

# Improved small scale farmer access to fresh produce agri-food markets in South Africa

## Context

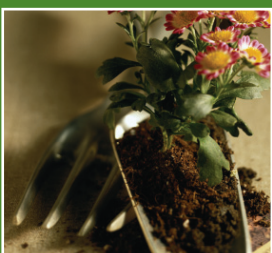
This policy brief forms part of the Regoverning Markets study in Southern Africa. It has endeavored to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics. Such changes in the agri-food sector have come as a result of the restructuring of food markets in the structure and governance of local, national, and regional agri-food markets, the implications of these changes for small/medium producers of the restructuring of the food industry and the implications for policies and programmes within the context of the agri-food market. Globally this restructuring phenomenon is driven by a mix of socioeconomic factors on the demand side and various factors on the supply side (Reardon, et al, 2003). This phenomenon is also evident in South Africa (Louw, et al, 2007). This paper will mainly focus on fresh produce (i.e. the vegetable sub- sector) agri-food markets.

## Key messages

- There have been extensive changes in Southern Africa's agro-food markets in terms of their structure and governance systems. Agribusiness change processes need to be set within a wider (development) context, in order to assist small scale farmers to respond successfully to changes experienced in the agro-food markets. Such assistance and support may come in the form of marketing, technology, finance, managerial and organisational development to enable them to engage with formal agri-business.
- Successful inclusion of smallholder farmers into the main stream agro-food markets requires a certain mix of organised farmers (collective action), receptive business, enabling public policy NGOs and civic society.
- Policy makers need to understand the dynamics, given current policy, of the drivers of market restructuring (global, national, local) and their impact on smallholders as well as on the wider rural economy (poverty). Existing policies need to be realigned and/or new policies should be put in place to avert the marginalisation of small scale farmers.



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- Market oriented collective action initiatives can sustain benefits for small scale farmers. The level of benefits that small scale producers get from collective action depends on the type of market catered to (input/output) and the type of organisation/collective action (co-op, corporation, etc).
- Wholesalers and travelling traders are vital in linking smallholders to markets. They provide convenient services that others often cannot provide and are able to respond at different levels of retail restructuring. Wholesalers can be a buffer that filters retail modernisation, alleviating impacts at farm level.

## 2 Context and importance of the problem

### 2.1 Restructuring of agri-food chains in developing countries

The changes in the structure and governance of local, national, and regional agri-food markets in developing countries is a well documented phenomenon (Reardon, et al, 2003). This research asserts that the changes in the structure and governance of agri-food markets are driving food systems in developing countries towards a more highly concentrated structure, in which most power and leverage resides at the retail end, and in which benefits are passed to customers and shareholders rather than being evenly distributed along the food value chain. The factors that are driving these changes across developing countries range from increases in consumer incomes and urbanisation on the demand side to foreign direct investment in food industry firms, competitive investments by domestic food industry firms and changes in procurement systems on the supply side (Reardon & Huang, 2005).

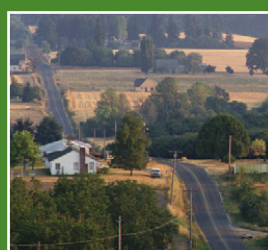
### 2.2 Restructuring of agri-food chains in South Africa

The agricultural sector plays an important role in the South African economy and the annual gross domestic

product for South African agriculture in 2005/6 was R72.99 billion. While primary agriculture only accounts for 2.7% of the South African GDP it has upstream or backward linkages on the supply side and downstream or forward linkages on the manufacturing side that accounts for another 9% contribution to GDP bringing the contribution of the South African agricultural economy to GDP to around 12%. South Africa is not only self-sufficient in virtually all major agricultural products, but is also a net food exporter. Important sectors of the South African agricultural economy include broilers, beef, maize, milk, deciduous fruit, vegetables, citrus fruit, eggs, sugar cane and potatoes.

South Africa's national food market, like much in South Africa, is characterised by dualism with a very well developed, highly sophisticated food marketing system on the one hand and a well organised informal food marketing system on the other. The highly sophisticated food marketing system is dominated by a small number of retail groups who distribute food through a variety of supermarket formats located in the major cities and towns of South Africa. Conversely, the informal food marketing system distributes food through general dealers, cafes, spaza shops, street vendors, hawkers, tuck shops and street corner stalls in areas like townships and former homelands where supermarket retail outlets are absent or have been absent.

The restructuring of the South African food markets is observed through consolidation, transnationalisation and the emergence and disappearance of supply chain actors. Advanced stages of consolidation are observable in most sectors of the South African food supply chain. They are evident from relatively high levels of concentration observable in production, processing, wholesaling and retailing of food. Despite reasonably high and rising levels of direct foreign investment in South Africa, inward transnationalisation into the South African food sector is limited to a few multinationals, such as Unilever, Cad-



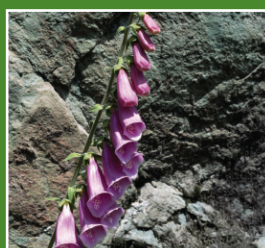
burys and McCain Foods. This is, arguably, because of the country's remote geographical position away from industrialised regions, as well as past restrictive rules of single channel marketing and the effectiveness of local agriprocessing companies. Multinationals have found it difficult to enter the local market because of the strength of local competition (McBain, 2007).

Outward transnationalisation of South African firms investing outside of South Africa is growing with many food retailers embarking on regional expansion strategies primarily into Africa. In terms of emerging and disappearing market agents, fresh produce markets' share in fresh fruit and vegetable wholesaling is declining and being replaced by category managers or category management functions performed by food agro-processors. Retailers also continue to expand into non-traditional areas which include townships and former homeland areas which have traditionally been served by traditional independent stores. The continued expansion of retailers is spearheaded by growth through franchise format stores and forecourt stores. It has also been observed that the encroachment of supermarkets into areas traditionally occupied by the informal markets is displacing these informal markets as well as the traditional vegetable shops or so-called green grocers historically found in suburban South Africa.

The restructuring brought about by these changes include the evolution of procurement systems. The different retail ownership formats have shown different and also similar approaches to procurement. Corporate stores that are wholly owned by the retailer group are compelled to procure solely from the retailer's regional distribution centres. The phenomenon where corporate stores only procure fresh produce through their distribution centres, who in turn only procure from a select few suppliers, is a well established procurement practice that has been in use for over a decade in South Africa.

The trends in the evolution of procurement systems that are dominated by large central procuring systems procuring fresh produce from a limited number of preferred suppliers are creating barriers for smaller scale producers that don't have grower's programme contracts with retailers. This situation is no different from the predicament farmers' face in the UK and in large parts of the EU. In France and Italy this has to a degree been countered by the formally organised local street markets – some being of a large scale – Venice, Sienna and Arles. The general findings are that in order for smaller scale farmers to supply supermarkets or wholesalers they need a certain size of production, high quality products, certain size and type of product and consistency in quality and supply, requirements which they find difficult to consistently meet. Smaller scale farmers can only have market power if they form co-operatives, associations, Ltd companies, out-grower schemes, shareholdings etc. which should be established through the help of the government. Co-operatives played a vital role in the development of South Africa's agriculture in the 1930's and their downfall resulted from their entry into areas outside their zone of competence leading to ill-conceived investments, inefficiency and market cost increases. Current government officials have no real experience in this area and assistance will be needed from other private sector sources (McBain, 2007).

Producers supplying these chains may be able to prosper through investing in relationship marketing, product quality and brand reputation. But the high requirements for entering buyer-driven chains mean that the higher land and labour efficiency of smallholder production is no longer a comparative advantage; the connection between agriculture and poverty alleviation is thereby weakened. Examples in Italy, India and Chile suggest that where small scale farm production has succeeded it has been through effective transfer of technology, co-operative marketing and transportation, close co-operation between agro-processors and farmers. From



a macro perspective, there is declining residual value to be shared with rural actors in the chain – the primary producers and workers. An associated risk is a polarisation between agribusiness and small scale farming systems. Agriculture will not deliver the expected development benefits when agri-food markets do not function competitively (Reardon & Huang, 2005). However, it is precisely because the market is working efficiently that many producers are unable to compete. The solution to this is in their ability to both reduce transaction costs and to provide value, which is a function of quality and price (McBain, 2007).

### 2.3 Small scale farmers in South Africa

Defining agricultural households is fairly complex given the various ways in which households participate in agricultural activities in South Africa. These activities range from being formal to informal, from being an employee on a farm to being a farmer, from practicing agriculture as a main source of income or only as a source of food to the household, from farming part-time or full-time or simply as a hobby (Provide Project, 2005). Despite these various definitions about 36% of South Africa's households reside in rural areas (StatsSA, 1999), out of these approximately 71% have access to land for farming purposes. Access to farming land is very important for rural households. These households either depend entirely on farming activities for their survival and income generation, or depend on these activities to supplement other sources of income.

Despite its small direct share of the total gross domestic product (GDP) primary agriculture remains an important sector in the South African economy because it is a major earner of foreign exchange and the sector creates around 10% of South Africa's employment opportunities. Agriculture is also an important economic activity in the rural areas where the productive and social activities of rural towns and service centres are centred on their

support to primary agriculture and related activities such as agri-tourism and game farming. It is estimated that more than half of the provinces and about 40% of the country's total population are primarily dependent on agriculture and related industries. The combined contribution of the agricultural sector, including the beneficiation of primary agricultural products is far higher, as are the numbers employed, as a result of interdependence between sectors.

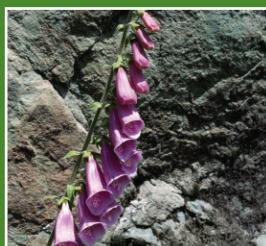
During 2002 there were 45 818 official commercial farming units predominantly, but not exclusively, drawn from the white population (StatsSA, 2006). During 2005 the commercial agricultural sector exported an estimated \$22.32 billion worth of products, or 7.8% of South Africa's total exports. However, it is appropriate to note here the adverse trend in exports of agricultural products compared to the marked increase in imports during the past decade or more. Commercial farms also provide livelihoods to an estimated 1 million employees, which constitutes 10% of the South African work force, and housing to an additional 6 million family members (NDA, 2001). There has also been a big reduction in numbers employed in primary agriculture (and corresponding marked improvement in productivity) and manufacturing during the same period (Hausmann & Klinger, 2006).. Over and above the 1 million employment opportunities created by the commercial agricultural sector there are also an estimated 1.1 million small farmers, mostly in the communal areas of the former homelands, who provide a livelihood to more than 1 million of their family members and occasional employment to other people. These farmers produce food to meet their family's needs while they also supply local and regional markets where large numbers of informal traders make a living (NDA, 2006).



## 2.4 Supporting policies

**Table 1: Policies and Programmes designed for small farmers in South Africa**

Policy	Description
<b>Land Redistribution for Agricultural Development (LRAD)</b>	The main focus is to assist black people to gain increased access to agricultural land, for use and ownership, by allocating grants. The applicants are expected to make a contribution as a prerequisite to receiving these grants. The size of the grants is proportional to the own contribution that the applicant makes. (Louw, et al 2006).
<b>Comprehensive Agricultural Support Programme (CASP)</b>	The Comprehensive Agricultural Support Programme (CASP). CASP was developed to complement LRAD. The aim of this programme is to improve the quality of post settlement support services to the targeted beneficiaries of land reform and to other producers who have acquired land through private <u>means</u> . This fund is targeted at long term farm investment such as farm infrastructure(fence, boreholes, irrigation, warehouse/packhouse etc. (Louw et al ,2006)
<b>Micro Agricultural Financial Institutional Scheme of South Africa (MAFISA)</b>	Micro Agricultural Financial Institutional Scheme of South Africa (MAFISA) is short terms of financial services provided by Government , to assist the development of very small and micro level farmers, farm workers, farm tenants, small landholders, landless, emerging farmers, processors, micro-entrepreneurs and the working poor. The Government developed MAFISA as an appropriate policy and system that will contribute to assisting the working poor to run existing agricultural businesses, start new agricultural businesses and be able to develop these into fully commercial operations. (Louw et al, 2006).
<b>Broad Based Black Economic Empowerment Acts (Refer to Act 53 of 2003 and AgriBEE)</b>	Broad Based Black Economic Empowerment (BBBEE) is a form of Black Economic Empowerment. The goal of Broad Based Empowerment is to distribute wealth across as broad a spectrum of South African society as possible. (Louw et al, 2006). AgriBEE is a version of black economic empowerment in the agricultural sector. An analysis of successful initiatives by private sector actors eg SPAR, COMMARK – livestock, Thandi, Wine and Agricultural Ethical Trade Association (WIETA) etc which draws heavily from the Regoverning Markets Component 2. Evidence is given in Table 2.



**Table 2: Analysis of Case Studies**

	Tomato processing		SPAR supermarkets		Keiskammahoek Dairy Scheme
	Giant Foods	Tiger Brands	Thohoyandou Spar	Giyani SPAR	
Location	- Makhadho, north east of Polokwane	- Has processing plants in Musina & Tzaneen	- Thohoyandou	- Giyani	- Keiskammahoek
Suppliers & Market	<ul style="list-style-type: none"> <li>- Farmers in a 300 km radius from the processing plant.</li> <li>- 60% is supplied by small farmers and 40% is supplied by two or three big commercial farmers.</li> <li>- do not buy from the FPMs in Johannesburg</li> <li>- its own distribution centre in Johannesburg</li> <li>- also has contracts with other established channels, to supply about 60-70% of their products as no name brands to several major retail chains such as Woolworths, Pick 'n Pay and SPAR.</li> </ul>	<ul style="list-style-type: none"> <li>- Work with small scale producers in the Nwanedi area of Musina</li> <li>- 121 producers that supply approximately 25 000 tons of fresh tomatoes (about R15 million) a year to Tiger Brand's processing facility in Musina</li> </ul>	<ul style="list-style-type: none"> <li>- Procurement from small scale farmers in Thohoyandou represents only 10-20% of the store's fresh produce requirements</li> <li>- restricted to spinach and cabbage on a consistent basis</li> <li>- 14 small scale farmers delivering to the Thohoyandou SPAR with different levels of regularities</li> <li>- In July 2006, the Thohoyandou SPAR had a 70% market share of the formal retail market in Thohoyandou</li> </ul>	<ul style="list-style-type: none"> <li>- The store's consistent procurement from small scale farmers involves mainly spinach, cabbage and tomatoes, but also butternuts, carrots, beetroot and green onions.</li> <li>- Currently about 12 small scale farmers are engaged as preferred suppliers</li> <li>- mainly fulfill the store requirement</li> <li>- Mainly low income rural consumers from the local areas.</li> <li>- Food sales contribute about 80% to 85% of total retail sales in stores</li> </ul>	<ul style="list-style-type: none"> <li>- The scheme is divided into units of varying size amongst smallholder farmers who each own and manage plots.</li> <li>- Each of these satellite units is also a small co-operative with representation in the management of the central unit and of the umbrella co-operative.</li> <li>- The co-operative produces 250 litres of milk per day all of which is marketed in the vicinity of Keiskammahoek</li> <li>- when the supply contract with Clover becomes fully operational, Clover would be entitled to take up all of the milk produced</li> </ul>
Initiatives	- Processor sources from farmers within a 300km radius	- Farmers enter into growing contracts with Tiger Brands and Tiger Foods supplies farmers with finance and inputs and manages the cultivars planted by farmers	- Farmers in Thohoyandou deliver when they are ready to and the SPAR can decide not to accept their produce in cases of over-supply	<ul style="list-style-type: none"> <li>- The Giyani SPAR has numerous initiatives</li> <li>- Complementary to a personalised technical assistance, the Giyani store manager has put in place a flexible interest-free production loan system and input purchase</li> </ul>	<ul style="list-style-type: none"> <li>- The central unit is owned by the Amahlati local municipality and is being leased to the co-operative</li> <li>- Clover has entered into a contract with the co-operative and it has contracted a company to manage the scheme and provide extension services.</li> </ul>



An analysis of successful initiatives by private sector actors eg SPAR, COMMARK – livestock, Thandi, Wine and Agricultural Ethical Trade Association (WIETA) etc which draws heavily from the Regoverning Markets Component 2 evidence is given in Table 2.

## 2.5 Policy shortcomings

The above mentioned policies have been designed to grant previously excluded groups and small farmers in South Africa the opportunity to acquire land, to improve infrastructure, finance inputs and broadly participate in the South African agri-food chain. In light of the many current and potential small farmers in South Africa it is economically and politically imperative to include this group in the mainstream economy.

However, it seems that these policies have not been mindful of changes in the trading conditions that current and potential small farmers will face, especially in regard to gaining feasible and sustainable access to profitable long term markets. As noted, increasing quality standards and concentrated buying power at the retail end of the food value chain raises the entry barriers for small farmers to gain access to the retail market for agricultural products which, in turn, decreases the incentive for small farmers to transact with retailers. Coupled with rising barriers to market entry are high transaction cost in terms of search, monitoring and enforcement costs for wholesalers and retailers which means that there is little incentive for these buyers of small farmers' produce to actually engage with small farmers. The lack of incentives for both small farmers and retailers to transact is therefore quite clear and illustrates the impending dilemma for current and future small farmers and their access to feasible, sustainable and profitable long term markets.

## 2.6 Policy options

In light of these policy shortcomings and their likely consequences it is proposed that existing policies are better co-ordinated and that a new approach be tried in

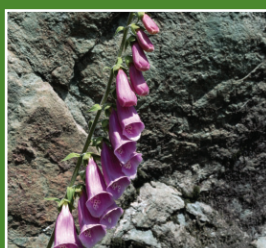
order to avert the marginalisation of small scale farmers from markets as a result of their restructuring. These policy options should be aimed at placing small farmers on a footing where they can compete on an equal basis with well established farmers.

Firstly, it is proposed that greater co-ordination of the programmes aimed at small producers is established to ensure that these programmes are effective and lead to the establishment and sustainable support of small farmers in South Africa. A two pronged approach is necessary to make informal systems and traditional markets work better.

Secondly, it is proposed that policy initiatives should aim at developing small farmers' capacity to compete in the new environment through market driven institutional innovation, designed to overcome bargaining problems, improve quality, improve sustainability for small farmers and reduce transaction costs for retailers. This would include putting incentives in place for the private sector to create these institutions, tax breaks, public funding to stimulate partnerships and innovation – challenge funds. Such institutions could include:

- Buying and marketing co-operatives (Co-operatives Act)
- Producer marketing groups (Co-operatives Act)
- Promotion of partnerships
  - Small farmers and agribusinesses (BEE)
  - Small farmers and commercial farmers (BEE)
  - Small farmers and retailers (BEE)

Thirdly, it is proposed that broad based capacity development be undertaken to improve both the technical and business proficiency of current and potential small farmers – preferably as a prerequisite to being admitted to any of the small farmer establishment or support programmes. Technical capacity development would help improve the consistency of production and the quality of produce from small farmers which improves their bargaining power, while business competency would ensure that small farmers are well equipped to manage their businesses profitably and



sustainably, both on a day to day and strategic basis. Such an initiative could also focus on assisting smaller farmers specialise which could partly circumvent the poor bargaining position problem that small farmers face and potentially open avenues for sustainable profits. The Agricultural Sector Education Training Authority (AgriSeta) and Skills Development Act ought to provide a framework in which such capacity development can take place

In conclusion, it is proposed that these three main ideas (i.e. the greater co-ordination of programmes aimed at small scale producers, capacity building policy initiatives with private sector involvement; and broad based

technical and business proficiency capacity development) as spelled out in programmes and/or initiatives should be closely linked and co-ordinated. This would ensure that the small farmer supply chain is enabled to function effectively from the point where land is acquired, the necessary infrastructure is put in place, financing is obtained for inputs, management is capacitated to a point where institutional innovation takes place to remove the barriers that could prevent small farmers and retailers from trading under the restructuring market conditions and small farmers and retailers are enabled to enter into profitable and sustainable exchanges.

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