AN INVESTIGATION INTO WHETHER ORGANIC FARMING IS A MARKET ENTRY ENABLER FOR SMALL FARMERS IN SOUTH AFRICA

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ABSTRACT

The objectives of this research were to identify system-wide factors that enable or constrain market entry for small organic farmers relative to conventional farmers and to identify the problems that these farmers face once they have gained market entry. Critical market access factors were identified through secondary research and subsequently investigated within the context of a case study. Nine farmers from an organic farmer’s cooperative were interviewed, the transcripts organised thematically into the critical market access factors and the results compared to secondary research.

It was found that the organic sector is a better market opportunity for small farmers due to price premiums, market growth and reduced use of external inputs. However, the current organic enabling environment is not conducive to supporting small farmers during the organic conversion period in which there is high capital investment, a steep learning curve and an initial increase in production inputs. The main environmental deficiencies identified were extension and advisory services and reasonably priced and easily available production inputs. The lack of a national organic policy is the main reason for this underdeveloped enabling environment.

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1 INTRODUCTION

The South African food industry can be divided into two sectors, the informal and formal sectors. The formal food sector is dominated by a few, large retailers while the informal food sector consists of fresh produce markets, green grocers and other informal role players. The rise of urbanization, population growth and a growing middle class with a higher per capita disposable income has stimulated the expansion of supermarkets and their various retail formats [1]. To adapt to the ever-more competitive market dynamics, retailers have re-organized their supply chains into more centralized systems consisting of a few, large distribution centres and a few preferred suppliers. This centralized system procures less produce from fresh produce markets (FPMs) [2], which is where the majority of small farmers sell their produce [3]. Furthermore, market entry into these formal supply chains is difficult for small farmers because they do not have the resources to deliver the consistent quality and volume requirements demanded by large retailers.

In parallel to these supply chain changes, the size and marketing of the organic sector has been growing [4]. This form of farming has traditionally been practiced in South Africa by small farmers who do not have the resources to procure expensive non-organic fertilizers and pesticides. The potential benefits of organic farming are the price premiums, the reduction in input costs and access to an organic market that is growing both domestically and internationally. However, the organic sector in South Africa is underdeveloped as there are insufficient support mechanisms such as legislation and economical certification systems [5]. In addition, farmers do not always receive price premiums as retailers stand accused of not passing on premiums to farmers [6].

The organic sector is still comparatively small and there are not many accounts of certified, small organic farmers who have accessed formal supply chains. This paper therefore presents a case study of a small organic farmer’s cooperative that has managed to access formal markets through a contract with a major retailer.

2 LITERATURE REVIEW

Organic farming is a sustainable, low-input production system that uses the surrounding natural resources to its advantage [7]. It emphasizes the use of management practices as opposed to the use of chemical inputs which are believed to negatively impact the environment and health of those consuming the produce [8]. It focuses on maintaining soil fertility through the use of crop rotation, composting, manure, cover crops, mulches and green manures [9]. With the limited use of pesticides and herbicides in these systems, there are conflicting arguments as to whether yields decrease or increase. Rundgren claims that traditional rural farmers may see an increase in yields and profit [10]. The Institute of Natural Resources also supports this but identifies the conversion to organic farming as the period when farmers may temporarily see a decrease in yields as the ecology of the system adjusts [12].

Due to a lack of financial resources, many small farmers naturally use traditional methods which are in fact similar to organic farming. Organic agriculture is seen by many as a market opportunity for small farmers to use their more traditional farming methods to access high value, niche markets [1]. It is seen to have the potential to improve the productivity of resource-poor farmers, increase sustainable agricultural practices and reduce the reliance on expensive external inputs. The requirement for crop diversification in organic systems reduces the risk of changes in market demand [12] and there are also employment opportunities due to the increased reliance on human labour and natural systems [13].

Thamaga-Chitja assessed the production potential of organic agriculture for three small farmers [14]. The study was location specific and focused on the suitability of growing certain organic crops in a specific region under certain climatic conditions. It was therefore a production focused study with little consideration for the end market opportunities.
Thamaga-Chitja recommended that the sustainability and economic viability of organic farming be investigated within the context of South Africa [14]. Niemeyer & Lombard focused purely on the organic conversion process and surveyed 93 farmers to determine the motivation for converting to organic methods [15]. They found that protecting the environment and improving the soil fertility were the two major motivations for converting. This study, like Thamaga-Chitja [14], was production focused and considered only the immediate enabling environment such as extension and financial services. Production advantages and constraints were identified but their effects were not translated into market access opportunities or constraints.

Thamaga-Chitja & Hendriks did focus on both sides of the value chain and presented a synopsis of the issues in smallholder organic production and marketing [16]. This wider analysis of the opportunities and constraints identified market factors such as price premiums, policies, marketing channels and certification regulation as well as many of the production factors identified by Thamaga-Chitja [14]. Although the paper was only a review of literature, it was comprehensive and identified the effect of direct and indirect market access factors throughout the organic supply chain.

Svotwa et al surveyed 246 small farmers in Zimbabwe to determine the perceived advantages and disadvantages of organic farming [9]. 57% of the farmers believed that organic farming was a less costly strategy. The problems identified were inadequate production inputs (seeds and fertilizers), lack of technical expertise and high labour requirements. Mushayanyama investigated the problems faced by an organic farmers' cooperative in Kwazulu Natal [17]. This study is unique as it is one of the few that looks at problems faced by small farmers once they have been able to access formal markets. The focus, however, was more on management, communication, trust and cooperation between the farmers and the study did not investigate the advantages or disadvantages of organic farming compared to conventional farming methods. The top 10 constraints that the farmers faced were climate uncertainty, unavailability of the tractor or draught power when needed, delays in payments for crops sent to the pack-house, lack of affordable inputs (labour and manure), a lack of cash and credit to finance inputs, lack of affordable transport to market crops, more work than the family can handle and a lack of crop storage facilities and telephones.

Of the studies reviewed, most have focused on either the production side or market side opportunities and constraints of organic farming. There is a need to include both perspectives and evaluate all factors in a system-wide analysis.

3 RESEARCH OBJECTIVES

1. To identify factors that enable or constrain market entry for small, organic farmers relative to conventional farmers.

2. To identify the problems that small, organic farmers face once they have gained market entry.

4 RESEARCH FRAMEWORK

4.1 Value Chain Analysis Framework

A value chain analysis was chosen to assess the organic supply chain environment as well as the South African and global markets in which the organic chain operates. The framework consists of the following four elements:

1. End market opportunities

2. The enabling environment (regulatory and legal, infrastructure and extension support factors)
3. Horizontal linkages (partnerships between enterprises in the same level of the chain)

4. Vertical linkages (cooperation among vertically linked stakeholders in the chain)

The value chain framework was chosen because it is a diagnostic tool that helps to identify barriers to entry as well as constraints and opportunities for target groups in the value chain [25]. It is also useful in identifying systemic chain-level issues instead of only enterprise-level problems. This framework is therefore applicable to small farmers because the constraints they face extend beyond the immediate farm production to the policy, regulatory and financial environments in which they operate.

4.2 Value Chain Target Group

The focus of the research will be on farmers operating in informal markets, the objective being to investigate the possibility of their advancement to formal markets. These are farmers who have not been able to access formal markets but who have sufficient resources to grow and sell crops for a living. The nature of these informal markets includes open markets (e.g. National Fresh Produce Markets), informal local markets, green grocers and hawkers. Figure 1 shows the target range of farmers and how they can become more commercially orientated.

![Figure 1: Categorization of small-scale farmers](image)

As discussed in the literature review, it has been found that collaboration through farmer groups, such as cooperatives, improves market access. For this reason, the research will focus on the market access of organic and conventional farmer groups.

5 SECONDARY RESEARCH-VALUE CHAIN ANALYSIS

5.1 End Market Opportunities

The spread of urbanization, a growing middle class with a higher per capita disposable income and changing consumer preferences (a higher demand for processed and quality fresh food) has resulted in supermarkets acquiring a larger market share in the food industry [1]. As these retailers have increased their size and market share, the sector has consolidated into four major players who control 55% of the food retail industry [18]. With an ever more competitive environment, retailers have embraced supply chain management principles and restructured their supply chains to reduce transaction costs and optimize procurement processes. This restructuring has resulted in vertical integration, increased coordination and a more concentrated wholesaling system which takes the form of large, centralized distribution systems.

Retailers previously procured their produce from National Fresh Produce Markets (FPMs). The increased emphasis on food safety and traceability has lead retailers to initiate contracts
with a few, large primary producers [19]. With these decreasing markets, small farmers are left with the daunting task of entering retailer supply chains which are already dominated by large, commercial farmers.

The need to include small conventional farmers in formal retailer markets stems from the diminishing market share of their open markets which are their primary market channels [3]. In contrast, organic open markets are growing and may be a sustainable market opportunity. Van der Heuden claims that there are more than 30 such markets in Gauteng although they are still a relatively small part of the food chain, and that other alternative niche marketing channels such as box schemes, specialty grocers, delis and health shops are also on the rise [3]. With an increasing variety of market opportunities, organic farmers may be better positioned to reduce the risk of market changes through channel diversification.

Further factors enabling or constraining market entry for small farmers have been identified through the end market analysis. These factors are given in table 1.

**Table 1: End-market factors**

<table>
<thead>
<tr>
<th>Factors contributing to the market entry of organic farmers relative to commercial farming</th>
<th>Factors hindering market entry of organic farmers relative to commercial farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic certification provides access to price premiums. [20].</td>
<td>Primary organic producers are not always guaranteed premiums. Retailers accused of not translating benefits to producers. [22].</td>
</tr>
<tr>
<td>Continued international growth, better price premiums and an undersupply of organic produce in South Africa’s main export market (the EU) may see large farmers continuing to export. Domestic opportunity for small farmers. [21].</td>
<td></td>
</tr>
<tr>
<td>In contrast to conventional fresh produce markets, organic open markets are growing [3].</td>
<td>Behind the corporate social responsibility campaigns, retailers do not provide any meaningful developmental support to organic farmers. [23]</td>
</tr>
<tr>
<td>Increasing variety of market opportunities may mean that organic farmers are better positioned to reduce the risk of market changes through market channel diversification.</td>
<td></td>
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</tbody>
</table>

5.2 Horizontal and Vertical Supply Chain Linkages

**5.2.1 Horizontal Linkages**

Van Tilburg et al claim that the nature of access to formal markets is a critical factor and that horizontal coordination is an important market entry enabler [24]. Mitchell et al claim that it is the initial step in a sequence of interventions that facilitates market entry through reduced transaction costs, economies of scale and increased bargaining power [25]. Cooperatives are an important mechanism for the transaction of goods between stakeholders in a supply chain. They redress market failures such as the exploitation of individual farmers through market intermediaries [26]. Furthermore, support provided to a cooperative is more effective than targeting individual farmers one at a time. Haggblade identifies the concept of leveraged intervention as “intervention points that affect a large number of vulnerable people at once”, and identifies cooperatives as one of these interventions [27].

The Department of Agriculture, Forestry and Fisheries (DAFF) has recognized the insufficient functionality of current small-scale cooperatives and is in the process of developing an Integrated Cooperative Strategy for the sector. Part of these plans is to establish secondary cooperatives to support primary cooperatives. This was based on the fact that current primary cooperatives operate at a production level and lack the resources to link produce to markets [26]. The secondary cooperatives would provide assistance in production quality,
logistics, storage and transportation facilities; compliance with food safety and quality assurance standards and access to market information and technology.

5.2.2 Vertical Linkages

Large retailers procure produce through grower’s agreements with farmers but provision for the inclusion of small farmers through these contracts has not been made. Van der Heuden argues that it is commonly accepted that small farmer exclusion results purely from the deficiencies in their farming production systems and not from the design and structure of the supply chain [3]. Furthermore, small-farmer inclusion interventions are based predominantly on supply-side improvement and not on end-market restructuring [3].

Reviewing literature has revealed that there are very few cases where small farmers have been able to access these supply chains and it is usually done by supplying directly to franchise-format stores in their local area. The channelling of produce through centralized distribution centers remains the dominant supply chain design. Increased market power allows retailers to dictate their contract terms so that their own transaction costs are reduced [3]. Costs such as packaging and transportation become the responsibility of farmers [28]. This supply chain model therefore increases the risks and transaction costs for farmers. Only those large enough to achieve the volumes and quality requirements become the preferred suppliers. Large farmers are at an advantage because of the large-scale, industrialized mono-cropping methods they use.

5.3 Enabling Environment

5.3.1 Legal and Regulatory Environment

Table 2 shows the enabling environment factors that contribute or hinder market access for small organic farmers. These factors were identified through the secondary research.

<table>
<thead>
<tr>
<th>Factors contributing to the market entry of organic farmers relative to commercial farming</th>
<th>Factors hindering market entry of organic farmers relative to commercial farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic policy and regulations</td>
<td>Unformalised organic sector- loss of consumer trust, no standardisation of organic labels, unregulated produce marketed as organic [12].</td>
</tr>
<tr>
<td>Alignment with government’s sustainability strategies could see more investment in the organic industry [29].</td>
<td></td>
</tr>
<tr>
<td>More control of unsustainable agricultural methods. Organic farming embodies these regulations inherently - the SUPAR Bill (Sustainable Utilisation and Protection of Agricultural Resources Bill)</td>
<td></td>
</tr>
<tr>
<td>Certification</td>
<td>Currently no national organic certification standards or legislation [30].</td>
</tr>
<tr>
<td>Certification affords access to price premiums and a high-value niche market [13].</td>
<td></td>
</tr>
<tr>
<td>Protection of market share loss from farmers who falsely claim to be organic [13].</td>
<td>Three year conversion from non-organic to organic methods required before certification is granted. No access to premiums during this period. [15]</td>
</tr>
<tr>
<td>Group and PGS systems reduce certification costs for small farmers. [38]</td>
<td>High certification and annual inspection costs which are often driven by international standards [14].</td>
</tr>
</tbody>
</table>
5.3.2 Infrastructure

The key infrastructure requirements identified from the secondary research are summarised in table 3.

Table 3: Infrastructural factors

<table>
<thead>
<tr>
<th>Factor contributing or hindering market access</th>
<th>Factors contributing to the market entry of organic farmers relative to commercial farming</th>
<th>Factors hindering market entry of organic farmers relative to commercial farming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water usage for irrigation</td>
<td>Better water retention and nutrient cycling in organic farming. Improved soil structure resulting in less erosion and higher productivity. [31]</td>
<td>Lack of irrigation is a limiting production factor for small farmers [14]. (Both organic and conventional)</td>
</tr>
<tr>
<td>Energy usage</td>
<td>Organic farming is more labor intensive - higher labour costs [32].</td>
<td></td>
</tr>
<tr>
<td>Transport, packaging and storage</td>
<td>Extra organic standards and regulations above the general food handling and storage regulations. Therefore training required [32].</td>
<td></td>
</tr>
<tr>
<td>Agricultural inputs</td>
<td>Less input expenditure required due to creation of inputs (organic fertilizers) within the organic farming system. [10]</td>
<td>Fertilizer availability in general is constrained by a lack of infrastructure, research, development and extension services [35]. (Both organic and conventional)</td>
</tr>
</tbody>
</table>

5.3.3 Extension Support

Extension support plays an important role in developing small-scale farmers. It facilitates the adoption of new technologies to improve production and it is a channel through which farmers’ problems can be identified and policies and strategies consequently adapted [33]. However, the market deregulations and withdrawal of financial support in the 1990’s coincided with a decrease in the support for agricultural extension services [34]. DAFF does provide programmes to assist new entrants in their farming operations but many emerging farmers have continued to experience serious difficulties [34]. The organic extension personnel available today do not receive sufficient training and there is a lack of information on production methodologies and market information [29]. Furthermore, in a study on the knowledge of agricultural extension officers’ in the North West Province, Oladele & Tekena inferred from results that extension officers had more production knowledge than marketing of organic agriculture [33].

6 CASE STUDY

The secondary research identified both direct and indirect market access factors. These factors were then investigated through a case study. An organic farmers’ cooperative that had successfully been integrated into a formal supply chain was chosen. The cooperative consists of eleven small farms located near Tzaneen, Northern Limpopo. The cooperative supplies vegetables to one of the large retailers in South Africa.

A preliminary investigation was undertaken to understand the history and operating characteristics of the cooperative. Ninety-two questions were used to interview two cooperative members, one being the chairman. Two farm visits were conducted to view the organic systems. Subsequently, another seven cooperative members were interviewed.
telephonically using a shorter questionnaire pertaining to the most important factors identified through the secondary research.

7 RESULTS AND DISCUSSION

7.1 Market-oriented Factors

The current market opportunities for organic farmers include all of the conventional markets as well as organic farmers’ markets and contracts with retailers. Thus it may appear that organic farmers have more market opportunities. However, seven of the nine farmers in the case study complained that they do not receive price premiums when selling at National Fresh Produce markets. They do however receive better prices through their retailer contract. These price premiums are especially needed to cover the annual organic certification costs. Contrary to expectations, market-oriented motivations for converting to organic farming, such as price premiums, were cited by only two out of the nine farmers in the case study. The most common motivations were organic health benefits and concern for the environment. The environmental motivations correlate to the study conducted by Niemeyer & Lombard where it was found to be a major motivator [15]. However, the health benefits did not appear in their study. The partiality of the case study farmers towards the health benefits of organically grown vegetables may be because they were all exposed to the same organic workshop presented by a South African university who may have focused on this factor.

In the context of the case study, there are potentially two major factors that have contributed towards the market access of these farmers. These are the decision to operate as a cooperative and the decision to convert to organic farming. Many of the farmers do attribute their market access to organic farming. All nine farmers believed that they were able to sell their produce at better prices because it was organic and four farmers explicitly attributed their better market access to organic farming. However it is unlikely that the farmers would have been awarded the retailer contract if they were operating individually. All 9 farmers cited that working through a cooperative had increased their bargaining power and market access. The secondary cooperative functions such as assistance in production quality, logistics and transportation facilities had contributed to this market access.

7.2 Enabling Environment

The case study highlighted that production support is poor. Although five out of nine farmers mentioned that more agricultural inputs, such as fertilizers, were produced within an organic farming system, the unavailability of external inputs was still a constraining factor. When organic fertilizers or sprays did need to be sourced externally, they were not easily available. An even greater problem was sourcing organic seeds as cited by seven farmers. The lack of production inputs seen in the case study correlates to the literature [35]. Of the infrastructural support factors, the lack of a pack house was highlighted. The cooperative carries higher transaction costs because it has a contract with a pack house in Johannesburg. The cooperative is hoping that such costs will be reduced through the establishment of a pack house in Tzaneen. However, markets will still remain distant as the retailer requires that all produce is directed to the DC before entering stores. The cooperative is responsible for these weekly transportation costs.

The unavailability of inputs, a pack house and local markets correlate to the results of the 1996 Agricultural Census. The census found that packaging services were the least available service, followed by trading centres and input dealers. The results of this census are applicable to the case study farmers as they are situated near to the former homelands, which is from where the data was gathered. However, the infrastructural deficiencies are also a result of their decision to farm organically. Organic pack house facilities need to adhere to stricter organic regulations and be certified. Such facilities specializing in organic vegetable packaging are not available in Tzaneen. There are also no organic trading centers
in Tzaneen. Therefore the cooperative does not receive price premiums when selling locally. However, even before converting to organic methods, farmers had a limited choice of markets and consequently sent produce to the Johannesburg FPM. Lack of inputs, particularly seeds, is a problem for organic farmers in South Africa. The farmers had found only one organic seed supplier in the country. The unavailability of input suppliers may be a result of the organic sector’s current small size and underdevelopment.

Based on the literature, it was expected that the farmers would lack sufficient water due to the scarcity of the resource. However, none of the farmers cited this as a problem as they were situated near to large bodies of water. What they did lack was the financial resources to fund the irrigation equipment. The DTI had to assist them with this. In terms of extension services, organic farmers face two disadvantages. Firstly, six out of seven of the case study farmers believed that such services were insufficient. The literature supports this result [34]. Secondly, in light of this deficiency, all farmers believed that organic farming was more knowledge intensive (supported by Giovannucci [36]). Farmers therefore require more skills and knowledge to farm organically but the current enabling environment lacks the support functions to provide this training.

In conclusion, the organic supply chain exists within a less established, enabling environment. It lacks support functions such as extension services, agricultural inputs and infrastructural facilities. The case study results support the arguments in the literature. There are currently insufficient production support functions because the South African organic industry is underdeveloped.

7.3 Financial Constraints

The farmers in the case study have successfully entered formal markets through the retailer contract but they have received substantial support, most of it being provided by government. Equipment, fertilizers, seeds, certification costs, trucks and production expertise were funded jointly by dti stakeholders and the farmers themselves. Manure is produced in the compost manufacturing plant which was built with a grant provided by LIBSA and it is expected that the dti will assist with a pack house.

This type of direct financial support targets individuals or in this case, groups of farmers but not the entire population. Such interventions are not leveraged enough because they are target specific. The general production environment needs to be developed so that inputs, infrastructure, and technical and market information are more widely available. Based on the interviews, farmers did and still do rely heavily on government for further support. They struggle financially even with the support they have received. This was attributed to the general risks associated with farming and the fact that it is an expensive business. Research into the financial health of the farmers could not progress beyond a qualitative investigation because formal financial records are not kept. Although the farmers managed to obtain loans to purchase land, they have struggled to obtain production loans due to their inconsistent income and high-risk profile.

In conclusion, the lack of financial services, particularly production loans, is a major constraining factor. However, there is no comparative advantage as this factor is common to both organic and conventional farmers. The increased risks involved in organic farming are a disadvantage as they result in a higher risk profile. However, the case study farmers did not see such risks as a major problem as they could be mitigated through increased monitoring and control.

7.4 Production advantages and disadvantages

The views of the farmers in the case study supported the organic production advantage of reduced use of external inputs and subsequent savings (supported by Hewlett [7]). No conclusion could be drawn about yields. Three out of six farmers claimed that their yields had increased while two were unsure. Only one farmer thought that his yields had not
increased. The range in responses can most likely be attributed to the variety of factors that affect yields. These included increased pests and weeds, access to farm management principles through increased extension support, use of improved production inputs and better access to water for irrigation. Furthermore the sample size of farmers is too small to draw conclusions and no records of yields exist from before and during the organic conversion period.

The case study revealed that there was an increase in risks in organic farming. Five out of seven farmers in the case study believed that there were more risks in organic farming. Figure 2 shows the risks identified by the farmers.

![Figure 2: Frequency of risks identified by the 9 farmers](image)

Although pests were the most commonly identified risk, three of the farmers explained that they could be sufficiently controlled by using organic methods. Therefore no conclusion can be drawn as to whether pests are an increased risk. The case study confirmed that contamination from adjacent farms was a risk (supported by Watson [37]). It was also confirmed that labour expenses increased with organic farming (supported by Twarog [32]). Half of the farmers believed that organic farming was less expensive than conventional farming. These inconclusive results are similar to the results from the study by Svotwa et al where only 57 percent of the 246 Zimbabwean small farmers found that organic farming was a less costly strategy [9]. The problems faced by the Zimbabwean farmers were inadequate inputs and a lack of production expertise. This environment is similar to that seen in the case study.

The three year conversion from conventional to certified organic farming was identified as a major barrier by the farmers in the case study. The reasons for this were the expensive certification costs, the three years of no access to price premiums, the increase in pests due to the adjustment to organic control methods, the initial increase in inputs to improve the soil (not identified in the literature) and the initial decrease in yields. For certified organic farming, the initial investment and transition to the knowledge intensive production methods is a barrier to entry for resource poor farmers, especially since the financial support functions and extension services are inadequate in supporting farmers through the conversion period.

### 7.5 Market Access

The price premiums in organic farming are a major benefit if the farmers can access them. The end market opportunities for organic farmers are therefore better than those available to conventional farmers. In terms of horizontal coordination, neither organic nor conventional farmers are afforded a market advantage over the other. Both industries
benefit from farmer collaboration through cooperatives. The success of the case study farmers is largely a result of their combining volumes through a cooperative.

Organic agriculture is seen as an opportunity for small farmers to use traditional farming methods to access high value, niche markets [1]. On a very small-scale, these traditional methods are suitable in supplying local, informal markets. This is due to the production benefits such as the reduced reliance on costly external inputs and the increase in soil health and moisture retention. However, in expanding a production system to meet retailer requirements and certification, the reliance on control systems, complex organic methods and agricultural skills is greater. Traditional, rural farmers will not have the skills and financial resources to achieve this. As unanimously expressed by the case study farmers, organic extension services in South Africa are not easily available to develop these skills. Furthermore, certification is costly. Unless retailers accept alternative, economical certification systems such as PGS (Participatory Group System), resource poor farmers will have little chance in meeting retailer requirements. The type of small farmers who stand a better chance of accessing organic, niche markets are those who are already commercially oriented (i.e. they farm purely for an income and already sell to more formal markets such as FPMs). These farmers have a better financial resource base and if already operating through a cooperative, the step from selling to FPMs to retailer markets is smaller.

The maturity of the food retail sector matches that of developed countries yet the South African agricultural sector operates within a developing country environment. This means that small farmers do not have sufficient, accessible resources to improve their production systems to meet the first-world expectations of retailers. The development of the sector is hindered by the delay in finalization of an organic policy, standards and regulations. Without national standards and regulations, the organic sector operates in an uncertain environment where there are non-uniform certification standards. This results in:

- Low consumer trust and consequent stifling of market growth
- Government extension services that cannot cater to all of the various standards and farmers’ needs.
- Substitute regulations from the EU that are not based on South African conditions
- Certification being provided predominantly by expensive, private, international certifying bodies
- Higher transaction costs for farmers due to scarce and remote input suppliers

For the sustainable involvement of small farmers in retailer value chains, their contribution cannot be at the expense of retailers’ corporate social responsibility initiatives. Their contribution needs to involve adding actual value to the efficient movement of produce in these chains. This needs to be done either through changes in the structure and design of retailer supply chains or through production improvements on the supply side. However it is unlikely that retailers will alter their current, vertically integrated chains to support the inclusion of small farmers. The changes will therefore need to emerge from the supply-side. This case study has highlighted that collaboration through cooperatives is an effective strategy in meeting retailer requirements and reducing transaction costs for both parties. This collaboration strategy, coupled with organic production advantages and organic market growth, could result in a system where small farmers are in demand and viewed as an essential player in the supply chain. However, at this point in time, in relation to conventional farming, organic farming is not a better market entry enabler for small farmers. This is because the enabling environment in which organic farmers operate is poorly resourced. The lack of dissemination of market and technical information through extension and advisory services and the unavailability of reasonably priced organic production inputs are the major constraining factors. Until national regulations and standards are finalized, such factors will remain a barrier to market entry for small farmers.
8 CONCLUSION

The organic sector is a better market opportunity for small farmers due to the price premiums, market growth and the market gap due to the small number of large farmers operating in the domestic market. The case study highlighted the organic production advantage of the reduced use of expensive, external inputs. However the current organic enabling environment is not conducive to supporting small farmers during the organic conversion period in which there is a high capital investment, a steep learning curve and an initial increase in production inputs. The main enabling environment problems identified through the case study were the poor extension and advisory services, the lack of reasonably priced and easily available production inputs and the scarcity of secondary production facilities and markets. Based on this current poor enabling environment, organic farming is not a market entry enabler for small farmers.

Using the market access factors identified through the case studies, further research should involve surveying a larger sample of farmers to identify larger-scale patterns. Furthermore, this research was limited to a qualitative investigation due to the lack of financial and production records as well as limited time to monitor extended production periods for expenditure and sales figures. It is recommended that further case study investigation involve a quantitative analysis of input and output volumes and production expenses for similar organic and conventional small farms. Adding this to the case study will triangulate the research instruments and therefore increase validity.

9 REFERENCES


