

## 7. Keeping up with rising quality demands? New institutional arrangements, upgrading and market access in the South African citrus industry

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### Abstract

The shift towards the use of private quality standards in global agrifood chains has raised concerns worldwide that small-scale farmers become excluded from lucrative export markets. In South Africa, given the historical exclusion of small-scale farmers from export-oriented agriculture, the government has therefore introduced different new institutional arrangements (IAs) between small-scale farmers and established agribusinesses to promote access to such markets. This chapter aims to analyse these IAs to understand whether and how these IAs contribute to enhanced market access for small-scale farmers. Based on a conceptual framework on quality specifications and upgrading grounded in Global Value Chain analysis, the chapter first discusses the quality demands and standards in the South African citrus sector which manifest in a 'Ladder of Market Access'. The following analysis reveals that IAs are able to promote the required product and process upgrading to include small-scale farmers into global export markets. Further upgrading opportunities, however, remain elusive as agribusinesses manage to position themselves as 'gatekeepers' which places barriers to farmers' involvement beyond the farm gate. These insights provide the basis for a set of practice-oriented recommendations specifically addressing policy-makers and other actors in the South African citrus industry to improve the design of smallholder support programmes.

**Keywords:** South African citrus industry, institutional arrangements, small-scale farmers, quality, upgrading; market access

### 7.1 Introduction

High value markets for fresh and processed fruit are increasingly recognised for their potential to contribute to agricultural growth and poverty reduction in developing and transition countries, especially in sub-Saharan Africa (World Bank, 2007). The African country with the longest history of integration into global fresh chains is South

Africa, particularly when it comes to citrus fruit. Exports of citrus, initially exclusively to the UK, started already in the first decades of the last century and had gained a strong foothold in Western European markets by the 1960s (Mather and Greenberg, 2003). Over the past two decades, however, access to such export markets has become conditional on an increasing number of requirements, including conformity to rising quality demands and various private quality standards. Whilst historically, food grades and standards were viewed as public domain issues necessary to address imperfect and asymmetric information leading to market failure (Henson and Reardon, 2005; Reardon *et al.*, 2003), contemporary agrifood chains are increasingly characterised by the proliferation of private quality requirements (Dolan and Humphrey, 2004; Hatanaka *et al.*, 2005; Henson and Reardon, 2005). There is general agreement that this trend reflects the dominance of so-called lead firms in global agrifood chains, notably large retail companies, which are able to set the requirements for upstream producers (Gereffi *et al.*, 2005; Altenburg, 2006). In turn, this emphasis on quality standards is motivated by changes in consumption patterns, growing demand for 'safe' or 'ethical' food, competitive struggles among retailers, the devolution of the state in matters of quality control and the resulting privatisation of market governance, among others (Henson and Humphrey, 2009; Henson and Reardon, 2005).

In the South African citrus sector, these developments were paralleled by far-reaching changes in the domestic regulatory environment. From being one of the most protected and regulated sectors of the South African economy, agriculture was deregulated and liberalised in 1997, exposing farmers and agribusiness for the first time to international market forces (Van Dijk and Maspero, 2004). Mather and Greenberg (2003) observe that the two sets of transitions, one at the global level and the other at the national level, have led to a sharpened differentiation 'between growers able to take advantage of the new opportunities [of export chains] and those who are not' (Mather and Greenberg, 2003: 408). For the most part, this differentiation runs along racial lines between mostly white, large commercial producers with access to modern technology and mostly black, small-scale farmers<sup>1</sup> with only rudimentary production technology (Greenberg, 2003). Particularly, the latter face increasing exclusion from lucrative export markets due to smaller production volumes, poorer and inconsistent product quality, lack of resources, and lack of institutional support (Biénabe *et al.*, 2011; Louw *et al.*, 2008).

Similar observations on the exclusion of small-scale farmers have been made for other African supplier countries of fresh fruit products (Dolan and Humphrey,

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<sup>1</sup> For the purpose of this chapter, the terms 'small-scale' and 'smallholder' farmers are used interchangeably to refer to mostly black, resource-poor, but not necessarily subsistence-oriented farmers. These farmers continue to be marginalised in the mainstream agricultural economy. Chikazunga and Paradza (2012) use the term 'double-barrelled exclusion': initially excluded by the past regimes along racial lines and now excluded by market forces. For this reason, such small-scale farmers are often labelled 'emerging farmers' in the public discourse to indicate the desired process of development towards commercial farming and associated inclusion in mainstream agriculture. Here the more neutral terms 'small-scale' and 'smallholder' farmer will be used to avoid any implicit assumptions about the development trajectory of such farmers.

2004). However, exclusion from global chains does not necessarily imply a permanent situation, as producers who are initially unable to comply with rising quality demands can potentially transform their production practices and receive access to export chains (Perez-Aleman, 2011). In the literature on global value chains (GVCs), these change processes are referred to as 'upgrading', implying changes in the activities of developing country producers to make better products, produce more efficiently or move into more rewarding activities. Stories of successful upgrading are usually explained through the potential to learn from global buyers who, to reduce the risk of supplier failure, may support their suppliers and transfer information on production-related issues (Humphrey and Schmitz, 2002; Saliola and Zanfei, 2009).

However, in many cases global lead firms actually provide rather little support to help suppliers in upgrading their activities (Pietrobelli, 2008). Particularly in fresh fruit chains, retailers have outsourced much of the value chain organisation and have therefore limited direct contact with suppliers in developing countries (Dolan and Humphrey, 2004). This places renewed attention to the role of public policies in creating the institutional conditions necessary to help smallholder farmers upgrade and receive access to global chains. This is especially relevant in South Africa, where post-apartheid policies explicitly aim at uplifting previously disadvantaged smallholder farmers to become commercially viable units by upgrading their productive capacities. Over the years, the government has implemented a range of interventions; often in the context of land reform and Black Economic Empowerment (BEE) policies, including the Black Economic Empowerment in Agriculture (AgriBEE). However, success has been limited and several smallholder farms have collapsed, unable to access the lucrative export markets in the face of continued limited institutional support (Louw *et al.*, 2008; Vermeulen *et al.*, 2008). As a result, the share of smallholder products in formal marketing channels for fresh products remains low (Doyer *et al.*, 2007; Vermeulen *et al.*, 2008).

To address this situation, the South African government has been promoting new types of institutional arrangements (IAs) since the mid-2000s to link farmers to markets, including strategic partnerships, joint ventures and a new generation of farmworker-equity schemes (Department of Rural Development and Land Reform, 2011). These institutional arrangements are based on the active involvement of local agribusinesses, such as processors, marketing and export agents, in assisting small-scale farmers to receive access to mainstream agricultural markets. This is grounded in the assumption that the inclusion of smallholder farmers hinges upon (a) the cooperation among value chain actors, and (b) the provision of extensive support to such farmers (Amekawa, 2009; Henson *et al.*, 2005). For both aspects, local agribusinesses are deemed critical due to their resources, capabilities and positioning along value chains, and thus take a prominent role in the South African context.

Despite the public promotion of IAs in South Africa, especially in the citrus sector, little is known on whether and how these IAs contribute to enhanced market access for smallholder farmers. There is a general understanding that smallholder farmers

need to comply with the quality demands required by global buyers and that policy interventions should respond to these quality demands accordingly. Therefore, this chapter first aims to assess what these quality demands are in the citrus sector and how they emerged. This is important for the second aim of the chapter, which is to understand how the new IAs contribute to quality improvement and upgrading to enhance market access for small-scale citrus farmers. Together, this serves to provide recommendations for future policy responses to support smallholder farmers.

The paper is based on a critical review of the literature and uses the global value chain (GVC) approach to understand how the South African state is trying to renegotiate the integration of small-scale farmers into global value chains and what rooms to manoeuvre and to upgrade it creates for these farmers. Within this strand of literature, a vibrant debate on governance, quality and upgrading in value chains has emerged since the late 1990s, which will be used to delineate the conceptual framework of this chapter. The chapter then proceeds to shed light on how quality is defined in practice in the South African citrus sector to better understand what market access actually means in this case in point. The discussion starts by tracing the historic development of the sector from the early 1900s up until the current industry structures, which unfolds around a marked shift from a single export system and volume-based production to a buyer-driven chain and quality-based competition. The implications thereof provide the setting for the analysis of the new institutional arrangements promoted by the South African government, which seeks to unravel the upgrading opportunities for smallholder farmers. The final section reflects on the implications of the IAs within the wider context of post-apartheid South Africa, comparing the upgrading opportunities of commercial versus small-scale farmers. Finally, in the recommendation section, two critical questions offer food for thought for the design of smallholder support programmes.

## 7.2 Governance, quality and upgrading in global value chains

GVC analysis emerged in the mid-1990s as an analytical approach to examine the complexities of economic development along the chain of actors involved in the production, distribution and consumption of particular goods or services. Scholars have largely focused on the governance of global value chains, referring to the power relationships between actors that determine how financial, material and human resources are allocated along the chain (Gereffi *et al.*, 1994). According to Humphrey and Schmitz (2001), governance entails the setting and enforcing of parameters under which other actors in the chain operate. Initially governance was perceived as a question of producer-driven versus buyer-driven chains, alluding to the location of the power centre of global chains. Agrifood chains have been shown to fall into the category of buyer-driven chains where global buyers hold considerable power despite lacking ownership over most parts of the chain (Dolan and Humphrey, 2000, 2004). Their degree of control is such that they are able to retain the majority of value added

and limit the choices and strategies available to producers to increase their gains from participating in global chains (Kaplinsky, 2000).

Since the early 2000s a shift has gradually occurred in GVC research to concentrate on the patterns of inter-firm relationships and coordination (Gereffi *et al.*, 2005). Governance in the sense of coordinating inter-firm relationships entails the transmission of information of relevant production parameters, including product quality, delivery time, process efficiency, environmental, social and labour requirements, which suppliers have to meet in order to participate in global chains (Altenburg, 2006). More complex requirements are often associated with governance forms that feature higher degrees of vertical coordination to ensure that supply matches demand (Maertens and Swinnen, 2009; Reardon *et al.*, 2003). According to Humphrey (2005), compliance with rules about quality is critical to guarantee that firms enjoy sustained access to profitable markets. Hence, from a supplier perspective, the goal of quality improvement is 'to satisfy the expectations of the consumer' (Ruben *et al.*, 2007: 28).

Chain governance in a situation where quality specifications are involved draws heavily on the subjective nature of quality conception. Ponte and Gibbon (2005) therefore claim that governance in chains does not only depend on drivenness or direct coordination, but also on the ability of a given actor to define 'broader narratives about quality circulating within society more generally' (Ponte and Gibbon, 2005: 3). This insight frames the beginning to the most recent theorising on governance in the GVC literature, i.e. governance as a matter of defining and organising a socially constructed specification of quality. The point of departure for this view of governance is the growing importance of different quality attributes in agrifood chains over recent years. As quality came to include not only objectively measurable attributes, but increasingly also subjective elements, researchers began to criticise the neglect of quality specification as a critical aspect of chain governance and key source of power of lead firms (Busch and Bain, 2004; Ponte and Gibbon, 2005).

A broad distinction is often made between intrinsic and extrinsic quality attributes, where the former relate to inherent characteristics of a product, such as physical properties (size, colour, etc.) and the latter pertain to characteristics that are externally added and modifiable (e.g. packaging, brand, price). Petzold *et al.* (2008) note that both product-related attributes, like taste, appearance and nutritional value (real or perceived), and process-related attributes, such as ethical and environmental considerations, play a role in the process of quality conception. Hence, quality can refer to the product itself or to the process and conditions under which the product is produced. Particularly in global food chains, emphasis has shifted towards subjective quality attributes which cannot be objectively measured (credence attributes) and which relate to the process and methods of production (Ponte and Gibbon, 2005), including food safety, ethical and environmental attributes.

Among the strategies that are adopted to meet increasing quality standards, *upgrading* has received considerable attention in the GVC literature and in practice (Humphrey and Schmitz, 2002; Gibbon and Ponte, 2005; Giuliani *et al.*, 2005). Four categories of upgrading are commonly distinguished (Humphrey and Schmitz, 2002): (1) process upgrading (reorganising production processes for greater efficiency and quality); (2) product upgrading (more sophisticated products); (3) functional upgrading (acquiring new functions to increase the overall skills content of activities); and (4) inter-sectoral upgrading (moving into new productive activities). Upgrading opportunities for developing country suppliers are thought to be linked to the governance structures prevailing in global chains, as lead firms can both stimulate certain types of upgrading, e.g. process and product upgrading, by transferring some information and limit other types of upgrading, e.g. functional upgrading, by ensuring continued information asymmetry (Humphrey and Schmitz, 2002; Saliola and Zanfei, 2009).

Upgrading opportunities can also be influenced by targeted public policies (Memedovic, 2008; Pietrobelli, 2008). This has, however, mostly been ignored in the literature, as the GVC framework has generally been weak in integrating local-level institutions into its analysis and policy advice (Selwyn, 2008). Neilson and Pritchard (2009) therefore argue that the concept of upgrading serves as a bridge between chain governance and the local conditions into which producers are embedded. Hence, looking at national strategies and policies that influence upgrading is equally important as stressing the role of lead firms in transferring knowledge along the chain (Memedovic, 2008), especially with regard to development policy formulation (Selwyn, 2008).

Processes of upgrading have generally been associated with increased value added as a prerequisite for enhanced smallholder livelihoods (Giuliani *et al.*, 2005). Particularly functional upgrading into new tasks is often associated in the literature with increased value added (Pietrobelli, 2008). However, scholars also acknowledge that functional upgrading into new tasks requires highly specialised management and entrepreneurial skills and is highly capital intensive. Exploring new opportunities at the same task, i.e. product and process upgrading, may be equally profitable and more easily available to new or small producers in developing countries (Gibbon and Ponte, 2005; Pietrobelli, 2008). Other observers have argued that quality improvement through product and process upgrading may serve to obtain market access, but does not automatically lead to higher value for producers (Ponte and Ewert, 2009; Mather, 2008). Hence, the link between different types of upgrading and enhanced value added is not clear-cut and may vary from case to case. This suggests that – rather than being about increased value capture – upgrading is fundamentally about the question to what extent value chains are inclusive or exclusive and what strategies producers may pursue to go from being excluded to being included. An analysis studying the process of moving from exclusion to inclusion would therefore need to look at (1) where exactly upgrading occurs; (2) how upgrading occurs; (3) what the purpose of upgrading is; and (4) how this influences future upgrading strategies.

### 7.3 Understanding quality and market access in the South African citrus industry

In this section, the evolution of quality specifications and quality standards in the South African citrus industry is examined alongside the response of the sector to quality trends.

#### 7.3.1 The evolution of quality specifications and quality standards in the South African citrus industry

Over the last two decades, various developments have impacted fundamentally on South Africa's citrus sector (Figure 7.1). Until the mid-1990s, citrus was exported through a single channel exporter (South African Cooperative Citrus Exchange; short SACCE) with uniform quality standards based on public regulation and inspection through a public export control board (Dixie, 1999). This system obscured differences in quality across growing regions and helped in the marketing and promotion of citrus in the UK and Europe (Mather, 1999). To increase its control over production methods, cultivars and varieties produced, SACCE set up an impressive research and extension capacity (Mather and Greenberg, 2003). This provided the foundation for a coordinated strategy to supply lucrative markets with better quality and sought-after varieties and less remunerative markets with poorer quality and standard varieties (Mather, 1999). By virtue of its monopolistic position, SACCE was even able to disregard some quality demands placed by overseas retailers (Gibbon and Ponte, 2005).

However, by the early 1990s, the SACCE's foothold on European markets was challenged on several fronts, including new competition from other Southern Hemisphere producers and international sanctions against South Africa (Dixie, 1999; Mather and Greenberg, 2003). The system established by SACCE proved rigid and

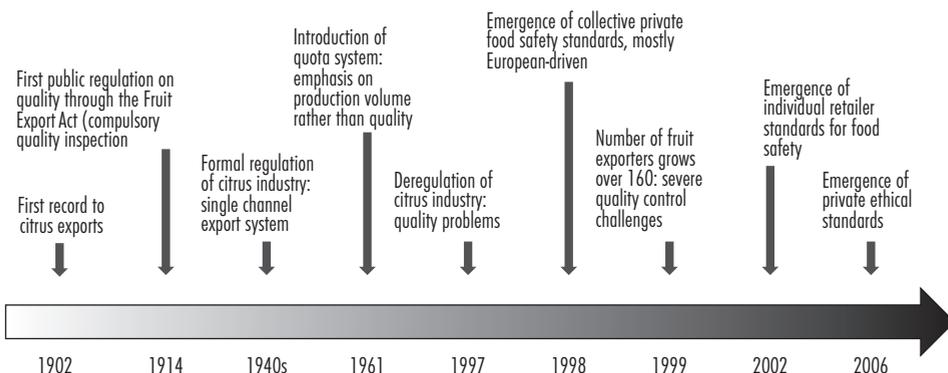


Figure 7.1. The development of 'quality' in the South African citrus industry.

inflexible in the face of new, increasing quality demands by UK and European retailers. As fruit delivered by growers was pooled by variety and size and producers were paid on the basis of volumes and variety (Mather and Greenberg, 2003), high volume rather than high quality production was stimulated (Mather, 1999). To address these challenges and respond to the changing global market, SACCE transformed itself into a private company, Outspan International, in the early 1990s and restructured the pool system. Yet, its strongest days were numbered. In 1997, the South African fruit industry was deregulated and liberalised. The single marketing channel was abolished and a myriad of new exporters entered the market (Mather and Greenberg, 2003).

Quality control became a tremendous challenge in the first years after deregulation. Firstly, vital services to growers such as research support, extension and information dissemination were eliminated. Secondly, the export control board experienced substantial capacity shortages when going overnight from having one main client in citrus to about a couple of hundred clients (De Beer *et al.*, 2003). This compromised its ability to effectively control the quality of citrus exports in the immediate deregulation period (Mather, 2008). Finally, unscrupulous export agents saw deregulation as an opportunity to make money without adhering to quality standards (De Beer *et al.*, 2003). Unable to cope with the new market environment, by 2000 the South African citrus industry found itself in deep crisis, export earnings plummeted and many farms were liquidated (Mather and Greenberg, 2003).

The vacuum created in the turbulences of deregulation was quickly filled by the increasing power of major retailers from consumer countries, transforming the industry from exporter-driven towards a buyer-driven chain, as happened also in other African fresh fruit export chains. This resulted in a shift from volume-based to quality-oriented production. Not trusting the quality standards and assurances of developing countries or not considering them sufficient, retailers started developing their own private quality standards, both for primary production (pre-farm gate) and processing of citrus (post-farm gate). Of particular importance was the development of the EurepGAP (now GlobalGAP) standard in the mid-1990s as a first attempt by large European retailers to harmonise their minimum standards on Good Agricultural Practices (GAPs) and food safety. Shortly afterwards, individual retailers developed their own GAP standards in addition to GlobalGAP, such as Tesco (Nurture, formerly: Nature's Choice) and Marks and Spencer (Field to Fork), leading to a plethora of food safety standards in primary production (Table 7.1).

The sole focus on food safety issues did not last long, however. After repeated scandals about poor working conditions on South African farms, overseas retailers increasingly broadened their quality specifications for suppliers to include social and environmental aspects. Since 2006/2007, several UK retailers have demanded compliance with the base code of the Ethical Trading Initiative (ETI), whereas retailers from continental Europe have started asking for suppliers to be certified against the Business Social Compliance Initiative (BSCI).

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Table 7.1. Key private process standards in the citrus industry.

Pre-farm gate			Post-farm gate		
Food safety standards	Demanded by	Social and environmental standards	Demanded by	Pack house standards	Demanded by
GlobalGAP	All UK and EU retailers; some buyers in other export markets; some domestic retailers in SA	Ethical Trading Initiative (ETI) base code	All UK retailers	HACCP (SANS 10330)	All EU and UK retailers
Nurture	Tesco	Business Social Compliance Program (BSCI)	Growing number of EU retailers	British Retailer Consortium (BRC) global standards	All UK retailers
Field to Fork	Marks & Spencer	Fairtrade	Small number of mostly UK retailers as niche market products	GlobalGAP produce handling	Several EU retailers
LEAF Marque	Waitrose and other UK retailers	GRASP (GlobalGAP risk assessment on social practices)	Some EU retailers		
Albert Heijn PPP Protocol	Albert Heijn	Organic  Carbon footprint	Small number of UK and EU retailers as niche market products  Tesco		

### 7.3.2 Implications of the new quality trend for market access and responses by the citrus industry

The rise in private quality standards in South Africa's main export markets, together with the process of deregulation, has had a tremendous impact on the citrus industry. Those who wished to remain competitive had to implement different upgrading strategies to improve quality and enjoy continued access to these export destinations.

Firstly, in terms of process upgrading, compliance with private standards for upgrading on food safety and quality aspects has become wide-spread. After an initial period of slow uptake, there was a flurry of GlobalGAP certification by South African growers during 2003-2004. By 2012, most export growers were certified (Barrientos and Visser, 2012).

Secondly, in terms of product upgrading of fruit varieties, production has shifted from mostly oranges to include high-value citrus varieties, such as grapefruit and soft

citrus cultivars (Department of Agriculture, Forestry and Fisheries, 2011). Since citrus fruits are perennial crops, which cannot be easily switched once planted, the demand for new varieties has translated into an increase in plantings and production area. Particularly the areas under soft citrus varieties, grapefruit, lemon and new orange varieties have increased over the past few years (Ndou, 2012). By means of these investments into process and product upgrading, farmers with larger production volumes, more attractive fruit varieties and the required private quality standards have managed to become relatively secure, preferred suppliers for markets in the UK and Europe (Mather, 2008).

However, not all growers have been able to pursue this path of quality upgrading. Smaller farms, particularly black farmers, have been increasingly excluded from lucrative export markets due to smaller production volumes, poorer and inconsistent product quality, lack of resources and knowledge (Mather and Greenberg, 2003). The assistance they had received from the single channel exporter has been withdrawn (Mather, 2008) and has not been replaced by adequate public support, resulting in a shortage of essential services for smallholders (Greenberg, 2010). Unable to meet the stringent demands of foreign customers, these farmers are either moving out of citrus or have found themselves forced to sell to markets with lower quality requirements, which generally translates into lower returns (Mather and Greenberg, 2003). In this way, the new market environment has reinforced the structural duality of agriculture between small-scale and commercial growers, and the associated market segmentation into European/UK supermarkets and 'other' markets.

Three of these 'other' markets can be distinguished in particular. In terms of exports, so-called 'second tier' markets, including Asia, Russia and the Middle East, have much lower quality requirements. Private standards are generally weak, although increasing demand for GlobalGAP has been noted. Similarly, the domestic retail market in South Africa has seen an increase in private quality requirements. A number of domestic retailers have started asking for food safety audits and partially also social audits. The domestic informal market and the processing sector are the only markets where process standards are not an important consideration (Vermeulen *et al.*, 2006). Hence, they absorb citrus fruit of lower and variable product quality based on visual inspection. However, especially the domestic informal market tends to be heavily over-supplied, offering poor returns for producers (Mather, 2008).

The various quality demands posed by the different markets translate into a 'ladder of market access' (Figure 7.2), illustrating the efforts producers need to undertake if they wish to move from local market outlets to supplying European and UK supermarkets.

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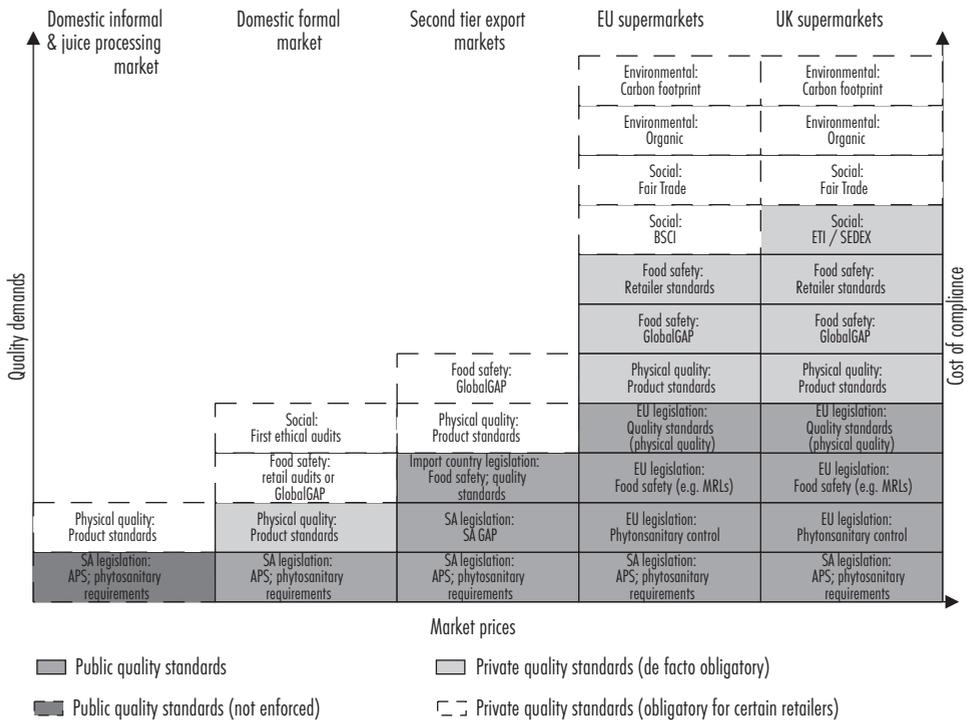


Figure 7.2. The ladder of market access.

### 7.4 New institutional arrangements for market access of smallholder farmers: what opportunities for upgrading?

Legislative changes have sought to address this dual structure since the democratic transition in 1994 through the implementation of land reform and Black Economic Empowerment (BEE) policies. Initial policies from the mid-1990s until the mid-2000s dealt with the redistribution of farm land to strengthen small-scale growers – with little success. Focussing on asset acquisition rather than skills development, the failure rate of redistribution projects in export-oriented agriculture was high, among others due to the low skills level of many beneficiaries, the lack of post-settlement support, challenges of severe credit constraints and ultimately, inability to meet stringent export market requirements (Greenberg, 2010; Lahiff *et al.*, 2008; Mather and Greenberg, 2003).

More recently, the South African government has sought new ways to ensure that small-scale farmers turn into commercially viable units. In particular, the government has promoted the development of new institutional arrangements (IAs) specifying the collaboration between small-scale farmers (individuals or groups of land

reform beneficiaries) and agribusinesses (commercial farmers or marketing agents), facilitated by the state. The expectation is that these new IAs facilitate the transfer of information and the development of skills of small-scale farmers and provide them with market access (Obi and Pote, 2012), while simultaneously recognising the interest of agribusinesses to secure and possibly expand market access (Derman *et al.*, 2010). To ensure that the participants fulfil their responsibilities and commitments, the parties involved sign long-term (5-15 years) contracts and act within a framework set by the state. Three types of IAs are commonly distinguished: strategic partnerships; joint ventures; and farmworker-equity schemes (FES). In strategic partnerships, agribusinesses and small-scale farmers, facilitated by government, agree to jointly manage the farm of the small-scale farmer based on mentorship and service provision, for which agribusinesses receive a management fee. In joint venture partnerships, a new business entity (the operating company) is created in which both the agribusiness and the beneficiaries are shareholders. Benefits (dividends) and risks are allocated according to shares in the joint venture. In FES land reform beneficiaries acquire shares in existing farming operations to farm under the mentorship of established farmers.

Initial research indicates that such IAs are successful in creating increased access to export markets for small-scale producers of citrus fruit by fulfilling three main functions (Bitzer and Bijman, 2014; Lahiff *et al.*, 2012; Louw *et al.*, 2008). Firstly, IAs specify that agribusinesses provide the farmers with information on market developments and market demands in order to adjust activities at the production level. Secondly, IAs ensure that agribusinesses provide production level support to small-scale farmers through training, technical assistance, access to inputs and access to working capital. Thirdly, IAs specify that agribusinesses have exclusive rights to market the products of the small-scale farmers in return for the assistance provided. This ensures that these farmers have access to market infrastructure and that production and marketing activities are coordinated. At the same time, it creates an incentive for agribusinesses to maintain their involvement with small-scale farmers as it gives them the opportunity to increase their export volumes.

Bitzer and Bijman (2014) show how these three functions serve the purpose of meeting the required quality demands of EU and UK retailers through introducing different on-farm changes. *Product upgrading* is achieved by introducing new citrus cultivars in the context of re-planting and land development. *Process upgrading* is achieved by inducing a shift from production practices based on informal standards for physical quality to production practices based on highly formalised, private quality standards and verification by third-party inspection. Hence, virtually all upgrading activities focus on the primary production level, with little attention to *functional upgrading* strategies. On the one hand, such a restricted focus makes practical sense, given the low resource endowment and low skills level of many small-scale farmers. As citrus production is input and capital intensive, maintaining production is already a challenge for these farmers (Lahiff *et al.*, 2012). Meeting international quality requirements presupposes a high level of expertise, which in itself poses high upgrading demands, even if restricted to the production level. Moreover, the orientation towards EU and

UK markets and the high quality demands of these markets also suggests that value adding processes take place from which small-scale producers can benefit.

On the other hand, the lack of functional upgrading poses questions about the future upgrading opportunities for small-scale farmers. As farm net returns are increasingly getting smaller, even for those farmers participating in export markets, producers who functionally upgrade in the value chain appear to be better able to withstand the competitive struggles of the industry than producers focusing only on activities at primary production level (Barrientos and Visser, 2012). Accordingly, there has been an increasing trend over the past decade for producers to export directly to overseas retailers without going through established agribusinesses in order to increase their share of the final consumer price. In other words, export producers have become 'producer-exporters' (Symington, 2008). However, within the context of IAs, such prospects remain blocked for smallholder farmers. Two constraints stand out in particular. The first is a thematic constraint. Whilst smallholders may individually lack the required capacity to export directly, both in terms of skills and production volume, promoting collective action institutions to pool different smallholders may hold potential in this regard (D'Haese *et al.*, 2005). Yet, this is not part of the issues covered by the IAs (Bitzer and Bijman, 2014) and hence, not further explored. The second constraint is structural and shows in the two-fold role of agribusinesses as 'gate-keepers' in IAs. Firstly, they exercise a gate-keeping function with regard to market access, since IA contracts state that agribusinesses provide training to small-scale producers in return for processing and marketing rights. This does not include transparency with regard to market prices and value adding activities further downstream in the value chain, of which producers often are not aware (Fraser, 2007a; Lahiff *et al.*, 2012). Fraser (2007b) cautions that this may enable or induce agribusinesses to take advantage of small-scale farmers. Secondly, agribusinesses act as gatekeepers for knowledge and market information. Any information transfer to small-scale farmers rests on the willingness of agribusinesses to share their knowledge. These agribusinesses enjoy a 'near-monopoly on technical and entrepreneurial skills needed for commercial agriculture' (Fraser, 2007b: 840) in light of the fact that they were the only legitimate commercial entities in agriculture under apartheid. However, this may create a dependency situation for small-scale producers and increase their vulnerability vis-à-vis agribusinesses (Fraser, 2007b). In this way, IAs imitate the quasi-hierarchical chain governance structures that already Humphrey and Schmitz (2001) found to be conducive for product and process upgrading but not for functional upgrading.

### 7.5 Conclusions

This chapter is set against the background of recent debates about smallholder farmers in sub-Saharan Africa and their growing exclusion from fresh fruit export chains due to rapidly increasing and continuously changing quality demands by international buyers. In South Africa, this debate has an additional dimension and is contextualised

in post-apartheid policies, including land reform and AgriBEE, which seek to redress some of the inequalities between mostly black small-scale farmers and largely white large-scale farmers and agribusinesses.

The 'first generation' of government-supported projects to integrate small-scale farmers into the agricultural economy of South Africa had not been very successful, as evident in the collapse of the majority of such farms within a short period of time (Greenberg, 2010). To avoid such failures, in the mid-2000s a 'second generation' of land reform and AgriBEE projects in high-value agriculture was introduced. This time smallholder inclusion was to be stimulated by means of government-facilitated institutional arrangements (IAs) between these farmers and established agribusinesses, especially in export-oriented agriculture, such as the citrus sector.

To contribute to the on-going public debate on whether or not these IAs bring about any positive change for small-scale farmers, this chapter pursued two main objectives. Firstly, it took an in-depth look at what market access in the citrus sector actually means. Secondly, it explored how the new IAs promote upgrading processes for smallholder farmers to facilitate their inclusion into export chains.

As regards the issue of market access, the chapter traced the transformation of the citrus sector from being a single exporter-driven chain emphasising quantity rather than quality to becoming a buyer-driven chain that operates according to the increasing quality demands of overseas retailers. This poses new challenges for South African suppliers. Whereas larger producers mostly managed to address these challenges by means of significant upgrading activities, small-scale producers largely failed to climb the 'Ladder of Market Access' and ended up confined to the domestic informal market.

Concerning the new IAs introduced by the South African government, the chapter showed that on commercial grounds these seem to fare better than the above mentioned first generation. By promoting product and process upgrading to ensure that small-scale farmers meet international quality demands, IAs have successfully included small-scale farmers into global export markets. Hence, they have helped them climb the ladder of market access and enabled them to participate in quality-based competition.

Further upgrading opportunities for small-scale farmers, such as functional upgrading, remain elusive, however. Meanwhile, commercial farmers are busy further integrating into the value chain to become producer-exporters, once again creating a gap between small-scale and commercial farmers – a gap which IAs do not seem to be able to fill. This is grounded in the position of agribusinesses as 'gatekeepers' to knowledge and to market access, which discourages any quality improvement beyond product and process upgrading. Producer involvement does not extend beyond the farm gate, although involving them in cost reduction through enhanced chain efficiency and chain shortening might enable them to strengthen their competitive

position vis-à-vis other industry players. Yet, as long as agribusinesses continue to act as double gatekeepers, smallholder farmers are unlikely to develop the required levels of competence for exploring new upgrading pathways.

### 7.6 Recommendations for practice

In terms of moving forward, the insights from this chapter point towards two main questions which warrant attention from a practitioner perspective. The first question concerns the expansion of upgrading opportunities: How can further upgrading opportunities for small-scale farmers be explored and supported within the context of IAs? The chapter argued that product and process upgrading are generally supported by IAs, while functional upgrading is limited by the current setup of the IAs. Among others, this is due to the non-transparent marketing arrangements which obligate producers to sell to agribusinesses (the packhouses) whilst not knowing the price being paid for their products in export markets or the grade in which the products fall. This calls for new mechanisms to be built into the relationship between smallholders and agribusinesses to ensure chain transparency. New mechanisms may also be needed to ensure a broader, more substantive knowledge transfer from agribusiness to small-scale farmers on issues such as marketing and market channels. This may be another important aspect to increase upgrading opportunities for small-scale farmers, since the type of knowledge transferred affects the type of upgrading available to these farmers (cf. Humphrey and Schmitz, 2002). Finally, it seems rather straightforward that ‘smallholder farmers [in South Africa] cannot individually compete against commercial farmers in markets’ (Jari *et al.*, 2011: 115). Particularly for functional upgrading, collective action has been shown to work with small-scale farmers in South Africa (D’Haese *et al.*, 2005). The issue of farmer organisation therefore deserves renewed attention. Creating linkages between IAs which operate in geographical proximity may be one way of stimulating the organisation of small-scale farmers involved in these IAs.

The second question concerns the issue of targeted market outlets: Which markets are best suited for small-scale farmers within the context of IAs? The chapter illustrated the different markets and their respective requirements in the ‘Ladder of Market Access’. In the context of South Africa, where the domestic informal market – the one which is easiest to access – suffers from oversupply and poor prices, there seems to be a general assumption that small-scale producers need to access EU/UK export markets in order to pursue profitable farming. However, as Figure 7.2 also shows, there are a variety of ‘intermediary’ markets lying between the opposing ends of ‘domestic informal’ and ‘EU/UK supermarkets’. This suggests the need for a renewed market analysis, ideally on a case-by-case basis, to identify opportunities beyond the traditional market orientation of the South African citrus sector.

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