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Cash rather than contract: The re-emergence of traditional agrifood chains in post-communist Europe

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ABSTRACT

Usually considered the polar, informal opposite of the "modern procurement system" dominated by supermarkets, the "traditional system" has received only scarce attention in post-communist countries, even though it is credited with having had supplied most of the food produced in the largest countries throughout transition. This paper asks how did traditional agrifood chains re-emerge, in particular since "tradition" is hard to define in the post-communist context. It focuses on the role of land reform, the mixed-incomes rural household, and the farmer-trader dyad in explaining the return of the "traditional" in two post-communist countries, Ukraine and Romania. Data comes from an ethnographic study of agricultural value chains in the Ukrainian-Romanian border region of Bucovina.

1. Introduction

International organizations such as the Food and Agriculture Organization (FAO) and the World Bank (World Bank) have lent considerable support to ideas of "modernizing" the food economy throughout the world. An important element of the "modernization"-agenda has been, particularly visible in the World Bank's 2007 Development Report dedicated to agriculture, the idea of "modern procurement systems", managed by large retail chains, in charge of ever more demanding "safety and quality requirements". In contrast to the modern system, World Bank and FAO economists have detailed the workings of what they refer to as "traditional markets", in which small food producers fall prey to collusive and informal traders, fail to secure access to credit and insurance mechanisms, and generally are depicted as worse-off than in modern systems.

This paper asks how did traditional agrifood chains re-emerge after the fall of communist regimes and explores the reasons for which participants in "traditional" agrifood chains – producers and traders – prefer these chains to the emerging "modern procurement system". While a considerable literature addresses agricultural producers in the post-communist area, relatively little is known about downstream links in agrifood chains, and in particular about trade and traders, how they re-emerged after the fall of socialist regimes, and the ways in which they interact with producers. It will be argued that food producers and traders left outside the "modern procurement system" in the area are not so much "traditional" – it is difficult to define what is "traditional" in a post-communist context, since "tradition" had to be re-created – but placed between different modernizing projects, out of which the spread of retail chains constitutes only the latest one. These processes include the disruption of the communist central collection system and the dismantlement or privatization of the collective farm (Humphrey, 1998; Szelényi, 2002; Swain, 2013); and the 1990s land reforms and the ensuing failure to bring about property relations and entrepreneurial farming as envisaged (Allina-Pisano, 2007). They created a certain abundance of relatively cheap inputs, from land to labor (Verdery, 2003), production inputs from the former collective farm to be used in animal and land husbandry (Pallot and Nefedova, 2007) and used machinery (Swain, 2013). They also strengthened the involvement of rural households in food production, giving the "traditional" system a strong footing in the area, and, as this paper argues, also facilitated the rise of traders.

The paper has the following structure. The next part (2) describes the vision of the "modern procurement system" as outlined by World Bank and the FAO and in particular focuses on the ways in which these organizations conceive of "traditional" markets as dysfunctional and detrimental to small food producers. It builds on a literature critical of the depiction of traditional markets as detrimental to identify why producers might seek involvement in such markets (2). In its empirical part (3), the paper uses data from an ethnographic study of agri-food chains in Bucovina, a region divided between Ukraine and Romania. It details the emergence of

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two links in the traditional agri-food chain, the link between small landowners and producers and the link constituted by the producer-trader dyad. In sub-section 3.1. it discusses the rural households' strengthening role in food production and how the spread of tenure arrangements other than direct property rights might have favored this strengthening role and possibly also the emergence of traders. Sub-section 3.2. details the reasons for which small food producers and even large farmers in the fieldwork area prefer selling to informal traders rather than participating in modern procurement systems.

2. The "traditional" system and informality

One of the declared aims of the World Bank's 2007 Development Report was "bringing agriculture to the market", implying that agriculture or its most numerous parts – small family-size farms - are largely dissociated from "the market" (World Bank, 2007: Chapter 5, 126–128). The solution offered was integrating small farmers into the supply chains of large supermarkets. One of the central arguments about the necessity to integrate small famers into "modern procurement systems" is the small farmers' vulnerability, in particular due to their low capacities to save and invest. In the writings of FAO economists, this low capacity is seen as a consequence of the fact that small farms tend to be family-driven, in practice meaning that in case one or more family members cannot work anymore, the farm will likely face an "impoverishment spiral" (HLPE, 2013). Furthermore, as FAO economists conceive traditional markets as largely informal, small farmers are seen as vulnerable because they can fall prey to the "collusive" traders populating "traditional markets" (McCullough et al., 2010: 61; World Bank, 2007). The solutions formulated by the FAO and the World Bank support "modern supply chains, characterized, above all, by coordination which usually reflects some pre-arranged agreement of the price and non-price terms of a transaction" (McCullough et al., 2010: 61). According to this vision, informality and the "traditional" overlap, and formality overlaps with what is "modern"; "modern" then stands for "quality and safety": "Farmers and intermediaries who sell from traditional into formal chains must demonstrate, or be accountable for, the quality and the safety of their produce" (idem, 62).

This understanding of the informal and the traditional can be summarized as the sector of the 'not fit enough' for the formal economy; it implies that under certain conditions, small farmers could develop an interest in joining the formal sector and accept its contractual conditionality. It is however possible that differences between the formal and the informal are somewhat deeper. The informal economy refers to the part of an economy that exists outside the regulated economy operating or even owning its existence to enforceable, written contracts and state-enforced property rights. Written contracts best embody the formal economy, as they presuppose or imply the state as the third party sanctioning the side that does not respect the terms of the contract. In contrast, the informal economy builds on the immediacy of transactions that characterize it; and property rights give way to often re-negotiated tenure arrangements. Key sanctioning mechanisms are reputational or simply rely on not repeating the transaction. Rapid transactions –in cash form or barter - are central for the functioning of the informal economy.

Many studies equate the "informal" or "unobserved economy" with the "cash economy", from (La Porta and Shleifer, 2014: 111), the IMF-favored monetary approach claiming that the informal economy can best be measured by estimating "excessive" currency in circulation (Tanzi, 1983: 284), to the work of sociologists (Portes and Sassen-Koob, 1987:48). Cash transactions play a key role in Keith Hart's classic study of informality in Ghana (Hart, 1973: 72) depicting participants in the informal economy as "out for a quick buck". Equally important, the avoidance of taxes and "legal codes" in the informal economy represent for Portes and Schauffler (1993) the key advantage of agents in the informal economy; leveling the field for instance by deregulating economies would disrupt both sectors, formal as well as informal enterprises. And taking de Soto's recommendation of regulating the entire economy (through titling, De Soto, 1989) would prove equally disruptive, as it would leave informal entrepreneurs without their comparative advantage (Hart, 1973).

The literature briefly discussed in the previous paragraph implies that the 'not fit enough'-perspective probably underestimates the extent to which economic actors have developed vested interests in the existence of the informal economy. The informal economy is not so much a "poverty trap" (for critiques of the informal as "poverty trap", see Maloney, 2003), but a complex set of non-contractual arrangements and practices that allows participants their economic survival despite the spread of the formal sector (Centeno and Portes, 2006).

In the literature on Eastern Europe informality was at least in the beginning of transition rarely seen as something detrimental, and in effect a factor that might favor rather than impede development in rural areas. For instance, István Szelényi's work on rural entrepreneurship in Hungary (1988) showed that even under socialism entrepreneurship did emerge among peasants and worker-peasants and looked at the origins of this process and the resources supporting it; his study portrays the informal economy (or "second economy", the concept used in the 1988 study and also in the broader literature on communist countries) as basically synonymous with it. But also after the fall of communism, informality still represents a strong predictor of economic enterprise (Lengyel, 2012; Stoica, 2004). It is not only that entrepreneurship often originates in the informal economy, it also returns to it or never leaves it: One of the dominant findings in the literature documents the pervasiveness of informality among economic agents throughout the post-communist countries (Wallace and Latcheva, 2006).

In the writings on the modern procurement system its "traditional" or "informal" counterpart is seen as usually dissociated from change, apparently constant at least until the "modern procurement system" challenges it directly. It has a past before the advent of the modern procurement system, and this past is conceived in similarly immutable terms, as "peasant agriculture" (Reardon et al., 2009). The rise of modern supply chains and the "supermarket revolution" that started in the 1990s is often assumed to be the most "radical change" affecting the "traditional" system (Reardon et al., 2003). Other studies have questioned the view that the modern system, with the supermarket as its central embodiment, necessarily dislodges traditional "open-air markets"; trader networks can find many ways to compete with retail chains (including through price and informality, Mayer, 2005: 417) and, depending on product and demand, even achieve inclusion in international networks (De Jonge, 1993), unless state intervention "peripheralizes" them (Applbaum, 2005, 277).

The post-communist context allows to critically examine whether the traditional system can indeed be seen as immutable: Even though "spot markets" or bazaars were allowed to exist throughout most of the communist period and allowed the direct sale of private plot produce (Hann, 2005) trade was illegal. Communist authorities regarded "private trading", or buying and selling produce, as "speculation", a serious criminal offense in Soviet society that was punished by imprisonment from two to ten years (Feldbrugge, 1984: 533). Thus even though in most communist countries governments heavily relied on the legal production achieved on private plots, this production mostly used illegal inputs