Regoverning Markets | Policy Brief 2

January 2008

Agribusiness linkages in the Southern African region: Small farmer participation

REGOVERNING MARKETS

Context

This policy brief forms part of the Recovering Markets study in Southern Africa. It has endeavored to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics in the sectors which have emerged as a result of the restructuring of the food market and the rapid changes taking place in the structure and governance of local, national and regional agri-food markets and the implications of the changes for small/medium producers in the restructuring of the food industry, together with the implications for policies and programmes within the context of the agri-food market.

Key points

- Agribusinesses are important stakeholders in the agricultural supply chain in Southern Africa as major receivers, processors of and markets for agricultural products, as well as suppliers of production inputs and services.
- The agribusiness sector is important for economic growth and poverty eradication in poor developing countries, especially in Africa and the Southern African region.
- South Africa plays a dominant role in Africa, particularly in the Southern African region. The South African economy contributes about 20% of the continent's GDP and about 40% and 70% of the output of sub-Saharan Africa and Southern Africa respectively.
- In Southern Africa, there has been erratic transformation in agricultural markets and restructuring of food marketing chains from traditional markets, with the entry of new major players, such as supermarkets and convenience stores, in urban centres.
- Factors such as globalisation, trade liberalisation, (in-creases in migration, urbanisation and the emergence and growth of the economic middle class), information and technological changes and improved grades and standards have been the driving forces of changes in the agribusiness sector.
- There has been a substantial increase in large retailers and processors in the agribusiness supply

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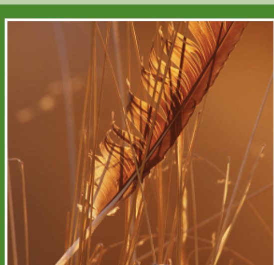
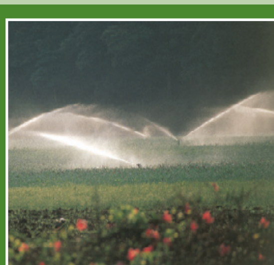



chain in the Southern African region, but agricultural production has tended to decrease significantly in most countries.

- The growth of supermarkets has transformed the domestic market environment, driving a shift from product-driven marketing chains, dominated by traditional wholesale markets, towards demand-driven marketing chains.
- Challenges facing small scale farmers differ vastly across the Southern African region and while market access is a main challenge in many countries, it constitutes only a small fraction of the problem.
- Contracts and vertical integration between farmers and agribusinesses are alternatives to assist small farmers and agribusinesses gaining access to markets.

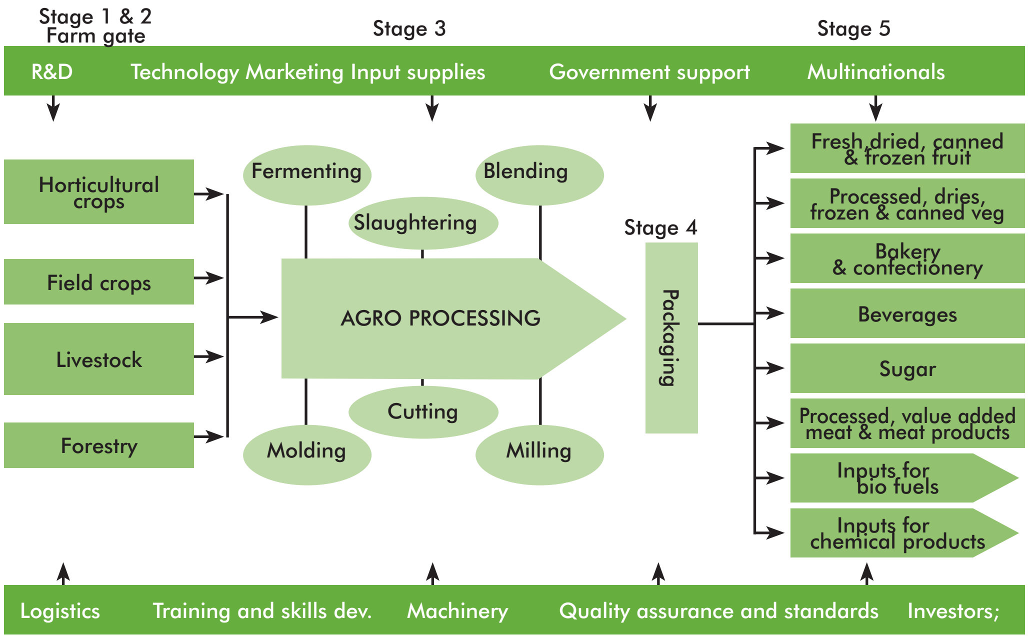
Purpose of this policy brief

This policy brief is intended to provide an overview of the role of agribusinesses as important actors and issues in the agricultural supply chain in the Southern African region, with emphasis on their contribution to economic growth and poverty eradication in the region. It aims to provide insights into the transformation of markets in the Southern African region, while identifying the various key players and evaluating them in terms of their competitiveness in the agricultural supply chain. It provides an insight into the main challenges that agribusinesses face and various agribusiness-related issues are discussed. Political issues, trade agreements, cor-ruption, fraud, HIV/Aids, biofuels, etc are acknowledged, but not investigated in detail. Emphasis is placed on the large degree of diversity between and within the various Southern African countries. The conclusions and recommendations are based on the evidence acquired, as well as individuals with extensive practical experience in this field.

About SADC

The Southern African Development Community (SADC) was established in 1980 as a loose alliance of nine majority-ruled states in Southern African known as the Southern African Development Co-ordinating Conference (SADCC), with the main objective of co-ordinating development projects in order to lessen economic dependence on the then apartheid South Africa. Today, member states of the SADC include Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (Tralac, 2007).

Figure1: Overview of South African agro-processing sector



Source: DTI (2007)





What are agribusinesses?

Agribusinesses can be defined in various contexts. GTZ (2001) defines agribusiness as "all market and private business-oriented entities involved in the production, storage, distribution, and processing of agro-based products; in the supply of production inputs; and in the provision of services, such as extension, research etc". Louw, 2007(a) defined agribusinesses as industries from suppliers of inputs and services to producers, to processors and markets of agricultural products, manufacturers, exporters, retailers, the distribution systems and to consumers. Agribusinesses are thus either directly and/or indirectly connected with primary agriculture as well as value adding enterprises further down the agricultural value chain. Figure 1 provides a simplistic view of the South African agro-processing sector and illustrates the dynamics of the value chain which can be expanded into more processed products.

In most Southern African countries the agribusiness and agricultural sectors are critical for economic growth and poverty eradication as a large portion of the poor population base their livelihoods on agricultural production. It also plays a major role in industrial, urban and regional development as it contributes to the gross domestic product and exports and stimulates wider investments in the economy. This helps to achieve food security through the provision of food, create employment, generate and redistribute income and improve the standard of living. Agriculture offers the best hope for initiating growth (often without major capital investment) and an effective way for poverty reduction for most developing countries in Africa where the potential for export growth from mining, manufacturing and services sectors are meagre (Humphrey & Memedovic, 2006)

The vast and largely untapped mineral resources of many Southern African countries also offer huge potential for development. Mineral resources are also regarded as the major cause of unresolved conflict in several Southern African countries and whilst infrastructure is deteriorating, very few benefit from wealth created (McBain, 2007).

For the agricultural sector to act as an economic growth accelerator, several important factors need to be addressed. These include political and economic instability in certain member states, tariff and non-tariff barriers between member states, the impact of SACU and SADC on trade agreements, corruption and fraud and lastly the impact of biofuels on future food security issues.

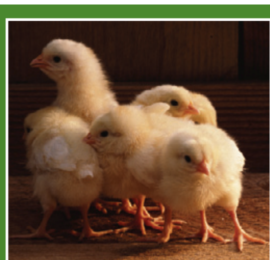
Political and economic instability is an imperative, as once thriving agricultural sectors have been destroyed or suffered setbacks due to instable political environments within the Southern African region (McBain, 2007). These events even affect countries that are considered as relatively stable. For example, Zambia's economic development is hampered by the situation in the Democratic Republic of Congo (DRC) and the economic deterioration of Zimbabwe; Malawi's development is affected by the situations in Zimbabwe and the DRC, as well as the slow recovery of northern Mozambique, etc. In contrast to common beliefs, South Africa is more adversely affected by the situation in Zimbabwe. With no lasting resolution of the DRC and Zimbabwe's problems in sight and the slow recovery of Angola and Mozambique from their prolonged civil wars, the impact on its neighbouring countries could be significant (McBain, 2007).

Changes in the supply chain

Supply chains are formal and informal institutional arrangements that link producers, processors, marketers and distributors. They allow buyers and sellers, separated by space and time, to progressively add and accumulate value as products pass from one role-player in the chain to the next (Louw & Emongor, 2004). Supply chains are conduits through which:

1 Supermarkets refer in this context of various segments of the modern retail sector and include hypermarkets and superstores, supermarkets and neighbourhood stores, convenience and forecourt stores and discount stores. Cash and Carry is included in the definition of modern retail as they reflect a mix of both retail and wholesale services.




- Products move from producers to consumers
- Payments, credit, and working capital move from consumers to producers
- Technology and advanced techniques are disseminated among producers, packers and processors
- Ownership rights pass from producers to processors and ultimately to marketers and consumers
- Information of current customer demand and product preferences on retail level pass back from retailers to producers" (Louw & Emongor, 2004).

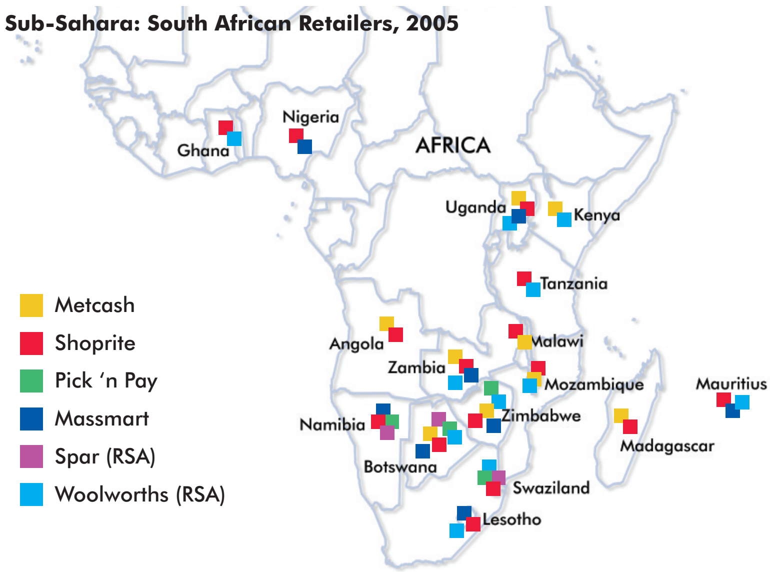
The supply chains in the agribusiness sector have transformed from the traditional distribution channels of the 1960s to the recently emerged new type of retailers such as supermarkets[1]. It could however be debated to what degree this has had a meaningful impact within Southern Africa (McBain, 2007). In the past, farmers' produce was sold on wholesale, auction and other spot markets with minimal processing and packaging. This was especially so in the case of perishables like fruits and vegetables in the absence of processing and preservation facilities (Louw *et al*, 2007). Examples of such markets in the Southern African region include the wholesale fresh produce markets in South Africa, Soweto in Zambia, and Mbare in Harare.

Nonetheless, it should be noted that the domestic fruit and vegetable sector is not necessarily applicable to agriculture in general.

A number of factors have acted as drivers of change in the Southern African agribusiness supply chain including global factors such as globalisation, trade liberalisation; increases in migration, urbanisation; an increase in the economic middle class; information and technological change; and improved grades and standards. The impacts of these driving forces and other environmental factors have resulted in the agribusiness supply chain shifting away from buying products in bulk from farmers and wholesalers to specialist packaging-houses for fresh produce supplying new kinds of retailers such as supermarkets and fast food restaurants with value added products (Louw *et al*. 2004). This is especially applicable to South African agribusiness supply chains, since the agribusiness supply chains differ vastly in Southern African countries and are still in their infant stages, ranging from being relatively non-existent to informal establishments (McBain, 2007).

Another important development has been the substantial increase of large retailers in the agribusiness supply chain

Figure 2: A "footprint" of South African retailer's expansion into Africa.



Source: Planet Retail (2005)





in the Southern African region mainly due to the extensive expansion of South African companies into the agribusiness supply chains in the Southern African region, through Foreign Direct Investments (FDI) in other countries since 1995, leading to vertical integration and concentration in the agribusiness chain. Figure 2 gives an indication of South African retailers' expansion into sub-Saharan Africa and serves as a "footprint" of their involvement in Africa. The implications of these changes are the changing of farmers' produce markets in the region due to the driving forces mentioned above.

FDI are expected to contribute to improving livelihoods and poverty reduction. However, increased participation of large processors and retailers in the agribusiness systems excludes small scale farmers and agribusinesses as they lack the capacity (technical, financial and managerial) to compete (Louw & Emongor, 2004). A challenge that arises from this development is how to include small scale farmers and let them share in the benefits. Linkages with agribusinesses, retailers and processors might provide the key for market access for small scale farmers.

The transformation in agricultural markets has replaced the chains in traditional markets with the entry of new major players such as supermarkets and convenience stores in urban centres in Southern Africa's major cities like Pretoria, Lusaka, Harare and Gaborone. Large modern retail chains have become major buyers from both farmers and processors and they also have considerable power in the agribusiness markets in the region (Louw *et al*, 2007). The new supply chains and alternative market options may exclude traditional wholesale markets and small scale farmers as major retailers consolidate and integrate their supply chains to reduce costs and offer high quality cheaper food to consumers in urban areas. For instance, some supermarkets have outsourced their procurement to dedicated wholesalers or so called category managers.

Category management for supermarkets (the use of only one or two suppliers per category of product on their shelves) is a significant form of wholesaling in South Africa. Shoprite, as an example, has its own distribution wholesale network or category manager (Freshmark) dedicated to the procurement of fruits and vegetables for Shoprite. Suppliers deliver mainly to Freshmark's wholesale or distribution centres where products from various suppliers are received, repacked into consignments for different stores and then delivered to the respective stores. There is more value addition along the supply chain of agricultural products, including sorting, grading, washing, cutting, cooling, packaging, branding, storage, freezing and transportation (Louw *et al*, 2007).

South Africa plays a dominant role in Africa and in the Southern African region. The South African economy contributes about 20% of the continent's GDP and about 40% and 70% of the total output of sub-Saharan Africa and Southern Africa respectively (Vink *et al*, 2006). South Africa is an important role player in building capacity in tradable goods production. Since Southern African economies have labour-cost advantages, South Africa can utilise cheaper labour for their labour-intensive manufacturing operations, and thus provide incentives for South African foreign direct investment (FDI). Delivery costs of food products to supermarkets are over 50% lower in Europe than in South Africa which mitigates the argument of cheaper labour (McBain, 2007).

According to Vink *et al* (2006), South African businesses can contribute to the services sector with regards to investment in information technology and communications, expanding and developing the financial services available in the region and developing local farming with a wider horizon than the local market (e.g. contracting with South African supermarkets in the region). FDI in agriculture, which is dependent on resources and is in accordance with comparative advantage, could play an important role in promoting a more equal distribution of economic activity and benefits of integration in the region.

Examples of South African investment in African countries are:





Afgri Limited

Afgri has extensive cotton and grain operations in Tanzania, while operating a grain business in Malawi. Further investments in Africa under consideration are Kenya, Angola and the Democratic Republic of Congo. Afgri has approximately 3 000 contract farmers in production. Cotton produced in Tanzania is then exported to South Africa (Vink *et al*, 2006). Afgri is also a major provider of production credit in Zambia.

Tiger Brands Limited

Tiger Brands has a 27% interest in National Foods in Zimbabwe. However, Tiger Brands wrote-off its original investment in National Foods in 1995 (McBain, 2007). Tiger Brands indicated a willingness to become involved not only in marketing export goods but also to invest in production capacity in African markets (Tiger Brands Annual Report, 2005).

Investment by South African companies in banking

All major South African commercial banks operate in the region. They are involved in project finance and cross-border investment financing. The Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA) have provided finance to numerous sectors and also provided leverage for South African and international investment in host countries (Vink *et al*, 2006).

Retail and wholesale trade

Shoprite, SPAR, Pick 'n Pay, Game, Makro, Woolworths and the fast food franchises like Nando's, Steers and Debonairs are a few examples of retailers and wholesalers that are active in many African countries, especially in the Southern African region (Vink *et al, 2007*). The retail and food sectors have probably been the most visible and accessible part of the northward trek by South African business into Southern Africa due to their wide exposure to the local population in the countries in which they operate.

The major supermarket chains in South Africa that are aggressively expanding into Africa perform both retail and wholesale functions and have opened stores in Botswana, Namibia, Zimbabwe, Malawi, Mozambique, Kenya and other southern and eastern African countries. Steers, Nandos, Debonair's Pizza and St Elmo's have also expanded there (Games, 2004:44-48).

Due to the market penetration of South African retail chains into Southern Africa, many opportunities exist for countries in Southern Africa to supply raw materials for these manufacturing processes (ESRF, 2003:9). Franchising has also emerged as an effective method of local empowerment. Most franchising in Africa is driven from South Africa, which has seen a growth in franchising of at least 17% a year since 1994. Steers is probably South Africa's most experienced and prolific franchising company in Africa. It currently has licences in 21 countries and over 60 operating outlets in 13 countries, with major expansion plans in the pipeline. These are in addition to its 470 outlets in South Africa. Its volumes are between 30–50% higher than those of the average outlet in South Africa, while non-South African stores contribute 20% of bottom line earnings (Games, 2004: 48-49).

Key players in agribusiness

The key players in the agribusiness value chain include all the manufacturers of agricultural inputs directly to agricultural producers such as seed, chemicals, mechanisation, finance and insurance, as well as intermediaries providing market access to both agricultural inputs and outputs, either through handling or further processing. Furthermore, marketing agencies and traders of primary agricultural produce or commodities as well as processors of primary agricultural produce into food, animal feed etc are important key players in the agricultural value chain. Other key players are transporters and distributors of basic agricultural inputs and primary agricultural produce that have direct interaction with primary agriculture (Anonymous, 2004).

The mutual interest of the players in forming and maintaining agreements, the physical and institutional





environment as well as the types of products or processes involved affect the type and strength of linkages formed between different players (Rottger, 2004).

SWOT analysis of agribusiness

The strengths, weaknesses, opportunities and threats analysis (SWOT) associated with the agribusiness sector in the Southern African region is presented in table 3 and is adapted from the analysis from Akweshie (2007) and Madima (2006). This provides a generalised analysis as it is difficult to do such an assessment across such a diverse range of agricultural economies and sectors. Each country has its own specific SWOT analysis and agribusiness industries differ between countries.

Akweshie (2007) identified the following as the main challenges facing the agribusiness sector in Southern Africa: poor product quality, limited market access due to barriers to trade (trade and non-trade barriers); restricted marketing opportunities due to problems with pricing, limited margins and inadequate promotion strategies; inadequate/weak human capital development; shortage of water; high transaction costs resulting from weaknesses in provision of relevant information and poor/lack of co-ordination in infrastructure development; restrictive regulatory environment; high costs of doing business and HIV/Aids. Addressing these challenges will help improve the competitiveness of the agribusiness sector in the region.

Table 1: A general SWOT analysis of the agribuisness sector in SADC

Strengths

- Existence of raw materials/conditions for production of raw materials
- Production of some world class products
- Support at all government levels
  - programmes
  - financial support
- Existing processing plants/capacity
- Fairly large market in SADC and Africa
- Alternate season production
- Potential for diverse production
- Presence of multi-nationals
- Labour availability
- Lower energy production costs

Weaknesses

- Disintegrated industrial development structures
- Limited value adding
- Inadequate marketing and export market access
- Lack of farming infrastructure
- Lack of technical and management skills
- Lack of external trade strategy (strategic protection, promotion, market intelligence, etc)
- Low R&D (infrastructure and budget)
- Poor/inadequate, disintegrated transport infrastructure (ports, rail, air-cargo, road)
- Lack of local management expertise
- Work permit problems
- Expensive skilled labour

Opportunities

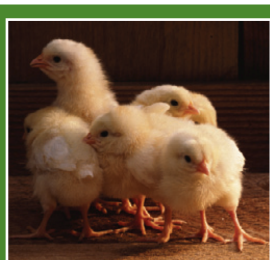
- Growing demand for finished products worldwide
- Growing SADC and African market
- Labour-intensive production processes
- Growth opportunities in China and India
- AGOA
- NEPAD
- Free Trade Agreements
- Expansion of retail sector provides opportunity for poverty alleviation
- Value adding

Threats

- Low quality of raw materials
- Unstable supplies of raw materials
- Recurrent drought and seasonality of supplies
- Lack of credit facilities
- Existence of trade barriers/non-tariff barriers
- Interventionist policies of export countries
- HIV/AIDS
- Subsidised production/exports in developed countries
- Political instability – e.g. land issues, over-regulation, bureaucracy, corruption, non-delivery, etc
- Problems with FDI
- Economic problems e.g unstable exchange rates, lack of reliable information, high local transport costs

Sources: Akweshie (2007) and Madima (2006)




Globalisation also poses a potential threat to agribusiness in the Southern African region through competition from domestic and foreign markets which are usually highly protected and subsidised, e.g. the EU and US agribusiness sectors (OECD, 2002). Competition under such conditions can be very harsh for small and developing agribusinesses in the Southern African region. Another challenge is to develop strategies to induce new customers in new markets to buy their products (Esterhuizen, 2006). China will pose a huge potential market threat for the region's agricultural products as evidenced by the influx of many Chinese agricultural product exports to Angola and to a lesser extent Mozambique (McBain, 2007).

Variations in regulatory environments across countries have differential impacts on the domestic agribusinesses (OECD, 2002). Terms of access to finance, technology and knowledge also vary significantly from one country to another (Esterhuizen, 2006). These factors have adverse impacts on efforts to harmonise operations of the agribusiness sector in the region.

Competitiveness of agribusiness in SADC

Several imbalances and diversity exists regarding agricultural activities in the Southern African region. Most statistics should be examined critically, as agricultural yields are in general sub-standard and vary in quality. Several contradictions in previous studies also exist and will be pointed out in this section.

Due to Southern Africa's dependence on agriculture for economic growth, the improvement of food security and livelihoods, effective and efficient supply chain interaction is a very important business phenomenon in the food and agricultural industry for the future. Esterhuizen *et al* (2007) investigated the potential in certain agro-food chains for supply chain integration, specialisation and co-operation between agribusinesses in Southern Africa. Their aim was to exploit competitive positions and to allow agribusinesses to participate at a competitive "cutting edge" in the global arena. Supply chains distribute benefits and risks among participants, thereby enforcing internal mechanisms and ensuring timely production and delivery (Esterhuizen *et al*, 2007).

A supply chain approach is especially important in Southern Africa, as various studies indicated that certain processes in the supply chain could be competitive, while others are less or even non-tradable and therefore constrain competitiveness (Esterhuizen *et al*, 2007). Different countries in the Southern African region have different competitive advantages in agriculture supply chains.

Despite the huge variation in quality and standards of agricultural produce, the fact remains that the potential to be highly competitive certainly exists as pockets of efficient farming indicates (McBain, 2007).

Increased competitiveness of agribusiness in Southern Africa can be achieved through integrated competitive value chains, i.e. linking competitive points in the agri-value chain (Van Rooyen *et al*, 2007). However, several constraints need to be overcome including logistics (transport and communication infrastructure); natural disasters (droughts); political will or drive (no policy blue prints by Southern African governments); trade distortions, import and export barriers and the problems in Zimbabwe.

Competitive advantages and opportunities for agricultural business, trade and co-operation in Southern Africa can be achieved through chain integration, partnerships and alliances between industries that can be rated as competitive (i.e. RTA > 1) (Esterhuizen *et al*, 2007).

Procurement

The growth of supermarkets through FDI from South Africa has transformed the domestic market environment, driving a shift from product-driven marketing chains dominated by traditional wholesale markets towards demand-driven marketing chains (Vink *et al*, 2006). Supermarkets are now dominant players interpreting consumer demand signals and translating them into their own logistical requirements, into new ways of managing





supply chains. This enables supermarkets to design their supply chains in ways that minimise transaction costs of sourcing and supplying the volumes, varieties and quality of products demanded by their consumers (Jano & Mainville, 2006).

Supermarkets have shifted from the old procurement model based on sourcing products from traditional wholesalers and the wholesale markets towards the use of a new procurement system based on five pillars (Makoka, 2005). The driving forces have created the need to increase quality and diversity of products, at the same time reducing transaction costs associated with sourcing products. The pillars are:

(a) Procurement systems are increasingly moving towards centralised systems. For instance, leading supermarket chains, as in South Africa, are increasing the use of large distribution centres and moving away from brokers and the traditional wholesale markets. The motive is to reduce transaction costs, generate economies of scale by buying in larger volumes, work with fewer wholesalers and suppliers per unit mechanised and have a firmer control over product consistency in meeting standards.

(b) Supermarket chains are establishing regional sourcing networks by shifting towards cross-border sourcing.

(c) Supermarket chains are increasingly shifting toward specialised wholesalers who are more responsive to quality, safety and consistency compared to traditional wholesalers who aggregate products over many producers and qualities with limited capacity for segregation.

(d) Buyers are moving away from procuring from the spot market and shifting towards preferred supplier systems, e.g specialised wholesalers who manage purchasing of products directly from growers, whether they are individual farmers or co-operatives. The advantages are that transaction costs for the chain are reduced by reducing search costs and the number of suppliers per unit of product sold.

(e) Buyers are shifting towards higher quality and private safety standards. The reasons are either to replace missing public standards or impose tougher standards as a way of increasing market share and 'wooing' customers.

The above mostly applies to the domestic South African market. Credence should also be given to the other determinants of national advantage, namely factor conditions, related and supporting industries, firm strategy structure and rivalry (McBain, 2007).

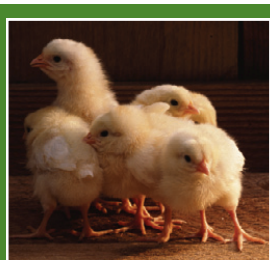
In developing countries (e.g. Southern Africa), technology change in the procurement systems of supermarkets is a key determinant of change in markets facing farmers. Demand for technology change in food retailer procurement practices is driven by the overall competitive strategy of the supermarket chain (Reardon & Timmer, 2007).

Market access in developing countries

Currently, the rapid changes that are taking place in agri-food markets in Southern Africa is reshaping the way that food systems are governed and has vast consequences on small scale agriculture who are ill prepared for these changes. The growing concentration in processing and retail sectors in the domestic markets of developing and transitional countries as in Southern Africa is causing major institutional changes that affect market access for smallholder farmers and small agribusinesses. The challenges facing primary producers and their economic organisations in negotiating market access are conditioned by liberalisation and modernisation. These include technological, organisational and financial demands placed on the small scale producer and agribusiness (Louw *et al.*, 2007).

The rise of supermarkets in the region offers a potential opportunity for poverty alleviation and development.




For example, suppliers can be sourcing from the rural areas, retailing could reduce high cost of food and more employment opportunities and market access for small scale farmers created (Louw, 2007). However, various factors prevent them from taking advantage of the growing markets. For instance, the scale of procurement is much larger and requires both volume and co-ordination among suppliers and between suppliers and retailers and/ or intermediaries which might not exist for small farmers and agribusinesses in the region.

Challenges facing small scale farmers differ to a great extent across the Southern African region and while market access remains a main challenge in many countries, it is only a part of the problem (McBain, 2007). There is need for the former to acquire technical and management skills as well as infrastructure and equipment (such as irrigation, greenhouses, trucks, cooling sheds, and packing tech-nologies etc) that will help them meet the high standards and quality requirements of supermarkets.

A number of factors affect the abilities of small farmers to access the fast growing supermarket chains (Brown & Sander, 2007):

- The farms for smallholder farmers tend to be widely scattered and are often remote from centralised collection facilities, while poor roads and unreliable transport in rural areas increases transport costs and it is difficult to maintain the consistent quality required for the domestic and export markets.
- Smallholders are at a disadvantage with supermarket suppliers due to lower levels of education and often limited business and negotiating skills.
- Growers have to be prepared to respond quickly to changes in supply and demand. This requires some relevant market information and capital investment which is out of the reach of many smallholders.
- Supermarkets are often wary of sourcing from smallholders as there are increased transaction costs in dealing individually with many small farmers. Supermarkets realise that failure to meet food safety or environmental standards can result in bad publicity and undermine their position in the market place. Consequently, there is a belief that concentrating their grower base will reduce their exposure to risk by giving them greater control over production and distribution.
- Small scale farmers' problems are not limited to supermarkets. De Klerk (2007) states that "small scale farmers in Africa are entrenched in a cycle of inertia resulting in poverty due to limited access and are often excluded from formal markets".

An example of how to address these problems is Timbali Technology Incubator Company which was established in Mpumalanga (De Klerk, 2007). Timbali focuses on facilitating the emerging farmer in objectives to overcome market, finance and technology barriers in the cut-flower market. In order to overcome the economies of scale problem, Timbali established a Prototype Turn-Key Agri-Cluster Development of 30 small scale farmers on 3.3 hectares of land. Farmers benefit from this establishment by exposure to shared infrastructure, bulk buying, shared services, collective marketing, branding and advertising and co-ordinated selling under the trade name "Ama-blom". Through mentorship, access to expertise, tech-nology packaging, finance and markets, small scale farmers have the opportunity to develop into independent competitive agri- small, medium and micro enterprises (SMME's).

This Agri-"franchising" programme enables small scale farmers to be linked to markets by co-ordinating production according to market demand requirements. The value chain is structured to achieve maximum direct market penetration, resulting in farmers gaining competitive advantage by creating a solid infrastructure. Even though various farmers produce the products, consistent product quality is maintained and subsequently small scale farmers can be linked with the open market on a large scale (De Klerk, 2007).

This project clearly illustrates the need for effective co-operatives and competition throughout the value chain to





the mutual benefit of all the parties involved. The focus is also on technology barriers and finance. The right product at the right price will ensure market access, but market access will not enable a farmer to sell inferior quality products at inflated prices, even with a quota system in place. The key issue is efficient production of acceptable quality products and a price reflecting relative value (McBain, 2007).

Conclusions and recommendations

Changes in the agri-food sector have opened up opportunities for local small and large scale farmers. Processors and markets are accessible to those who adhere to specific standards set by supermarkets and contract agreements. The requirement of consistent supply and quality of fresh produce makes it difficult for individual small scale farmers to participate in these new and demanding supply chains. Other barriers excluding them from markets are high capital and financial constraints. Strategies to deal with the challenges include new regional initiatives such as NEPAD and AGOA.

Agribusinesses act as important handlers, processors and marketers of agricultural products as well as suppliers of production inputs and services. The agribusiness and agricultural sectors are critical for economic growth and poverty eradication for developing poor countries especially in Africa.

The transformation in agricultural markets has replaced the chains in traditional markets with the entry of new major players such as supermarkets and convenience stores in urban centres. The growth of supermarkets has transformed the domestic market environment, driving a shift from product-driven marketing chains dominated by traditional wholesale markets towards demand-driven marketing chains where supermarkets are dominant players.

Despite the expected positive benefits of improved livelihoods and poverty reduction associated with FDI, increased participation of large processors and retailers in the agribusiness systems and the growing concentration has adverse impacts for rural livelihoods and communities. Smallholder farmers and small agribusinesses have been excluded from the growing markets due to lack of capacity (technical, logistical, financial and managerial) to compete and provide produce of acceptable quality more efficiently, and at a price reflecting their relative value.

Challenges facing small scale farmers differ to a great extent across the Southern African region and while market access remains a main challenge in many countries, it is only a small part of the problem. There is a need to acquire technical and management skills as well as infrastructure and equipment (such as irrigation, greenhouses, trucks, cooling sheds, and packing technologies, etc) that will help them meet the high standards and quality requirements from supermarkets.

Farmer organisations, such as co-operatives and producer associations, could take the lead in reducing the co-ordination problems faced by enterprises in dealing with farmers. Contracts between farmers and agribusinesses, and vertical integration, are alternative options to assist small farmers to get access to markets. Governments will play a crucial role in providing environments conducive to business and investment.

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