubsman, Yiengprugsawan and Sleigh 2010).

On the upside, the entry of supermarkets into the retail sector of developing countries has the potential to increase the quality and safety of foods by introducing and disseminating food product and processing standards. Also, modern food retailers increasingly expand into fresh food where they offer an increasingly broad variety of products (Neven et al. 2006; Minten and Reardon 2008). Consumers may therefore also be encouraged to diversify their diet and consume more nutritious foods (Hawkes 2008; Kelly et al. 2010). It should be noted that these benefits may apply initially only to the higher-income groups who can afford this kind of food (Kelly et al. 2010). Tessier et al. (2008), for instance, found that frequent users of supermarkets in the Greater Tunis area improved the quality of their diets slightly when they shifted from a limited number of staple products to a more diverse diet of new foods offered by modern food retailers. This result was, however, only true for customers from the higher social classes, as these new products (e.g. avocados, kiwis and salmon) were inaccessible to most customers from the lower-income classes.

On the downside, the low-cost provision of processed foods and the heavy promotion of these items may encourage the greater consumption of high-calorie, nutrient-poor processed 'problem foods' (Kelly et al. 2010, p. 2). Asfaw (2008) was able to show that the shift from traditional retailing to supermarkets increased the share of pastries and other highly processed foods at the expense of staple foods in the total calorie availability of households in Guatemala. Along with lifestyle changes, such as reduced physical activity at work and during leisure time, these dietary changes contribute to the causal factors underlying non-communicable diseases such as obesity, cardiovascular disease, diabetes and cancer. For Guatemala, Asfaw (2008) showed that supermarket purchasing was indeed associated with increases in individuals' body mass index. While these changes are gaining ever-greater momentum, primarily in low- to middle-income countries, it is precisely the latter that continue to face food shortages and nutrient inadequacies. Consequently, these societies progressively suffer from a 'double burden' – i.e. substantial degrees of hunger, on the one hand, and growing nutritional problems arising from affluence, on the other (Boutayeb 2006; Timmer 2009).

2.6 Environmental effects

The kinds of effects that retail modernisation has on the environment depend on many contextual factors and are therefore difficult to assess. First of all, location and transport matter. Depending on the prevailing regulations and type of retail format in question, stores are established within city centres or in urban peripheries. Where zoning regulations dictate that large retailers locate a certain distance outside of the centre to protect established urban retailers, the city's housing, working and shopping districts become increasingly spatially segregated. The shift to supermarkets and hypermarkets thereby fosters private car ownership. Moreover, the trend to offer a broad assortment of products and year-round availability of goods requires sourcing from distant locations. The retail revolution therefore typically brings with it increased transport and, thus, carbon emissions (Martinuzzi, Kudlak, Faber and Wiman 2011).

Waste in its various forms has also been related to the spread of supermarkets. Nichols (2015) reported that UK retailers waste 4.1 million tonnes of food and drink annually by throwing out produce with slight damage or nearing its expiry date. The waste value increases to 7 million tonnes when the total food waste figure for homes is included. One UK supermarket chain alone, Tesco, discards '55,400 tonnes of food every year – 30,000 tonnes of which is perfectly good to eat.'[7] In addition, the volume of packaging materials and the use of plastics and other non-biodegradable packaging all contribute to the negative environmental effects wrought by supermarkets.

Of great importance are the indirect environmental impacts that come from the integration of farms into supermarket supply chains. New production processes usually also entail increased inputs of fertilisers, pesticides, energy and water, which may give rise to greater environmental hazards and result in higher production costs. A case study on tomato value chains in India showed that none of the modern retailers – both international and domestic – in their sample group imposed fertiliser or pesticide standards; rather, their standards focused solely on tomato size (bigger) and colour (redder) (Hampel-Milagrosa et al. 2014). This prompts farmers to race to produce bigger and redder tomatoes without considering the ecological impact of increased chemical use.

On the other hand, more supermarket chains are consciously including environmental policies as part of their sustainability activities (see Section 4.3). Initiatives include more efficient supply chain management schemes to reduce food losses through improved communication with suppliers about production planning and order timing (Tupper and Whitehead 2011), the reduction of packaging material, energy efficiency programmes, the certification of sustainable procurement, and so on. In Canada the earliest adopters of environmental best practices were found to be supermarket chains. These chains not only comply with environmental standards but also proactively measure, track and report CO_2 emissions and waste throughout their supply chains. Moreover, the country's top 15 retailers (which include supermarkets like Carrefour, Tesco and Walmart as well as other retailers) have environmental sustainability strategies and management structures, internal staff and external advisors dedicated to environmental issues, and regularly updated policies for the company's sustainability principles (Evans and Denney 2009).

Finally, supermarkets themselves are leading innovators when it comes to eco-labelling, using it as part of their product differentiation strategies. Developing own-brand green products is seen as a smart economic *and* environmental strategy by many companies (ibid). For instance, Walmart's sustainability strategy, launched in 2005, aimed to 'sell products that sustain people and the environment'. One of the key policy changes resulting from the strategy involves certifying environmentally sustainable products and committing to larger volumes of environmentally sustainable products (Plambeck and Denend 2011).

7 See: http://www.dailymail.co.uk/news/article-3110135/Tesco-cut-waste-giving-food-charity-day-Supermarket-donate-thousands-tonnes-stock-stores-come-pressure-cut-wastage.html#ixzz3kKJdiy16

3 Inclusive retail modernisation: the role of public policy and supporting development agencies

The previous chapter has shown that the impacts of retail liberalisation and modernisation on different groups of society are potentially very high and that they may be positive or negative. Public policy plays an important role in shaping this process in a way that maximises opportunities related to productivity growth and consumer convenience and, at the same time, mitigates the undesirable social and environmental effects as well as the social hardships caused by the transformation. Donor agencies can support governments in many ways as facilitators, knowledge brokers and financiers.

This chapter has five sections. Section 3.1 addresses the need for rigorous impact assessments and evidence-based strategy-building in order to steer the modernisation process in a developmental way. Section 3.2 argues that inclusive and sustainable retail modernisation requires a good mix of business-friendly regulations and supply-side support. The next three sections then delve into three *retail-specific* policy areas that are particularly relevant for improving the development effects of retail modernisation: specific regulations (3.3), measures to support the inclusion of local suppliers in retail value chains (3.4) and actions to enhance the adaptive capacity of existing domestic retail structures (3.5).

3.1 Developing a tailored strategy for inclusive retail modernisation

As we have seen, the transmission channels through which the ‘retail revolution’ affects national development are manifold and complex, and the long-term effects in particular are very difficult to anticipate. Many different societal groups are affected, from farmers and manufacturers to intermediary traders, competing retailers and consumers, and the effects range from changes in employment and income to environmental and nutritional changes.

How these effects play out, who stands to gain or lose, and whether net effects are likely to be positive or negative necessarily depends on the country context. Clearly, each retail transformation has its idiosyncratic features, and precautions must be taken when trying to transplant policy experiences from one context to another. Policy contexts can vary according to the level of business sophistication and productivity, degree of urbanisation and car ownership, per-capita income, size of the consuming middle classes, female labour market participation, enforcement capacity of public authorities, and many other factors.

Developing a tailored retail modernisation strategy that takes such national idiosyncrasies into account is therefore indispensable if countries want to get the best out of modern retail formats while minimising the cost of adaptation. This is not an easy thing to do. Retail modernisation and its effects on society cut across the competences of many different national authorities, such as those concerned with international trade and investment regulations; local trade, transport and logistics; urban planning; agricultural and industrial development; consumer protection; anti-trust regulations; etc. Furthermore, potentially positive effects in one policy domain must be weighed against negative effects in another, and dynamic effects need to be understood in order to inform the right policy decision. For example, expectable short-term job losses among traditional retail businesses and their small-scale suppliers need to be weighed against long-term productivity gains and consumer convenience. These are difficult tasks. Governments and public sector officials need to have a thorough understanding of the channels through which retail modernisation affects producers, retailers and consumers, and they must be able to assess trade-offs. For this to happen, they need to closely monitor change processes and coordinate across a range of different policy domains – from agricultural policy and trade policy to consumer protection and urban planning. They also require multi-stakeholder processes aimed at developing scenarios, discussing their societal implications and drawing policy conclusions. These complex requirements may explain why, in our research, we did not come across a single case of a comprehensive national development strategy for the retail revolution.

Evidence suggests that developing countries' governments have different attitudes towards retail liberalisation and these can be located on a continuum running from unconditional full liberalisation to very restrictive with regard to the licensing and entry of international competitors. Three stylised attitudes can be distinguished:

(1) *Laissez-faire approach*: Many African and Latin American countries have largely deregulated their retail markets without imposing any major regulatory constraints on foreign investors and without trying to cushion the displacement effects or help local competitors to adapt. In such markets, foreign retail chains typically have high market shares, but in some cases national chains have also benefited from the liberal policy environment.

(2) *Protectionist approach*: At the other extreme we have interventionist states like India, Malaysia and Viet Nam (Mutebi 2007) which have put enormous hurdles in place that obstruct foreign chains seeking to enter these markets.

(3) *Sequenced and assisted approach*: Most emerging and developing countries follow an intermediate approach, opening their retail sectors gradually and assisting local retailers and suppliers to cope with structural change – for example, China, the Republic of Korea and Russia (Reardon and Gulati 2008; Reardon and Berdegué 2006).

We argue that the *sequenced and assisted approach*, which aims to exploit the productivity gains of modern retailing while supporting local firms to adapt to the respective structural change, is likely to produce better outcomes with regard to sustainable development. The *laissez-faire* option fails to take into account the unequal power balance between large retail chains and small local shops, which greatly enhances the risk of massive job losses and polarised retail structures. Also, it does nothing to promote technological learning and adaptation and, therefore, has in times past often come at a very high social cost and even led to violent conflicts. The *protectionist* approach, in contrast, means that the efficiency gains to be obtained from modern forms of retail organisation are unlikely to materialise. Furthermore, shielding national retailers from foreign competition is likely to increase the productivity gap between national and global players and thereby increase the costs of adaptation when markets open up further down the line.

As we can see, there are strong arguments for a sequenced liberalisation combined with proactive measures to strengthen national suppliers and retailers. Any national strategy for inclusive and sustainable retail modernisation must therefore determine how rapidly markets should be liberalised, which sectors require special protection and which have the potential to be integrated into and benefit from supply chains, and what policy measures need to be taken. As Box 5 shows, donors may have an important role to play in supporting the development of such strategies.

Box 5: Supporting evidence-based development strategies for retail modernisation – a role neglected by donors

Our evidence presented in this chapter shows that governments all over the world have adopted a wide range of regulatory and supporting measures to influence the way retail chains spread in their countries. Despite these many efforts, three critical aspects stand out:

(1) There is hardly any evidence of the effectiveness of different policies. Very few studies systematically assess the effects and success conditions of specific retail policies. Governments are therefore left to regulate the opening and operation of retail outlets, support local supply chains and try to strengthen the resilience of established local retailers without recourse to any documented experience.

(2) The literature review and expert interviews did not unearth a single case of a comprehensive national development strategy that systematically sets out how competing objectives should be balanced and how rapidly and with which accompanying policy measures retail modernisation should be allowed to unfold.

(3) No donor agency has a clearly defined perspective on retail modernisation in development terms. Only a handful of donor-supported development projects explicitly address strategies for coping with retail modernisation, and those that do usually only address very specific problems (mainly strengthening agricultural suppliers) rather than formulating a comprehensive view on retail modernisation.

Donors and development agencies can and should address this policy lacuna in the following ways:

a) They can assist national agencies in developing an integrated impact assessment framework for retail modernisation and systematically gather information about socio-economic and environmental impacts and transmission channels. The framework used in our report provides a starting point. Existing impact assessment methodologies, such as the DEG's (German Investment and Development Corporation) Corporate Policy Project Rating, can be modified and tailored to the needs of an integrated assessment framework for retail modernisation. This rating combines market and profitability assessments with development criteria. Especially the latter would need to be mapped out in a more detailed way so that they capture the static and dynamic effects occurring at different stages of the retail chain.

b) They can inform policymaking by providing evidence of successful and failed retail modernisation policies from various countries. Specifically, donors can inform about the policy scope under multilateral and bilateral trade agreements, about different regulatory options and their impact, and about the design of public-private partnerships between retail chains and government agencies.

c) They can play an important role as honest brokers, facilitators and moderators of these kinds of multi-stakeholder processes.

Source: author's own

3.2 Creating an overall business-enabling environment

The scale of investments made in modern retail formats and the way competitors and suppliers react to the new opportunities depend to a great extent on the overall investment climate in the countries in question. If the overall investment climate is business-friendly, it will attract more corporate investment in retailing and, at the same time, will stimulate local supply chain activities. Creating this kind of enabling environment requires a good balance between deregulation in places where bureaucratic obstacles hold investments back and light-handed regulation in places where monopolistic market power or the technological supremacy of large global players suffocates local entrepreneurial learning.

Firstly, there are basic conditions for any type of long-term investment in productive assets. A business-enabling regulatory environment should be put in place (DCED 2008) that restricts corruption and ensures macroeconomic stability, prudent fiscal management, clearly defined property rights, a transparent tax system, the rule of law, and effective contract enforcement. Governments can create an investment climate that encourages competition and welcomes foreign investment, or they can impose so many regulatory hurdles that, in practice, the entry of foreign chains is made impossible. A fair and transparent legal framework is particularly relevant for retail chains, as these chains require huge economies of scale (and thus considerable investment in a large network of chain stores) to be profitable. Long-term investments are also needed to establish reliable supply chains in the host economy. If the legal framework is not clearly established and the entry of retail chains is politically contested, these chains then face a high risk of losing their investments.

Secondly, proactive policies are needed to strengthen local entrepreneurship, especially in developing countries and regions lagging behind where the existing firms are not (yet) able to compete – or to engage in beneficial business transactions – with advanced international enterprises. Small firms from developing countries typically experience manifold competitive disadvantages in terms of economies of scale, quality of workforce, inter-firm networks and institutional support. Unconditional liberalisation that exposes nascent local entrepreneurs to direct competition with dominant global corporations may therefore undermine the development of technological and entrepreneurial learning in latecomer countries (e.g. Chang 2002, and Altenburg and Lütkenhorst 2015). Alternative strategies build on a wide array of policies to promote entrepreneurship development and vocational training, efficient financial and business development services, infrastructure development, the development of certification and accreditation systems, the formation of cooperatives, and so on. Without these kinds of policies in place, modern retail chains may simply remain as import-dependent enclaves.

This is another field where international donors and development agencies can make important contributions. Many of them have vast experience in supporting their partners in developing countries. Fields of intervention range from facilitating multi-stakeholder dialogues and supporting the design of policies, through improving small-firm finance and developing the capacities of entrepreneurs, up to providing business development services and promoting value chains and clusters.

While the importance of this overall business-enabling environment can hardly be overestimated, discussing the whole array of general private sector development policies is beyond the scope of this paper. In Sections 3.3, 3.4 and 3.5 we therefore focus on three *specific* policy areas that are central to shaping retail modernisation in an inclusive way. Again, most of the intervention areas described below are potentially – in cases where they are requested from partners – also fields of intervention for development agencies.

3.3 Specific regulations for wholesale and retail chains

The extent to which countries are free to regulate the entry of and operating conditions for international retail chains depends on their commitments under the World Trade Organization's General Agreement on Trade in Services (GATS). The GATS agreement distinguishes between 'horizontal commitments' and 'specific commitments'. The former are general commitments to transparency and fair treatment. The latter include more-specific rules that can initially be negotiated and, once agreed, are laid down in 'schedules'. These are extensive documents drawn up by governments specifying the services to which they will apply the GATS market access and national treatment obligations as well as any exceptions they deem appropriate. These specific commitments include 'the opportunities for foreign service suppliers to establish, operate or expand a commercial presence in the Member's territory, such as a branch, agency, or wholly owned subsidiary.'[8] When a government has committed to open up the retail sector in its schedule of commitments, it must then deliver on this commitment. When it has not made such a commitment, it retains the full policy space to, for example, limit the number and size of retail outlets in any particular location in order to safeguard small enterprises, jobs and diversified downtown business districts, as long as basic transparency and fair treatment conditions are met.

The development of supermarkets has, historically, been regulated much more heavily in the United States and Europe than it is currently being in many emerging and developing countries (Reardon and Hopkins 2006). Some US cities require 'retailers seeking to build stores larger than 100,000 square feet to pay for an economic analysis on the impact their store would have on the surrounding area.'[9] Similarly, numerous zoning requirements define where supermarkets are allowed to set up and what their maximum size should be in order to keep competition with the local business community in check or to protect the appeal of historical townscapes. Developing countries tend to apply fewer such regulatory restrictions, and many have made specific commitments under the GATS that limit their policy space for applying these kinds of land use policies. One remarkable exception is South Africa's Competition Act, which asks authorities to consider not only the expected impact of retail investments on competition but also a variety of potential effects that may be of public interest. These include, among others, the impacts on particular industrial sectors or regions, employment, the ability of firms owned by historically disadvantaged persons or of small businesses in general to become competitive, and the ability of national industries to compete in international markets (Morris 2012).

Evidence on the effectiveness and impact of these regulatory restrictions is surprisingly scarce. Mutebi (2007), Reardon and Gulati (2008), and Wrigley and Lowe (2010) provide useful overviews of a range of regulatory measures, but few studies exist that assess their impact. Following, we will discuss four major groups of regulatory restrictions: (a) foreign direct investment entry requirements, (b) zoning and opening hours restrictions, (c) local content rules and sourcing requirements, and (d) food waste and environmental regulations.

(a) Foreign direct investment entry requirements

In order to minimise the market power of large retail chains and force them to share some of their know-how, host country governments can impose a number of entry requirements

8 See: https://www.wto.org/english/tratop_e/serv_e/guide1_e.htm

9 See: http://www.citizen.org/documents/SOS-7_zoning_FINAL_0606.pdf

for foreign retail investors. They can determine the share of a firm's capital that can be owned by foreigners. Many strongly regulating countries in Asia have prohibited 100% foreign-owned investments in the retail industry (Mutebi 2007; Franz 2012). In most cases, the shareholder value held by foreign nationals is not allowed to exceed 50%, but these upper limits have often been dealt with more flexibly over time, as happened in Indonesia (Mutebi 2007). In Malaysia, capital requirements are being established on a case-by-case basis.[10] Another way of mitigating the adjustment costs that result when foreign chains enter a traditional retail market is to allow FDI only at the wholesale stage and reserve retail for domestic companies. Viet Nam started liberalising its domestic market by providing licenses for the Metro Cash & Carry chain that require its customers to be wholesale purchasers. Furthermore, governments can use a spectrum of administrative notification requirements to govern foreign retail investments. This includes size limitations for retail outlets which oblige foreign retail companies to use smaller formats (see Figure 1) that local retailers can compete against more easily. Similarly, governments may require minimum population thresholds for receiving a permit to build a large-format retail outlet in a certain municipality. For example, in Malaysia new stores are only considered for places with a population of 350,000 or more people (Mutebi, 2007). Furthermore, Malaysia requires those submitting permit applications to also perform assessments and studies of local socio-economic and environmental impacts, and to hand these in with the application (often several months in advance). While the cost of these studies must be carried by the interested investor, the assessment can be either performed by the local authority or outsourced to a third party (ibid.). These kinds of economic needs tests, which were originally carried out in the US (see above), have now become a requirement in a number of developing countries including China, Indonesia, Malaysia and Viet Nam. The extent to which these requirements are compatible with GATS rules is a matter of debate.

(b) Zoning and opening hours restrictions

Governments in emerging and developing economies have traditionally used zoning laws to regulate wet markets and street hawkers in city centres – not just to prevent street congestion, but also because informal retail activities are difficult to tax and wet markets in particular often cause hygiene problems. Many governments therefore impose strict zoning regulations and implement hygiene standards for wet markets (for China, see Zhang and Pan 2013, and Ho 2005). When implementing these instruments, the Chinese also included major upgrading and development measures for street hawkers. In Brazil and Mexico, however, zoning rules prohibited wet markets without providing any further assistance to traditional (informal) retailers (Reardon and Gulati 2008; Reardon et al. 2003). As a result, zoning very often enhanced the displacement of wet markets and informal retailing. Rather than leaving wet markets to flounder and collapse, the Chinese approach was instead based on the principle of 'retaining but modernising'. This included experimenting with the privatisation of wet market management and relocating hawkers and wet markets to uncongested and permanent sites. The Chinese government offered improved infrastructure for the relocated retailers and trained them in business skills and food safety. These upgrading measures meant that the goods offered for sale in the wet markets became safer

10 International statistics clearly indicate that retail multinationals do not engage in joint ventures voluntarily (see Chapter 2). Although joint ventures allow foreign retailers to access know-how on consumer preferences and become familiar with local regulatory environments (Mukherjee and Patel 2005), the disadvantages of compromising with local partners obviously outweigh these advantages.

and more hygienic, and that tax payments increased (Reardon and Gulati 2008; Reardon et al. 2003).

With regard to supermarkets, state and local authorities often rely on zoning rules to specify the form and size of shopping centres and large-format retail outlet buildings. Supermarket zoning restrictions prevail in nearly all East and Southeast Asian countries as well as in several Latin American countries. Southeast Asian countries tend to be the most rigid, with laws prohibiting the establishment of new large retail establishments close to residential areas, city centres or designated areas of cultural and national interest. Malaysia is a prime example of this (Mutebi 2007) and, in addition to zoning laws, it also imposes building codes that (a) require retail outlets to operate from their own building and (b) set maximum floor spaces (ibid.). Where town planning zoning laws were found to be lacking in any Thailand province, they were put in place in order to protect Thai-owned local businesses in smaller urban centres and towns (Shannon 2009; Reardon and Gulati 2008; Mutebi 2007; Feeny, Vongpatanasin and Soonsatham 1996). In Kenya and Rwanda, Dihel (2011) states that foreign retailers must comply with both outlet site regulations and local urban planning provisions – the latter being a useful way to protect urban or rural retailers. In Uganda, foreign retail chains are prohibited in rural areas (ibid.). Governments can also restrict retailers' operating hours. For example, modern large-format retail outlets are not allowed to open before 10 am in Indonesia (Mutebi 2007) in order to protect the country's hawkers and neighbourhood shops. Most of these retailers' business turnover is generated in the early morning when traditional Indonesian housewives tend to go shopping for household items. Zoning and opening hours restrictions can thus be used to cushion the effects of the retail revolution on local retailers. Restrictions should ideally be well justified and based on empirical evidence, which is not always the case.

International retailers have found different ways to adapt to such regulations – for example, by developing smaller formats like chains of kiosks, convenience stores or neighbourhood markets (Reardon and Gulati 2008). Also chains of 'cornershops' or 24/7-store models have been used to circumvent regulatory barriers. This can in fact be a desirable outcome, as it allows modern competitors to enter the market while forcing them to adapt to local conditions.

Competition authorities may also closely monitor contracts between shopping mall operators and their anchor tenants. Anchor tenants are typically the first and largest tenants in a shopping mall whose prestige and sales operations are crucial for attracting other tenants, not to mention customers. Given these anchor tenants are crucially important for the mall operator, they are able not only to negotiate very low rents, but also to include clauses in their contracts that keep local competitors out of the mall in question. To counter this and thus create space for the growth of local firms, regulations can be put in place that preclude anti-competitive contracts of this nature.

(c) Local content rules and sourcing requirements

Local content rules are requirements that oblige foreign investors to purchase a minimum amount of goods and services locally. The aim is to substitute imported goods and services so that domestic ones are given the opportunity to be sold through the new outlets. Local content requirements therefore divert trade and, as such, are prohibited by the WTO Agreement on Trade-Related Investment Measures (TRIMs). Given this ban, few countries impose *explicit* local content rules in retail. One of the few exceptions is China, where state regulations demand that liquor and tobacco be sourced locally (Mukherjee and

Patel 2005). Recently, India imposed a regulation that requires so-called multi-brand retailers to source at least 30% of what they sell from micro, small and medium-sized enterprises (Government of India 2013). These regulations not only conflict with WTO rules; they are also very difficult to enforce when retailers handle several thousand different products and, especially, when suppliers circumvent regulations by formally splitting firms into pseudo-independent small units. Moreover, even when governments are able in principle to oblige retailers to put domestic products on their shelves, they are not able to oblige customers to buy them. Such regulations can therefore be regarded as either part of a populist discourse or as a political strategy to encumber the entry of foreign investments altogether (Kapur 2007).

Box 6 provides an overview of India's recent attempts to impose regulatory requirements on foreign retail chains. The main result has been a stalemate in retail development. Due to the rigidity and the ambiguities of regulations, at present not a single application by a multi-brand retailer has been handed in to an Indian state government.

Box 6: India's recent evolution of regulatory requirements

- In November 2011 India allows foreign supermarket chains to enter the country with a share of up to 51% of their Indian operations. The government also allows single-brand retailers, such as IKEA, to own 100% of their business in India.
- In December 2011, facing political criticism from allies and opposition parties over concerns that millions of small shopkeepers (*kirana* stores) will lose their business, the government puts the retail reform on hold.
- In January 2012 ownership restrictions on foreign investments in single-brand retail are completely removed, but a local content rule is introduced that requires 30% of goods to be sourced from the MSME sector.
- In September 2012, in an attempt to assuage political opposition, the government allows foreign supermarkets to buy up to 51% of a local partner company but sets limitations regarding sourcing and investment. Local sourcing requirements for single-brand retailers are eliminated.
- In June 2013 the government makes the clarification that supermarket operators cannot acquire the *existing* assets of Indian companies and that the initial mandatory USD 100 million investment to set up supply chain infrastructure and stores must be in *new* assets.
- In August 2013 India relaxes its sourcing and investment rules for supermarkets by allowing multi-brand retailers to meet the 30% sourcing requirement over five years. In addition, regulators specify that multi-brand retailers only have to invest 50% of an 'initial' mandatory investment of USD 100 million in the setting up of cold stores and warehouses.

Sources: Government of India (2014) and Jayakrishnan (2013)

While the *explicit* use of local content rules is therefore difficult and ambiguous, local sourcing can be an *implicit* part of government deals with foreign investors. So, even when local content rules are not formally laid down in regulatory directives, governments can still encourage these rules in different ways:

- They can nudge investors to voluntarily engage in supplier development. As we will see in Chapter 4, large retail chains are nowadays adopting a wide range of measures to distinguish themselves as good corporate citizens, often publishing their actions in sustainability reports and sometimes developing key performance indicators related to their social and environmental impacts. Governments can build on this trend, offering soft incentives like publicity, for example, to those retailers that seriously engage with local suppliers.

- They can signal to retail investors that creating their business more inclusively increases the likelihood of getting licenses for additional outlets or benefiting from public purchases.
- Under certain circumstances they can even make supplier development mandatory. When Walmart wanted to merge with the local company MassMart in South Africa, the Competition Appeal Court ordered that the newly merged company must set up a supplier development fund and make available ZAR 200 million for that fund over a period of five years (Morris 2014).

Overall, encouraging linkages or imposing the type of legal requirements set by South Africa seems to be more promising than trying to impose and enforce legal content requirements.

(d) Food waste and environmental regulations

Most countries have building codes in place that lay down certain requirements, such as for energy efficiency. Furthermore, supermarkets have recently been heavily criticised for wasting food. Retails chains reject a substantial percentage of fresh produce that would not meet customers' expectations in terms of size, shape or colour. Also, products are removed from the shelves days before their expiry date to avoid customer complaints. As a result, enormous amounts of good-quality food go to waste. The US Department of Agriculture estimates that, in 2010, supermarkets and grocery stores in the country threw out USD 46.7 billion worth of food.[11] The French government recently passed a law that obliges supermarkets over a certain size to donate any unsold but still edible food items to charity or to pass them on for conversion into animal feed or farming compost.[12] Critical consumer organisations in several European countries are now pushing other governments to adopt similar measures. The US has no binding obligations of this sort, but it does provide tax incentives for food donations and has enacted a law which 'ensures that donors are not liable for harm done by donated food as long as it was given in good faith.'[13]

To sum up, a whole range of regulations are being used internationally to boost the benefits and mitigate the negative side effects of retail modernisation.

What is the role of donor agencies with regard to regulations for the retail sector? So far, few donor agencies have engaged in this arena. A few development partnerships between retail or wholesale corporations and donor agencies have been documented (e.g. Metro and GIZ,[14] and Pick n Pay and USAID). Some development banks finance large wholesale and retail chains in order to accelerate the retail revolution. The World Bank's International Finance Corporation (IFC) claims to have financed 'retail approvals of [USD] 1.2 billion … in 31 countries' (IFC 2008). The IFC funding is directed at leading hypermarket and supermarket chains as well as shopping mall developers, which it

11 See: http://www.theatlantic.com/international/archive/2015/05/law-france-supermarkets-food-waste /394481/

12 See: Al Jazeera, 22 May 2015: http://www.aljazeera.com/news/2015/05/france-food-waste-supermarkets-150522070410772.html

13 See: http://www.theatlantic.com/international/archive/2015/05/law-france-supermarkets-food-waste/394481/

14 See: http://www.sme-gtz.org.vn/Portals/0/AnPham/Metro%20PPP%20Brochure%20final.pdf

justifies by citing the jobs created in these businesses and other presumed advantages such as access to healthier food choices (ibid.). However, its publications do not mention so much as a single one of the downsides discussed in this report.

We argue that, given the complex implications of retail modernisation, donors should, in concert with the relevant national authorities, thoroughly assess socio-economic and environmental costs and benefits before taking action. On that basis, donors can assist partner countries in the formulation of integrated retail modernisation strategies.

3.4 Encouraging and supporting the inclusion of local suppliers in retail value chains

The productivity of small-scale producers in developing countries tends to be very low. This often inhibits the establishment of inclusive supply chains or may lead to exploitative relationships. Also, it leads to a situation where modern retailers import many more products then would be the case in a more productive environment.

Empirical observations across the globe do however suggest that smallholders and small processing firms can, under certain circumstances, participate in commercial supply chains. It should be noted that it is in the retail companies' own interest to source locally, as this can help to stabilise supply, improve the retailer's corporate image, mitigate currency risks and contribute to broadening their customer base in the long run (see 4.1). In developing countries, where competitive suppliers cannot be taken for granted, some retail chains do in fact invest in supplier development. However, given the manifold deficiencies of small-scale producers in developing countries and the transaction costs involved in dealing with a myriad of unorganised small firms, retail chains in developing countries are unlikely to leverage their full potential for inclusive development without support or nudges from government agencies. This is a particularly important factor in countries with weak contract enforcement systems. Governments can make it mandatory for (or seek to morally persuade) large retail corporations to invest in supplier development funds, either on an individual-company basis or by establishing one nationwide fund to which all retailers contribute. The success of such funds will depend on the level to which retail corporations take ownership and engage as well as on the professionalism of the implementing agencies and their ability to understand the retail business. If the retailers perceive their fund contributions to be just another tax, they will not seriously commit to developing their suppliers. Massmart in South Africa initially saw its mandatory contributions as a bothersome tax, but later recognised the potential of developing suppliers jointly with a professional service provider (see Box 11 below). Section 4.2 offers examples of retail corporations setting up supplier development programmes, in some cases with the support of development agencies and other service providers.

To assess the potential and limitations for local firms in retail value chains and to design inclusive policies, four aspects are particularly critical: (a) economies of scale, (b) transaction costs, (c) compliance with standards (e.g. food safety, quality, traceability) and (d) increasing local firms' share of profits through value-creating pre-processing or packaging activities. Following, each of these aspects is explained in more detail.

(a) Economies of scale

In agriculture in particular, small producers can build on certain comparative advantages associated with high-value crops, such as those arising in the fresh food and vegetable sector, where economies of scale have less impact on the productivity of farms. Contrary to the growth of commodity crops, such as wheat and soybeans, the labour-intensive production techniques employed by small farmers make it possible to grow sensitive crops like tomatoes, mangoes, herbs and spices. Obviously, geographical conditions play a role in choosing the type of crop but, as per-capita incomes rise in emerging economies, organic or even fair-labelled produce emerges as another potential niche that small farmers can develop. Diversification in high-value organic and fair agriculture is, however, risky. It requires a large number of preceding investments in inputs and various kinds of audits and certifications. Most small, asset-poor farmers do not have the savings, financial capacity and risk-coping options (i.e. insurance) to engage in high-value crops (Goger, Hull, Barrientos, Gereffi and Godfrey 2014). Governments can encourage high-value crop production by offering financing and insurance schemes, supporting fair trade and similar labels, and making the respective certification accessible for smallholders.

(b) Transaction costs

Supermarkets will seek to avoid the transaction costs involved in dealing with too many parties – for example, the high operational costs resulting from surveillance, contract enforcement and logistics. Reducing the number of sources by working through intermediaries like dedicated wholesalers, cooperatives or farmer associations may be a solution. Public policies can help with organising small producers and linking them to retailers. Governments can also provide agricultural extension services to reduce the quality risks involved in local sourcing and they can improve infrastructure to reduce the transaction costs involved in dealing with numerous small-scale suppliers that are geographically scattered.

(c) Compliance with standards

The difficulty of complying with food safety and quality standards may exclude smallholders from quality-driven supply chains. A major reason for non-compliance is the lack of access to proper infrastructure, technology, production inputs, training and market information. This requires the strong intervention of public actors to provide public goods and targeted financial support. Governments can also help smallholders to meet the requirements of standards like GLOBALG.A.P through, for example, group certification (Box 7).

(d) Increasing local firms' share of profits

Involving smallholders in pre-processing activities (such as washing, cutting and drying) or packaging can increase their share of profits. The impact of local packaging in particular should not be underestimated, as it can reduce the risk to producers of seasonal price fluctuations and can enable them to earn higher prices for their produce. These kinds of value-creating activities may, however, require investment in machinery and capacity building, and therefore also call for public intervention.

Box 7: Global Good Agricultural Practices (GLOBALG.A.P)
Launched in 2001 by a group of leading UK and European food retailers, the GLOBALG.A.P (initially founded as EUREPGAP) is nowadays the most widely implemented farm certification scheme in the world. GLOBALG.A.P consists of a set of harmonised standards for fresh fruit and vegetables. It includes an array of food safety, quality, labour and environmental standards that are not mandated by law and are therefore voluntary. Once companies have achieved the baseline standard, they are then free to make further specifications and adopt additional standards and audit schemes (e.g. Tesco's Nature's Choice). GLOBALG.A.P was developed as a way for retailers to avoid a situation where each company created its own standards and auditing system. Of key interest to retailers was the creation of harmonised European-wide value chains in which supplies would be interchangeable, thus ensuring guaranteed supplies of certified produce. Nowadays GLOBALG.A.P has more than 250 members and is run as a not-for-profit organisation that aims to develop an equal partnership of agricultural producers and retailers in order to ensure 'safe and sustainable agriculture worldwide' (GLOBALG.A.P 2014). Its members are retailers, suppliers and non-governmental organisations. Many suppliers from emerging and developing economies have now become certified, as compliance with GLOBALG.A.P. is often considered to be a passport to accessing European markets (Zoss and Pletziger 2007). In order to participate, producers need to be independently audited by a third party certifier. Those seeking certification will need to make some initial investments to upgrade their farm and must meet the annual costs of external inspection by the certification body in question. All this requires substantial financial capital. Implicitly, it also requires that the producer know how to read, write and keep records. This has led to concerns about how the costs and benefits of certification are distributed and whether smallholders may be forced to exit such schemes (Henson and Humphrey 2009). Collective applications for producer group certificates are a way in which small-scale farmers can secure certification at an affordable individual cost of compliance (Dannenberg 2012).

Small processing firms face similar challenges to farmers, but they seem to have fewer options open to them when it comes to specialising in niche markets. This is because economies of scale become especially important at the processing stage. Also, with supermarkets spreading over the country, processors face ever-greater barriers to market entry due to the standards required. Multinational supermarkets tend to establish their own processing standards and grades and, in addition, may ask food processors to acquire certificates for internationally accepted food safety standards such as Hazard Analysis and Critical Control Point (HACCP) (Reardon and Barrett 2002). These dynamics worryingly have the potential to exclude undercapitalised smaller processors.

Overall, governments can offer a range services and incentives aimed at increasing the inclusion of smallholder farmers and processors and linking them to markets. Altenburg (2000) and the United Nations Conference on Trade and Development (UNCTAD 2010) provide detailed accounts of supplier development programmes. The following are some of the key measures they put forward:

- Offer supply-chain-specific capacity building to potential suppliers – from short-term consultancies to longer-term technical and vocational training programmes.
- Provide specialised business development services (BDS), either directly or through programmes to develop competitive BDS markets. The latter typically include training for independent service providers, quality assurance and demand-side incentives like service vouchers.
- Support the development of an efficient quality infrastructure that includes the definition of standards, testing facilities and certification schemes.

- Offer incentives for the formation of cooperatives and farmer associations. Such organisations enable smallholders to negotiate collectively with buyers and the authorities, increase the scale of their combined production, lower their transaction costs and make it easier to disseminate new business ideas, technologies and market information to farmers. Indeed, for smallholders, being in a cooperative is often a precondition for entering into business partnerships with larger buyers (Box 8 provides an example from Chile).
- Develop partnerships between development agencies and retail chains. Because retail companies know best what can be sold and what types of firm qualify as potential suppliers, they typically set the standards and select potential suppliers. Development agencies, on the other hand, can provide support in terms of training and infrastructure development (Altenburg 2006).

Box 8: INDAP, supermarkets and Chilean berry-grower associations
In 2002, Chile’s rural development agency, INDAP, launched a programme to support groups of small farmers supplying berries to supermarkets. The programme sought to upgrade the quality, consistency and volumes of produce delivered to supermarkets. The key actors involved were the berry grower associations and two supermarket chains – while the grower associations organised collective action, the supermarkets funded 70% of the training needed to ensure the growers’ produce met supermarket standards.
Source: Brown 2005

3.5 Enhancing the adaptive capacity of domestic wholesale and traditional retail

To compete against the emerging group of modern, dedicated and often globalised wholesalers, it is essential to strengthen the traditional wholesale system (e.g. wet markets) and, in particular, to provide opportunities for the traditional retailers and farmers that do not meet the basic conditions for integration into modern supermarket-led value chains (Faigenbaum et al. 2002). The traditional wholesale system in many emerging and developing countries has several weaknesses, the most important being low or absent standards for quality and safety, supply and demand fluctuations, and high transaction costs due to a lack of supply chain coordination and technology (Berdegué et al. 2005). When trying to become more quality- and cost-oriented, traditional wholesalers face a number of challenges. They need to reduce costs and increase the speed of procurement, and to increase the value of sold goods (which involves increasing their quality and variety, and offering speciality products). They also need to introduce effective consumer feedback mechanisms so that sourcing portfolios can be adapted to market preferences and developments, and then put systems in place to ensure these adaptations are ultimately communicated to suppliers.

Tackling these challenges of course requires individual upgrading efforts by traditional wholesalers, but it also demands that both governments and wholesaler and trader associations take on the responsibility of modernising the domestic wholesale infrastructure.

A number of approaches have been documented for upgrading domestic wholesalers and retailers (detailed in Reeg 2014). These include public investments in the development of wholesale infrastructure, such as proper warehouse facilities, cool chains and better sorting, grading, labelling, tracking, inventory and managerial systems. In China the Ministry of Commerce developed its wholesale infrastructure through a public-private partnership, the 200 Markets Linkage Programme, which connected up 100 leading wholesale markets with 100 leading food firms in order to collectively modernise the facilities and logistics of the domestic wholesale structure (Reardon and Gulati 2008).

A number of municipalities in, among others, China, Hong Kong, the Philippines, Singapore and Taiwan have rolled out modernisation programmes for traditional wet markets, acknowledging their important role for poorer communities. Some of these markets have been relocated to new sites and provided with improved physical facilities and access to water, electricity and offices. The International Food Policy Research Institute (IFPRI) considers the East and Southeast Asian strategy of combining competitiveness and inclusiveness to be key for successfully helping traditional retailers co-exist or compete with modern retailers. They identified five commonalities in these successful policies, namely that: (1) the parallel development of supermarkets and traditional retailers was allowed, (2) changes to traditional wet markets were managed and facilitated, (3) traditional retailer competitiveness and modernisation were promoted, (4) the social and market role of traditional retailers was taken on board, and (5) the privatisation of wet market management was trialled (Reardon and Gulati 2008).

In addition, the Government of Singapore has run a programme since 1992 for those street hawkers and small retail outlets wishing to modernise their businesses but first needing advice on formalisation and strategic opportunities. The programme offers financial assistance, training and advice on regulations.

To sum up, governments can draw on a wide range of options that enable them not only to combine the benefits of wholesale and retail innovations, but also to manage this profound structural change in such a way that local actors are able to learn and adapt, and that socio-economic costs are minimised. However, given the cross-cutting character of the retail revolution, an enormous research gap exists when it comes to evidence-based policy analysis.

4 Private sector initiatives for inclusive and sustainable retail modernisation

The first chapters of this report have demonstrated the retail revolution’s enormous potential for development as well as its potential negative impacts, especially those arising when developing countries’ traditional retail markets are rapidly opened up to global competition and national actors are not given sufficient time to adapt. Also, it has become clear that such induced structural change necessarily brings with it this mixture of desirable and undesirable effects. Whether the positive or negative effects prevail depends to a considerable degree on the retail chains’ corporate policies. When large retail corporations commence operations in a new country, the following factors can enormously affect the host economy’s development perspectives:

- the extent to which large retail corporations, such as Walmart or Carrefour, comply with existing rules and regulations;

- whether they confront procurement problems by investing in local supply chains or by importing;
- the extent to which they respect minimum social and environmental standards in their supply chains and whether they make them an integral part of their procurement procedures;
- whether they support regional products or only work with a very limited number of national suppliers;
- whether they introduce new standards and labels for environmental or social performance;
- whether they meet international reporting standards;
- whether they discard blemished food products or donate them to social projects.

These factors directly affect all business partners, vendors and suppliers, and, given the size of their business networks, it may affect the way other large business networks organise their transactions.

This chapter explores what retail corporations can do (and in many cases actually are doing) to develop inclusive and sustainable business models. We start by highlighting the *business case* for these firms, explaining why a wide range of developmental activities is in the corporation's own interest (4.1). We then go on to show what some of the most responsible retail corporations are already doing to make their supply chains more inclusive (4.2), how they provide entrepreneurial opportunities for related local retailers (4.3), how they ensure a positive impact on nutrition and food safety (4.4), and what actions they take to improve their environmental performance (4.5).[15] Some of these actions are now becoming common practice in developing countries, whereas others are mostly applied in richer societies with assertive and influential consumer movements. Our objective is to offer a broad menu of options that retail corporations wishing to improve their contributions to overall development can choose from. Likewise, policymakers who regulate or collaborate with retail corporations can use this menu as inspiration to nudge the retail sector towards more inclusive and sustainable structural change. The last section (4.6) then provides a number of lessons learned from development partnerships between retail corporations and development agencies.

4.1 Making retail modernisation inclusive and sustainable: the business case for retail chains

Large retail companies have already undertaken a range of actions to improve their socio-economic and environmental effects. These include measures to: strengthen local suppliers so that they comply with certain standards and certifications, improve social conditions in their own retail activities and in their supply chains, improve the ecological footprint of retailing in areas ranging from sustainable food production and animal welfare to energy

15 There are other manifestations of good corporate citizenship, such as donations for charitable objectives, that are not covered in this report. For example, the Walmart Foundation provides grants to local community organisations and scholarships for higher education, and donates to disaster relief programmes. For each dollar donated by certain partner organisations, Walmart matches it with another dollar. Also, internal labour relations and compliance are not discussed here.

efficiency and packaging, strengthen corporate compliance, offer surplus food products to food banks, and help communities through involvement in a range of charity programmes.

In some cases this kind of corporate engagement may reflect the philanthropic attitude of shareholders or management, in others a response to regulatory requirements. That said, most actions are undertaken because retail corporations see them as worthwhile investments. Four arguments are particularly relevant in this regard:

(a) Customer expectations and reputation management

Consumer demand for healthy food, environmentally friendly goods, products from home regions, and fair labour and trade relations has steadily increased over recent decades. More and more consumers are willing to pay a premium price for products or processes with these characteristics. Supermarkets have reacted by differentiating their product range and greatly increasing the number of products with certified characteristics. Product differentiation in itself allows for increased profitability, and the labelling of desirable product characteristics positively influences the retailer's public image.

(b) Securing supply

As our analysis has shown, international retailers expanding into developing-country markets have limited supply capabilities and therefore usually start importing a considerable share of their product offer. Over time however, most of the imports are substituted by local products, as shown in Section 2.2. This clearly demonstrates that local sourcing is preferred once suppliers are able to meet retailers' requirements in terms of minimum quantities of homogeneous goods at competitive prices. Sourcing locally is particularly attractive in the case of fresh produce or products that meet specific local consumer demands.

(c) Reducing currency risks

When wholesale or retail chains expand into another currency area, foreign exchange risks become an issue, particularly in developing countries with volatile exchange rates. Corporations make most of their investments in their home country's currency, including the purchase of imported goods that are needed to stock the new subsidiaries abroad, but they earn money in the host country's currency. The more a retail corporation can source locally, the smaller its currency risk.

(d) Broadening the customer base

In the long run, retail firms depend on local purchasing power. Involving local producers in their supply chains and preserving income opportunities for domestic retailers broadens the national consumer base.

It is along these lines that donor agencies[16] and the World Business Council for Sustainable Development promote the notion of *inclusive business*, which said Council defines as 'sustainable business solutions that go beyond philanthropy and expand access to goods, services, and livelihood opportunities for low-income communities in commercially viable ways.'[17] Box 9 summarises which aspects we consider relevant for inclusive business models in the retail sector.

16 See: http://www.enterprise-development.org/page/inclusive-business

17 See: http://www.inclusive-business.org/inclusive-business.html

Box 9: Characteristics of inclusive enterprises

Inclusive business models are those that actively integrate social and environmental criteria into their business activities, actively integrate the 'base of the pyramid' into their model, create new capabilities and business opportunities, and promote technological learning in their sectors and localities. In many cases, inclusive business models reflect only part of a company's business. The concept is, however, clearly distinguishable from corporate social responsibility.

- Cooperation with other enterprises is based on a vision of synergetic long-term partnerships rather than short-term interests (such as the exploitation of an oligopolistic market position). As such, these firms invest in their supply chains rather than just squeezing their supplier's profit margins, delaying payments, etc.
- The firms' corporate culture stimulates continuous innovation inside the company and in its business environment.
- The corporate culture favours the recruiting of local candidates for management positions and the adaptation of products and processes to local markets, norms and values.
- Because they invest in in-house education and training of workers and managers (sometimes in excess of their own immediate needs) and participate in public-private partnerships to improve the skills base of their host region, developmental enterprises expand the pool of technical and organisational knowledge available in their host country. In some cases, this can give rise to new and innovative spin-off enterprises.
- As they demand new inputs and services and create new capabilities, enterprises generate new business opportunities in related – and often but not always complementary – fields, which they are unable to exploit by themselves. This increases the technological diversity of the local economy, deepens the inter-firm division of labour and thus fosters productivity growth in the business environment of the developmental firm.
- Inclusive business models are based on networking and inter-firm cooperation. These enterprises often pursue comprehensive outsourcing strategies and act as system integrators that initiate and coordinate production networks.
- In the case of affiliates of transnational corporations, corporate decision-making is decentralised and local management is therefore authorised to source independently, develop new products, etc. Affiliates are provided with research and development facilities.
- Inclusive enterprises are fast growing, with growth based on productivity dynamics rather than the use of additional factors of production. If firms are able to reap innovation rents and have a relatively secure market position, there is more scope for long-term strategic partnerships than in companies that are involved in cut-throat competition in price-sensitive markets.
- Inclusive enterprises are committed to the local business community and are willing to share their experiences as long as this does not jeopardise the company's core competences.
- Inclusive enterprises adhere to existing or establish new social and environmental standards and assist their suppliers in meeting their requirements.

Source: author's own, adapted from Altenburg (2000) and Best (1999)

Most large retailers now participate in the Global Reporting Initiative and document at least some of their impacts on societies and the natural environment. However, their respective levels of ambition diverge considerably. Reported initiatives range from public relations campaigns with hardly any practical relevance or evidence base, to far-reaching and credible changes in corporate philosophy and practice. While some retail corporations identify sustainability objectives quite vaguely, others have defined concrete and detailed operational objectives that are underpinned with key performance indicators and come with transparent controls. In some cases corporations collaborate with independent NGOs to define objectives and verify compliance. This may backfire for those retailers that are not truly committed (and for the NGOs if they end up endorsing unsustainable practices), but it also enhances the credibility of the retailer's sustainability activities. Examples include the supermarket chain REWE's alliance with the German environmental organisation NABU (Nature and Biodiversity Conservation Union) and the EDEKA supermarket chain's cooperation with the World Wide Fund for Nature (WWF). In addition, a number of more comprehensive NGO–business alliances, such as the Ethical Trading Initiative, seek to enhance transparency and accountability across whole sectors.

Corporate action to improve social and environmental compliance often happens as a response to consumer pressure or legal requirements. This is particularly the case for developed countries, where the reputational damage of unsustainable practices exposed in the media can be enormous. For example, since 2007 Greenpeace has annually tested and ranked supermarkets' and discounters' sourcing practices for fish and seafood. Given the publicity of these rankings, retailers have been reviewing their sourcing practices according to Greenpeace's criteria. And their practices are indeed improving, and considerably so, year on year. [18]

Retail chains operating at the high end of the price spectrum tend to pay more attention to sustainability actions as a strategy to set themselves apart from their low-cost competitors. In the US, Walmart focuses heavily on communicating its sustainability action. In Germany, REWE and EDEKA are vying to be seen as the most country's sustainable retailer. This differentiation strategy becomes particularly clear when one compares retail brands belonging to the same corporate group. In Germany, for example, Netto Marken Discount, a low-price discounter, scores a lower ranking for the sustainability of its fish products than its parent company EDEKA does. Likewise, the range of sustainability programmes associated with REWE and the chain's emphasis on communicating its sustainability are certainly and explicitly more important to the REWE brand than to its subsidiary discounter company, Penny.

Higher standards are usually first introduced in the large retail corporations' home markets in North America or Western Europe. Once these corporate standards have been developed in the home countries, they will then usually be rolled out across all the chain's international stores. Walmart, for example, piloted its Sustainability Index in the USA in 2009 and has now begun gradually introducing it in other countries, starting with Mexico and Chile in 2014. Walmart's Sustainability Index is based around 'sustainability scorecards' that are used to evaluate suppliers in different categories and measure their progress. The company has already involved 1,000 suppliers in this exercise and expects to expand the Index to up to 5,000 suppliers by the end of 2015. [19] In developing countries, consumer pressure for sustainability action and reporting is usually not as strong as in Europe and North America. However, retail corporations in Europe are sometimes keen to show good corporate citizenship as a way of ensuring that their company's operating license does not get called into question.

The review of sustainability activities also reveals differences in priorities between rich and poor countries. In Europe, environmental sustainability is very high on the agenda and retailers engage in myriad activities related to sustainable production and consumption, recycling, energy efficiency, and animal welfare. As a secondary issue, social conditions among suppliers from developing countries also play a certain role. In contrast, social

18 For Canada: http://www.greenpeace.org/canada/Global/canada/report/2014/07/SupermarketReport2014. pdf

19 http://www.theguardian.com/sustainable-business/walmart-supply-chain-sustainability-index and Walmart, Global Responsibilty Report 2014

inclusion and fairness in domestic (or European) supply chains are hardly ever addressed, even though the fair treatment of suppliers is certainly also an issue in Europe. For example, suppliers complain about having to pay ‘slotting fees’ (payments required for a product to secure access to retailers’ shelf space) if they are to be successful in becoming listed as suppliers. They also criticise delayed payments as a systematic way of shifting capital outlays from retailers to suppliers. These issues do not, however, currently register in the consumers’ list of priorities and are therefore not addressed in sustainability activities and reporting. In developing countries, on the other hand, supplier development does rank high among the criteria for sustainability. This is because a lack of competitive suppliers is a concern for retailers, and governments expect retail investors to contribute to domestic SME development. Retail subsidiaries in developing countries tend to place less emphasis on environmental sustainability topics, as consumers and environmental movements tend to be less critical and to apply less pressure to this regard.

4.2 Improving supply chains

Developing the capacity of local suppliers is key for making retail value-chains more inclusive. For the reasons mentioned above, integrating local suppliers into value chains can also have a direct positive effect on a supermarket’s business, enabling them to ensure the consistent quality and delivery of their products. So it comes as no surprise that supermarkets, to differing degrees, engage in supplier development programmes. Box 10 gives examples of actions taken by large international retail and wholesale companies.

Box 10: Examples of supplier development programmes undertaken by international retail and wholesale companies

- Walmart holds an annual Supplier Diversity Summit that provides interested suppliers with an opportunity to present their products.
- Walmart also set voluntary targets for national purchases as well as for specific aspects (e.g. sourcing from women-owned enterprises).
- In South Africa the merger of Walmart and Massmart led to the establishment of a Supplier Development Fund, which employed third-party service providers to train up small and micro fresh food producers and bring them into the supply chain.
- In Viet Nam, METRO assisted in the development of aquaculture ponds for some 2,000 households, identifying potential fish breeds, defining management practices and setting up a centre for fishery products collection, processing and packaging (delivered in partnership with GIZ).[20]
- In China, METRO Cash & Carry founded Star-Farm, a company that works directly with smallholders and cooperactive enterprises, all of which receive comprehensive training and advice (delivered in partnership with the Chinese Ministry of Commerce). This scheme was later replicated in Pakistan.
- METRO Cash & Carry Russia implemented development programmes for suppliers of own-brand and fresh produce. The programme was directed at supporting food suppliers to comply with the requirements of the food safety certification schemes recognised by the Global Food Safety Initiative (delivered in partnership with the United Nations Industrial Development Organization).
- In South Africa Pick n Pay trains small-scale producers of squash and sweetcorn in farming practices, processing and delivery modes (delivered in partnership with USAID).
- Agora, an expanding retail chain in Bangladesh, set up a supplier development programme for small and medium-size fresh produce suppliers (delivered in partnership with DFID’s Business Innovation Facility).

20 http://www.isgmard.org.vn/News.asp?Status=1&InfoID=768, accessed 8 Feb 2015

The examples provided in Box 10 share two interesting commonalities:

(a) Supplier development is clearly focused on fresh produce from small farms. In these examples, importing produce is not a viable option, and the small size of farms implies a need for assistance in production technologies, farm administration, quality assurance, certification and the like. In some cases, contract farming is established to ensure that the retailer has control of the technologies used as well as the quantities grown and timing of harvesting to ensure steady and homogeneous supplies. The advantages and drawbacks of contract farming have been documented in Box 3 above. Suppliers will also sometimes work with small farmer cooperatives to avoid dealing with too many individual suppliers.

(b) Most of the programmes mentioned were undertaken in cooperation with an international organisation, donor, or public or private development agency. Partnerships between retail companies and development agents are particularly promising when it comes to developing suppliers because the latter have expertise in working with farmers, national training providers, etc. and the former know exactly what customers demand and are able to provide a fairly secure market for agricultural produce. The case of Chilean berry growers (see Box 8 above) is a classic example of the mutual benefits of such partnerships. Box 11 below, which details the experiences of a supermarket-driven supplier development programme in South Africa, complements the Chilean example. It describes the efforts undertaken and also shows how traditional farmers are faced with a long learning trajectory before they become able to supply to supermarkets, and how supermarket supply chains are unlikely to improve farmers' livelihoods more broadly. Despite this, the triangular relationship between lead firms, development agencies and firms (in this case, smallholder farms) seems to be the most promising way of embedding supermarkets in the local economy. Section 4.6 discusses the success factors of such development partnerships.

In addition to training measures, retailers can also improve their suppliers' access to finance. Smallholders across emerging and developing countries lack proper access to financial services such as credit and insurance. Financial institutions are usually hesitant to lend to farmers or farmer organisations due to their lack of credit history, high perceived risks, and high transaction and monitoring costs. Further, there are doubts concerning the profitability of investments in small farmers. Even when farmers manage to access financial services from commercial banks or microfinance institutions, conditions are often unfavourable, not least due to the high transaction costs involved (Hazell, Poulton, Wiggins and Dorward 2010; Poulton, Dorward and Kydd 2010). Supermarkets and wholesalers can provide financial services through the value chain, such as credit for inputs and insurance for farmers. Factoring schemes can further improve access to finance. In such schemes, a third party (e.g. a rural development bank) pays contract farmers directly after they deliver to a supermarket. The contract with the supermarket then serves as a guarantee for the bank, and the bank later recovers its outlays from the retailer. Such systems help undercapitalised small firms cope with long intervals between delivering their products and being paid by customers. Reardon and Berdegué (2006) cite examples of these kinds of factoring schemes set up to facilitate supermarket–farmer relations.

Box 11: Massmart's Direct Farm pilot programme in South Africa
Massmart is one of South Africa's biggest wholesale and retail companies. Massmart mandated TechnoServe, a non-profit organisation that develops business solutions for reducing poverty, to train 80 to 100 poor farmers who had never previously supplied to supermarkets. The aim was to get these farmers producing fresh farm products for supermarkets within the three-year time frame of the pilot project. Massmart also provided interest-free loans to finance the costs of inputs like fertiliser, seed, pesticides, labour, electricity, packaging and transport. At the end of the three-year project, TechnoServe had assisted 137 farmers (including members of small cooperatives) and helped to establish two pack-houses. A total of 243 hectares were put under production in the course of the programme. Farmers benefited from the support in various ways. They received support with trialling and growing a range of crops that they had never planted before, but which Massmart would buy. They improved their crop quality and were taught the importance of keeping financial records, which helped some of them to access bank loans. Also, the establishment of pack-houses should help make it easier to market farm products in the future. Outside these gains, the developmental impact was quite modest. The high quality standards demanded by Massmart meant a lot of produce ended up being rejected. Also, Massmart paid such low prices that most of the programme's participants could barely pay back their loans and failed to make a profit. Some participants even fell temporarily into debt, until Massmart wrote off the debt at the end of the programme. The farmers resorted to side selling some of the harvest to compensate for their losses, which led to further disputes given the produce was being subsidised by Massmart. At the end of the project, Massmart continued to source from only four farmers who specialised in two crops: green beans and sweetcorn. The evaluation reveals how difficult it is to upgrade traditional farmers' practices, even with intensive one-to-one coaching. TechnoServe estimates that it would take at least five years of technical support before traditional farmers were ready to compete on commercial terms. Integration in modern retail chains is therefore obviously not a solution for broad-based smallholder development.
Source: adapted from TechnoServe (2015)

Finally, some retail corporations help to market fair-trade products, guaranteeing suppliers either an income premium or a minimum price. These higher prices are passed on to consumers. By listing their products, supermarkets have greatly contributed to the growth of fair-trade labels. Likewise, most international retail chains are now members of the Business Social Compliance Initiative, which helps to establish shared social minimum standards in international supply chains. Furthermore, the initiative aims to harmonise the auditing procedures involved and thereby reduce compliance costs and risks from suppliers (see Figure 9).

Figure 9: Activities undertaken by international retail and wholesale chains to improve social conditions in the supply chain

Field of engagement	*Illustrative examples*
Promotion of fair-trade products	The Real hypermarket chain has 60 products carrying the Fairtrade logo. From 2016 Aldi Süd will source 100% of its cocoa products from certified sources (UTZ Certified, Rainforest Alliance or Fairtrade).
Social standards	Aldi Süd supports the Coffee Community Association's Common Code of Conduct. In the case of particularly problematic supply chains (flowers from Kenya, soccer balls from Pakistan, cotton), REWE established a 'hot spot' analysis approach for monitoring compliance with social standards. Walmart requests all its suppliers to provide a freephone number, email address and website where workers can anonymously report concerns.
Source: author's own compilation based on company interviews and sustainability reports	

4.3 Linking traditional retailers to modern retailers

Section 2.4 has shown how fast-paced retail modernisation – and in particular the entry of leading global retail corporations into poor countries with traditional, atomised retail structures – may lead to harsh and undesirable adjustment shocks in local labour markets. More gradual forms of modernisation that also create opportunities for domestic entrepreneurs may therefore be preferable. Examples do exist of modern wholesale chains entering such markets in ways that allow traditional retailers to adapt and grow in tandem with the wholesaler, as described below:

(a) The brand-franchise model

Modern wholesale and cash-and-carry chains often maintain their own brand names and labels in a number of product categories. In this approach, wholesalers sell these own-brand products to retailers at a discounted rate and provide further support and advice on marketing, such as information on assortment, layout and merchandising. In this way traditional retailers get access to a mass marketing programme and thereby increase their visibility and product quality, while the wholesaler, in turn, establishes and reinforces its market presence. These brand-franchising models have been adopted by nearly all major wholesalers, such as Carrefour and Walmart, and also ITC in India and Metro in Poland (Reardon and Gulati 2008).

(b) The shop-franchise member model

Instead of franchising only a specific product brand, wholesale companies can franchise their shop brand-name and business model to a network of small shops. The latter then form part of a wider centralised procurement network that is linked to the parent company responsible for distribution and wholesale. Being part of this franchise network entitles shop franchisees to various kind of support in terms of logistics, marketing and merchandise. SPAR, a company rooted in the Netherlands, is a particularly strong promoter of this concept and is currently running operations in China, Eastern Europe and several African countries (Botswana, Namibia and South Africa) (SPAR 2014).

(c) Micro-franchise models

A variation on the above schemes is the micro-franchise model, which brings on board entrepreneurs who are often from very poor segments of the population. For example, a number of large retailers in the Philippines engaged with over 700,000 informal *sari-sari* (convenience) stores, shops that are mostly run by women from their houses or other small establishments. For the supermarket, this has the benefit of developing a last-mile distribution channel to serve the so-called bottom of the pyramid (Prahalad 2004) and, in so doing, reach out to new consumer groups.

4.4 Improving nutrition and food safety

Section 2.5 has shown how retail modernisation influences nutrition and food safety in good and bad ways. For example, reduced food losses in agricultural supply chains as well as better information on nutritional content may have positive effects, whereas the promotion of 'junk food' and the widespread practice of discarding blemished produce are more worrying trends.

Figure 10 provides examples of how some retailers have worked to mitigate the undesirable effects. One very obvious benefit of modern retail chains is their strong interest in ensuring food safety. Compliance with international food safety standards is a must, obliging suppliers to modernise their facilities and converting them into role models in contexts where food safety standards are often deficient. Some retail corporations also engage in major public campaigns to promote healthy and nutritious eating.

Food banks are a particularly interesting case in point. Alliances between supermarkets and charity organisations to distribute surplus food products that the supermarkets do not want to sell (such as imperfectly shaped or marked fruit and vegetables, or packaged food items that are close to their expiry date) have sprung up all over Europe and North America. Yet, in developing countries where food shortage and malnutrition are much more prevalent, there are comparatively fewer schemes of this nature. More attention should therefore be paid to the obstacles holding up food bank projects in developing countries.

Figure 10: Activities undertaken by international retail and wholesale chains to improve their food safety and nutrition

Field of engagement	*Illustrative examples*
Promotion of better standards	Harmonised private standards are jointly developed by all large Corporations for food safety (e.g. GLOBALG.A.P.).
Public campaigns for health and nutrition	REWE organises information campaigns for healthy nutrition.
Food bank initiatives	Most food retailers have long-standing cooperations with food bank initiatives, giving away fresh food that is not perfectly shaped or that is approaching its expiry date. Metro Cash & Carry introduced one such scheme in China.

Source: author’s own compilation based on company interviews and sustainability reports

4.5 Environmental performance

An impressive number of retailer activities relate to their environmental impacts. As Section 2.6 has shown, the retail revolution has serious implications for numerous environmental domains. These include the increased transportation of goods and people (and thus greenhouse gas emissions), pressure on farmers to adopt large-scale factory farming practices, and increased use of packaging materials. Indeed, because of these impacts, retail corporations in Europe and North America in particular have come under fire from environmental organisations. In response, retailers have embarked on a plethora of sustainability initiatives to improve their environmental image. Figure 11 provides an impressive list of illustrative examples. With these actions, retailers have become important agents of change, demanding and accelerating environmental improvements upstream in their supply chains. Most of the examples given are from German retail firms, which are under particularly heavy surveillance from environmental groups and consumer protection bodies. However, some companies have set targets for greening their *global* operations and, in such cases, any environmental performance standards adopted also usually apply to their overseas operations. This dynamic has enormous potential for nudging supermarkets in developing countries to also become standard-bearers for environmental standards in their respective supply chains.

Figure 11: Activities undertaken by international retail and wholesale chains to improve their environmental performance	
Field of engagement	*Illustrative examples*
Overall company-wide GHG reduction targets	Walmart set a goal to eliminate 20 million tonnes of greenhouse gas (GHG) emissions from the supply chain. REWE Group reduced its GHG emissions per m^2 of sales floor by 30% between 2006 and 2012 and has set the target of a 50% reduction (relative to 2006) by 2022. REWE has also developed a green building standard. Metro Group has committed to reduce its GHG emissions between 2011 and 2020 by 20%. Specific targets are set for electricity consumption, heating, cooling and fleet emissions.
Product carbon footprints	EDEKA calculates the carbon footprint of some of its products.
Resource management	EDEKA conducts water risk assessments for most of its products and established water usage reduction targets for certain sensitive products.
Renewable energy targets	Since 2008 REWE has bought all of its electricity from 100% certified renewable sources.
Packaging and recycling	Since 2012, 100% of EDEKA's beverage cartons have used FSC-certified material (465 million cartons/year). 80% of Aldi Süd's paper, wood and cellulose products are either 100% recycled or certified under the FSC or PEFC schemes. The target for 2020 is 100%. Walmart, together with other US corporations, launched the Closed Loop Fund, providing zero-percent-interest loans to private companies with the aim of encouraging investments in recycling infrastructure.
Promotion of labels for sustainable consumption	Most retail chains are increasing the share of independently certified labels for organic food and beverages, fisheries products (MSC), wood (FSC) and palm oil products. Most have introduced a traceability system for fish, meat and eggs that allows users to see where the product comes from. Most retailers have delisted endangered fish species, eliminated them from their assortment of goods. More than 80% of all wild fish products under REWE brands are MSC certified. 98% of the palm oil products used in EDEKA brands are RSPO certified. EDEKA offers 400 products under its organic label. REWE offers more than 100 different Bioland products and organic brands, increasing their share of total sales to more than 3%. EDEKA supports WWF Marine Protected Areas. In Thailand Carrefour helped to develop food products that comply with international food safety standards. It was also the first retailer to market organically farmed shrimp in Thailand, which kick-started the development of a new product line. [21]
Sustainable consumption in mass markets	REWE's Pro Planet is a sustainability label for conventional products and it implies the systematic identification of problem areas and actions for improvement.
Food waste	Raley's stopped rejecting less-than-perfect fruit and vegetables.

21 See: http://www.enaca.org/modules/cms/start.php?start_id=23 (accessed on 8 Feb 2015).

Figure 11 (cont.):	**Activities undertaken by international retail and wholesale chains to improve their environmental performance**
Animal welfare	Most German retail chains have signed up to Initiative Tierwohl, which certifies minimum standards of animal welfare for pig and poultry production. REWE and Aldi Süd have stopped selling eggs from caged hens. Aldi Süd recently announced a new procurement policy that respects animal welfare and develops a traceability system to ensure compliance. Suppliers are encouraged to engage in research on ethical husbandry practices and the development of standards.
Genetic modification	EDEKA supports GM-free food and has started labelling its products accordingly.
Sustainability criteria included in senior management benefit schemes	Metro AG has linked the financial benefits with which it awards its board and senior managers to the company’s ranking in the Dow Jones Sustainability Index.
Source: author’s own compilation based on company interviews and sustainability reports	

4.6 Development partnerships

Development policy has a long record of working to support value chains in developing countries.[22] One (if not the most) important lesson learned from this engagement relates to the need to collaborate with lead firms. Power relations in value chains tend to be fairly asymmetrical (especially in developing countries); powerful lead firms usually set the standards to which their business partners must adhere – in terms of technologies, product and process norms, prices, etc. For the less powerful firms these lead firms are the gatekeepers to markets. Unless the former understand the latter’s supply chain requirements and meet their standards, they will not be included in the supply chain. Donor agencies (and governments) willing to improve the socio-economic and environmental impacts of value chains are therefore well-advised to seek collaborations with lead firms.

Collaborating with lead firms is also relevant for the retail business. The lead firms in retail chains, such as Walmart, Carrefour or Aldi, conduct business directly with consumers and usually operate in very competitive markets. As such, they are heavily dependent on a positive corporate image. In some cases they are closely monitored by international watchdog organisations which seek to ensure that these retail giants respect social and environmental norms. As Chapter 4 has shown, retail corporations (and foreign-owned chains in particular) are very concerned about their image – in order to gain both consumer acceptance and the goodwill of governments.

These are exceptionally good preconditions for supply chain alliances between retail firms and donors. Despite this, only a few documented cases exist where technical cooperation agencies supported suppliers specifically for, and in collaboration with, retail or wholesale chains. Examples include:

22 See Humphrey and Navas-Aleman (2010), Altenburg (2006) and Altenburg, Ed. (2006) for reviews of donor activities designed to make supply chains inclusive.

- Metro working with Gesellschaft für Technische Zusammenarbeit (GTZ, now GIZ) in Viet Nam (GTZ 2008),
- MassMart working with TechnoServe in South Africa (Morris, 2014),
- Foodland working with USAID in India (Dunn, Schiff and Creevey 2011).

Reports on the first two examples only detail the activities undertaken and do not document any verifiable impacts. In the third case, supply-side capacities were strengthened, but the Indian retailer Foodland was not committed to the project and dropped out. So, while numerous examples exist of partnerships between lead firms and non-profit agencies that have helped to upgrade small-scale suppliers, well-documented evidence *from the retail sector* is missing.

Development partnerships need to go beyond the measures that retail corporations would adopt on their own. Understanding and defining this 'additionality' is crucial if development partnerships are to add value. Retailers and donor agencies can, for example, agree on the introduction of new ambitious standards. Retail chains can guarantee the uptake of certified products. Donors can help to train producers and set up certification schemes, and they can also supervise retailer compliance, helping to avoid 'green washing' and thus enhancing the credibility of the development partnerships.

5 Conclusions and perspectives for further research

The modernisation of retailing in developing countries is in full swing. While it is quite advanced in middle-income countries, especially in Latin America, some countries are only now starting to liberalise their retail sectors. Furthermore, in many countries, modern retail formats are still confined to large cities and have only recently started to move into provincial towns and rural areas.

The supermarket revolution has far-reaching implications for inclusive and sustainable development – for the existing retail sector, for producers and traders in the respective supply chains, and for consumers. Generally, societies are likely to gain from retail modernisation, given that it implies the use of new technologies and exploitation of economies of scale, and therefore results in higher productivity, increased convenience and lower consumer prices. However, a fast-paced roll-out of large foreign retail chains in poor countries with very traditional low-productivity production and retail structures may destroy the livelihoods of thousands or even millions who earn a decent living in traditional farming, intermediary trading or vending.

The challenge for developing countries' governments and their international development partners is therefore to develop an effective sequenced and assisted approach that aims to exploit the productivity gains of modern retailing while supporting local firms to adapt to the structural changes it will engender. Strikingly, despite the far-reaching impact of the supermarket revolution, we have not come across a comprehensive national strategy for dealing with this transformation of the retail sector. Similarly, only a handful of donor agencies address this issue, and those that do tackle isolated processes rather than assisting governments and retail associations in the development of comprehensive strategies.

This working paper reviews a wide range of policy options. It shows that governments have significant leeway for shaping retail modernisation so that it becomes more socially inclusive and more environmentally sustainable. Working collaboratively with large retail corporations is a key element of such an agenda, but this paper also sets out numerous additional policy options. Furthermore, this paper documents how retail corporations can contribute to host country development and improve their performance and corporate image at the same time, and it addresses the potential contribution of donor agencies in bringing in international expertise, facilitating dialogue and strategy-building, and encouraging pilot projects with corporate partners.

This policy report has also revealed four major research gaps:

(a) The effects of retail modernisation on socio-economic and environmental issues in developing countries

While some specific studies exist on this theme, such as those on certain horticultural value chains, the indirect effects (such as the crowding out of informal vendors, retail stores and small-scale producers) are majorly under-researched. Consequently, very little can be said about *net effects* on employment and income. Likewise, very little is known about the effects of the retail revolution on transport and greenhouse gas emissions and on health and nutrition. Nor do we know how local enterprises can and do learn and how new retail technologies spill over into the host countries' economies.

(b) Government policies with regard to modern retail systems

Governments all over the world are experimenting with a range of 'carrots and sticks' to maximise the welfare effects of modern retail systems and cushion the costs of structural change. This report has gone some way towards systematising these policies, and it provides anecdotal evidence of more-or-less promising policy approaches; but there is hardly any systematic cross-national comparison and critical impact assessment of specific policy measures. To provide one concrete example: city planners in developing-country megacities have very little evidence to build upon when formulating zoning requirements for retailers that strike a good balance between retail modernisation and the protection of existing structures.

(c) The lack of comparative studies on national trajectories of retail modernisation

There are big differences between the countries that opened up and gave rise to the expansion of multinational retail chains (most Latin American countries), those that succeeded in developing competitive national retail companies (South Africa) and those that continue to protect their small-scale retail structures (India). New research could shed light on the pros and cons of these different national trajectories and of the policies and political economy factors leading to such different outcomes.

(d) New trends in retailing and their likely development effects

Non-store retail (i.e. sales that take place outside shops and stores) is rapidly gaining in importance worldwide, yet we know little about it. Non-store retail includes direct selling, (e.g. in consumers' homes and offices) and, more importantly, all sorts of distance selling, (e.g. online shopping, teleshopping and catalogue sales). These new forms are currently more common in high-income countries, but they are also spreading rapidly throughout middle-income countries. Internet sales in particular are emerging as a major threat to the traditional retail sector. How this will paradigm shift unfold? Who will benefit? How will this 'second retail revolution' affect the different domains of socio-economic and environmental development and what can policymakers do to mitigate its effects on local labour markets and urban development?[23] All these questions require further research.

23 The German city of Wuppertal commissioned a regional development agency to develop the Online City Wuppertal project with the aim of enabling local retailers to combine the benefits of bricks-and-mortar shops and online trade. With this project the local government aims to maintain a diversified retail sector and preserve the city's attractiveness. Small stores jointly use the internet platform to advertise and sell their products. Customers can choose between delivery at home and collecting the purchased item at the retail store. The regional development agency created a centralised dispatch and returns centre. An important element of Online City Wuppertal has been the delivery of training for bricks-and-mortar shops to enable them to make better use of opportunities presented by online sales (multi-channelling). See: http://www.onlinecity-wuppertal.de/home/

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