

Restructuring food markets in the Southern African region: A synthesis of country findings

Context

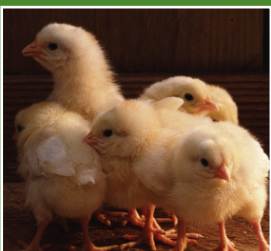
- The policy brief series forms part of the Regoverning Markets study in Southern Africa. They have endeavoured to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics in the sector which have emerged as a result of the restructuring of food markets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

Key points

- The essence of this study was to focus on the rate and level at which food markets have been restructuring in the region, understand the drivers of the restructuring process and establish whether the restructuring process has been transmitted from a national to a household level.
- The study also sought to explain the drivers of inclusion and exclusion of smallholder farmers and to benchmark the happenings in the region to the rest of the world.
- Researchers have established that the region entered the restructuring race a little late i.e. "fourth phase of the restructuring".
- Thus the fundamental question which this study attempted to answer was - is the restructuring of food markets in Southern Africa unique from other regions, and if so, in what ways does it differ?

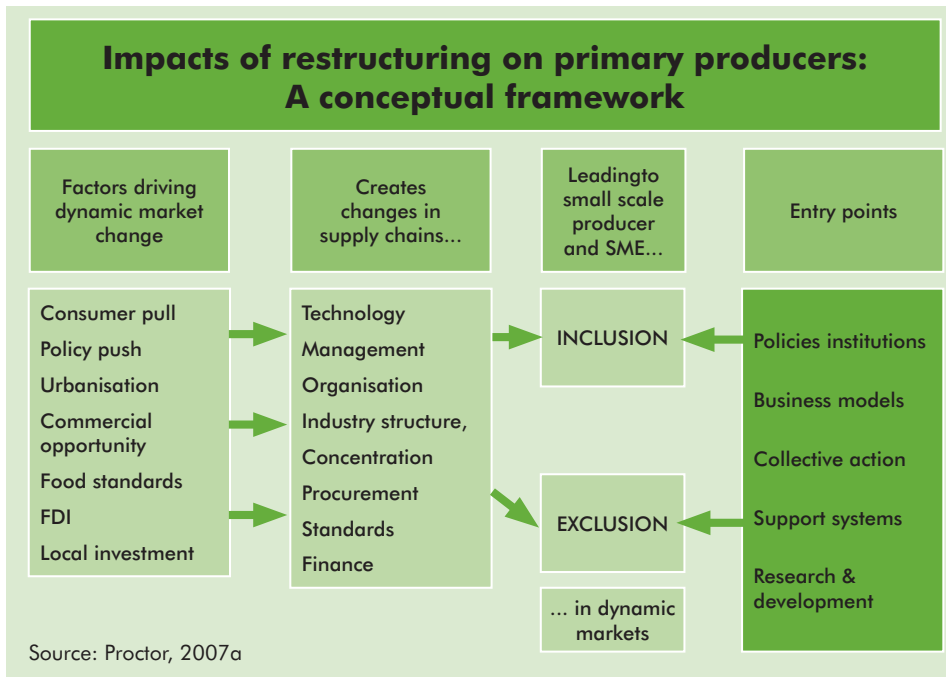


UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA



These issues are illustrated in Figure 1:

Figure 1: Conceptual Framework



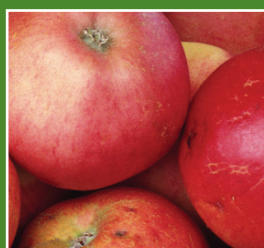
As part of the Southern Africa Regoverning Markets programme, a regional synthesis paper and a series of policy briefs were published, this being the introduction. These publications attempt to identify the key findings and explore possible solutions to the problems.

Policy briefs in the series include:-

1. Improved small scale farmer access to agri-food markets in South Africa
2. A programme to mainstream black farmers into fresh produce supply chains
3. The role of fresh produce markets in South Africa
4. Interregional trade in agri- and agro-processed produce
5. Agribusiness linkages in the Southern African region
6. Botswana: Trends in growth of modern retail and wholesale chains and related agribusiness
7. Namibia: Trends in growth of modern retail and wholesale chains and related agribusiness
8. Restructuring food markets in Zambia: Dynamics in the beef and chicken sub-sectors

Key findings

- The main finding from the synthesis is that agri-food markets are restructuring, characterised by an increased consolidation and concentration of the industry. Supermarkets are expanding at an exponential rate throughout the region. These are mostly South African leading retailers such as Shoprite, Pick n Pay and SPAR. Unlike the global phenomenon where the formal markets are replacing informal markets, this is not so in the region.
- The informal sector, characterised by a significant level of restructuring, is also expanding. In addition to this the wholesale function is still vibrant. It is also going through a restructuring process, especially in the case of South Africa.
- The major supermarkets have restructured their procurement strategies through the introduction of private standards, centralised procurement and distribution centres. Distribution centres are the main procurement strategy currently used by most supermarkets. However, in special cases, they are still engaged in decentralised procurement.
- While South Africa and Namibia have the most advanced cases of the restructuring process, most countries are at an early stage of restructuring with the informal sector still being the main conduit of food distribution.
- Population growth, income growth, urbanisation, change in consumer taste and increase in health consciousness are the main drivers of the restructuring process in the region, much the same as the global drivers of the restructuring process.
- Despite the increase in agri-food commodities emanating from the expansion of the retail sector, there have been little or no opportunities for smallholder farmers. The restructuring process is likely to exclude farmers from food markets in two ways.



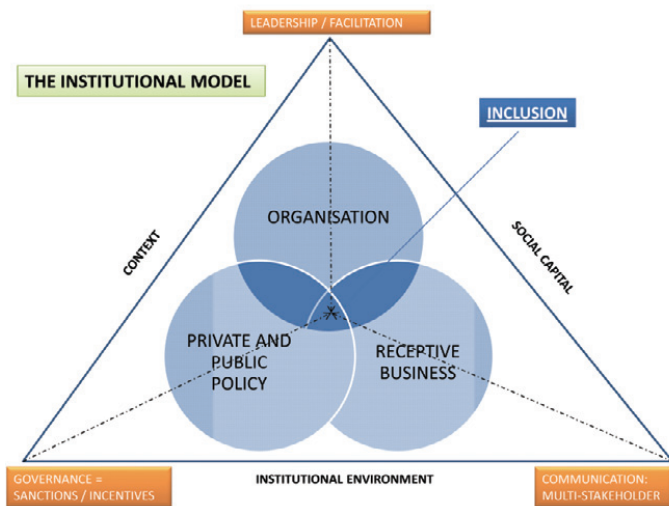
Firstly, the displacement of traditional markets by formal food chains will leave smallholder farmers with no alternative markets. Secondly, the introduction of private standards such as EurepGAP makes it difficult for smallholder farmers to sustain compliance.

- In light of these threats the restructuring process favours large agribusiness over smallholder agriculture. This is in spite of the presence of a vibrant informal market throughout the region (even in South Africa) to which smallholder farmers can supply their products.
- It was also ascertained in previous studies that smallholder farmers prefer informal markets such as hawkers, because they offer better prices. In addition they are not as stringent on quality, take what is available to them and there are less transaction and bureaucracy costs incurred by farmers in supplying their commodities.

Recommendations

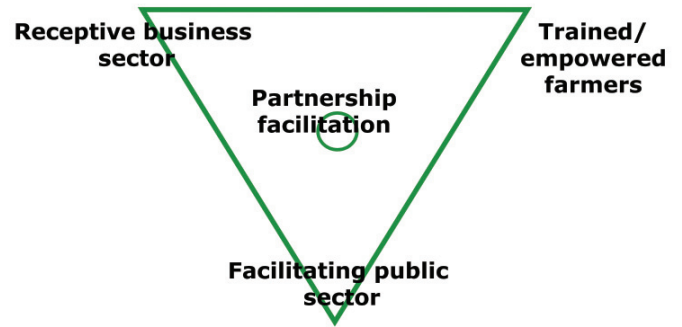
To redress the negative effects of the restructuring process certain issues need to be addressed. This calls for concerted efforts from all stakeholders: public and private sectors and farmers. The following framework was developed and presented.

Figure 2: Proposed Institutional Framework



Source: Proctor, 2007b: 14

Figure 3: Multiple Interventions



Source: Proctor, 2007b: 14

The challenging issue is that smallholder farmers are not as efficient in their production systems, thus their average cost of production is the main barrier to entry into the formal markets. There is therefore a need for sustained capacity building for farmers in order to improve their competitiveness. The importance of developing small scale farmers' resilience was noted. Whilst the inclusion of smallholders in dynamic markets may matter, their adaptability to dynamic change may be as, or more, important. In addition farmers should be encouraged to take advantage of collective action either as co-operatives, producer organisations or other forms of associations. Collective action enables individual poor farmers to attain economies of scale, size and scope which allows them to engage on a level negotiation platform. The private sector should be innovative in terms of the way they deal with small farmers through business models which allow them to deal with small farmers without compromising viability. There is need for collaboration between the public and the private sector in terms of linking smallholder farmers to formal markets. In addition, it should be noted that empowerment of smallholder farmers is a public good, thus governments in the region should prioritise designing policies which enable integration of smallholder agriculture into formal agribusiness (See Figure 3). Lastly, there is a need to invest in more research work on the restructuring phenomenon facilitating the designing of relevant business models, public policies and individual strategies for farmers.



Conclusion

Overall, the trends are dominated by large central procuring systems procuring fresh produce from a limited number of preferred suppliers. In order for smaller scale farmers to participate they need certain economies of size of production, high quality products, certain size and type of product and consistency to meet the requirements of retailers and the consumer.

Agriculture holds one of the few keys through which smallholder farmers and the Southern African region can

escape poverty and lead to the achievement of some of the important millennium development goals (MDGs). There is therefore great potential in harnessing the benefits of the restructuring process although there is a need for different stakeholders to harmonise their objectives and visions for the sake of smallholder farmers.

Authors

Leah Ndanga (University of Pretoria)

André Louw (University of Pretoria)

Davison Chikazunga (University of Pretoria)

References

LOUW, A. NDANGA, L. CHIKAZUNGA, D. & JAGWE, J. (2007). Restructuring food markets in the Southern African region: Dynamics in context of the fresh produce sub-sector. A synthesis of country findings. International Institute for Environment and Development (IIED) London.

PROCTOR, F. (2007a). Linking small scale producers and processors to dynamic and restructured local, regional

and international markets for high value products in East and Southern Africa Workshop Report. Regional Resource Centre for Rural Development (RRD) – SIDA Embassy of Sweden, Lusaka, Zambia. May, 2007

PROCTOR, F. (2007b). Regoverning Markets Synthesis Workshop Report. Morelia, Mexico. September 2007.

For further information contact

Prof. André Louw

Department of Agricultural Economics, Extension and Rural Development - University of Pretoria
PRETORIA, 0002, South Africa

Office Room 2.23, Agricultural Annex
Phone +27 12 420 5772
Fax +27 12 420 4958
e-mail andre.louw@up.ac.za

This publication is an output of the 'Regoverning Markets' programme, which is a multi-partner collaborative programme funded by the UK Department for International Development (DFID), the International Development Research Centre (IRDC), ICCO, Cordaid, the Canadian International Development agency (CIDA), and the US Agency for International Development (USAID). The programme analyses the growing concentration in the processing and retail sectors of national and regional agri-food systems and its impacts on rural livelihoods and communities in middle- and low income countries. The views expressed are not necessarily those of the funding agencies.

www.regoverningmarkets.org

