Regoverning Markets

Small-scale producers in modern agrifood markets

Regional Synthesis
Southern Africa

Restructuring food markets in the Southern Africa region: Dynamics in the context of the fresh produce sub-sector

A synthesis of country findings

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Restructuring food markets in the Southern African region: dynamics in the context of the fresh produce sub-sector

A synthesis of country findings

Part of the Regoverning Markets study in Southern Africa which forms part of a global initiative of 18 countries in five regions

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EXECUTIVE SUMMARY

The essence of this study is a compilation of the wide array of information concerning the dynamics of agri-food markets in Southern Africa, focusing on achieving three objectives: first to establish the rate and level at which food markets have been restructuring in the region; second to understand the drivers of the restructuring process; and third to establish whether the restructuring process has been transmitted from the national to the household level. On the latter objective, the study also sought to explain the drivers of the inclusion and exclusion of smallholder farmers. The study's main objective was to benchmark what is happening in the region relative to the rest of the world. Researchers of the market restructuring phenomenon have established that the region entered the restructuring race a little late i.e., 'the fourth phase of the restructuring process. Thus, the fundamental question that this study attempts to answer is the following: "Is the restructuring of food markets in Southern Africa different from other regions, and if so, in what ways is it different?"

The main finding of this synthesis study is that agrifood markets are restructuring, characterised by an increased consolidation and concentration of the industry. Supermarkets are expanding at an exponential rate throughout the region. This applies mainly to South Africa's main retailers, with Shoprite, Pick 'n Pay and SPAR taking the lead. Unlike the predominant global phenomenon, where formal markets are replacing informal markets, this is not the case in the region. The informal sector is also expanding, characterised by a significant level of restructuring. In addition to this, the wholesale function is still vibrant and is also going through restructuring processes, especially in the case of South Africa. The major supermarkets have restructured their procurement strategies through the introduction of private standards, centralised procurement systems, and distribution centres. Central distribution centres comprise the main procurement strategy currently used by most supermarkets, but in some special cases, they are still engaged in decentralised procurement. South Africa and Namibia are the most advanced instances of the restructuring process; most other countries in this region are at an early stage of restructuring, with the informal sector still being the main conduit of food distribution. Population growth, income growth, urbanisation, change in consumer tastes, and an increase in health consciousness are the main drivers of the restructuring process in the region. These are similar to the global drivers of the restructuring process.

Despite the increase in agrifood commodities emanating from the expansion of the retail sector, there have been few or no opportunities for smallholder farmers. The restructuring process is likely to exclude farmers from food markets in two ways: first, formal food chains will displace the traditional markets, which will leave smallholder farmers with no alternative markets; and second, the restructuring process will exclude farmers through the introduction of private standards, such as EurepGAP, which will make it tough for smallholder farmers to sustain compliance with these standards. In light of these threats, the restructuring process favours large agribusiness over smallholder agriculture; this in spite of the presence of a vibrant informal market throughout the region (even in South Africa) to which smallholder farmers can supply their products. It was also ascertained in previous studies that smallholder farmers prefer informal markets, such as hawkers, because they offer better prices. In addition, they are not stringent in terms of quality, as they take anything offered to them. There are also lower transaction and bureaucracy costs incurred by farmers in supplying their commodities to informal markets.

To redress the negative effects of the restructuring process, certain issues need to be addressed. This calls for concerted effort from all stakeholders: the public and private sectors and farmers. What challenges smallholder farmers is their lack of efficiency in terms of their production systems. Thus, their average cost of production is their main barrier to entry into the formal markets. Hence, there is a need for sustained capacity building, targeting smallholder farmers to improve their competitiveness. In addition, farmers should be encouraged to take advantage of collective action, either in the form of cooperatives, producer organisations or in other forms of association. Collective action enables poor individual farmers to attain economies of scale, size and scope, which allows them to engage on a level negotiation platform. Also, the private sector should be innovative in terms of the way they deal with small farmers, as opposed to only doing so through their corporate social responsibility programs. The private sector needs to develop business models that allow them to deal with small farmers without compromising viability. There is a need for collaboration between the public and the private sectors in terms of linking smallholder farmers to formal markets. Furthermore, it should be noted that empowerment of smallholder farmers is a public good, and thus governments in the region should prioritise designing policies that enable integration of smallholder agriculture into formal agribusiness. Lastly, there is a need to invest in research into the restructuring phenomenon, as this will facilitate the designing of relevant business models, public policies and individual strategies for farmers.

There is great potential for harnessing the benefits of the restructuring process, but there is a need for different stakeholders to harmonise their objectives and visions for the sake of smallholder farmers. The reason for this is that agriculture holds one of the few keys through which smallholder farmers and the Southern African region can escape poverty and achieve some of their important millennium development goals (MDGs).

1. INTRODUCTION

1.1 Purpose of report

The Regoverning Markets study in Southern Africa forms part of a global initiative of 18 countries in five regions. The Regoverning Markets Programme is a 2.5-year UK£2 million programme of collaborative research and policy support, designed to understand the keys to inclusion of small-scale producers in dynamically restructuring regional and local agrifood markets. The programme seeks to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics in the sector so as to ensure that small-scale farmers can better prepare and shield themselves against exclusion. This paper focuses on including the poor in ways that could contribute to reducing poverty and underdevelopment in the region. Coordinated by the International Institute for Environment and Development (IIED) in the UK, the programme involves an international consortium and learning network of more than 14 organisations, committed to cross-country comparisons within regions and across regions, reflecting varying degrees of food industry restructuring. Major donors of the Regoverning Markets are DFID, IDRC, CIDA, ICCO, Cordaid and USAID (Louw, *et al.,* 2007).

Despite high expectations, influencing policy is complicated, and it is difficult to get anything moving before all the reports and outcomes are in place. The process of creating awareness, influencing stakeholders' decisions, networking, negotiation and having the right network require a substantial amount of time and patience. In Southern Africa and Africa in general, governments do not heed researchers directly but prefer their own structures and policy processes. There is thus a need for persistence. This illustrates network structure problems and political power plays in the public sectors of developing countries. In South Africa, it seems government has its own agenda in terms of economic reforms that does not take agriculture into account or directly heed advice from researchers if this does not fit in with their own political agenda. In other countries, as in Zimbabwe, the government has overall control whereas in Zambia there is a degree of private sector consultation, but limited heed by the government. There are flaws in the policy-making structures of developing countries as well as political forces that need be taken into consideration. This paper focuses on the dynamics of the agrifood market in the Southern African region and on the role of agribusiness. The complex and dynamic issues and insights that arise because of diversity of people and cultures are dealt with separately for each country and each region.

The Regoverning Markets Programme emphasises cross-country comparisons within regions and across regions, reflecting varying degrees of food industry restructuring and different policy environments. This paper acknowledges the diverse cultural, country-specific insights that are new and unique to the region. This is because of the new dynamics and focus shifts that have come about as a result of South Africa being established as the gateway into Africa and its aggressive FDI into Africa and specifically the sub-Saharan region. This paper also acknowledges diverse cultural, country-specific insights because, in the broader context, regional specifics and insights are often lost. It gives greater focus to the region and regional issues, especially relating to partnerships. This synthesis study, therefore, captures the unique dynamics of Southern Africa in the African context and sets the stage for the development of a formal regional institution that will act as a conduit for regional capacity building.

It should be noted that although the importance of issues such as the proliferation of the HIV/Aids pandemic, trade issues (influx of cheap imports from China, dumping, tariffs and tax rates, and EU and US farming subsidies), the political unrest in Zimbabwe and the Democratic

Republic of Congo (DR Congo), biofuels, and genetically modified foods (GM foods) are acknowledged, this paper focuses on the changes to agrifood systems, the expansion of supermarkets and the inclusion of small-scale producers in the dynamic restructuring of regional and local agrifood markets.

1.2 Southern African Development Community (SADC)

The Southern African Development Community (SADC) was established in 1980 as a loose alliance of nine majority-ruled countries in Southern Africa, known as the Southern African Development Coordination Conference (SADCC). Its main aim was coordinating development projects in order to curtail economic dependence on the then apartheid South Africa[1]. The SADC comprises the 12 Southern African states as well as the islands of Mauritius and Madagascar (see Figure 1). The fourteen SADC member states are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe (SADC, 2007).

Although there are similarities among the member countries in terms of climate, socioeconomic conditions and governance arrangements, the region is in fact marked by large differences in terms of these factors (Malzbender & Earle, 2006). The Southern African region is one of the richest areas of the African continent in natural resources, with largely untapped potential as regards minerals, oil and agriculture. In 2004, about 60 percent of the world's gold reserves, 75 percent of its manganese, 65 percent of its phosphate, 55 percent of its cobalt, 90 percent of its chromium, and 60 percent of its diamonds were located in Africa, mostly in Southern Africa.

Figure 1.1: Countries of the SADC (SADC, 2007)

[1] This is particularly ironic given that twenty-seven years after its inception, the region depends heavily on and is greatly dominated by South African FDI

Despite this potential, though, widespread poverty, hunger and malnutrition; rapid population growth; conflicts over and mistreatment of natural resources; and insufficient investment in development are rife within the region. Most of these problems are attributed to the legacy of colonial rule, which erected institutional structures that impoverished the majority of the African people and denied them control of the resources of the region (Louw & Ngqangweni, 2004).

Most SADC countries are classified as underprivileged, with up to 40 percent of their populations living in extreme poverty (SADC, 2006). Population growth rates of no more than three percent in some countries do not auger well for economic development and poverty alleviation. The SADC recognises poverty alleviation as one of its main objectives. Small-scale agriculture, in particular, has been identified as a problem area that needs attention, given that this sector plays a major role in the economies of most SADC countries as the main source of income and employment for the rural population. Investment in primary agriculture and agro-industries has the potential to contribute to productivity and income growth in the SADC and in Africa as a whole. Although many SADC countries are World Trade Organisation (WTO) members, and as such are already integrated into the world economy, investment in agriculture can deepen their economic participation, increase the intensity of two-way flow, and retain more of the economic traffic in their own growth engines. With the advent of the New Partnership for Africa's Development (NEPAD), there could be increasing urgency by developed countries to invest in Africa, enabling SADC countries with their untapped potential – particularly in the Rostov sense – to 'take off' and gain in the process (SADC, 2006; Louw & Ngqangweni, 2004).

1.3 The role of agriculture in the Southern African region

Despite efforts by a number of countries to achieve greater economic diversification, agriculture continues to dominate the economies of the majority of member countries. The majority of the economies in the region are agriculture- and natural-resource-based with up to 80 percent of the population in the Southern African region being dependent on agriculture for subsistence, employment and income. Agriculture contributes significantly to the gross domestic product (GDP) of most member states. It is a major player in the Southern African regional economy, contributing 35 percent of its gross domestic product. In addition, agricultural exports are a major foreign exchange earner, contributing on average 13 percent to total export earnings and constituting about 66 percent of the value of intra-regional trade.

In addition, agriculture is a major foreign exchange earner with vital forward and backward linkages to other key sectors of the Southern African countries' economies. Therefore, good performance of this sector is vital for food security, employment, eradicating hunger, alleviating poverty, controlling inflation, promoting economic growth and stabilising economies. The importance and catalytic role of agriculture in contributing to the GDP, export earnings, employment, forward and backward linkages to the non-farming sector, overall growth, and poverty reduction is paramount. Agriculture-led development is fundamental to cutting hunger and reducing poverty, thereby achieving some of the important millennium development goals (MDGs). For economies such as Tanzania, agriculture accounts for about 50 percent of the GDP, while for others, such as South Africa, it contributes less than five percent. Despite the importance of agriculture in the Southern African region's economy, this sector has been in constant decline during the last number of decades. With an estimated annual growth of only 1.5 percent, agriculture is lagging behind demographic growth. This has been the case with all emerging economies in their transition from agrarian to industrial-based economies – from Italy to the United States, from India to Turkey, the contribution of agriculture to GDP has declined along with the numbers of people employed in this sector. As a result, the Southern African region has become a net food importer, spending hundreds of millions of dollars annually on products, which could be produced locally (Louw & Ngqangweni, 2004; Kirsten, 2007).

Agricultural growth provides a direct link to the poor. History has shown that there is a close connection between the level of development of a country's agricultural sector and the general economic development of that country. The strong and diversified economies of countries such as the United States, Canada and in the European Union (EU) are a result of the precedent performances of their agricultural sectors. Other countries like France, Australia and the Netherlands continue to rely strongly on their agricultural sectors as far as export earnings and employment are concerned. There has been a marked decline in numbers employed in agriculture in South Africa since deregulation in 1995 and a corresponding increase in productivity per worker employed in the sector, including yield improvements compared with Zimbabwe. Despite the decline in agriculture's share of South Africa's GDP in recent years, the development and performance of this sector in the past has contributed greatly to the country's economic development, and yields in the region remain mediocre compared to world. Even in the present day, primary agriculture and agro-processing continue to be major employment providers in South Africa (Stevens, 2003; McBain, 2007).

The entire landmass of the Southern African region comprises 906,324,000 square kilometres (30.9 percent) of the total African landmass. Of this, 226,581,000 hectares (25 percent) are arable and 48,653,300 hectares are under cultivation. This large landmass implies that member states are endowed with diverse soil and climatic characteristics; hence, they can grow a variety of crops and rear a range of animals. However, this potential is limited by the susceptibility of the region to droughts, floods, plant pests and animal diseases; the vulnerability of the agricultural work population to HIV and Aids infections; and the inadequacy of irrigation and transport infrastructures (SADC, 2006). The biggest obstacle to progress in agriculture is probably the slow transfer of technical skills, followed by the poor transport infrastructure already mentioned, in turn followed by low levels of mechanisation. Tractors per 100 square kilometres of arable land have declined from 20 to 13 in sub-Saharan Africa since 1989-91, compared with 123 in Latin America and 130 in South Asia. Poor transport and storage infrastructures are directly linked to the failure of products to reach markets (Russia had similar problems) before they deteriorate. Agri-processing plays a key role in converting basic crops or fresh produce into products easier to transport and store for longer periods (milling, extraction and canning), and its limited presence in the region is also accountable for high wastage (McBain, 2007; World Bank, 2007:124).

During the past two decades, most countries in sub-Saharan Africa undertook extensive economic reforms to reverse declining growth rates and reverse balance-of-payment deficits. The reforms were designed to reduce or eliminate the bias against agriculture and open the sector to market forces (Kherallah et al., 2000). Given these push-pull forces, the access of developing country producers, particularly small farmers, to supermarket markets has been the focus of considerable attention (Reardon & Timmer, 2005). Agribusiness development in particular is posed to enhance pro-poor development in the region, where many people live in poverty. Recent research (Jaffee et al., 2003) shows that both on the demand and on the supply side of agri-food systems, the poor are major stakeholders. This paper focuses on including the poor in ways that could contribute to reducing poverty and underdevelopment in the region. There is also potential for increasing crop production in the Southern African region through intensification and expansion of the area under cultivation. Intensification through the use of fertiliser, improved seed, irrigation, mechanisation and other technologies is a valid option for countries such as Angola, the Democratic Republic of Congo, Mozambique, Tanzania and Zambia (SADC, 2006).

Through African leaders' commitment to NEPAD, for the first time in many decades recognition is being given to the important role agriculture plays not only in the lives of ordinary Africans but also as a cornerstone of the continent's future economic development. This is important even in the relatively industrialised economy of South Africa. African governments have identified the agricultural sector as one of the priority sectors in their strategy to achieve sustainable development. In addition, Africa's economic performance and poverty reduction are now strongly linked to agricultural production. During the World Economic Forum (WEF), which took place in Durban from 11-13 June 2003, Professor Wiseman Nkuhlu, the then Chairperson of the NEPAD Steering Committee and Economic Adviser To President Mbeki, emphasised that “"The promotion of agriculture and its diversification into agro-industries to serve both domestic and export markets….."” is one of the actions which all presidents would have to take responsibility for in the future. And although much has been written regarding the reasons for the decline in the region's agricultural production, such as HIV/Aids, adverse climatic conditions, political instability and civil wars, there are an additional number of issues that need urgent attention if agriculture is to succeed in the future. Various governments do not seem to properly understand the important links between agriculture and transport and storage infrastructure, neither do they seem to understand the importance of appropriate scale agri-processing (McBain, 2007; Stevens, 2003).

1.4 Important agrifood subsectors

The Southern African region’s agricultural sector is characterised by the dominance of South Africa across virtually all products, because although it only produces 24 percent of the region’s agricultural output, it contributes 67 percent of the region’s GDP. The breakdown of each country’s agricultural sector’s contribution to GDP is given in Table 1.1.

Table 1.1: Agriculture’s contribution to GDP in Southern African countries’ economies (2006 averages)

Country	GDP US$ Millions	GDP Growth % 2000 - 2006	Value Added Agriculture (% of GDP)
Angola	44 033	11.1	7.0
Botswana	8 500*	N/A	2.5
The Democratic Republic of Congo	8 543	4.7	46
Lesotho	1 400*	N/A	17.4
Madagascar	5 499	2.7	28
Malawi	2 232	4.1	36
Mauritius	6 300*	N/A	6.3
Mozambique	7 608	8.2	22
Namibia	6 372	4.7	11
South Africa	254 992	4.1	3.0
Swaziland	1 800*	N/A	14.0
United Republic of Tanzania	12 784	6.5	45
Zambia	10 907	4.9	16
Zimbabwe	5 010	-5.6	22

Source: Adapted from World Bank, 2007:340-341; SADC, 2007
*Not in World Bank Report; therefore, not 2006 but instead 2004 figures

There has also been an increase in agricultural output which has doubled in the past forty years, due to an expansion in the area under cultivation and not to a growth in yields. Maize, cotton and wheat output has doubled (beef has nearly doubled), and sugar cane production has tripled in the forty years from 1961 to 2004 (Vink et al., 2006:7). The region has a comparative advantage in maize, wheat, cotton, sugar cane, fruit, bananas, vegetables, citrus, beef, and poultry. The Southern African region's main exports are sugar, fresh fruit and nuts, beverages, fish and tobacco. An exhaustive list of the Southern African region's main exports is given in Table 1.2 below.

Table 1.2: Southern African agri-exports for 1997 and 2002 (US$millions)

Agricultural Products	$Millions		% of Total Southern African Agricultural Exports	
	1997	2002	1997	2002
Sugar	680	704	17	14
Fruit	649	667	16	14
Beverages	357	518	9	11
Fish	268	484	7	10
Tobacco	177	399	4	8
Cotton	259	312	6	6
Processed vegetables	300	268	7	6
Hides	247	214	6	4
Cereals	292	206	7	4
Coffee	173	175	4	4
Wool	224	174	6	4
Others	625	965	16	20

Source: Vink et al., 2006: 62

A breakdown of some countries' comparative advantage products is given in Table 1.3 below. The Southern African countries other than South Africa are now capitalising on their advantage in maize, cotton and some vegetables.

Table 1.3: Agricultural trade profiles of selected Southern African countries (2003) (US$millions)

Country	Agricultural Exports	Export Value (US $millions)
Botswana	Meat Sugar Milling Products* Hides Total	38.9 6.8 4.3 1.4 57.1
Lesotho	Beverages Animal or Vegetable Fats Milling Products Cereals Total	27.1 6.5 3.1 2.6 45.1
Malawi	Tobacco products Sugar Cereals Fish Total	228 107 9 6 356
Mauritius	Sugar Processed meat and fish Fish Cotton Total	317 73 41 36 533
Mozambique	Fish Cotton Residues	99 16 16

	Fruit and Nuts^ **Total**	14 175
Namibia	Fish Beverages Live Animals Hides **Total**	337 72 58 37 581
Swaziland	Sugar Vegetables Beverages Meat **Total**	170 36 23 9 291
United Republic of Tanzania	Fish Coffee and Tea Cotton Tobacco products **Total**	136 86 53 52 511
Zambia	Cotton Sugar Tobacco Flowers **Total**	48 33 18 14 159
Zimbabwe	Tobacco+ Cotton Sugar Flowers **Total**	152 41 27 15 282

Source: Vink et al., 2006: 63-65

* Botswana's milling products are mainly pasta and flour produced from EU-subsidised wheat and exported into South Africa using the 'Infant Industry' provision of the SACU agreement. It has been an infant industry for over 20 years (McBain, 2007).

^In the 1960s, Mozambique was the world's largest producer of cashew nuts. It also exported considerable volumes of coconut oil (McBain, 2007).

+Zimbabwe's tobacco production was around US$ 600 million in 2001 (245 000 tons) and US$ 100 million in 2006 (85 000 tons) (Robertson, 2007).

1.5 The objectives and key research questions of the study

There have been many efforts by different stakeholders to create market linkages for poor farmers, but less effort has been put into developing relevant intervention frameworks backed by sound economic theory. This paper's main objective is to understand the keys to inclusion of small-scale producers in the dynamic restructuring of regional and local agrifood markets. It does this by analysing market concentration in the food processing and retail sectors of the sector concerned so as to ensure that small-scale farmers can better prepare and shield themselves against exclusion. The study attempts to establish the determinants of small-scale farmer inclusion in ways that could contribute to poverty eradication and reduce underdevelopment in the region. To develop a robust market linkage intervention framework, there are several questions which first need to be answered. The main research questions are What has driven and what does drive exclusion and inclusion of small farmers in the Southern African region? and Can inclusion/exclusion be characterised? These questions can be broken down as follows:

– How is the market restructuring process characterised in the Southern African region?

– What have been the changes in supermarkets chains and processing companies over time?
– What have been the changes in supermarkets' procurement systems?
– When have these changes taken place and, can different periods be identified?
– How are supermarkets spreading (e.g. the rise of franchise stores)?
– What is the significance of public policy drivers, private strategy drivers and other macroeconomic factors (exchange rates, etc.)?
– What are the main market channels and how have they evolved?
– Which market channels have been restructuring and how? Can we properly distinguish between restructured and traditional markets? (Markets usually considered as traditional can also be dynamic.)
– What is the spill over between market channels driven by the restructuring process?
– What role does the informal sector play in gaining access to markets for small holders?
– What are the different types of farmers in the Southern African region, and to what extent and how have they been affected by market restructuring? Does market restructuring drive their exclusion/inclusion, and is it influenced by policy factors? Which mix between policy and private strategy drivers actually explains exclusion and/or inclusion in different periods?
– What are the major determinants of exclusion for the different farmer types? Is there some discrimination based on equity, in addition to that based on efficiency?
– What is the past, current and future role of public policies with regard to participation of smallholder farmers in restructuring agrifood markets?
– How is policy affecting procurement systems (especially, but not only supermarket procurement)?
– Are farmers that benefited from land reform projects in a better position to access dynamic markets in comparison with other small farmers?

1.6 Research hypothesis

Several research hypotheses have been established. The main one is that many small farmers in the Southern African region were historically excluded from markets through restrictive colonialist legislation. This type of exclusion included restricted access to land and markets, which hampered their development. With the removal of this restrictive legislation, their exclusion from restructured markets continues, though, as a result of the restructured operational anatomy of these markets and the low level of specialisation that forms the point of departure for farmers. These issues are illustrated in Figure 1:

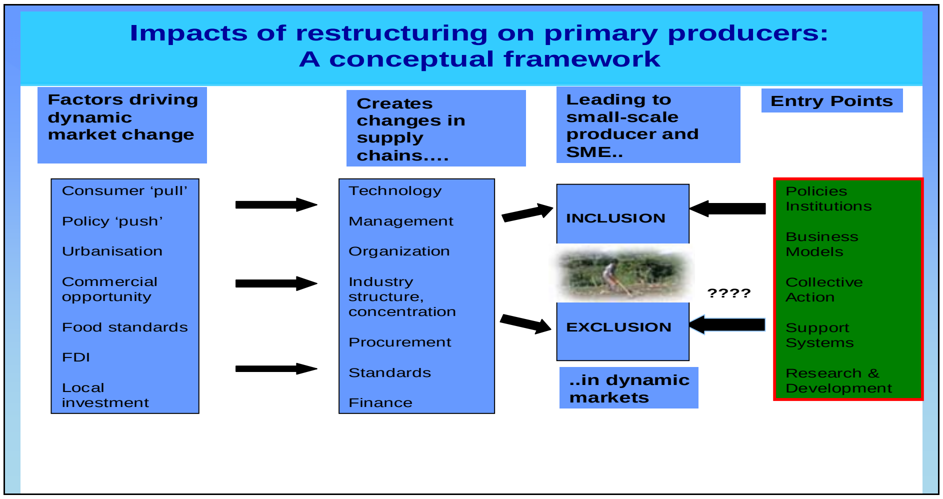

Figure 1.2: Conceptual framework
Source: Proctor, 2007a

The conceptual framework can be broken down into the following hypotheses:

- Improved food quality and safety standards have triggered the exclusion of small farmers.
- The evolution of supermarket procurement policies (like minimum quantities, consistency of supply, minimum quality standards and, recently, preferential procurement) are increasingly excluding small farmers from these market outlets.
- The growth of a self-governing Black middle-income class and rapid urbanisation were instrumental in the recent restructuring and/or organic growth of the supermarket chains in the Southern African region.
- The dissemination of franchise stores is triggering greater inclusion of small farmers into supermarket markets in nonurban/ rural areas.
- The distance (transport costs) between small-scale farmers and possible market channels critically affects their inclusion into restructured chains.
- Privatisation of fresh produce markets (and subsequent changes in their wholesale functions) is leading to the exclusion of small-scale farmers.
- The restructuring of the different fresh produce market channels is not uniform.
- Both White and Black smallholder farmers are subject to exclusion from restructured markets, either on efficiency or equity bases or both.
- Public policies have inadvertent effects with regard to improving smallholder farmers' participation in restructuring agrifood markets.
- Changes in macroeconomic conditions (e.g. exchange rates) indirectly result in exclusion – exporters that re-enter the domestic market increase competition in the domestic market.
- Generally, due to the capital- and management-intensive nature of agriculture, this sector has a high barrier to entry in the Southern African region. Levels of technology and food quality standards set by modern market channels require experience and training – these are important exclusion issues for all entrants and specifically for small farmers in the Southern African region.

1.7 Organisation of the report

This report is organised into a few main sections. The first is a discussion of the political economy of the Southern African region. The second section discusses changes in the national food system, which covers overall national food market restructuring, the patterns and determinants of this restructuring, and the trends in the evolution of procurements systems. The third section covers market access for small farmers. The fourth section deals with influencing agricultural policy, and the final section covers lessons learnt, insights, findings and recommendations for the region.

2. SOUTHERN AFRICAN REGION POLITICAL ECONOMY

2.1 The Significance of Agriculture

Agriculture remains the most important sector in the Southern African region with approximately 70 percent of the population depending on it for food, income and employment. Its role in poverty reduction, socioeconomic development, income redistribution, food security and regional integration in the Southern African region cannot be underscored sufficiently. The Southern African region comprises about 147 million hectares of arable land. However, size alone is not the only determinant of why most Southern African economies are agro-based. The fact that 70 percent of the population of this region is directly dependant on agriculture as a livelihood is, on the one hand, due to the shallow economic structure of many SADC member countries and, on the other, the political ineptness in recycling or distributing income from oil and other natural-based activities throughout these economies. Agriculture is responsible for 13 percent of total exports from the region and accounts for 66 percent of intra-regional trade. The investment opportunities in agriculture are mostly in food processing, agribusiness, clothing and textiles (ESRF, 2003:4). The latter is debatable, given the recent dominance by China of the world textile markets.

For the Southern African region as a whole, the contribution of agriculture to GDP exceeds that of manufacturing by almost five percentage points. The implication is that economic welfare would be greatly enhanced if productivity and output in agriculture could be increased through FDI (Vink et al., 2006). Value-adding to agricultural commodities significantly contributes to the manufacturing sector. In this regard, Mauritius is a good example of the textile and clothing industry, supported by the agricultural sector,. However, it could be argued that Mauritius is being used as a conduit for clothing from SE Asia and China into Africa and the EU (McBain, 2007).

According to Vink et al. (2006), there is strong evidence that in most of the Southern African region countries the social return on investment is more likely to be positive in agriculture compared to other sectors. This adds to the argument for the importance of encouraging FDI in agriculture. However, locational factors contributing to the yielding of positive results include the following: market potential, the existence of quality and appropriate infrastructure, natural resources endowment, availability and cost of labour, political and social stability, secure property rights, support of a sound legal system and prospects for foreign investors to repatriate profits.

Output of most agricultural commodities (maize, cotton, wheat, beef and sugarcane) in the Southern African region has almost doubled in the past four decades, but this has been mostly due to area expansion rather than yield increases. Southern Afrcian countries other than South Africa are exploiting the region's comparative advantage in the production of maize, cotton and some vegetables (Vink et al., 2006; Nyambe, 2005).

2.2 Foreign Direct Investment (FDI)

Foreign direct investment is quite important to the region as it is serves the purpose of filling certain fissures in the economies of the developing countries, which include the gap between local savings and investments; the lack of sufficient foreign exchange earnings to cater for imports associated with economic growth; and the gap between technology and advanced skills, especially in management and entrepreneurship. However, caution has to be exercised, especially in situations where profit remittances exceed the value of FDI, as was the case with Botswana and Swaziland in the period 1996 to 2003.

Investment opportunities within the Southern African region exist predominantly in the following areas:

- The mining sector – supported by the fact that the Southern African region is endowed with a considerable share of the worlds mineral reserves (See Annexure: Table A2).
- The agricultural sector – supported mainly by the fact that arable land is ample and that the direct cost of labour is competitive, plus by the opportunities envisaged in agro-processing and agribusiness in general. Among the suggested areas for agricultural investment in the Southern African region are crops such as cotton, tea, sugar, horticultural crops, cut flowers, nutraceutical crops and tobacco.
- Tourism and the hospitality industry – supported by the region's diverse natural and cultural assets and fauna and flora uniqueness.
- Services – the information and communication technology (ICT) infrastructure in this region is viewed in a positive light, and as a result, it is positioned to render support and therefore facilitate speedy growth in all of the other sectors.

Indeed, the fear of South African dominance, manifested by the fact that the latter accounts for almost 70 percent of the Southern African region's GDP, has been downplayed by several pieces of evidence that indicate that smaller economies can also benefit from the inflow of FDI into an integrated region. Vink et al. (2006) argue that since the other Southern African countries' economies have a labour-cost advantage compared with South Africa, labour intensive processes in manufacturing have attracted South African as well as international investment into other Southern African countries, such as in the cases of Lesotho and Swaziland. Another example of this is the current rapid development of Mozambique's sugar industry, driven by South Africa and the expansion of China into Mozambique and Angola.

Although South Africa's FDI into other Southern African countries can contribute significantly to their economic growth and development, some investments have brought about competition for domestic producers. This, coupled with the anticompetitive practices of South African companies, led to the poor reception of South African investments in other Southern African countries. Most of the South African investments in the Southern African region and the rest of Africa comprise those in the retail sector (i.e., Pick 'n Pay, Spar, Shoprite, Woolworths, Truworths, Morkels, Debonairs and others), the banking sector (i.e., ABSA, Standard Bank, DBSA, Rand Merchant Bank and the IDC), and some investment in the mining sector (i.e., Transhex, Barloworld), while those investments in the service sector include MTN, Vodacom and Mweb. All of the preceding examples relate to nontradable activities, but what the region needs is investment in tradable activities. A SWOT analysis of investment in the Southern African region is given in Table 2.1 (Louw, et al., 2007b; Louw & Ngqangweni, 2004).

Table 2.1: SWOT analysis of investment in the Southern African region

Strengths	Weaknesses
- Regional integration (SACU) - Presence of multinationals - Growth of retail networks across the region - Access to sea - Good investor protection(e.g. Mauritius, South Africa, Mozambique) - Availability of labour at competitive cost - Good share of mineral reserves	- Infrastructure still inadequate (i.e., roads, telecommunication, electricity…) - Problem of skills communication and transfer over a wide geographical area - Barriers to cross-border trade - Low literacy - Very low crop yields - Inefficient farming practices - Inadequate crop and livestock hybrid development - Very low labour productivity
Opportunities	**Threats**
- A growing market of approximately 214 million people (35% urban population) - Agribusiness sector doing what? - Existence of raw materials - Good mineral reserves - Availability of un- or underdeveloped arable land. - Underutilised water resources in Congo, Mozambique and Zambia -Tourism, eco-tourism and hospitality industries - ICT industry - Mining - Increasing demand for finished products - Growth opportunities in China, India, Brazil (south to south cooperation)	- Peace and stability (e.g., Zimbabwe) - Corruption - Water / drought - WTO issues (i.e., subsidies in other regions) - Disease (HIV/Aids, Malaria,TB, etc.) - Increasing fuel prices - Artificial trade barriers (e.g., carbon units, measures for food exports to EU markets)

Source: Louw, et al., 2007b; Louw & Ngqangweni, 2004; McBain, 2007

In order for successful FDI in the Southern African region to occur, the following issues will have to be adequately addressed, including: issues relating to land ownership, especially with regard to the expansion of agriculture, and issues concerning taxes, tariffs, and transport costs.

2.3 Competitiveness

The Global Competitiveness Index (GCI) measure is based on three pillars that determine the rate of economic growth of a nation, and these include the macro economic environment, the quality of public institutions, and technological progress (McArthur, et al., 2002). A measure of the competitiveness of Southern Africa as a region would depend on i) factor conditions, ii) demand conditions, iii) related and supporting industries, and iv) knowledge. Factor conditions refer to the region's position in terms of factors of production, natural resources, and production costs such as labour prices and infrastructure. Demand conditions refer to the composition, size and character of demand within the region for products and services, e.g., discerning consumers are critical of what occupies the shelves in supermarkets. Related and supporting industries refer to supply industries. Other factors that influence competitiveness include the way firms are created, organised and managed, the role government plays, and chance events such as wars, shifts in demand, discontinuity of technology, and shifts in world financial markets. As is shown in Table 2.2, the rankings of Botswana, Mauritius and South Africa are relatively high compared to other SADC countries.

Table 2.2: Summary of global competitive index rankings of Southern African countries

Country	2004	2005	2006	2007
Angola	NR	-	125	NR
Botswana	48	72	57	76
D.R. Congo	NR	-	NR	NR
Lesotho	NR	-	102	124
Madagascar	-	107	111	118
Malawi	105		NR	NR
Mauritius	52	55	55	60
Mozambique	91	112	119	128
Namibia	63	79	82	89
South Africa	42	40	36	44
Swaziland	NR		NR	NR
Tanzania	71	105	97	104
Zambia	NR		118	122
Zimbabwe	109	110	112	129

*NR - Not ranked out of 131 countries - no information

Source: www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/gcr_2006/

2.4 Human Development Index (HDI)

By definition, HDI refers to processes that enlarge human choices and improve the quality of life for a human being. HDI therefore provides a general measure of human progress. It has three components which are; i) longevity, usually represented by life expectancy, ii) education leve, usually represented by enrolment and adult literacy, and iii) living standards represented by income.

Mauritius has maintained the highest ranking in the region for over a decade, followed by South Africa, with Angola, Tanzania, Malawi, Zambia, DR Congo and Mozambique all ranking much lower (rank 160+). The Southern African region ranks lower than Southern and Eastern Asia, but it is ranked higher than the Economic Community of West African States (ECOWAS) and the Common Market for Eastern and Southern Africa (COMESA) regions.

2.5 Corruption

The Southern African region has illustrated the political will to address corruption by adopting and signing the SADC protocol, the Africa Union Convention on Prevention and Combating Corruption, and the United Nations Convention on Corruption. The challenge lies in implementing the above instruments in each of the member states. The objectives of the instruments are for each member state to undertake to do the following (SADC, 2006):

i) develop the capacity to prevent, detect, punish and eradicate corruption in the public and private sectors.

ii) cooperate with member states in developing and harmonising policies for domestic legislation relating to corruption.

iii cooperate) internationally to implement technical assistance with regard to asset recovery and anticorruption measures relating to both public affairs and public property.

2.6 Doing Business

This section presents quantitative indicators of business regulations and of the protection of property rights. The regulations are measured in terms of starting a business, licensing, employment of workers, property regulations, credit access, protection of investors, taxes, contract enforcement, cross-border trade, and business closure. A summary of the rankings for Southern African countries is shown in Table 2.3.

Table 2.3: Summary of rankings of Southern African countries in doing business

Country	Overall ranking (out of 178)	Starting a business	Protecting investors	Getting credit	Trading across borders	Enforcing contracts
Angola	167	173	51	84	164	176^
Botswana	51	99	107	26	145^	95
D.R. Congo	178^	146	147	158	154	173^
Lesotho	124	126	141	115	129	99
Malawi	127	108	64	84	161	135
Mauritius	27	8*	11*	97	17	78
Mozambique	134	125	33*	97	140	138
Namibia	43	101	64	36	144	33
South Africa	35	53	9	26	134	85
Swaziland	95	142	175^	36	146	129
Tanzania	130	95	83	115	100	35
Zambia	115	82	64	97	160	66
Zimbabwe	152	143	107	97	169	74

^ Worrying performance *Encouraging performance

Source: Doing Business, 2008

Observations based on these rankings reveal that some of the economies within the Southern African region are plausible locations for setting up businesses. These include Mauritius, South Africa, Namibia and Botswana, all of which ranked among the top 60 economies in which to do business. Mauritius seems to rank very high in terms of starting a business, and positive reforms have also been made in Mozambique and Tanzania. In terms of getting credit, Botswana, Namibia, South Africa and Swaziland are ranked among the top 50 countries, while relating to the enforcement of contracts, Namibia and Tanzania are ranked among the top 50 countries. South Africa and Mauritius perform remarkably well in terms of protecting investors, and improvements in this regard have been seen in Mozambique as well.

The low rankings for most Southern African countries in terms of trading across borders raise some serious concerns. The Southern African region will have to work on intra- and inter-regional trade barriers. The other challenges the Southern African region faces in terms of doing business is the wide disparity among the countries, especially considering the very low-ranked countries, such as the DR Congo, Angola and Zimbabwe. Such disparities could drag down the entire region's overall performance.

2.7 Regional integration

Regional Integration Arrangements (RIA) are aimed at promoting economic growth and development through enhancing investment. The SADC trade protocol and its finance and investment protocols have been developed with the aim of equitably liberalising intra-regional trade and development in the region. They also seek to foster greater efficiency in production and an improvement in the investment climate.

The goals of regional integration are to expand the market beyond the confines of a single domestic market and thereby increase investment opportunities. Belonging to an RIA can also be seen to contribute to sound macroeconomic policies, which bring about confidence in the economic management of a country, and hence a positive impact on FDI. Success in regional integration is often attributed to the implementation of favourable and investor-friendly policies. The growth of FDI in Mozambique, South Africa and some other countries that have ports and harbours is also attributed to their seaside locations.

Table 2.4: Membership of regional organisations in Southern Africa

Country	SACU	SADC	COMESA
Angola		X	X
Botswana	X	X	
DRC		X	X
Lesotho	X	X	
Madagascar		X	X
Malawi		X	X
Mauritius		X	X
Mozambique		X	
Namibia	X	X	X
South Africa	X	X	
Swaziland	X	X	X
Tanzania		X	
Zambia		X	X
Zimbabwe		X	X

Source: Adapted from ESRF (2003:4) & Hallaert (2007:4)

As outlined by Vink et al., (2006), during the period 1998 to 2003, nearly 25 percent of the FDI received by the rest of the Southern African countries originated from South Africa. Mozambique received 51 percent of its FDI from South Africa and so did Malawi and Tanzania, which received ten percent and nine percent respectively. It is believed that regional integration fosters such FDI. Since 1994, many multinationals have spread to South Africa and are using this as a springboard into the rest of Africa, and therefore the appeal of the SADC is enhanced by the benefits flowing from this arrangement. A current initiative, the SADC Protocol on Trade has a free trade area as its goal, with zero tariffs by the year 2008. South Africa's tariffs on the rest of the SADC were reduced to zero in 2005. The SADC monetary area also has potential advantages for FDI within the region.

Nevertheless, as is demonstrated by the rankings of Doing Business (2008), cross-border trade by many of the Southern African countries still faces several tariff and nontariff barriers that ought to be addressed in order for regional integration to be enhanced. High tariff barriers within the SADC region have fuelled corruption and circumvention. The dominance of South Africa in the Southern African region ought to be viewed as an opportunity for intra-regional trade and enhanced, efficient resource allocation, with smaller economies offering some resources, such as labour, at a more competitive cost. These issues call for commitment towards regional integration at the national level.

Some other initiatives that have emanated from regional integration include a memorandum of understanding/protocol that has been developed within the SADC region for a variety release system to be established, such that once a crop variety gets released in at least two SADC countries, it can then be freely marketed in all the other SADC countries without any prohibition. Efforts to establish a regional seed certification system based on OECD procedures are underway, and this will ease the movement of seed within the SADC region. South Africa's National Seed Organisation (SANSOR) is also playing a key role in streamlining the phytosanitary requirements for seed within the SADC region by lobbying the ministers' council. Efforts are underway to also establish a regional phytosanitary system.

Delays in the approval of additional GMO corn varieties in the region preclude importation of US corn, resulting in local feed millers and starch producers using local white maize. This will result in a white maize shortage in South Africa by February 2008. All corn exports from Latin America have been bought by the EU (McBain, 2007).

2.8 Distinct differences

From summary statistics and economic indicators, South Africa and Mauritius seem to be ahead of the rest of the Southern African countries in terms of GDP per capita, global competitiveness and human development. On the other hand, the DR Congo and Malawi have very worrying GDP per capita figures, and they do not even feature among the top 131 rankings of global competitiveness. Such disparities in the region affect its general progress in terms of integration and economic growth.

As mentioned previously, the comparatively massive size of South Africa's economy is viewed mostly as a threat in the region due to associated trade imbalances. Several studies based on gravity models have found that intra-Southern African regional trade tends to obey the laws of gravity in that larger economies tend to trade more with one another. However, an argument has been put forward that smaller economies may also benefit from larger ones in regional integration. The smaller economies could be a source of raw materials if adequate transport infrastructure exists that enhances linkages within the region. This has been linked mainly to the smaller economies' cost advantages and not to their skills advantages, especially not 'higher level skills' such as engineering. If transport infrastructures in Southern African countries with smaller economies were good, South African manufacturers would be encouraged to initially source raw materials in these countries and then build processing plants and process these raw materials when supply became reliable. Viable opportunities for these arrangements include tomatoes (processed into tomato paste), groundnuts (processed into peanut butter), beans (processed into canned baked beans), etc.(McBain, 2007).
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Political and economic stability across the region is still a challenge. Some countries in the Southern African region are more prone than others to slip back into political instability, creating distinct differences in investor confidence across the region.

3. CHANGES IN THE NATIONAL FOOD SYSTEMS

3.1 Overall national food market restructuring

The Southern African region is evolving from a largely state controlled economy to a private-sector-led economy. This development has been occurring at an increasing speed over the last 10 years. It has however occurred at different rates in different countries, due to the many factors already mentioned. The region's food markets are characterised by dualism, with a very well developed, highly sophisticated food marketing system on the one hand and a well organised informal food marketing system on the other hand. Although there are variations in the degree of disparity between countries, it is generally accepted that all countries in the region have this characteristic divide.

The highly sophisticated food marketing system is dominated by a small number of retail groups who distribute food through a variety of supermarket formats. The informal food marketing system distributes food through tuck shops or *spaza* shops, street traders and hawkers. Both systems are connected directly and indirectly to farmers. Another characteristic feature in the region is the fresh produce markets (FPMs) as the main intermediaries between farmers and the formal and informal retail sectors. The FPMs that operate in most of the region's main cities act as both wholesale and retail markets. The new retail groups, however, have increasingly been bypassing the FPMs to deal directly with larger commercial farmers through their regional and national distribution centres, which they have been progressively setting up throughout the region. It is however worth noting that the FPMs are still a formidable force throughout the region, as are all forms of informal markets. This is especially so in South Africa, which has FPMs in their characteristic form, together with others that are smaller and less developed and sophisticated. This gives South Africa a competitive edge in terms of major investments, i.e., FDI (McBain, 2007; Louw, et al., 2007: 11).

3.1.1 Introduction

Food markets are constantly evolving, driven not only by changing consumer preferences but also by technology, food supply chain linkages, and prevailing policies and business environments. The consumer is the principal driving force in the global food market. Income growth, lifestyle changes brought about by urbanisation, demography, and changing family structures have resulted in diet changes among consumers worldwide. Because of increases in purchasing power and the increased opportunity cost of time required for preparing food, the demand for higher value and processed food products has expanded globally. Although consumers' diets are being upgraded worldwide, food purchase patterns traditionally vary across countries, based on income levels and dietary habits. Notwithstanding these tendencies, consumers in developing countries, such as most of the Southern African countries, whose diets were traditionally high in low-value, carbohydrate-rich cereals, have increased their consumption of higher value meats, fruit and vegetables. As such, developing countries are registering rapid increases in the retail sales of increasingly diverse high-value foods (and the number of supermarkets and other retail chains are increasing). To meet these increasingly varied needs, multinational food retailers and manufacturers are expanding their presence in developing countries (TIPS & AusAID, 2007:12).

3.1.2 Patterns in the dynamics of market restructuring

Global retail chains are increasingly spreading throughout the world, and this is especially the case in economies that are developing or are in transition. This evolution is having significant impacts on agricultural systems and food supply chains, largely due to the insistence of global retail chains on improved quality standards. The instituted changes include centralised procurement systems, the use of specialised-dedicated wholesalers and preferred supplier systems, and the demanding requirements of private contracts (Reardon, et al., 2003). However, global retail chains do not invest uniformly in all countries and some, especially poorer, countries have been left behind in the retail revolution (Minten, 2007:4).

This is particularly evident in the Southern African region where South Africa has by far the richest population in the region. Most other Southern African countries have large rural populations, which are generally impoverished. These countries' GDP output is far below that of South Africa's, which illustrates the region's problems. As a result, South Africa has become the region's chief source of FDI (PlanetRetail, 2007b). South Africa has achieved rapid growth in terms of supermarket developments, yet change in modern wholesaling and retailing including the 'supermarket revolution' is yet to happen in other parts of the Southern African region, for example, in Mozambique, due to the limited purchasing power of the majority of the population (Nair & Coote, 2007:1). This is true of most of the other Southern African nations.

In some countries of the Southern African region, such as Zimbabwe, Botswana and Namibia, the changes have taken place very slowly. The situation in many of these countries is similar to that of Zambia, in which the food retail sector consists of formal and nonformal sectors. The latter sector consists of producers producing for subsistence and selling their surplus to their neighbours and neighbouring markets. The sector also consists of street vendors, hawkers and traders selling food products in housing estates. The formal retail sector in Zambia consists of supermarkets and neighbourhood stores, 'cash-and carry' and other independent retail stores. (Hichaambwa, et al., 2007:1). It should be noted that in much of the Southern African region the small-scale traditional marketing system has continued to dominate. At the same time, it has proven itself adaptable in serving a broad range of consumers with lower and affordable prices and quality produce, comparable to and sometimes superior to that of supermarkets (Hichaambwa, et al., 2007:2). While this might be true in some SADC member countries, in countries with larger urban centres it is not the case.

In the Southern African region's major cities, like Johannesburg, Cape Town, Pretoria, Lusaka, Harare and Gaborone, transformation of agricultural markets has seen supply chains in traditional markets being replaced with major new players such as supermarkets and convenience stores. Voluntary trading groups and franchise stores also warrant being mentioned, because in some instances, as for example is the case with the SPAR model, they significantly reduce transaction costs for the individual store owner. Modern, large retail chains have become major buyers from both farmers and processors, and they also have considerable power in the agribusiness markets in the region This is especially the case in South Africa (Louw et al., 2007). The new supply chains and alternative market options in restructured agribusiness markets may exclude traditional wholesale markets and small-scale farmers, as major retailers consolidate and integrate their supply chains to reduce costs and offer high-quality cheaper food to consumers in urban areas. For instance, some supermarkets have outsourced their procurement to dedicated wholesalers or so called 'category managers'. Category management for supermarkets (the use of only one or two suppliers per category of product on their shelves) is a significant form of wholesaling in South Africa. Shoprite, as an example, has its own distribution wholesale network or category manager, Freshmark, dedicated to the procurement of fruit and vegetables for them. Suppliers deliver mainly to Freshmark's wholesale or distribution centres, where products from various suppliers are received, repacked into consignments for different stores, and then delivered to the respective stores. Additional value adding along the supply chain of agricultural products includes sorting, grading, washing, cutting, cooling, packaging, brand naming, storing, freezing and transporting (Louw et al., 2007).

The supply chains in the agribusiness sector have been transformed from the traditional minimal-value-adding distribution channels of the 1960s to the recently emerging new types of retailers, such as supermarkets[2]. It could, however, be debated to what degree this has had a

[2] Supermarkets refer in this context to various segments of the *modern retail sector* and include hypermarkets and superstores, supermarkets and neighbourhood stores, convenience and forecourt stores, and discount stores. Cash and carry is included in the definition of *modern retail* as they reflect a mix of both retail and wholesale services

meaningful impact within the Southern African region (McBain, 2007). In the past, farmers' produce was sold on wholesale, auction, and other spot markets with minimal processing and packaging. This was especially so in the case of perishables like fruits and vegetables in the absence of processing and preservation facilities (Louw et al, 2007). Examples of such markets in the Southern African region include the wholesale fresh produce markets in South Africa, Soweto in Zambia, and Mbare in Harare (Reardon & Weatherspoon, 2003). Nonetheless, it should be noted that the different domestic fruit and vegetable sectors are not necessary applicable to agriculture in all Southern African countries.

Although many of the region's countries are in a state of poverty, urbanisation and limited income growth have led to changes in consumer preferences. Significant trends regarding the food industry within the region include (Proctor, 2007a):

- Raised consumer awareness of and demand for quality.
- Food safety and health concerns of consumers.
- Emergence and inclusion of modern retail practices in the market chain and increasing market opportunities.
- Ease of access for imported goods to modern markets – global competition.
- Opening up of new market opportunities, including exports and agri-processing.
- Good agricultural practices, including traceable production and integrated quality assurance, are key requirements if the region wants to export to developed countries

The next sections will discuss the effects of these trends in terms of agro-industrialisation, supply chain consolidation, trans-regionalisation, and the ensuing displacements of agents and store formats, as well as the emergence new store formats and the determinants of these changes.

3.2 Agro-industrialisation

Agro-industrialisation comprises related sets of changes: the growth of agro-processing; and food distribution: institutional and organisational changes in the relation between agro-industrial firms and farms (Reardon et al., 2003). Following Bennett's Law, population and income growth, and urbanisation induce global changes in consumer demand patterns, notably a disproportionate growth in demand for dairy, meat, horticultural, and processed grain products compared with demand for unprocessed staple foods (Reardon, et al., 2004). Agro-industrialisation both prompts and responds to the changing organisation of agrifood sectors in developing countries and the changes in institutions governing production and exchange. As urbanisation and the industrialisation of the food system proceeds, the way food is produced and marketed in developing countries changes in response to changing demand. The changes in food retailing bring major challenges to the sustainability of small retail shops and vendors, small enterprises, and small farmers (Reardon et al., 2004). On the other hand, developments in the retail sector offer opportunities for including the poor in value chains (Humphrey, 2006). The major effects of processors on the agrifood system are brought about by procuring large volumes of products from suppliers. Stiff competition from both small retail shops and other processors results in cutting costs and raising quality and diversity. Cutting costs in turn necessitates improving all aspects of procurement, including product and transaction costs. This is achieved through improving coordination and logistic systems, such as distribution centres; logistics platforms; contracts with wholesalers and producers; and private standards specifying quality, safety, volumes, and the packaging of products (Reardon & Berdegué, 2002).

According to Reardon and Berdegue (2002), the first wave of supermarket diffusion occurred in Latin America. The second wave was in East/Southeast Asia and the third was in the small and poorer countries of Latin America and Asia, including southern and then eastern Africa, and the fourth wave, only starting now, is hitting South Asia and West Africa. The rapid rise of processors in these regions in the past 5 to 10 years has transformed agrifood markets at different rates and depths across regions and countries. Many of those transformations present great challenges and even exclusion for small farms, processing and distribution firms, but also potentially great opportunities (Reardon & Farina, 2003). The rise of processors in Africa since the mid-1990s is transforming the food retail sector. Processors have spread fast in southern and eastern Africa, already proliferating beyond middle-class big-city markets into smaller towns and poorer areas (Reardon & Weatherspoon, 2003).

There has been a rapid transformation of the African food retail sector over the past decade, with the fastest transformation occurring in South Africa and Kenya. It is now also occurring in countries that are receiving substantial FDI from South Africa, such as Zimbabwe, Zambia, Namibia, Botswana, Swaziland, and more recently, Madagascar, Mauritius, Angola, and Mozambique (Reardon & Berdegué, 2002) The South African supermarket chains have recently invested in 13 other African countries (Reardon & Weatherspoon, 2003). Pick 'n Pay is South Africa's second largest food retailer, in vigorous competition with Shoprite – in particular, its more up-market Checkers format – for the mass market, and with Woolworths for the upper-income market, as well as with Shoprite for early entry into other African markets.

3.3 Consolidation

The ongoing changes are driving food supply chains to more closely coordinate producers and retailers so that products can be differentiated to meet consumer demands. However, as the food industry becomes more global, food markets are increasingly responding to consumer preferences at a local level and are catering to specific demands in each market. The substantial increase of large retailers in the agribusiness supply chain in the Southern African region, mainly due to the expansion of South African companies into the agribusiness supply chains in this region through Foreign Direct Investments (FDI) since 1995, has led to vertical integration and concentration in the agribusiness chain. Being able to supply a specific market and compete successfully in that market requires in-depth knowledge of conditions and consumer habits, as well as complex models that can project future growth and preference changes. The existence of minor players, therefore, becomes less likely, as efficiency, competition, massive marketing and research overheads, tax breaks and various barriers to entry favour bigger (multinational) companies, or at least, collaborative efforts that combine resources and produce and coordinate marketing strategies for smaller farms/companies. Multinational agri-processors are at a distinct advantage because of their ability to transfer technology readily (available skilled staff on contract and used but tried and tested machinery) plus their internationally recognised brands that are usually introduced through imports (TIPS & AusAID, 2007:12; McBain, 2007).

Consolidation is defined as the act of combining into an integral whole. Generally speaking, consolidation in South Africa has already taken place in most sectors and can currently be described as 'well advanced'. This can be deduced from the levels of concentration in the various tiers of the food supply chain, as will be described. This section investigates the various levels of concentration in the relevant sectors of the Southern African region's economy as an indication of the levels of consolidation in the food supply chain.

3.3.1 Production

There is rapid transformation in global agrifood systems, where increasing concentration in processing, trading, marketing and retailing is being observed in all regions of the world and in all segments of production-distribution chains (Reardon & Berdegué, 2002). The traditional way in which food is produced, without farmers having a clear idea in advance of when, to whom, and at what price they are going to sell their crops, is being replaced by practices more akin to manufacturing processes, with far greater coordination between farmers, processors, retailers and others in the supply chain. Farmers increasingly produce to meet the requirements of buyers, rather than relying on markets (spot, open or FPMs) to absorb what they produce (Reardon et al., 2003). As incomes increase, food consumption is changing. Demand for fruit and vegetables, animal products and oil crops is growing, and farmers are diversifying production to respond to these changes. While a wider range of agri-products arises, individual farmers tend to specialise in order to improve productivity (McBain, 2007; Reardon et al., 2003).

Processors play a decisive role in defining how international trade in fresh fruit and vegetables is structured (Humphrey & Oetero, 2000). In the late 1980s and early 1990s, high value agricultural exports were typically produced by smallholders and exported by locally owned companies to independent importers in Europe. Many exporters have invested upstream in production; for example, half of all produce exported by nine leading fresh vegetable exporters in Kenya and Zimbabwe was produced on their own farms (Dolan et al., 1999). Importers and exporters have forged closer ties, often through mergers, joint ventures or acquisitions (UNCTAD, 2002). The capital required for investment in post-harvest processing and in the cold chain, and the need to ensure rapid and reliable exports encourages the participation of large-scale producers (Dolan & Humphrey, 2000). The emergence of oligopolies in packing, processing and exports (Jaffee, 1993) has also been necessary to counterbalance the growing concentration among importers/buyers at destinations. Recent developments in South Africa of the Post Harvest Innovation Programme and the Fresh Produce Exporter Forum illustrate that collaborations in exports can be highly effective in reducing transaction costs and enhacing capability (e.g. Australian and Canadian Wheat Boards, SA Sugar Association), but if they are poorly managed, cooperatives can increase transaction costs and cause inefficiency (e.g. Langeberg Coop and KWV) (McBain, 2007).

The combined effect of each of these trends has been to produce a much shorter supply chain, a greater degree of vertical integration (including contractual agreements between input suppliers and/or agribusinesses), fewer active players and production and exporting on a much larger scale. Therefore, smallholder farmers require technology, financial capital, human capital and collective action to deal with transaction costs and the new economies of scale demanded by the new markets (Vorley, 2003).

3.3.2 Processing

South Africa is the front runner, with roughly a 55 percent share of processors in sub-Saharan Africa. Shoprite and Pick n Pay have been the main actors in terms of the expansion of supermarket chains from South Africa to the rest of the subcontinent. They control 80 percent of the processing sector in sub-Saharan Africa (Louw, et al., 2004). South Africa is a mature market, but still expanding to cope with the needs of an emerging and growing middle class. They have undertaken a massive expansion into African markets and beyond, due to the saturation or near saturation of the South African market, and partly in a search for much higher profit rates in the new markets elsewhere in Africa that are under-developed (Reardon & Weatherspoon, 2003).

3.4 Wholesaling

There has also been transformation of wholesale markets, from local and fragmented to larger and more centralised, with urbanisation and the improvement of infrastructure occurring most rapidly in countries and zones exhibiting more markedly those determinants of change (Reardon & Berdegué, 2002). Distribution centres imply an increase in the scale and volume of procurement, which tends to lead distribution centres to procure products from large areas, in higher volumes, and to serve a number of stores. The increase in the scale and volume of procurement also results in working with suppliers whose scale, capital, and managerial capacity are sufficient to meet the requirements of the new procurement system. The growing concentration in the processing and retail sectors in domestic markets of developing and transitional countries has led to significant institutional changes that affect smallholder agriculture (Weatherspoon & Reardon, 2003; Kherallah & Kirsten, 2000). Domestic markets are increasingly becoming more liberalised, with export markets comprising product chains that have become buyer-driven (Gerrify, 1994). Buyer-driven chains are more regulated and are characterised by high levels of governance and long-term vertical coordination between producers, supplier-integrators, processors and retailers (Vorley, 2003).

The processors' progress in gaining control of fresh food markets has been slower, and there is greater variation across countries because of local habits and responses by open markets and local shops (Weatherspoon & Reardon, 2003). In the past supermarket chains have had a difficult time meeting those objectives by using the traditional wholesale sector to procure their products (Reardon & Farina, 2001). The realities and problems with traditional markets, where the supermarkets source their stock, is that the traditional wholesaling industry is fragmented, unformatted and unstandardised. The informal market does not have research, statistics, market information, standardised products, quality control, logistics, technical assistance, and infrastructure (Reardon & Farina, 2001).

Driven to close the gap between their supplies and their needs, supermarket chains in developing regions have been shifting over the past few years away from the old procurement model, based on sourcing products from the traditional wholesalers and the wholesale markets, toward the use of a new kind of centralised procurement through distribution centres (DCs) and the regionalisation of procurement (Reardon & Berdegué, 2002). Supermarket managers[3] are caught between informal traditional retailers selling fresh local products, on one hand, and efficient global chain competitors, on the other hand. Supermarket chains are locked in a struggle with other chains in a highly competitive industry with low margins, seeking constantly to lower product and transaction costs and risk, and all of this points towards selecting only medium and large farmers (Reardon & Berdegué, 2002). This illustrates the importance of cooperatives, where many small farmers effectively become a large farmer, and they can reduce transaction, storage and basic processing costs (packing and quality blending). However, they have in the interim worked to meet this pressure by reducing purchase and transaction costs and raising product quality (Codron & Lauret, 1993).

3.5 Retailing

Grocery sales figures in for the SADC regionSADC are limited in many countries. Groceries are bought from street markets, informal vendors or through bartering, which distorts figures and makes them hard to estimate. South Africa has the highest concentration of grocery sales

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[3] operating under intense competition and low average profit margins

figures available, due to its sophisticated domestic retail chains. It is also the market with the most significant MGD sales. Figures for Southern African countries, such as Botswana, are high because the MGD sector is small and represented by only a few modern shops. All other markets in the region show minimal value due to their underdeveloped retail sectors, with traditional stores, street markets and informal trading dominating the markets (Planet Retail, 2007b).

Although supermarkets are conventionally regarded as the most convenient place to access food produce, they still have a relatively small but growing, presence in Southern Africa. This is mainly because the rural poor people in these regions still purchase their food from informal traders who are positioned more conveniently for them and offer lower prices in comparison to the supermarkets, which are mainly located in urban areas. However, informal traders do not sell products that meet market standards in terms of quality, packaging, and tracing systems, whereas supermarkets do (Temu, 2007:4). This is especially true of FFV in the rural areas of the SADC region. Quality standards are difficult to enforce where poverty and subsistence prevails.

Sub-Saharan Africa will remain on a much slower growth trajectory, set almost exclusively by the expansion plans of South African retailers. By 2010, the top 10 ranking will be populated by those participants present in the 2005 ranking, with South African retailers again dominating. In sub-Saharan Africa, excluding South Africa, most retailers, such as Shoprite and Pick 'n Pay with their supermarket formats, and Massmart with its Game variety store, will continue to open smaller numbers of stores (Heins, 2006:18).

Shoprite, SPAR, Pick 'n Pay, Game, Makro, Woolworths and the fast-food franchises like Nando's, Steers and Debonairs are only a few examples of South African retailers and wholesalers that are active in many African countries, especially in the Southern African region (Vink, et al., 2006). The retail and food sectors have probably been the most visible and accessible element of the northward trek by South African businesses into the continent, because of their wide exposure to the demand, content, and peculiarities of the local populations in the countries in which they operate. South African firms that have expanded into the rest of Africa are: (Games, 2004:44-48)

- the Shoprite group and SPAR
- Pick 'n Pay, which also trades as Score and has a stake in TM chain in Zimbabwe (as part of the Meikles Africa group)
- Game, Makro and Metcash
- Woolworths
- Steers, Nando's, Debonairs Pizza and St Elmo's

There are currently six major supermarket chains in South Africa that are aggressively expanding into Africa. These are Pick 'n Pay, Shoprite, SPAR, Woolworths, Massmart and Metcash. They perform both retail and wholesale functions. Shoprite, Pick 'n Pay, Metcash and SPAR have rapidly expanded into surrounding African countries, opening stores in Botswana, Namibia, Zimbabwe, Malawi, Mozambique, Kenya and other southern and eastern African countries (Planet Retail, 2007a).

3.6 Trans-regionalisation

According to Weatherspoon & Reardon (2003), food retailing leads to economic development and poverty eradication by creating employment opportunities for the rural poor and opportunities for suppliers to broaden and deepen their markets and raise their incomes. Supermarkets can also reduce the high cost of food and create market access for small-scale farmers. Downstream development in the supply chain becomes an investment opportunity, coupled with greater procurement and sourcing from rural areas (Louw & Ngqangweni, 2004:3).

South Africa plays a dominant role in Africa and specifically in the Southern African region. According to Vink, et al., (2006), South African businesses can contribute to the services sectors of the countries they expand into by investing in information technology and communications, expanding and developing the financial services available in the region, and developing local farming to extend beyond local markets (for example, contracting with South African supermarkets in the region). Foreign direct investment (FDI) in agriculture, which is determined by resources and comparative advantages, could play an important role in more equally distributing economic activity and the benefits of integration in the region. Examples of South African firms that have expanded into the Southern African region are listed in Table 3.1.

Table 3.1: South African selected manufacturing and retail presence in the **Southern African region** (2003)

Sector	Company	Country										
		Angola	Bots	Lesotho	Malawi	Mau	Moz	Nam	Swaz	Tan	Zam	Zim
Retail	Metro Cash & Carry		√		√							√
	Shoprite	√	√	√	√	√	√	√	√	√	√	√
	Steers Holdings	√	√	√	√	√	√	√	√	√	√	√
Manufacturing	Illovo Sugar				√	√	√		√	√		
	SABMiller	√	√	√	√		√			√	√	√
	Nampak	√	√	√	√	√	√	√	√	√	√	√
	Tongaat Hulett						√		√			√

Source: Kalaba, 2006

3.6.1 Processing

The entrepreneurial initiative of South African retail firms drives trade beyond the incentives of trade liberalisation. After being isolated from international and regional activities, some South African firms adopted an outward orientation and sought opportunities in markets where they have a comparative and competitive advantage. South Africa's relatively mature manufacturing sector and its well-developed infrastructure are among the factors that give it an advantage over the rest of the Southern African region. Concomitant with NEPAD, the African Union and other continental initiatives, South Africa is able to exploit opportunities better than its international counterparts. Examples of South African investment in African countries are:

Afgri Ltd.

Afgri has extensive cotton and grain operations in Tanzania, and operates a grain business in Malawi. Further investments in Kenya, Angola and the Democratic Republic of Congo are under consideration. Afgri has recently sold its Clark Cotton interests in Zambia. Services by Afgri include the rehabilitation of grain silos, financing farmers and millers, equipment sales, and after-sales services. Afgri has approximately 3 000 contract farmers producing for them. Cotton produced in Tanzania is exported to South Africa (Vink, et al., 2006). Afgri is also a major provider of production credit in Zambia.

Tiger Brands Ltd.

Tiger Brands has a 26.1percent interest in National Foods in Zimbabwe, as well as a wholly-owned subsidiary, Datlabs Pty. Ltd., in Bulawayo, Zimbabwe, which manufactures and distributes hospital products, over-the-counter pharmaceutical products and consumer products. However, Tiger Brands wrote off its original investment in National Foods in 1995. ITiger Brands increased its holding in two stages by acquiring shares held by Anglo American without investing any more external funds (McBain, 2007). It also owns 50 percent of Lesotho Milling and 34.5 percent of Namibian Fishing Industries Ltd. which, according to its 2006 annual report, is in liquidation. Tiger Brands has indicated a willingness to become involved not only in marketing export goods but also in investing in production capacity in African markets. As stated by the Chairman of Tiger Brands Ltd. in its 2006 Annual Report, "Tiger Brands has a strong South African base and we intend to use that base as a platform for accelerating our entry into the rest of Africa". However, in the same report, the CEO qualified this statement: "Other exports mainly to the rest of Africa remain a challenge largely due to logistics issues … the company remains focused on Zambia and Mozambique in the short term" (Tiger Brands, 2006).

Other investments of note by South African firms include Tongaat-Hulett's and Illovo's extensive sugar operations in Mozambique, Tongaat and Anglo in farming and sugar production in Zimbabwe, and SABMiller as major investors in Zimbabwe and Tanzania, where beer production is a major consumer of maize and barley, as well as a major source of added value for these products (McBain, 2007). South African companies have also invested in banking. All the major South African banks operate in the region, while the Standard Bank Group Ltd. and Absa Bank also have extensive operations elsewhere in Africa. In addition, Rand Merchant Bank is involved in project finance and provides financing for cross-border investments. The Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA) have provided finance to numerous sectors, as well as leverage for South African and international investments in host countries (Vink, et al., 2006).

One deterrent to trans-regionalisation is the dumping of agricultural products in the region. This is a major contributor to the decline of the agricultural and agri-processing sectors. South Africa is one of the few countries of the Southern African region that currently protects itself from dumping through the implementation of antidumping duties. Because the rest of the Southern African region lacks antidumping legislation and the relevant resources to undertake costly antidumping actions, these countries have been exposed to full-scale dumping. This has had a detrimental impact on rural farming communities and closed a number of agri-processors. However, not only developed countries dump in the region. Certain manufacturers and exporters in the Southern African region are also guilty of this practice, to the detriment of their neighbours' countries (Vink, et al., 2006).

3.6.2 Wholesale

There are various traditional markets in multiple locations in Africa's major cities. In 2006, according to conservative estimates, traditional markets still accounted for more than 90 percent of the market share of fruit and vegetables marketed in most of the low-income countries in Eastern and Southern Africa. In Mozambique, there are no large wholesalers of poultry, livestock or fresh fruit and vegetables, but there are many small individual operators (Nair & Coote, 2007:1). In Tanzania, there are wholesale markets in major towns, and Dar es Salaam has ten wholesale markets, with Kariakoo alone moving 80 percent of the total volume of fruit and vegetables sold in the city. In general, however, there are no traditional wholesalers, although there are commercial farms specialising in fruit and vegetables for export (Ashimogo & Greenhalgh, 2007:2).

In South Africa, wholesale markets and outlets play a major role in the South African food market. They are particularly important for the procurement of products such as fresh fruit and vegetables. Wholesaling in the South African food sector and specifically the fresh produce sector is dominated by three forms of wholesaling: Fresh Produce Markets (FPMs), category managers, and direct sales by producers. Traditionally, farmers or wholesalers supply products to retailers in city markets as well as supermarkets, while some relatively small retailers procured from their fellow retailers. Large formal markets have both wholesale and retail sections. Retailers positioned in small formal or informal roadside markets buy products from larger markets nearby and, sometimes, directly from farmers (Temu, 2007:3). While this is changing throughout the region, it is occurring very slowly.

3.6.3 Retail

The rate of development across most of sub-Saharan Africa remains slow and is almost exclusively the result of investment by South African companies. One important development is the substantial increase of large retailers in the agribusiness supply chains in the Southern African region. This is mainly due to South African companies' extension and expansion into these supply chains through FDI since 1995, leading to vertical integration and concentration. Supermarkets are the main format operated by grocery retailers across this region. South African retailers use FDI to expand into other markets as well. Figure 3.1 gives an indication of South African retailers' expansion into sub-Saharan Africa and serves as a footprint of their involvement in Africa. The implications of these changes are that farmers' produce markets are changing in the region (Heins, 2006; Planet Retail, 2007b).

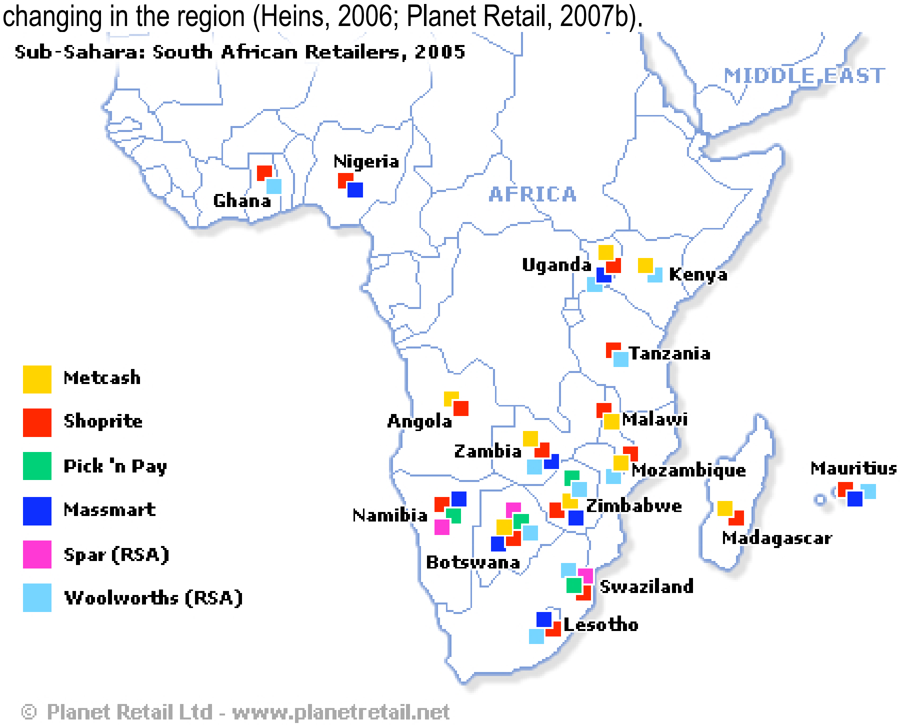

Figure 3.1: Footprint of South African retailers in Africa (2006)
Source: Heins, 2006:17

In 2005, the top five retailers in the top 30 rankings were all South African retailers, mainly due to their position in Africa's largest retail market. Their expansion across the borders into Southern African countries and beyond secured a greater regional presence and a foothold in fruitful future markets (Heins, 2006:13).

Table 3.2: Top six retailers in Africa

Africa & the Middle East: Top 30 Grocery Retailers, 2005

Rank	Company	Country of Origin	Retail Banner Sales (USD mn) e	Market Share (%)	Grocery Sales (%)
1	Shoprite	South Africa	5,661	4.5	74.8
2	Pick 'n Pay	South Africa	5,017	4.0	86.2
3	Massmart	South Africa	4,827	3.9	39.5
4	Metcash (RSA)	South Africa	3,370	2.7	85.5
5	SPAR (South Africa)	South Africa	2,990	2.4	85.0
6	Woolworths (RSA)	South Africa	2,217	1.8	26.9

Source: Adapted from Heins, 2006:14

While South African retailers are expected to create most of the future growth, there are domestic chains developing in other Southern African region countries that have the potential to grow in their national markets and lead the modern retail scene. However, in terms of market concentration, South Africa will remain the only mature market. Other markets are subject to traditional trading methods, and investment in establishing a modern retail scene is small, perpetuating the top retailers' low concentration levels (Planet Retail, 2007b).

In the Southern African region, food is retailed through both traditional and modern outlets. There are three types of traditional food retail outlets:

a) Most important is the traditional, fixed-location daily market where different traders sell food from designated areas. Traders often specialise in specific products, and those dealing in the same products are usually clustered within a given market.
b) The second group comprises the micro-retailers or street-sellers. These individuals also tend to specialise in products, but they sell in micro-quantities and often operate without formal registration, outside formal markets and sometimes outside regular hours.
c) The third group consists of the small shops (*épiceries*) that may sell different types of food in addition to a variety of other basic products.

Modern outlets comprise local supermarkets and global retail chains (Minten, 2007:3). Even though food retail accounts for 90 percent of sales in supermarket stores, this still represents a small proportion of overall food retailed, where the traditional market channels, from small independent stores to street vendors, dominate the market (Emongor, et al., 2004).

The supermarket 'takeover' of food retailing in these regions has occurred much more rapidly in processed, dried, and packaged foods, such as noodles, milk products, and grains (for which processors have an advantage over mom and pop stores due to economies of scale), than in fresh products (Weatherspoon & Reardon, 2003). This is typical of other developing regions; it is easier to reap the advantages of processors (volume, convenience) in processed foods, but it takes more time to set up good fresh food procurement and merchandising systems to drive down the costs of the latter and compete with traditional retailers. Poor distribution and discontinuous cold chains in developing countries means high wastage and lack of reliability in trying to source fresh produce (Reardon, et al., 2003.

3.7 Emerging and disappearing market agents

The emergence and disappearance of market agents or supply chain role players is characteristic of market restructuring in the Southern African region food supply chain. In terms of the supply chain approach followed thus far, this is most evident in the wholesale and retail sectors of the Southern African food supply chain.

3.7.1 Wholesaling

Buying alliances and other wholesale operations play an important role in South Africa, as there are still a large number of independent supermarkets and corner shops. Wholesale outlets, similar to buying groups, play a major role in many Southern African region markets, because the retail sector is in its infancy in many of these countries. This role includes procuring products, especially fresh fruit and vegetables. Suppliers deliver mainly to wholesale or distribution centres, where products from various suppliers are collected before being shipped out to a chain or sold on to independents. The informal sector is also largely dependent on these companies for procuring goods (Planet Retail, 2007a:4).

Other formats that may emerge are the cash and carry and warehouse clubs. Southern African countries such as Malawi and Botswana are among the growth markets for this format. South African wholesalers such as Metcash and Massmart are the main drivers of growth in this region; they are the leading operators in this category and are present in several Southern African countries. Metcash has the most widespread presence, supplying local chains of independents across Southern Africa. Shoprite's presence in this category is diminishing, as it concentrates on retailing instead. Massmart and Metcash lead in terms of sales, with large operations in their domestic markets and abroad. Shoprite is seeing a decline in sales as it closes down its Megasave stores. Other operators such as Forewin, for example, are small in size due to their domestic conditions. Their growth profiles are illustrated in Figure 3.2 below (Planet Retail, 2007b).

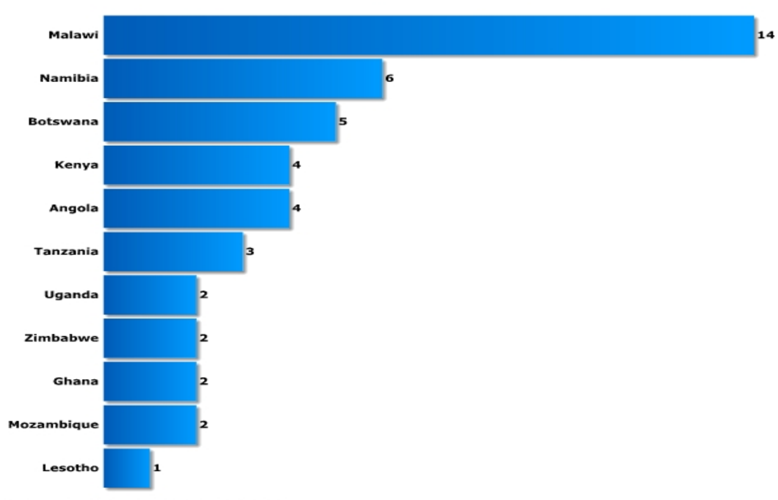

Figure 3.2: Number of new cash and carry and warehouse club stores (2006-2011)
Source: Planet Retail, 2007b

3.7.2 Retail

As previously stated supermarkets are growing fast and replacing traditional markets that served as outlets for farmers' food crops and livestock products. The share of supermarkets in retailing is projected to increase over the years due to increasing foreign investment, urbanisation, development of information technology and globalisation of food systems in the Least Developed Countries (LDCs). Reardon, et al. (2003) warn that the rural poor could be excluded from the emerging marketing chain (Temu, 2007:2). South African retailers are the clear leaders in the ranking, due to their position at home and their expansion abroad. They will continue to dominate the ranking in the near future as significant competitors from the rest of the continent are absent. The remainder of the participants in the ranking are small local companies in a limited number of markets, where a modern retail scene is in its infancy. Very few chains of significant size exist in other countries. In most African countries, street markets and small independents dominate the retail market (Planet Retail, 2007:3).

Apart from the very small number of mature markets, such as South Africa, market concentration is relatively low across Africa, with very few major modern retailers of note and retail activity predominantly taking place in the informal sector. Currently supermarkets account for approximately 55 percent of national food sales in South Africa, but make up only two percent of all food retail outlets. The remaining market share is held by wholesalers, traditional *spazas*, tuck shops, and mom and pop stores (Ntloedibe, 2006:4). A study by Madevu, et al. (2007:2), in Tshwane Metro, South Africa, found that tridimensional fresh produce retail competition (between supermarkets, greengrocers and hawkers) was mostly in the middle-income areas. Hawkers dominated the low-income areas, while large chains dominated the high-income areas, and greengrocers were confined to middle-income areas.

In Mozambique, fresh produce markets managed by local or municipal government sell most household supplies, including fruit, vegetables, poultry, meat, soaps, and detergents under one roof and at prices and quality acceptable to the majority of people living in the cities. Maputo, a city of 2.6 million people (13 percent of the total population), has four large retail bazaars run by the municipal council, where most produce is local. In addition, there are 100 to 200 grocery shops in Maputo that play an important role in retail trade. The pattern across the country is characterised by municipal markets and authority-run retail markets, complemented by a few independent, small, and privately-run grocery shops and mini-supermarkets (Nair & Coote, 2007:2). In Tanzania, at retail level, the marketing system is characterised by a large number of traders dealing in small volumes of highly perishable products. Domestic consumption comprises households; regional, traditional, urban, and institutional customers; and modern retail chains. Only a few large formal retailing institutions exist, of which the Shoprite supermarket chain is best known (Ashimogo & Greenhalgh, 2007:2).

In Zambia, retail marketing of fresh produce in urban areas (for example, Lusaka and Ndola) is highly diversified. Consumers obtain their produce from a range of places, such as open-air markets, large wholesale/retail centres and smaller markets serving mostly low- and middle-income consumers. There are also small independent supermarkets and supermarket chains that almost exclusively serve high- and middle-income consumers. Street vendors and individual traditional shops are also common. Hichaambwa & Tschirely (2006) estimate that open-air markets supply 70 percent to 80 percent of all fresh produce marketed in Lusaka and Ndola, with supermarket chains and independent supermarkets holding market shares of between 7 percent and 11 percent, followed by street vendors with 9 percent, and other outlets with 2 percent. The dominance of open-air markets is most pronounced in vegetables, where they hold an estimated share of 74 percent to 87 percent. It is estimated that, in comparison to fruit, vegetables take up an 80 percent share of sales of fresh produce in open-air markets. Local supermarkets sell mostly tomatoes, onions, cabbage, and other fresh produce preferred by high-income groups. Shoprite primarily sells fruit, such as apples, bananas, grapes, oranges, and tomatoes, and vegetables, such as cabbage, onions, Irish potatoes, and other exotic produce. The range of leafy vegetables is limited in all supermarkets (Hichaambwa, et al., 2007:2).

Although there are distinct variations within the region, it is generally accepted that supermarkets will not easily ‘overthrow’ the informal markets, and they would do better to focus on target groups, as is evident in the South African study by Madevu et al. (2007).

3.7.3 Organic expansion of supermarkets

In the past decade, as in the rest of the world, many countries in southern Africa have witnessed a rapid rise in supermarkets (Weatherspoon & Reardon, 2003; Louw, et al., 2004). The retail revolution has resulted in the growth of both the absolute and relative sizes of supermarkets, especially in Southern Africa (Weatherspoon & Reardon, 2003). Supermarkets have overtaken manufacturers’ dominance of food distribution channels and have also replaced the food wholesale function through backward integration (Reardon & Weatherspoon, 2003). Supermarkets are increasingly looking for supplier channels that allow them to maintain quality standards, traceability of products to their origin, steady supply of expected volumes all year round, and consistent delivery times (Reardon, et al., 2004). This has necessitated changes in their procurement systems, from decentralised and local procurement to centralised and regionalised systems (Louw, et al., 2007). The transformation of the food marketing process presents both challenges and opportunities for smallholder farmers, especially in developing countries (Reardon, et al., 2004; Humphrey, 2007).

The South African retail market is the most developed in the whole of Africa and the Middle East. To underline this, South African retailers clearly dominate the top half of the top 30 ranking. Supermarket expansion in South Africa has been dominated by local firms seeking greater market share. South Africa developed a modern supermarket sector early on, which effectively prevented foreign multinationals from moving into an already highly competitive market. To date (2007), no non-South African supermarket chains operate in South Africa. South African firms are leading the supermarket investment drive into the rest of Africa, and the seven South African retailers in the top ranking account for 62 percent of the total top 30's combined turnover (Heins, 2006:16).

However, this is not the case throughout the region. For instance, in Mozambique, supermarkets are new, having all been established after 1992. No hypermarkets exist in the country (Nair & Coote, 2007:1). The share of supermarkets in food retail in Botswana is estimated at between 50 percent and 60 percent (Weatherspoon & Reardon, 2003), but according to key informants, it could be as high as 80 percent (Emongor, 2007). This is plausible: 50 percent of Botswana’s 1.68 million people reside in urban areas (towns and urban villages) where supermarkets are dominant. Since the early 1990s, supermarkets (foreign and local) have been expanding rapidly by buying out local, independent and chain supermarkets, forming partnerships, and franchising. The expanding Botswanan supermarket sector has increased its market share, due to consumers’ preference for the convenience of one-stop shopping that supermarkets offer and the perceived lower prices for ‘high-quality’ food products (Emongor, 2007:2).The differences between these countries clearly validate the finding that vast differences exist within the Southern African region.

3.7.4 Growing phenomenon of franchise stores

Due to South African retail chains’ penetration of the Southern African region’s markets, many opportunities exist for countries in Southern Africa to supply raw materials for the manufacturing processes that support retail operations (ESRF, 2003:9). Franchising has also emerged as an effective method of local empowerment. Most franchising in Africa is driven from South Africa, which has seen a growth in franchising of at least 17 percent a year since 1994 (Games, 2004:48-49). Franchising is well established in every free market economy across the globe. Statistics show that the chances of success of any small business operated under franchise are infinitely higher than those of a business operated by an entrepreneur in isolation. For private investors, selling franchises to small businesses in their host countries could be a good risk-mitigation strategy. Another key advantage that franchising has to offer the Southern African region is a transfer of skills. It could provide an ideal entry into business both for those who have lost the shelter of a corporate job and those who have no experience in business at all (Planet Retail, 2007b).

Franchising is being used as the medium to develop emerging agro-industries surfacing contractors. It is a proven business practice with a low risk of failure. South Africa currently accounts for an estimated 7 percent of all retail business done through the franchise sector, and although it lags far behind most countries, it proves, categorically, that the potential for growth is unlimited in Africa. It is ideally positioned as the frontline of the entrepreneurial potential of Africa (Saunders, Not dated).

South Africa is spearheading an initiative to help other Southern African region countries to add value to their natural resources, diversify their markets, develop infrastructure, and encourage small business growth and development. There is huge potential for the franchise sector, both locally and internationally, to open a two-way street of business investment that will be to the benefit of all parties concerned, and more importantly, to Africa's people (Saunders, Not dated). Moreover, franchising, with its lower risk profile, offers a safe way of establishing new small businesses and a sustainable solution to some of the macroeconomic problems confronting economies in Southern African region. Franchising would overcome some of the institutional capacity problems by making use of local contractors.

South African franchises investing in other Southern African region countries include companies such as Steers Holdings, Debonairs, FishAways, Nando’s, and Church’s Chicken. Other international companies investing in these regions include McDonald’s, KFC and others. Steers is probably South Africa’s most experienced and prolific franchising company in Africa. It entered the African market in 1988 and currently has licences in 21 countries and over 60 operating outlets in 13 countries, with major expansion plans in the pipeline. These are in addition to its 470 outlets in South Africa. Its volumes are between 30 percent and 50 percent higher than those of the average outlet in South Africa, while non-South African stores contribute 20 percent of bottom-line earnings (Games, 2004:48-49).

3.7.5 Growing phenomenon of forecourt stores

South Africa sees high growth in convenience and forecourt stores, as mainstream retailers adopt these formats and petrol companies extend their networks. Woolworths has been growing its food share in the past few years by opening more of its successful food stores in high-street locations as well as forecourt stores via its partnership with forecourt retailer Engen. This partnership has the potential to make Woolworths the leading grocery retailer involved in the forecourt trade in the long run (Heins, 2006:16). These formats are predicted to become more popular and forecourts will play a growing role as, often, forecourt stores take on the role of grocery outlets in markets where few modern chains are present (Planet Retail, 2007a:4).

In the rest of the region, it is mainly petrol companies and their forecourts that make up the numbers (Planet Retail, 2007b). In Mozambique, petrol stations, as a rule, do not sell fresh food. At best one can buy milk, juices and sometimes bread in a few Shell and Total petrol stations. In Maputo there are now a few forecourt shops selling a range of imported food products. Procurement for these petrol stations is done locally. Their growth is limited by price and cultural factors (Nair & Coote, 2007:2). In Tanzania, kiosks located in busy places, such as petrol stations, are becoming commercial outlets for high-value products. These sell mostly general merchandise and specialised products, such as juices, fruits, milk, yoghurt and chicken, which are either imported or sourced from local factories (Ashimogo & Greenhalgh, 2007:2).

3.8 Displacement of informal retailers and speciality stores

The entrance of many chain supermarkets has led to the closure of some of the smaller retail stores (general dealer shops). The benefits of supermarkets' increased FDI in countries such as Botswana are increased competition among retailers and consequently lower prices of some food products. Generally, throughout the Southern African region, low-income township consumers spend their grocery budgets in three places: *spaza* shops near their homes (Chains 1 and 2 in Figure 3.3, below); large wholesalers located on the periphery of the townships (Chain 3 in Figure 3.3, below); and supermarkets near their work (Chain 4 in Figure 3.3, below). Figure 3.3, below, presents the value chain, showing the key actors and their relationships in some Southern African countries' informal markets (Bear, et al., 2005:9).

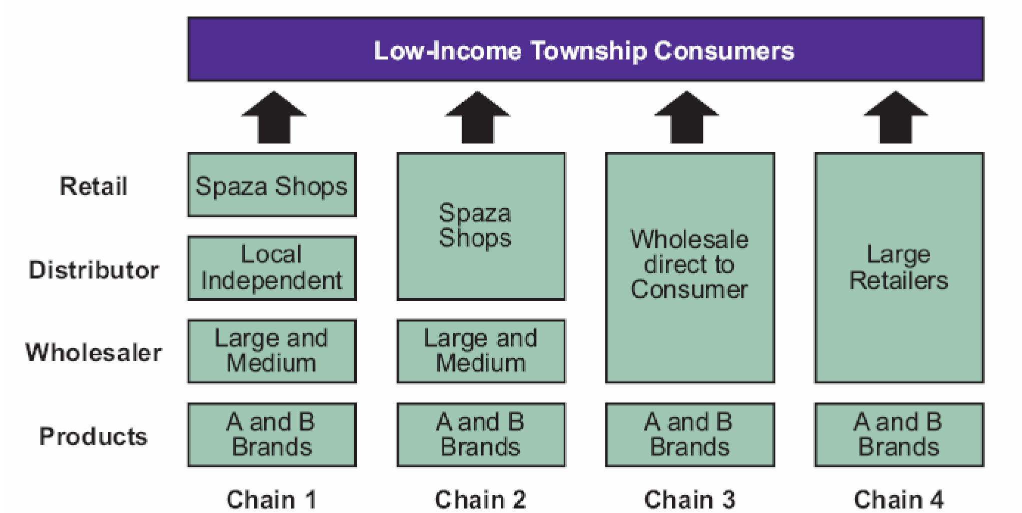

Figure 3.3: Value chains for the *spaza* market
Source: Bear, et al., 2005:9

A *spaza* shop is a small informal convenience store that operates from a residence or a separate structure in a residential neighbourhood. The '*spaza* market' refers to the value chain that links low-income township consumers of basic grocery items with *spaza* shop retailers and their trading partners: distributors, wholesalers and suppliers of products and services. It should be noted that despite its informal nature, a market size of USD110 million per year and an estimated 14 200 *spaza* shops in South Africa alone underscores the critical importance of this market to poor people as consumers and as business owners (Bear, et al., 2005:22). A more competitive *spaza* market can generate significant development benefits: more capital circulating within the townships, additional support to black-owned businesses, and wider choice and more competitive prices for low-income consumers (Bear, et al., 2005:7).

3.9 Determinants of market restructuring

With rising incomes worldwide, improved transport and various international trade agreements, markets around the world are expanding and their demand for variety is rising. Increasingly, fruit and vegetables are seen as essential to maintaining a healthy lifestyle, which increases the importance of fruit and vegetables as necessities and ensures higher year-round demand (TIPS & AusAID, 2007:2). In Southern Africa, rapid urbanisation and an increasing disposable income, particularly among a growing Black middle class, are the primary drivers behind the rapid rise of supermarkets. Shopping centre development, increased car use, more working women, government investment in infrastructure and mass housing, in addition to rising population densities, are also factors contributing to the proliferation of supermarkets (Ntloedibe, 2006:4).

Proctor, 2007 states other important drivers which are

- increased purchasing power
- changes in consumer lifestyle and preferences
- health concerns, which will raise quality requirements and change patterns of demand (health foods)
- the influence of globalisation, including trade agreements and the opening of markets
- modernisation of the agri-food sector
- growth of new national and external markets, e.g., exports.

3.10 Increasing disposable incomes

Increasing disposable incomes in South Africa are one of the major trends driving restructuring in the overall South African food market. Increasing incomes are expected to fuel the demand for consumer goods, which in turn fuels the expansion of supermarkets. This can be seen in the case of South Africa, where in recent years; consumer spending has risen steadily despite increasing inflation. The government's Black Economic Empowerment programme is showing its first signs of success as a Black middle class emerges. Market leaders Shoprite, Pick 'n Pay, SPAR South Africa, Massmart and Woolworths have been adapting to changing conditions and perfecting their store formats (Heins, 2006:16). However, although disposable incomes are generally increasing within the region (save for Zimbabwe), there has not been a corresponding improvement in agrifood systems. In Botswana, increased urbanisation (about 50percent of Botswana's population resided in urban areas in 2003 compared to 18percent in 1981), growth in income and the middle class, and changing consumer tastes and preferences, as well as supply factors, such as, trade and market liberalisation, favourable domestic policies (relaxation of exchange controls), political stability and regional integration, have all led to drastic growth in the agrifood system. Currently, there are both foreign and local chain supermarkets, independent supermarkets, cash and carry stores and convenience stores involved in food retail in Botswana (Emongor, 2007). In general, foodservice is a small sector in Africa, due to the low spending power of the average consumer.

3.11 Population growth

It is hypothesised that growth in the Southern African region's population contributes to the restructuring of food markets, because a growing populace increases the demand for food. Much like growing disposable incomes, the growth in the population is expected to fuel consumption. The population of the Southern African region has been growing fairly rapidly (with growth rates of more than 3 percent in some countries) and will continue to do so in the foreseeable future. Civil wars, disease and natural disasters diminish growth rates in several areas. Demographics indicate a low life expectancy in most places and a predominantly young population. Southern African countries are shaped by traditional culture and their past as European colonies, and are beset by problems such as civil wars, corrupt governments and intense poverty, creating political and social unrest.

In most countries, a larger family is still traditional, hence a faster growth in population. South Africa, as a more developed country, shows a much smaller growth rate, hindered by a high death rate resulting from crime and HIV/Aids. Size of population, however, does not bear any relation to the size and output of the economy. The rankings of the Southern African region's countries according to population growth are given in Table 3.3 (Planet Retail, 2007b).

Table 3.3: Ranking of countries by population (2006)

Country	Rank in Africa	Rank in Southern African region	Number of Inhabitants, 2006 (millions)	Percent change 2001-2006 (millions)
Congo, Democratic Republic	3	1	62.7	14.3
South Africa	4	2	44.2	-0.2
Tanzania	6	3	37.4	9.7
Mozambique	10	4	19.7	7.9
Madagascar	11	5	18.6	14.1
Zimbabwe	14	6	12.2	3.2
Malawi	16	7	13	11.3
Angola	18	8	12.1	12.4
Zambia	20	9	11.5	9.8
Lesotho	35	10	2	-1.1
Namibia	36	11	2	4.7
Botswana	37	12	1.6	1.2
Mauritius	41	13	1.2	4.1
Swaziland	42	14	1.1	1.3

Source: Adapted from Planet Retail, 2007b

3.11.1 Urbanisation

The dramatic growth of urban populations in developing countries provides both opportunities and risks for resource-poor groups in urban and peri-urban environments. By 2020, the global population is predicted to reach 7.6 billion, and 98 percent of the projected growth will take place in developing countries. The developing world's urban populations will double, reaching 3.4 billion. This increase in the urban population poses great challenges to food systems and their management. Rapid urbanisation has led to urban services and supporting infrastructure being stretched beyond their limits, resulting in inadequate supplies of potable water, inadequate sewage disposal and low supply of other necessary services. Governments are constantly striving to keep up with changing circumstances with regards to food legislation, regulation, and enforcement (World Bank, 2007:124).

One feature of urbanisation has been the development of informal food supply systems. This is particularly the case in the Southern African region. Groups with limited capital assets in urban areas have developed livelihood strategies to meet opportunities. This is typified by the increase in ready-to-eat food prepared and sold by street vendors in towns and cities throughout the region. However, while street food vending can be an effective way of providing low-cost nutrition to urban populations, it can also pose risks to health, in particular for the young, the elderly and those with HIV/Aids, because food quality standards and hygiene are not enforced in these outlets (Street Foods, 2006).

As in many other developing countries, urbanisation drives the emergence and spread of supermarkets, with more people being compelled to purchase food rather than producing it themselves. Increasing urbanisation and incomes are strong drivers of the economy. Poverty has declined more rapidly in the major urban areas such as Dar es Salaam (from 28 percent to 18 percent,) and less rapidly in rural areas from 41 percent to 39 percent, resulting in an increase in purchasing power in urban areas (Ashimogo & Greenhalgh, 2007:1). Urbanisation is an ongoing trend in the Southern African region, as more and more people seek refuge and jobs in cities. However, in Mozambique, where the middle class is growing, as are urban salaries, there has not yet been a corresponding growth of modern agri-food markets (Nair & Coote, 2007:1).

3.11.2 Changes in consumption

The result of increasing disposable incomes, population growth and urbanisation can clearly be seen in increasing levels of consumption. This growth in demand for consumer goods, including food, fuels the demand for food outlets like supermarkets, which in turn drives innovation in supermarkets, such as in their functioning and procurements systems.

3.12 Changes in consumer dynamics

Trends in consumer dynamics are also hypothesised to have contributed to the changes and restructuring observable in the South African food sector, noted earlier. The most pertinent change in South African consumer dynamics is the emergence of a Black middle class (fondly known as 'Black Diamonds'), which is fuelling consumption and the increasing emphasis being placed on food safety and quality standards.

In terms of increased consumer demand for food quality and safety, supermarkets in Southern Africa are better positioned to meet these requirements than informal food traders. According to Hughes (2003), people in developing countries appreciate the range of products, the quality, and the price offered by supermarkets. There has been an increase in supermarket expansion in most of the Southern African region's countries, with South Africa being an important role player in this expansion.

3.12.1 Black Diamonds

The African middle class is often equated with the Black intellectual class. The Black middle class in South Africa is still evolving. Ten years is not a sufficient period of time to establish empirically the nature of such a group. This contrasts with other African countries, where over 40 years' of the existence of the African middle class enables researchers to determine their worth and their contribution to the economic growth of the African continent. When the Black middle class took over from their White counterparts, they inherited their predecessors' positions and decided that they wished to experience the lifestyle that the Europeans were experiencing in their own countries. There is an overwhelming desire among Black Africans to have access to a lifestyle that they believe is their right (Onyeani, 2005: 4).

Since 1994, the dynamics of food retailing have changed rapidly, and with it, the distribution and procurement practices of supermarkets. South Africa has experienced a rapid expansion of corporate supermarket chains. Regional leader Shoprite has embarked on an extensive store upgrade programme for its Shoprite and Checkers stores in a bid to target the greater spending power of the new emerging middle class. Major rival Pick 'n Pay has an advantage in appealing to the average and above-average income classes in South Africa with its more upmarket stores (Planet Retail, 2007b).

South African supermarkets, no longer inhibited from expanding into formerly segregated areas, began moving into townships and previously underserved areas in an effort to increase market share and tap into the lower-income segment of the market. The new trend is to extend supermarkets from the top-end niche to the mass-market (Ntloedibe, 2006:4). The factors driving the growth of supermarkets stem from changing social and economic conditions in South Africa. The rising incomes of Black South Africans has resulted in supermarkets not just vying for market share among the affluent but also moving in to capture market share among the lower- to middle-income segments of the population. Moreover, the growth of supermarkets in South Africa runs parallel to their expansion into the rest of Africa, where Shoprite, Pick 'n Pay, SPAR, and Woolworths have all established a presence (Ntloedibe, 2006:3). Usave discount stores have expanded to serve the lower end of the consumer spectrum.

3.12.2 Growing importance of food quality and safety standards and innovation

Consumers are becoming more demanding in terms of food quality and safety. Demographic and income trends are leading more affluent consumers to demand convenience foods such as frozen, pre-cut, pre-cooked and ready-to-eat items, along with assurances of product safety (Reardon & Berdegué, 2002). Although developed countries are seeing a substantial rise in sales of products that meet consumer demands for variety, food safety and quality, these demands are not as significant in the Southern African region (TIPS & AusAID, 2007:12). This can be seen as a result of the sustained reliance on traditional open markets that do not conform to international food quality and safety standards, which is due to the high incidence of poverty in the region.

Notwithstanding the aforementioned, some progress has been made. South Africa, which is a developed nation by Southern African region standards, participates in the Regional Advisory Committee (RAC) of the Regional Food Security Training Programme (RFSTP). The RFSTP has been developed over a five-year period, and is endorsed by the RAC. The RFSTP focuses on three main areas: strengthening the supply of food-security training services, strengthening the effective demand for training and development, and sustaining regional markets for food-security-related training services. The Southern African region, as a whole, has instituted the Subcommittee for Plant Protection, tasked with harmonising phytosanitary requirements in Southern Africa. South Africa is also a member of the Inter-African Phytosanitary Council, which was established in 1954. Regional plant-protection organisations coordinate the activities and objectives of the IPPC at a local level (Burger, 2007: 84). It is hoped that, with time, more nations of the Southern African region will heed the international call for higher food quality and safety standards.

3.13 Other factors

Rising incomes, urbanisation, more women in the workforce, delayed retirement, and wider media penetration – all are driving the demand for higher-value products, semi-processed and processed products, pre- and pro-biotics and convenience foods. There has also been increased consumer attention to food quality and safety due to recent food scares. Diet trends are globalising too, with local consumer preferences being influenced by international tastes. Studies have shown that as an economy develops and urbanises, the proportion of disposable income spent on processed food increases, with people moving away from staple foods to convenience foods and readymade meals. The time taken to produce a main meal is also being reduced progressively from two to three hours, to 30 minutes, to less than five minutes. The energy cost of preparing a meal is also of becoming increasingly significant to the poor.

These trends open new markets for a wide range of higher-value agricultural products and propel the evolution of marketing systems in many developing countries, with the entry and rapid growth of supermarket chains and the food processing and foodservice industries. Accelerating this expansion is significant FDI by South African supermarket chains in the rest of the region, either directly or through joint ventures with local firms. Changing consumer demand is also driving the growth of the food processing and foodservice industries. 'Eating out' is also becoming popular (McBain, 2007; World Bank, 2007:124).

The increase in the region's access to infrastructure and basic resources has been substantial, but its political and economic instability should be considered urgently, as once thriving agricultural sectors have been destroyed or have suffered setbacks due to political instability in the region. Political instability and civil wars have had a serious and continuing negative impact on agricultural production and advancement within the SADC (McBain, 2007). These events even affect countries that are considered relatively stable. For example, Zambia's economic development is hampered by both the situation in the Democratic Republic of Congo (DRC) and its own economic and political deterioration; Malawi's development is also affected by the situations in Zimbabwe and the DRC, as well as by the slow recovery of northern Mozambique. South Africa is more adversely affected by the situation in Zimbabwe than is commonly believed. Since no lasting resolution of either the DRC's or Zimbabwe's problems is in sight, together with the slow recovery of Angola and Mozambique from their prolonged civil wars, the impact of this on their neighbouring countries could be significant (McBain, 2007). This could lead to even slower rates of supermarket development within the region, as among other factors, a stable socio-political environment is necessary for growth in FDI.

3.14 Trends in the evolution of procurement systems

A number of trends are observable in evolving procurement systems in the South African food supply chain. These trends are discussed along the lines of the formal market, which largely comprises supermarkets, and the informal market, which largely comprises grocery stores, tuck shops/*spaza* shops and street trading. Mainly due to quality concerns, most supermarkets still favour importing from their South African distribution centres or procuring from local third-party/contracted agents, while local retailers favour procuring themselves from wholesalers or producers. Marketing chains are generally broken, with small-scale farmers being locked out of retail markets. Some wholesalers import products (for example, powdered milk) that are sold through their own retail outlets or by other retailers (Ashimogo & Greenhalgh, 2007:2).

3.15 Formal markets

Procurement trends in the formal markets are observable in three formats: corporate stores, voluntary trading groups and franchise stores.

3.15.1 Corporate stores/distribution centres and preferred supplier schemes

Figure 3.4 illustrates the typical flow of fresh produce from growers to corporate stores.

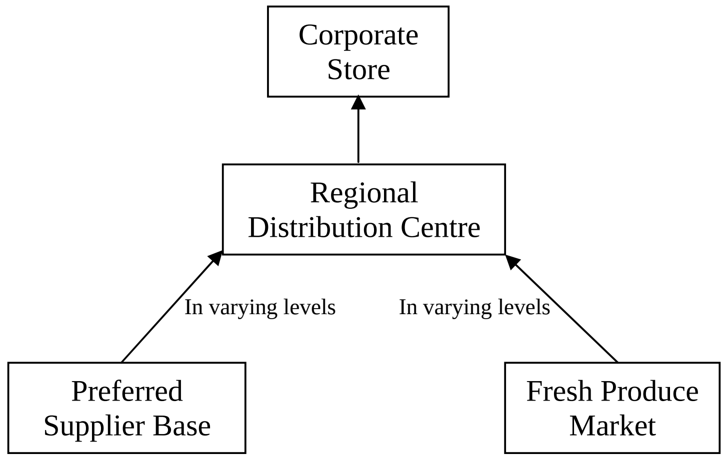

Figure 3.4: Procurement channels for fresh fruit and vegetables for independent stores trading within a voluntary trading group, and possible income per capita of households at constant prices (2000)
Source: Louw, et al., 2007:33

The phenomenon of corporate stores only procuring fresh produce through their distribution centres, who in turn only procure from a select few suppliers, is a well-established practice and the most widely used in supermarkets throughout Southern Africa. However, this does not occur in all the countries, since most procure from South Africa.

3.15.2 Voluntary trading groups

The wholesalers-cum-distribution centres in this instance operate according to principles similar to the distribution centres discussed above in terms of procurement practices and providing growing contracts to a few selected producers. Figure 3.5 illustrates the typical flow of fresh produce from growers to independent stores within a voluntary trading group.

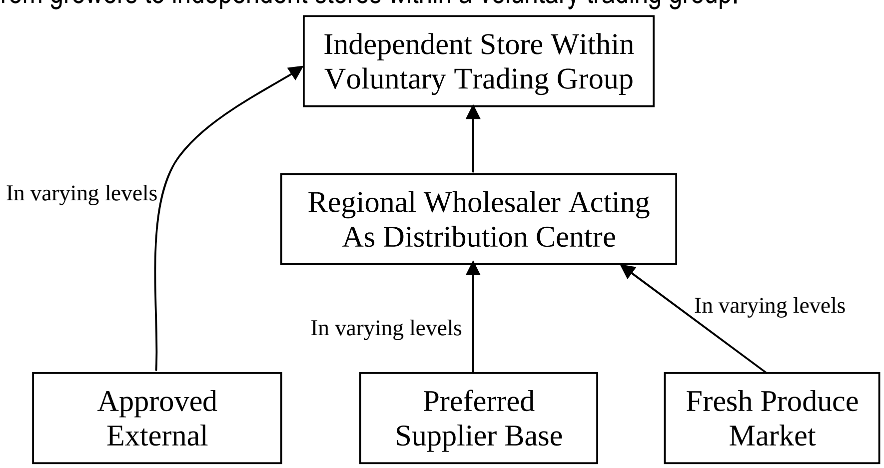

Figure 3.5: Procurement channels for fresh fruit and vegetables for independent stores trading within a voluntary trading group
Source: Louw, et al., 2007:34

3.15.3 Franchise stores

Figure 3.6 illustrates the typical flow of fresh produce from growers to franchise stores.

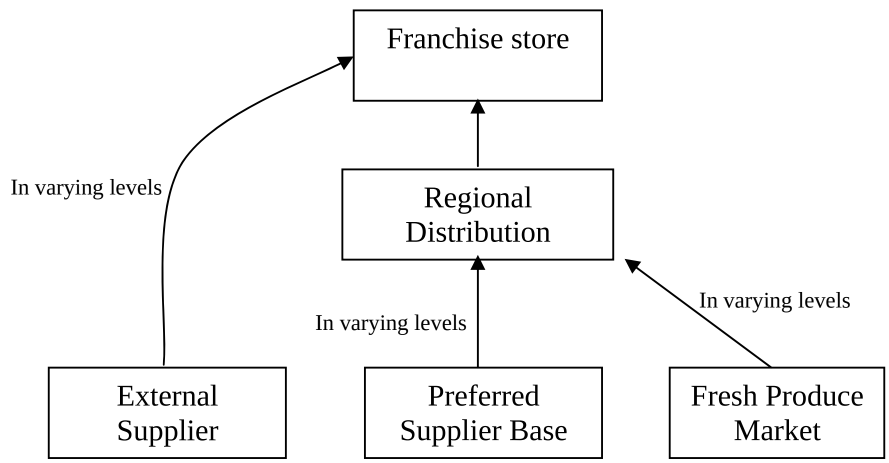

Figure 3.6: Procurement channels for fresh fruit and vegetables for franchise stores
Source: Louw, et al., (2007:36)

Franchise stores, like independent stores within voluntary trading groups, are encouraged to procure all their fresh produce from the retailer's regional distribution centres. This is motivated by the possible cost advantages of buying products from their distribution centres, since the distribution centre (wholesaler trading in the voluntary trading group) is a bulk buyer and able to negotiate good prices. Franchise stores function similarly to stores within a voluntary trading group, since they, too, are allowed to procure products directly from producers, instead of from the franchisor's distribution centre, at their own discretion after the specific producer has been approved as a suitable supplier. The wholesalers-cum-distribution centres in this instance function according to principles similar to those discussed above in terms of their procurement practices and the provision of growing contracts to a few selected producers (Louw, et al., 2007:36).

3.16 Market

By world standards, the total Southern African region market is small. With 14 members, the SADC is the second-largest grouping in Africa but it has the second-smallest economy in the continent. The small market size in Southern Africa is compounded by high incidences of poverty (especially for women and children in underdeveloped rural areas), unequal distribution of income, wealth, and opportunities, plus generally low average-per-capita-income growth rates, which have all contributed to the relative unattractiveness of the SADC as a destination for investment. In addition, low investment (both foreign and domestic) has stunted economic growth, while low economic growth in turn has led to low levels of investment – a vicious cycle that cannot be downplayed.

Another constraining feature inherent to the Southern African region is its distance from the major markets in Europe, the USA and Asia. This, combined with the relatively underdeveloped and inefficient port and harbour facilities (and insufficient air cargo facilities), adds significantly to transport and overall transaction costs. This tends to reduce profitability and hence affect firm-level investment decisions. Large European, American, and Japanese motor vehicle manufacturers have invested substantially in eastern and central Europe in the past decade for, among other reasons, positional advantages (Muradzikwa, 2002:14).

Although the lack of access to developed markets is certainly a constraint to the development of the region's agriculture, the SADC member countries should seek alternatives, such as increased productivity, instead of viewing improved access as the answer. Attention should first be given to the development of domestic and regional markets before the markets of the EU and the United States are targeted. The lack of intra-SADC trade is a major constraint to regional economic development and should be addressed. A large demand for agricultural products exists in the region and nothing prevents domestic producers from satisfying this demand (Vink, et al., 2006). From the foregoing evidence, it is clear that South African firms have already begun to take the initiative in this regard.

4. MARKET ACCESS FOR SMALL PRODUCERS

Rapid changes are taking place in agri-food markets in middle- and low-income countries. The spread of dynamic modern retailers, wholesalers and food processing businesses is reshaping the way in which food systems are governed. Small-scale agriculture, which provides the livelihoods of the majority of the rural poor, is ill-prepared for these changes, and public policymakers and development partners are generally removed from changes taking place within the market. The structure of agribusiness has changed substantially since the deregulation of the agricultural sector into a free market economy for the different countries. Many cooperatives have transformed into private companies, consolidations and mergers have occurred, international groups have entered Southern Africa, and agribusinesses have listed on the stock exchanges of the various countries. Agribusinesses are involved in the production and distribution of agricultural equipment and production requisites and in the marketing and processing of agricultural products. The challenges facing primary producers and their economic organisations in negotiating market access are conditioned by globalisation, market liberalisation and modernisation. Thus, these challenges include technological, organisational and financial demands placed on the small-scale producer.

The direct procurement system that has been adopted by modern markets[4] increases the risk of smallholder farmers' exclusion from modern agro-food markets (Volley 2003; Reardon, et al., 2005). The risk of exclusion is compounded by unstable marketing margins, market thinness, uncertainty surrounding government policies, theft, storage spoilage, and unenforceability of contracts, along with high transportation and storage costs, which translates into exorbitant and unstable transaction costs (Pote, et al., 2007).

The exclusion of smallholder farmers from mainstream food markets in Southern Africa is nothing new; it dates back to the days of colonialism (Pote, et al., 2007), when they were subjected to a double-barrelled exclusion. They were excluded, first, as a result of colonial legacy, and second, because of the poor performance of their production systems, which were characterised by high production and transaction costs, resulting in poor quality (Louw, et al., 2007). Therefore, any party seeking to redress exclusion in the region, be they businesses, development programmes, projects, or the public sector, should take cognisance of the aforementioned exclusion scenarios. In sub-Saharan Africa, where smallholder farmers account for 90 percent of agricultural production, access to viable modern markets such as supermarkets can be a crucial element for wider poverty reduction (Humphrey 2007; Boselie et al., 2003). The major challenge is how to link smallholder farmers to modern formal agribusiness in a sustainable manner. Given the right incentives and support, small farmers can participate in modern supply chains and benefit from increased access to inputs, the availability of credit, innovative technologies and 'productivity spill-over' effects (Boselie et al., 2003).

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[4] Supermarkets and Processors

4.1 Agriculture and agribusiness in the SADC

Although the immense importance of agriculture in poverty eradication is a generally accepted fact, it should be noted that while all SADC economies depend on agriculture, the extent of agricultural operations and their contribution to GDP differ substantially among the different economies. In some economies, the focus is still on primary agriculture, whereas other economies have moved further up the value chain and focus on agri-processing. Either way, agriculture and agribusinesses continue to have an unsurpassed effect on the economies of developing countries, and particularly SADC states (World Bank, 2007:136).In Mozambique, agri-processing is limited, with the exception of a potato chip factory in Maputo; milk and juice packaging in Matola, the industrial area of Maputo; a small cheese factory in Chimoio; and yogurt production in Beira and Maputo. All of these are small-scale operations are small scale and only the potato chip factory is locally owned; the rest are foreign owned (Nair & Coote, 2007:1). Mozambique also has a vegetable oil plant in Maputo, coconut oil processing plants and a wheat mill near Inhambane, and large cold storage facilities in Maputo (McBain, 2007).

Tanzania is among the world's poorest countries, with a per capita annual income of about US$ 280. Agriculture plays a dominant economic role in Tanzania, accounting for nearly three-quarters of merchandise, 45 percent to 50 percent of GDP, and employing around 70 percent of the labour force, especially in rural areas. Agriculture, therefore, is a major driver for rural development. The agricultural sector is growing at an annual average of 5 percent. This growth is mainly due to diversification from cereals to higher value crops, as well as dairy, pig and poultry production. In all sectors, there is a gradually increasing role of the private sector in commercial agribusiness activities. Fruit and vegetable processing firms were mainly owned by private individuals (64.4%), NGOs (11.9%), partnerships (15.3%), and cooperatives or groups of people (8,5%). Dabaga, which is located in Iringa, is currently processing about six to eight tonnes of tomatoes and other fruit per day, producing mainly tomato sauce, pickles and a variety of fruit juices. An Asian-owned company, UNNAT Fruit Processors, has started construction of a vegetable and fruit processing plant in Morogoro, with an investment of some US$ 1.5 million (Ashimogo & Greenhalgh, 2007:1-2). In addition to these concerns, there is a large wheat mill (now owned by US company Seaboard) in Dar es Salaam and a grossly underutilised maize and flour mill in Arusha, as well as SAB-Miller breweries (McBain, 2007).

Zambia's fresh fruit and vegetable sector operates in a regional context, exporting and importing through both informal and formal channels. Imports largely come from South Africa, Zimbabwe, Malawi and Tanzania, while significant informal exports go to DR of Congo. A year-long study of informal cross-border trade estimates that approximately US$60 million worth of agricultural produce (approximately 20 percent of the total) was traded in the year ending 1998, without government recordings of these transactions (Haantuba, 2003). On the international front, fruit and vegetables are produced mostly by commercial growers for export, mostly to Europe, with the focus on high-value vegetables. Some horticultural farms, such as York Farms, engage both individual farmers and cooperatives as vegetable out-growers. The horticultural sector contributes significantly to the country's non-traditional exports, accounting for between seven percent and 12 percent. The total value of horticultural exports are estimated to have increased by 67 percent, from US$ 27 million in 2000 to US$ 45 million in 2003, before dropping to US$ 36 million in 2004 after the fall of Agriflora. Apart from York Farms, the other major export horticultural companies are Chalimbana (formerly Agriflora) and Borassus Estates. Other players include Majoru Investments and Rose Blooms. As of 2004, all these companies accounted for a total irrigated area of 5,000 hectares (Hichaambwa, et al., 2007:5).

South Africa has a broadly spread agricultural economy, with well-developed commercial farming at the one extreme and subsistence-orientated production in the deep rural areas at the other. The South African agri-food complex consists of primary production and contributes about 2.7 percent to South Africa's GDP and about 7.2 percent to formal employment. Due to the forward and backward linkages into the economy, the input and agri-processing sectors account for an estimated 15 percent of GDP. Not only is South Africa self-sufficient in virtually all major agricultural products, but it has also been generally perceived as a food exporter for many years. In 2004/5, the agri-food complex exported R20 billion (R7 was roughly equivalent to US$ 1 in 2007) worth of primary and processed food products, or nearly 10 percent of South Africa's total exports. However, over the past five years agricultural exports have contributed on average just 7 percent of total South African exports. The largest export groups are wine, citrus, sugar, grapes, maize, fruit juice, wool, and deciduous fruit, such as apples, pears, peaches and apricots. Other important export products are non-alcoholic beverages, food preparations, meat, avocados, pineapples, groundnuts, preserved fruit and nuts, hides and skins, and dairy products (Louw, et al., 2007b:2). The pedestrian growth of South Africa's agri-based exports should be a major concern.

Agribusiness is a key sector in most SADC countries, where the majority of the poor population base their livelihoods on agricultural production. The agribusiness sector plays a major role in industrial, urban and regional development, as it contributes to GDP and stimulates wider investments in the economy. This helps to achieve food security through the provision of food, creates employment, generates and redistributes income, and improves the standard of living in the SADC region (Van Zyl, 2006). It is, therefore, apparent that the agribusiness and agricultural sectors are critical for economic growth and poverty eradication in developing countries. This is especially true for Africa, which depends heavily on domestic agriculture to provide the basic food needs of its people without straining its balance of payments. Through increased production and export of agricultural products, the agribusiness sector offers an effective way of reducing poverty in developing countries. Agriculture offers the best hope for initiating growth (often without major capital investment), and is an effective method of poverty reduction for most developing countries in Africa, where the potential for export growth in the mining, manufacturing and services sectors is meagre (Humphrey & Memedovic, 2006). However, this statement is debatable, as the vast and largely untapped mineral resources of many SADC countries offer huge potential for development. Mineral and oil resources are also regarded as a major cause of unresolved conflict in several SADC countries, and very few people, especially in rural areas, benefit from wealth thus created, whilst infrastructure is deteriorating (McBain, 2007; Nyambe, 2005).

Nonetheless, in order for the agricultural sector to act as an accelerator of economic growth, several important factors need to be addressed, including political and economic instability in certain SADC member states, tariff and non-tariff barriers between member states, the impact of SACU and SADC on trade agreements, corruption and fraud, and the impact of bio-fuels on future food security issues. Political and economic instability should be considered urgently, as once thriving agricultural sectors have either been destroyed, or have suffered setbacks due to unstable political environments in the SADC region (McBain, 2007).

4.2 Characteristics of the fresh supply chains in the region and their procurement strategies

The SADC region's fruit and vegetable supply chain is to a large extent controlled by South Africa, due to the immense presence of South African supermarkets within the region. In terms of grocery retail shares within the region, Shoprite is the main retail chain, followed by Pick 'n

Pay, SPAR and Woolworths (PlanetRetail, 2007a:6). This section will discuss procurement policies according to countries, as well as according to retail chains.

South Africa

South Africa has a modern industrial base and is largely food self-sufficient, with the exception of wheat, rice, and oilseeds. It also has a relatively good surface-water reservoir system, making it a particularly strong fruit and vegetable producer. The combination of these factors reduces the need of supermarkets to import food items. Instead, South African supermarkets are exporters of their product lines into the rest of Africa, and import less than 1 percent of their food products from the rest of Africa. Despite South Africa's food self-sufficiency, its supermarket chains find it necessary to import fruit and vegetables in order to adjust to seasonality and provide their customers with unique products that do not grow in South Africa. The supermarket chains' need to import fruit and vegetables also derives from the lack of innovation by local agri-processors. Supermarket chains source out-of-season produce from around the world, either directly, or by using third party importers. Supermarket chains utilise third-party importers to facilitate the purchase of goods that the chains sell on a continuing basis, and to procure out-of-season products that are in high demand.

Although imports cut into profit margins, some supermarket chains, for example, Pick 'n Pay, who do not have prominent in-house import departments use third-party importers extensively. The advantage of third-party importers is that they may already have knowledge of foreign markets that the supermarket chains lack. In addition, importers tend to handle large shipments as opposed to costly low volume imports, and they can sell to multiple retailers. Thus, supermarket chains can purchase from importers without dealing with the overhead costs of storing large quantities of imported goods at their distribution centres; for example, Woolworths limits its storage of dry-goods to a maximum of ten days because of the associated costs of storing an item (Ntloedibe, 2006:6-7)

Shoprite

Shoprite's first priority in other African countries apart from South Africa is local procurement. Shoprite representatives try to source as much fruit and vegetables as possible locally, especially highly perishable goods, such as spinach and lettuce. Whereas farmers supplying Shoprite in South Africa and Namibia are held to strict EurepGAP criteria, Shoprite is more flexible towards farmers in the less developed countries in the region, demanding that they meet only basic hygiene standards. If the fruit and vegetables cannot be sourced locally, they are supplied from South Africa (or from Europe if the product line is out of season in South Africa). Due to environmental factors, Mozambique, Botswana, Namibia, and Angola do not produce stone fruits, which necessitate their procurement from South Africa. Thus, in many cases, the need to import from South Africa does not relate to quality or quantity concerns on the part of Shoprite, but rather to the fact that there are literally no suppliers of some produce lines in the country of operation.

Namibia

Shoprite operates 21 stores in Namibia,. Fifty percent of Namibian produce is sourced locally and 50 percent is imported from South Africa. Similar to its operations in South Africa, Freshmark has established a growing programme with local farmers. Whatever fruit and vegetables Namibian farmers are unable to produce locally due to climate or standards issues, such as stone fruits, they source directly from South Africa,. Shoprite has a distribution centre in Windhoek and a depot in Swakopmund. Individual Shoprite stores place orders with the Namibian distribution centre, which in turn sources everything from the Western Cape or

Guateng distribution centres. The Namibian distribution centres order from their South African counterparts because they can order large quantities and be assured of consistent supply. The biggest problem facing the procurement and distribution of fruit and vegetables in Namibia is how to keep the produce fresh over the long distances involved in transporting the produce and the desert heat. It takes approximately five days from the time the farmer in South Africa picks the fruit and vegetables to the time it arrives at the supermarket in Namibia.

Angola

Shoprite moved into the Angolan market in 2003, and currently operates four stores in the country, with plans to expand in the future. Nearly 99 percent of fresh fruit and vegetables are supplied from South Africa. Due to the high costs associated with transport, long lasting, heavy produce, such as potatoes, are supplied by ship every ten days. By contrast, smaller, high-value products, such as mushrooms, are sent by airfreight weekly. On the dry foods side, in addition to being supplied from South Africa, a large proportion of products are sourced from Portugal and Brazil due to government regulations that require processed food products to have a Portuguese label.

Tanzania

In Tanzania Shoprite sources its supplies through contracted agents, who supply two-thirds of their fresh purchases, and purchase the rest directly from farmers. Shoprite also imports fruit, such as apples, pears and citrus, from South Africa in order to cater for low off-season production and substitute for poor quality local varieties (Ashimogo & Greenhalgh, 2007:2).

Zambia

The South African retail firms source most of the products they sell in Zambia from South Africa. For instance, except for certain agricultural produce, Shoprite/Checkers imports all of its non-agricultural products from the parent company supply chain in South Africa. Shoprite uses its subsidiary company, Freshmark, to procure fresh produce mostly for its country-wide outlets, and supplies nearly 10 percent to other supermarkets. It purchases its supplies from a combination of domestic farmers and traders, and imports from neighbouring countries (Hichaambwa, et al., 2007:3). There are high transaction costs involved due to transport, tariffs and maintenance of the cold chain.

Pick 'n Pay

Pick 'n Pay has 11 stores in Namibia, three in Botswana, two in Swaziland, and is expected to open a couple of stores in Mozambique in the near future. Stores in Swaziland fall under the Natal buyer, stores in Botswana fall under the Northern Region buyer, and stores in Namibia fall under the Western Cape regional buyer. Non-RSA stores are supplied three to four times per week from their corresponding regional distribution centres. Approximately 70 percent of food items are supplied from South Africa, while the remainder (dairy, produce, bakery, some maize meal, country specific preferences etc.) are sourced locally (Ntloedibe, 2006:13).

SPAR

The North Rand distribution centre supplies SPAR's 23 stores in Namibian and its 24 stores in Botswana with dry goods on average twice per week, using third-party transport. SPAR has in-country clearing agents, and staff in the North Rand distribution centre works fulltime to ensure the shipments pass freely through the border. Because SPAR stores operate on a voluntary trading basis, they also source a large portion of dry foods locally or through multinationals operating in Namibia and Botswana. Concerning SPAR's in-house brand Freshline, Botswana and Namibia recently erected protectionist trade barriers on a number of food items, such as pasta, maize meal, and powdered milk, entering from South Africa,. As a result, SPAR recently contracted local manufacturers to produce SPAR brands in-country. Only a few stores receive Freshline, SPAR's in-house fruit and vegetable line. The majority of stores in Botswana source their produce from the Johannesburg municipal market using third-party transport, or from local suppliers. Namibian stores source from local suppliers or from the SPAR Cape Town distribution centre.

Woolworths

Woolworths has 12 stores in Botswana, two in Lesotho, one in Mozambique, four in Namibia, two in Zimbabwe, and two in Swaziland, all operating as franchises. Woolworths has halted the expansion of its franchising operations outside South Africa due to concerns relating to business practices that run counter to Woolworths's business model and values in some non-South African stores. The stores currently operating in Southern Africa are supplied daily with dry goods and fresh fruit and vegetables. As is typical with all supermarket chains, Woolworths experiences a lot of hassles with products crossing borders in the region. Woolworths cited the difficulty of getting dairy or meat into Botswana as an example. In order to expedite the crossing of borders, Woolworths typically sends a sample of each product they plan to ship across a border ahead for inspection, or they have the product checked in advance at one of their distribution centres. They provide the necessary documentation in advance, so that the load can clear as quickly as possible at the border post. However, this results in duplicating the preparation and issuing of documentation, which together with non-standardised procedures at border posts, leads to delays and refusals. The aforementioned are a primary cause of high cross-border transaction costs.

Botswana

The supply chain of fresh fruit and vegetables consists of producers (large and small-scale), wholesalers (specialised and dedicated fresh fruit and vegetables wholesalers who supply chain supermarkets and institutional buyers), supermarkets, general dealers (mainly in rural areas and who stock very few fresh fruit and vegetables products) and street vendors. Both large and small-scale farmers are involved in the production of fresh fruits and vegetables in Botswana. There are two types of small-scale farmers involved in fresh fruits and vegetables production, i.e. small-scale farmers in the traditional system, and emerging commercialised, well-capitalised, small-scale farmers. The small-scale farmers in the traditional system own approximately five hectares or less, use low inputs, and depend on rainfall to produce mainly field crops and fresh fruit and vegetables for subsistence. These farmers are not included in the formal fresh fruit and vegetables supply chain. Even in good rainfall years, traditional small-scale farmers are unable to produce enough staple food crops to provide sufficient food and income for their families. The emerging commercialised, well-capitalised type of small farmer supplies fresh fruit and vegetables to supermarkets and other market channels (Emongor, 2007).

There has been an increase in the number of local and foreign supermarkets involved in the food retail sector in Botswana. Supermarkets use a mix of procurement systems, ranging from decentralised procurement systems to specialised fresh fruit and vegetable wholesalers and distribution centres, which procure produce for their stores in Botswana. Decentralised (store-to-store) procurement enables supermarkets to procure from local farmers, including small-scale farmers. Small-scale traditional farmers who produce under rain-fed conditions are excluded from the supermarkets' fresh food and vegetables supply chain (Emongor, 2007).

In Botswana, the procurement systems that local and foreign supermarkets use include: farmers delivering produce to individual stores; supermarkets that use specialised wholesalers or preferred suppliers; and supermarkets that use distribution centres and outsourcing. Local chain supermarkets, such as Payless, Friendly and Choppies, and various independent retailers operating under the SPAR logo, contract with farmers (large- and small-scale) to deliver fresh fruit and vegetables directly to their stores. Some chain supermarkets procure fresh fruit and vegetables through specialised wholesalers or preferred suppliers, such as Mr Veg. Mr Veg supplies fresh fruit and vegetables to various supermarkets, such as METSEF and Pick 'n Pay. Ninety percent of the fresh produce sold by Mr Veg is sourced from the Johannesburg Fresh Produce Market. The remaining 10 percent is sourced from large-scale farmers in the Tulliblock, which is about 300 km from Gaborone. Some supermarkets procure fresh fruit and vegetables centrally at distribution centres. This can be observed among large South African supermarkets, such as Spar, Shoprite and Pick 'n Pay. These chain supermarkets use their sophisticated distribution centres and specialised fresh fruit and vegetables sourcing companies in South Africa to source fresh fruit and vegetables for their stores in Botswana. Street vendors source fresh fruit and vegetables at farm gate (from small-scale farms near the cities), from wholesalers (such as Tony's Café), or from chain supermarkets. This is because prices in chain supermarkets are normally lower than those of street vendors (Emongor, 2007).

Mozambique

Retailers tend to undertake their own local procurement, since the wholesale network is not well–defined, and shortages occur from time to time. They do not depend on fixed sources of supply, and tend to alternate between suppliers according to need. Considerable quantities of processed food are imported from South Africa. Imports and exports of produce and food products are controlled by a few large trading companies and several smaller ones. Asian trading families, originally brought in to run rural shops by the Portuguese, are a significant force. These merchants moved into the cities after independence, and with family links throughout the region, dominate the import trade (Nair & Coote, 2007:1).

The main procurement agents identified in the region are distribution centres, third-party/contracted agents. The smaller independent stores engage in self-procurement. It is worth noting that throughout the SADC, wholesalers rarely supply the four major corporate supermarkets chains, as they typically sell to smaller non-chain supermarkets, hotels, restaurants, tuck shops, hawkers, *spazas*, and mom-and-pop stores (Ntloedibe, 2006:8).

4.3 The changing market environment

The SADC is transforming as its member countries experience varying degrees of political, social and economic volatility. Most SADC economies are pre-dominantly agricultural based, and food dominates agricultural trade among SADC countries. Agriculture is an important point of departure in SADC countries, as enhanced trade in agricultural products potentially provides a tool for fighting poverty in the region, promoting regional integration, and increasing economic growth and welfare (ESRF, 2003:6).

The market environment in SADC is changing and developing. Most of the agricultural and food marketing policies in SADC states resemble those found in many other African countries that have gone through cycles of government interventionism and retreat. The transformation of agricultural marketing policy towards deregulation and removal of marketing boards throughout the region has had debatable effects on trade, as it has opened up markets to new threats. Globalisation also poses a potential threat to agribusiness in the SADC region through competition from both domestic as well as foreign markets, which are usually highly protected and subsidised, for instance the EU and US agribusiness sectors (OECD, 2002). Competition under such conditions can be very harsh for small and developing agribusinesses in the Southern African region.

Another important development has been the substantial increase of large retailers in the agribusiness supply chain in the SADC region. The growing concentration in processing and retail sectors in the domestic markets of developing and transitional countries, as in the SADC, is causing major institutional changes that affect market access for smallholder farmers and small agribusinesses. Domestic markets in liberalised economies have become increasingly like export markets, with product chains that are more buyer driven (Gerrify, 1999). Agri-food systems in SADC are changing due to increased FDI by South African firms. The number of small-scale commercial farmers who are entering the FFV supply chain in SADC is increasing. This could be attributed to government intervention and private sector involvement (Emongor, 2007).

4.4 Drivers of change

A number of factors have acted as drivers of change in the SADC agribusiness supply chain, including global factors, such as globalisation and trade liberalisation; increases in migration and urbanisation; a growing economic middle class; changes in and technology change; and improved grades and standards. The impact of these driving forces and other environmental factors have resulted in the agribusiness supply chain shifting away from buying products in bulk from farmers and wholesalers, to specialist packaging-houses for fresh produce, which supply new kinds of retailers, such as supermarkets and fast-food restaurants, with value-added products (Louw et al., 2004). These drivers of change are especially applicable to South African agribusiness supply chains. Other agribusiness supply chains in SADC countries differ vastly from each other and are still in their infant stages, ranging from being relative non-existence to informal establishments (McBain, 2007).

In Tanzania, the factors influencing change are market demand, technology and barriers to entry, as well as input supply, the profitability of different niches, risks, and the policy environment. In the case of fresh fruit and vegetables, a major force influencing change is the heavy reliance on the Dar es Salaam urban market, which makes up over 50 percent of urban consumption, thereby determining traded volumes, prices, and quality standards. Other major forces for change are irrigation technology, and market access by farmers close to major consumption areas (Ashimogo & Greenhalgh, 2007:1).

South African firms' investment in the Zambian retail market dates back to 1996, when Shoprite/Checkers and other stores opened branches in the capital, Lusaka. More investment followed, which culminated in the rapid expansion of the retail sector in Zambia. A number of firms opened up other branches not only in and around Lusaka, but also in other areas, such as the Copperbelt Region, Kabwe, Kitwe, Livingstone, and Ndola. The factors that attributed to increases in South African retail investment in Zambia were:

- Relaxation of foreign exchange controls in South Africa
- Adoption of 'market-friendly' policies, such as privatisation and trade liberalisation, in Zambia
- Political stability in Zambia

- One-hundred percent profit repatriation and other tax and investment incentives
- Profit opportunities in the wake of the collapse of state-run retail enterprises
- The centrality of Zambia provides a strategic foundation from which firms can expand further into the African continent.

This has led to massive job creation within the country, as thousands of jobs have been created (or re-created) and investment in the country continues. The 12 South Africa firms have employed close to 2000 workers. Some of those employed were re-hired after losing their jobs when state-owned supermarket chains, such as NIEC and Mwaiseni, ceased to operate (Muradzikwa, 2002:8).

4.5 Supermarkets

As previously mentioned, the primary drivers of the proliferation of supermarkets within the SADC are: rapid urbanisation and increasing disposable income; shopping centre development; increased car use; more working women; government investment in infrastructure; mass housing; and rising population densities. While supermarkets account for a large percentage of national food sales within the region, informal retailers (wholesale and retail markets, traditional *spazas*, tuck shops, and mom-and-pop stores) still account for a substantial market share (Ntloedibe 2006:4). The region is at different levels of supermarket development, and overall there is a strong dominance of traditional markets throughout the region.

4.6 Supply chain issues

Although South African retailers like to standardise their stores outside South Africa by replicating what they have mastered in South Africa, they need to make adjustments for local preferences and price behaviour. Their drive into the SADC market comes with associated risks and costs, such as the development of long supply chains, currency volatility, and the development of local procurement from scratch. While most food retailers say their first priority is to source locally, this often proves difficult and costly, if not impossible for certain food lines. In many countries, local procurement has proven difficult for most food retailers, due to the lack of local suppliers who can meet supermarkets' demands for quantity, quality, and timeliness. Instead, the vast majority of dry foods and fruit and vegetables are sourced from South Africa, highly perishable fruit and vegetable lines like lettuce being the exception. Despite the long hauls and border crossings, it is often cheaper for food retailers to source from South Africa, where distribution channels already exist and supplies are reliable and of higher quality (Ntloedibe, 2006:5).

For instance, Shoprite's policy is to buy locally as far as possible. However, in practice its procurement policy continues to favour imports. In Mozambique, local suppliers are not seen as sufficiently quality-conscious or punctual in their deliveries. General reliability of supply is a key issue, as supermarkets want regular guaranteed volumes. Another issue is consumers' perception of Mozambican products as being of poor quality, which also acts as a barrier against selling local produce in supermarkets. Propco Mozambique Lda, a subsidiary of Shoprite, is responsible for procurement. For the most part, this is done centrally, but local purchases are also made, provided the price is competitive for the quality on offer. They procure local vegetables and at the same time offer the same imported vegetables at a higher price, albeit the latter are washed and well-packaged (Nair & Coote, 2007:1).

The South African retail firms source most of the products they sell in Zambia from South Africa. This does not encourage manufacturing activity in Zambia, and in effect turns Zambia into a 'retail province of South Africa'. Sweeping trade liberalisation measures taken in the 1990s have also contributed to the proliferation of imported commodities (Muradzikwa, 2002:9). Significant increases in FDI in Zambia coincided with an aggressive privatisation programme in the aftermath of widespread collapse of state-run supermarket chains, such as NIEC and Mwaiseni. Therefore, the net increase in employment could simply have been due to employees who lost their jobs when the state enterprises collapsed being subsequently rehired when the private sector was invited into the sector. Moreover, some of the firms, such as Shoprite/Checkers, are using the premises that were previously used by the state-run supermarket chains, which implies that infrastructural development on the part of these South African firms is limited (Muradzikwa, 2002:9).

In their expansion north, South African corporations, supermarket chains included, have been subject to accusations of corporate imperialism. Some African government representatives and sectors of the population have accused supermarkets of procuring goods from South Africa instead of from local suppliers and thereby undermining local farmers, manufacturers and less competitive supermarkets. They believe that the introduction of these firms has disadvantaged the local agri-food sector, because they buy goods directly from producers and undermine wholesalers, which in turn tends to inflate local prices. In their defence, the South African firms argue that they create employment, improve infrastructure, and lower prices. In order to manage the negative perceptions described above, South African supermarkets are trying to be seen to be supporting local products and developing rapport with local communities, although with mixed success (Ntloedibe, 2006:8).

4.7 Infrastructure

Sub-Saharan Africa lags behind the rest of the world in almost all aspects of infrastructure development, especially when excluding South Africa. The overall level of technology remains very basic and offers scope for upgrade and improvement. There is a critical need to enhance the technical skills of low- to medium-level technicians through agricultural colleges and polytechnics, as well as through shared learning within the sub-Saharan African region. Infrastructure needs are significant, including the need for better roads, refrigerated trucks, cold chain facilities at airports and ports, etc, and irrigation and water management needs, including the construction of small dams. The meeting of all these needs is integral to agricultural development (Nair & Coote, 2007:5).

Infrastructure development in SADC has been constrained by declining levels of public investment in infrastructural projects. Soaring debt burdens, sluggish economic growth, and increased pressure on SADC governments to reduce government expenditure all continue to worsen the backlog in infrastructure that the region faces. Governments have found it easier, and politically expedient, to reduce capital expenditure (including spending on infrastructure) than to reduce spending on the public service wage bill (Muradzikwa, 2002:15). The infrastructure indicators for sub-Saharan Africa are given in Table 4.1.

Table 4.1: Infrastructure indicators in sub-Saharan Africa (1997)

	Electric Power Consumption per Capita (kilowatt-hours)	Telephone Mainlines per 1000 People	US$ Cost Of 3-Minute Call to the USA	Paved Roads (% Total Roads)	% of Population with Access to Safe* Water
Sub-Saharan Africa	439	16	8.11	16	47
Sub-Saharan Africa (excl. South Africa)	146	10	8.65	9	46

* “Safe” is a subjective description.

Source: Adapted from Muradzikwa, (2002:15)

The onus for infrastructural development has thus been left on private sector participation, as they also have a role to play in infrastructural development. Some firms (such as Shoprite/Checkers) do not build new premises when they branch out into new countries, and therefore do not contribute to infrastructural development (Muradzikwa, 2002:9). This is true for Shoprite/Checkers in Zambia. However, in most of its other locations, Shoprite often develops modern retail structures through its expansion, thereby contributing to investment in the infrastructure of the country in question, as well as in the know-how of its local suppliers. Nevertheless, the situation remains that a large majority of products available in Shoprite stores across Africa are imported from its domestic base of South Africa (PlanetRetail, 2007a:2)

In Zambia, several private firms have been increasing their out-grower base in order to meet the increasing international market demand. They provide extension services through monitoring the production and quality control activities in order to meet international standards. The demise of Agriflora had a huge negative effect on the horticulture sector, as evidenced by the reduction in export revenue in 2004. However, the future prospects for Zambia's agricultural sector look good, thanks to infrastructure that has since been put in place.. Another cause for optimism regarding the agricultural sector is that the major players are continually increasing production, with mounting emphasis on the production of organic vegetables, in line with international consumer demands. (Hichaambwa, *et al.,* 2007:5). Zambia thus provides a good example of other 'local' firms taking the initiative for infrastructural developments. There are many such examples throughout the region.

Another example of how to address the infrastructural problems in SADC is Timbali Technology Incubator, which was established in Nelspruit, Mpumalanga (De Klerk, 2007). Timbali's focus is on helping emerging farmers in the cut-flower market overcome market, financial and technology barriers. In order to overcome their economies of scale problems, Timbali established a Prototype Turn-Key Agri-Cluster Development of 30 small-scale farmers on 3,3 hectares of land. Farmers benefit from this establishment by exposure to shared infrastructure, bulk buying, shared services, collective marketing, branding and advertising, and coordinated selling under the trade name 'Amablom'. By providing mentorship, access to expertise, technology packaging, finance, and markets, Timbali ensures that small-scale farmers have the opportunity to develop into independent, competitive small, medium and micro enterprises (SMMEs) in the agribusiness sector. This programme has improved small-scale farmers' chances of surviving the crucial first five years of business by addressing the skills, managerial and knowledge gaps. Moreover, this programme has created a platform for sustainable agricultural development and business advancement in South Africa, while addressing the country's socio-economic problems at the same time.

Donor agencies, such as DFID, have also played a key role in infrastructural development within SADC. At present, USAID assists and links farmer groups from upcountry to produce fruit and vegetables. DFID was also instrumental in establishing the Investment Climate Facility, which was launched at the 2006 World Economic Forum in Cape Town. DFID has committed US$30 million and helped to secure a further US$180 million in corporate and donor commitments, which will be used to strengthen the Africa business environment. DFID Mozambique's growth strategy focuses on creating an enabling environment for pro-poor growth that enhances poor people's abilities to effectively participate in markets. The organisation also supported the governments of Malawi and South Africa in the facilitation of regional trade by opening a one-stop-border post between the two countries (DFID, 2007:2; Ashimogo & Greenhalgh, 2007:1).

Another key development in the eradication of infrastructural inadequacies in the SADC has been the establishment of maximum residue limits (MRLs) for pesticides used to control agricultural pests and diseases. Not only do MRLs safeguard consumer health, but they also minimise the presence of residue in the environments of most SADC countries. As a condition of market access, products that are exported must comply with these residue standards. To ensure compliance with legislation, samples are drawn for analysis during quality inspections. The proposed development and construction of the Information Core for Southern African Migrant Pests (ICOSAMP) has been presented to and endorsed by the SADC. ICOSAMP is a computer-based information centre for the SADC that provides a 'hub' for reporting the distribution of migrant pests in the region. ICOSAMP also serves as a platform for technical cooperation and the sharing of research information. By providing early warning information of cross border invasions of migrant pests such, as army worm, locust and red-billed quelea, Icosamp enhances the forecasting efficiency of control organisations, thereby assisting national crop protection agencies in ensuring food security (Burger, 2007: 81- 82). Icosamp exemplifies the ways in which the SADC is taking a united approach to solving the infrastructural problems that exist among its member states.

4.8 Market choices

In Africa there are several traditional markets that can be found in multiple locations in the cities. According to conservative estimates, traditional markets account for more than 90 percent of the market share of fruits and vegetables marketed in most of the low-income countries in East and Southern Africa. Traditionally, farmers or wholesalers supplied products to the retailers in the city markets as well as to supermarkets, while some relatively small retailers bought from fellow retailers. Large, formal markets had both wholesale and retail sections. Small markets took the shape of either formal or informal roadside markets. Retailers that were positioned in the small markets would usually buy products from the larger markets nearby, although sometimes they bought directly from the farmers themselves (Temu, 2007:2).

Currently, in Mozambique, small-scale importers and wholesalers of fruit and vegetables bring their produce to the Malanga market in Maputo, where both wholesale and retail trade is undertaken. Apart from their locally produced fruit and vegetables these traders also market fruit from South Africa. It is this market that supplies retailers and bazaars (Nair & Coote, 2007:2). This arrangement is similar to the functioning of the wholesale fresh produce markets in South Africa and the Mbare market in Zimbabwe. All of these markets perform both wholesale and retail functions, and are open to small-scale farmers.

In Tanzania, in terms of fruit and vegetables, there are four channels through which produce flows from farm to market:

i. the integrated, non-commercially orientated small-scale farmer channel, producing primarily for home consumption;
ii. the wholesale trader channel, through which wholesalers buy fresh produce mainly from dedicated commercial farmers, and sell to retailers in regional urban markets through commission agents;
iii. the contracted fresh supplier channel, through whom a farmer or trader supplies under short-term contracts to institutions such as supermarkets, hotels and restaurants;
iv. the fresh exporter channel, through which exporters buy produce mainly from commercial farmers and export to regional and international export markets.

For farmers, the only decision that relates to the physical distribution of produce, and also the only decision that can be made under normal circumstances, relates to the method of first-stage sale, in which the main considerations are price, convenience, and information provided (Ashimogo & Greenhalgh, 2007:2). This is true for farmers throughout the region, regardless of the size of their operations. All farmers who operate without contracts need to make this fundamental first-stage sale decision. However, this is often a difficult decision to make, due to limited information and the urgency associated with fresh produce sales.

4.9 Production characteristics

The SADC region currently produces 5,7 million metric tonnes of vegetables, up from 4.4 million tonnes in 1980, at an average annual growth rate of 1 percent per annum for the last 25 years and 1,5 percent per annum over the last five years. The growth in vegetable production for the region compared to that of the world is illustrated in Table 4.2. Within SADC, South Africa accounted for 40 percent of the production, Tanzania for 22 percent, the DRC for 8,4 percent, Madagascar for 6,4 percent, and Angola and Zambia for 5 percent each. The only countries in this region to record significant long-term growth trends have been Namibia (4,86 percent per annum from 1980-2005), Mauritius (4,22 percent), South Africa (1,62 percent) and Malawi (1,51 percent) (TIPS & AusAID, 2007:6).

Table 4.2: Growth in vegetable[5] production by region and selected countries (tonnes)

	Years				Annual Growth (%)	Annual Growth (%)	World Market Share (%)
Regions	1980	1990	2000	2005	2000-2005	1980-2005	
World	324,229,145	461,868,317	746,236,775	881,136,456	3,4	4,1	100,0
SADC	4,495,673	5,236,699	5,310,917	5,725,685	1,5	1,0	0,6

Source: Adapted from TIPS & AusAID, 2007:7

In SADC, vegetable production is characterised by small-scale farms (mostly subsistence farming) that produce vegetables to cater for the needs of the domestic market. In Zambia, smallholders produce 90 percent of the nation's poultry and much of its fruit and vegetables. However, although most of the country's food is produced by the 3,4 million smallholder farming households, with an average of less than 1,5 hectares of land, both large and small-scale farmers produce and sell fresh produce. Large commercial farmers, however, tend to grow exotic produce for the export market, while small-scale farmers produce mostly for the local markets. Small-scale farmers' remain important suppliers of fresh produce (except the Irish potato) to urban markets, such as Lusaka. However, their sales of fresh produce are highly concentrated, and only up to 20 percent of households indicated that they sold some

[5] Vegetables do not include cassava, yams, sweet potatoes, pumpkins and gourds

fresh produce in 2001 and 2004. Some farm-gate marketing of fresh produce for household consumption takes place in Zambia, but most of the fresh produce is channelled into the urban markets via farmers/traders, who usually sell in the main urban wholesale markets. These markets have significant effects on prices and volumes traded. Some of the fresh produce sold on these markets comes from within the region, for example, dry onion from Malawi, Tanzania and South Africa, and oranges and bananas from Zimbabwe and South Africa. Depending on local supply and seasonal fluctuations, these products are usually sourced by private traders who join forces and purchase truckloads of produce to sell at the main wholesale markets (Hichaambwa, et al., 2007:3; Nair & Coote, 2007:2). This situation is repeated throughout much of the SADC region.

The FAO estimates that the most produced vegetable (in tonnes) is cassava (40,4 million tonnes), followed by potatoes (4,6 million tonnes), sweet potatoes (2 million tonnes) and beans (0,7 million tonnes). Whilst Angola, the DRC, Malawi, Mozambique, Tanzania and Zambia are all large producers of cassava, potatoes, sweet potatoes and beans, most other vegetables are produced either in South Africa or, to a lesser extent, in Tanzania and Zimbabwe. Simply put, the current production patterns in the region are not aimed at the export market, but on supplying food for the local population (TIPS & AusAID, 2007:9) (See Annex).

The SADC's trade in vegetables is heavily dominated by four countries, i.e. South Africa, with 35 percent of all trade in the region; Tanzania, with 22 percent;; Zimbabwe, with 14,5 percent; and Zambia, with 13 percent). In total, the SADC region exported US$133 million worth of fruit in 2004. Roughly 60 percent of all exports from the region were destined for the EU (US$ 79 million), followed by other SADC countries (US$ 22.4 million, or 16,8 percent) and South Asia (US$ 21,3 million, or 16 percent) whilst the rest of exports are distributed outside these regions. South Africa exported predominantly to the EU, other SADC countries, and, to a lesser extent, to the US. Both South Africa and Zimbabwe exhibited declining growth rates. South Africa's declining growth rates were due to negative growth in the domestic market, while Zimbabwe's were due to internal political and economic issues (TIPS & AusAID, 2007:43). South Africa's declining exports could also be explained by the pressures of a stronger rand and, perhaps more importantly, the growth in domestic demand (TIPS & AusAID, 2007:9).

The SADC countries showed erratic export growth for the period from 1980 to 2004, although some countries in the region seem to have a particularly positive outlook. If the analysis is based on the period from 2000 to 2004, then Tanzania's growth rate of 62 percent per year, Mozambique's growth rate of 36 percent per year and Malawi's growth rate of 22,5 percent all present a positive outlook about the region's export opportunities in the vegetable sector. (TIPS & AusAID, 2007:9).

4.10 Marketing

Private labels play an integral part in this strategy, as supermarket chains communicate their own brand qualities and elicit stronger customer loyalty. Ready-made meals and convenience foods have been especially important in boosting customer loyalty, while economy brands are used to attract the large population of lower income shoppers. Outside South Africa, Shoprite is using its Ritebrand PL in its African stores to cater for lower-income shoppers. PL products are very limited beyond their use by South African retailers (PlanetRetail, 2007a:4).

4.11 Constraints for smallholder fresh produce farmers

Supermarkets are considered to be a very big challenge for the small farmers who cannot access markets in the SADC region. This is mainly due to the fact that small farmers in this region are generally unable to produce products of sufficient quality for the supermarkets, nor guarantee the required sustainable supply, since they lack the infrastructure, capital, information and knowledge to do so.

In Mozambique, the key reasons for limited procurement of fruit and vegetables are problems relating to the reliability of supply and quality. Supermarkets buy mainly from individual businesses and suppliers, and their procurement agents are required to maintain timely delivery of quality products all year round. Supermarkets work on the principle of large volumes sold with low profit margins, and aspire to higher product quality, as well as quality packaging and/or presentation. However, supermarkets in Mozambique do not offer goods at the cheapest rates, nor are the goods of exceptional quality. It is reported that suppliers are subjected to high-handedness. In local supply chains, grading of produce is rare, and produce is largely sold by volume rather than weight. Limited working capital means that it is difficult for small-scale traders to expand their businesses in order to trade in large volumes. Accessibility to road transport is limited as well as costly, particularly in those areas that lie further away from Maputo (Nair & Coote, 2007:2).

In Tanzania, at the production and marketing levels, the major constraints on the fruit and vegetables sector's growth include:

- poor, unspecialised extension services;
- poor accessibility to inputs and their high cost;
- lack of strong and effective farmer organisations, poor market information, and heavy reliance on distant urban markets;
- bad rural roads, which raise transport costs;
- high product quality deterioration (40 percent);
- inadequate access to markets, lack of finance, inadequate institutions (e.g. weak cooperative unions);
- lack of entrepreneurial and marketing skills;
- lack of contractual arrangements;
- high transaction and marketing costs;
- inadequate vertical coordination and integration of marketing channels;
- policy uncertainties.

Small-scale farmers also have difficulty accessing niche markets, such as supermarkets and tourist hotels, because of the difficulty in adhering to safety and quality standards (Ashimogo & Greenhalgh, 2007:2).

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

- High consumer quality demands and preference.
- Lack of a public policy environment that is supportive of small-scale producers in the market, including those at municipal level.
- Lack of equal access to market information.
- Quantities produced by farmers are small and erratic.
- There is a need to improve productivity and lower production costs, including the high cost of inputs.

- Failure of the credit market to meet small-scale producers' needs and dependency on traditional credit providers.
- Inadequate cooperation between farmers and need for cooperative action.

4.12 Producer organisations and cooperatives

Agribusiness can be divided into two categories: non-cooperative business ventures and cooperatives or transformed cooperatives. Non-cooperative business ventures, also known as profit companies, are involved in the production and distribution of agricultural equipment and production requisites and the marketing of agricultural products. Cooperatives dominate the distribution of intermediate requisites and the handling, processing and marketing of agricultural products. Agricultural cooperatives or agribusinesses are regarded as the farmers' own independent business organisations.Throughout South Africa, there are close on 1000 primary agricultural cooperatives and agribusinesses. They supply their members with production inputs, such as seed, fertiliser, fuel and repair services. They also provide credit and extension services, and they handle a large percentage of their members' produce. There are more than 15 central cooperatives in the country, which aim to supply the primary cooperatives with specific services such, as the processing and marketing of agricultural products, insurance services for crops, short-term credit cover and other farming requisites (Burger, 2007: 89-90)

As in Zambia, Zimbabwe and South Africa, most other SADC countries have introduced agricultural policy reforms, which have resulted in the withdrawal of direct government involvement in agricultural marketing and input supply, removal of subsidies, privatisation of agri-parastatals, and trade liberalisation in farm products, inputs, machinery, et cetera. It is against this background that government has an important role to develop sustainable market support services, such as market information, extension and infrastructure (Haantuba & Wamulume, 2004). Cooperatives/producer organisations are important focal points for development and provision of other social services. In addition, these groups are well positioned as centres for policy transmission and advocacy, especially for small-scale farmers (Haantuba and Wamulume, 2004). Government policy should encourage the formation of such groups, as is the case in Zambia, South Africa and many other SADC countries. The government of Zambia, for instance, revisited the concept of cooperatives through the new Cooperatives Act of 1998 (Haantuba & Wamulume, 2004). Similar legislation has been put in place in other SADC countries, such as South Africa and Malawi.

Agricultural cooperatives and farmer organisations have the important role of providing opportunities for their members to actively participate in the market economy in the SADC region. Farmer cooperatives and organisations help small-scale and individual farmers' gain access to markets through contractual arrangements with the growing chains of supermarkets and distribution centres. Agricultural cooperatives and producer organisations can improve efficiency and competitiveness of members to meet the high quantity and quality requirements of their buyers, thus providing additional benefits to their members as cooperative participants. They can accumulate technology, financial capital, human capital and managerial organisation to help improve members' access to assets, including natural, physical and financial assets and human and social capital that will help them actively participate in supplying produce to demand-driven supermarket chains (Boselie et al., 2003). The process of inducing the necessary investments in technology, equipment and entrepreneurship development can also be initiated by small farmers by approaching the private sector to obtain support and collaboration. This helps farmers develop strong and efficient cooperatives that help them participate in the buyer-driven markets (Berdeque et al., 2004).

Cooperatives and other farmer associations represent another approach to helping smallholders take advantage of the opportunities in the high-value export sector; for example, in Europe, cooperatives have played an important role in integrating small farmers in high-value markets, and they remain important to this day. However, in developing countries, the public sector, believing that the groups were politically too powerful, undermined the participatory nature of these organisations by intervening excessively during the pre-adjustment period and withholding the necessary managerial assistance and training necessary for them to thrive, , (Lele & Christiansen, 1989). Yet development projects that centred on creating cooperatives and farmer organisations often failed if the only incentives for farmers to join were input subsidies, which did not foster trust among participants but rather increased farmers' dependence on the project organisers (Coulter et al., 1999).

The Agriflora smallholder cut-growers cooperative scheme offers an example of efforts to encourage smallholder farmers to participate in the production of export crops. The farmers are organised into cooperatives with the aim of growing export quality vegetables, including baby corn, mange-tout peas and sugar snap peas. The cooperative scheme is vital in facilitating the marketing of the produce through a specialised system of packaging, grading and standardising to meet international market requirements. Crop production services are also provided to farmers, and grouping those in cooperatives helps to bulk up the quantity of produce. Agriflora also provides cooperatively based collection centres with a refrigerated container, input store and grading bay. Farmers also get extension services, input credit and irrigation equipment through cooperatives (Haantuba & Wamulume, 2004). The Makeni cooperative society is one of the six cooperatives supplying fresh vegetables (baby corn, peas, sugar snaps and coffee) to Agriflora The cooperative guarantees loans to individual members, and if a member defaults then all members are obliged to pay on the member's behalf. The cooperative has had a successful policy advocacy, and they have managed to influence the pricing structure in their favour through prolonged pressure and appeals to government (Haantuba & Wamulume, 2004).

Collective action enables individual poor farmers to attain economies of scale, size and scope, which allow them to engage on a level negotiating platform. The private sector should be innovative in terms of the way they deal with small farmers through business models that allow them to deal with small farmers without compromising viability. There is a need for collaboration between the public and the private sector in terms of linking smallholder farmers to formal markets. In addition to these things, it should be noted that empowerment of smallholder farmers is a public good; thus governments in the region should priorities designing policies that enable integration of smallholder agriculture into formal agribusiness, as illustrated in Figure 4.1.

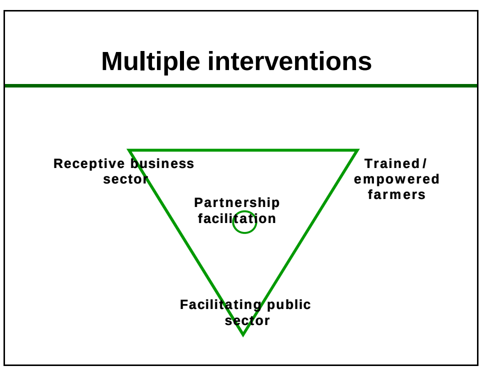

Figure 4.1: Multiple interventions (Source: Proctor, 2007b: 14)

4.13 Contract Farming

Given the poor performance of agriculture in many SADC countries, many donors and governments realised that contract farming and its variants would bring about improved incentives, increased income for farmers and positive multiplier effects for the impoverished rural economies. Contract farming is an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward sales agreements, frequently at predetermined prices. It is regarded as one of the methods that can assist small scale farmers in overcoming transaction cost barriers in the southern African countries. Contract farming can be used as a way of linking small-scale farmers with agribusiness, and can also contribute to both increased income for producers and higher profitability for sponsors, for example, SeedCo in Zimbabwe, and the major sugar companies in South Africa and Swaziland (Eaton & Shepherd, 2001).

Contract farming has been implemented widely in developing countries as a means to reduce risk and ensure throughput volumes of known quality and price (Kirsten & Sartorius, 2002). One strategy that would help to attract more contractors is value-adding on the agricultural food products produced in these regions. Through value-adding, farmers could collaborate with processing enterprises to create new markets for high-value farm products, which could be sold on international markets (Louw & Ngqangweni, 2004). Innovative programmes of bringing farmers and supermarkets together could be enhanced by several agreements, such as contracting and the provision of adequate support services to the small-scale farmers. An example of this is Pick ’n Pay, South Africa’s second largest retailing store, which contracts several farmers to supply them with certain products. Pick ’n Pay specifies the varieties to be planted, the farming practices and processing methods to be used, and the exact period of delivery of the produce. Shoprite, which has close on 100 stores in Africa, is also increasingly rendering support services to small-scale farmers in Zambia (Louw & Ngqangweni, 2004).

There are several other examples of successful contractual arrangements throughout the SADC. In Mozambique, some firms have supply agreements with selected meat packers and vegetable producers. The government is supporting linkage promotion projects to help local producers enter these supply chains, for example, the Project for Entrepreneurial Development. (Nair & Coote, 2007:1). In Tanzania, in addition to imports from South Africa, Shoprite has local partners (either individuals or companies, for example, Fruit & Veg City Ltd) that supply it with mainly fruit and vegetables. In this arrangement, however, risks are fully borne by suppliers, because interested suppliers must first bring test samples to Shoprite and subsequent supplies depend on sales of the test samples. In addition, advance financing is never provided, and payments to local suppliers are only effected after the produce has been sold (Ashimogo & Greenhalgh, 2007:1).

In Zambia, Freshpikt[6], working with donor assistance and through the Lubulima Agricultural Commercial Cooperatives Union (LACCU), currently contracts about 200 small-scale producers to grow sweet corn and beans. The company has an aggressive regional marketing plan,including selling to many Southern African and some East African countries. If its success continues, Freshpikt will provide a stable source of supply from Zambian farmers to satisfy some of the demand for fresh produce (Hichaambwa, et al., 2007:2).

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[6] Freshpikt is a large processor which started operation in 2005, after the renovation of the then defunct Zambia Horticultural Products (a former parastatal company) by a combination of Zimbabwean and local investors. It has quickly become a major buyer of tomato, dry beans, pineapple, and other products.

5. INFLUENCING AGRICULTURAL POLICY

5.1 The role of agricultural policy

The role of agricultural policy in the SADC region has to be viewed in the context of the region's diversity in terms of the economic environment. According to Van Rooyen (2000), the SADC region can be clustered into four categories and each of these have a unique policy position and therefore relevant policy programmes. Table 5.1 summarises this categorisation.

Table 5.1: A summary of policy positions and programmes for the SADC region

Country / Area	Policy position	Policy programmes
Stage 1: Getting agriculture moving S. Tanzania Mozambique (partly) N & E. Zimbabwe S. Zambia Malawi (partly) Lesotho Angola	-food security through household farm production -promotion of small holder farmers -rural employment creation	-public investment in infrastructure -public investment in human capital -research & extension for staple food crops & livestock -food market development (information, contract protection) -entrepreneurship development -improvement of bargaining and lobbying position of smallholders -giving women access to support services
Stage 2: Developing agricultural income and employment linkages Coastal Tanzania S. Mozambique N & C. Zimbabwe Zambia Malawi Botswana Swaziland Namibia	-food security through household farm production -non-farm employment & remittances from wage labour - promotion of small holder farmers	-public investment in human capital and infrastructure for farm and non-farm activities -private investment in agriculture and agro-processing -promotion of market linkages between farm and agro-processing -research & extension for food crops, high value crops & livestock -promotion of secure & exchangeable property rights -improvement of bargaining and lobbying position of small farmers and small emerging enterprises
Stage 3: Integrating agriculture into the economy South Africa (former homeland) S. Zimbabwe Swaziland Namibia Botswana Mauritius	-food security from wages and enterprise profits -farm income through high value agricultural production -promotion of agro-value adding industries & exports	-private investments in farming, agro-industry, high-value crop processing -technology and extension - promotion of flexible natural resource markets -protection & improvement of smallholder commercial farming & emerging enterprises -income distribution programs for lagging rural areas -environmentally sensitive institutions
Stage 4: Agriculture in industrial economies S. Africa (commercial)	-food security through incomes -agriculture as "a way of life" -farming integrated into competitive business	-promotion of competitive resource markets -increased price responsiveness -link farm production to value

Mauritius	environment -promoting employment and income linkages -earner of foreign exchange	adding agro-processing -direct producer – consumer linkages -protection and safety nets for poor and lagging rural & urban dweller -protection of farm workers -promotion of agri-tourism -commodity heritage stewardship by farmers

Source: Van Rooyen, 2000

Most SADC countries are still in stages one and two of this classification, and policy recommendations should be addressed accordingly. In stage one, the inclusion of cooperatives for storage and distribution and the provision of effective extension services to ensure knowledge transfer are highly recommended. Access to finance is of critical importance during this stage as farming is relatively high risk from season to season and new farmers have no credit rating. Caution should be undertaken when financing small scale agriculture, otherwise resources could be wasted if not well implemented. It should be noted that with the increase in urbanisation, which is inevitable as economies develop, household farm production can never ensure food security beyond the few who farm. Private investment in the agricultural sector is critical in stage two. While both research and extension are important, effective extension is probably the more important issue in this stage (McBain, 2007; Nyambe, 2005).

Indeed, the focus of each country will vary and each country should identify its unique position and contribution to the agricultural sector. The SADC governments have to assume the role of uniting the agricultural policies. The agricultural policy of the region should focus on transforming the sector to generate higher and more sustainable farm incomes, which implies increasing rural per capita incomes and employment (ESRF, 2003). To redress the negative effects of the restructuring process, certain issues need to be addressed. This calls for concerted efforts from all stakeholders: public and private sectors and farmers. The following framework was developed and presented during the Regoverning Markets Synthesis Workshop.

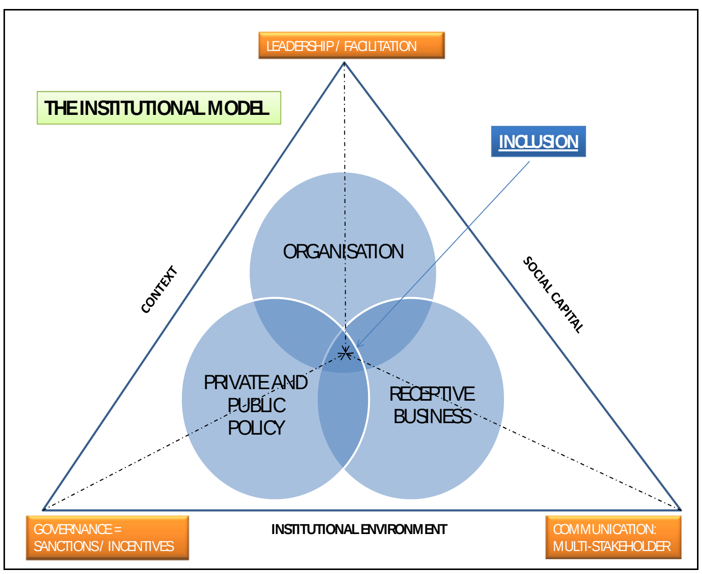

Figure 5.1: Proposed institutional framework
Source: Proctor, 2007b: 14

A regional policy should therefore aim to (Nyambe, 2005):

- Exploit the diversity in the region to unlock its comparative advantage and agriculture potential, especially in the northern parts.
- Allow diversity to stimulate rural development and trade in the region.
- Create a development path which optimises regional bargaining position in intra-regional and international markets.

5.2 Land reform and support programmes

In recognition of the critical importance of land as a resource for economic development and poverty reduction, and its critical role in achieving sustainable regional food security, the SADC Regional Land Reform Technical Support Facility (SRLRTSF) was established under the Food, Agriculture and Natural Resources (FANR) Directorate. It followed a summit directive of 2001 for SADC Ministers of Lands to develop a strategy for land reform in the region. The intention of setting up the SRLRTSF was not to produce or implement a regional land strategy, but to allow national policies to remain paramount. The facility would simply provide a resource for member states to call upon when developing or implementing their land and agrarian reform policies and programmes, to address national development priorities. The activities of the facility thus far include mobilising resources to assist SADC countries to review, formulate or reform their national land and agrarian policies. The facility also aims at building capacity in governments and civil society organisations involved in land issues, as well as enhancing the sharing of information from research findings across the region (ESRF, 2003).

5.3 Trade relations

Most of the SADC countries have undertaken substantial trade policy reforms since the mid 1980s in line with market liberalisation policies and regional integration initiatives. However, in the SADC, with the exception of South Africa, trade policy reforms are more theoretical than practical. Involvement in the SADC is actually hampering South Africa's trade position in negotiations as it is inclined to give agreeable trade policies to its neighbouring countries. Before that, most of the countries, including South Africa, had adopted inward development strategies and interventionist/protectionist trade policies. In Namibia, for example, the government has privatised support services such as tractor and seed provision and agricultural boards which will no longer set prices or procure agricultural products. Tanzania, Zambia and Malawi have liberalised their exchange rates, decontrolled pricing systems and abolished the setting of pan-territorial and uniform prices by agricultural boards. Quantitative restrictions, specific duties, import and export permits, surcharges and other regulations have been eliminated. Many of the major government parastatals, including crop and marketing boards, have been privatised and other market reforms have been implemented. Most governments have reduced trade-restricting practices in both tariff and non-tariff areas as part of comprehensive economic reform programs. The trend has been for governments to withdraw from direct involvement in agriculture production, marketing and distribution activities (Nyambe, 2005; Vink, et al*.,* 2006; McBain, 2007).

Current trade policies envisage transforming economies of the SADC countries into more competitive economies with export-led growth. Countries in the SADC aim to harmonise trade policies in line with the SADC protocol on trade and other regional and international trade agreements. Regional and multi-lateral trade agreements have also brought about new trade partners. SADC countries enjoy preferential trade privilege with South Africa, with most of the products having no tariff, or preferentially low tariffs. Trade policies of these countries are also affected as a result of being members of the World Trade Organisation (WTO), signatories to the Cotonou Agreement, Generalised System of Preferences (GSP) and Global System of Trade Preferences (GSTP), members to other regional blocks like COMESA and SACU as well as engaging in a number of bilateral trade agreements among themselves (for example, Malawi-Zimbabwe or Namibia-South Africa) (Nyambe, 2005; World Bank, 2007).

The SADC secretariat is strongly pushing the member states to accept the implementation of a SADC Free Trade Area (FTA) by 2008, which is envisaged to be a 'win-win' situation for all members. Eleven countries have begun implementing the SADC protocol through their tariff reduction schedules and special agreements in certain sectors. Angola has also recently acceded to the protocol and is in the process of preparing tariff reduction offers that would be taken to other SADC members for their consideration. The SADC FTA will have the potential of creating a wider economic space where goods and services can move without tariff and non-tariff barriers. This implies that there would be a wider market for goods that are produced according to acceptable standards that are competitive. The envisaged FTA will increase the common market to 215+ million people, which in turn would lead to increased FDI. The FTA is also expected to help alleviate the chronic problem of poverty and unemployment in SADC member countries (Nyambe, 2005)

A few barriers that must still be overcome in the quest for an FTA are agreement on SADC acceptable Rules of Origin and SPS issues.

5.4 High value products

There has been rapid growth of agricultural exports from South Africa to the rest of SADC member states, primarily of high-value products, while imports of agricultural products from SADC countries are typically confined to a small number of products with substantial variable inflow from year to year. For most of the other countries, there has been a more rapid increase in imports of primary and high-value products and farm inputs, especially from South Africa, which has the strongest production base in the region. However, Davis (2006) attributes growth in regional and developing countries' demand for high-value agricultural products to the emergence of dynamic wholesale and retail businesses for example, supermarkets. Growth in such demand is also driven by increased urbanisation and purchasing power of the consumers.

On the whole, most of the SADC countries still face the stiff challenges of producing high value products that can penetrate the western markets. Botswana has succeeded in satisfying the veterinary requirements in meeting the quota of Foot and Mouth Disease (FMD)-free meat to the EU market. In South Africa and Tanzania, the tourism industry is playing a role in creating a local demand for value-added agricultural products (Emongor, 2007)

Nonetheless, caution ought to be taken regarding the tendency for small scale farmers to be exploited as suppliers endeavour to meet the requirements set by the Western markets such as the EurepGAP.

5.5 AgriBEE

Black Economic Empowerment (BEE) is a strategic and systematic intervention that is focused on addressing the economic inequalities in the South African economy. It is an initiative whose objective is to broaden the economy and to ensure that all people, in particular those that were previously disadvantaged, gain from it. The Black Economic Empowerment Act was promulgated in January 2004. It followed on the policy document of the Department of Trade and Industry that was published in March 2003, and serves as a guideline for the whole South African economy. It is generally referred to as the "Balanced Scorecard" (NDA, (2007) in Louw et al., 2007).

In general, legislation and policy regarding empowerment has also impacted on discussion documents in primary agriculture, namely the AgriBEE. This directly affects the producers and landowners. Despite the general programme of land reform, about which farmers are already well informed, there are also certain requirements that the farming businesses have to comply with. Much emphasis has been placed on the co-ownership of, and access to, the total infrastructure within primary agriculture, up to farm level. This affects the producers and landowners directly and it is expected of each to commence and progress with the process. The main focus is on access; access to land, access to existing infrastructure, access to inputs, financing, expertise, training and marketing. The AgriBEE Scorecard covers the following (Louw, *et al.,* 2007):

- agricultural land
- human resource development
- employment equity (affirmative action)
- ownership and equality
- preferential procurement
- support services

Monitoring, evaluation and reporting is of such importance that it is determined by the BEE Act of 2004. As from 2005, the AgriBEE progress, with respect to various goals, will have to be reported, for example:

- The percentage high-potential agricultural land transferred to the previously disadvantaged.
- Human Resource Development programmes in place.
- Employment Equity goals achieved.
- Value of BEE preferential procurement.
- Agricultural support services.

The new updated AgriBEE Charter is currently with the Department of Trade and Industry (DTI) pending publication which is expected in December 2007 (McBain, 2007).

6. INSIGHTS, FINDINGS & RECOMMENDATIONS

This study establishes that the SADC region is one of the richest areas on the African continent in terms of natural resources, with a largely untapped potential in minerals, oil and agriculture. Despite this potential, widespread poverty, hunger and malnutrition, rapid population growth, conflicts over and mistreatment of natural resources, and insufficient investment in development are rife within the region. Agriculture is a key sector in the SADC regional economy, contributing 35 percent to its GDP. The performance of agriculture has a strong influence on the rate of economic growth, the level of employment, demand for other goods, economic stability, food security and overall poverty eradication. The region strongly advocates agricultural-led development, which is fundamental to combating hunger and reducing poverty, thus achieving some of the important Millennium Development Goals (MDGs).

The constraints facing agriculture in Africa include:

- historic volatility of commodity prices
- under-investment by the private sector
- rapid urbanisation
- HIV/AIDS pandemic
- decaying infrastructure
- inadequate government spending on research and development
- outdated farming techniques
- high corporate tax rates
- unfair EU and US farming subsidies
- socio-political unrest

The central issues of research into the restructuring of food markets in Southern Africa are: the rapid changes taking place in the structure and governance of local, national, and regional agri-food markets, the implications of these changes for small/medium producers and the implications for policies and programs within the context of the agri-food market. The restructuring of the SADC food markets is observed as consolidation, trans-nationalisation and the emergence and disappearance of supply chain actors. Generally, the restructuring of food chains in Southern Africa is being driven by similar determinants as in other developing countries where these drivers are mainly related to income growth, population growth, urbanisation and HIV/Aids. In the Southern African context, these include increasing disposable incomes, population growth, urbanisation, and changes in consumer dynamics.

The result of this restructuring is a consolidation and concentration in the food supply chain where larger role players across the chain are displacing smaller ones. Major disparities exist amongst countries as the size and level of impact differs across the region. Smaller scale growers, independent wholesalers, corner vegetable shops, and a once vibrant informal market are being displaced by groups of preferred supplier-producers, and large regional distribution centres that spread across the country to supply a rapidly growing network of corporate, franchise, and voluntary trading group retailers with fresh produce. Overall, large central procuring systems purchasing fresh produce from a limited number of preferred suppliers dominate these trends. The trends are not uniform, and relatively "patchy" due to differences, from country to country, in intensity of the change drivers. Two types of restructuring make the issue of sustained market access a priority. The first are changes in regional and local agri-food markets, along with international processing and retail corporations' investment, combined with increased competition from imports, reducing domestic markets to a less reliable refuge for small-scale producers. The second are changes in export markets, such as horticultural trade with Europe, characterised by exacting private sector food safety and environment standards (for example, EurepGAP) and new European regulations, in a fiercely competitive market. In order for smaller scale farmers to participate, they need economies of size of production, high quality products of a certain size, type, and consistency to meet quality and supply requirements of retailers and consumers[7].

In most countries in the SADC region, the food retail sector consists of formal and non-formal sectors. The informal sector is made up of producers producing for subsistence and selling any surplus to their neighbours and neighbouring markets. This sector also consists of street vendors, hawkers, and those traders selling food products in housing estates. The formal retail

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

sector consists of supermarkets and neighbourhood stores, 'cash and carry' and other independent retail stores. It has been noted that the small-scale traditional marketing system and independent stores have continued to dominate even in urban areas. Food sales through formal markets have remained minimal, except in South Africa, while street markets and informal vendors are still the main conduits of food retailing for most countries in the region. Both formal and informal food markets are changing constantly as a result of lifestyle changes brought about by urbanisation, income growth, changing family structures and democracy. These change drivers have led to a change in diet amongst consumers worldwide[8]. The transformation in food markets has been characterised by the displacement of the traditional markets, with the entry of new major players such as supermarkets and convenience stores in urban centres in SADC's major cities like Johannesburg, Cape Town, Pretoria, Lusaka, Harare, and Gaborone. Large modern retail chains have become major buyers from both farmers and processors.

South Africa has a dominant position in terms of regional economic activities, contributing almost 70 percent of the regional GDP. Its dominance stretches from agriculture to industrial production. The same dominance applies to food markets and marketing; the bulk of export goods produced by countries in the region are bound for South Africa. Due to its strong manufacturing, business and financial sectors, South Africa is the gateway to the region. In addition to this, South African companies are present and dominant in all the Southern African countries. Most of the South African investments within the SADC and the rest of Africa include those in the retail sector (i.e. Pick 'n Pay, Spar, Shoprite and Woolworths). The SADC region is experiencing a rapid transformation in food retail, with the fastest transformation occurring in South Africa, Botswana and Namibia.

The conclusion from the Regoverning Markets' meso-national studies on South Africa and Zambia assert that food markets are restructuring at different levels and different rates, with South Africa being the most advanced. The supermarket phenomenon in Southern Africa is increasing at an exponential rate, largely driven by FDI from South Africa. This has been followed by transformation of the procurement strategies used by the multinational retail chains. The main retail chains have since started procuring directly from farmers, as well as introducing private food safety and quality standards. The meso-local studies also conclude that there is market-channel continuum rather than the global dichotomy of modern versus traditional markets. It was noted that the wholesale function and the informal markets still play a very significant role in terms of the fresh produce supply chains; in fact, these channels are expanding and also experiencing certain levels of restructuring. The conclusion from the meso-local study in South Africa is that most supermarkets still have dual procurement structures, with corporate shops engaged in centralised procurement through distribution centres, whilst franchise store formats procure locally. Supermarkets have limited success in penetrating the rural markets.

The study also illustrates that wholesalers and travelling traders are vital in linking smallholders to markets. However, they suffer from counterproductive public legislation (for example, legislation to organise wholesale markets can have unintended consequences) and a lack of donor support. Wholesale markets provide convenient services that others often cannot provide, and are able to respond at different levels of retail restructuring. Wholesale activities can act as buffers that filter retail modernisation, alleviating impacts at farm level. Midstream components of the food value chains are key to the inclusion of smallholders in dynamic

[8] In the UK, fast food outlets and family eating places are threatening traditional pubs, while in France the cuisine scene has changed similarly.

markets. However, most often the attention is given to either upstream or downstream components.

There are some exciting innovations of ‘doubly-specialised intermediaries’ that provide both market demand and farmer support. These are often initiated by NGOs and donors, but also sometimes by the private sector. Such specialised agents provide brand marketing, production support and procurement flexibility, and add value thereby enabling participation of small-scale farmers at a higher level.

The meso-household studies concluded that farmers, driven by their search for a better price, use multiple marketing strategies. Farmers do not have discrete market choice behaviour. They trade with both formal and informal supply chains depending on which chain offers them a better bargain. The majority of the emerging or small farmers in South Africa still market their produce through the informal sector, however in Zambia, smallholder farmers are shifting away from informal market channels. Small farmers in South Africa prefer the informal marketing channels as they do not have the capacity to meet the stringent quality and quantity demands set by the modern markets. The case studies on the best practises used concludes that franchise stores or independent store formats provide the best chances for smallholder farmers’ inclusion into the supermarket chains, although the degree of inclusion varies with the production expertise provided by the owner. According to the project’s Component 3 on policy analysis and dialogue studies, it was found that a certain mix of individual strategies (collective action, marketing timing, and technology adoption), business models (corporate social responsibility, mentorship, partnerships, and contracts) and the right policies are imperative to smallholder farmers’ inclusion in dynamic markets. Although these were specific for the case of Zambia and South Africa, the formats could be used elsewhere within the region.

The diversification of the agricultural and agro-industrial sectors will offer a large number of advantages to the region. On the economic side, benefits include sustained economic growth through employment creation, increased government revenue earnings, foreign exchange savings, increased foreign investment, infrastructure development, and increased foreign exchange earnings through exports. On the social side, advantages include addressing food security and poverty, thereby ensuring human resource development, which will form the basis of future industrial development. Given the obvious socio-economic benefits, both the private sector and governments in the SADC region cannot afford to continue ignoring primary agricultural production and agro-processing, and not supporting the present initiatives aimed at elevating agriculture to its rightful position.

The key to economic growth, sustainable development, and socio-political stability is investment. It may take the form of domestic investment (private sector or government), foreign direct investment (such as Heineken's foray into West Africa), or even joint ventures and 'smart' partnerships. All these forms of investment are beneficial for the economy. They all provide a sound basis upon which infrastructure is improved, jobs created, poverty alleviated and redistribution activities strengthened. However, the key to SADC countries being able to market their produce successfully, is to dispel reservations and to increase awareness of the necessity of being able to supply produce of a certain quality, adhere to stringent phyto-sanitary regulations and standards (and compete with the produce of developed countries), and supply such produce timeously. To this end, the two biggest issues facing potential SADC exporters are that of non-tariff barriers to market entry (predominantly phyto-sanitary regulations and labelling), and logistics and marketing (including transport, infrastructure and product awareness).

Public and private policy play an important role in enabling successful outcomes through encouraging supply chain stakeholders to perform to their best potential. National multi-stakeholder task groups / working committees set in a neutral space are one way of building understanding between stakeholders, sharing evidences and information, and effecting change. Multi – stakeholder processes benefit from being embedded in a governance and legislative framework. Policy makers need to coordinate to ensure that the following essential institutional conditions are in place:

- information
- transparent regulations and applications
- finance that is accessible to all
- reduced public transaction costs (i.e. cost of doing smallholder business)
- smallholder-focused research and extension

The lack of trust between key stakeholders, and a common agenda or understanding, is an important barrier to change. Policy makers need to understand the dynamics, given current policy, of the drivers of market restructuring (globally, nationally and locally) and their impact on smallholders as well as on the wider rural economy (poverty). There are a number of potential public policy pitfalls that policy makers should be aware of:

- creating unrealistic expectations
- policy reform without implementation
- lack of implementation capacity
- overlooking those parties that do not benefit directly

In order to address the above-mentioned constraints, and safeguard the important role of the agricultural sector in the region, increased government support is urgently needed. The private sector recognises the financial constraints that African governments face, and therefore does not necessarily expect direct subsidies. Aid to agriculture in SADC member states decreased as a proportion of total aid from 20 percent in the early 1980s to 8 percent in 2000. However, neither NEPAD nor any other initiatives to stimulate agriculture will succeed without private sector support. To achieve success, the private sector must be committed to contributing through increased investment in the agro-processing sector as well as to encourage primary production. Retail chains operating in the region should undertake a commitment to supporting agriculture by sourcing local products, and not simply importing everything from South Africa. Such a step would boost local production and encourage an increase in quality standards.

The most prominent recommendations and strategies for action made in the report are the following:

General recommendations

Given the amount of information gathered through the synthesis of food markets in Southern Africa, a number of possible recommendations were made which can be adopted to enhance smallholder farmers' inclusion into dynamic markets. Southern Africa presents a unique case study when it comes to the dynamics and restructuring of food markets. Thus, the nature of the recommendations which are presented here are a shift from the norm. There are basically five areas of recommendation which have emerged from this study. These are recommendations for farmers in terms of their possible strategies for agribusiness in terms of innovative business models, integrating poor farmers, government involvement with regard to policy analysis, dialoguing and implementation, regional initiatives on integration and leveraging regional food supply chains with the view of rising supermarket dominance and lastly, recommendations regarding what research should be undertaken to support the current and future developments in the regional agribusiness sector

6.1 Recommendations for farmers

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

- Managing production and marketing risks so as to improve household incomes, compromising food security and livelihoods. Farmers need to manage production and marketing risk, in order to minimise their production and transaction costs. This can be achieved through better management and production techniques, for example, farmers must grow, where possible, their fresh fruits and vegetables in the off-season period so that they can take advantage of high prices.
- Diversify enterprises focussing on niche markets where economies of scale are not as important. Small farmers should concentrate on niche products which give them competitive advantage and do not require specialised infrastructure and economies of scale. An example of this is the production of organic fresh vegetables which farmers can easily produce and which represents a growing market.
- Encourage the formation and regulation of farmer groups (cooperatives, producer organisations, out-grower schemes, associations and agri-business units). Cooperatives/producer organisations should be promoted and empowered to enable smallholder farmers to position themselves strategically in agricultural supply chains. Collective action among cooperative or producer organisation members enables poor farmers to capture market opportunities. Collective action allows individual resource-constrained farmers to enjoy economies of scale, organisation and scope. The foundation of sustainable success requires organisation at producer level, receptive business and enabling public policy that is facilitated effectively.
- Small-scale farmers' organisations need to adapt to market requirements. They need assistance and require development costs to support marketing, technology, finance, managerial and organisational development to sustain the benefits of collective action
- Successful small-scale farmer engagement requires credible facilitation that is context-responsive and enables flexibility. Sustainability of change is more likely to be achieved by enabling agents (e.g. NGOs) who work at value chain players rather than play a functional market transaction role

6.2 Recommendations for agribusiness

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

- Contract farming so as to provide a guaranteed market especially for smallholder farmers in remote areas. Given the poor performance of agriculture in many SADC countries, contract farming brings about improved marketing opportunities, incentives, and increased income for farmers. Contract farming can be used as a way to link small-scale farmers with agribusiness and can also contribute to both increased income for producers and higher profitability for sponsors, for example, SeedCo in Zimbabwe, and the major sugar companies in South Africa and Swaziland.

- Low cost credit schemes which enable, especially, the resource constrained farmers to finance production inputs.

- Enhance dissemination of marketing information through marketing information systems/technologies so that farmers have access to real-time prices.
- Establish market infrastructure such as collection points or warehouses in the remote areas so as to reduce transaction cost incurred by farmers in selling their commodities.

6.3 Recommendations for governments

Governments in the region should be actively engaged in developing policies and institutions to encourage agribusiness investment needs in a large policy context. These include good public governance, stable political and macroeconomic climate, enforceable commercial laws, appropriate financial services, protection of property rights, and adequate infrastructure. Emphasis should be placed on institutions and services relating to: food safety regulation, establishment and enforcement of grades and standards, contract negotiation and compliance, market information, rural transport systems, production technology and process innovation, risk management, farm and agro-enterprise managerial and technical capacity, business linkages, cross-border and regional trade, and public-private sector cooperation.

In most SADC countries, there have been some agricultural policy reforms, either in a positive or negative direction, with regards to the performance of the agricultural markets. These reforms resulted in the withdrawal of government's direct involvement in agricultural marketing and input supply, and the privatisation of agro-parastatals, through trade liberalisation subsidies were removed in many SADC countries. Despite these reforms a lot still needs to be changed with regards to setting an agricultural policy environment which is pro-poor. Given the findings from this synthesis, there are several policy recommendations which should be adopted by governments with regard to creating an enabling environment for linking smallholder farmers to formal agribusiness. These recommendations include:

- Market support services, where the public sector should invest in supporting farmers, for example, in terms of disseminating information through alternative mass media such as newspapers, radio, television, etc. Government should also subsidise the establishment of marketing information systems using the state-of-the-art media channel such as cell phones or the Internet. This can be done in partnership with the private sector to ensure competitiveness. Government should also play a significant role in terms of translating food safety and international quality standards to especially small farmers in rural areas.
- With regards to extension and training, governments should be actively engaged in building the production capacity of smallholder farmers through relevant extension and training programmes. This will remove production bottlenecks among smallholder farmers, which is one of the limiting factors when it comes to successful integration of smallholder farmers into main stream agribusiness.
- In terms of infrastructure, it is the role of the public sector to set up infrastructure which allows smallholder farmers to link into agricultural markets at the lowest transaction costs. Such infrastructure includes roads, storage and refrigeration facilities in remote areas. Government may also subsidise specific production infrastructure such as greenhouses and pack houses which enable farmers to produce and maintain quality in their farming enterprises.
- Governments need to review institutional mandates for influencing, regulating and supporting private sector investment in agribusiness and agro-industry. The scope of work which ministries of agriculture are legally chartered to carry out, organised to perform, staffed to deliver, and funded to support is a major issue that must be reviewed.

- When considering policy design, there is a need to support public-private sector dialogue and activities, in order to develop networks and synergies. There is also a need to provide a more conducive policy environment which includes macro-economic stability, political stability and contract enforcement focussing on pro-poor policies (equity focused policies), etc.
- There is need for a unified NEPAD through CAADP strategy focusing on agricultural markets. The implementation of policy should be apparent to all parties concerned. It is high time NEPAD and involved governments should turn the white papers into action.

6.4 Recommendations for regional initiatives

Despite the different agro-economic conditions in each of the countries in the region, there is need to integrate the individual efforts so that the region might have a unique and uniform position regarding certain global issues, especially on trade. The agricultural policy of the region should focus on transforming the sector to generate higher and more sustainable farm incomes, which implies increasing rural per-capita incomes and employment. A regional policy or strategy should therefore include:

- Exploiting the diversity in the region to unlock its comparative advantage and agricultural potential, especially in the northern parts of the region.
- Allow diversity (in needs, production potential, soil and climate, comparative advantages and stages of development) to stimulate rural development and trade in the region.
- Create a development path which optimises the regional bargaining position in intra-regional and international markets.
- Building and developing the infrastructure necessary for value chain procurement centres in production regions such as warehouses, packaging, and transport etc, being mindful to not overlook the more remote areas.
- Facilitation of market chain actors, building vertical integration and reduction of transaction costs.
- Capacity building of market chain actors.
- Provide research and analytical services and develop national capacity at centres of excellence.
- Encourage participation in national, regional and international trade negotiations and agreements.
- Professionalise civil services to provide market-based services (or support their provision by third parties).
- Develop and provide demand-driven new extension and advisory services to meet market chain needs.
- Prioritise South-South and intra-SADC trade.

With regard to trade, most of the SADC countries have undertaken substantial trade policy reforms since the mid 1980s in line with market liberalisation policies and regional integration initiatives. The following recommendations have been put forward to increase intra-regional trade:

- Ceasing policy backsliding through elimination of import and export bans or increases in tariffs and licenses.

- Capitalising on regional economies of scale; through adoption of common and mutually recognized standards and grading while coordinating market information services to make information available region-wide.
- Making the borders less bureaucratic and hectic by simplifying customs procedures, adopt a simple tariff rates structure and address the agreement proliferation issue.
- Clarifying the role and scope of existing regional and international agreements by eliminating differences between intra-SADC bilateral agreements and regional policies.
- Regional trade bodies (SACU, SADC and COMESA) should be integrated so as to remove bottlenecks in terms of the flow of goods.
- Avoid entanglements in unrealistic Customs Union agreements this is even more serious in relation to SADC.

6.5 Recommendations for research

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

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

6.6 Cross-cutting recommendations

There are several cross cutting recommendations which need to be put in place. These include:

- Developing new partnership models between farmers and modern markets' institutional and infrastructural realities.
- There is need to strengthen public sector cooperation with the private sector. Strong communication and cooperation between the public and private sectors are essential as agro-industry development is generally driven by the private sector. For example, the public sector can fund science and technology investments to support the private sector.
- Foster partnership development between farmers and modern retailers based in specific needs and requirements.

- Strengthen the support of production technology and research (including diversification and niche products), new markets, an understanding of quality, and modernising farming methods.
- In terms of the region's macroeconomic strategy, there is a need to:
    a. increase the domestic savings rate to strengthen development investment from domestic savings
    b. target structural fiscal deficit (for example, the process used in Chile)
    c. eliminate restrictions on capital outflows
    d. maintain current inflation targeting
    e. improve transparency and stability of fiscal and monetary policies through public engagement in five year target-setting and monitoring processes
    f. eradicate corruption at all levels of governance
    g. avoid basing government appointments on nepotism.

Although most of these policies focus on South Africa, they can still beneficial to the SADC region as a whole. It is a challenge for all, including South Africa, to meet these recommendations, and for governments to create an environment that is conducive for businesses, agribusinesses and small farmers.

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8. Annexure

Table A1: A country-specific review of Investment Opportunities and Constraints

Country	Potential Investment Opportunities	Constraints
Angola	Coffee & sugar production and processing sector. Fish farming and agroforestry Parastatals under liquidation Eucalyptus, cypress and pine plantations 8 million ha of richest agricultural land in the world. Only 3% of arable land is used Rural credit programme Removal of agric price controls Privatised govt estates Fish farming	– Landmines – Poor and destroyed basic infrastructure (roads, rail, communications, etc) – Rudimentary public services
Botswana	Large beef sector Emerging dairy sector Technology transfer Drought resistant crops such as sorghum, millet, beans/pulses, sunflower seeds, groundnuts and maize	Unfavourable weather for cultivation Poor management practices have led to overstocking, overgrazing and range degradation Some recent animal disease outbreaks e.g. foot and mouth High HIV/AIDS rate
DRC	Vast areas of unutilised arable land High value commodities such as palm oil and kernels, sugar, tea, cocoa, rubber, cotton, timber, tobacco, quinine, cassava, bananas, root crops, corn, fruit and wood products Under-exploited fisheries Food crops	Political instability Rudimentary basic business infrastructure i.e. no transportation, no banking Subsistence farming
Lesotho	Food manufacturing Market driven agricultural sector Beef and dairy sector Potential to expand fresh water fish farming	Dependence on South Africa Susceptibility to drought Over-grazing and animal diseases Land tenure system Limited arable and grazing land High HIV/AIDS rate
Madagascar	Incentives offered for EPZs that include textiles, agroprocessing, wood processing cotton, fruit, herbs, meat, tobaccos, cocoa beans, sugar, tea and coffee Fish farming	Uncertainty over recent political problems Access to some EPZ incentives is cumbersome Poor transport and communication systems Inefficient judicial system
Malawi	Processing of wheat, maize, cassava, rice, potatoes, fruits, vegetables, oilseeds and rubber. Production of annual and perennial cash crops Cultivation of sugar cane and milling into granulated sugar; and Animal husbandry: production of meat, milk, eggs and processed dairy products. Pesticide formulation and production of chemical fertilizers Production of agricultural equipment: land tractors, mini tractors, large tractors, rice/maize threshers, hollers, irrigation pumps, polishers and milling units	Regionalism and tribalism Independent but ineffective courts; Poor transport infrastructure; High cost of communication and electricity; Residual corruption Inefficient civil service
Mauritius	Stable democracy and rule of law, ethnic tolerance, macro-economic stability, equitable social progress. The processing of local raw materials, including the by-products of the sugar industry, bakers' yeast, perfumes, citric acid, confectionery, cut flowers and pot plants, hydroponics, seaweed and seaweed products. Legislation that promotes EPZs	Meagre natural resources endowments
Mozambique	New investment law which offers attractive fiscal benefits and other incentives Cashew nuts	Poor and destroyed basic infrastructure (roads, rail, communications, etc) Rudimentary public services

Country	Potential Investment Opportunities	Constraints
	Sugar plantation and processing Process agricultural products and in forest plantations and the industrial processing of wood products.	Corruption Donor dependence Regionalism
Namibia	Poultry farming; Fruit, vegetables and herbs; Breeding of ostrich for skins, meat and feathers; and Breeding of cattle, sheep and goats for the production of meat, horns, skins and hides, bones, fat and milk Food processing; Tanning of hides and skins; and Ostrich hatchery, abattoir and processing	Uncertain political climate Threats from government circles to undertake land acquisition
South Africa	World-class infrastructure, counter-seasonality to Europe, vast biodiversity and marine resources, and competitive input costs Areas as ripe for investment: agro-processing chemicals, fishing, food and beverages, general foods, and textiles	Opaque customs procedures and import/export licensing Uncertainty over affirmative action impact laws High crime levels High HIV/AIDS rate Impact of land reform in future
Swaziland	Sugar, citrus and wood pulp Ostrich farming Poultry and egg production Forestry	Vulnerability to droughts Dependence on South Africa Over-grazing and animal diseases Land tenure system High HIV/AIDS rate
Tanzania	High value products including coffee, cotton, sisal, tea, tobacco and raw cashew nuts Livestock, large-scale farming, and the leather industry Fishing	Corruption Judicial system easily manipulated
Zambia	Investment incentives provided through the 1993 Investment Act Suitable for production of wheat, Soya bean, cotton, tobacco, coffee, cotton, spices, sugar and horticulture Also suited to poultry, goats, sheep and fishing	Vulnerability to droughts Residual corruption
Zimbabwe	Diversified industry Good infrastructure Suitable for tobacco, soya-bean, cotton, coffee, sugar, horticulture seeds, maize, small grains and oilseeds Also for poultry, ostrich, goats, and sheep	Political violence and corruption Judicial system easily manipulated by politicians Uncertainty due to the land reform programme Economic decline Vulnerability to droughts Some recent animal disease outbreaks e.g. foot and mouth

Source: Louw & Ngqangweni, 2004

Table A2: Mineral Reserve Base of SADC (1993)

Mineral	Units	World	SADC	% SADC
Chromites	Mt (‘000,000)	44,446	41,290	92.9
Platinum gp. metals	Mt	67,041	58,900	87.9
Manganese	Mt (‘000,000)	4,796	3,992	83.2
Gold	Mt	46,000	24,500	53.0
Uranium	Kt	2,320	289.7	12.5
Coal	Mt (‘000,000)	525,000	60,000	11.5
Nickel	Mt (‘000,000)	123.3	12.8	10.4
Phosphate rock	Mt (‘000,000)	33,710	3,440	10.2
Copper	Mt (‘000,000)	595	47	7.9
Cobalt	Kt	8,800	555	6.3
Antimony	sKt	4,690	250	5.3
Iron ore	Mt (‘000,000)	101,100	5,900	5.2

Source: SADC Trade Industry and Investment Review, 2003

Table A3: A general SWOT analysis of the agribusiness sector in SADC

Strengths	Weaknesses

• Existence of raw materials / conditions for production of raw materials
• Production of some world class products
• Support at all government levels
  - programs
  - financial support
• Existing processing plants/capacity
• Fairly large market in SADC and Africa
• Alternate season production
• Potential for diverse production
• Presence of multi-nationals
• Labour availability
• Lower energy production costs
	• Disintegrated industrial development structures
	• Limited valued adding
	• Inadequate marketing and export market access
	• Lack of farming infrastructure
	• Lack of technical and management skills
	• Lack of external trade strategy (strategic protection, promotion, market intelligence, etc)
	• Low R&D (infrastructure and budget)
	• Poor/inadequate, disintegrated transport infrastructure (ports, rail, air-cargo, road)
	• Lack of local management expertise
	• Work permit problems
	• Expensive skilled labour

Opportunities	**Threats**
• Growing demand for finished products worldwide • Growing SADC and African market • Labour-intensive production processes • Growth opportunities in China and India • AGOA • NEPAD • Free Trade Agreements • Expansion of retail sector provides opportunity for poverty alleviation • Value adding	• Low quality of raw materials • Unstable supplies of raw materials • Recurrent drought and seasonality of supplies • Lack of credit facilities • Existence of trade barriers/non-tariff barriers • Interventionist policies of export countries • HIV/AIDS • Subsidised production/ exports in developed countries • Political instability – eg. land issues, over-regulation, bureaucracy, corruption, non-delivery etc. • Problems with FDI • Economic problems eg. unstable exchange rates, lack of reliable information, high local transport costs

Source: Adapted from Akweshie (2007) and Madima (2006)

Table A4: SADC production of vegetable varieties, 2005 ('000 tons) and annual growth rates

Selected varieties	SADC	Ang	DRC	Mal	Maur	Moz	SA	Tan	Zam	Zim	00-05 (%)	90-05 (%)
Artichokes	0.6	-	-	-	-	-	-	-	0	0.2	-0.3	17.6
Asparagus	2	-	-	-	-	-	2	-	-	0.2	-18.0	-4.2
Beans	759	108	114	80	2	-	101	291	-	54	1.4	0.3
Cabbages	254	-	23	50	6	-	174	-	-	0.2	0.0	-0.6
Carrots	141	-	0.3	-	5	-	135	-	-	0.1	5.5	3.1
Cassava	40,471	8,606	14,974	2,600	0.1	6,150	-	7,000	950	190	2.0	1.3
Cauliflower	21	-	-	-	2	-	19	-	-	0.3	-0.7	-3.6
Chick-peas	67	-	-	35	-	-	-	32	-	0.3	2.6	0.2
Chillies & peppers	2	-	-	-	1	-	1	-	-	1	8.8	6.1
Cucumbers & gherkins	27	-	0.3	-	9	-	17	-	-	0.4	1.9	0.3
Aubergines (eggplants)	2	-	-	-	2	-	-	-	-	-	0.0	1.8
Lentils	2	-	-	2	-	-	-	-	-	-	20.8	7.6
Lettuce	49	-	14	-	2	-	33	-	-	0.2	1.5	-0.6
Mushrooms	9	-	-	-	-	-	9	-	-	0.3	4.1	2.8
Olives	-	-	-	-	-	-	-	-	-	-	0.0	0.0
Onions	634	13	53	50	4	3	426	55	27	2	4.3	3.0
Peas	73	-	1	5	-	-	24	34	-	5	1.8	1.9
Potatoes	4,604	307	93	1,800	12	80	1,909	260	11	35	1.7	5.5
Pumpkins & squash	426	-	39	-	8	0.6	379	-	-	-	2.1	2.2
Soybeans	393	-	15	-	-	-	277	2	15	84	3.0	2.5
Spinach	-	-	-	-	-	-	-	-	-	-	0.0	0.0
Sweet potatoes	2,047	659	230	-	0.5	66	65	970	53	2	7.4	4.2
Tomatoes	793	13	40	35	13	9	494	145	25	12	2.8	1.1

Source: TIPS & AusAID, 2007:9

Table A5: SADC production, trade and consumption of vegetables, 2002 (tons)

Region/countries	Production	Imports	Exports	Domestic supply	% of SADC production
SADC	5,379,854	237,093	118,450	5,501,175	100.0
South Africa	2,198,376	33,570	69,335	2,162,612	40.9
Tanzania, United Rep of	1,181,000	7,777	11,578	1,177,200	22.0
Congo, Dem Republic of	449,550	19,314	205	468,659	8.4
Madagascar	343,610	789	4,986	339,413	6.4
Angola	271,000	57,060	1	328,059	5.0
Zambia	267,400	5,412	4,143	268,669	5.0
Malawi	255,800	494	266	256,028	4.8
Zimbabwe	157,030	3,357	17,026	143,361	2.9
Mozambique	116,700	11,319	73	127,946	2.2
Mauritius	80,048	21,878	547	101,379	1.5
Botswana	16,700	37,708	194	54,214	0.3
Swaziland	10,700	16,523	1,273	25,950	0.2
Lesotho	18,000	3,750	300	21,450	0.3
Namibia	12,000	15,095	8,523	21,248	0.2

Source: TIPS & AusAID, 2007:11

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Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), ICCO, Cordaid, the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID).

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