Regoverning Markets

Small-scale producers in modern agrifood markets

Innovative Practice

South Africa
New trends in supermarket procurement systems: The case of local procurement schemes from small-scale farmers by rural-based retail chain stores

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'New trends in supermarket procurement systems in South Africa: the case of local procurement schemes from small-scale farmers by rural-based retail chain stores.'

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Contents

1 Abstract

In contrast to the centralized fresh produce procurement systems of South African 'retailers relying on preferred commercial suppliers, this paper draws on an in-depth analysis of the innovative procurement schemes of two rural-based supermarket chain stores in the Limpopo Province to source fresh vegetables locally from small-scale farmers. The objective is to derive lessons to guide public and private sector actors in promoting greater participation of small-scale producers in dynamic supply chains, through the exposure of the key drivers and success factors affecting the inclusion of small-scale vegetable farmers.

The critical factors affecting the up-scaling and/or replication of this type of procurement relates to operation in a remote, emerging market, franchise stores with flexible procurement options, small-scale farmers with potential and land in close proximity to the supermarket, good communication and coordination, long-term commitment, technical support, interest-free farm loans and diversity in product supply among farmers.

Key indicators of mutually beneficial engagement include consolidated farming systems, improved farming income, low-cost procurement of fresh vegetables (short supply chain), as well as fostering of the stores' broader community involvement strategy. Up-scaling/replicating the scheme would probably require the involvement of external actors and the definition and establishment of public private partnerships. These should be tailored to the specific local conditions and capacities of the different stakeholders. Specific emphasis should be put on support towards the development of critical skills at a local community level to empower small-scale farmers to sustain beneficial participation in the market.

2 Introduction

As in many other parts of the world, the consolidation of supermarkets in South Africa was accompanied by the development of centralized procurement and preferred suppliers' schemes (Weatherspoon and Reardon, 2003a and b). The dominance of large-scale farmers in the South African agricultural commercial sector facilitated these processes. These factors contributed strongly to the exclusion of small-scale farmers from access to formal markets (Louw et al., 2004).

With the political and social changes underway, (e.g. the framework for Black Economic Empowerment in Agriculture or AgriBEE) as well as the spreading of supermarkets in rural areas, some new innovative strategies towards including small-scale farmers into the supermarket procurement system are observed in South Africa. Interestingly, innovative private retail strategies are developing especially in remote rural areas where competition amongst supermarkets is intensifying and small farmers' communities are important, making local procurement a major asset. Striking examples of this are the initiatives of two rural-based SPAR supermarket chains in the Limpopo Province to source fresh vegetables locally from individual small-scale farmers.

The main purpose of the paper is thus to understand how individual small-scale farmers could sustain their relation with these retail stores, which appears to be in contrast with the general statement that some form of collective action is required for small-scale farmers to be successfully included in retail schemes. Based on the identification of the roles, responsibilities and resources mobilized by the different role players in this local procurement schemes, the potential for replication is then discussed, and lessons are derived on how to guide public and private sector actors in promoting greater participation of small-scale producers in dynamic supply chains.

This paper draws on an in-depth analysis of the innovative fresh produce procurement schemes of these two stores. A qualitative case study was developed in order to understand the main drivers and success factors of small-scale farmers' inclusion. Data collection was based on semi-structured personal interviews with the main role players of the schemes, including retail store owners and managers as well as a sample of small-scale vegetable farmers in the two stores area with current or previous involvement with the SPAR retailers. A follow-up survey was conducted in June 2007 in order to enrich the qualitative data with more quantitative observations.

3 Background

3.1 Overview of the South African retail sector

The uniqueness of the fresh produce procurement initiative described in the case study will be better understood after comparing the innovation against the conventional behaviour of South African retailers. As pointed out in the literature (see among others Reardon et al. (2001), Reardon and Berdegue (2002), Balsevich et al. (2003), Dries et al. (2004)), the rise of supermarkets resulted in most countries the establishment of centralized buying and distribution centres[1], with:

- concomitant shifts from traditional brokers to new specialized/dedicated wholesalers[2] and
- a decline of traditional wholesale systems.

The reliance on specialized/dedicated wholesalers usually results in a shift towards preferred suppliers' systems to select producers capable of meeting supermarket standards in terms of quality and safety standards, quantities and consistency. Agrifood industries and supermarkets have been setting their own standards, based on their understanding of consumer demand and existing regulations. These private standards often substitute for missing or inadequate public enforcement of safety norms, and are used in the competition with the informal sector, to claim superior food product quality. Supermarkets promote standard product quality and appearance, at the lowest price. They also require 'durability', an essential product characteristic for supermarkets to increase their geographical coverage and sell on distant markets (Friedmann, 1993).

These global retail trends are clearly reflected in the South African context. The South African food retail sector is highly concentrated and dominated by four retailers as shown in Table 3.1, with the prospect of further concentration in line with the global trend (Nielsen, AC 2006a). Furthermore, all the larger retailers in South Africa have been expanding their activities within South Africa. According to Nielsen, the number of retail stores in South African increased by 77 per cent to a total of 2125 stores from 1994 to 2005 while the South African population increased by 16 per cent, and the number of households by 26 per cent (Nielsen, AC 2006b).

[1] Dries, Reardon and Swinnen (2004), among others, explain this change as follows: '*This is done in order to reduce coordination costs, generate economies of scale buying in larger volumes, work with fewer wholesalers and suppliers per unit merchandized, and have tighter control over product consistency in meeting standards. Typically chains make this move when they reach a certain volume threshold*.' Having a larger supplier pool from which to choose also helps in getting the cheapest and best quality products.

[2] As pointed out by Dries, Reardon and Swinnen (2004), these dedicated wholesalers are '*more responsive to quality, safety and consistency requirements of supermarkets than are traditional wholesalers who aggregate products over many producers and qualities with little capacity for segregation*.'

Growth in the retail sector is also sustained and stimulated by the good performance of the South African economy with growth supported by stable monetary and fiscal policy, a relatively stable world economy and the emergence of a strong black middle socio-economic class (BFAP, 2006).

Table 3.1: The estimated market shares and target markets of the major retailers in South Africa

Retailer:	Estimated market share[3]:
Pick 'n Pay	33%
Shoprite/Checkers	33%
SPAR	26%
Woolworths	8%

The four major chains have developed highly centralized fresh produce procurement systems, with distribution centres located in the major metropolitan areas spread throughout South Africa. Their main procurement source is based on preferred supplier schemes, which slightly vary from one supermarket chain to the other in terms of the contractual arrangement modalities but always include regular engagement with farmers based on technical advice, training and specification. Consistency of supply and adherence to food safety standards are important criteria to be included in these preferred supplier schemes.

In addition to direct procurement from farmers, three of the four major chains are still procuring a small part of their fresh produce from the national wholesaler markets - National Fresh Produce Markets (NFPMs). However, because of concerns related to a lack of cold chain maintenance, inadequate traceability to the farm level and food safety issues, all retailers have significantly reduced their procurement from NFPM in the last decade currently representing as little as 10 per cent of total procurement.

In terms of the procurement strategies of individual stores[4] within these retail groups, rules slightly differ from one major retailer group to the other and are different for corporate and franchise stores. Corporate stores have to procure all their fresh produce through the distribution centres. Some franchise stores should get at least 90 per cent of the produce from the distribution centres but have more flexibility in terms of external procurement. All Woolworths stores receive their fresh produce through the central procurement system. The SPAR group central distribution system for fresh produce is mainly for their Freshline brand (a limited range of up-market, expensive, value-added, superior quality fresh produce).

[3] Estimation based on discussions with procurement personnel of the various retailers during 2006

[4] Source: Discussions with key procurement personnel (at top-management level) from the various retail groups.

Stores are also allowed to arrange for fresh produce procurement through alternative channels, such as NFPMs, wholesalers and farmers directly. This is particularly applicable to stores operating in less affluent areas where the up-market fresh produce product range is not suitable for their target market.
Most of the major South African retailers require internationally recognized food quality and safety systems such as EurepGAP at farm level and HACCP at packhouse/processing level, from their fresh produce suppliers. Most produce delivered by the farmers to the distribution centres are packaged and ready for supermarket shelves. The implementation, maintenance and auditing of these systems are complex, time-consuming and costly, even for commercial farmers.

These centralized procurement schemes seriously hamper the capacity of small-scale farmers to participate in the supply to the central distribution systems due to a number of reasons including small-scale farmers' general inability to cope with quality, safety, consistent supply quantities and administrative requirements, retailer's limited commitment, time and capacity to manage and monitor small-scale farmers, high transaction costs associated with dealing with a large number of small farmers, and relatively stable supplier bases of commercial farmers.

However, in the light of the South African legacy of apartheid, political programmes are underway to eliminate the skewed participation and inequity in the agricultural sector, such as AgriBEE. AgriBEE's goal is to ensure black people have improved access to productive resources and full participation in the agricultural sector as owners, managers, professionals, skilled employees and consumers[5]. AgriBEE was launched during July 2004. Its setting is still under negotiation and the retail sector will probably not be subject to the comprehensive AgriBEE requirements. However, one of the issues taken into consideration is the retail procurement strategies.

According to the various retailers, the possible opportunities for inclusion of small-scale farmers into formal retail supply chains include the following:

- Strategic partnerships/mentorship programmes with commercial farmers to increase marketing volumes and use the established infrastructure of the commercial farmers (especially in terms of packhouse facilities). This option is the most popular among most of the various retailers.

[5] 30 per cent of commercial agricultural land should be owned by black by 2014, an additional 20 per cent should be leased to them by the same time, 10 per cent of existing farmland should be set aside for farm workers for their own production, farm workers should achieve a 10 per cent ownership stake in all enterprises by 2008, and illiteracy among farm workers should be eliminated by 2010 (Hlengani, 2005).

- Dealing with franchise stores, with more flexible procurement options and, in many cases, less stringent food quality and safety requirements - especially in the case of SPAR and Pick 'n Pay.

- Procurement from groups of small-scale farmers (collective action, producer organisations).

- Project-based approach through which groups of farmers are developed to be able to supply to a specific retailer through a process where the retailer mobilizes external resources (such as NGOs, government support) to provide the farmer groups with training. This is mostly done by Woolworths and Pick 'n Pay.

- Involvement in niche markets like organic fresh produce.

3.2 Significance and role of agriculture in South Africa

South African agriculture is highly dualistic, with a large-scale commercial sector and a large group of small-scale semi subsistence farms mostly in the former homelands. About 60,000 commercial farmers represent 87 per cent of the total agricultural area, and produce more than 95 per cent of the marketed output. On the other hand, about three million small-scale farmers[6] of whom a majority is settled in the communal areas, make up about 13 per cent of the agricultural land area (NDA, 2001).

These are mostly subsistence oriented with generally low production levels due to dominant traditional land tenure system, lack of physical infrastructure, lack of credit facilities, low access to input markets and a high level of urban emigration of the active population. Historically, the level of commercialization of small-scale farmers has been limited and agricultural activities have tended to be small-scale with a restricted contribution towards household incomes (Lahiff and Cousins, 2005).

National agricultural policies of the last decades, both under the apartheid regime and in the current democracy, fostered the domination of the agricultural sector by large commercial farms. Furthermore, with the end of the apartheid system, almost all agriculture support granted by parastatal organizations to subsistence agriculture in former homelands (e.g. management of irrigation schemes, mechanization, input supply) has been withdrawn (Shah et al., 2000).

[6] In South Africa, by statistical definition, a small-scale farmer has a maximum of 20 hectares of land. If he owns larger land, he is categorized as a medium to large-scale farmer (Lange (de) et al., 2003). The denomination 'small scale agriculture', 'resource-poor farmers', 'historically disadvantaged communities', 'emerging farmers', 'subsistence farmers' 'small growers' or 'smallholder farmers' are commonly used to refer to these people. It is opposed to 'commercial farmers' or 'large-scale farmers'.

Market liberalization in South Africa has created both new opportunities and major problems for farmers. It has ensured a leaner and stronger agricultural industry, with farmers and agribusiness able to position them as players in a globally competitive environment (Vink and Kirsten, 2000). However, it has increased the gap between the two kinds of agriculture (Magingxa, 2003). Small-scale farmers are most of the time ill-equipped to deal with changing market conditions (Killick et al, 2000). Small farming systems are very partially integrated into incomplete markets, such as products markets, land market, labour market, credit market and input market.

Despite high expectation on the potential of the private sector to provide the services previously provided by state organs, its emergence has generally been less smooth and less rapid than expected (Magingxa, 2003). However, agriculture provides substantial employment especially in rural areas. There are about 940,000 farm workers, including seasonal and contract workers, adding to at least 1.3 million smallholder households, for which farming constitutes full or part time employment. It is currently estimated that six million people depend on agriculture for their livelihood (NDA, 2005).

However, off-farm activities being frequently more remunerative than agriculture and biased toward men (notably mines and industry), many adult males and young people prefer to immigrate to urban centres rather than practicing farming in rural areas. Many rural households are headed by pensioners or women.

For small-scale farmers, the role of agriculture is complex and integrates several dimensions, such as social, economic, technical and legal dimensions (Anseeuw et al., 2001). In low-developed rural areas of South Africa, agriculture is an important contributor towards food security and reduction of dependency from outside (Perret et al., 2005). For the majority of small-scale farmers, especially for social transfer dependant people (pension or remittances), farming activities are first aimed at ensuring consumption needs, and only occasionally at generating income (NDA, 2001)[7]. Agriculture also provides people involved in part-time jobs and earning irregular incomes with a safety net.

Small-scale farming households usually combine several gainful activities, related or not to agriculture (Ellis, 1998; Lange (de) et al., 2003). Social grants and remittances are also significant at household level in the poor rural provinces of South Africa.

[7] According to a study by Statistics South Africa (1997) in a survey realized on 1,654,299 household engaged in farming activity, the reason for engaging in farming activities is firstly to ensure household consumption needs (92 per cent of households). Only 5 per cent of people said they are engaging in agriculture to earn a living by selling farm produce.

Diversification of income sources appears to be a key strategy to reduce poverty in bringing more resilience and sustainability to households (Perret et al., 2005).

The unemployment rate is very high in South Africa, especially in poor rural provinces such as the Limpopo. Thus, despite a low contribution to income, a major source of rural growth and livelihood improvement remains smallholder agricultural production (Dorward et al., 1998). Agriculture is often pointed out as the first potential move for development in rural areas (Brooks, 2000) whereas rural people themselves do not see agriculture as an answer to their plight (May et al, 1997).

4 Depicting the local retailer procurement scheme

As was shown in the first section, given the high level of procurement centralization in the South African retail sector, a vast majority of stores mainly procure through central distribution systems, which rely mostly on commercial large-scale farmers. Local procurement by retail stores from individual local small-scale farmers, as described in this section, represents an interesting deviation from common practices.

4.1 The local procurement schemes

4.4.1 Main features

The studied retail stores operate as franchise-like stores of the SPAR group and are both market leaders in the respective local retail markets, with current market shares of 70 per cent in the case of the store 1 and 62 per cent in the case of the store 2. They have to procure at least 65 per cent of their grocery goods from the SPAR central distribution system.

However, as mentioned earlier, all SPAR stores are allowed to procure fresh produce through alternative channels. Their fresh produce procurement involves mainly local procurement from commercial farmers and small-scale farmers, with complements from wholesale markets such as the Johannesburg Fresh Produce Market (mainly for less sensitive produce like potatoes and onions) and the SPAR central distribution system.

Procurement from small-scale farmers in the store 1 represent between 10 and 20 per cent of the store fresh produce requirements and involves mainly spinach and cabbage on a consistent basis, while the store 2 procurement from small-scale farmers represents between 20 and 30 per cent of its requirements and involves mainly spinach, cabbage and tomatoes, but also butternuts, carrots, beetroot, green onions and green peppers. The daily vegetable procurement volumes of the stores are similar. Spinach and cabbages, which are mainly supplied by small-scale farmers, are very important within these retailers' fresh produce offering, since these vegetable types are a significant part of the daily food consumption basket of consumers in their region.

To initiate procurement from small-scale farmers, the stores' managers communicated their plan in their area through radio advertisements and by talking to customers in their store in order to spread idea by means of word-of-mouth. A number of enthusiastic small-scale vegetable farmers willing to produce vegetables for the SPAR approached the stores. In both cases no specific selection procedure has been followed by the stores in the establishment of their small-scale supplier base.

The question of the possible self selection from the farmers themselves will be further explored below.

Currently about 12 small-scale farmers are engaged with the store 2 as suppliers, while 12 to 14 small-scale farmers are delivering to the store 1 with different levels of regularities. In terms of the number of small-scale farmers supplying the stores, different evolution paths occurred in the two areas. In the store 2 case, there was a gradual process of integration of farmers, with the development of a stable core supplier base, while store 1 has been characterized by a high number of small-scale farmers involved in the beginning and a subsequent decline and variability in the size of the small-scale core supplier base.

4.4.2 The key dimensions of the interaction between the stores and the farmers

The local small-scale farmers face relatively low barriers to entry in the procurement systems of the studied SPAR retailers. This is related to several aspects such as low quality requirements and convenient payment arrangements. When procuring from commercial and small-scale farmers, none of the two stores enter into formal contracts with them. Delivery is based on verbal orders, agreements and price negotiations with farmers to deliver specific quantities at specific periods in time[8].

The prevailing price on the National Fresh Produce Markets is used as a benchmark for price setting. Other considerations include the balance between supply and demand, seasons, transportation costs to the store, produce quality, the produce prices of retail competitors, and in the case of the store 2, knowledge about the production costs of farmers. Prices are normally stable on a weekly basis, and it has been observed that variation of prices over longer periods is not very significant.

According to the surveys, price information does not appear to be a major issue. In some cases, farmers arrange inspection of their crop with the store manager at their farm to verify the quality of the produce before delivery and provide a basis for price negotiations. The stores usually run price promotions on Fridays. They purchase larger quantities of produce from the farmers, generally at discounted prices. Commercial suppliers and small-scale farmers are both paid once a week on Fridays with cash[9], cheques or electronic transfers in contrast to the payment schedules of central retail procurement systems that can be up to 42 days. The conditions of the commercial transactions between the SPAR retailers and small-scale farmers remained stable over time.

[8] Applicable to orders by the store one from commercial farmers, as well as orders by the store 2 from commercial and small-scale farmers.

[9] Small-scale farmers are usually paid with cash.

The vegetable quality requirements of the stores are normally based on the official quality standards of the SPAR group and on the requirements of the customers. However, it is important to note that these quality requirements are not very sophisticated. They are not based on any formal food quality and safety systems (such as EurepGAP). Quality assessment is based on the visual inspection of produce, and requirements are communicated to producers through discussions and by showing the farmers what good quality produce looks. In addition, the store 2 also engages in farm visits to monitor the quality of produce during the growing season preceding delivery to the store. Small-scale farmers, following the stores guidelines and advice, could progressively meet store requirements.

4.2 Insights into the farming systems

From the establishment of the stores, the small-scale farmers participating in the procurement schemes have revealed different trajectories based on the nature of their engagement with the retailer:

- farmers that have been delivering to the retailer consistently for a long time period (referred to as 'consistent suppliers' in this article);

- farmers who supply the retailer with vegetables, but on an irregular basis (referred to as 'occasional suppliers' in this article) and

- farmers who supplied the retailer with vegetables in the past, but who stopped delivering (referred to as 'exit farmers' in this article).

A sample of these three categories of farmers has been interviewed for the two stores. For statistical significance and given the proximity and similarity of the local context surrounding the two stores, populations of farmers of each category are grouped for the two stores. The most significant results are presented in Tables 4.1 and 4.2.

Table 4:1:

Variables	Categories of suppliers			ANOVA / Chi-square test results Consistent vs others			
	Exit	Occasional	Consistent	F / χ^2	df	P	
Average distance to SPAR (km)	25.3	21.0	35.4	3.229	2	0.045	**
Average household size	5.8	6.7	6.3	0.666	2	0.517	
Number of adults (19-64 years)	3.1	3.9	3.4	1.216	2	0.302	
Education level[10]	4.4	4	6.1	3.542	2	0.034	**
Land size (hectares)	1.32	2.49	13.63	34.179	2	0.00	***
Total annual seed costs (R/annum)	1105	1448	9011	9.229	2	0.00	***
Total annual fertilizer costs (R/annum)	1927	1335	6388	16.917	2	0.00	***

** significant differences at 5% probability level; *** significant differences at 1% probability level

Table 4.2:

Variables	Categories of suppliers			Chi-square test results Consistent vs others			
	Exit	Occasional	Consistent	χ^2	df	P	
Female farmers	38%	33%	8%	3.864	2	0.145	
Some irrigation	100%	100%	100%	N/A	N/A	N/A	
Sophist. irrig° equip.	21%	33%	67%	9.936	2	0.00	***
Hired labor	25%	33%	8%	0.255	1	0.613	
Transport				19.131	6	0.00	***
Own vehicle	4%	0%	25%				
Family Transport	11%	33%	67%				
Rental	32%	22%	25%				
Public - taxi/bus	49%	33%	8%				
Wheelbarrow	7%	11%	0%				
Tractor	7%	0%	42%	12.081	2	0.00	***
Cultivator	4%	0%	25%	7.7400	2	0.021	**

** significant differences at 5% probability level; *** significant differences at 1% probability level

Interestingly, farmers that form part of the reliable suppliers to the retailers are located significantly further away from the SPAR than those delivering only on an irregular basis and those not delivering to the stores. Almost all the consistent suppliers have easy access to transportation either through ownership or through family networks, which is significantly different from the two other categories of farmers.

At present transportation is in general not considered to be a strong constraint for participation among the different categories of farmers. However, it is important to note that the farmers' access to transportation improved over the time of their

[10] Data on education level were captured the following way: Never attended school = 1: None schooling but can read and write = 2; ABET = 3; Some primary school = 4; Primary education completed = 5; Some high school / secondary school = 6; Secondary education completed = 7; Tertiary education (diploma) = 8; Tertiary education (degree) = 9.

participation to the SPAR procurement scheme. Some farmers did not necessarily have easy access to transportation from the beginning of their participation.

Despite the absence of explicit selection from the stores of their small-scale farmers' supplier base as previously mentioned, some differences are observed between the categories. This supports the argument of either some level of self-selection from farmers who volunteer to deliver to the SPAR, or selection arising out of the development of the relationship with the SPAR. As shown in Table 3.1, farmers consistently delivering to the stores have significantly higher levels of education as well as land endowment than those not doing so. All the consistent suppliers are well-endowed with land, having an average access to 13.6 hectares of land, which is far higher than the normal allocation of tribal land in South Africa of traditionally between one and four hectares.

All of the interviewed farmers have some level of irrigation infrastructure but the consistent suppliers have more sophisticated irrigation equipments (e.g. drip irrigation systems instead of flood irrigation systems). Furthermore, ownership of a tractor and other mechanized equipment is much more common among the consistent suppliers than for the other two groups. In terms of inputs commercial seed/seedlings are not used by all the farmers but the application of pesticides and fertilizers are a common practice. However, farmers consistently supplying to the stores have significantly higher seed costs as well as fertilizer costs than the other two farmer groups further suggesting more sophisticated farming systems.

These elements reflect two phenomena: initial farmers' asset endowment and technological level were higher among the consistent farmers but these farmers have also gone through a process of investment since their involvement in the SPAR scheme. Indeed over time these small-scale farmers had to implement a number of changes to sustain their engagement with the retailers:

- Planting of good quality seed/seedlings.
- Improved production planning especially in the case of store 2.
- Application of higher quality, retailer approved fertilizer and pesticides.
- Technology for adequate irrigation capacity and higher level of machinery utilization.
- Due to progressive increased production and the use of more and more expensive inputs, the farmers had to learn how to manage their farms' cash flows properly and many of them developed a need for production finance.
- The farmers had to develop better technical skills in order to produce higher quality produce.

Traditional farming systems in the studied areas are labour intensive and involve low levels of machinery utilization (e.g. tractor). The labour force mainly consists of

family labour, but also some seasonal and permanent hired labour. While the level of mechanization of the consistent suppliers is higher, their employment of farm workers is not significantly different from the other two groups and their family labour availability is also comparable (i.e. farm household sizes are not significantly different among the different groups of farmers).

The most important crops produced by the small-scale farmers (based on average income derived from sales of crops) are spinach and tomatoes followed by cabbage, green pepper and butternut. Spinach is produced by the largest share of farmers (30.1 per cent), followed by sweet potato (15.7 per cent) and cabbage (8.8 per cent). A summary of the variety of crops produced by the farmers is shown in Table 4.3.

Table 4.3: Crop variety of the small-scale farmers

	Categories of suppliers			ANOVA / Chi-square test results Consistent vs others		
	Exit	Occasional	Consistent	F / χ^2	df	P
Average number of crops produced per farmers	2.8	3.3	4.1	6.397	2	<0.01***
Crops produced by the majority of farmers	Maize, Chinese spinach, sweet potato	Chinese spinach, cabbage, sweet potato, maize	Regular spinach, green beans, green pepper, Chinese spinach, onions, tomatoes, maize	83.137	30	<0.01***

*** significant differences at 1% probability level

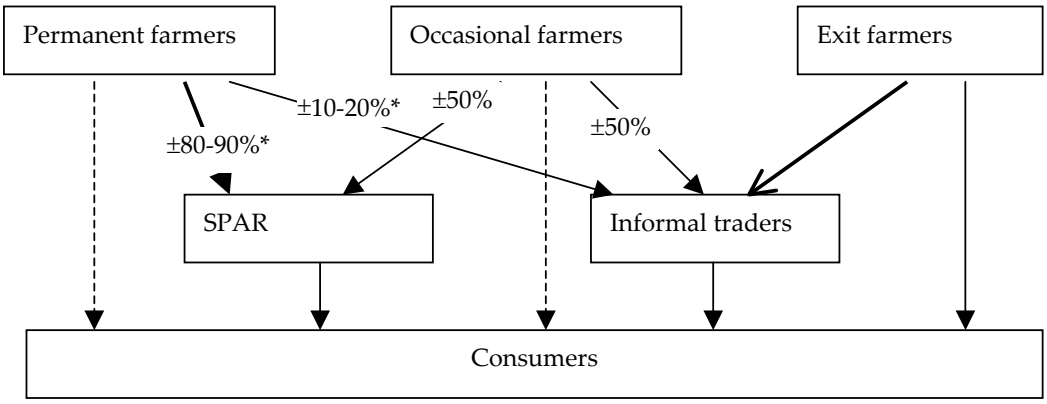
According to the data in Table 4.3, the average number of crops produced by the various groups of farmers increase from the exit farmers towards the consistent farmers, with significant differences between the exit farmers and the consistent farmers. Thus the occasional and consistent farmers produce a larger variety of vegetable types, while exit farmers tend to stick to traditional crops that are easier to produce, such as spinach and sweet potatoes.

Crop diversification towards more intensive crops is to be related to farmers' capacity to invest in their farming system and improve their technological level. The relationship with the store, which involves incentives to develop these crops associated with technical assistance and commitment to buy the production, has been supporting this process.

4.3 Marketing channels

As evident from Figure 4.1, the marketing alternatives of the small-scale farmers are limited.

Figure 4.1: Overview of the major market alternatives of selected small-scale farmers in the two stores area[11]



Produce sales to informal traders are the only other real marketing alternative to the retail stores. There are significant differences between the various groups of farmers, in terms of the most prominent markets based on the share of farmers in a specific group supplying various markets [Chi-square 151.8, df=16, p=0.000]. The most prominent markets for the 'exit' farmers are hawkers (98.1 per cent) followed by local communities (47.2 per cent). They typically each deal with an average number of 23 hawkers. Hawkers are also the most preferred market outlet for the majority of these farmers. The major markets for the 'occasional' farmers are SPAR (100 per cent) and hawkers (88.9 per cent). On average these farmers each deal with 17 hawkers. Hawkers are the most preferred market outlet for the majority of these farmers. The 'consistent' farmers mainly market their produce to SPAR (100 per cent) but also to hawkers and fresh produce markets (58.3 per cent). Their most preferred market outlet is the SPAR.

The quality of produce sold to the informal traders varies. In certain cases the farmers will sell their lower quality produce to the informal traders at discounted prices. However hawkers also buy the highest quality vegetables from the farmers at similar prices as the retailer. Many farmers sell vegetables directly to consumers in local communities and similar quality produce will usually be sold at the same price. However, it is not a major marketing channel in terms of volumes. Household-level

[11] Percentages associated with the arrows are estimates for volumes delivered to each marketing channels.

consumption of produce is very limited (accounting for less than 1 per cent of the total production). A common practice of the farmers is to give low quality produce to their farm workers for consumption or to sell it to community members at drastically discounted prices.

5 Assessment of the innovative schemes and critical success factors

In this section we evaluate the cases presented in the previous section and examine the key drivers of the inclusion and/or exclusion of small-scale vegetable farmers in the specific supermarket supply chain considered.

5.1 Qualitative costs and benefits assessment

We first briefly assess qualitatively the main costs and benefits for small-scale farmers and retailers in the scheme. For small-scale farmers the main benefits stem from the secure and stable market provided by the store. This directly improved the farmers' household income by providing a bigger market opportunity compared with the restricted alternative market outlets available. It also provides farmers with incentives to invest in farming assets (vehicles, access to electricity, pumps, water pipes and buildings, drip irrigation instead of flood irrigation) and to consolidate their farming system in response to the supermarket requirements.

Some farmers could purchase assets with their own capital, while others benefited from interest-free loans from the stores. Improved vegetable quality and higher yields linked to these investments also resulted in higher income for these farmers. Access to tailored technical assistance through the store also contributed to improve farmers' technical knowledge and capacity to efficiently utilize resources towards the production of better quality fresh produce.

On the other hand in addition to higher costs associated with investment and maintenance, farmers delivering to the supermarkets also modified their practices in terms of increased purchases of good quality seed/seedlings, fertilizer and pesticides, which further increased their production costs. They also incur higher fuel costs due to increased production and deliveries. Less successful farmers could also experience these benefits associated with involvement in the scheme but to a lesser extent.

Farmers are also facing risks in investing in farming production because of the lack of significant alternative market opportunities in their area. Informal traders can provide a market but most of them are unlikely to offer a significant alternative market. Benefits from investment are thus, to a certain degree, dependent on the sustainability of their relationships with the store, which can contribute to the vulnerability of these farmers and undermine their capacity to consolidate their farming systems.

On the other hand a lack of investment contributed to some small-scale farmers' withdrawal from the schemes, which also affected the stores. Furthermore the stores

at least in some cases have been directly contributing to farmers' investment. Another important point for farmers to consider when investing in agriculture and in their relation with the stores seems to be the possible risk of isolation from community-based resources due to their business success, as observed in the case study. This can be relevant in many rural areas in South Africa where local traditional authorities have the power to allocate land on behalf of the State.

For the stores the main benefits result from the short supply chain and consequent freshness of produce sold in the supermarket associated with higher frequency of procurement of small quantities of vegetables, as well as minimal transportation costs. This positively impacts upon their competitiveness with regard to the other local stores which are relying on suppliers from remote distribution centres. Furthermore, local procurement is part of their community involvement strategy and is advertised and acknowledged by the customers, which significantly contributes to the promotion of the stores with the local communities.

On the other hand main risk and cost implications are associated with higher risk of shortages. This first results from seasonally bounded production and higher risk of failure of small-scale farmers and from the difficulties, in some cases, to balance with commercial farmers' supply. Furthermore, due to the local nature of their procurement systems the stores can be severely affected by adverse local climatic production conditions. This is in contrast to a procurement system based on a national supplier base with lower risk exposure due to procurement from various geographical regions in the country.

Engaging with many small-scale farmers and coordinating supply between commercial and small-scale farmer also entail higher administrative loads and transaction costs. However, long term commitment from both stores despite these difficulties tend to support the idea that local procurement from small-scale farmers is nonetheless beneficial to the stores, which can at least partly be related to the remoteness of the stores and high transportation costs that would result from alternative procurement options.

Furthermore a consistent small-scale farmers' supplier base is probably more reliable in the long run than large-scale farmers, which have many more alternative marketing opportunities and therefore scope for opportunistic behaviour. It has also shown to be a significant selling argument for the local communities procuring from the rural stores.

An important limitation in procuring from small-scale farmers is related to the lack of variety of crops that they generally produce, especially in the case of the store 1, which contributes to explain why small-scale farmers supply only between 10 and 30 per cent of the stores total fresh produce procurement. Capacity of the store to

expand the scheme depends largely on the possibility for product diversification, which has been related above to farmers' consistency and their ability to undertake changes over time.

Another dimension to assess success or failure of the schemes relates to the number of farmers that could not sustain their participation to the scheme, representing the majority of the farmers in the case of the store 1. Small-scale farmers' capacity to sustain the relationship with the store cannot be explained by a single factor or set of factors. Consistent suppliers are not significantly different from the other farmers but they generally produce vegetables on a larger scale and are fulltime farmers who depend on farming to make a living[12].

Given the high diversity in small-scale farming in South Africa and the various roles that agriculture is fulfilling as highlighted in the first part, withdrawal from the scheme of farmers may not necessarily be assessed as a failure from the farmer's point of view. It may reflect the opportunistic behaviour of farmers for whom agriculture represents a 'refuge' or default subsistence activity. Many farmers that stopped delivering to the stores terminated their farming activities for alternative employment. However, this is also to be related to the lack of alternative marketing opportunities.

5.2 Key drivers for sustainable inclusion

5.2.1 External factors

For this type of scheme to emerge and develop, several factors have been identified from the case study as key drivers. One major incentive for local stores to engage in local procurement includes the remoteness from distribution centres and fresh produce wholesale markets. As pointed out by Dries et al. (2004) among others, for perishable products such as fruits and vegetables, for which proximity may be a source of better quality (e.g. in terms of freshness), local small farmers stand a better chance to become supermarket suppliers. Both studied stores are over 500 or 600km from Johannesburg. They are operating in an area with good agricultural production potential and are surrounded by large numbers of commercial and small-scale farmers. By procuring from local farmers, transportation costs are drastically reduced and produce freshness increased.

Another supporting factor is the fact that the studied stores are operating in so called 'emerging markets' targeting low income rural consumers. The upmarket and expensive nature of the fresh produce product range offered by the central

[12] As was pointed out in the first section, many small-scale farmers do not depend on farming as their main income generating activity.

distribution system is thus not well suited to the needs of the less-affluent emerging consumer markets of these retailers. Properly managed local supply from small-scale farmers provides for a more affordable range of fresh produce with acceptable quality characteristics that can better meet consumer requirements that are less sophisticated than more urban and wealthy consumers, especially in terms of traceability and safety requirements.

In addition to cost and quality considerations, a community involvement component forms part of the corporate strategy of the SPAR group, with freedom of interpretation on how to implement it. The two studied stores engage in local fresh produce procurement as a way to stimulate local economic activity and upliftment of farmers within the local communities. The strategies were initiated before the AgriBEE policy was devised and it is very important to note that, according to the local retailers, AgriBEE was not a motivation behind their strategies to procure fresh produce from local small-scale farmers.

As pointed out by Rondot et al. (2004), 'Buying locally from smallholders may be also part of a supermarket socially responsible strategy and become an advertising slogan in the highly competitive environment in which they operate'. This is evident within these cases, since in these rural markets customers are aware of and value local procurement from small-scale vegetable farmers in the community as long as the produce is of a good quality. This is in contrast to urban consumers' generally negative quality perceptions associated with the produce of small-scale farmers[13]. The store 1 even organizes for farmers to be present in the store on certain Fridays to promote their small-scale farmer procurement among the consumers in the store.

However, these factors can only trigger local procurement if the stores have a flexible fresh produce procurement option, which is generally the case of franchise stores but not of corporate stores, in South Africa. Significant development of franchise stores, especially in 'emerging markets', are thus to be pointed out as a supporting factor for replicating this type of scheme. Obviously the presence of small-scale farmers close to the supermarket with access to land and capacity to expand their farm as well as initial farming infrastructure (especially in terms of irrigation) are enhancing factors.

Favourable climatic and soil conditions, as well as water availability and farming knowledge and farming culture are also supporting factors. In these case studies, even if the small-scale farmers have been suffering in the last years from climatic

[13] According to interviews with South African retailers, the majority of South African consumers living in urban areas generally associate quality fresh produce with supply from the commercial farming sector limiting current possibilities to use procurement from small-scale farmers as a promotion angle in their marketing strategies.

disasters, vegetable production can take place all year long even under low technology-level flood irrigation systems. It is important to note that the requirements in terms of assets and practices to enter into the schemes are low. The schemes are based on learning processes, whereby farming systems are improved over time.

5.2.2 Store engagement, commitment and intervention

In the studied case, success in sustaining procurement from small-scale farmers is strongly related to the supermarket chain store pivotal role. Sustained procurement from a core of small-scale farmers in the study presented above has been relying on a number of functions performed by the store and on its commitment to establish long-term relationships. These are mainly communication and coordination functions, and provision of technical and financial support.

5.2.2.1 Coordination functions

A critical factor in successfully managing local procurement is the capacity to coordinate and balance procurement from small-scale farmers and from commercial farmers. Proper planning, orders and deliveries management are critical to prevent and/or anticipate shortage and uncontrolled oversupply of fresh produce to the store as well as to avoid tension with large-scale farmers. The retailers' capacity to ensure good communication is strongly facilitated by the fact that all the small-scale farmers engaged in the schemes possess a cell phone.

In addition to phone communication, success in procurement planning also relies on frequent farm visits and direct involvement in production planning decisions from farmers. This clearly contributes to establishing a trust-based relationship between the store and the farmers, which then play a positive role in communication and coordination. It is worth noting that with the development of the scheme, production planning needs are reduced.

Flexibility in procurement management is also enhanced by the possible use of retail store owned transportation means as well as by innovative arrangements in terms of logistical planning. An interesting illustration of this is the linkage that the store 2 has established with a fruit and vegetable wholesaler from a nearby town (Tzaneen) whereby it both procures fruits and vegetables that cannot be procured locally, and ensures absorption of small farmers' excess produce that it cannot take. Transportation is organised in such a way that the wholesaler collects small farmers' produce when delivering orders to the store.

Box 5.1: Specific insights from the comparison of the two studied stores regarding coordination management

Differences in terms of small-scale farmers' supply management are significant among the two stores. The store 2 has engaged in production planning since the inception of the scheme and places orders before deliveries, which the manager in store 1 is not doing consistently. The store 2 could consequently avoid oversupply, which has represented an important shortcoming in the store 1 procurement scheme and contributed to the withdrawal of some small-scale farmers.

Furthermore, given this lack of coordination with small-scale farmers, it is much more difficult for the store 1 to plan its needs with regard to procurement from commercial farmers, especially in terms of those crops for which production from small-scale farmers can be significant but prone to fluctuations (e.g. cabbage). From the commercial farmers' point of view, procurement by the store does not represent a significant outlet. The lack of consistency and capacity to plan needs, which is reinforced by the perceived lack of commitment from the store to procure from them, discourages many commercial farmers to supply the store 1.

The ownership of a truck by the store 2 provides it with flexibility and a higher range of options in procurement, be it from commercial farmers or from NFPMs. The store can thus more easily organize unexpected needs to collect produce.

In the studied cases, no formal contracts have been established between the stores and the farmers. As stressed by Weatherspoon and Reardon (2003) among others, supermarkets will purchase from farmers (large or small) as long as they meet the mandatory specifications and quality requirements. Quasi-formal and formal contracts are elaborated only in some specific cases to provide 'incentives to the suppliers to stay with the buyer and over time make investments in assets (such as learning and equipment) specific to the retailer specifications regarding the products.' (Reardon et al., 2003). However, the schemes have been sustained on the basis of long-term commitment both from the store and the farmers to sustain their relationships, and can, to a certain extent, be compared to preferred supplier scheme. Preference is given to the farmers with long involvement in the scheme.

In addition to being in the store's interest to procure locally as already described, it is worth noting that, in the studied case, some sense of commitment, and even empathy, towards the local community and the small-scale farmer supplier base as well as a strong motivation to make a success of the local vegetable procurement system in the long-term have also been driving the development of the scheme. This long term commitment has been a key factor both in enabling for a learning process to take place and in incentivizing farmers to invest.

5.2.2.2 Technical and financial support functions

Long term provision of targeted support has also been instrumental in developing small-scale farmers' skills and ensuring on-farm investment to consistently plan and

supply according to supermarkets' requirements. This first consists of personalized agricultural technical assistance. It is directly provided by the store to farmers and/or by external role players (input suppliers and commercial farmers) but through the mediation of the store, and it is tailored to the individual needs of farmers linked to fulfilling the needs of the supermarkets.

Box 5.2: Specific insights from comparison of the two studied stores regarding provision of technical support

While initially engaged in farm visits and assisting farmers in training regarding required quality standards, the store 1 does no longer provide technical assistance. Initiatives from the store to involve the local public extension services have not proved very successful. On the other hand, the small-scale vegetable farmers dealing with the store 2 receive technical assistance from three sources: the personnel of the store, input suppliers and some support from the local Department of Agriculture.

The owner of the store was a commercial farmer for many years before opening the store and the fresh produce manager was a trusted employee on his farm. Thus, they have a good understanding of farming, a good technical knowledge base and they know how to access professional help from input suppliers or commercial vegetable farmers. The store 2 also engages in regular farm visits. With the consolidation of the farming production systems, frequencies of visit went from up to once a week to once a month. In case of unexpected problems with the crop, the store intents to provide the farmers with technical advice or to arrange for technical support by professional people working for the input suppliers.

The store has also organized collective training for the small-scale farmers with successful commercial farmers. Furthermore, in order to broaden the store potential to support the small-scale farmers on a technical level, the retailer recently identified a person in the community (the son of one of the head of community) and supported its formal agricultural training in an agricultural college. This person is in particular involved with a group of women farmers from its community. This group got recently engaged in the scheme on the initiative of the head of the community that contacted the store.

Over the years, the store developed a good understanding of the tribal system in the region and has established good relationships with some heads of community in the area. The owner's relationships with the heads of community can provide a kind of accountability on behalf of the small-scale farmers.

The store targeted support also consists of small flexible interest-free production loans whereby these farmers decide upon the time frame for repayment. Access to credit for small-scale farmers in the studied areas is very limited and the use of production credit is not a common practice. The stores recognized the need to provide the farmers with production loans to enhance their capacity to meet their requirements. The loans are granted to some small-scale farmers, especially in critical times, and can transform in direct subsidies as the supermarket often writes loans off if failure to repay is linked to external adverse conditions such as climatic ones (cf. box 5.3).

This loan provision thus plays an important role as a risk coping mechanism. It made a major contribution to the long-term inclusion of farmers in terms of overcoming initial or periodic cash flow problems and funding recovery after natural disasters. It also fostered the capacity to invest in boreholes and more efficient irrigation systems to cope with climatic variation and reduce reliance on seasonally bounded production. It has been a major element in lowering small-scale farmers' risk in investing in farming and in reducing their vulnerability.

Box 5.3: Specific insights from the comparison of the two studied stores regarding provision of financial support

At the start of the scheme, the store 1 provided interest-free production loans to a few selected small-scale farmers upon presentation and approval of a proper business plan. However, as the crops of these farmers failed the store did not recover their loans and seized to extent loans to farmers. The store 2 is providing production finance based on its calculation of farmers' anticipated production expenses. Arrangements are based on trust with no formal contracts established between the stores and the beneficiating farmers.

Conditions for repayment are flexible for farmers and are based on repayments subtracted from farmers' delivery earnings upon payment on Fridays. The loans provided by the store 2 to farmers are targeted loans, tailored to the specific needs of farmers (e.g. credit for production, the acquisition of essential assets and recovery from natural disasters). Some farmers that benefit from this kind of loans from the store 2 fostered their ability to maintain their cash flow and withdrew from financial support from the store.

Their access to these loans, which can be granted even in cases where farmers failed to repay such type of loans in the past also improved their ability to cope with risk and recuperate after adverse climatic conditions, as the store 2 cancelled some of the farmers' debts in such events.

In addition to these coordination and support functions undertaken by the stores, it is worth stressing the highly innovative behaviour of the store 2 in terms of taking advantage of networks to access resources and creating opportunities, which has already been demonstrated through a number of examples. Another illustration of this is the linkage that the store established between a commercial farmer and a small-scale farmer. This resulted in a formal collaboration between them whereby the large-scale farmer is sharing some of its assets and assisting the small-scale farmer in accessing markets and credits as well as low cost inputs in exchange for a share of the small-scale farmer's profit.

6 Lessons learnt and case for up-scaling

As already mentioned in the first part of the article, the main option considered by South African retailers to provide for the inclusion of small-scale farmers in their procurement systems is through different types of partnerships between small-scale farmers and large-scale farmers, and in most cases without being directly involved. Development of these partnerships are considered as a way of complying to both the AgriBEE framework and the land reform programme as some schemes, such as the equity share schemes, have proved to offer opportunities for efficiently implementing these schemes (Knight et al., 2003).

According to Ortmann, (2005), even if AgriBEE and land reform programmes create uncertainty and confusion among commercial farmers, many of them support the idea of playing the role of mentors for small-scale farmers, and are looking for innovative ways of facing the land reform challenge. However, this kind of partnership is unlikely to provide a comprehensive solution for small-scale farmers.

Due to the significance of the large-scale farmers supplying supermarket chains in South Africa and the efficient preferred supply schemes these chains developed with them, large retailers are not prepared to deal with a large number of small-scale farmers as part of their central procurement system. A shift of focus from a national perspective, where possibilities to include small-scale farmers are seldom, to a local perspective, where rural stores have been developing tremendously in the past few years, can bring interesting opportunities for small-scale farmers to be included in supermarket-driven supply chains as proposed by the case study that has been examined in this article.

Local procurement by supermarkets in South Africa has a good potential in providing and sustaining small-scale farmers' participation in formal markets. However, as has been highlighted, its success will strongly rely on the ability to design and implement sound, long-term financial and technical support schemes, and also to ensure proper coordination in the schemes. As has been shown in the previous section, capacity of the store to ensure these functions is dependent on agricultural technical skills and knowledge, and on the understanding of local community dynamics. Even when rural-based retailers face strong incentives to engage in local procurement, lack of these skills generally prevent them from it. This poses questions regarding the replicability of this type of scheme.

6.1 The potential role of external support

External support could improve the replicability of the scheme. In South Africa, some public instruments exist firstly to provide targeted technical assistance to

small-scale farmers, and secondly to provide credit access. Examples are the extension services of the local branches of the Department of Agriculture or the current initiative of the National Agricultural Marketing Council through which training is provided to small-scale farmers with potential by external parties on a consultancy basis. In terms of access to production finance, policy measures, such as the initiatives of the Micro-Agricultural Financial Institution of South Africa (MAFISA), could be utilized, either through the store or directly. Public bodies could also act as collateral in production loan schemes provided by the stores.

Thus, provision of public support and engagement within public private partnership agreements between local stores, farmers and government could address these issues and contribute towards the successful replication of the type of local procurement schemes presented in this article. In this regard an important issue to address will be the sharing of risk between the government, the credit suppliers (in the case of non government and non supermarket credit suppliers), the supermarket and the farmers.

However, it is worthwhile recalling that, even within the context of a strong commitment from the stores towards procuring from small farmers, high vulnerability towards production and market risks have hampered some small-scale farmers' ability to invest in agriculture, and thus to sustain their inclusion in formal markets and consistently deliver to retail stores.

On the other hand, the case depicted in this article tends to show that as soon as farmers can manage their farming system independently, they intend to withdraw from external support. The public private partnerships and associated procurement schemes should be tailored to specific situations in terms of involvement and capacity of the different stakeholders with consideration of the importance of facilitating a learning process.

Another suggestion is to consider government intervention in a broader sense. Government intervention could take different forms depending on the initial commitment of the supermarkets, and thus the capacity to both initiate supermarket procurement schemes inclusive for small-scale farmers and ensure time for a learning process. In addition to public private partnerships with retailers, government bodies could assess the different available marketing opportunities locally and support a learning process whereby farmers could progressively build capacity to understand markets requirements and respond to them consistently.

There is a strong need to rebuild skills among small-scale farmers to supply markets and this should be thought of as a gradual process that can be initiated by consistently supplying to informal traders and other market outlets with low entry barriers. Further recognition of this and support to this process from the state could

enhance the development of a commercially oriented small-scale farming sector with which supermarkets in rural areas could more easily develop procurement schemes.

6.2 Forms of organizations behind the coordination of the schemes

The other important dimension in sustaining supermarket procurement from small-scale farmers and replicating this type of scheme is related to coordination and organization of the procurement. As pointed out by Biénabe et al. (2007), it is generally acknowledged that a form of organization is a prerequisite for small-scale farmers' involvement with supermarkets: 'Organization is therefore a key component in the involvement of small-scale producers in supermarket supply chains and this role is generally taken on by producer associations, which standardize and aggregate production, ensure compliance with the requisite quality standards and deliver products on time and at a competitive price that enable producers to still make a profit.'

As shown in the case study, the need for proper coordination is reinforced by the possible tension between small-scale and large-scale suppliers. Part of the innovative features of the schemes arise from the stores' direct involvement with individual farmers in production and delivery planning to a lesser or greater degree. This organizational arrangement appeared to be much more effective/ efficient than the intent to establish a farmer organization as illustrated in the case of the store 1.

The store decided at some stage to address the oversupply situation it was facing with small-scale farmers' delivery, by assisting the farmers' part of its supplier base to establish a farmer organisation in order to improve communication and coordination in terms of production planning and deliveries. However the attempt failed. Lack of trust among farmers was given by them as the main reason for the failure of the organization. This organization was never properly recognized by farmers that did not participate to set the rules and did not take ownership of it. The farmers that were supposed to cooperate within this organisation were lacking prior experiences of cooperation especially among themselves.

Given the way the procurement system was established, this organization was grouping farmers from different communities that had no close social proximity. Their involvement in the store procurement scheme came initially from their individual initiative in response to the store call for small-scale farmers to become its suppliers. Especially in the context of over supply, they were seeing each other much more as competitors than as potential allies.

The reduction of transportation cost through collective delivery and cost sharing was not a sufficient incentive for farmers to become organized. As pointed out in the case study, transportation does not appear to be a strong limitation for farmers to deliver

to the stores. Furthermore, given the low quality requirements of the store and its commitment to procure from small-scale farmers, the farmers involved are not facing high barriers to entry.

Thus, as stressed by Berdegue (2001), benefits arising from a farmer association in this regard would probably be low. In the presented case study, several factors support the ideas that there is no strong need for bargaining power from farmers' side. Prices are very stable, the payment delay period is short and promotional sales are taking place every Friday with the decision to deliver on this day mainly relying on farmers. On the other hand, individual and personal relations between farmers and the store have been contributing to farmers' learning of the store quality requirements.

In many rural parts of South Africa, experiences of cooperation among small-scale farmers are not very prominent, except in the context of some irrigation schemes. On the other hand, the potential for developing local procurement schemes, at least partly, relies on the low barriers to entry faced by small-scale farmers given both low quality requirements and the store interest in procuring locally. The cost of establishing a producer organization in these schemes with regard to the benefits that it could bring is probably too high in many cases.

Given the small number of farmers involved in these schemes, transaction costs incurred by supermarkets for dealing with farmers individually may also not be very significant. However, as highlighted by the case study, capacity to ensure coordination with farmers outside producer organizations is to be related to the store agricultural knowledge and to its capacity to access resources from different networks.

7 Conclusion

This article presented an interesting case study of local retailer procurement from small-scale farmers where local procurement provides mutual benefit, and it discussed its potential for replication. The critical factors affecting the up-scaling and/or replication of this type of procurement relates to operation in a remote, emerging market, franchise stores with flexible fresh produce procurement options, small-scale farmers with potential and land in close proximity to the supermarket, good communication and coordination, long term commitment, technical support, interest-free farm loans and diversity in product supply among farmers.

Key indicators of mutually beneficial engagement are consolidated farming systems and income for the core of the small-scale suppliers. On the other hand, SPAR stores benefit through low cost procurement of fresh vegetables (short supply chain), as well as fostering of their broader community involvement strategy, which clearly contribute to their dominant market shares. Sustained well targeted support to small-scale farmers is economically worthwhile from a store perspective when compared with procuring from distant distribution centres or wholesale markets.

As evident from the case study, the store fulfilled a significant range of functions and allowed for a learning process on the basis of specific knowledge and skills that have been identified as critical success factors. However, up-scaling and/or replicating the scheme would probably require the involvement of external actors and the definition and establishment of public private partnerships. As put forward, these should be tailored to the specific local conditions and capacities of the different stakeholders.

Insights from this case study confirm the statement by Berdegué and Escobar (1997): 'As rural market become more liberalized and integrated into global economy, local community will have to develop new skills and new institutions to interact with a new set of actors whose decision will impact on rural family livelihood.' Specific emphasis should be put on support towards the development of critical skills at a local community level to empower small-scale farmers to sustain beneficial participation in the market.

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Regoverning Markets

Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), ICCO, Cordaid, the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID).

Innovative Practice

Innovative Practice is a series of case studies from the Regoverning Markets programme providing examples of specific innovation in connecting small-scale producers with dynamic markets at local or regional level. Based on significant fieldwork activities, the studies focus on four drivers of innovation: public policy principles, private business models, collective action strategies by small-scale farmers, and intervention strategies and methods of development agencies. The studies highlight policy lessons and suggest working methods to guide public and private actors.

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