



the dtic
Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA



POLICY BRIEF 6: ARE WE DOING ENOUGH TO SUPPORT SMALL AND MEDIUM-SIZED FOOD PROCESSORS AND ALTERNATIVE ROUTES TO MARKET DURING AND AFTER COVID-19?

April 2020

Dr Reena das Nair¹

Industrial Development Think Tank²

Since the beginning of the COVID-19 crisis in South Africa, much attention has been given to the role of formal supermarket chains in ensuring that consumers have food security and producers of essential food continue to access supermarket shelves as a key route to market. On 29 March, we woke up to a full-page spread in the Sunday Times showcasing the solidarity of the top 4 supermarkets in the country, stating 'We Shall Proudly Serve'. The clever use of the widely-recognised logos of each major supermarket chain to create this phrase was comforting to many (probably middle-class and suburban) citizens and residents. It provided reassurance that consumers could continue to buy food on supermarket shelves and suppliers would continue to produce food and sell through supermarkets. Consumers were further comforted by the commendable tough stance promised to be taken by the competition and consumer protection authorities on firms that engage in excessive pricing or price gauging of essential products during this period.³

However, this comfort is not enjoyed by all. The formal supermarket chains are not the main lifeline for many small and medium-sized enterprises (SME) producing and processing food. These SMEs, for reasons discussed below, primarily sell through alternative routes to market such as independent wholesalers, cash and carries, independent retailers, informal spaza shops, street vendors or directly to consumers within communities. These SMEs, who are already vulnerable in our food production system, will struggle to survive if they and their alternative routes to market are not supported during this time.

The formal supermarket chains are also not the only outlets through which households in peri-urban, township and rural areas access their daily food and household needs. The most vulnerable in our population also rely on alternatives to the supermarket chains. This was

¹ Senior Researcher and Senior Lecturer at CCRED, University of Johannesburg. Thanks to Ms. Pamela Mondliwa, Senior Researcher at CCRED, for her helpful comments. All errors are the author's own.

² The Industrial Development Think Tank (IDTT) is supported by the Department of Trade and Industry (the dti) and is housed in the Centre for Competition, Regulation and Economic Development (CCRED) in partnership with the SARChI Chair in Industrial Development at the University of Johannesburg.

³ <https://www.businesslive.co.za/bd/national/2020-03-31-authorities-receive-record-number-of-complaints-against-retailers-milking-covid-19-crisis/>, accessed 2 April 2020

pointed out in a recent article by the Institute for Poverty, Land and Agrarian Studies (PLAAS).⁴ The PLAAS article highlights research which shows that up to 70% of households in townships source and consume food from informal outlets. The article further notes that small-scale farmers rely on municipal fresh produce markets to sell to, which, in turn, on-sell to independent retailers, informal vendors as well as to the formal chains. The 21-day lockdown affects all these players. While the spread of the supermarket chains into township and rural areas displacing independent retailers and spaza shops has been a subject of much debate and a key part of the investigation by the Competition Commission in its Grocery Retail Market Inquiry,⁵ the fact remains that alternative routes to market are important for SMEs and consumers alike. We need to do much more to support SMEs and their routes to market.

Difficulties for SME food processors to access supermarket shelf space

SME food processors face considerable barriers to entry, even prior to COVID-19, and not least in accessing formal supermarket shelf space. Our research over the past six years has highlighted how small suppliers in the food processing industry struggle to meet the basic legal and private standards to sustainably supply formal supermarket chains. As part of multiple projects, we have undertaken numerous field interviews with small and medium-sized processed food suppliers in South Africa and in other countries in the region.⁶ Many of these SMEs lack the capabilities needed to supply the required volumes, consistency, quality and costs of supplying to supermarket chains. Compliance with legal standards on quality and food safety, while absolutely critical for consumer health and safety, can be too costly for small processors. Private standards and skewed buyer power exercised by large supermarkets further add to the difficulties in supplying them.

Given these onerous requirements, many SME food suppliers either cannot supply, or actively avoid selling through the main supermarket chains. This is not going to change substantially in the short-term as it takes time to build capabilities to meet requirements and standards. However, the large supermarket chains can still play a strong role in reducing the burden on suppliers who meet basic requirements to get onto supermarket supplier books. We first discuss these, before turning to some of the alternative routes to market for SMEs in the food system.

⁴ <https://www.plaas.org.za/food-in-the-time-of-the-coronavirus-why-we-should-be-very-very-afraid/>, accessed 2 April 2020

⁵ <http://www.compcom.co.za/wp-content/uploads/2019/12/GRMI-Non-Confidential-Report.pdf>, accessed 2 April 2020

⁶ 1. Ongoing work as part of a project funded by the UK's Global Challenges Research Fund on 'Innovation and Inclusive Industrialization in Agro-Processing' Project website: <https://iiap.info/>

2. das Nair, R. 2019. The spread and internationalisation of South African retail chains and the implications of market power. *The International Review of Applied Economics*, 33(1): 30–50

3. das Nair, R. and S. Chisoro, 2017. The expansion of regional supermarket chains: Implications on suppliers in Botswana and South Africa. UNU-WIDER Working Paper 2017/26
<https://www.wider.unu.edu/sites/default/files/wp2017-26.pdf>

4. das Nair, R. and S. Chisoro., 2016. The expansion of regional supermarket chains and implications for local suppliers: A comparison of findings from South Africa, Botswana, Zambia and Zimbabwe. UNU-WIDER Working Paper 2016/169 <https://www.wider.unu.edu/sites/default/files/wp2016-169.pdf>

5. das Nair, R., S. Chisoro and F. Ziba., 2018. Supermarkets' procurement strategies and implications for local suppliers in South Africa, Botswana, Zambia and Zimbabwe. *Development Southern Africa*, 35(3): 334–350.

6. das Nair, R. and S. Chisoro, 2015. The expansion of regional supermarket chains: Changing models of retailing and the implications for local supplier capabilities in South Africa, Botswana, Zambia, and Zimbabwe. UNU-WIDER Working Paper 2015/114. <https://www.wider.unu.edu/sites/default/files/WP2015-114-.pdf>

Supermarkets can speed up payments and ease trading terms

Supermarkets can immediately ease cash flow crunches by paying vulnerable suppliers in advance, or upon delivery, or by agreeing on easier payment terms and conditions. Supermarkets should also remove additional costs imposed on suppliers in the form of fees and rebates for a stipulated period. Payment periods are typically 30 days from invoice, although usually shorter for fresh products. This can be reduced further for identified vulnerable suppliers. Rebates for early settlement of invoices by supermarkets can also be suspended during this period to allow more cash in the hands of suppliers. In addition, there is no need in this period for food suppliers to pay for shelf space, merchandising fees or advertising fees. It is not business-as-usual, and it is unlikely that much advertising will be needed to drive sales of basic food products during this period. Removing such rebates can put between 10 and 15% of the costs of supplying supermarket chains back into the pockets of suppliers as our past studies have shown.⁷

In fact, the advertising budgets of the large supermarket chains are enormous, with the Shoprite group alone spending around R1.4 billion in 2018.⁸ Shoprite has been the highest spender in the country overall in terms of total advertising spend in several years.⁹ The ad spend of the other supermarket chains, and the large or mega food and beverage processors, is also significant. In 2017/2018, Shoprite, Pick n Pay and Massmart, along with mega processors in the food and beverage sector, such as Coca-Cola and SAB Miller, were in the top 10 highest spenders in advertising, accounting for around R3.7 billion. While some of this budget may come from advertising rebates charged to suppliers, which we are advocating against in this period, some of this budget can be repurposed to support vulnerable suppliers, including as part of supplier development programmes (discussed below).

Some of these are not new suggestions and supermarkets should already be implementing certain measures following the Competition Commission's Retail Market Inquiry recommendations and new buyer power regulations as part of the amendments to the Competition Act.

Supermarkets can guarantee shelf space to SMEs and commit to procure locally or regionally

Supermarket chains should guarantee a proportion of shelf space right away at no additional costs to qualifying SMEs that approach them during this period, and ease terms of their access significantly. This calls for adapting their procurement practices which have historically followed mainly national procurement for all stores countrywide. This naturally excludes SMEs who cannot supply nationally. More flexible regional sourcing¹⁰ should be introduced so that SMEs can supply one or a few stores in narrower regions. The PLAAS article highlights how government should require supermarket chains to procure from small-scale farmers, and there

⁷ <https://theconversation.com/how-big-supermarket-chains-in-southern-africa-keep-out-small-suppliers-65198>, accessed 3 April 2020

⁸ <https://www.businessinsider.co.za/sa-stores-and-supermarkets-are-designed-to-get-you-to-spend-more-money-2019-12>, accessed 3 April 2020

⁹ From available data in previous years: <https://themediainline.co.za/2018/03/gloomy-picture-for-tv-and-radio-advertising-spend-in-sa/>; and <https://www.marklives.com/2017/03/nielsen-adex-top-50-advertisers-2015-vs-2016/>, accessed 3 April 2020

¹⁰ Similar to SPAR's procurement model, at least partly, given independent ownership of individual SPAR franchises.

is no reason why this recommendation should not be extended to SME food processors too. This can benefit the supermarket chains as well, as they may be able to more quickly and efficiently cater for the increased demand for certain food products during this period.

Scaling-up and collaboration is needed on supplier development programmes

Another way to immediately support SME suppliers is through supplier development programmes (SDPs). The main supermarket chains and large agro-processors have invested to different degrees in supporting and developing qualifying suppliers through various SDPs. In the past, these have been undertaken mainly as part of corporate social responsibility initiatives, as part of compliance to Black Economic Empowerment (BEE) policies through enterprise development programmes, or as part of conditions imposed by the competition authorities. Recent trends are more promising and show that SDPs are increasingly approached as mutually beneficial and commercially viable programmes for both supermarkets and suppliers.

Support has been in the form of finance, typically funded through equity by the retail chains themselves, through grants, through zero- or low- interest loans or shorter payment periods. It has also included training, mentorship, specialist and technical assistance, business development and market readiness, and assistance to suppliers to meet minimum food safety and quality standards. Supermarkets have facilitated access to infrastructure, such as access to irrigation facilities, packhouses and distribution centres. The programmes further include offtake commitments, access to shelf space and preferential trading terms.¹¹

SDPs by the supermarket chains and large agro-processors, the latter who also spend significantly on such programmes, need to be rapidly accelerated, broadened and deepened. Co-funding from government and development finance institutions (DFIs) needs to be increased as part of these programmes. Consideration should perhaps be given for temporary exemptions from the Competition Act to allow for pooling of resources and coordination around these programmes for SME suppliers in the medium-term.

A question that has frequently been asked is what the incentives are for supermarket chains to continuously develop suppliers, given that production is not their core business. We have always argued that developing local and regional suppliers also benefits supermarket chains in the long run. Firstly, retailers are best placed to provide valuable data to the production sector on consumer purchasing patterns, trends and demands. They can provide useful inputs on how to improve supplier layout and production flows based on what customers want. Secondly, a more closely located supplier base can improve efficiencies, reduce logistics, warehousing and transport costs. Thirdly, reliance on imported food products and exposure to exchange rate risks can be reduced if local supplier capabilities to produce imported products are developed. This also contributes to the industrialisation objectives of the SADC region. Lastly, the impacts of climate change will increasingly put pressure on our food system, with very real consequences for all actors in the food chain. Drought, poor soil fertility and disease

¹¹ Das Nair and Landani (2019). The role of supermarket chains in developing food, other fast-moving consumer goods and consumer goods suppliers in regional markets. UNU-WIDER working paper under the project Southern Africa—Towards Inclusive Economic Development (SA-TIED).
<https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp-2019-59.pdf>

are realities that would necessitate diversifying and developing stronger local and regional supplier bases to ensure shelves remain stocked.

What support is there for alternative routes to market, the lifeline for many SMEs?

Alternative routes to market, such as spaza shops, are important for SME food processors. Regulations that recognise the role of spaza shops in providing essential services in the informal sector have been released in the past few days. Government has announced that spazas do not have to register with the Department of Trade, Industry and Competition, and can continue to trade during the period of the lockdown.¹² It has also announced that grocery stores and wholesale produce markets, including spaza shops and informal food traders, can operate with written permission from the relevant municipal authority with respect of informal food traders.¹³ However, the PLAAS article disturbingly notes how some regulations are being interpreted unevenly by SAPS and the army, resulting in confusion and igniting xenophobic reactions. The government has taken this forward, however, announcing on 3 April that instructions will be issued to all the law enforcement agencies to understand that all spaza shops and informal food traders with permits from relevant municipalities will be allowed to operate.¹⁴

From an economic perspective, government has also announced support measures as part of the new spaza shop support scheme, with the Small Business Development Minister announcing on 1 April that R500 million has been allocated to spaza shops which meet a certain criteria. There are conditions to this support as one would expect. The question is whether these conditions help or hamper the goals of the support during this period. One condition is that government will support spaza shops to buy goods from pre-approved wholesalers at negotiated discounted prices. This gives spazas some breathing space in terms of cash flow. It also helps SME suppliers to continue to supply wholesalers and cash and carries if there is regular and consistent offtake by spaza shops from these routes. Details of what the qualifying criteria are for the selected pre-approved wholesalers are, to our knowledge, not yet disclosed to the public. Nonetheless, this intervention in principle is promising as it supports SME suppliers, wholesalers and spaza shops.

Concerning however are some of the other terms and conditions of support, for example, requiring spaza shops to register with SA Revenue Service (SARS), the Unemployment Insurance Fund (UIF), and the Companies and Intellectual Property Commission (CIPC). While the department has promised to help them register with these bodies, and assist those that do not have bank accounts to get them, additional requirements include continuing with the programme for at least a year and submitting monthly management accounts.¹⁵ How practical are these attempts to formalise businesses in the informal sector in the midst of a crisis? How many spaza shops would timeously seek out this support given the onerous requirements and mistrust of government given a history of poor service delivery in the communities they operate in? Less onerous conditions need to be adopted to ensure that

¹² <http://www.cogta.gov.za/?p=7858>, accessed 2 April 2020

¹³ Government Gazette, No. 43199, 2 April 2020. Department of Co-Operative Governance and Traditional Affairs No. R. 446, accessed 2 April 2020

¹⁴ <https://www.gov.za/speeches/minister-bheki-cele-welcomes-national-command-council-revisions-coronavirus-covid-19>, accessed 3 April 2020

¹⁵ <https://www.businesslive.co.za/bd/economy/2020-03-31-government-spells-out-support-for-spaza-shops-during-lockdown/>, accessed 3 April 2020

they survive this period in the short term. In the medium-term, technological solutions can be explored through the use of mobile money platforms as a means of payment to spaza shops and to ensure more accurate record-keeping. We discuss this later.

We need to also better understand what support the other routes to market such as wholesalers, buyer groups, cash and carries and independent retailers need during this time. Buyer groups who have several independent retailers under their respective banners have shown remarkable resilience as supermarket chains spread into peri-urban areas. The Competition Commission in its retail market inquiry provided some recommendations, such as government facilitating the establishment of distribution centres located in peri- and non-urban areas to service small and independent retailers and wholesalers. Space in existing distribution centres of the main supermarket chains can also be negotiated for use by buying groups, independent wholesalers and retailers.

Alternative routes to market not only comprise wholesalers and various types of retailers. Public procurement for schools, prisons and hospitals can be an important source of demand for food produced by SMEs which meet the necessary food safety standards. Even though schools are closed during the lockdown period, school feeding schemes and nutrition programmes should continue in some form, with safe ways of distributing food to learners. National and provincial government are devising ways in which this can continue.¹⁶ MEC Panyaza Lesufi highlighted that 235 grocery distribution centres across Gauteng will assist communities living in informal settlements and areas where there will be no economic activity.¹⁷ These can be used to distribute food procured under school nutrition programmes. The sophisticated and wide-reaching distribution networks of the supermarket chains and large multinational agro-processors can further be utilised in this regard, as can logistics companies struggling to access other forms of work during the lockdown period. The use of middlemen in government procurement processes also often do not serve SMEs and add to inflated prices of procurement. The tender processes for public procurement must be made easier so SMEs can deal directly with relevant government departments.

How else can we cushion the blow for SMEs in food systems?

Our past interviews revealed numerous other struggles of SMEs in food processing industries. These include unreliable and inconsistent electricity supply, costs of which are steadily increasing; high compliance costs to meet food safety and hygiene requirements; lack of access to testing facilities and high packaging costs, to name a few. In addition to these are long-term problems such as a lack of skills.

SME suppliers need cheap access to finance to alleviate some of these cost burdens. This can take the form of interest free loans, grants or combinations of both. There is a role for DFIs, governments and the private sector to provide this finance on much less onerous terms, especially in this period.

¹⁶ See for instance, Minister of Basic Education, Angie Motsheka's statement at <https://www.dailymaverick.co.za/article/2020-03-25-hunger-is-a-force-greater-than-fear-soup-kitchens-to-continue-despite-lockdown/>, accessed 3 April 2020

¹⁷ <https://bedfordviewedenvalenews.co.za/430270/mec-lesufi-lays-out-plans-for-learners/> and <https://www.timeslive.co.za/news/south-africa/2020-04-01-covid-19-food-relief-distribution-for-needy-families-in-gauteng/>, accessed 3 April 2020

Suppliers of packaging and other key inputs, which are often large firms operating in monopolistic or oligopolistic markets, should further be required to reduce their costs of key inputs to these players.

Tax concessions for SMEs have been announced by SARS and National Treasury to offer some relief over the period, including allowing tax compliant businesses with a turnover of R50 million or less to delay 20% of their employees' tax liabilities over the next four months, and delay a portion of their provisional corporate income tax payments without penalties or interest over the next six months from 1 April.¹⁸ But SMEs need assistance with the application processes for this. Many of the SMEs we have interviewed simply do not have the management know-how to access and apply for these types of concessions. Free support is needed to help SME apply for these concessions. It cannot be expected that SMEs have to employ expensive consultants to assist them with applications, who in some cases, demand a percentage of the incentive as part of their payment. This defeats the purpose.

Banks have also pledged support for SMEs, with ABSA announcing its partnership, along with other banks, to administer the South African Future Trust (SAFT) to support eligible businesses with a turnover of less than R25-million a year.¹⁹ The implication of such support on SMEs in the food system needs to be further analysed.

Industry associations in agriculture and agro-processing products should also step up to assist suppliers with these and other challenges. Associations have the most up-to-date information on the state of various markets and government needs to engage closely and intensively with them to support their members and non-members.

Can technology help?

Lastly, and perhaps a more medium-to-longer term objective, is the importance of improving access and reducing costs of adopting technology by SMEs. The use of mobile and internet related technology in the agricultural sector can greatly assist in incorporating smallholder farmers and SME agro-processors in value chains. The high cost of data has been a long-standing concern, severely limiting the affordability of using such (and other internet-related) technologies. The landmark settlement agreement between the Competition Commission of South Africa and the largest mobile network operator saw commitments by Vodacom to reduce data prices by over 30%.²⁰ MTN also announced reductions in data prices by up to 50% from mid-April for certain packages.²¹ This will have far-reaching implications for the increased use of several data-connected technologies in the food production system.

Contributing to historically high data costs has also been the delay in releasing spectrum. Additional spectrum would encourage competition, improve connectivity to rural farming areas, and reduce costs. After years of delaying the release of spectrum, as part of COVID-19 responses, government announced on 25 March that it would issue new frequency

¹⁸ <https://www.cnbcfrica.com/coronavirus/2020/03/29/covid-19-sas-treasury-reveals-new-tax-relief-measures/>, accessed 2 April 2020

¹⁹ https://m.engineeringnews.co.za/article/absa-pledges-financial-support-to-smmes-2020-04-02/rep_id:4433, accessed 3 April 2020, accessed 3 April 2020

²⁰ <http://www.compcom.co.za/wp-content/uploads/2020/03/Vodacom-consent-agreement-press-conf-Speaking-notes-for-Commissioner-.pdf>, accessed 2 April 2020

²¹ <https://www.businesslive.co.za/bd/companies/telecoms-and-technology/2020-03-20-mtn-to-lower-data-prices-by-up-to-50-from-mid-april/>, accessed 2 April 2020

spectrum to the country's telecom operators on a temporary basis to expand their networks during the nationwide lockdown.²² This will facilitate bringing down costs further. Ways in which new entrants, who do not have the necessary infrastructure yet, can access this temporary spectrum need to be considered. This can include possible short-term roaming arrangements negotiated as part of conditions on usage of the temporary spectrum.

The power of mobile money platforms to support smallholder farmers has been remarkable in the East African experience.²³ In South Africa, the barriers to entry for providing mobile money products remain high. Regulations historically which required banking licences for mobile offerings or partnering with existing banks made it difficult for mobile network operators to innovate and react quickly to market needs. The regulatory framework needs to continuously evolve and be more flexible to facilitate easy entry and growth of mobile money platforms.²⁴ As noted earlier, mobile money platforms can be a way to collect transaction data from spaza shops. Expecting spaza shops to develop systems to keep accurate management accounts is unrealistic, and mobile money transactions may be a feasible solution to monitor income, expenditure and remittances. USSD (Unstructured Supplementary Service Data) functions can be used for a range of services, including mobile money services and location-based content services, which could be a useful tool for spaza shops.

Taking advantage of digital disruptions like blockchain and internet of things in agriculture and agro-processing in the future requires that government departments and relevant stakeholders shift from paper-based systems to electronic processes of capturing data in the industry. This requires building widely accessible systems or platforms to enable linking and sharing of electronic data between producers, transport and logistics providers, relevant government departments and other industry stakeholders.²⁵

This brief has set out some immediate, medium and longer-term responses to the major challenge that COVID-19 presents to our entire food system. The challenges already faced by SME food processors are going to be hugely amplified in the coming months and years, and definitive actions must be taken now to ensure that these players and their routes to market do not shut down.

²² <https://www.businesslive.co.za/bd/companies/telecoms-and-technology/2020-03-25-government-to-issue-new-spectrum-temporarily-for-covid-19-shutdown/>, accessed 2 April 2020

²³ Krishnan, Banga and Mendez-Parra (2020). Disruptive technologies in agricultural value chains Insights from East Africa. Working paper 576:

<https://www.odi.org/publications/11460-disruptive-technologies-agricultural-value-chains-insights-east-africa>

²⁴ Das Nair and Landani (2019). Making agricultural value chains more inclusive through technology and innovation. <https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2020-38.pdf>

²⁵ Chisoro-Dube, S., Das Nair, R. and Landani, N. (2019). Technological developments in South Africa's fruit industry and implications for market access and participation. Centre for Competition, Regulation and Economic Development Working Paper 2019/5.