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Changing face of the agri-food market: A farmers response and possible solutions from a provincial perspective

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Abstract

The rise of supermarkets, together with large-scale food manufacturers, has deeply transformed agri-food markets in many countries. This expansion has been evident in South Africa as well. Increasing attention has been and is being paid to the growth of supermarkets in countries outside of North America and Europe. Numerous studies have been carried out in developing countries, including South Africa. However, these studies, while identifying the growth of supermarkets and the changes in supply chains, notably downstream, that have been caused by this growth, have made relatively little progress in documenting the impacts at producer level and in identifying issues that need to be addressed. There is a special need for studies on how farmers and supporting agencies, especially public agencies should respond to adapt their interventions to the new realities of supplying large retailers. This is of importance for South Africa because of its unique policy environment where the expansion of supermarkets is accelerating at the time when transformation in the agricultural sector is the key with the aim of integrating emerging farmers in the mainstream agri-food system. This paper will follow a case study approach, looking at cases in the fresh fruit and vegetables category, particularly in the Western Cape Province. The paper will summarise the rapid rise of supermarkets in agri-food systems in developing countries. Attention will then be drawn towards characterising these trends in the South African context with a special emphasis on farmer's response and issues that need to be addressed.

Introduction

If one can ask almost a similar question to what Reardon and Berdegué in 2002 has asked in their paper i.e. 'why an article is written, about 'supermarkets in a country where at least 22 million (57%) people leave in poverty? Supermarkets refer to large self-service stores that are in chains or independent. Generally these stores are classed as either 'supermarkets', or the larger 'hypermarkets'. Therefore discussion in this article does not depend on distinguishing the various large formats; 'supermarkets' instead the term is used for any large-format store and where a need for distinction arise a specific term will be usedIn South Africa, this situation has not changed significantly between 1996 and 2001, instead those households living in poverty, have sunk deeper into poverty and the gap between the rich and the poor has widened (Human Science Research Council, 2004). Then this brings another question of whether supermarkets are not niche players for rich consumers in the big cities of the country? As per Reardon and Berdegué (2002), the answer here is still no. In South Africa, several studies show that supermarkets are now dominant players in most of the agri-food chains and reportedly account for the major share of retail turnover (55%). Therefore it is not irrelevant for this question to be asked from a South African perspective, as the spread of supermarkets is reshaping the way that food systems are governed. These supermarkets, together with large-scale food manufacturers, have deeply transformed agri-food markets in various regions of the world. Many of those changes spell great challenges, even exclusion for small farms and processing and distribution firms, but also potentially great opportunities. For the purpose of this paper, exclusion of small farms is a major concern, as emerging (The word emerging farmers and small producers/farmers will be used interchangeable in the text and they are the target group of the study) agriculture which supports the livelihoods of the majority of rural poor, is poorly prepared for these changes. Public policy makers and development policy and programs are generally remote from changes taking place within the market and need to adapt to these. However, they also lack evidence upon which to support policy dialogue and intervention. Why the rise of supermarkets is so important for South Africa, is

because it is happening at the time when South Africa's transformation in the agricultural sector is crucial especially to integrate emerging farmers into the mainstream markets. This is because equity targets sought through land reform will for example be meaningless if the produce of those farmers cannot reach the markets. However, little attention has been given into the rise of supermarkets in South Africa as far as research is concerned. Even the little research done on supermarkets is mainly by outsiders. On the contrary, it is only recently that South Africa has suddenly realised a need for this information and that research is being carried out in some institutions.

Followed Reardon and Berdegué (2002) Fresh Fruit and Vegetables (FFV) were chosen in this paper because they are seen as good prospects for emerging farmers because of their higher value-added and income-generation potential and their relative lack of economies of scale and the latter is a common problem faced by the emerging farmers in South Africa. Also, FFV is what most emerging farmers produce in the Western Cape Province of South Africa (compared with basic grains).

As far as the structure of the paper is concerned, the forthcoming subsection will be a presentation of a case study that is selected for the purpose of this paper describing how five groups of small farmers were assisted in accessing one of South Africa's biggest supermarkets, SPAR. Thereafter, the paper will summarise the trends on the rapid rise of supermarkets in agri-food systems in developing countries and the reasons behind them. Attention will then be drawn towards characterising these trends in the South African context with a special emphasis on farmer's response. The last section will be an analysis of government's response to these trends.

Background and Context

This paper draws from experiences of how five informal groups of emerging farmers in the Cape Metropolitan area of the Western Cape Province of South Africa succeeded in becoming fresh produce suppliers to one of the major domestic supermarket chains, SPAR in the Khayelitsha Township of Cape Town. Prior to selling to the supermarket, the farmers in the area were limited to selling a small set of produce items such as spring onion, beetroot, carrot, cabbage, lettuce, green peppers, tomatoes, spinach, baby marrows to irregular buyers, mainly through driving wheel barrows to the nearby location, share some with churches for soup kitchens and with hospices especially those looking after HIV positive people.

For the most sensitive products like cabbage, spinach, lettuce and baby marrows, it is not uncommon that about 60% of the produce always formed part of the compost. Even the smallest percentage that they were able to sell, they had no bargaining power as they often did not know how the pricing mechanism works and also did not have access to market information. As a result, they were willing to accept very low prices although all their income is derived from the sales of their vegetables. (The information is based on the informal interviews with emerging farmers in early 2007, the extension officers, procurement officers, the linkage coordinators, senior government officials, development agencies such USAID funded Programs.)It is therefore pertinent that these farmers were looking for markets that can buy all of their produce at profitable prices.

With regard to the agreement with SPAR, the Department of Agriculture has approached the supermarket as a result of complaints received from farmers through field visits that they are unable to sell their produce. As agreed with the other partners on the agreement, the role of the department is to coordinate the small farmers into one group to streamline planting schedules to ensure sustainable supply chain. This includes a very detailed schedule of the produce, volume, farmer etc available on daily basis (who produces what and when it could be ready?). Farmers plant/harvest in synergy to allow for a continued flow of the required volumes on a daily basis and hence consolidation and coordination is very crucial. The groups are currently facilitated to form a registered cooperative, although are already operating under the principles of a cooperative model.

Besides, buying the produce from small producers, SPAR also supports the groups with transport to collect the vegetables from a central point of collection. The supermarket also supplies the groups with re-usable crates for packaging and transportation of vegetables. As far as pricing is concerned, the supermarket buy the produce on a 30 day account basis. Prices depend on the quality of produce as well as the market price of a particular day. Prices are very competitive and the mark-up percentages are very low. Low prices facilitate increased sales and SPAR's take on this is that it benefit all parties. As the Department

of Agriculture has very few extension officers, this is done with the assistance of a USAID funded development program/agency. The agency provides technical support and training (both technical and business related) to the farmers. As argued by Neven et al (2005), South Africa has various models for linking emerging farmers into the dynamic markets, but a common business model mainly consists of the following four key agents: 1) downstream buyers, 2) commercial farmers, 3) development assistance providers (public, private and non governmental and 4) emerging farmers. However, the case study presented in this paper exclude commercial farmers, as the one size fits all approach do not always fit all situations. As stated by the authors, partners of this nature are of importance as they often bridge the capacity gaps because each of the above mentioned agents brings unique capacities to the model, but none bring all the capacities needed to integrate emerging farmers successfully into the modern agri-food supply chain. Also, it is important to mention that SPAR's interest in this emanated from various reasons. During the farm visits they observed that groups have the potential to improve the chain's produce procurement system by: (1) expanding the procurement window for certain crops (2) substituting more expensive supplies that are procured from far distance markets. Second, procuring from previously disadvantaged groups referred to as small or emerging farmers/producers in the text, fits well in its corporate social responsibility mission. Corporate social responsibility has become especially important for all private sector players in the context of Broad-Based Black Economic Empowerment (BEEE), but this will be reflected in more details in the forth coming sections.

Trends of transfomation and reasons for them

An International Perspective

An increasing attention has been paid to the growth of supermarkets in countries outside of North America and Europe. Numerous studies have been carried out, initially in Latin America and, more recently, in Central and Eastern Europe, Asia and Southern Africa where the latter comprised of a few on South Africa (See among others Reardon and Berdegué, 2002; Reardon and Swinnen, 2004; Reardon and Weatherspoon; Reardon, Timmer, Barrett and Berdegue, 2003.

Reardon et al (2006) explains how this transformation emerged in the regions that are mentioned in the previous paragraph. According to the author, first it is consolidation and multinationalisation of the food industry segments in developing regions that spearheaded the rise of supermarkets. The consolidation is manifested in the rapid spread of large-scale first- and second-stage processors (such as Nestle and Parmalat into dairy sectors around the developing world). Also, is the rise of large specialised (and dedicated to modern food industry segments) wholesalers and logistics firms including the spread of logistics multinationals in developing countries, and the rapid diffusion of supermarkets (and other modern retail such as hypermarkets, hard discounts, cash and carries, and convenience store chains) that contributed to the transformation.

According to Reardon, as cited by Vink (2005), the global multinational supermarket chains have entered Latin America and Asia by a variety of means. As a result, US Wal-mart is now taking the lead as the largest food retailer in Mexico. In Africa, South African retailers, especially Shoprite holds a dominant share in some countries such as Namibia, Zambia and Malawi with the exception of Kenya, where domestic food retailers have led the concentration in food retailing. This trend is also seen in countries such as Chile. In other instances such as Peru, Ecuador and throughout many smaller Latin American countries, major multinationals such as Royal Ahold and Carrefour have played dominant roles.

According to Reardon et al (2003) and Wilkinson (2004) the main causes for this global trend include socio-economic factors, policy changes and technological change driven by competition. Some of the factors in these categories, which they regard as necessary but not sufficient cause of change, include:

- Increased urbanisation and rising incomes that create a market especially the latter as resulting in more diverse diets and therefore increasing the demand for non-staple foods such as fruit and vegetables, dairy products and processed foods;
- Urbanisation and larger participation of women in the labour force increase the opportunity cost of women's time, and therefore increase the demand for convenient and processed foods;
- Trade liberalisation, coupled with urbanisation and increased incomes has resulted in the spread of ownership of refrigerators and motor cars, which allows people to buy more processed foods less frequently and in larger quantities;

- Increased travel, exposing people in other regions to modern retailing techniques in the USA and parts of Europe, to a wider range of products and, particularly for fresh fruits and vegetables, to the possibility of being able to consume many products out of season;
- Foreign direct investment as a result of more liberal rules that emanated from structural adjustment policies and programmes, implemented under the Washington consensus from the mid-1980s;
- On the supply side, food industry procurement system modernisation contributed to the rise of supermarkets as trade liberalisation since the early 1980s made it easier and cheaper to import food and non-food products, which implied economies of scope.

Several authors, including Readorn et al (2006) stated that the trend in the rise of supermarkets is occurring at widely different rates (often referred to as waves in the supermarkets jargon) over countries. By the first decade of the 21st century, supermarkets retail roughly 40-60% of all food marketed in "first wave 'supermarketisation' countries" in much of South America, East Asia, Central Europe, Turkey, and South Africa being part of this wave. Following five to ten years behind are the second-wave countries in Central America, Mexico, Southeast Asia, and some parts of Southern Africa where supermarkets have achieved penetration rates on the order of 20-40%.

Elsewhere, in "third wave" countries of South Asia and Africa, supermarket activity remains generally low, at less than 20% of food retailing. However, even in these "third wave" areas, supermarkets are emerging fast in urban markets. While supermarkets account for only 5% of India's food retailing and 10-15% in Russia and China, overall growth rates are spectacular in China. By 2003, supermarket sales there accounted for 30% of urban food retailing, up from nearly nothing a decade earlier, and sales were growing at 30-40% per year (Vink, 2005).

In Africa, even though retail is low, some parts of the continent experience the fastest transformation. These include South Africa, Kenya, Nigeria, also among the larger and relatively richer and more urbanised markets, as is predictable. In a "second round," it is also now occurring in countries that are receiving substantial FDI from South Africa in particular and more recently from Kenya as well, including, in roughly descending order, Zimbabwe, Zambia, Namibia, Botswana, Swaziland, and more recently Madagascar, Mauritius, Angola, and Mozambique and hence Southern Africa. Recently is Uganda and Tanzania and again hence Eastern Africa as a second-place investment destination, and lastly and very recently in Ghana (Weatherspoon and Reardon, 2003).

Reardon et al (2006) also consider that transformation is occurring at widely different rates within given countries (see stages of diffusion in Table 1 below). They also indicate that there is no clear pattern of which food industry segment transforms first. But with regard to special and consumer segment penetration a clear trend is seen on location and target group, for example, it starts in big cities where there are upper-income consumers. But this has changed overtime and supermarkets penetration extended to secondary, tertiary and lastly into rural towns to target the middle- and lower middle-class and the working poor respectively.

Table 1. Stages of supermarket diffusion

Stage of diffusion of supermarkets	Country examples
Incipient	Ghana
Niche	Tanzania, Nigeria, Uganda
Early-intermediate	Zambia, Zimbabwe
Intermediate	Kenya
Advanced	South Africa

Source: Vink, 2005

A South African Perspective

Studies reveal that Supermarkets started in South Africa during the 1950s when OK Bazaars opened a food department store as its flagship store in Johannesburg. Since then, many entrants have followed into the industry (Botha and van Schalkwyk, 2006). Progress is very much evident after 1994, as South Africa has undergone enormous economic, social and political changes. The overall results have been very positive with a stronger and stable macro economy, better integration into the global trading system, and progress in redressing past injustices and reducing poverty (OECD, 2006). Over the past few years, consumer expenditure on food has increased significantly and can be attributed to a considerable decrease in interest rates, improved income levels together with above mentioned factors. However, there are neither official nor private statistics on how rapid

the supermarket sector in South Africa has grown over the past decade (Weatherspoon and Reardon ,2003).

Generally it is perceived that some supermarket chains started quite early, but only recently that a rapid growth had been experienced. First in the race is Pick ’n Pay, which started in 1967 in Cape Town. The Pick ’n Pay branded group include a wide variety of activities and outlets; such as hypermarkets, supermarkets, family stores, franchising, mini market franchising and home shopping. The non-Pick ’n Pay branded operations include Boxer Supermarkets, Score Supermarkets, TM Supermarkets, Property and Go Banking, although some of these are not involved in food retailing. Secondly, Shoprite (later Shoprite-Checkers) started in 1979 in the Cape Province when eight supermarkets were bought. Among the different outlets included in the Shoprite holdings is Shoprite, Checkers, Checkers Hyper, Usave, OK Furniture, House & Home, Hungry Lion, OK Foods, OK Grocer, OK Mini market, Sentra and Value, Megasave and 8’ Till Late (Botha and van Schalkwyk, 2006).

Thirdly, SPAR, has its origins in the Netherlands where its first store was opened in 1932 under the concept of “voluntary trading”. With the emergence of grocery chains in South Africa in the1960s, a group of eight wholesalers acquired the rights to trade under the name SPAR. Lastly, Woolworths Holdings Limited, which is an investment holding company with two major trading subsidiaries. However, one of these subsidiaries, Woolworths (Proprietary) Limited, has a major representation in a number of countries such as South Africa, Africa and the Middle East. Australia, New Zealand and Singapore fall under Country Road Limited. As far as Woolworths Food is concerned, it opened as part of a department store and has seen tremendous growth since its inception. The stores have a small number of branded products, and a number of private labelled products with its own Woolworths brand. All these major role players in the supermarket only experienced rapid growth over the last 8 to 10 years (Botha and van Schalkwyk, 2006). Also, it should be noted that along these years these supermarkets also acquired some stores, in other words merged with the others while others unbundled from mergers to be where they are today.

The initial focus of supermarkets in terms of location and sales was on upper-income consumers. But this has changed during the 1990s, as supermarkets were increasing rapidly. The chains added hypermarkets to extend their target to middle- and lower middle-class urban consumers, with broad food and non-food selections and low prices. This moved further to the addition of convenience stores along the transport route and in dense urban areas during the late 1990s to the early 2000s. During the second half of the 1990s, small supermarkets were seen in the rural areas by means of franchising (Weatherspoon and Reardon, 2003).

However, supermarkets have dominated all food spending in the main urban areas (Gauteng province, Cape Town and Durban) for more than three decades, and in lesser urban areas for at least the past two decades. The changing market environment as they experienced competitive pressure and relatively saturated markets at the top end pushed some supermarket chains to expand into townships. As a result, supermarkets are just now “taking off” in the former homelands (Vink, 2005). It is also important to note that supermarkets were not permitted to exist in townships and former homeland areas during apartheid (Weatherspoon and Reardon, 2003). The companies entered these regions by domestic capital acquisitions of smaller chains or independent stores located in those areas.

Size of the Supermarket Industry in South Africa

Botha and van Schalkwyk, 2006, revealed the annual revenues and growth rates of the major supermarkets in South Africa as from the year 2000 to 2005. Their paper indicates that Shoprite was the leader in terms of revenue generated from the year 2000 until 2002. However, from 2003 to 2005 it is Pick ‘n Pay that took the lead. As far as annual growth rates are concerned, Pick ‘n Pay was leading during the year 2002 and experienced a sharp increase in 2003 and thereafter had a slow growth until 2005.

Nevertheless, it is Woolworths that experienced the higher growth rates above all except in 2003 when Pick ‘n Pay had a sharp growth rate. As far as their sharers are concerned, it should be noted that it is particularly difficult to obtain information on supermarkets’ share of the fresh produce sector (see Table 2). While quantities sold by supermarkets can be accurately calculated, it is almost impossible in most countries to know the quantities of fruits and vegetables being sold through traditional marketing channels.

Drivers of Rapid Rise of Supermarkets in South Africa

Although these are also found to be shaping the agri-food systems of the world, however, the determinants mentioned below are also prevalent in South Africa and some are only relevant for South Africa only. These include:

- Consumption on all goods that has been on the increase, and is attributed to:
  - Increase in disposable incomes
  - Population growth
  - Changes in consumer dynamics;
- Another prominent one is the burgeoning middle class in South Africa, the so called 'Black Diamonds'. According to Prof John Simpson, 2007 based on the survey conducted on black diamonds reveals unprecedented movement in South Africa's single most important market. The new statistics show that there is not only growth from new entrants into the black diamond segment, but also from within its ranks as people move up the ladder and establish themselves in the middle class, say the
- researchers. Black diamonds combined annual spending power had grown tremendously since the last study conducted more than a year ago from R130bn at the end of 2005 to R180bn at the beginning of this year. These black diamonds are responsible for 40% of South Africa's spending power;
- Growing importance of food quality and safety standards and these are known to be sometimes a result of people travelling to the other parts of the world;
- Changing consumption patterns
  - Convenience
  - Health
- Growing use of credit cards, which in developing countries are rarely accepted by corner shops or traditional wet markets
- "Westernisation" of lifestyles, particularly among younger people;
- Political developments in South Africa played a major role in jump-starting supermarket expansion throughout East and Southern Africa. This was part of a larger trend in South African investment in the region in resource-related industries (mining, oil), financial services (banking, insurance), telecommunications (cell phones) and consumer-oriented industries (supermarkets, hotels) (DBSA, 2003) (see Table 3). Brand names such as MTN and Supersport have become as well known on the continent as Shoprite (Vink, 2005).

Table 2. Market shares of the major role players in the food retail industry of South Africa in 2004

Firm	Market share (%)
Pick 'n Pay	33.06%
Shoprite	30.69%
SPAR	13.54%
Woolworths	12.03%
Other	10.69%

Source: Botha and van Schalkwyk, 2006

Procurement of supermarkets and their implications

This section will focus on the procurement of supermarkets and its implication to the emerging farmers as target group of the study. Although world wide trends will be reflected, however, more emphasis will be on local trends, as it is the intension of this paper to share insights mainly from a South African perspective. The impact of supermarkets on small producers in developing countries has received much attention. The research conducted on their evolution suggest that that the increasing demand for high-value fresh produce can provide new opportunities for enhanced small producer livelihoods.

However, the standards required in terms of food safely and quality and sustainability of supply demanded by supermarkets raise challenges for small producers. In a South African perspective, this could be seen as double exclusion, as the small farmers never had an opportunity to participate in the agri-food systems due to the imbalances of the past. In other words, this complicates matters even worse because this is the type of business environment that the government must settle new farmers on for them to be able to fully participate in the food supply chains.

Indeed, there is evidence that supermarket buyers in both developed and developing economies are increasingly sources from large commercial farmers (Boselie et al, 2003). The cartel-like framework of the buyer's side can classify the producers as 'winning' farmers and 'loser' farmers. Cacho (2003) concludes that large-scale commercial farmers at both national or regional levels who "self select" by complying with supermarket 'market' requirements, would meet this

challenge and become the "winning farmers". In the "loser column" of this comparison framework are the smallholder farmers who do not and/or cannot "self select". In South Africa, although commercial farmers are also encountering challenges in supplying supermarkets, however, they seem to have adapted fairly compared to their emerging counterparts and are really the winning farmers as argued by Cacho (2003). Among the possible advantages these farmers have, include experience and are highly skilled especially in managerial or related, economies of scale, access to resources (financial, water, land etc), infrastructure etc.

The other trends seen in South Africa, include the declining number of commercial producers on the one hand while on the otherfarmers are becoming larger. The producers are faced with a challenge of escalating cost of production. The supermarkets are really pushing pressure downwards, as many preferential procurement burdens are shifted to producers, for example, the imminent implementation of AgriBEE and corresponding scorecard because for them to look good on the policy front they have to make sure that their suppliers do comply (Jordaan, 2006).

Ishmael in 2005, mentioned that there is no one size fit all approach in responding to the challenges brought by the rise of supermarkets, as a producer will find that food retailing has become a constellation of different businesses, each of which sells food products in different ways. This could be recognised as there are kinds of retailers that sell, for example, fruit and vegetables in a different way basically because there are segments of shoppers whose wants and needs are different.

The author also indicated that it is no longer the monolithic supermarket store, which looks the same in one area as it does in another (Ishmael, 2005). This was also confirmed by Reardon, et al. (2004) who also stated that the specific requirements farmers have to comply with will vary by type of retailer, and include factors such as size of the retail chain or consumer segment targeted. These factors then translate into requirements for product quality and post-harvest practices by producers and others actors in the supply chain.

Benefits in supplying the supermarkets also do exist. These are derived from long term partnerships along supply chains which emphasise the importance of trust-building in food supply chains. To build trust, as a small producer in South Africa requires a lot of effort as there is a general perception that the produce of small farmers is of poor quality. However, there is also evidence that small farmers can participate in the supply chains of supermarkets. Readon et al (2006) also indicate that adopting new practices can open doors to suppliers, enabling them to sell to supermarket chains that are "growing" the market in terms of volume, value adding and diversity. A supplier can move from being a local supplier to being a national, regional or global supplier – and therefore categorise himself as a "winning farmer. Although evidence also suggests that success of this requires partnerships from both private and public sector stakeholders.

Procurement and distribution Practises of Supermarkets

The implications of the rise of supermarkets for farmers do not come from the type of store, but from the methods of procurement used and the quality standards applied (Shepherd, 2005). Internationally and locally, supermarket chains are planning to or are already following the practices of the most advanced economies in retailing, including the use of:

- Centralised procurement systems;
- Specialised/dedicated wholesalers, sometimes acting as sole suppliers;
- "Preferred supplier" systems;
- Concessionaires who lease fruit and vegetable sales space in the stores;
- Private standards for fresh produce, which are usually more demanding than national
- Standards which may include a requirement for traceability.

Organisational change, accompanied by intense competition in the food retailing sector, has driven changes in the organisation of procurement systems of supermarket chains and has shifted from procurement by individual supermarkets, which may have involved purchasing from wholesale markets towards centralised and regionalised distribution, use of specialised/dedicated wholesalers and preferred supplier systems and demanding, private quality standards.

This is done in order to reduce coordination costs; generate economies of scale by buying larger volumes and working with fewer wholesalers and suppliers per unit merchandised; and to have tighter control over

product quality and freshness. To date, relatively few chains in South Africa have not adopted a centralised buying e.g. SPAR, but signals indicate that plans are also underway to follow the rest. In addition to commercial practices such as waiting many days (range of 15 to 90 days) after product delivery to make payment, imply difficult but profitable conditions for growers.

The above suggest new investments in production technology and equipment (trucks, cooling sheds and cold chains, packing), in management and co-ordination to ensure quality as defined by the supermarket, in consistency and timing, and in larger volumes supplied to consolidated buying points, all keeping down costs (Reardon and Berdegué, 2002). Without any imperial evidence, one can easily deduce that the above requirements could only be met by the large scale commercial producers. Hence the focus of the forth coming section is on the barriers preventing small producers in supplying the supermarkets.

Barriers to entry

Small farmers in South Africa in general are geographically dispersed and distant to markets and therefore transportation costs to centralise collection facilities and to reach the markets can be considerable, particularly where chilled distribution is required by supermarkets. This geographical dispersion also increases the cost of coordination particularly where monitoring and traceability are in place. Similarly, the supermarkets are reluctant to invest in personnel and or managerial infrastructure to facilitate negotiations with a wide body of small produces.

Hence in the groups used in the case study, this role is played by the extension officers of the Department of Agriculture. Among the challenges mentioned by some of the groups interviewed for the case study, is access to reliable transport as not all farmers have their own transport. Another problem mentioned, is timely access to implements such as tractors. After the groups were coordinated to adhere to the planned production schedules, the problem of transport was also resolved, as farmers could get assistance from the others.

As often required to adopt new technology in order for them to be able to meet the standards required by the supermarkets, it becomes difficult for small producers to adapt and disband long standing traditional practises that they are used to. Therefore the risk to small producers of producing according to strict quality requirements can be considerable as possible higher losses could be expected especially in the first few seasons of production. Poor access to formal markets for their produce and a credit history also make access to credit difficult. Even if small producers have a contract to supply a formal market and eventually have access to credit, the debt accrued through crop failures during the first learning seasons can be considerable (Boselie et al, 2003).

Another significant barrier to entry of small farmers into supplying supermarkets is the low levels of education which puts them at a disadvantage, as this make it difficult for them to interact with buyers. In the case study used in this paper, this is further complicated by the age of the participants as the majority are older people and some are already on pension. Small producers also complain of lack of information, however, low levels of education make it difficult for them to understand and interpret the information even if available although some farmers interviewed are attending Adult Basic Education Training.

The fewer and inexperienced extension officers of the department also contribute to the challenges faced by small farmers. One of the major constraint facing small producers in South Africa and is also a problem for the farmers interviewed in this case study is access to land. This is a major problem and limits the possibilities of expansion for small farmers to be able to meet the quantities required by supermarkets. Also, this limits them to only engage in fewer lines of production, although this is necessary during the learning stages. To be able to expand production, they often lease land from nearby schools, which makes it difficult for them and government to invest in infrastructure as occupation of such land is only temporal.

Also mentioned, is lack of knowledge and access to the right varieties (cultivars) needed by supermarkets. In addition, these farmers indicated lack of access to water for irrigation and also complained about unavailability of irrigation infrastructure, pack houses and storage facilities. This is a major barrier for these farmers to utilise the full opportunity they have, as for farmers to meet the year-round supply requirement of the supermarkets, having irrigation is a condition sine qua non (Neven et al, 2006).

Despite the challenges associated with supermarket supply chains, small producers continue to be involved

in all of the countries where the rise of supermarket is rife.

Government response

Given the developments described above, how should governments and their agencies respond? Shepherd (2005) argues that one possible approach would be to do nothing. In this case, further supply chain formation will occur as a natural development of the marketplace. Small wholesalers, retailers, processors and farmers will have to survive on their own. Those able to adapt will survive, others will not. Although this has its merits, as would probably lead to a more efficient, consumer-responsive supply chain, but many people would lose out and this may not be socially or politically acceptable, particularly if the pace of change is rapid as is the case in South Africa at the moment.

The hands-off approach has been adopted by several governments in Europe. In the United Kingdom, for example, the author mentions that most consumers have benefited from lower prices and the availability of a wider variety of products. However, consumers who find it difficult to move around or who lack access to reliable transport have lost out because large numbers of small, local shops have closed down and those that remain tend to be more expensive than supermarkets. This could be experienced more in the rural townships of South Africa. Also, from an environmental perspective, there have been numerous complaints about the construction of out-of-town hypermarkets and their impact on the environment. Furthermore, this approach might imply double exclusion for some individuals in South Africa and in this regard, are small farmers.

If the doing nothing approach is politically not acceptable, Shepherd (2005) suggests that legislation to control the new supply chain development remains the option. However, the second option could also not be an ideal approach to follow and doubt if South Africa could adopt it because too much interference in the market are things of the past. Nevertheless, to prevent exclusion and to ensure that small producers do participate in the agri-food supply chains by responding to the barriers to entry mentioned in the previous section, from an agricultural perspective there are government policy instruments available. However, since the market has been deregulated after 1994 there are not many of these anymore. These include Land Reform which is intended to make land accessible and to ensure security of tenure for the rural poor, thereby improving the capacity of their small-scale agricultural production in a sustainable manner. The land reform process under the Department of Land Affairs includes approaches such as Land Redistribution for Agricultural Development (LRAD) and equity schemes.

The BBBEE Act of 2003 (in effect since January 2004) established a legal framework to assist South Africa's socio-economic transformation from one characterised by "vast racial and gender inequalities in the distribution of, and access to opportunities, wealth, income, skills and employment" to one where historically disadvantaged South Africans are economically empowered through changes in ownership and management structures, skills development, facilitated market access and selective investment strategies. The Act empowered the Minister of Trade and Industry to issue specific codes of good practice (CoGP) as related to BBBEE's objectives (these were released in December 2004) and established a BEE Advisory Council (www.info.gov.za/gazette/acts/2003/a53-03.pdf and www.dti.gov.za/bee/CODESOFGOODPRACTICE.htm).

In July 2004, the South African Department of Agriculture released a draft BBBEE framework for Agriculture (AgriBEE). The AgriBEE translates the general principles of the BBBEE Act to the agri-food sector. It provides specific guidelines (not laws at this point in time) for all companies in the food supply chain ("from farm to fork"). Three elements in this AgriBEE, namely human resource development, preferential procurement and corporate social responsibility are of particular importance in the context of emerging farmers in South Africa at large (www.nda.agric.za/docs/agribee/agriBEE_26July2004.pdf).

With regard to the capacity building of previously disadvantaged farming communities, the food retail sector is expected to work with other stakeholders in the agricultural sector to establish training programs for farm and enterprise workers in appropriate technical and management skills by July 2005. The AgriBEE Charter although not finalised yet (the sector currently making use of the broader one), will make use of the score card and there are set targets to be met with regard to the various elements of the scorecard including procurement systems of the retail sector. As

far as corporate social responsibility in concerned, it encourages the concept of 'local is lekker' with the latter wording meaning nice in the Afrikaans language, and is also a biggest hope for emerging farmers.

The other policies include the Competition Act under the Department of Trade and Industry (DTI), the Tarrifs under ITAC (part of DTI) to deal with international competition. Among the list is also the new Water Act under the Department of Water Affairs and Forestry which define water quotes for producers; Integrated Sustainable Rural Development Strategy (ISRDS); Integrated Food Security and Nutrition Program and The National LandCare Programme.

To complement the above policies especially Land Reform under Land Redistribution for Agricultural Development, various programs such as Comprehensive Agricultural Support Programme (CASP) and the Micro Finance Scheme for South Africa (MAFISA) have been introduced. CASP purpose is to establish financing mechanisms - the "sunrise" subsidies and to streamline and align service delivery within the three tiers of government by creating enabling conditions for beneficiaries through the "sunrise" package. The six areas of support identified under this include Information and Knowledge Management; Technical and Advisory Assistance, and Regulatory Services; Training and Capacity building; Marketing and Business Development; On-Farm and off-Farm Infrastructure and Production inputs; and Financial assistance.

As far as MAFISA is concerned, the objective is to provide funding through provisionally accredited Development Finance Institutions to on-lend to targeted end-users. The last two programs also complement each other what differentiates them is that the MAFISA is a loan (at low interest rate) while CASP is a grant. However, it should be noted that not much success thus far has been derived from these policies and programmes due to various problems encountered. Some of these policies are under review and the government is busy coming up with new strategies to counteract. But to still keep the paper at length the details of the problems will not be discussed in this paper.

The third option proposed by Shepherd (2005) is for governments to work with all participants in the supply chain to facilitate linkages between supermarkets and farmers. This implies willingness for government to work in partnerships and the government is engaged in many of these with supermarkets and other private institutions and development agencies such as non governmental organisations and one example is the case study that is presented in this paper.

Conclusion

Significant changes are taking place in the agri-food supply chains as a result of 'supermarketisation' in much of South Africa and while these may be relatively slow to take effect in the whole region they will not be reversed. To date, most policymakers have had little or no exposure and some ignorant to these trends and are thus ill equipped to help farmers make informed decisions and to provide the kinds of support mechanisms that farmers require to be able to take up opportunities that are offered by these supermarkets. Governments need to recognise the trends and identify ways of supporting farmers to meet the needs of modern supply chains and also to assist existing marketing systems to compete with the supermarket sector.

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