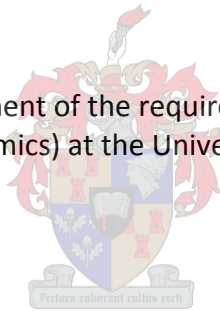


**GOOD FOR WHO? SUPERMARKETS AND SMALL FARMERS IN SOUTH AFRICA - A
CRITICAL REVIEW OF CURRENT APPROACHES TO MARKET ACCESS FOR SMALL
FARMERS IN DEVELOPING COUNTRIES**

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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own and that I have not previously submitted it in its entirety or in part for a degree at any university.

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Date: _____

ABSTRACT

Small-scale agriculture is one of the few tools available to support improved rural livelihoods on a significant scale in South Africa. Access to output markets is a key obstacle for small farmers in generating higher incomes. Thus, the rise of modern markets (supermarkets in particular) is generally viewed as positive for the rural poor, although most commentators concede that there are challenges to be overcome in obtaining access to such markets. A literature survey indicates a mainstream point of view about the reasons for modern market exclusion, as well as the most appropriate policy responses. This viewpoint is characterized by an assessment that the “fault” for market exclusion lies largely with small producers – their personal characteristics, their production methods, and their location – rather than with these markets themselves. The corresponding logic is that if these issues are addressed small farmers will almost certainly be included in modern market supply chains.

It is this study’s assertion that much of the research that has been undertaken to date is in fact incomplete, because it has excluded two key issues: The dominant supermarket business model; and the actual position of small farmers in those countries with high levels of supermarket concentration.

An examination of the supermarket model suggests it is inherently hostile towards most producers, and that modern supermarket supply chain management strategies aim to maximize the extraction of value from other chain participants. Smaller producers are particularly hard hit by this strategy. The South African food retail market structure resembles that of industrialised countries rather than developing countries, and the largest local supermarkets probably have sufficient market share to exercise significant market power. Therefore, we should expect that the position of South African small farmers is similar to that of small farmers in industrialised countries, who are increasingly excluded by modern supermarket-led supply chains.

In light of this analysis, most of the current policy initiatives responses to address market exclusion seem woefully inadequate. Improving the quality of production, and small farmers' access to skills and assets is important and necessary, but this study proposes that these actions on their own are not sufficient to guarantee access into modern supply chains. Insufficient research attention has been given to understanding how markets themselves become barriers to entry. This is a vital gap in local rural development policy: A market system that favours large over small farmers has the potential to exacerbate rural inequality and to neutralize policy aimed at supporting small farmers.

Government needs to take the development of marketing opportunities specifically for small farmers more seriously, understanding that they face a very different set of market access challenges than do large farmers. They need to encourage and support the type of food networks and marketing structures that will have the greatest positive benefit on small farmers and the communities that they live in. This requires a different view of the workings of market networks, and a more critical assessment of how these impact on rural livelihoods.

UITTREKSEL

Kleinskaalse landbou is een van die min hulpmiddels beskikbaar vir ondersteuning op beduidende skaal van 'n beter bestaan in landelike Suid-Afrika. Toegang tot produksiemarkte is een van die struikelblokke wat kleinboere in die gesig staar wanneer hulle meer produseer. Die opkoms van moderne markte word algemeen beskou as positief vir armes op die platteland, alhoewel kommentaar meestal daarop dui dat daar uitdagings is wat te bowe gekom moet word ten einde toegang te verkry. 'n Literatuurstudie dui op 'n hoofstroomstandpunt ten opsigte van die redes vir markuitsluiting, asook die mees gepaste beleidsreaksies. Hierdie standpunt word gekenmerk deur 'n mening dat die "fout" vir markuitsluiting hoofsaaklik by die produsente lê – hulle persoonlike eienskappe, hulle produksiemetodes, en hulle ligging – eerder as by hierdie markte self. Die ooreenstemmende logika is dat, as kleinboere die gehalte en standvastigheid van hulle produksie verbeter, dan sal hulle feitlik verseker by moderne markte ingesluit word.

Hierdie studie voer aan dat baie van die navorsing wat tot dusver onderneem is, in werklikheid onvolledig is, weens die feit dat twee belangrike aangeleenthede: die dominante supermark-sakemodel, en die posisie van kleinboere in daardie lande met hoë vlakke van supermarkkonsentrasie buite rekening gelaat word.

'n Ondersoek van die supermarkmodel dui daarop dat dit inherent vyandig is teenoor die meeste landbouprodusente. In teenstelling met die siening van gelyke vennote wat in die rigting van 'n gemeenskaplike doelstelling saamwerk, is die moderne supermarkvoorraadketting daarop ingestel om soveel moontlik waarde uit ander deelnemers aan die ketting te trek. Kleiner produsente kry veral swaar as gevolg van hierdie strategie. Die struktuur van die Suid-Afrikaanse voedselkleinhandelmark toon ooreenkomste met dié van geïndustrialiseerde lande eerder as met dié van ontwikkelende lande, en die grootste plaaslike supermarkte het waarskynlik voldoende markaandele om aansienlike markkrag uit te oefen. Ons moet dus verwag dat die posisie van Suid-Afrikaanse kleinboere soortgelyk is aan dié van kleinboere in

geïndustrialiseerde lande, wat toenemend uitgesluit word as gevolg van voorraadkettings wat deur moderne supermarkte gelei word.

In die lig van hierdie analise skyn die meeste van die reaksies van die huidige beleidsinisiatiewe in 'n poging om markuitsluiting die hoof te bied, bedroewend ontoereikend. Verbetering van die gehalte van produksie en kleinboere se toegang tot vaardighede en bates is belangrik en nodig, maar is op sigself nie voldoende om toegang tot moderne voorraadkettings te waarborg nie. Onvoldoende aandag is tot dusver in navorsing gegee aan begrip van hoe markte self hindernisse op die pad na toegang word. Dit is 'n kardinale leemte in plaaslike landelike ontwikkelingsbeleid: 'n markstelsel wat groot boere eerder as kleinboere bevoordeel, het die potensiaal om landelike ongelykheid te vererger en beleid gemik op steun aan kleinboere te neutraliseer.

Die regering moet die ontwikkeling van bemarkingsgeleenthede – in die besonder vir kleinboere – ernstiger opneem, en begryp dat laasgenoemde voor baie andersoortige uitdagings ten opsigte van marktoegang te staan kom as groot boere. Hulle moet die soort voedselnetwerke en bemarkingstrukture wat die grootste positiewe voordele vir kleinboere en die gemeenskappe waarin hulle woon sal hê, aanmoedig en ondersteun. Dit vereis 'n ander siening van die werking van marknetwerke, en 'n meer kritiese waardebeoordeling van die invloed wat dit op landelike bestaan het.

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ACRONYMS AND DEFINITIONS

DFID	(United Kingdom) Department for International Development
ESFIM	Empowering Smallholder Farmers in Markets
EU	European Union
FAO	Food and Agricultural Organisation
FPM	Fresh produce market
IFAD	International Fund for Agricultural Development
NAMC	National Agricultural Marketing Council
NDAFF	National Department of Agriculture, Forestry and Fisheries
NGO	Non-governmental organisation
PMCA	Participatory market chain approach
SCM	Supply chain management
STATSSA	Statistics South Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USDA	United States Department of Agriculture
USAID	United States Agency for International Development

CHAPTER ONE: INTRODUCTION

1.1. Background

It is an increasingly widespread point of view that encouraging the growth of small farmers is an important issue in addressing high levels of rural poverty in many developing countries. Speaking in his 2010 State of the Nation Address, President Zuma stated that the success of the South African government's agricultural programmes "will show in the number of small scale farmers that become economically viable." Correspondingly, there is a growing body of research that is focused on identifying the many hurdles that small farmers must overcome in order to achieve such economic viability.

The literature indicates that there are a number of areas in which small farmers face obstacles to generating improved livelihoods: These include access to inputs such as quality seed, fertilizer and farm equipment; training and skills development to increase farm productivity; access to irrigation; and access to output markets where they can sell their produce for a reasonable price. The issue of (output) market access, and the obstacles faced by small farmers in achieving that access, is the focus of this study. The growth of so-called modern markets – many of which are complex supply chains dominated by supermarkets – in developing countries have aroused both academic and donor interest in their potential to support higher rural incomes.

Market access for small farmers in developing countries (including in South Africa) is a fairly recent area of research, but is growing and influencing policy debates. Increasingly, development practitioners are focusing on the challenges that small farmers face in accessing modern markets, and the role of these obstacles in perpetuating rural poverty. In South Africa, this represents a deepening of the rural development debate, which until fairly recently was dominated by land reform issues, and a relative neglect of how to translate more equitable land ownership into better livelihoods for rural households, particularly those with access to only small parcels of land.

1.2. Research problem

As is always the case, the nature (and therefore the success) of policy initiatives in the area of market access is determined to a great extent by the way in which researchers have understood the problem – how one understands the root causes of market exclusion largely determines how one frames a response.

A survey of the international development literature indicates a growing consensus among many writers of why small farmers in developing countries struggle to access modern (and generally more lucrative) markets for agricultural produce. There is thus a growing “orthodox” point of view about both the reasons why small farmers struggle to access modern markets, as well as the most appropriate government, donor agency and NGO responses to these issues. In particular, this point of view is characterized by a certain understanding of the supermarket business model – an underlying assumption that supermarkets can and do exclude farmers on the basis of production issues (such as quality, quantity, price, etc), but that their business model does not routinely exclude farmers on the basis of size. That is, the consensus point of view does not include the idea that there is anything fundamentally hostile towards small (rather than big) farmers in the modern supermarket business model. Therefore, the market access “problem” is usually viewed as a production problem, rather than a market structure problem. Reflecting this, the associated development responses are almost entirely producer-focused.

It is this study’s assertion that much of the research that has been done in this area to date has failed to take all the available evidence into account. In particular, two key issues have not been given due consideration: The business rationale and implications of the optimum (i.e. profit maximizing) supermarket supply chain management and procurement strategies; and the documented impact of supermarkets on small farmers in countries which have high levels of supermarket penetration. While there is some growing awareness of the former issue in the most recent research, there are only a very few “development” studies which consider the

second issue to any meaningful degree. Many researchers (and donor agencies) appear to be working on the assumption that the relationship between small farmers and modern markets in countries with high levels of supermarket penetration will not be replicated in developing countries.

It is this study's contention that, by considering these two issues only as peripheral to the "central" issues of small farmers, market access and rural poverty in developing countries, many of the assessments of the obstacles faced by small farmers in accessing markets are in fact incomplete, because they do not give sufficient recognition to the idea that the market structure itself may present a significant barrier to entry. This is resulting in policy recommendations that may have little or no impact on significantly improving small farmer market access in the longer term. The relevance of this debate for South Africa – which has allocated considerable resources to rural development with relatively little to show for it – is considerable: The country has a relatively high (and growing) level of supermarket penetration; the future success of rural development strategies depends to a considerable degree on a large number of additional small producers accessing output markets; and there is a well-established large commercial farming sector which is currently the dominant modern market supplier.

1.3. Objectives of the study

The overarching aim of this study is to present a comprehensive and consolidated picture of the body of research that has been done both internationally and locally into the issue of market access for small farmers in developing countries, and to critically assess that picture, with a view to contributing to the local policy debate on this issue.

The first objective of the study is to illustrate the mainstream view of the reasons for the exclusion of small farmers from modern markets in developing countries, and the corresponding impact on policy and donor and NGO activities. The second objective is to present evidence that undermines this analysis and its corresponding

policy recommendations, by highlighting two important areas that view has failed to take sufficient account of - the impact of the optimum supermarket procurement management model on small farmers, and the actual experience of small farmers in countries that have high levels of supermarket penetration, both of which suggest that the structure of modern markets may itself present a considerable barrier to entry for small farmers. In this way, the study aims to present a more comprehensive view of the obstacles faced by small farmers in accessing markets.

1.4. Research method

The research method adopted reflects the underlying aim of the study: To bring together two areas of research and policy development which are generally viewed as separate with the aim of creating a more relevant reference point for understanding the exclusion of small farmers in a South African context. This reflects and builds on the idea put forward by Bill Vorley that “there is much to be gained from a common analysis of forces at work on farmers in both the ‘developing’ and industrialised world” (Vorley, 2003, p79).

This study is thus based on a comprehensive literature survey, focusing firstly on research that has assessed and considered obstacles to market access for small farmers in developing countries. This literature review yielded a comprehensive overview of the major lines of thinking in the developing country modern market access debate, and illustrates a mainstream view of how and why small farmers are excluded from markets, and what the most appropriate corresponding donor agency, government and NGO responses should be.

The second part of the research was to critically assess that mainstream point of view against the key trends documented within the supermarket and agricultural sectors of those countries that have high (and increasing) rates of supermarket penetration. The aim of this assessment was to test whether or not the body of evidence in these countries supports or undermines the mainstream view of modern market access by small farmers in developing countries.

1.5. Outline of the study

Chapter two presents the current position of rural poverty in South Africa, a literature review of the link between small farmer development and lower levels of rural poverty, and an overview of the small farmer sector in South Africa.

Chapter three is concerned with the issue of small farmer development and better access to output markets, and particularly the potential of modern markets to provide opportunities for small farmers. In this chapter the focus is on how obstacles to such market access are viewed in both international and local literature, and the policy implications of these assessments.

Chapter four looks at the growth of global supermarket supply chain and procurement strategies, the rationale of exclusionary supply chains, the impact of supermarket growth on small farmers in industrialized countries, and the developments of supermarkets in South Africa. The final part of this chapter considers how the challenges of market access for small South African farmers could be understood in light of a more comprehensive analysis that includes recorded trends in industrialised countries.

The final and fifth chapter presents the study's conclusions and an overview of possible policy responses to the "real" challenge of small farmer exclusion.

1.6. Limitations of the study

This study is focused on the factors that determine the inclusion or exclusion of small farmers into modern output markets, with the underlying implicit assumption that having access to a market is the preferred position. Therefore, this study does not specifically address issues around the effect of adverse inclusion, as described by Stefano Ponte, Andries du Toit and others, although this author does not dispute

that this is an important factor determining the livelihood impact of market inclusion.

CHAPTER TWO: BACKGROUND - RURAL POVERTY AND SMALL FARMERS

2.1. Rural poverty in South Africa.

Despite positive overall real economic growth for much of the past decade, rural poverty levels in South Africa remain comparatively high. The gap between rich and poor in South Africa, particularly the rural poor, has widened since 1994 (Jacobs and Andrews, 2009). Between 40 and 50 percent of South Africa's population can be classified as living in poverty, while one quarter of the population may be categorised as ultra-poor (Machethe, 2004). Poverty is more pervasive in rural areas, particularly in the former homeland areas. Almost two thirds of the poor are found in rural areas, as are almost 80% of the chronically poor (Machethe, 2004), although less than half the South African population lives in rural areas. In addition, some 14 to 15 million people in South Africa suffer from food insecurity, a high percentage of which are located in the rural areas (Jacobs and Andrews, 2009).

Government programmes to address rural poverty have had a disappointing impact to date. A central policy component has been land redistribution (including restitution), which currently has a core focus on the transfer of large commercial farms (or land with such potential) to groups of beneficiaries. The underlying assumption is that more equitable land holdings will leverage more equitable livelihoods, through greater participation by the rural poor in commercial agriculture. However, as many commentators have made clear (such as Hall et al., 2003) this anticipated causal linkage has not materialized, and the programme has largely failed to resuscitate the rural economy.

Agricultural growth is important for overall economic development in many developing country contexts. Higher employment and income in agriculture stimulates the demand for non-agricultural goods and services, which in turn supports non-farm rural incomes (van Melle et al., 2007). In much of the literature, agriculture is considered the best vehicle to reduce rural poverty in developing countries (Machethe, 2004). Governments and analysts appear to accept, in

principle, that mass poverty in developing countries can be reduced by growth in agriculture, and that this growth is also a critical initial step in addressing poverty (Lipton, 2006). A renewed focus on agriculture is also emerging among donor organizations, where the underlying wish is to increase the contribution of agriculture and agricultural growth to poverty reduction. This is based on an assessment that agricultural growth is more important to the poor in most developing countries than non-agricultural growth (Berdegúe and Ravnborg, 2007). Cross-country studies show strong associations between agricultural development and poverty reduction, and this association tends to be strongest for Africa (Wiggins, 2009).

As Andrew et al. (2003) point out, in order for a rural development programme to impact on poverty, it must provide opportunities for rural households to increase the contribution that land-based activities make to household incomes. The current large and commercial bias of the land reform programme is being questioned, and more attention is turning to the potential role that small farmers could play in a new strategy to address rural poverty, through the creation of more income generating opportunities in the countryside.

2.2. Small farmers and rural poverty solutions

Small-farm agriculture is increasingly presented as a growth-equity win-win in the poverty reduction debate (Vorely and Fox, 2004). “In most countries of the South, small-scale farming must play a central role in any effective national development strategy. A vibrant smallholder economy, together with equitable land distribution, acts as a cornerstone for broader-based economic growth.” (Action Aid, 2005, p11) Most examples of mass poverty reduction in recent history were initiated by rises in employment and income resulting from the increased productivity of small family-owned farms (Brown and Sander, 2007).

An African Union vision on agriculture indicates the hope that, by 2015, the continent would have “improved the productivity of agriculture to attain an average

annual production growth rate of 6 per cent, with particular attention to small-scale farmers” (UK Food Group, 2008, p9).

Lipton (2006) suggests that, in assessing the case for small farms, we should ask whether the linkages from agricultural growth to poverty operate better through small or large farms. He concludes that processes of mass poverty reduction through agriculture favour small farms, although they do not mandate them. This assessment is shared by Wiggins (2009): He notes that although many African countries have a disappointing record of growth, 13 doubled or more their agricultural production in the 20 years from the early 1980s. This group included countries where most of the output is from small farms. In contrast, some countries that have, or had, considerable large-farm sectors were well down the same growth ranking. He concludes that although this assessment does not prove very much about scale, it does show that a dominant small farm model is no impediment to growth, nor is a dominant large-scale model a guarantee of success.

Relevant development issues are that small farms tend to be more labour-intensive than large farms and supply food directly to local rural populations. The relatively labour-intensive nature of small farms is an important issue in South Africa, given that commercial agriculture is losing jobs, and has been doing so for some time. The 2007 Census of Commercial Agriculture indicated that total employment (including seasonal workers) in the sector in that year was some 797,000, down from 940,000 in 2002, and 1.1 million in 1993 (StatsSA, 2009). Clearly, the local commercial farming sector is less and less able to support rural populations (Mthethwa et al., 2004) and certainly does not appear to be the means of increasing rural employment.

2.3. Small farmers in South Africa

Estimates of the number of smallholder farmers in South Africa vary, not least because of how they are defined. There is no comprehensive database on the market activities of small farmers - especially black farmers in the former homeland

areas (Jacobs, 2008) - that could help us to reach a consensus definition.

There are estimated to be around 240,000 small Black farmers in South Africa who could be considered “commercial” (Jacobs et al., 2008). According to StatsSA’s Labour Force Survey, as at the fourth quarter of 2009 there were just over 1.5 million people engaging in subsistence agriculture (StatsSA, 2010a), with one third of these in the Eastern Cape, and another third in KwaZulu Natal. Cousins (2007) estimates that as many as 70 per cent of households in the former homeland areas are engaged in some form of crop production. Other studies have confirmed that there are in fact a considerable number of smallholders who potentially could become more commercially focused. For example, in the communal farming areas of Limpopo and KwaZulu-Natal, at least 50% of households had engaged in selling agricultural produce in 2001 (Jacobs, 2009).

Therefore, we may assume that there are around 240,000 “commercial” small-scale farmers and as many as 1.5 million others engaged in some form of agricultural production, albeit it not all of them on a full-time basis. This can be compared to just under 40,000 commercial farming units, employing 431,000 people on a full-time basis in 2007 (StatsSA, 2009). The majority of these small farmers are located in the former homeland areas – among the poorest rural areas in South Africa. There thus appears to be a large pool of potential “commercial” farmers that could be drawn from the small-scale sector (Sartorius and Kirsten, 2007).

The current low level of production for the market by many smallholders in South Africa is often put forward as a reason why they cannot, in fact, be the foundation of sustainable rural development (and no doubt also accounts for government’s historically dismissive stance towards “subsistence” farmers). “Although so many engage in agriculture it does not seem to offer a route out of poverty” (Aliber et al., 2007, p6). However, there are two important reasons why the current state of smallholder agriculture should not be used as a reason to bypass small farmers as a future rural development strategy: Firstly, there are a number of studies which indicate that smallholders are in fact keen to produce higher levels with a more

commercial focus, if they are given the opportunity (Manenzhe and Lahiff, 2007). Case studies of cash cropping in communal farming areas show that where rural households have been able to access markets (for inputs and outputs) and the necessary support services (such as credit, information, technology and support services), they have succeeded in producing for the market (Andrew et al., 2003a). A South African case study undertaken by the Regoverning Markets Initiative showed clearly that when small farmers hear about a new market opportunity, they respond enthusiastically (Bienabe and Vermeulen, 2008). These examples suggest that many rural people are in fact able and willing to farm on a small commercial scale if they are given the opportunity and some support. Therefore, supporting an increased “commercialization” of small farmers could have a considerable impact on rural livelihoods in South Africa.

The second reason for not dismissing smallholders on the basis of current production levels is that small-scale agriculture is often part of a multiple livelihood strategy adopted by the rural poor: Although income from agricultural production is generally not the main source of income for rural households, it is a key risk management strategy that reduces the vulnerability of the rural poor. For black rural households with access to land, agriculture can make up to as much as 35% of total household income, and that contribution tends to increase as households get poorer (Aliber, 2006). A relatively small increase in income from agriculture could, therefore, have a significant resilience impact for vulnerable households who live very close to, or below, a poverty line.

Aliber (2006) maintains that the best strategy for addressing rural poverty is small-scale agriculture and rural micro-enterprises, mainly because they already exist on a large scale. He argues that we should work with what is available. The policy challenge is to determine how these two activities can be made more viable as sustainable economic choices for the rural poor. We require policies that will “underpin a revitalised system of smallholder production, ... in ways that would promote economic development and reduce poverty in the rural areas” (Lahiff and Cousins, 2005, p127).

CHAPTER THREE: SMALL FARMERS AND MODERN MARKETS - A WAVE OF OPTIMISM

NOTE: Throughout this study, and following the definition of Reardon and Berdegue (2006), the term “supermarkets” is intended to mean all the various segments of the modern retail sector, and includes supermarkets, hypermarkets, superstores, convenience and forecourt stores, and “cash and carry” and discount stores. This aggregation is made on the basis that these different formats have similar procurement and supply chain management systems, and these are the main way in which they interface with producers.

3.1. The promise of modern markets

There are many factors that determine the livelihoods of small farmers, but reliable and sustainable access to output markets where they can sell their production for a reasonable price is very near the top of that list. Access to markets is key for small farmers to earn more (Senyolo et al., 2009), and cash income from produce sales is important for poor households pursuing a diversified livelihood strategy. Access to attractive markets is also often the spur for increased production and the adoption of new technologies. Wiggins (2009) contends that the single most important factor stimulating agricultural growth appears to be demand felt at the farm gate. That is, in the right market environment, small farmers are more likely to respond in a pro-development manner.

On the reverse side of the coin, a lack of access to markets is thought to increase the vulnerability of poor households: “Rural households that, for one reason or another, are unable to interact with these markets are prevented from adopting these diverse livelihood strategies; and indeed, in many parts of the world, rural poor people often say that one reason they cannot improve their living standards is that they face difficulties in accessing markets” (IFAD, 2003, p5). In summary then, there is a widely held view that market-oriented agriculture holds high potential for smallholder livelihoods (Ehui et al., 2009) and thus poverty reduction in developing countries.

Until fairly recently, many small farmers in developing countries had a limited possible selection of output markets, most of which would have been traditional local markets. These markets tend to be thin and often associated with low demand and prices. They thus offer little potential to support large-scale rural development projects based on smallholder agriculture. However, the rise of “modern” markets, associated with both growing supermarket penetration in developing countries and a rise in global sourcing by supermarkets in the industrialised world, has changed the situation, by potentially offering access to much bigger and more lucrative markets for small farmers. The majority view is that these new markets potentially provide big opportunities for all farmers, including small farmers (World Bank, 2008). The impact of modern market integration is thus generally anticipated to be higher standards of living among smallholders (Jacobs, 2008).

The potential impact of global sourcing has received particular attention, since supermarkets in the developed world have an enormous customer base and also supply a large number of relatively high-value products (Jacobs, 2008). Much of the literature suggests that small-scale producers can have a comparative advantage in the production of certain high-value products (for example, Vorley and Proctor, 2008 and Sartorius and Kirsten, 2007), and that the growing demand for fresh fruit and vegetables by multi-national supermarkets holds particular promise for these farmers (Matoti et al, 2007). The expected impact, therefore, from increased supermarket sourcing in developing countries is significant growth in potential producers (Brown, 2005), and a positive livelihood impact on small producers (Minot and Roy, 2007). Vorley and Proctor (2008) paint a picture of a new group of buyers actively competing to buy developing country farmers’ produce.

Supporting this optimistic view, much of the evidence collected to date suggests that developing country farmers who are able to participate in these modern marketing channels do in fact benefit (Minot and Roy, 2007). This positive note around markets cuts across many countries and sub-sectors. The Kenyan horticultural sector is often put forward as an example of how export growth can significantly benefit

smallholders, by giving them access to new and more lucrative markets (Minot and Ngiigi, 2004).

The enthusiasm around the potential of modern markets to support rural development through small farmer linkages is echoed in donor strategies and policy recommendations to developing country governments. One view is that supermarket chains are “opening a market outlet for smallholders producing high-value farm produce” (in Jacobs, 2009, p15). USAID is clear in its belief that “food industry growth stimulates consumer demand and increases prices. This benefits individuals cultivating private plots and managing small and medium-scale farms” (USAID, 2004, p21).

Modern markets are also generally viewed positively in the South African literature: According to Matoti et al. (2007) the spread of supermarkets potentially spells great opportunities for local small farmers. Legislation to modernise and de-regulate local agricultural markets is based on the assumption that this will increase market opportunities for more farmers: The first of the four main objectives of the Marketing of Agricultural Products Act (47 of 1996) is to “increase market access for all participants” (Section 2(2)).

3.2. Obstacles to market access: A literature review

Notwithstanding the general view that the rise of modern markets is a potentially positive factor for small farmers, most researchers (and donor agencies, governments and NGOs) also recognize that there are challenges to be overcome before smallholders can reap these benefits, largely because the farmers in question are currently poorly prepared to deal with the demands of modern supply chains (Berdegué et al., 2008).

The reasons put forward for these barriers to market access are numerous, and their prioritization varies from study to study. Access to modern markets for small farmers in developing countries is also a relatively new area of research, “without proven

replicable models and methodologies” (Berdegué et al., 2008, p3), and there is little in the way of conclusive data on this issue, particularly in South Africa (Jacobs, 2008). However, a review of the literature suggests that there are some common threads, and also that this common thinking has a strong influence on policy, projects and interventions in this area. An important information source in this instance is the Regoverning Markets Programme, which ran from 2005 to 2007 and was set up specifically to respond to the lack of research in this area. The programme has documented best practise case studies around linking small farmers to modern markets (particularly supermarkets) in more than 15 developing countries, and is the most comprehensive exercise of this nature undertaken to date.

A summary of the international literature suggests that there are five main factors responsible for creating barriers to market access for small farmers:

- (i) Poor, limited or non-existent access to market information.
- (ii) Low levels of bargaining power vis-à-vis buyers, corresponding with low volumes of production.
- (iii) Poor infrastructure in rural areas.
- (iv) A lack of the necessary financial, physical and human capital.
- (v) Low levels of trust between producers and buyers.

It is worth unpacking how each of these five market barriers are presented in the literature in some detail, since taken together they present a good picture of how the relationship between modern markets and small farmers is perceived by analysts and policy makers. These analyses are, in turn, influencing and directing much of the policy in this area.

3.2.1. Access to market information

Those who believe that market liberalization is key to supporting agricultural development tend to frame the exclusion of small farmers as an example of market “failure”, often via imperfect and/or incomplete access to information by all market

participants. Access to market information is consistently identified as one of the most important barriers to market access across the literature, and by donor organisations such as DFID and the World Bank who also advocate strongly for agricultural market liberalization.

The basis of the information argument is that if small farmers do not understand how a market works – if they do not understand what influences prices of different qualities and quantities of goods, and do not know where demand is located – and do not have access to accurate and timely information, they will be unable to identify the “best” marketing channel, and they will be open to abuse by buyers (IFAD, 2003; Magingxa and Kamara, 2003; Matoti et al., 2007). Another dimension to this argument is that the negative impact of poor business skills among small farmers can be compounded by a poor understanding of how modern markets operate (IFAD, 2003). In addition, farmers who do not have access to market information will not know about (and therefore not adopt) new technologies and innovations that could increase their productivity and competitive advantage (Ruben et al., 2006). They will also be at a disadvantage if they do not have information about the quality, certification and packaging requirements of supermarkets and other “modern” buyers, which are usually fundamentally different from those required in traditional markets (Bijman et al., 2007; Vermeulen et al., 2008). Finally, producers need to be able to transmit information about themselves to potential buyers, who might not otherwise be aware of them, given that modern agricultural markets are generally characterized by distance between producers and buyers.

Market information is, therefore, seen as critical for small farmers in order to ensure that they get “a good deal” (Gibson et al., 2004, p4), and thereby increase their profitability (Bernet et al., 2006). However, the perceived challenge for small farmers in developing countries is that acquiring and transmitting market information is often costly for those with limited resources in isolated locations (Qeqe and Cartwright, 2005).

The South African National Department of Agriculture, Forestry and Fisheries

(NDAFF) also accords a prominent position to information as a barrier to market access for both emerging and small farmers: Its published guides for extension officers (NDAFF, date unknown c) indicate that if farmers have access to better information they will be able to:

- Reduce their marketing risks
- Decide on the best place to sell their produce
- Check on and compare the prices they receive
- Decide whether to store their produce and sell it at a later date
- Decide whether or not to grow out-of-season produce
- Decide whether to grow different crops.

3.2.2. Bargaining power and production volumes

Together with a lack of market information, the fact that small farmers individually produce only small amounts is often seen as an attribute that makes them vulnerable to abuse by buyers: The buyers in question are able to dictate unfavourable terms of trade because individual small farmers have limited bargaining power (Magingxa and Kamara, 2003; Bijman et al., 2007). Jacobs (2009) sees this barrier as arising out of the higher transaction costs incurred by buyers in dealing with multiple small suppliers, rather than as a result of intentionally abusive behaviour, but the effect is the same.

The second aspect of this argument is the acceptance that although small farmers may have a comparative advantage in the production of certain products, even in those instances there may be a preference on the part of buyers (particularly supermarkets) for high-volume purchases, and that the inability to offer a particular volume of produce can result in exclusion from the markets. Therefore, the fact of producing small volumes is one important factor that may act as an effective barrier to entry.

3.2.3. Infrastructure

Poor physical infrastructure in developing countries is often put forward as a reason why small farmers cannot physically access the most attractive (i.e. modern) markets (Magingxa and Kamara, 2003). For some authors, barriers to market access are associated primarily with poor infrastructure (see, for example, Jacobs, 2009). This infrastructure barrier may include poor roads (which increase transportation costs – World Bank, 2008; IFAD, 2003); a lack of electricity (needed for cold stores and pack houses); and poor or non-existent market facilities (such as fresh produce collection points, livestock auction pens, etc – Jacobs, 2008). The argument is that poor infrastructure increases transaction costs, and also makes it more difficult for farmers to engage in the production of high-value crops, which often tend to be highly perishable (Hellin et al., 2007).

In South Africa, poor roads, high transport costs and distant markets are considered important barriers to market access for small farmers (Senyolo et al., 2009).

3.2.4. Financial, physical and human capital

In order to produce the quality of produce that modern markets demand, small farmers in developing countries need access to a range of farm inputs and the finance to afford these (Sartorius and Kirsten, 2007). In South Africa, the key physical assets whose absence is judged to contribute to the exclusion of small farmers are generally listed as irrigation, trucks to transport produce, and packaging and storage (Williams and van Zyl, 2008). Small farmers generally struggle to access the finance required to accumulate these assets as well as inputs such as hybrid seeds and agricultural chemicals.

The issue of human capital is an important one in the literature: Small farmers need a whole new set of skills to produce the quality and standardized output that is increasingly demanded by modern markets, and to comply with increasingly onerous public and private certification requirements (Jacobs, 2009; NAMC, 2007b). As a

general rule, the higher the value of a particular market the more onerous the certification requirements (Jacobs, 2009). The World Bank has highlighted the difficulties that small farmers face in meeting modern market quality standards as an important barrier to market access (Bijman et al., 2007).

Given the dualistic nature of South Africa's economy and the enormous gap between rich and poor, access to capital and skills as a barrier to market entry has a central place in the local policy debate.

3.2.5. Trust among value chain participants

In most of the literature reviewed, buyers of agricultural produce are generally viewed as objective and largely neutral market agents who have a vested interest in working with "strong and reliable" producer partners (Vermeulen et al., 2008, p3). This is the basis of the assumption that it is in everybody's interests to empower small producers so that they can participate in agri-food chains (Vermeulen et al. 2008). Louw et al (2006a) go so far as to say that there may be benefits for buyers in dealing with smaller rather than larger producers in certain circumstances, since smaller, more frequent deliveries mean fresher produce.

Under this view of markets, a key cause for the exclusion of small farmers is "mistrust and misunderstanding between actors" (Albu and Griffith, 2006, p17). A lack of trust and communication is seen as a factor that increases transaction costs in particular supply chains (Bernet et al., 2008; Sartorius and Kirsten, 2007) and thus all parties in the chain are assumed to benefit from relationships based on trust.

The five factors discussed above are the most commonly put forward reasons in the recent literature for why small farmers may struggle to access modern markets. The general acceptance of these as the market "reality" by those whose opinions count is emphasized by how they currently form the basis of almost all major government, donor and NGO initiatives in small farmer support in developing countries.

At this point it is worth making the observation that most researchers who are investigating “market access” issues have, in fact, focused most of their attention on the characteristics and behaviour of producers, rather than questioning the underlying structures of the markets themselves. Only a small group of researchers in recent articles (see for example Vorley (2003) and du Toit (2009)) caution that in reality we do not know nearly enough about how modern markets really impact on farmers to be in a position to accurately assess the reasons why farmers cannot access modern markets.

3.3. The impact on development policy

Most agricultural policymakers generally believe that some form of external “push” (via public policy and/or donor agendas) is required to facilitate market access for small producers in developing countries and improve market outcomes. The view is that the opportunities offered by modern markets will only work for the rural poor if these “complementary policies” are in place (World Bank, 2008, p134). In the same vein, UNDP and UNCTAD argue that small farms can be viable in modern markets, but they need help, and that help should come from the public and private sectors as well as NGOs (UK Food Group, 2008). ESFIM (a programme originated by the International Federation of Agricultural Producers – IFAP) believes that public policy could have a large role to play in facilitating market access by reducing transaction costs (Bijman et al., 2007). It should also be noted that case studies undertaken in the influential Regoverning Markets Programme did not find *any* examples of small farmers being included in modern markets without some form of subsidized external support. In South Africa policy makers currently find themselves in a position where the failure of a liberalized marketing regime to include smallholders in meaningful numbers implies it is time for direct interventions (Jacobs, 2008).

A review of the literature indicates that the recommended (and implemented) policy responses to market exclusion in developing countries fall overwhelmingly into one or (more usually) several of the following policy actions, which in turn are based on

general acceptance of the veracity of the barriers to market access presented in 3.2. above:

- (i) Establishment and support of producer organisations (POs)
- (ii) Investment in infrastructure
- (iii) Provision of subsidized inputs
- (iv) Improving farmer access to finance
- (v) Training and skills development
- (vi) Interaction with chain participants to increase trust
- (vii) Increased access to market information
- (viii) Greater focus on niche products

Of all these possible interventions, the establishment and support of producer organisations is given pride of place in the literature. Producer organisations are seen as key to increasing the bargaining power of producers vis-à-vis buyers, thus ensuring that farmers get a better price on more favourable terms (Onumah et al, 2007; ESFIM, 2007; Louw et al., 2006a). Producer organisations also allow for the pooling of production, giving small farmers the opportunity to access markets that demand high volumes as a pre-condition for participation (Minot and Roy, 2007; Markelova and Meinzen-Dick, 2006).

Infrastructure provision is seen as a key area for public policy, particularly the improvement of roads and transport services in rural areas (Senyolo et al, 2009). Smallholders in developing countries are also deemed to require a range of training and support services in order to be able to produce to the quality and certification requirements of modern markets (NAMC, 2007b). Berdegue et al (2008) note that the three common elements to successful smallholder market participation include upgrading of technical skills and management capacity, as well as increased access to capital. The role of government (and the private sector) is seen as assisting small farmers in upgrading and expanding their assets (World Bank, 2008), helping them to invest in irrigation, cold storage and packing facilities. Related to the issue of skills development is the idea that increased participation of small farmers will be

facilitated by strong links and collaboration with agricultural research institutions (Aliguma et al., 2007).

Many projects are focused on assisting small farmers to understand markets better, and, in so doing, to identify market opportunities and to structure their production towards potential buyers (IFAD, 2003). Market information initiatives encompass dissemination of pricing information, buyer profiles, grading and standards specifications, and niche market opportunities (World Bank, 2008). Tschirley (2007) recommends that governments need to maintain and strengthen their commitment to collecting and disseminating a broad set of basic market information to small farmers, in order to improve market access.

The International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations, is of the opinion that “the interests of private-sector market intermediaries and small-scale rural producers are not by definition mutually antagonistic” (IFAD, 2003, p21), and so one of their advocated strategies to increase market opportunities for small farmers is to build better relationships among the participants in a particular supply chain. The idea that a lack of trust along a particular value chain excludes small farmers is behind the Participatory Market Chain Approach (PMCA), which has been utilized fairly extensively in South America. The PMCA uses a participatory process that brings together small farmers, market agents, and service providers to build trust and facilitate collaboration among chain participants (Bernet et al., 2006). This is a popular approach: The Swiss Agency for Development and Cooperation (SDC), the Center for International Agriculture (ZIL) and the UK Department for International Development (DFID) have all funded research into improving trust as a strategy for addressing barriers to market entry for small producers.

Where small producers are struggling to access commodity markets, development agencies and governments often believe that they could have a comparative advantage in certain niche, high-value markets. Organic products are generally seen as a market segment with considerable promise for small farmers, but there are also

other potential niche markets such as products from region of origin (Kherallah and Kirsten, 2002), or those that are ethically produced. These differentiated markets are seen as “a promising means of market entry” (Louw et al., 2008, p297) and correspondingly many donor projects focus on niche products such as organics or Fair Trade.

In South Africa, researchers have only recently turned their attention to the ways in which policy could support market access for small (and emerging) farmers. The work in this area is usually lumped together with calls for greater (general) post-settlement support for land reform, and market access has seldom been singled out for meaningful individual attention. There is, however, a growing view that market access needs to be prioritised in the land reform programme in order to increase success rates of projects (see for example Williams and van Zyl, 2008) and to support emerging farmers in generating better livelihoods from agriculture (HSRC, 2003).

Where the central subject of the research is indeed market access, smallholders and “emerging” farmers are often seen as one homogenous group, despite the fact that the latter may (and if they are land reform beneficiaries almost certainly will) be farmers with access to large tracts of land. The nature of the interventions proposed mirror in large part the international literature, and include better market information (Williams and van Zyl, 2008), as well as better identification of potential markets in the project planning phase (HSRC, 2003), marketing cooperatives, input subsidies and the revival of irrigation schemes (Cousins, 2007).

Those authors who are advocating the subdivision of larger properties into smallholder units as a tool for addressing group dynamic problems in land reform projects (such as Andrew et al., 2003b) also propose extension services more focused on smallholders, and encouraging small farmers to focus on niche and value-added markets. Kirsten and Vink (2002) are clear that there is a role for the State to play in improving market access via a range of interventions, from increasing farmer productivity through to upgrading and investing in infrastructure. Senyolo et al. (2009) add information (on prices, markets, buyers, grades, etc) and agricultural

research to that list.

Louw et al (2005) propose that the following measures could be used to facilitate the inclusion of small-scale farmers in South Africa:

- Establishment of partnerships with commercial farmers, agribusinesses and government;
- Improved contract enforcement;
- Training, extension and mentorship programmes;
- Formation and strengthening of producers' associations;
- Better access to land;
- Specialising in niche markets and non-traditional high value crops;
- Special credit arrangements;
- Agricultural research services;
- Increased investment in rural infrastructure;
- Improved market information; and
- The development of wholesale markets and traditional retailers, and better "alignment" between farmers and fresh produce markets.

Sartorius and Kirsten (2007) advocate for farmer associations and the creation of trust among buyers, producers and market intermediaries as market access policy priorities in South Africa.

A 2009 joint workshop between the FAO and the NAMC (FAO and NAMC, 2009b) suggested a role for NGOs in assisting farmers to access markets which echoes many of the international donor initiatives:

- Linking suppliers and buyers;
- Assisting farmers to organise into groups;
- Training farmers to understand markets; and
- Promoting trust among buyers, farmers and market intermediaries.

(It is interesting to note that the organization of farmers into groups and producers organisations in order to improve market access is a fairly popular point of view in

South Africa, despite growing awareness that many of the group ownership structures imposed by land reform to date have been responsible for a portion of its failure.)

To what extent have these ideas been embraced by the South African government, as tools in its rural and/or agricultural development strategies?

Firstly, until (very) recently it was far from clear that government fully understood the market access challenges that are faced by all emerging farmers, and small black farmers in particular, *as an issue separate from that of access to land*. This is an important distinction, but one that seems to be a little lost in the quagmire of who owns agricultural land in South Africa. Almost all the reviewed case studies undertaken outside of South Africa deal with small farmers who already have access to land (although admittedly not all have secure tenure), but still face the challenge of accessing suitable markets. In contrast, the NDAFF seems to hold the position that one of the key strategies in increasing market access for emerging farmers is the redistribution of land (see for example, the NDAFF's 2008 Strategic Plan), rather than operating on the more correct basis that there is no causal link between access to agricultural land and successful participation in agricultural markets (although of course the former is a pre-condition for the latter).

In addition, small farmers in South Africa operate in what is close to a policy "vacuum" (du Toit 2009), with far more attention being paid by the relevant government departments to emerging farmers with a (usually and hopefully) large commercial bias, than to small farmers who are often referred to dismissively as "subsistence" farmers. It is only in the last year or so that greater attention is being placed on smallholders as an important component of a rural development strategy. Therefore, there does not appear to be a clear policy appreciation of the particular market access challenges faced by farmers who are small (as opposed to those who are historically disadvantaged).

Where the NDAFF has considered market access for small farmers, a considerable

emphasis has been placed on farmers improving their market knowledge, much of it to be obtained through information provided by extension officers, supplemented by market research undertaken by farmers themselves (NDAFF, 2003). A 2003 NDAFF agricultural market document suggests that smallholders determine, *inter alia*, what consumers want to buy; which of those products could be produced by the smallholder; and on that basis select the most appropriate marketing channel. In a similar vein, a 2001 NDAFF set of documents (compiled as part of an FAO project) identifies a wide range of information collection and market identification activities that extension officers should carry out in order to assist emerging farmers. (Despite these directives most provincial extension officers - the backbone of the extension service - are adamant that providing marketing support is not part of their job (Jacobs, 2003), which in practice leaves these farmers with limited information collection options.)

Other strategies recommended by the NDAFF to support small farmers to access markets include subsidized inputs; a focus on niche markets such as organics; and partnerships between small farmers and commercial farmers and producer associations (Jacobs, 2009). In the 2008 review of the strategic plan for agriculture, the NDAFF included a recommendation that marketing infrastructure (such as auction pens, etc) be provided in areas with high concentrations of small farmers (Williams and van Zyl, 2008). Thus, the NDAFF has tacitly endorsed a largely supply-side solution to the observed market exclusion of small farmers.

There are some local researchers who believe that the current overarching agrarian structure is inherently biased against small farmers (see for example Hall, 2009b, and Cousins, 2007), and that radical agrarian reform is needed in order for these farmers to be incorporated into markets, but these writers have not analysed the relationship between modern markets and small farmers in any detail, and this approach does not appear to enjoy support from the NDAFF.

In the following chapter these views have been tested against the reality of the modern agri-market business model, exemplified by the supermarket-dominated supply chain, currently the dominant model in most industrialised countries.

CHAPTER FOUR: SUPERMARKETS AND SMALL FARMERS – THROUGH THE LOOKING GLASS

4.1. Introduction

The literature review in the previous section illustrated a widely-held point of view - that the growth and development of modern markets (particularly supermarkets) is potentially good news for small farmers in developing countries: Correspondingly, much of current development policy, both locally and internationally, is based on an underlying assumption that supermarkets potentially give small farmers more (and more lucrative) outlets for their produce, and thus that the growth of supermarkets is likely to be positive for small farmers. This is the assumption on which considerable donor agendas – from the World Bank, to the UK's DFID and USAID – are based, and which to a large degree is also shaping the small farmer development debate in South Africa.

Supermarket expansion is a relatively new phenomenon in most developing countries and current market penetration levels are generally fairly low. Therefore, research in the area of how modern markets impact farmers in these countries is relatively new, with only a relatively limited number of case studies available. Many of these indicate that the domestic expansion of supermarkets and/or supermarket sourcing (from companies based in industrialised countries) in developing countries has had a positive impact on small farmers, by providing new and more attractive market access points.

However, there are two factors that have not been meaningfully integrated into that research, both of which suggest that the longer-term impact of supermarket expansion may not be quite as rosy as we may have been led to believe. These two factors are:

- (i) The structure and rationale of the optimum (profit-maximising) supermarket supply chain management and corresponding procurement models; and
- (ii) The relationship between small farmers and supermarkets in those countries with high levels of supermarket penetration (large parts of the industrialised world).

If these two areas are examined in detail they provide several reasons to be skeptical about anticipating a long-term positive impact on substantial numbers of small farmers to materialize from the expansion of supermarket procurement in developing countries. This is an important debate in South Africa, where supermarket penetration is closer to levels seen in industrialised countries (and growing each year), rather than developing ones, and where rural development strategies are based on (many) *more* farmers obtaining access to markets. If the market access “problem” has not been accurately or completely diagnosed by researchers, then it follows that policy initiatives based on these assessments will also be incomplete.

4.2. The supermarket business model

The literature review undertaken in Chapter 3 indicated a general underlying assumption that supermarkets do business and manage their procurement in a certain way, specifically that they are accessible to all producers (large or small) who can meet their quality and logistics requirements, and that there is thus nothing about their underlying business model which inherently excludes small farmers. There is also a fairly commonly held view (such as by IFAD) that the interests of small farmers and supermarkets are not mutually exclusive, but rather that supermarkets have shared interests with their suppliers. Thus, policy in this area tends to be based on the premise that small farmers can successfully access modern markets as long as they are supported through various initiatives to meet the quality, certification and volume standards required by large buyers. But how accurate is this assumption, in light of the way in which supermarkets really manage their businesses (as opposed

to the way some analysts assume they do)?

If we consider in more detail how the procurement models of supermarkets have developed as the food retail sector has matured, and the business logic behind these models, we begin to see a different picture emerging, and at least three ways in which supermarket expansion can have a negative impact on small farmers:

- (i) Directly, through a procurement model that both prefers to deal with big farmers, and fosters an environment too risky and costly for most small producers;
- (ii) Indirectly, through declining supermarket purchases from wholesalers and fresh produce markets (which are important access points for small farmers); and
- (iii) Indirectly, by encroaching on the markets of those retail outlets that tend to purchase from small farmers.

The optimum supermarket procurement model

Supermarkets generally operate in a low profit-margin environment. Their business model is based on keeping prices relatively low for consumers while increasing the quality of goods on offer (thus defending or expanding their market share), and pushing down costs to increase profits. This is the basis on which shareholder value is increased (Brown, 2005). In order to remain competitive supermarkets require homogenous products across branches, continuous (just-in-time) delivery to ensure freshness, and high quality products that meet a range of public and private standards (ibid). Following the example of companies in other retailing sectors and manufacturing, supermarkets are, therefore, increasingly embracing the principles of supply chain management (SCM) – the coordination, integration and management of their supply chains - as a critical business success factor (van der Vorst et al., 2007). More and more, supermarkets derive their profits and their competitive advantage from how well they can “manage” (i.e. extract value from) their supply chains (Brown and Sander, 2007).

Supermarkets are able to impose their supply chain requirements onto their suppliers because they are increasingly the most important gatekeepers of consumer retail markets: The reality in countries with high levels of supermarket concentration is that if a food producer does not sell into a supermarket value chain he has limited alternative options (Murphy, 2006). Supermarkets are thus usually the “lead firms” in agricultural value chains, and as such are able to dictate terms and demands to other chain participants further upstream (Gereffi et al., 2005). The bargaining power associated with lead-firm status allows supermarkets to pass costs such as those associated with labeling and transport back up the supply chain, and thus protect their margins (Qeqe and Cartwright, 2005).

This does not mean that all the other supply chain participants are all in the same boat vis-à-vis supermarkets: Power in agricultural markets is often depicted as an hourglass, with a large number of consumers and farmers at the top and bottom respectively, and a relatively small number of supermarkets and processors in the middle. Therefore, supermarkets have some power over wheat millers and coffee roasters, but both supermarkets and processors tend to have proportionately more market power over wheat and coffee growers (Murphy, 2006). In this model, farmers usually have the least market power of all participants, and if they want to stay in the chain they need to accommodate the demands of participants (both supermarkets and manufacturers) further upstream.

There are several ways in which the demands of the modern supermarket supply chain can put considerable strain on farmers (Minot and Roy, 2007; Brown, 2005), including:

- (i) The wide range of private standards (many of which are related to food safety) imposed by supermarkets increase the costs and risks of production (Action Aid, 2005);
- (ii) Cosmetic standards for fresh produce that are rigorously enforced means that growers often have to discard a portion of their crops because they will not be accepted by the supermarket;

- (iii) Flexible sourcing is an important component of an effective supply chain management strategy and allows supermarkets to manage stock levels according to consumer demand (Ruben et al., 2006). However, the impact of last-minute order changes by supermarkets is carried by the producer, which can result in considerable wastage of crops that have already been planted or harvested;
- (iv) Supermarkets generally impose long payment periods – often up to 60 days before producers are paid; and
- (v) Most supermarkets impose a range of other payments on their suppliers, such as slotting fees (payment for shelf space) and carrying the cost of in-store promotions (UK Competition Commission, 2008a).

As supermarkets grow bigger they increase their market power and can dictate more and more terms to be carried by suppliers. This is a rational business strategy that allows the supermarkets to reduce their own costs while improving the quality of items offered to consumers, thereby defending or increasing market share. However, this model also increases the costs and risks of farming, and supermarkets want to deal only with those farmers who are willing and able to carry these additional costs and risks.

These business practices are particularly bad news for small farmers, who generally are not equipped for long-term survival in a business environment that is becoming increasingly high risk for producers. They are unlikely to have the resources either to be able to comply with a range of private standards, or to cope with having to discard produce that does not meet rigorous cosmetic standards, long payment terms or the list of extra payments that supermarkets often demand. They are also unlikely to have large enough land holdings to cope with variable orders.

Another, indirect, feature of the supermarket business model that works against small farmers is the relentless push towards “bigger”, which is the natural consequence of the high-volume, low-margin environment in which they operate: High levels of competition among supermarket chains, and the price consciousness

of consumers pushes consolidation in the sector – the bigger the supermarket the more likely it is to be able to extract more favourable terms from suppliers, offer consumers lower prices and increase profits. Thus, the international trend has been toward ever-larger supermarket companies. These large companies prefer to deal with fewer, larger suppliers who are able to meet their exacting requirements (Reardon and Berdegue, 2006), since this simplifies procurement and the associated transaction costs. The preference for dealing with larger suppliers is also supported by the move towards centralized (rather than store-specific) procurement and standardized quality of product across branches. Centralized procurement reduces transaction costs, but requires the delivery of a large amount of homogenous product. The impact of this trend is neatly illustrated in China, where agricultural production has historically been undertaken by millions of smallholders. But the rapidly growing supermarkets are clear that successful supply chain co-ordination can only be achieved if the average farm size increases significantly, since it is “physically and organizationally impossible to deal with individual small-scale farmers because of the transaction costs” (Vorley and Proctor, 2008, p13, quoting Anton van Gorp, General Manager of CTA Makro Commercial Co. Ltd in China).

The reality, therefore, of the supermarket-led supply chain is usually quite different from the benign model presented in much of the literature and by many development agencies. The reality is that these chains are in fact characterised by a ‘struggle for the appropriation and accumulation of value’ (Cox et al., 2002 quoted in Vorley, 2003) rather than by shared interests as IFAD and others would have us believe. In this struggle, farmers have little chance of coming out on top since they do not lead the chains. Supermarkets tend to pay a lot of attention to making their customers happy, but are not so concerned with their suppliers (Brown, 2005). The potential negative consequences of aggressive SCM policies in the food sector for the wider economy have only recently begun to be explored (Vorley, 2003, Hildred and Pinto, 2002). Most governments tend to consider issues of market power in the context of consumer prices, rather than the treatment of suppliers.

The demands of efficient supply chain management in supermarkets effectively create 'insiders' and 'outsiders' (Vorley, 2003). Those suppliers with sufficient financial and technological resources can become 'insiders'. Unfortunately, most small farmers will remain 'outsiders'. Therefore, under the regime of the optimum supermarket procurement model, size itself becomes a critical barrier to entry for small farmers. The options for small farmers are gradually being eroded: Even in niche markets such as organics and fresh fruit and vegetables, where smaller farmers are expected to have a comparative advantage, supermarket pressure to conform with big procurement standards has gradually led to these niche markets being usurped by larger producers (Vorley, 2003).

Producer organisations are not shaping up to be the solution in this business environment (contrary to the position held by many researchers), since many supermarkets prefer to deal with an individual (and large) supplier than an organizational representative, due largely to issues around accountability and supplier management (Vorley and Proctor, 2007). In addition, the fact of a producer organisation alone does not remove the extra financial and production risks to be carried by individual small farmers in the supermarket procurement model.

The argument could be made that small farmers are only excluded by this business model from dealing directly with supermarkets in these value chains - they could still deal with the processors further downstream. Unfortunately, the logic of scale tends to filter all the way through the value chain: Big processors and producers have the best chance of obtaining supermarket contracts, and optimizing their own costs and quality standards through supply chain management implies a preference to deal with large suppliers. Further, in an integrated SCM model, processors and supermarkets work closely together, and the former will enforce the latter's standards and cost requirements on their own suppliers (Vorley, 2003). Big processors are also more likely to adopt a global sourcing strategy, which implies that farmers in one country are not just competing against each other, but against farmers from all around the world. This further raises the barriers to entry for local

small farmers in many countries.

Finally, the supermarket procurement chain can have a ripple effect across the entire food retail sector: Other retailers will “almost certainly” have to adapt their own procurement practices in order to compete with supermarkets, and the impact on small farmers will be similar to that detailed above (Hellin et al., 2007, p3).

Why then is it that there are so many case studies from around the developing world which seem to indicate that small farmers are successfully integrating into modern value chains, and successfully supplying supermarkets? There is an emerging argument (see Reardon, 2005) that suggests that whether or not small farmers can supply supermarkets is determined not by what small farmers do, but rather by the options that are available to supermarkets. Most of the successful case studies are, in fact, located in countries with relatively low supermarket penetration levels and domination of the agricultural sector by small farms. In these circumstances, supermarkets are not choosing to deal with small farmers – they have no option. However, as supermarkets expand and their buyer power increases, so they provide an incentive for consolidation in the farming sector, underpinned by capital investment.

In fact, almost all the evidence suggests that when supermarkets are presented with a large producer alternative, they will switch from small suppliers (Reardon and Berdegue, 2006). In many developing countries, the farmers who in fact derive the greatest long-term benefit from modern markets are large farmers, most of whom are already producing for export markets (Brown and Sander, 2007). In Kenya, growing horticultural exports have been put forward as an example of successful linkages between small farmers and modern markets. The reality is that the market share of small farmers has declined considerably as the market has matured, largely in response to increased demands from buyers. According to Brown and Sander (2007), in 1992, almost 75% of the fresh fruit and vegetables produced for export were grown by small farmers. By 1998, the four largest Kenyan exporters only sourced 18% of their produce from small farmers. In 2002 alone, 1,600 small Kenyan

growers lost their export contracts (Brown, 2005). This trend has been reflected in Zimbabwe.

Reduced use of wholesalers and fresh produce markets

Fresh vegetables tend to be important crops for small farmers, particularly in Southern Africa (Brown, 2005). For those farmers who are not supplying supermarkets, traditional wholesalers and fresh produce markets (FPMs) are important market access points.

As supermarkets expand across a particular region, they tend to do so in three distinct product “waves” (Reardon and Berdegue, 2006). The first wave tends to be in processed foods, such as canned and dry items. The second wave is in semi-processed foods, such as dairy products and ready-packed meat. The third wave is the expansion into the fresh vegetable (produce) market. This third wave is generally the slowest to gain momentum: The management of a fresh produce supply chain is complex, and so is only undertaken when the supermarket has reached a certain level of business maturity (Shepherd, 2005).

Empirical studies suggest that the share of supermarkets in the fresh produce retail market is lower than their share in the overall food retail market, but that this gap tends to close as their share of the overall market increases (Reardon and Berdegue, 2006). That is, as supermarkets expand, they will capture proportionately more and more of the fresh produce market. This expansion impacts on smallholders, through the preference of supermarkets for integrated procurement systems that do not utilize traditional wholesalers and/or FPMs. The supermarket buyer-driven chains tend to be characterized by vertical co-ordination (Vorley, 2003), and as supermarkets evolve, they tend to implement in-house centralized procurement systems, and to reduce (or even halt entirely) their purchases from traditional wholesalers and markets.

The main reasons for this is that the requirements of just-in-time delivery and adherence to a wide range of private standards are better met when supermarkets

deal directly with contracted specialist suppliers, rather than buying produce on the open market (Vermeulen et al., 2008). In addition, centralized procurement is much better positioned to meet the supermarket requirement of product homogeneity, and facilitates the use of long-term supply contracts (Onumah et al, 2007). Centralized, dedicated procurement is also associated with lower overall transaction costs for supermarkets: It is much easier for a supermarket to receive deliveries from only a few suppliers at a central distribution centre than to make daily purchases at a FPM. The benefits of centralized procurement usually outweigh the (often) higher associated transport costs (Reardon, 2005).

Combined with the growing market share of supermarkets in the fresh produce market, this procurement system model implies that the overall share of wholesalers and fresh produce markets in total fresh vegetable retail sales is likely to decline as supermarket penetration increases. Therefore, even those farmers who have no intention of selling directly to a supermarket may find that they are negatively impacted by the supermarket business model, and have to sell into a smaller market. Unfortunately there are few real alternatives to vegetable production in many rural areas in Southern Africa, and these farmers lack the resources and the skills to easily switch to other types of production (Brown, 2005).

Crowding out of traditional small farmer-supplied retail outlets

Traditional market access points for small farmers include local (and very local) markets in smaller towns, poorer areas and rural areas where small farmers often supply both formal and informal traders. These areas are not initially attractive to supermarkets, which tend to start off in the biggest and richest areas. Increased competition and market saturation, however, will almost inevitably result in an expansion to smaller cities and towns and towns in rural areas, after an initial start in urban areas. On the same logic, supermarkets will expand from upper-income to lower-income areas over time (Reardon and Berdegue, 2006).

This expansion creates stiff competition for the traditional formal and informal retail outlets, and inevitably some of them will be forced out of business. As they exit the

sector, so a market access point for small farmers is closed. It is unlikely that this will be matched by a new access point into the expanding supermarket: In these less financially attractive centres maintaining profit margins is even more dependent on a procurement model based on economies of scale and centralized purchasing (Reardon and Berdegue, 2006), and there is usually little or no place in this model for purchases from local small farmers.

In the following section we have examined the experience of small farmers in countries with high levels of supermarket penetration to assess if and how these three factors have emerged to exclude small farmers as supermarket domination of the food retail sector has grown, in contrast to the predictions of many researchers in developing countries.

4.3. A vision of South Africa's future? Supermarkets and small farmers in the industrialised world

As discussed above, there are several ways in which supermarkets can exclude small farmers, and thus deny them an important consumer market access point. In many developing countries the current penetration level of supermarkets is still relatively low (Humphrey, 2007), and so these negative factors may not yet be apparent. Some researchers contend that we do not know enough about how growing supermarkets will impact on farmers in these countries. However, an examination of the interaction between small farmers and supermarkets in the industrialised world could provide an indication of what to expect as the supermarket share of the food retail sector increases in the developing world (Lang, 2004). The business rationale of the supply chain management practices described above is embraced across most countries by large food retailers and there is thus no reason to believe that these models will not be replicated in developing countries as supermarket penetration grows.

The following table indicates the market share of the top 5 grocers in total food retail sales of selected EU member states in 2005:

Table 1: Supermarket share of food retail in the EU (2005)

Country	% share of top 5 Grocers
Sweden	81.8
Ireland	81.4
Germany	70.1
France	70.0
Spain	65.2
Netherlands	62.7
United Kingdom	59.1
Italy	35.3

Source: Stichele and Young (2009), p 14

The market share of the top five supermarkets in the United States is more than 70%, and the processing market in that country is also highly concentrated (Roberts, 2008). The 2000 UK Competition Commission investigation into grocery retailing in that country concluded that a supermarket only required an 8% market share in order to have enough power to impose abusive practices on suppliers (European Parliament, 2007a). Increasingly, therefore, in many countries a few dominant food retailers exert enormous control over producers (Cainglet, 2006).

The impact of these high levels of supermarket concentration on the agricultural sector in most instances has been both considerable and negative, and very far from the market model described in much of the “development” literature: Steadily falling farm incomes (as supermarkets use their power over suppliers to demand lower prices and additional payments); the reduction of market access points through increased use of vertically integrated procurement systems; an increase in farm size; and the resulting effective squeezing out of small farmers. Although all suppliers are under pressure from big supermarkets, Thanassoulis (2009) presents evidence not only that the bigger the supermarket in the UK, the lower the price it pays its suppliers, but also that supermarkets tend to have the least pricing power over

those suppliers that have the strongest brand. That is, supermarkets will have the most pricing power over the suppliers of “generic” agricultural produce (such as milk, vegetables, etc) and the least pricing power over suppliers of big consumer brands of processed foods (such as Coca Cola).

In OECD countries, the percentage of total food incomes that accrues to farmers has fallen from 70% to 4% over the past century (Qeque and Cartwright, 2005). From 1971 to 2001, farm incomes in the UK declined by 40%, and between 1993 and 2001, 87,000 farmers and farm workers exited the UK agricultural sector (Action Aid, 2005).

The 2008 UK Competition Commission investigation into grocery retailing found that retailers used their market power to transfer both risk and costs onto their suppliers, through their supply chain practices (UK Competition Commission, 2008a). In addition, supermarkets were found generally to be able to obtain lower prices from their dedicated suppliers than those available at wholesalers, making it almost impossible for small grocery retailers to compete with them. In fact, small retailers in the UK reportedly often buy goods on special offer in supermarkets and resell them, rather than purchasing from a wholesaler (von Blottnitz, 2007).

British farmers are often paid less than their cost of production (Friends of the Earth, 2003). A 2003 survey of farmers in the UK found that a significant proportion of farmers (52% of dairy farmers, 31% of livestock farmers and 37% of fruit and vegetable farmers) received the same as or less than their cost of production from buyers (Friends of the Earth, 2003). An investigation by the Spanish farmers’ union (COAG), published in 2006, found that retail prices for a wide range of agricultural goods were on average more than 4 times higher than the farm gate price. The investigation also showed that, while consumer food prices in 2004/5 were up, farm incomes fell to less than 1990 levels (European Parliament, 2007a). Studies in the Netherlands have indicated similar trends: Very low margins for farmers, much higher margins for supermarkets (Stichele and Young, 2009).

Since the mid-1980s, France has lost half its farmers (Action Aid, 2005); Germany lost a quarter of its farmers in the 1990s (Vorley, 2003); and in Canada, net farm income has fallen considerably over the past 50 years (Action Aid, 2005). In the United States, there were 300,000 fewer farmers in 1997 than in 1979 (USDA, 1998), and 4.2 million farmers were lost between 1935 and 1997 (Vorley, 2003).

There is evidence that centralised supermarket procurement systems are squeezing out market access points for farmers in fresh produce markets. In most industrialised economies direct procurement by retailers is increasing, with a corresponding decline in the share of the fresh produce market that trades through traditional wholesalers, including FPMs (Reardon and Berdegue, 2006). In the UK, supermarkets' share of the fresh fruit and vegetable market rose from 33% in 1989, to 80% in 2003 (Brown, 2005). As UK supermarkets have switched to integrated and dedicated procurement models, so the use of wholesale markets for fresh produce has declined: None of the UK supermarkets' fresh produce was sourced from wholesale markets in 2003 (Brown, 2005).

Supermarket power is also driving a move towards bigger farms: An investigation into the UK Dairy Industry by the 2008 Competition Commission referred to above found that supermarkets' pricing power had increased considerably relative to dairy farmers. In order to survive in this hostile market environment, farming units had increased in size. The report found that the farmgate price for milk in 2006 was the same as in 1999, and that the increase in farm incomes recorded over the same period had come from bigger herds and higher yields. The report concluded that herd size was the most important variable determining the profitability of dairy farming (UK Competition Commission, 2008b).

A similar investigation by the Competition Commission into the UK red meat industry found that the impact of supermarket pricing power was reflected in a substantial reduction in the number of farming units, and that bigger farms and herd sizes were the key to maintaining farm profitability (UK Competition Commission, 2008c).

Family farms account for most of the farms in the United States (98% of all farms in 2004), but there has been a steady shift towards very large family farms over the past twenty years. In 2002, farms with sales of \$1 million or more (at constant 2002 dollars) made up 48% of sales, compared to 23% in 1982. Very large and corporate farms made up only 5.6% of all farms in 2005, but accounted for 61% of sales (Hoppe et al., 2007). The main reason for this trend (and also why it is expected to continue) is the fact that larger farms are far more likely to generate a positive profit margin, which makes small farms in the US are much less viable than large farms (Hoppe et al., 2007). In turn, market power in the US is put forward as a central reason behind lower per hectare farm incomes (Murphy, 2006).

The market power of the giant corporates that dominate the food retail and processing sectors is reflected in a declining share of the retail food dollar for farmers. For example, in 1998, only 12% of every retail dollar spent on pork in the US went back to the producers, which was a massive 75% less than they received in 1970. (Starmer, date unknown). As in the UK, US farmers have had to become more productive (in addition to managing larger farms) in order to survive. US farmers now believe that concentration in agribusiness is the single biggest challenge that they face (Vorley, 2003).

An important trend for developing country policies is the increasing dominance of organics by big producers in industrialised countries (Raynolds, 2004), as a result of both the growth in the overall organics market, which makes it more attractive for bigger growers (Shepherd, 2007) and the growing share of organics sales by supermarkets (a more than 80% share in the UK – Vorley, 2003). Smaller farmers, who may have believed that the organics niche offered a solution to dealing with supermarket power, and who in the initial organics market growth enjoyed market access, have now largely been pushed out by the high costs of certification (Vermeulen and Bienabe, 2007), the erosion of the traditional price premiums (Vorley, 2003) and the supermarket preference for dealing with big suppliers.

The impact of supermarket concentration on farmers has prompted public concern

and outcry in many countries as more and more people see domination of the agricultural sector by big corporates as a threat both to farmer livelihoods and the integrity of the food system (Vorley and Fox, 2004). There is also a growing awareness that supermarket power may in fact benefit supermarkets more than consumers: UNCTAD has documented the widening global gap between producer and retail food prices, and has determined that the higher the level of market concentration, the wider the gap (Vorley, 2003).

Formal investigations of the implications and consequences of agricultural market concentration have been undertaken in several industrialised countries, notably the 2001 and 2008 competition investigations in the UK, various investigations supported by the EU Parliament, and the 1998 investigation by the USDA National Commission on Small Farms.

Various motions and recommendations before the EU Parliament (see European Parliament, 2007b and EU, 2005 as examples) have focused on the abuse of market power by dominant supermarket groups, and the corresponding negative impact on farmers and small businesses in the agricultural sector. EU policymakers are increasingly concerned by the fact that large supermarket groups control producers' main access points to EU consumers (European Parliament, 2007a). In 2004, the European Economic and Social Committee drew up an opinion of the large retail sector in which it stated the belief that supermarket power had reached such a high level that the resulting continuous downward pressure on producer prices presented a threat to a long-term sustainable food supply (EU, 2005). A 2007 European Parliament report (EU, 2007b) presented further evidence that large supermarkets were using their market power to push producer prices down to "unsustainable levels". Stichele and Young (2009) found that market power, and the abuse thereof, was both widespread across 17 EU member states and a direct result of increased market shares by the biggest supermarkets. This study also concluded that small and medium agricultural enterprises and farmers were the most vulnerable to these market power abuses. Finally, the study pointed out that most EU member states did not have laws that could deal effectively with abusive supermarket behaviour

towards suppliers.

In summary, a close look at the impact of market concentration and supermarket domination on small farms and farmer livelihoods in industrialised countries with relatively high levels of supermarket concentration reveals an almost uniformly bleak picture. Small farmers in these countries are not just being excluded from accessing markets, instead, existing small suppliers are being pushed out of markets in considerable numbers.

4.4. Not always good for you: Supermarkets and small farmers in South Africa

In the previous parts of this study two very different pictures of small farmers and modern markets (characterized by supply chains led by supermarkets) have been presented: On one side are the researchers and development organisations in developing countries who believe that the growth of these markets is generally good news for small farmers. On the other are consumers, civil society organisations and regulatory bodies in many industrialised countries who believe that supermarket-led chains are bad news for most farmers, particularly small ones. What are we to make of this apparent contradiction in South Africa, where rural development requires that more small farmers have greater access to markets, and domination of these markets by supermarkets appears to be growing?

Most studies conducted in developing countries around the growth of supermarkets have made little progress in identifying the longer-term impact on farmers in general, and small farmers in particular (Matoti et al., 2007). This is also true in South Africa. However, it may be possible to draw some parallels and corresponding likely conclusions based on the analysis and evidence presented in the previous section, which documented the impact of supermarkets in countries with high levels of market concentration. The starting point is to take a closer look at the structure of the South African food sector, with a particular emphasis on the role and business models of supermarkets in agricultural supply chains. That analysis may provide more information about the role of supermarkets in local markets, the current

impact on producers, and the most likely future trends. Within that context, the question of whether or not there may or may not be room to accommodate a large number of new small producers in South Africa's food markets as suppliers to supermarkets can be examined.

Calculating the value of total retail food sales, and the share of individual retailers within that, is not easy, for at least the following reasons: There is not one commonly accepted set of data for total consumer expenditure on food in the retail sector; there is little reliable detail available on food sales in the informal sector which would indicate the importance of this market segment in total sales; apart from Woolworths, retailers do not publicly disclose what percentage food sales make up of total sales; claims of market share by individual retailers should be approached with caution since they refer to total retail sales rather than just food sales; and the retailers themselves do not share a common method for calculating these market shares (see, for example, the recent public spat on this issue between the two biggest retailers - Pick n Pay and Shoprite).

The most commonly quoted statistic (from Weatherspoon and Reardon, 2003) is that in 2003 supermarkets in South Africa were estimated to make up only 2% of all stores in the formal retail sector, but to have a 55% share of the national food retail market, up from an estimated 10% to 20% in the early 1990s. (A 2008 USDA FAS Gain report predicted that this share would reach 60% in 2008 – Gain Report 2008, p 3.) Further, the level of concentration in the supermarket sector is generally considered to be high, with only four retailers (Pick n Pay, Shoprite, SPAR and Woolworths) having a combined market share of between 90% (Weatherspoon and Reardon, 2003) and 94.5% (Chikazunga et al., 2007).

Despite the caveats around the accuracy of these numbers, there is some clarity around the trend in the supermarket share of retail food sales: Over the past few years, all the big four retailers have increased their number of stores and total retail space, and have recorded turnover growth above both the consumer price index,

and food inflation, as well as population growth. This suggests that their share of total retail food sales is probably increasing.

A good view of the relative size of supermarkets in the local food market can be drawn by comparing their combined turnover with that of other food sectors, such as restaurants. For the latest round of corporate reporting (to June 2009 for Woolworths and Shoprite, to September 2009 for Spar and to February 2010 for Pick n Pay), combined turnover in South Africa for these four supermarkets was around R155bn. We can assume (although detailed figures are not made available by all the stores) that the bulk of this was derived from food sales, based on how these retailers described the nature of their business and the importance they assign to comparative performance indicators such as food price inflation. In comparison, total food sales in restaurants, fast food outlets, and by caterers and similar organisations was just over R30bn for the twelve months to February 2010 (StatsSA, 2010b). The total turnover of the informal retail sector across all types of goods has been estimated at R51.7bn in 2004 (von Blottnitz, 2007). Thus, no matter the different points of view over the actual share of local supermarkets in food retail, it is clear that they have both a significant share, and that this is most likely increasing. This makes them very relevant in the market access debate.

Based on the 55% total market share put forward by Weatherspoon and Reardon and the 90% to 94.5% presumed held by the top four, the implication is that these four supermarkets together hold at least 52% of the national food retail market. At this level of market concentration South Africa resembles countries like the United Kingdom, where the top 5 grocers hold around 59% of the market (see Table 1 above). This confirms the assessment (see for example Bienabe and Vermeulen (2008) and Botha and van Schalkwyk (2006)) that the South African food retail sector is mature. In addition, at least two of the big four supermarket chains (Pick n Pay and Shoprite) probably each hold more than the 8% market share threshold determined by the UK Competition Commission as sufficient to facilitate abusive procurement practices.

If, based on this assessment, the conclusions are drawn that (i) the structure of the South African food retail sector more accurately reflects that prevalent in industrialised rather than developing countries, and (ii) that levels of supermarket concentration appear to be increasing, what would be suggested about market access for small farmers? Following from the analysis in section 4.2. above, there would be three ways in which supermarket expansion in South Africa could create effective barriers to market access for small farmers:

- (i) By pushing out smaller and/or informal retailers who would tend to purchase directly from small farmers, or indirectly (via FPMs);
- (ii) By using their buyer power to impose a procurement system that is inherently hostile to small producers; and
- (iii) By reducing their use of traditional wholesale markets, which are an important market access point for small farmers.

Each of these issues is examined in turn.

Crowding out smaller and informal retailers

Following the expected standard supermarket growth model (as described by Reardon and Berdegue, 2006), local supermarkets are steadily expanding from higher-income urban areas to rural and lower-income areas, in order to increase market share. This is having a direct impact on the traditional retailers in these areas, and thus an indirect impact on the small farmers that tend to be their suppliers. Supermarkets are generally able to undercut informal traders and small retailers because of the scale advantages of their supply chain structure (Jacobs, 2008), which compensates for the distance of stores from a central distribution centre (von Blottnitz, 2007).

It has been estimated that between 2003 and 2005 the turnover of spaza shops in some areas was reduced by more than 20% because of the encroachment of supermarkets (Chikazunga et al., 2007). Interviews with Gauteng members of the Foundation for African Business and Consumer Services (Fabcos) indicated that

township retailers are feeling pressure from the newly arrived supermarkets in places like Soweto (interviews conducted by the author in 2008 as part of a survey conducted by Fabcos). This trend is seen in rural areas as well as urban areas: In many poor rural communities, the majority of households now buy their food supplies from supermarkets, buying in bulk to compensate for distance traveled (D'Haese and van Huylbroek, 2005).

In some instances, a supermarket may even be prepared to absorb a loss for a certain period of time in order to push out these smaller competitors. Von Blottnitz (2007) reports that prices charged at Pick n Pay-owned Score supermarkets (which have been expanding in township areas) were generally lower than prices in Pick n Pay branded stores. Since Score reported operating losses for the five years to 2007, this could indicate that Pick n Pay was prepared to subsidise losses at its subsidiary in order to gain market share in lower-income areas.

If small traders go out of business because of supermarket competition, an important source of direct and indirect sales for small farmers is lost. Informal traders tend to purchase either directly from small farmers, or from FPMs, which in turn are an important market access point for smaller producers (see below). Purchases from the Joburg and Pretoria markets by informal traders make up about 50% and 30% of total sales, respectively (Vermeulen and Bienabe, 2007). Greengrocers are also reportedly going out of business because of their inability to compete against the prices and range of products offered by the large supermarket chains (Kirsten 2009; Chikazunga et al., 2007). Greengrocers also traditionally purchase the bulk of their produce on FPMs.

Supermarket supply chain management practices

The logic of effective SCM tends to be universal in modern food retailing, given the need to manage costs and to adhere to a wide range of food safety and quality requirements. Therefore, in line with the SCM strategies of their counterparts in industrialised countries, the big four South African supermarkets are making use of increasingly centralized and vertically integrated procurement systems, focused

around their own distribution centres (generally located in metropolitan areas), and a relatively small number of suppliers (Chikazunga et al., 2007), although SPAR does allow discretion to individual stores around the purchase of fresh produce and speciality deli items. This procurement structure allows the supermarkets to manage strict quality standards and to reduce transaction costs - both important factors in maintaining a competitive advantage in consumer markets (Louw et al., 2008). As the supermarkets expand into lower-income areas, so the necessity to manage costs in order to protect margins becomes even more important.

For Pick n Pay, Shoprite and Woolworths, their centralized procurement systems are largely based on preferred suppliers and dedicated producers (Bienabe and Vermeulen, 2008), although the details of their strategies vary: Woolworths buys only from a relatively small number of preferred suppliers; Pick n Pay purchases largely from a small number of preferred producers, supplemented by “outside” purchases if necessary, and Shoprite uses its own in-house category manager (Freshmark) to purchase from a relatively large number of preferred producers, supplemented where necessary (Louw et al., 2008). When identifying these preferred suppliers, supermarkets will look for those who can guarantee sufficient volumes and consistent quality (Louw et al., 2006a). Many of the supermarkets’ fresh produce suppliers (particularly fruit growers) are also producing for the export market (Weatherspoon and Reardon, 2003).

These supply chains are often based on long-term arrangements, with the supermarket providing suppliers with one-year growing plans and delivery schedules. This type of supply chain environment strongly favours volume producers who can guarantee deliveries well in advance, and on precise dates.

Food safety standards have become even more important and rigorous in recent months, as a result of new consumer protection legislation (personal communication from a senior produce buyer at Pick n Pay). None of the big four supermarkets is willing to trade off non-compliance with strict standards in order to work with a particular supplier. It should also be noted that suppliers are generally expected to

pay for independent certification of food safety standards themselves and to absorb this cost.

In addition to adherence with food safety standards, suppliers are also usually required to make their own deliveries to distribution centres, and a significant amount of fresh produce must be delivered already packaged and labeled to specification. Compliance requires access to capital and infrastructure. Apart from these “public” obligations on suppliers, there are a number of other costs that suppliers are often required to cover, which are not so public, and could be considered abusive business practices. Many of these were highlighted in a 2009 NAMC investigation into the local dairy industry, which suggested that large South African supermarkets tend to follow a very similar business model to their counterparts in the industrialised world and demand a range of extra costs and payments to be carried by suppliers. These include additional expenses, such as having to pack their own goods on supermarkets shelves (as opposed to the supermarket staff doing it); direct payments to supermarkets for optimum shelf space (so-called slotting fees); having to subsidise special offers; and liability for unsold perishables. Imposing these practices on suppliers is possible because of the supermarket’s buying power. There is thus evidence that local supermarkets, like their European and US counterparts, have few scruples about using their market power to extract preferential terms from suppliers, and so increase shareholder value.

The demands and costs of these supply chain management practices obviously make it very difficult for small farmers to participate. Case studies of successful linkages between supermarkets and small farmers tend to highlight the exceptions, rather than the norm, illustrated in the fact that so few of them are cited (repeatedly) in the relevant literature. In those limited instances where small farmers have been successful as suppliers to supermarkets, it is in the context of very specific factors around store location and management commitment (see for example the case study documented in Bienabe and Vermeulen, 2008), or very niche items.

In contrast with what much of the reviewed literature suggests, there is in fact little incentive for local supermarkets to make much effort to include small farmers. The structure of the South African commercial farming sector facilitates and encourages the use of large preferred producers: In contrast with many developing countries, the local commercial farming sector is characterised by large farm units: According to the 2006 Survey of Large Scale Agriculture, there were almost 6,000 farming units which had an annual turnover of at least R3 million, and which generated a total gross income of almost R50 billion (StatsSA, 2007). Therefore, South African retailers have a relatively large pool of big producers to choose from and little to no incentive to increase transaction costs and risks by dealing with small farmers.

This study does not suggest that it is the specific intention of local supermarkets to exclude small producers – it is simply a by-product of the generally accepted “best” business practices adopted all around the world (Reardon, 2005). It is important to bear in mind that supermarkets are not development agencies – they are profit-oriented businesses. Most of the world’s biggest supermarket chains are public companies and all of the SCM practices described above make perfect business sense, allowing them to use their market power to keep consumer costs down and shareholder profits up. The stock market tends to reward companies that have market power and use it to generate higher profits and shareholder value. The “gap” between the reality of the supermarket business model and the picture presented in much of the development literature represents much more the latter’s failure to understand the full implications of this business model than malignancy on the part of the former.

It is unlikely that the AgriBEE charter or the pressure to increase overall BBBEE ratings will have much of an impact on the inclusion of small farmers (as opposed to black farmers). The leading supermarkets have all indicated that they wish to improve their BBBEE ratings, and preferential procurement makes up 20% of the general Department of Trade and Industry scorecard. The big four supermarkets don’t currently score particularly well in this regard: The 2009 Empowerdex Top 200 companies survey gave Pick n Pay, Woolworths and Spar preferential procurement

scores of 3.41, 2.35 and 1.62 respectively, out of a possible maximum of 20 points (no preferential procurement score for Shoprite was calculated in the 2009 survey). There is thus considerable room for each of these companies to increase their overall BBBEE ratings by increasing their preferential procurement scores. However, one likely outcome of this pressure (and in line with the rationale of the procurement model described above) is to shift the responsibility for compliance onto existing suppliers (which includes manufacturers as well as farmers), and require that they improve their own BBBEE ratings. In addition, increased preferential procurement is only one tool to achieve the goal of a higher BBBEE rating, together with ownership, employment equity, staff skills development and social investment, all of which may prove less detrimental to profitability than risking compromising an effective SCM model.

According to one study (Bienabe and Vermeulen, 2008) the preferred option for retailers to increase opportunities for small black farmers is the implementation of strategic partnerships with big commercial farmers (managed and paid for by the commercial farmers in question, not the supermarket). This approach was confirmed in an interview with Pick n Pay. This strategy enables supermarkets to give the impression of willingness to deal with small farmers, while shifting all the risks and costs of compliance onto producers, who would still bear the responsibility for meeting quality, volume and cost requirements.

Reduced use of traditional wholesalers and fresh produce markets

An important issue from the point of view of small farmers is the position of fresh produce markets (FPMs) in the supermarket procurement model, given the central place of vegetable cultivation in the smallholder sector. There are currently 18 FPMs in South Africa, with the four largest (Joburg, Tshwane, Cape Town and Durban) accounting for more than 74% of traded volume and turnover (NAMC, 2007). Annual turnover on fresh produce markets is currently around R8.4bn (based on the Joburg market's turnover and market share data – see www.joburgmarket.co.za). This can be compared to Freshmark (Shoprite's in-house fresh produce procurement manager), which distributed produce to the value of R2.4bn for the year to 30

September 2009, 95% of which was sourced directly from South African farmers (Shoprite 2009, p28).

FPMs represent an important market access point for small farmers (Louw et al., 2006b), not least because they do not require long-term supply contracts. The Joburg market alone services some 15,000 farmers in total (www.joburgmarket.co.za). As local supermarkets have implemented increasingly centralized and vertically integrated SCM models, their purchases from FPMs have declined, and the central distribution role of FPMs in fruit and vegetables has been usurped (Chikazunga et al., 2007). The main reasons why supermarkets prefer dedicated suppliers to FPMs include product traceability, management of the cold chain, and the enforcement of private quality standards (Bienabe and Vermeulen, 2008). Another reason is that supermarkets can negotiate long-term contracts with their preferred suppliers, which provides them (the supermarkets) with a certain degree of cost and delivery certainty. As a result of these factors, all the major retailers have reduced their purchases from FPMs over time and these now make up only a small share of total procurement (Bienabe and Vermeulen, 2008). It is estimated that no more than 10% of current fresh fruit and vegetables purchases by the large supermarkets come from FPMs, a significant decline over the past decade. As an example, in 2007, Pick n Pay purchased 97% of fresh fruit and vegetables from preferred producers, and 3% from FPMs. Ten years prior, the ratio was about 50/50 (Chikazunga et al., 2007).

As a result, the relative importance of FPMs in produce supply appears to be declining. The NAMC's 2007 Section 7 Committee investigation into FPMs indicated that, despite a substantial increase in the production of fresh produce between 1996 and 2006, FPMs had shown very little volume growth in sales over the same period (NAMC, 2007). This could indicate that more and more fresh produce sales are bypassing these markets. The NAMC also found that the downward trend in FPMs is particularly pronounced in smaller markets that serve more rural areas. Given the transport costs incurred in getting produce to urban areas, the consolidation of FPMs in these areas presents a further barrier to market access for the smallest and

least-resourced producers. The NAMC report concluded that the trend away from FPMs as a market channel was both likely to continue, and was a direct result of increased supermarket market share and supermarket procurement policies.

What does this mean for small farmers?

The increased role of supermarkets in food distribution is both increasing the risks and reducing the rewards for local farmers, creating the same sort of hostile environment seen in industrialised countries with high levels of supermarket concentration.

Since 1947, South African farmers have faced declining terms of trade (Qeque and Cartwright, 2005). A 2009 NAMC investigation into the dairy industry (Kirsten, 2009) showed that dairy farmer profitability since 1994 had been squeezed to such an extent that it had resulted in a sharp decline in the number of producers. At the same time, retail margins on milk (which ranged between 1% and 5% under the Dairy Board) increased to between 15% and 30%. The investigation concluded that recent shortages in the milk market were caused in large part by a decline in the number of dairy farmers, unable to stay in business at prevailing producer prices. Retailers enjoy such strong negotiating power over dairy farmers that this same NAMC investigation found that the correlation between producer and retail milk prices runs from the latter to the former, and not the other way around as we might expect. This means that farmers have little or no ability to charge higher prices when their costs increase, but rather have to accept what supermarkets offer to pay. The NAMC investigation also concluded that the relatively low prices paid to dairy farmers constitute a significant barrier to entry for small and emerging farmers.

The trend towards bigger dairy producers is indicated in the table below, which shows how the percentage share of large producers is increasing, while that of small producers is declining:

Table 2: Relative market share of large and small dairy producers in South Africa

Daily production (litres/day)	% of Producers	
	1995	2004
500 or less	58	23
More than 3,000	0	21

Source: Terblanche (2009), p4

It is not only the dairy sector where supermarkets exercise market power to the detriment of producers: Traub and Jayne (2008) investigated the effects of market deregulation on the maize milling/retail margin in South Africa by examining that margin over the period from May 1976 to December 2004. The results indicated that the real margin increased by at least 20% after the retail price deregulation of 1991, and that the size of the margin was growing. This study could not identify the reasons behind these high margins, but the potential impact of increased consolidation in the retail sector cannot be ignored.

Wheat producers' share of the retail price of bread was around 25% in 2007, compared to about 30% in the early 1990's, despite the fact that the costs of wheat production have generally increased since 2000, and that many producers operate at a loss (NAMC, 2009).

In addition to retail maturity, most other parts of the local food supply chain – including processing and wholesaling - indicate an advanced stage of consolidation (Louw et al., 2008), and are thus probably able to exert power over farmers. An assessment of mergers and acquisitions in the food manufacturing sector over the past twenty years by the Competition Commission indicates growing concentration, particularly in the maize value chain (Kirsten, 2009). As examples of this concentration, four companies handle 62% of the commercial milk supply and Tiger Brands holds 75% of the local tomato processing sector (Louw et al., 2006a).

In this hostile market environment, South African farmers have responded in much the same way as their counterparts in developed countries. Firstly, the total number of farms has declined: Between 1950 and 1990 there was a decline in farming units from 116,848 to 62,084 (Tilley, 2002). From 1990 to 2007 the number of commercial farming units fell by a further 36%, to 39,982 (StatsSA, 2009) although the land under production only fell by about 10% over the same period. The average farm size in 2002 was 1,881 hectares, up 33% from 1,414 hectares in 1993. Despite the increase in farm size, the gross farming margin¹ fell from 27.1% in 1993, to 25.3% in 2007. Since 1995, there has also been an increase in the number of farm bankruptcies (Jacobs et al., 2008). As the level of supermarket concentration increases, we can expect that this trend towards larger farming units will continue (Kirsten, 2009), mirroring trends in Europe and the United States.

In summary then, it is clear that the current structure of the South African food retail sector and the procurement practices of local supermarkets have created effective barriers to entry for smaller producers, particularly those with limited access to resources. As in many other countries, the higher land and labour productivity of small farmers is increasingly less important than the volume and quality requirements of these buyer-driven supply chains (Vorley, 2003). Even niche markets like organics, which had been presumed to offer opportunities for smallholders, are increasingly being taken over by big producers (Vermeulen and Bienabe, 2007). The structure of the local food retail sector far more closely an industrialised country, than a developing one. We should not be surprised, therefore, to discover that it is neither particularly welcoming of nor accommodating of small farmers.

The role of supermarkets and food market concentration in creating barriers to market access is particularly important in South Africa, given that the expansion of supermarkets is taking place at exactly the same time that policy is aiming to integrate a large number of new smaller producers into modern markets (Matoti et al., 2007).

¹ Gross profit as a percentage of gross farming income, gross profit calculated as gross farming income less current expenditure and the purchase of animals, data source StatsSA (2009).

CHAPTER FIVE: CONCLUSIONS AND POLICY IMPLICATIONS

5.1. Introduction

It is an increasingly accepted viewpoint that encouraging the growth of small farmers is an important issue in addressing high levels of rural poverty in South Africa. We need to create more income-producing opportunities in the countryside, and small-scale agriculture is, by default, one of the few tools available to do so on a significant scale. The literature indicates that there are a number of areas in which small farmers face obstacles to generating improved livelihoods, including access to output markets where they can sell their produce for a reasonable income. The participation of small farmers in markets is, therefore, important for pro-poor rural development. In the South African context, the relationship between markets and small farmers is important to the success of South Africa's second economy integration initiative (Jacobs, 2008). South Africa faces the particular challenge of integrating large numbers of new small suppliers into markets that are dominated by large retailers with modern supply chain management practices.

Supermarkets matter in this context because they are increasing their share of retail food sales, and because they control much of the access to the relatively wealthy and large urban populations to whom poor farmers need access (Weatherspoon and Reardon, 2003). There may be debate around the actual share of supermarkets in retail food sales in South Africa, but it is clear that they are growing, both in terms of sales and geographic spread.

5.2. Conclusions

The rise of global sourcing and modern markets is viewed in most quarters as a development that holds enormous potential for the rural poor in the developing world, through the creation of new market access points, much more attractive than traditional markets. The literature does recognise that small farmers in developing countries face a number of challenges in obtaining access to these markets. But it is

just as clear that these challenges are not insurmountable – they can be overcome: Small farmers can participate in numbers in these new supply chains, with the support of governments, donors and complementary policies (World Bank, 2008).

A survey of the international and local development literature indicates an “orthodox” point of view about both the reasons why small farmers struggle to access modern markets, as well as the most appropriate corresponding government, donor agency and NGO responses to these issues. This point of view is characterized by an assessment that exclusion results largely from the characteristics of producers, rather than from these markets themselves. That is, the “fault” for market exclusion lies with the producers – their personal characteristics, their production methods, and the nature of their communities. The logical extension of this argument is that if small farmers improve the quality and consistency of their production (through better market knowledge, skills development, access to inputs, etc) then they will almost certainly be included in modern markets, subject to overcoming physical access constraints. The belief is that supermarkets will purchase from any farmer (large or small) who can meet mandatory specifications and quality requirements (Bienabe and Vermeulen, 2008). In this picture, the role of governments (and development agencies) in increasing market access for small farmers is to make available the support and the infrastructure that will facilitate this positive production outcome. In this view, there is nothing in the structure of the modern agricultural market itself, or the behaviour of the actors on the demand side of the equation that present a barrier to entry so serious that it cannot be overcome by better and more appropriate production by small farmers.

The majority view in the South African literature largely reflects this position – small farmers can access modern markets under a certain set of conditions, and market exclusion generally implies a production or physical market access issue: Address these, and modern market access is almost certain. Most local researchers therefore propose policies to increase the capacity of small farmers to produce better quality output; the dissemination of more market information to farmers; the formation of producers’ organisations to increase bargaining power and sales volumes; the

promotion of trust between buyers and sellers; a focus on niche markets (such as organics); and government investment in infrastructure and extension services, on the implicit assumption that these activities will facilitate acceptance into a modern supply chain. The NDAFF is firmly on the side of this model, adopting the underlying view that small farmers can and will be incorporated into markets if they have access to land and a range of support and extension services to support production.

It was this study's assertion that much of the research that has been done in this area to date is in fact incomplete, in that it seldom explicitly takes into account two key issues: The dominant (and rational) supply chain management and associated procurement model of supermarkets; and the market access challenges faced by small farmers in industrialised countries that have high levels of supermarket concentration. It was this study's contention that, by ignoring these two key factors, or by considering them only as peripheral to the "central" issues of small farmers, market access and rural poverty in developing countries, many of the assessments of the obstacles faced by small farmers in accessing markets are inadequate as a basis for designing effective policy interventions.

A closer examination of the dominant supermarket supply chain management model indicates clearly that it is (whether intentionally or not) inherently hostile towards most agricultural producers. In contrast to the view that supermarket supply chains are made up of equal partners all working towards a common goal, the aim of the modern supermarket supply chain is, in fact, to extract as much value as possible from other chain participants, in order to benefit the supermarket's shareholders. Smaller producers are particularly hard hit by this business strategy, through a "best practice" procurement model that favours big suppliers; through business practices that increase risks and costs for all producers and thereby force "up-sizing" as a survival response; through the displacement of retailers who provide market access points for small producers; and through the bypassing of traditional wholesale markets such as FPMs. This built-in model hostility towards small farmers has been illustrated over and over again in industrialised countries with relatively high levels of supermarket concentration. All over the industrialised world, small farmers have

found it almost impossible to survive in a system that is so solidly based on the logic of big suppliers, and in which the terms of trade are so firmly stacked against producers.

An assessment of the South African food retail market indicates that it much more closely reflects the market structure of industrialised countries such as the European Union and the United States, rather than developing countries, and that the largest local supermarkets probably have sufficient market share to exercise significant market power. In addition, there is a high level of concentration in the local food processing market. Therefore, we should expect that the position of South African small farmers vis-à-vis supermarkets would be similar to that of small farmers in Europe and the United States. The fact that South Africa has a relatively large commercial farming sector implies that there is little business rationale for supermarkets to deal with small farmers, and to incur the additional costs that this implies for their supply chains. Where there is pressure for increased BBBEE ratings, this is unlikely to translate into significant benefits for smaller farmers. Therefore, not only are our local modern markets unlikely to provide market access points for a slew of new small producers, but rational business management concepts suggest that they might even be keen to replace those small suppliers they currently have.

The fallacy about the real issues behind the exclusion of small farmers from modern markets is being perpetuated by donor agencies: More than 30 years ago, the United States Department of Agriculture (USDA) published a report entitled *A Time to Choose*, which clearly highlighted the potential threat to (US) small farmers of increasing concentration in agro processing. The 1998 follow-up report by the USDA (*A Time to Act*) strongly reinforced the message that market concentration across processing and retailing (i.e. the most likely structure of modern agricultural markets) poses the single biggest threat to small farmers in the United States. Despite this, USAID still strongly endorses development programmes based on the assumption that the growth of modern markets (particularly supermarkets) in developing countries is overwhelmingly positive for small farmers.

The European Union, Denmark and the Netherlands also support the development of agribusiness in developing countries (IFAD, 2003) despite a growing understanding at home that such developments can have a disastrous effect on small farmers.

In the UK, concern over the negative impact of supermarket power (including the effect on small farmers) has become a national issue, prompting the Competition Commission in that country to impose a series of harsh penalties on supermarkets in an attempt to curb abusive business practices. But that same UK government's international development arm (DFID) is firmly wedded to the positive potential of modern markets for small farmers, through its "making markets work for the poor" approach, which is based on a strong belief that supermarkets are important for rural development in Africa (Tallontire and Vorley, 2005). In South Africa, DFID supports programmes aimed at the integration of small producers into modern markets. Its chosen tools include better access to market information and the formation of producers' organisations, even though its own Department of Agriculture would decry such tools as solutions for small British farmers facing off against giant supermarkets.

International agencies and many development researchers are, therefore, continuing to espouse solutions that do not take sufficient cognisance of modern market reality. This is contributing to the problem. In light of the analysis presented in this study, most of the "orthodox" responses to addressing the barriers to market access faced by small farmers seem woefully inadequate, particularly in the South African environment. If better market information, better physical infrastructure, better access to inputs such as seeds and capital equipment, and the formation of producer organisations really are the magic cure for modern market exclusion it is hard to understand why the hundreds of thousands of small farmers in Europe and the United States who have gone out of business haven't given these things a try, nor why their governments have not adopted these interventions as official policies.

Developing country policy makers are generally removed from market developments (Matoti et al., 2007) and particularly developments in food retail markets, which are

changing both rapidly and “under the radar of public policy” (Fox and Vorley, 2004, p3). Until fairly recently the growth of supermarkets have been perceived as a positive economic trend around the world because they have been associated with lower prices for consumers (Action Aid, 2005). The issue of how supermarkets have impacted on other members of the supply chain (particularly farmers) is a relatively new area of investigation for public policy, and is an under-researched area in South Africa (du Toit, 2009). It should not, therefore, come as a surprise that there is a general lack of understanding in the relevant South African government departments about how modern markets really work. In particular, there does not seem to be an appreciation of the growing domination of supermarkets as the “gatekeepers” of modern market access (EU, 2007b), and the impact of that on small farmers and rural poverty.

This study accepts that improving the quality of production and small farmers’ access to skills and assets is important and necessary, but proposes that these actions on their own are not sufficient to guarantee access into modern supply chains. Insufficient attention has been given to understanding how markets themselves become barriers to entry.

This is a vital gap in local rural development policy: A market system that favours large over small farmers has the potential to exacerbate rural inequality in the South African environment, and to neutralize policy aimed at encouraging small farmers. The risk is an increasing polarization between agribusiness and small farmers (Vorley and Fox, 2004), to the detriment of pro-poor growth. The potentially negative impact of the powerful supermarkets on agriculture’s ability to contribute to rural development should not be under-estimated: The most “effective” SCM model is one that is based in large part in extracting the maximum amount of value from rural areas and transferring this to other parties in the supply chain (Vorley and Fox, 2004). Policy makers therefore need to understand both how developments in agricultural markets impact on rural development initiatives (Jacobs, 2009; Fox and Vorley, 2004), and move from being policy “takers” (du Toit, 2009) to being policy initiators.

5.3. Implications for rural development policy in South Africa

It is clear that modern markets dominated by supermarkets can be inherently hostile towards small farmers. Some case studies from developing countries (which generally have far lower supermarket concentration ratios than does South Africa) indicate that supermarkets are only willing to deal with small farmers when they have no other option. This scenario is not applicable in South Africa, which has a large and well-established big commercial farming sector. At the same time, the march of the supermarkets is likely to continue and we should expect to see higher levels of market concentration in years to come, with the supermarkets controlling a greater and greater percentage of modern market access points. All this adds up to a bleak picture for small farmers. However, we cannot get away from the fact that creating more market access points for small farmers is a critical success factor in addressing rural poverty in South Africa. In the face of this dilemma, what possible policy responses could be available to government?

Firstly, it is very important that the departments and statutory bodies (such as the National Agricultural Marketing Council) who have the ultimate responsibility for fostering an environment that facilitates small farmer market access rapidly acquaint themselves with the realities of modern supply chains, as they apply to small farmers. Work that has already been done in this area (such as the NAMC's 2009 investigation into the impact of supermarket power on the dairy industry) should be supplemented by additional studies focusing specifically on the impact of local SCM practices on smaller producers. Effective policymaking needs to operate in an informed environment: Specifically, there needs to be a greater awareness within government departments that efforts to increase the productivity of small farmers will have only a limited pro-poor effect if those farmers cannot access output markets. Initiatives that do not concentrate on market linkages will fail (IFAD, 2002).

Instead of only asking why small farmers cannot access markets, policy makers should be thinking more about why markets are excluding small farmers. The

difference between the two may appear subtle, but in fact it is significant. The implication is that a greater focus is needed on what sort of market structure facilitates small farmer access, instead of adopting a market neutral stance, and only addressing issues of production.

In this vein there is a good argument to be made for re-examining current competition legislation with a view to curbing the use of abusive practices (such as slotting fees, shifting of excessive risk onto producers, etc) by supermarkets. Thus, competition legislation should incorporate notions of fairness to suppliers into its definition of public interest, rather than focusing only on what is good for consumers (UK Food Group, 2005). This would reflect the current initiative undertaken by the UK Competition Commission, which has made a range of “standard” supermarket procurement practices illegal. Such an initiative would almost certainly lower risks and costs for producers, and reduce the risks to entire food supply chain caused by abusive behaviour (Kirsten, 2009; EU, 2005). However, policymakers should be cautioned against trying to force supermarkets into dealing with small farmers. Invariably any associated costs will make their way back to consumers via higher food prices.

Other possible policy options include the development and support of alternative food networks (AFNs), and the creation of new market access points via government procurement and social security strategies. Both of these strategies are based on the understanding that small producers need to have other market access options apart from supermarkets and big processors available to them (Vorley, 2003; Action Aid, 2005).

Alternative food networks

One possible route may lie in taking note of the development of alternative food networks (AFNs) in many industrialised countries with high levels of supermarket penetration, and particularly developments in the United States. The rationale behind the argument for AFNs is that modern markets dominated by supermarkets are only one possible food network, and that there are a host of others in which

producers enjoy much greater power. AFNs can be defined as those networks that are built on a much closer relationship between producers and consumers, and which allocate a greater share of the economic rent generated in a supply chain to producers (Hernandez, 2009). These networks are therefore much more welcoming to smaller producers (Follet, 2009). They provide market opportunities where smaller producers can be more economically viable through retaining a higher share of consumer food expenditure (USDA, 1998).

Farmers need the opportunity to choose marketing channels that take account of their production and logistics constraints, but still provide them with an attractive income (Chikazunga et al., 2007). Most AFNs are built on the idea of local proximity between producers and consumers, in contrast to the supermarket model, which is based on remoteness between the two parties. In this way, AFNs are firmly in the “food sovereignty” camp of thought: Food sovereignty promotes the development of local economies on the basis of local food consumption and production (Cainglet, 2006).

AFNs include all the various forms of direct marketing available to producers, such as farmers’ markets, pick-your-own, community supported agriculture, box delivery schemes and on-line marketing. Of all these, farmers’ markets are probably the best known (Brown, 2009). Although AFNs are responsible for a relatively small share of the total food supply, they are becoming increasingly popular with consumers in industrialised countries.

AFNs have proven to be an important tool for small farmers in the United States to maintain their viability outside of supermarket value chains. As early as 1981, the USDA conducted a number of studies across various agricultural sectors which indicated that direct marketing was a better marketing option for many small producers than orthodox marketing channels (see for example Degner et al., 1981). The main positive factors were lower transport and other marketing costs, and higher selling prices.

In 1997, the USDA reported that 93,140 farms were engaging in some form of direct marketing, resulting in more than \$550 million in sales (USDA, 2002). From 1994 to mid-2009 the number of farmers' markets in the United States increased from 1,775 to more than 4,700 (Brown, 2009). The latest detailed published USDA survey of farmers markets indicated that at the end of 2005 there were 4,093 markets in the United States, with combined annual sales of just over \$1 billion, and almost 127,000 participating vendors (most of whom were the producers of what they sold). These markets attracted around 3.9 million customers *per week* in 2005, an average of 959 customers per market, per week (USDA, 2009).

Small farmers in the US who use farmers' markets are usually doing so to supplement their income, rather than as their main source of income (the majority of vendors at US farmers markets in 2005 earned less than \$5,000 in that year) (USDA, 2009), which suggests that these markets could be important tools in supporting diversified livelihood strategies. Fresh produce vendors made up 45 percent of all farmer market vendors in 2005 (USDA, 2009).

It is probably no coincidence that the rise in the number of direct marketing access opportunities for small farmers has occurred at the same time that the long-time trend in farm consolidation in the US may be reversing itself: Between 2000 and 2007, the number of farms increased to around 2.2 million (up 4%). Most of the new farms were small farms, and a considerable number of them were managed by women (Brown, 2009).

There has also been a growing interest in local retailing (via farmers' markets and similar schemes) in many European countries (von Blottnitz, 2007).

In South Africa, consumer purchases of food via direct marketing outlets such as farmers' markets is a relatively new phenomenon, but it is growing. Vermeulen and Bienabe (2007) examined local marketing opportunities for small organic farmers in South Africa. Their report estimated that there were "at least 16" farmers markets in South Africa at that time. There are currently more than 30 such markets in Gauteng

alone. Admittedly they are still a very small part of the overall food distribution network, but they are likely to grow over the next few years, and offer excellent opportunities for small farmers. Other opportunities include dedicated box delivery schemes (there are examples of such schemes in Cape Town which include small emerging farmers) and linking small producers with small specialty grocers and delis, particularly those that deal in organic produce. By establishing and facilitating the growth of alternative marketing schemes, government can encourage closer links between small producers and consumers (Bijman et al., 2007).

Government procurement and social security strategies

The second way in which government could provide alternative market access points is through its own procurement and social security strategies.

Schools and school feeding schemes are a good potential market for local food producers (Follet, 2009), as are hospitals and prisons, particularly in more rural areas where quantities demanded are relatively low and small farmers are in close proximity. These institutions would also benefit from access to locally produced organic produce. Farm-school and farm-hospital linkages in the United States have proven important both as market access points for small producers and in improving the quality of food in these institutions (Starmer, date unknown).

There is an initiative in the United States that is particularly interesting from a South African point of view, given government goals around food security and the support of small farmers. The US government runs a special supplemental nutrition programme for women, infants and children (WIC). This programme provides, *inter alia*, supplemental foods at no cost to low-income pregnant and post-partum women, and children under the age of 5, who are deemed to be at “nutritional risk” (USDA, 2002). Since 1992, WIC has been associated with the WIC Farmers’ Market Nutrition Programme (FMNP). In addition to their normal benefits, WIC participants are issued FMNP coupons that they can use to buy a range of products at farmers’ markets. Vendors then submit the coupons to the relative government agency and are reimbursed. The FMNP is an important source of quality food for vulnerable

families, and contributes to better community food security (USDA, 1998).

These programmes are also important for the farmers' markets: In 2005, 61% of all farmers' markets in the United States reported participation in the FMNP, up from 58% in 2002 (USDA, 2009). A Senior Farmers Market Nutrition Programmes (SFMNP) is run on a similar basis, with a focus on vulnerable senior citizens. Average total monthly sales across all farmers' markets in 2005 for the WIC FMNP was just over \$7 million, and just over \$4 million for the SFMNP (USDA, 2002). Thus, supporting local food networks can be beneficial for both producers and vulnerable consumers. A similar programme in South Africa could have significant positive benefits on both food security and small farmer development.

As a final word, it is important to emphasise that government needs to take the development of marketing opportunities specifically for small farmers more seriously, understanding that they face a very different set of market access challenges than do large farmers. They need to encourage and support the type of food networks and marketing structures that will have the greatest positive benefit on small farmers and the communities that they live in. This requires a different view of the role of market networks, and a more critical assessment of how this impacts on rural livelihoods.

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