

**Abstract**

Changes in the distribution channels for food production in developing countries raises the demand for high quality products sold through supermarkets at higher prices. We model the willingness of farmers to invest in high quality production, taking the role of traders into consideration. We test our model using data for Indonesian chili producers and find that (i) there is self-selection into high cost investment for production quality which leads to higher profits, (ii) there is a positive and significant income effect for participating in the modern (supermarket) retail channel, and (iii) the awareness of farmers regarding their product participation in the retail channel significantly affects their profits. We thus find both a 'real access gap' and a 'market efficiency gap'.