Recommendations for restructuring food markets in the southern African region: Dynamics in context of the fresh produce sub sector

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Abstract

Agri-food markets are restructuring, characterised by increased consolidation and concentration of the industry, as supermarkets continue to expand at an exponential rate throughout the southern-African region. The informal sector is also expanding characterised by a significant level of restructuring. Supermarkets have restructured their procurement strategies through the introduction of private standards, centralised procurement systems and distribution centres. 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 through displacement of traditional markets by formal food chains; and secondly, the restructuring process will exclude farmers through the introduction of private standards. To redress the negative effects of the restructuring process certain issues need to be addressed. This calls for different stakeholders (public and private sectors and farmers) to harmonise their objectives and visions for the sake of smallholder farmers in order to realise the great potential there is in harnessing the benefits of the restructuring process.

Key words: multi-stakeholder recommendations, southern Africa, restructuring markets

Introduction

This study is a product of the Regoverning Markets Programme which is a collaborative research and policy support programme, designed to understand the keys to inclusion of small-scale producers in dynamically restructuring regional and local agri-food markets. The programme seeks to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics in the sector so as to ensure that small-scale farmers can better prepare themselves against exclusion from the restructuring food chains.

The fourteen Southern African Development Community (SADC) member states (figure 1) are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (SADC, 2007). Although there are similarities among the member countries in terms of climate, socioeconomic conditions and governance, it is worth noting from available summary statistics and economic indicators, that South Africa and Mauritius are fairly ahead of the rest of the SADC countries in terms of GDP per capita, global competitiveness and human development. On the other hand, DR Congo and Malawi have very low GDP per capita figures and they do not feature among the top 131 rankings of global competitiveness. Such disparities in the region affect the general progress of the region in terms of integration and economic growth (Malzbender & Earle, 2006; Doing Business, 2008).

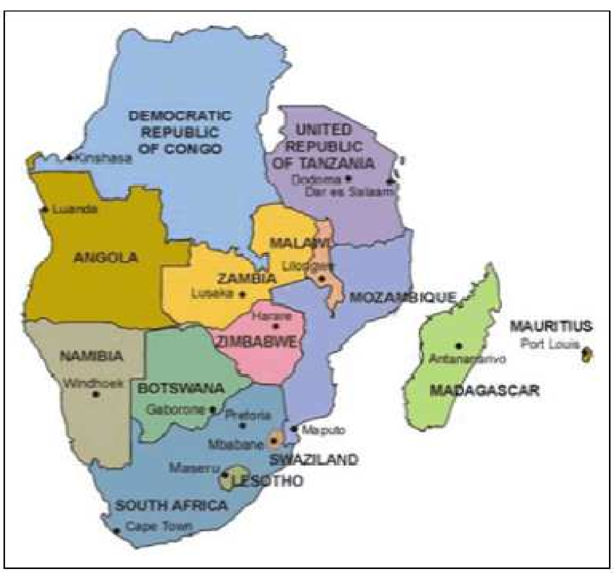

Figure 1: Countries of the SADC (SADC, 2007)

Despite efforts by a number of countries to achieve greater economic diversification, agriculture continues to dominate the economies of the majority of member countries. The majority of the economies in the region are agriculture- and natural-resource-based with up to 80 percent of the population in the southern African region being dependent on agriculture for subsistence, employment and income. Agriculture contributes significantly to the gross domestic product (GDP) of most member states. It is a major player in the southern African regional economy, contributing 35 percent of its GDP. In addition, agricultural exports are a major foreign exchange earner, contributing on average 13 percent to total export earnings and constituting about 66 percent of the value of intra-regional trade. The investment opportunities in agriculture are mostly in food processing, agribusiness, clothing and textile (ESRF, 2003). The region strongly advocates for agricultural-led development which is fundamental to combating hunger and reducing poverty (SADC, 2006).

During the past two decades, most countries in sub-Saharan Africa undertook extensive economic reforms to reverse declining growth rates and reverse balance-of-payment deficits. The reforms were designed to reduce and/or eliminate the bias against agriculture and open the sector to market forces (Kherallah *et al.*, 2002). Given these push-pull forces, the survival of developing country producers, particularly small farmers, requires considerable attention (Reardon & Timmer, 2005).

Rapid changes are taking place in agri-food markets in developing countries including those in southern Africa. The spread of dynamic modern retailers, wholesalers and food processing businesses is reshaping the way that food systems are governed. Small-scale agriculture is poorly prepared for these changes while public policy makers and development partners are generally remote from changes taking place within the market. The structure of agribusiness has changed substantially since the deregulation of the agricultural sector into a free-market economy for the different countries. The challenges facing primary producers and their economic organizations in negotiating market access are conditioned by globalisation, liberalization and modernization.

The direct procurement system which has been adopted by modern markets[1] propagates the risk of smallholder farmers' exclusion from modern agri-food markets (Vorley 2003;

[1] Supermarkets and Processors

Reardon *et al,* 2003). The risk is propelled by unstable marketing margins, market thinness, uncertainty concerning government policies, theft and storage spoilage, and the lack of enforceability of contracts, along with high transportation and storage costs, which translates into exorbitant and unstable transaction costs (Pote, *et al.,* 2007). In addition, supermarkets are increasingly looking for supplier channels that allow them to maintain quality standards, traceability of products to their origin, steady supply of expected volumes all year round and consistent delivery times. In sub-Saharan Africa, where smallholder farmers account for 90 percent of agricultural production, access to viable modern markets such as supermarkets can be a crucial element for wider poverty reduction. The major challenge is how to sustainably link smallholder farmers to modern formal agribusiness. Given the right incentives and support, small farmers can participate in modern supply chains and benefit from increased access to inputs, the availability of credit, innovative technologies and "productivity spill-over" effects (Humphrey 2007; Boselie *et al*., 2003). There have been many efforts by different stakeholders on creating market linkages for poor farmers, but less effort has been put on developing relevant intervention frameworks backed by sound economic theory.

This paper's main objective is to provide innovative recommendations for all stakeholders with regards to inclusion of small-scale producers in dynamic restructuring regional and global agri-food markets. The study hypothesises that the exclusion of small farmers from restructured markets is as a result of the restructured operational anatomy of modern markets. Thus the evolution of supermarket procurement policies (for example minimum quantities, consistency of supply, minimum quality standards and recently preferential procurement) are increasingly excluding small farmers from these market outlets.

This paper is a succinct compilation of the recommendations of the Regoverning Markets studies in southern Africa which form part of a global initiative of 18 countries in five regions. It is a cross-country comparative study based on an in-depth literature review and value chain analysis within regions and across regions, reflecting varying degrees of food industry restructuring and the different policy environments. It consists of cross cutting recommendations based on each country's study findings.

Overall national food market restructuring

The restructuring of the SADC food markets is observed as consolidation, trans-nationalization and the emergence and disappearance of supply chain actors. Generally the restructuring of food chains in southern Africa is being driven by similar determinants as in other developing countries where these drivers are mainly related to income growth, population growth, urbanisation and HIV/AIDS. In the southern Africa context these include increasing disposable incomes, population growth, urbanisation, and changes in consumer dynamics.

The impact of this restructuring is seen in the consolidation and concentration in the food supply chain where larger role players across the chain are displacing smaller ones. The substantial increase of large retailers in the agribusiness supply chain in the SADC region, mainly due to the extended expansion of South African companies into the agribusiness supply chains in this region through Foreign Direct Investments (FDI) since 1995, has led to vertical integration and concentration in the agribusiness chain (McBain, 2007). There are major diversities amongst countries as the size and level of impact differs across the region. Small scale growers, independent wholesalers, corner-store vegetable shops and a once vibrant informal market are being displaced by groups of preferred supplier producers and large regional distribution centres that are spread across the country to supply a rapidly growing network of corporate, franchise and voluntary trading group retailers with fresh produce (Louw, *et al.*, 2007).

Overall, large central procuring systems procuring fresh produce from a limited number of preferred suppliers dominate these trends. The trends are not uniform, and relatively "patchy" due to country differences in intensity of the drivers of change. Two types of restructuring make the issue of sustained market access a priority. The first are changes in regional and local agri-food markets, with international processing and retail corporations' investment combined with increased competition from imports, reducing domestic markets to a less reliable refuge for small-scale producers. The second are changes in export markets, such as horticultural trade with Europe, characterised by exacting private sector food safety and environment standards (e.g. EurepGAP) and new European regulations, in a fiercely competitive market. In order for small scale farmers to participate they need economies of size of production, high quality products, certain size and type of product and consistency to meet quality and supply requirements of retailers and consumers[2].

Drivers of change

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

Increasing levels of consumer dynamics are also hypothesized to contribute to the dynamic changes and restructuring being observed in the southern African food sector. The most pertinent changes in consumer dynamics observable in the South African case are the emergence of a black middle class (Black Diamonds) which is fuelling consumption and the increasing importance of food safety and quality standards.

Rising incomes, urbanisation, greater female participation in the workforce, delayed retirement and wider media penetration—all are driving the demand for higher-value products, semi-processed and processed products, pre and pro-biotics and convenience foods. There has also been increased consumer attention to food quality and safety due to recent food scares. Diets are globalizing too, with local consumer preferences influenced by international tastes. Studies have shown that as an economy develops and urbanises, the proportion of disposable income spent on processed food increases away from staple foods to convenience foods and pre-prepared meals. Changing consumer demand is also driving the

[2] It was calculated that the percentage wastage in Tanzania to comply with EurepGAP for exotic vegetables is varying between 20% and 46% of sales price.

growth of the food processing and food service industries. “Eating out” is also becoming popular (McBain, 2007; World Bank, 2007).

Market access for small producers

In most countries in the SADC region the food retail sector consists of formal and non-formal sectors. The informal sector consists of producers producing for subsistence and sell surpluses to their neighbours and neighbouring markets. The sector also consists of street vendors, hawkers and those traders selling food products in housing estates. The formal retail sector consists of supermarkets and neighbourhood stores, ‘cash-and carry’ and other independent retail stores.

The Regoverning Markets household studies concluded that farmers, driven by their search for a better price bargain, use multiple marketing strategies. Farmers do not have discrete market choice behaviour. They trade with both formal and informal supply chains depending on which chain offers them a better bargain. The majority of the emerging or small farmers in South Africa still market their produce through the informal sector, but in Zambia, smallholder farmers are shifting away from informal market channels (Hichaambwa, *et al.,* 2007). Small farmers in South Africa prefer the informal marketing channels because they do not have the capacity to meet the stringent quality and quantity demands set by the modern markets. The case studies on the best practises concluded that franchise stores or independent store formats provide the best chances for smallholder farmers’ inclusion into the supermarket chains, but the degree of inclusion varies with production expertise provided by the owner. According to the project’s report on policy analysis and dialogue studies, it was found that a certain mix of individual strategies (collective action, marketing timing, and technology adoption), business models (corporate social responsibility, mentorship, partnerships, and contracts) and the right policies are key to smallholder farmers’ inclusion in dynamic markets. Although these were specific for the case of Zambia and South Africa, the formats could be used elsewhere within the region.

Overall, in SADC, the major challenges faced by small-scale producers in supplying modern markets are (Proctor, 2007):

- High consumer quality demands and preference.

- Lack of conducive public policy environment that is supportive of small-scale producers in the market including at municipality level.
- Imbalance of market information.
- Farmer quantities produced are small and non continuous.
- low productivity and high production costs
- Failure of the credit market to meet small-scale producers' needs including dependency on traditional credit providers.
- Inadequate cooperation between farmers and other stakeholders.

Influencing stakeholder recommendations

Public and private policy plays an important role in enabling successful outcomes when they encourage supply chain stakeholders to perform to their best potential. National multi stakeholder task groups / working committees set in a neutral space are one key to building understanding between stakeholders, sharing evidence and information and effecting change.
To redress the negative effects of the restructuring process calls for concerted efforts from all stakeholders: public and private sectors and farmers. 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. Given the amount of information gathered through the synthesis of food markets in southern Africa, a number of possible recommendations were observed which can be adopted to enhance smallholder farmers' inclusion into dynamic markets.

Southern Africa presents a unique case study when it comes to the dynamics and restructuring of food markets. Thus the nature of the recommendations which are presented here are a shift from the norm. There are basically five areas of recommendations which emanated from this study. These are recommendations for farmers, in terms of their possible strategies; for agribusinesses in terms of innovative business models of integrating poor farmers; for government involvement with regard to policy analysis, dialoguing and implementation; and lastly recommendations on what research should be undertaken to support the current and future developments in the regional agribusiness sector.

Recommendations for Farmers

There are three recommendations which farmers should adopt. They include:

- Managing production and marketing risks so as to improve household incomes, compromising food security and livelihoods. Farmers need to manage production and marketing risk, in order to minimise their production and transaction costs. This can be achieved through better management and production techniques, for example farmers must grow, where possible, their fresh fruits and vegetables in the off-season period so that they can take advantage of high prices.
- Diversify enterprises focusing on niche markets where economies of scale are not as important. Small farmers should concentrate on niche products which give them competitive advantage and do not require specialised infrastructure and economies of scale. An example is the production of organic and/or ‘sustainably produced’ fresh vegetables which farmers can easily produce and have a growing market.
- Formation and regulation of farmer groups (cooperatives, producer organisations, out grower schemes, associations and agri-business units) should be promoted and empowered to enable smallholder farmers to position themselves strategically in agricultural supply chains. Collective action among cooperative or producer organisation members enables poor farmers to capture market opportunities. Collective action allows individual resource constrained farmers to enjoy economies of scale, organisation and scope. The foundation of sustainable success requires organisation at producer level, receptive business and enabling public policy that is facilitated effectively.

Recommendations for Agribusiness

There are several recommendations which the private sector can adopt to make their business pro-poor and pro-development. Some of these recommendations include:

- Contract farming so as to provide a guaranteed market especially for smallholder farmers in remote areas. Given the poor performance of agriculture in many SADC countries, contract farming brings about improved marketing opportunities, incentives, and increased income for farmers. Contract farming can be used as a way to link small-scale farmers with agribusinesses and can also contribute to both increased income for producers and higher profitability for sponsors.
- Low cost credit schemes which enable farmers, especially the resource constrained, to finance production inputs.

- Enhance dissemination of marketing information through marketing information systems/technologies so that farmers have access to real time prices.

Recommendations for Governments

Governments in the region should be actively engaged in developing policies and institutions to encourage agribusiness investment needs in a large policy context. These include good public governance, stable political and macroeconomic climate, enforceable commercial laws, appropriate financial services, protection of property rights, and adequate infrastructure. With regard to creating an enabling environment for linking smallholder farmers to formal agribusinesses, several policy recommendations should be adopted. These recommendations include:

- Market support services, where the government should invest in supporting farmers in disseminating information through alternative mass media such as newspapers, radio, television, etc. Government should also subsidise the establishment of marketing information systems using the state of the art media channel such as cell phones or internet. This can be done in partnership with the private sector to ensure competitiveness. Government should also play a significant role in terms of translating food safety and international quality standards to especially small farmers in rural areas.
- Extension and training: Governments should be actively engaged in building the production capacity of smallholder farmers through relevant extension and training programs. This will remove production bottlenecks among smallholder farmers which is one of the limiting factors when it comes to successful integration of smallholder farmers into the main stream agribusiness.
- Infrastructure: It is the role of the public sector to set up infrastructure which allows smallholder farmers to link in to agricultural markets at the least transaction costs. Such infrastructure includes roads, storage and refrigeration facilities in the remote areas. Government may also subsidise specific production infrastructure such as greenhouses and pack houses which enable farmers to produce and maintain quality in their farming enterprises.
- Governments need to review institutional mandates for influencing, regulating and supporting private sector investment in agribusiness and agro-industry. A major issue

to review is the scope of work which ministries of agriculture are legally chartered to carry out, organized to perform, staffed to deliver and funded to support.

- Policy design; public private sector dialogue and activities should be supported in order to develop networks and synergies. A conducive policy environment which includes macro-economic stability, political stability, contract enforcement etc, pro-poor policies (equity focused policies), etc is required.

Recommendations for Regional Initiatives

The agricultural policy of the region should focus on transforming the sector to generate higher and sustainable farm incomes, which implies increasing rural per capita incomes and employment. A regional policy or strategy should therefore include:

- Exploiting the diversity in the region to unlock its comparative advantage and agricultural potential especially in the northern parts of the region.
- Allow diversity (in needs, production potential, in soil and climate, comparative advantages and stages of development) to stimulate rural development and trade in the region.
- Create a development path which optimises the regional bargaining position in intra-regional and international markets.
- Facilitation of market chain actors, building vertical integration and reduction of transaction costs.
- Provide research and analytical services and develop national capacity at centres of excellence.
- Encourage participation in national, regional and international trade negotiations and agreements.
- Professionalise the civil service to provide market based services (or support their provision by third parties).
- Develop and provide demand-driven new extension and advisory services to meet market chain needs.
- Prioritise ‘south to south’ and intra SADC trade and avoid entanglements in unrealistic Customs Union agreements.
- There is need for a unified NEPAD through CAADP strategy focusing on agricultural markets.

Recommendations for research

There is need for establishing a regional think-tank, similar to the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN), which undertakes empirical and policy research in the following areas:

- Analysing country, regional and global trends, changes and factors affecting the transformation of agri-food systems and focusing on the potential effect on smallholder agriculture.
- Characterisation of agro-industries in the region, focusing on leveraging the regional supply chains.
- Development of information and knowledge management systems for agribusiness, as well as small-scale producers and processors, and inter-professional organisations.
- Analysis and formulation of business models or strategies for improving the agribusiness sector in the region while focusing on country specific strategies.
- Setting policy dialoguing platforms with countries at the regional level, bringing interested stakeholders (civic, both public and private sectors, as well as individuals) to debate on important matters regarding agriculture and agribusiness.
- Analysis of models or arrangements linking smallholder farmers with commercial farmers, exporters or agro-processing firms in long-term relationships combining cooperation, coordination, and services provision.
- Design and implementation of initiatives that improve the capacities of smallholder farmers and small agro-enterprises to participate in value chains for high value products including branded and certified products.

Conclusions

The main finding from the study is that agri-food markets are restructuring, characterised by an increased consolidation and concentration of the industry. Supermarkets which are mostly South African (Shoprite, Pick n Pay and SPAR) are expanding at an exponential rate throughout the region. Population growth, income growth, urbanisation and change in consumer taste and increase in health consciousness are the main drivers of the restructuring process in the region; these are similar to the global drivers of the restructuring process. The restructuring process is likely to exclude farmers from food markets in two ways; firstly through displacement of traditional markets by formal food chains that will leave smallholder farmers with no alternative markets. Secondly, the restructuring process will exclude farmers through the introduction of private standards such EurepGAP which make it tough for smallholder farmers' to sustain compliance. In light of these threats the restructuring process favours large agribusiness to 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.

The recommendations put forward in this paper offer local solutions to counter the common challenge of marginalising smallholder farmers due to restructuring food markets. These recommendations have been established from the region's practical point of view taking into account the prevailing economic and institutional situation. There is a great potential in harnessing the benefits of the restructuring process but there is need for different stakeholders to harmonise their objectives and visions for the sake of smallholder farmers. To redress the possible negative effects of the restructuring process calls for concerted efforts from all stakeholders: public and private sectors and farmers.

However, it is a challenge for all, including South Africa to meet the recommendations and for governments to create an environment that is conducive for agribusinesses and small farmers given the political unrest, low government budgets, poor institutions, adverse climatic conditions and more recently the global economic recession.

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