**Survey on Preferred Supplier Base Mechanism for Smallholder Farmers/Cooperatives to Derive Better Access to Government Market**

Research report

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By

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Date:

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**DECLARATION**

I,Gontse Morakile, declare that the **“SURVEY ON PREFERRED SUPPLIER BASE MECHANISM FOR SMALLHOLDER FARMERS/COOPERATIVES TO DERIVE BETTER ACCESS TO GOVERNMENT MARKET** ismy own work and that all sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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| --- | --- |
| **SIGNED** | **Date: 22 March 2018** |
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**DEDICATION**

This dissertation is dedicated to my wife, Boitumelo Morakile, for supporting me and keeping me on my toes to complete the degree.

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# ABSTRACT

In this dissertation, a review of smallholder farmers’ patterns of engagement was undertaken to enable them to benefit from government’s procurement system. The South African Government’s drive to empower smallholder farmers through preferentially facilitated access to procurement opportunities should be concomitantly matched with the smallholder capacity to deliver. However, there has been little information from literature to examine the smallholder farmers’ proclivity or predisposition towards aggregation or specific patterns of engagement as a means to enhance their capacity or whether they would prefer to remain independent from any form of organisation or aggregation. For a smallholder farmer to belong to a group is both critical and challenging. It is critical because it involves individual farmers who produce in small volumes, but aggregate for higher volume output, collectivising to provide demand-driven services, to gain bargaining power and cost saving. It is challenging because in most instances, smallholder farmers are dispersed, they operate in remote areas and have limited capacity.

In order to contribute to the knowledge gap in this regard, the study was undertaken, based on a stratified simple random selection of the smallholder farmers in the district of Thabo Mofutsanyane. The results indicate that despite the perceived benefits of belonging to a group, about half of the smallholder farmers who had been surveyed would prefer to remain independent from any form of aggregation or farmer group. This means that the results are an antithesis to the common literature opinion on farmer grouping or aggregation. This also may be an indication of the real life experience of smallholder farmers in South Africa either with interpersonal relationships in the group setting or never having been challenged regarding commitment, premium pricing offers and volume purchase agreements, which all may require pooled resources and access to services and information. On the other hand, it may be that these smallholder farmers would subscribe to coming together for collective benefit, but currently do not have a formal governance structure or group account. The results provide an alert that while government considers group operations such as cooperatives as a potential mechanism to deepen empowerment, it remains a challenge to properly entrench such notion for collective group operations beyond the means of the smallholder farmers’ to access resources.

**Keywords:** Smallholder farmers, Cooperatives, Organizational modality and procurement opportunities**.**

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# GLOSSARY

**CASP Comprehensive Agricultural Support Programme**

**DAFF Department of Agriculture, Forestry and Fisheries**

**DAFF-NAMC Department of Agriculture, Forestry and Fisheries –**

**National Agricultural Marketing Council**

**DARD Department of Agriculture and Rural Development**

**Dti Department of Trade and Industries**

**FAO Food and Agricultural Organisation**

**GDP Gross Domestic Product**

**LRAD Land Redistribution for Agricultural Development**

**Nepad New Partnership for Africa’s Development**

**NSNP National School Nutrition Programme**

**SLAG Settlement Land Acquisition Grant**

**SSA Sub-Saharan Africa**

**SMME Small Medium & Micro Enterprises**

**WSWB Willing Seller, Willing Buyer**

#

# CHAPTER 1. INTRODUCTION

## 1.1 Contextual Background

Smallholder farmers are pivotal role players in the supply of food and important contributors to the national economy. This category of farmers is involved in a variety of agricultural activities, including crop farming, livestock farming, husbandry, forestry and fisheries. It is through these activities that smallholder farmers are able to exert influence on the economic growth for many countries. This notion was confirmed by Delgardo (1997), who put forward that in Sub-Saharan Africa (SSA), for example, smallholder farmers account for about 70% of total employment; they are credited for about 40% of manufacturing exports and further account for 33% of GDP on average. In addition to this, smallholder farmers play a pivotal role in the supply of agricultural raw materials. Yet, despite the importance of being important producers of food, many face serious challenges, among which access to market is the key. This challenge exists, while the world’s population grew to 6.9 billion in 2010 and, according to UN population projections, will reach 9.15 billion in 2050. These estimates are staggering; yet, conflicting with these numbers, there is also a prognosis for a fall in global demographic growth over the next forty years. The decline is estimated to be equivalent to 0.75% per year between 2005/2007 and 2050, down from 1.7% between 1963 and 2007 falling to 1.9% per year in the period to 2050 (FAO, 2012). The overall assessment of the population in Sub-Saharan Africa (SSA) is that there will be a decline in the population growth rate; yet there will still be an increase in the actual number in absolute terms of the people in the region. This will bring with it serious implications regarding food security. These predictions place a serious challenge to food production and in particular, smallholder farmers to undergo transformation.

One of the challenges for transformation of smallholders relates to the need to respond to the growing future food demand. Much as the overall growth rate of the world population and in SSA is tapering off, this will be countered by strong urbanisation as well as the associated shift in diet structures leading to increased future growth in demand for food. To meet the growing expectations of food supply, it will require an increase in global food production of 70% by 2050, an additional quantity of almost 1 billion tonnes of cereal and 200 million tons of meat. Being able to meet the expectations for food and feed requirements, however, does not mean that hunger would be overcome. The lack of access to food occurs among millions of people despite adequate aggregate supplies. This may be attributed to lack of income opportunities for the vulnerable and the lack of services towards eliminating poverty. This essentially means even if an economy performs well, it may not necessarily translate into successes towards reducing hunger and poverty, but merely that the source of growth is important. Studies have shown that growth spawns of agriculture and in particular smallholder agriculture is more effective in extending benefits even to the more vulnerable sections of society than growth from non-agriculture sectors. Noting that close to 70% of the people in developing countries live in rural areas and that their livelihood is mainly supported by agriculture, it is therefore befitting that smallholder agriculture is primarily targeted for support (FAO, 2009). Agriculture and in particular smallholder farmers constitute the largest employer group in the rural areas. The sector is the largest income generator and also the most important sector that provides raw materials other than commodities. It therefore stands to reason that within the economic development equation, there is a need for a groundswell of self-sufficient smallholder farmers. Such an increase will require an institutional environment that is conducive to the support and success of smallholder farmers.

Government can play a major role to foster the success of smallholder farmers. Part of this responsibility by government is to ensure smallholder sustainability by creating an enabling environment and by engendering smallholder sustainable engagement in reliable formal markets. Government providing an enabling environment refers to levelling the political, social and legal ground rules to establish the basis for production, exchange and distribution. The land reform process is one of the programmes that the Government of South Africa is addressing when providing access to land for smallholder farmers. The Natives Land Act (No. 27 of 1913) provided the basis for Africans prohibition from buying or hiring land in South Africa. With the definition for the natives referring to a person of an aboriginal race or tribe of Africa, the Act therefore confined land ownership by Africans to seven percent of the available land. The Act also included anti-squatting provisions to stop share cropping and also defined the boundaries of reserves which were referred to as scheduled areas (Modise and Mtshiselwa, 2013). The land reform programme focuses on three areas: land restitution, land tenure reform and land redistribution. Land restitution refers to government restoring land rights to persons or communities disposed of such rights as a result of past racially discriminatory laws or practices (South Africa, Restitution of Land Rights Act 22 of 1994).

Land Tenure reform recognises the rights and legitimate interest of land owners, while extending the rights of persons residing on farms and clarifying the rights of persons working on farms. Land tenure reform also promotes the achievement of long-term security of tenure for persons residing on farms, including the provision of alternative land and prohibiting arbitrary eviction of persons residing on farms from land (South Africa, Extension of Security of Tenure Act 62 of 1997).

Land redistribution is another land reform programme meant to demonstrate a strong commitment to the goals of social justice. The original aim of the programme was to deliver 30% of white-owned agricultural land by 2014. The programme evolved through a number of initiatives such as the Settlement Land Acquisition Grant (SLAG), which was based on a flat grant of R15 000 per household for acquisition of land and start-up capital; the Land Redistribution for Agricultural Development (LRAD) was designed to provide grants to historically disadvantaged communities to access land for agricultural purposes, on a willing seller, willing buyer (WSWB) policy; based on assisting previously excluded groups to enter existing land markets (Dlamini, 2014).

The post settlement support includes initiatives such as the Comprehensive Agricultural Support Programme (CASP). CASP provides post-settlement support to the targeted beneficiaries of the land reform and other producers who have acquired land through private means and, for example, are engaged in value adding enterprises domestically or involved in export. The programme makes interventions in six priority areas: Information and technology management, Technical & Advisory Assistance; Regulatory services; Marketing and Business Development; Training and Capacity building; On/off Farm Infrastructure; and Products Inputs and Financial Support (DAFF, 2004).

One of the pillars, regarding marketing and business development, is of particular interest and is expounded herewith. Access to markets in the agricultural sector has not been favourable for smallholder producers. There are a number of obstacles that limit smallholder producers’ access to markets, which include poor access to market information, stringent quality standards, inability to comply with required volumes, inability to comply with required delivery timelines, and transaction costs involved in reaching formal markets, which are in most instances a distance from their farmlands. The coping mechanism for smallholder producers in this regard has been to sell their produce at open-air markets (roadside and farm gate) in the villages or to intermediaries. These markets are less demanding; yet, they are also less profitable and less satisfying. Many of the smallholder producers experience an increase in transaction costs, post-harvest losses and they perpetuate farming as a social rather than a business activity, which reduces their market efficiency. Furthermore, operating in financially less rewarding market sectors results in growth inhibitors that manifest in more permanent and repetitive obstacles. These prevent the smallholder producers from integrating into more progressive and rapidly evolving national and international markets, leaving them unable to grow and thus continuing their survivalist existence, teetering along the poverty line.

## 1.1.1 Public markets

The past decade has seen an increased interest shown by the South African government to support smallholder producers through a public procurement system. Public procurement is a demand side policy measure, through which the government generates access for smallholder producers to support the government poverty reduction programme and strengthen their institutional procurement system. In the Free State Province, the public procurement approach has been pronounced in many executive authority speeches, including the recent State of the Province address by the Premier of the Free State, the Honourable E.S. Magashule, in which he announced that he “made reference earlier to the utilisation of cooperatives in the national school nutrition programme”. The approach is encapsulated within the theme “radical economic transformation”. Besides being used as a vehicle for radical economic transformation, the underlying reasons for public procurement are both political and economic. The substantiation of such approach is that provincial money should be spent in the province in order to increase domestic output and assist growing local employment. Furthermore, government can execute secondary policies through the public procurement system to support historically marginalised citizens, cooperatives and SMMEs.

Linking poverty alleviation programmes to agricultural development goals is a concept that was promoted by the New Partnership for Africa’s Development (Nepad) at the beginning of 2003. The programme has since been adopted by several African countries. Nepad’s programme introduction coincided with Brazil’s new strategy for food security and nutrition, which was implemented through two main axes, namely: access to food and strengthening of family farming. The programme yielded gains across a number of areas such as education, health, social, economic development and agriculture, driven by ‘safety nets’ programmes of which school feeding programmes and government procurement from family farms were the pillars (Chmielewska & Souza, 2011).

## 1.1.2 Contract market

A host of other markets beyond government procurement exist for smallholder farmers. Contract farming is one of the means, through which smallholder producers are exposed to markets to improve their livelihoods and provide them with the economic benefits. According to FAO (2013), contract farming is agricultural production carried out according to an agreement between a buyer and farmer(s). The agreement usually entails the farmer agreeing to supply produce at the agreed quantities of specific products. The producer will have to meet the quality standards of the purchaser at the time of the frequency determined by the purchaser. In return, the purchaser undertakes to buy from the producer. At times, the purchaser may also commit to providing support, for example, through technical advice or supplying farm inputs. Contract farming provides a win-win situation for both the producer and the purchaser because it is both a production and a marketing system that spreads the production and marketing risks between the purchaser and the smallholder. Farmers are guaranteed of market access and outlets, while the purchaser will benefit from having a guaranteed supply of agricultural products to the desired specifications in terms of quality, quantity and timing of delivery.

## 1.1.3 Domestic traders

Domestic traders play a significant role in linkage development through one-on-one buying from smallholder producer either at local markets or at the farm gate. Traders, who are also called agents, work closely with farmers on production, postharvest, grading, packaging, transport, storage, processing and marketing issues (Garikai, 2014). Their involvement with the farmers provides a dynamic marketing systems characterised by competitiveness, continuous change and improvement. Linkage to markets through domestic traders benefits not only from reliable, high quality supply, but also from ensuring that their connection represents a barrier to entry for other agents or traders.

## 1.1.4 Farmer to retailer

This is largely mediated through retail stores or supermarkets. The option provides an opportunity for the farmers, but the farmers need to conduct an objective analysis to establish whether they are prepared for the market, whether retail is the optimal option and whether they have an adequate understanding of the marketplace. Prices are set on a daily basis according to prevailing wholesale market prices, and therefore, the farmers need to have some professional skills for bookkeeping, market analysis, negotiations and product representative (Funke, 2006). It is important that the farmers select the products to be sold through retail with care. It may be beneficial for the farmers to consider investing in attractive labelling and packaging. Supermarkets in the country place an emphasis on procuring fresh vegetables from farmers; in this case, the farmers benefit through market access, while the supermarkets benefit through offering fresh products daily. The supermarkets may also be involved in enterprise development activities, helping the farmers to be able to improve and produce better quality products.

## 1.1.5 Fresh produce markets

Consumer demand and year-round demand for fresh produce are some of the strong points for fresh produce markets. Fresh produce markets are like the stock exchange of the fresh produce industry (Ras, 2017). Most fresh produce markets deal in fruits, vegetables, eggs, fish and meat and these are available to local and international buyers. Although the interaction with fresh produce markets is through agents, farmers are informed of and made to understand the fresh produce market rules regarding prices, volumes, stock, sales progress, prices received, plans for incoming loads for issuing days, quality and grading requirements (Marino *et al.,* 2013). This in turn provides assurance to the farmers regarding their stock management on the trading floors, the assurance that correct procedures are followed to deliver the right stock to the market agent from the moment the produce enters the market premises as well as assuring the farmers of the inspection of fresh produce for quality standards.

## 1.1.6 Agro-processors market

Agro-processing as an agro-industrial sector is important to the expansion of the agricultural sector. Many agro-industrial activities can assist in creating access to the primary agricultural producers including the smallholder farmers, ensuring value addition to the products by vertically integrating primary production and food processing systems. The agro-processing sector contributes to minimisation of post-harvest losses as well as reducing marketing risks for the smallholder farmers (Bourne, 2014). Through agro-processing, the availability of certain processed food is made realisable throughout the year, thus reducing seasonality of consumption with the resultant impact of increasing farm incomes, increasing rural employment and foreign exchange earnings (Keding, *et al*., 2013).

## 1.1.7 Export markets

Export markets offer an alternative marketing avenue that links smallholder farmers to the rest of the world. These international markets offer a much bigger volumes than can be found domestically and the prices may be much higher than those paid in the domestic market. As the world economy becomes more integrated, the smallholder farmers can find avenues to export their produce and create revenue. Because of higher volumes, the farmers can sell more of their produce including surplus that could not have been sold locally; without increasing their total production costs. This will have an overall effect of decreasing the unit cost of production and results in a more productive farming operation. According to literature, exports of unprocessed and low value added agricultural products account for a major proportion of the export revenue (DAFF-NAMC, 2015). However, the export market can be very demanding in terms of quality and consistency. Furthermore, issues of traceability, certification of production conditions and origins can be daunting. It is important that policies need to facilitate trade in agricultural goods through the reduction of tariffs and non-tariff barriers to trade. Non-tariff measures such as import licence quotas, border fees and pre-shipment inspection could lead to trade liberalisation, if they could be reduced. On the other hand, exporting their produce can present a considerable risk to farmers in that it can be less dependable than the domestic market. While export markets grow and change with time, bringing new opportunities, they also carry the threats of competition from lower cost producers (Schoneveld, 2014). It is therefore important that a regular analysis of these markets is conducted as well as the segments within them so as to take full advantage of the export markets.

The markets that smallholders enter beyond their normal outlets are markets that are more concentrated than the farming industry itself, with larger firms being the buyers or sellers of farm products at a much greater scale than the smallholders are used to (Oelofse, 2017). This means that larger firms have more bargaining power and more resources to be able to adjust to changing economic and political environments. With regard to public procurement, the intention from the Free State Government as mentioned earlier, was to bring into effect the strategy for radical transformation of the economy. The emphasis was on leveraging local money to support local producers and suppliers. The national school nutrition programme is one of the programmes that have potential to support many smallholder farmers. The decision by the Free State Government to ensure “circulation of Free State money among the Free Staters” shows the development of high level of policy capacity and political will. Public procurement efforts, on the other hand, are notorious for under-delivery.

This begs the question of the capacity of the suppliers to be able to serve government contracts. In the case of smallholders, as individual farmers they may be too small to supply sufficient value for the government market. Furthermore, as individual farmers, they have low bargaining power and their economic structure is characterised by, among other things, frequency uncertainty and asset specificity. Building a strong supplier base can assist in reducing transaction costs by purchasing in volumes, purchasing or formulating products and distribution of farm supplies and inputs (Musau, 2015). When smallholder farmers group themselves together through establishment of strong supplier bases, they can become active in shaping their own path out of poverty, mitigate marketing problems and broaden their capacity to play a greater role in meeting the need and demand of the client. Such supplier base is a group of qualified suppliers that are capable of producing an item. There are numerous models, which exist for smallholder farmers to consider in order to strengthen their engagement with government.

## 1.1.8 Secondary cooperative model

This is a model, where procurement is conducted by two or more cooperatives that combine their standards and requirements and solicit bids or offers for goods and services. This model has the advantage that government does not need to engage with multiple primary participants. Pricing is based on the economies of scale of multiple cooperative members. Contracts may also be flexible for cooperative members. The disadvantage of this model is that all participants must agree with and understand the estimated requirements of procurement, otherwise they will not offer their best price for bidding (McDonnell, *et al*., 2012).

## 1.1.9 Piggyback model

This is a model, in which the original service provider extends the pricing and terms of a contract to another service provider. The originating service provider extends the terms of contract to allow another service provider to utilise the same contract. The model has the advantage of being easy to administer and therefore reduces the administrative burden, leading to reduced administration costs and ultimately resulting in overall cost savings (Dhingraa and Tenreyroa, 2017; Chapagain and Raizada, 2017). The contractors may offer minimal discounts and benefits when usage exceeds estimates.

## 1.1.10 Broker model

This model mediates interaction between clients, and the server entities are the representative cooperatives or smallholder farmers. The model brings together multiple server entities to represent their requirements and manage the resulting contract. The approach facilitates identification of the competition pool, consolidation of the buyer market and promotion of the contracts that are mediated through this model. The model offers flexibility to selectively adjust control and performance trade-off for individual server entities (Prowse, 2012; Oya, 2012). It should be noted that although they present potential market prospects for smallholder farmers, many of these previous opportunities changed due to the dissolution of the marketing boards, exposing the industry to market reform and globalisation. This challenged smallholder farmers who are particularly susceptible and vulnerable to market changes and not as open to adopt new methods of engagement or to adapt to new marketing skills and strategies. Commercial farmers, on the other hand, are more adaptable to change, therefore less susceptible to any negative consequences of change and they have full ability to make use of the market strategies as outlined above.

## 1.2 Problem Statement

Under the current public procurement system, participation by smallholder farmers is not guaranteed. Amongst the programmes that the government is administering, the national school nutrition programme (NSNP) is one where the Free State Provincial Government wants to pilot its re-configuration to ensure participation of smallholder farmers. Government is also considering introducing the lead agency that will be able to procure from cooperatives or smallholder farmers for perishables and also engage with commercial retail outlets for non-perishables. The contracting agent will therefore be responsible to solicit proposals and award contracts, and generally make certain that all participating server entities sign agreements, ensuring that contract management includes monitoring and evaluation. Furthermore, it will be the responsibility of the contracting agent in collaboration with the relevant government entities to deliver joint training programmes and ensure prudent administration of the programme. The contracting agent must comply with the procurement requirements to be able to support the smallholder farmers through the public procurement system. According to National Treasury’s General Procurement Guideline, proper and successful government procurement rests upon five core principles, which are

* Value for money;
* Open and effective competition;
* Ethics and fair dealing;
* Accountability and reporting;
* Equity.

The contracting agent should therefore consider a number of issues to ensure that the most effective administration is in place. These include financial, administrative and operational activities. The agency must use procurement procedures to ensure the realisation of the objectives of supporting local suppliers and producers with local money. Inevitably, the contracting agent should have a sufficient number of knowledgeable staff to monitor, review and control the programme.

For any programme, such as the NSNP, margins are very thin, factors such as transportation costs and other logistic costs are important elements for consideration as the cost drivers. On the other hand, the policy for smallholder participation in the circle of support offered through public procurement is important to stimulate economic growth and poverty alleviation. Smallholder farmers are therefore looking with keen interest whether real and observed benefit changes can accrue to them through secure market participation. The institutional arrangement, through which the smallholder farmers are collocated should be such that it does not leave the smallholders exposed to risks they were not aware of. The pattern of engagement is therefore important to ensure that smallholder farmers’ welfare is positively impacted. This means that through the pattern of engagement, the smallholders do not end up being price takers, but that consideration is made of their cost of production.

## 1.2.1 Specific problem

The choice of the pattern of engagement for smallholder farmers must be such that they do not become worse off in the long run; a situation that will be contradicting the very essence of policy intervention for opening markets for smallholder farmers through public procurement. An ideal situation for government would be to appoint an entity that will deal with the farmers on matters of contracts and transactions. There will be many transactions involved and required, and such a mechanism will be necessary to manage these farmers within a collective and integrated supplier base approach. Such an arrangement should be able to defend the interests of smallholder farmers against issues such as reneging on the terms of contract, price setting that results in underpaying the farmers, delaying payments or applying rigid engagements that impose choking demands on smallholders, ultimately leading to their demise.

## 1.3 Justification of the Study

Supplier base or patterns of engagement describes the process of working within groups of smallholder farmers rather than the individual farmer. Many types of engagement, including those that have been highlighted in the earlier text of this chapter, play an important role towards illustrating to smallholder farmers the advantages of group participation. Yet, there are still number of farmers who elect to participate individually to access assistance provided by government through public procurement. Participating in an aggregated form is critical, but also challenging for government. It is critical because government, even through the input from a contracting agent, may not be able to deal one-on-one with thousands of dispersed smallholder farmers. However, aggregation may provide cost-saving opportunities from various perspectives, key to which are reduced transaction costs for combined purchasing from a group of farmers with other procurement methods to ensure comprehensive supply. Therefore, the fundamental research question of the study was “What is the most effective pattern of engagement for smallholder farmers to be able to reduce hunger and poverty and ensure realisation of the tenets of local money supporting local supply and production”.

## 1.4 Objectives of the Study

The main objective of the study was to investigate the preferred pattern of engagement of the smallholder farmers/cooperatives to achieve better access to the government procurement market.

**The specific objectives were**:

* To analyse the demographic and socioeconomic characteristics of the smallholder farmers in the study area;
* To determine the pattern of engagement for smallholder farmers −

The rationale was to establish the response modality to improve the plight of smallholder farmers and establish what benefits were derived for a particular chosen engagement mechanism;

* To determine the success of smallholder farmers to access government procurement markets −

To establish the extent to which the smallholder farmers have been accessing the market provided by government institutions and the impact of the public procurement system toward linking smallholder farmers to markets;

* To determine the capacity of smallholder farmers to meet the market demand for the public procurement system −

It is important to establish the maximum possible output of the smallholder farmers in relation to the demand for the targeted market. Matching production capacity and the demand from the structured markets will be the key element of enquiry for this section;

* To identify and analyse challenges of smallholder farmers with regard to accessing the existing government market;
* To propose a preferred pattern of engagement for building effective linkages for smallholder farmers to derive optimal value through the notion of local money supporting local supply and production.

Based on these objectives, investigative questions that relate to capacity and pattern of engagement of the small holder farmers were designed.

## 1.5 Chapter Arrangement in the Dissertation

Chapter One: Introduction to the study

This chapter presented the context, which introduces the research by providing the background that sets the stage for the problem that is investigated. The chapter also described the purpose of the research in terms of how the research problem was addressed, specifying the research questions to be answered.

Chapter Two: Literature review

Chapter two provides an overview of previous research work done or any related research that was published on the relevant topic by other academic authors.

Chapter Three: Research methodology

This chapter discusses the methodology chosen to answer the posed questions and the steps that were adopted for this research to investigate the research problem. The logic behind the method selection is also presented. The chapter answers the questions of how the data was collected and analysed.

Chapter Four: Research results and discussion

Chapter four interprets and describes the significance of the findings to arrive at the solution for the research problem. The analysed data together with the elicited unknown aspects of the problem are presented and discussed to lead to a potential solution to the stated problem.

Chapter Five: Conclusions, limitations and recommendations

This chapter highlights the implications and general significance of the findings of this study, considering the relevant limitations, and leading to conclusions and recommendations.

## 1.6 Chapter Summary

The role of smallholder farmers in agriculture and in economic development is vital. In Sub-Saharan Africa, smallholder farmers account for 70% of total employment, 40% of manufacturing export and for 33% of the Gross Domestic Product. However, this sector has to face up to the current and future challenges of the growing population and the changing attitude with regard to the type and quality of food demanded. These challenges are additional to inherent operational and market related challenges that smallholder farmers are confronted with. Therefore, there is a need to create and provide an institutional environment that is conducive to the success of smallholder farmers. In South Africa, the government plays a major role to support the growth of smallholder farmers. The land reform programme together with facilitated access to the government procurement system for smallholder farmers are some of the notable initiatives. The private sector markets can also be opened for smallholder farmers as defined by various mechanisms that include contract farming, selling by the farmer to retailer, the fresh produce market, agro-processors markets, export markets, and through a cooperative model. The choice of pattern of engagement is therefore important for smallholder farmers to take advantage of these opportunities.

# CHAPTER 2: LITERATURE REVIEW

## 2.1 Introduction

This chapter provides the background to the study in that it analyses published literature on the topic. Smallholder farmers form a vital part of the agricultural stakeholder network. Governments in many countries around the world recognise the value of investing in smallholder farmers as a way to alleviate poverty, and reduce inequality and unemployment. Many developing countries have adopted government policies that enable them to create defined markets through local procurement to help drive the development of local supply chains of staple foods. These policies were designed to benefit the rural poor and particularly smallholder farmers by providing them with the linkages to an assured market. Linking smallholder farmers with government markets enables them to feed themselves by selling their produce and also empowers them to feed their communities. However, while this development opened up market opportunities to smallholder farmers to a large extent, the success of the smallholder farmers to drive value out of this opportunity depends on modality of organisation to improve their plight. Such modality may include organising themselves through informal or formal groups or cooperatives, while some farmers remained less inclined to group formations. The various modalities were geared to enhance market access and improve income.

Therefore, the study of smallholder farmers’ organisational modality was important to gain an understanding as to what extent smallholder farmers participate in such marketing and selling approaches. The study of published literature was carried out to assess how the documented organisational system ties up in other countries. The objectives of this chapter were to assess early indications of institutional and organisational setups prevailing in brokering smallholder farmers’ engagement with the markets. The insight of smallholder farmers’ mechanisms of engagement looking at various countries allowed the researcher to compare and analyse policy decisions aimed at integrating smallholder farmers and helping them to access the gains from trade that characterises successful government procurement and local procurement systems. Assessment therefore focused on the prominence of geographic production and supply chain, farmers’ organisations and institutional arrangements. The assessment focused on 11 countries and one region in Italy (Trentino-Alto adige), namely: Russia, Armenia, Georgia, Australia, Guatemala, Argentina, Thailand, Ethiopia, Senekal, Cameroon and Zambia.

## 2.2 Global Review of Smallholder Farmers’ Organisational Setup

The purpose of this chapter was to review published literature on the global approach to expand the understanding of the selling behaviour of smallholder farmers in various parts of the world. There were important differences in smallholder farmers’ cooperative structure and organisational framework existing in various countries. This was mostly influenced by diverse legislative, regulatory economic and market conditions, among others, prevailing in a particular country. The review of smallholder farmers’ organisational setup started with the general information on the country and the review of the set-up of the agriculture producer formations. Finally, the chapter summarised the range of issues of particular relevance for the results obtained in this study.

## 2.3 Examples of Governments’ Agricultural Programmes for Developing Farmers World-wide

## 2.3.1 Russia

The Russian agricultural system is characterised by state farm operations referred to as Sovkoz; the collective farm referred to as Kolhoz; and small individual farm holdings allotted by the state to the peasants. The Sovkoz farms are state owned and state operated enterprises (Berg, 2012). Consequently, raw material and the means for labour employed in the production process are exclusively state property and state decisions. Farm management of state farms is entrusted to the people decided on by state organisations. The state farms are largely allocated on previously uncultivated land and account for 30% of agricultural output. Being a state enterprise, the workers are also on the state’s payroll.

The collective farm enterprises (Kolhoz), on the other hand, comprise the farmers from one or more villages who come together to establish a collectively owned enterprise. Individuals in collective farming enterprises come together based on voluntary decisions and are the owners of the farming units they operate on. Collective farms benefit from extensive financial and organisational assistance that the state provides. Both state farming and collective farming enterprises are highly mechanised, which leads to their higher measure of efficiency of production. The employees in these enterprises enjoy the privileges of having subsidiary plots of land, which are bestowed on them for private use. The sizes of state farms as well as collective farms have grown over time, averaging 6 000 hectares of land for collective farming and 20 000 hectares of land for state owned farming. Concomitantly, the increase in land sizes has had a positive effect on mechanically based production (Encyclopaedia.com, 2016).

## 2.3.2 Armenia

Armenia is a country of 3 238 000 population size. It is located at the intersection of Western Asia and Eastern Europe. The country is surrounded by Turkey in the west, Georgia to the north, Azerbaijan to the east and Iran to the south. The country gained independence from the breakup of the Soviet Union and declared independence in 1990. The country’s economy declined significantly after the breakaway from the Soviet Union and this decline was aggravated by the confrontation with Azerbaijan, which instituted a railway blockage followed by isolation from Turkey. Soviet investments and support disappeared, leading to the demise of major enterprises. The Armenian Government, however, introduced major reforms in 1990 that eventually turned the country around in 1995 with positive economic spinoffs (Millns, 2013).

With the demise of the major industrial factories, agriculture became a beacon to support the ailing economy. This sector accounted for 20% of GDP before Soviet dissolution. As a result of reform programme introduced post-Soviet Union, the sector net worth grew to 30% of the GDP and accounted for 40% of employment in the country. However, as the economy rallied and the economic growth resumed, the share of agriculture whittled down to just over 20% of GDP and growth in this sector has remained restrained.

Armenia produces a number of food groups, including fruits such as peaches, apples, apricots, grapes, plums, pears, pomegranates, quinces, figs, berries and nuts. In general, plant production eclipses animal husbandry in size. Tomatoes are the most widely cultivated in the country. The favourable agro-ecological conditions allow for cultivation of many other varieties of vegetables, including cabbages, potatoes, cucumbers, pumpkins, beans, garden radishes, cauliflowers, lettuce and peas as well as herbs such as parsley, basil, coriander, mint, fennel, estragon and cress. Cabbage is the second most produced vegetable followed by cucumbers. Animal husbandry is a major factor for smallholder production. Smallholder meat production accounts for more than 90% of the country’s meat production (Khachatryan, 2014; Alaverdya, *et al*., 2015). Agricultural farmers’ organisations in Armenia are characterised by the formation of local and regional unions. This has been the case since 1990. The Armenian Farmers’ Association was created in 1994, the Armenian Agricultural Union in 1996, and the Agrarian Union in 1998. These organisations were supposedly independent of the state. In the period between 2000 and 2010, development of cooperatives had created cooperation among Armenian farmers. Many farmers who liked the cooperative system valued the lower input prices as the most attractive factor when joining a cooperative. Furthermore, access to cooperative resources such as knowledge sharing, common machinery usage, financial access and other incentives such as a collective approach to market access were also valuable factors for joining the cooperative. A number of these cooperatives are consumer cooperatives and milk marketing cooperatives. On the whole, cooperatives have a huge potential to become the cornerstones of Armenia’s agricultural and economic development. However, the organisational model for cooperatives is not yet properly developed (Movsisyan, 2013).

## 2.3.3 Georgia

Georgia is a country of 4.7 million people and covers a territory of 69,000 km2. It is located in the Caucascus Mountains and borders the Black Sea, Armenia, Azerbaijan, Russia and Turkey. The country is a traditional agricultural country and nearly half of the population lives in rural areas. The country gained independence from the Soviet Union in 1991 and immediately embarked on economic transformation. However, the ensuing internal military strife in South Ossetia and Abkhazia contributed to the country’s economic collapse. In this period, agriculture and industrial output were badly affected and by 1994, the GDP had shrunk to a quarter of that of 1989. The country had since set itself the objective to attract foreign investment and this has resulted in economic gains for the country. By 2006, Georgia’s GDP growth rate reached 12%, making it one of the fastest growing economies in Eastern Europe. A commodity ban on imports of Georgian wine, mineral water and fruit products as well as seemingly exorbitant charges for gas by Russia affected the country’s economy, leading to a spike in inflation.

Georgia’s agro-climatic conditions favour production of high value annual and perennial crops such as grapes, fruits, tea, citrus, vegetables, tobacco and medicinal plants. During the land reform process, which began in 1992, most of the collectivised farmland was distributed to rural households, and of the approximately 800 000 farms, 80 to 90% are occupied by rural dwellers and most are allocated land of less than 1.5 hectares. This accounts for two thirds of the actively used land in Georgia. Because the farms are fragmented and farmers have no access to capital or machinery, almost half of the households cultivate three or more plots in order to survive. These farm fields are characterised by inefficient agricultural production owing to the small sizes of the fields and the use of manual labour.

Other farmers use a mixed approach of using land leased from the government and their own land for their agricultural operations. Other farmers operate their agricultural enterprises mainly on leased land. The various forms of agricultural enterprises operated are general partnership (GP), limited partnership (LP), limited liability company (LLC), joint stock company (JSC) and a cooperative (CO) (Millns, 2013). These legal entities constitute important methods of engagement for the farmers in the country. Furthermore, support programmes are also mobilised including training, advice, information and access to grants of seedlings, trees, livestock or production, harvesting, storage, transport and processing equipment. Cooperatives are the most prevalent mechanism of engagement for the farmers and also a mechanism that helps attract finance and other support provided by donors. Thus, cooperatives are the useful mechanism for disbursing technical assistance. Beyond cooperative structures, some few groups managed to establish commercial contracts with buyers particularly in the milk sector. Others secured loans for development, particularly for potato production and they are participating in tenders for milk processing.

## 2.3.4 (Italy) Trentino - Alto adige region

Trentino is an autonomous region situated in Northern Italy, bordering Austria and Switzerland. The region has the lowest population concentration in Europe of about 1.056 million. This is as a result of the fact that 50% of the territory consists of mountains and forests. The economic structure of Trentino is characterised mainly by small and medium-sized enterprises, the secondary and tertiary sectors. Industries that support the tertiary sector are tourism, construction, agriculture and food manufacturing. Agriculture is therefore an important sector for the region. The region is characterised by fractioning of the land. The principal cereal grown is rye. Other main crop productions include apples and other fruits and vegetables. Vine growing is widespread and is used for production of wines and sparkling wines (Soini and Sasanelli, 2010). The major forms of agricultural enterprises in Trentino are the cooperatives. Cooperatives date back to 1880. The cooperative bank is the foremost cooperative enterprise in Trentino. The bank was established with a view to encourage savings amongst the middle- and the working class and provide easy access to credit for people living in towns. Another type of cooperative set up by the farmers is a rural version of a consumer cooperative. It provides goods to members and is an outlet for local products. The third type of cooperative established in Trentino was the cooperative rural bank. This cooperative was created by farmers who did not have cash, but owned a limited number of property. The idea was to utilise this collateral for capital as a basis for generating credit by setting up rural banks. The fourth cooperative; established between 1891 and 1893, was considered the forerunner for food processing co-ops. The region has had an established strategy based on creation of collaborative institutions based on cooperative principles. Subsequently, other forms of cooperative enterprises were established, including cooperatives in wineries and dairies. Thus, from the very early stages, the territory had an engrained notion for cooperatives with focused attention on the importance of networks. The cooperatives established a co-op apex, which was the body responsible for promotion of cooperative enterprises, enhancing cooperatives by improving by-laws and adopting good technical and managerial practices, the supervision of co-ops by monitoring their performance through ordinary and extra ordinary inspections, the protection of economic, ethical and legal interests of co-ops to address credit purchasing and marketing activities and promotion of mutual relations as well as to provide mutual aid and all possible assistance (Soini and Sasanelli, 2010).

## 2.3.5 Australia

Australia is both a continent and a country, located between the Indian Ocean and the South Pacific Ocean. The total size of the country is 7 741 220 km2. The climate is generally arid to semi-arid, temperate in the south and east, and tropical in the north. With regard to agriculture, about 56% of the total land is agricultural land. However, only about 6% of the land is arable and suitable for crop production and pasture; the remainder is suitable for cattle grazing. Agriculture contributes about 3% to the country’s GDP and provides employment to about 4% of the total workforce. The country’s agriculture is characterised by long established dominance in wheat and sheep. With the sector becoming diversified in the 21st Century, the country has since become a leading world exporter of grains, meat and wool. The main Australian crops are wheat, grains such as oats, sorghum, barley, maize, triticale and rice; oil seeds such as canola, sunflower, soya and peanuts; grain legumes such as lupines and chick peas; as well as sugarcane, cotton, fruits, tobacco and vegetables.

With regard to livestock, the country produces a large number of sheep of which wool and lamb meat are the major products, in addition to beef, pork, dairy products and poultry. The country exports more agricultural products than it imports. Its export profile includes 90% of wool and cotton, 80% wheat, 50% of barley and rice, 40% of beef and grain legumes, 30% of dairy products, and 20% of fruit production (Australia; Australian Bureau of Statistics, 1992).

The cooperative system is one of the most preferred mechanisms of organisation and engagement for the farmers in Australia. The motivation for belonging to and establishing cooperatives was as a result of the market structure and the incentives provided by government. Cooperatives linked to the market structure help the farmers to strengthen their bargaining position. Prominent examples are the cooperatives in the grain industry. Cooperatives in this industry established the farmer-owned companies and have well-entrenched statutory bodies that are prominent in grain marketing. The cooperatives in the grain sector are established around the farm supply and some processing/marketing trade. The dairy industry also has the market structure inclined cooperatives. These cooperatives are essential to close the gap in the processing/marketing space for the dairy farmers. While marketing is the main point of rally for the farmers in the grain and milk industry, other sectors’ motivation is mostly induced by government incentives. These incentives are in the main related to tax incentives and less onerous reporting. The rice growing farmers as well as the farmers in the pig and poultry industries have taken full advantage of these incentives to establish cooperatives underpinned by government patronage (O’Çonnor and Thomas, 2001).

## 2.3.6 Guatemala

Guatemala is a country located in Central America and it borders the Gulf of Hunduras, the Caribbean Sea and the North Pacific Ocean. The country has a population of 15 806 676 and a total land area of 108 889 km2. The country has a complex topography comprising mountainous regions and coastal plains. The climate is tropical at the coasts and temperate in highlands. More than half of the population lives in rural areas. Poverty is prevalent in the rural communities.

Agriculture plays an important role in the economy of the country. It contributes about 20% to the GDP and accounts for about 40% of the labour force. Of the total area, about 70% under cultivation is devoted to grains such as maize, sorghum and beans and these food groups constitute the food staples for the country. The country also produces sugarcane, corn, bananas, coffee, beans, cardamom, cattle, sheep, pigs and chicken. Farming operations are undertaken mostly through family enterprises. Farming is not easy in Guatemala because of the mountainous topography. Farming takes place on steep mountain slopes, where there are few reliable water resources. As a result, the predominant type of farming is largely rain-fed agriculture.

Because of segmented farming units run by family enterprises on smallholdings, coupled with the precarious location of the smallholdings on mountain slopes, many farmers do not produce enough to dictate the price of their products and as such do not have selling power. Farmers also find it burdensome to transport their produce to the markets. Furthermore, the lack of infrastructure for farmers to store their produce to bargain their prices drives them to rely on middlemen to sell their agricultural products. The farmers are therefore prone to selling their products at low prices as they cannot organise themselves as one force.

## 2.3.7 Argentina

Argentina is a country located in South America. It is bordered by Chile in the West, Bolivia and Paraguay in the North, Brazil and Uruguay in the northeast and the Atlantic Ocean in the east. Buenos Aires is the country’s capital and the largest city. The country has a population of about 40 million people and is one of the largest economies in Latin America. The country is triangular in shape and covers 3 700 km2 from its broad northern region near the Tropic of Capricon to an island shared with Chile in the south. The climate of Argentina varies from subtropical in the north to cold and barren in the south with temperate and dry areas found throughout much of the country. The country is divided into six geographical regions. The Parana Plateau, the Gran Chano, the Pampa, the Monte and the Andes mountains. The Parana Plateau is an extension of the highlands of Brazil and enjoys the most amount of rainfall in the country. As a result, the area has dense forest cover, and tobacco, timber and yerba Mate are the main products grown in the area (Nardi, 2011).

The Argentinean economy was for a long time based on agriculture. However, the industrial and service sectors have grown in importance in recent years. The country is endowed with rich natural resources. It has a highly literate population and an export oriented agricultural sector as well as a diversified industrial base. Food processing, in particular meat packing, flower milling and canning constitute the chief manufacturing industry. Motor vehicles, textiles, chemicals, petrochemicals and steel are also major products made in Argentina. Livestock, in particular sheep and cattle, as well as grains have been the bedrock of the country’s wealth. Argentina rivals the US, Canada and Australia as an exporter of wheat, corn, flax, oats, beef, mutton, hides and wool. The country’s agricultural production can be grouped into two main categories, the output from the Pampean region and that from the non-Pampean regions. The Pampean regions comprise the east and the centre of the country and produce most of the grains, oilseeds, cattle and milk. The non-Pampean region consists of the rest of the country and there, farmers produce a large range of agricultural goods. These include sheep, grapes and other fruits in the irrigated areas of the west; citrus, sugar and tobacco leaf in northwest; and cotton, tea and mate (local herbal tea) in the north-east (Lence, 2010).

The mechanism of trade interaction for the farmers is largely through agricultural cooperatives. The country has as a significant number of agricultural cooperatives. The cooperatives’ value addition to the members is selling their members’ produce and/or manufacture their production. Accordingly, cooperatives are the most preferred organisational method adopted by farmers in Argentina. Most members operate family farms; however, smallholder farmers’ actual involvement in these cooperatives is very low. The commodities, through which cooperatives sell is strong; they include grains, which rank first, followed by cattle and dairy cooperatives. A scale requirement is significant in Argentinean value chains. As a result, there are various categories of cooperatives such as mega cooperatives that lead the industry in terms of market share; family cooperatives, which are specialised and largely operate in the agro-processing sector such as in the production of canned or preserved foodstuff, jams, cold meats, artisanal cheeses and wines; and other cooperatives, which are basically prioritised partnership strategies in the framework of rural development (Ortmann and King, 2007).

## 2.3.8 Thailand

Thailand is situated on the South East Asean mainland and borders Laos in the north-east, Myanmar to the north and west, Cambodia to the east and Malaysia to the south. The county has a population of approximately 63.9 million people and the land mass covers an area of 514 000 km2. The country’s capital is Bangkok. Thailand is the 22nd largest export economy in the world and the 36th most complex, according to Economic Complexity Index (ECI). Diversified manufacturing is the largest contributor to the country’s economic growth. This industry has registered rapid production of commodities such as computers and electronics, furniture, wood products, toys, plastic products, gems and jewellery. Top exports from Thailand are computers, delivery trucks, integrated circuits, refined petroleum and cars.

The country has a warm and humid tropical season. The climate is marked by a pronounced rainy season lasting from June to October and a relatively dry season for the remainder of the year. Temperatures are highest in March and April and lowest in December and January (nationsencyclopedia.com).

Agriculture is one of the most important sectors upon which the development of the economy of Thailand has been based. About 40% of Thailand’s labour force is employed in agriculture. The sector accounts for 12% of GDP. About 30% of the country’s land area is used for agriculture. Crops and livestock production account for about 75% of the value of agricultural production. The remainder is mainly from forestry and fisheries. The country is the largest global exporter in the rice market. Other agricultural products produced in significant quantities are tapioca, rubber, corn, sugar, canned tuna, canned pineapples and frozen shrimps.

Agriculture is largely dominated by smallholder farmers who support the livelihood of the majority of the population of Thailand. Many of the smallholder farmers resort to contract farming as a way to gain access to markets. Contract farming therefore is considered a real option, depending on the crops or products, the objectives and resources of the contractor and experience of the farmer. A number of contract models can be identified, including a centralised model, the nucleus estate model, the intermediary and multipartite model and the formal model. Farmers select the contract arrangement mainly because of better price expectations. On the other hand, many also select this approach because they operate as smallholder farmers and contract farming provides them with good opportunities to raise their income as labour is the only resource they have (Songsak and Wiboonpoongse, 2008).

## 2.3.9 Ethiopia

Ethiopia is a country located at the north-eastern part of Africa and at crossroads between Africa, the Middle East and Asia. It is bordered by South Sudan to the west, Eritrea to the north, Djibouti and Somalia to the east and Kenya to the south. The country’s land mass covers approximately 1.1 million km2, with a population of about 90 million people. Some of the country’s surface features include 25 mountain peaks. Ras Dashen is the highest peak in the country at 4 500 metres above sea level, and the lowest is Afar Depression at 110 metres below sea level. The country’s highland is diagonally split by the Great Rift Valley into the western highland, which gets summer rainfall; and the lowlands and eastern highlands, which are hot and dry. The country is in the tropical zone between the Equator and the Tropic of Cancer. It has three different climate zones according to elevation. The tropical zone is below 1 830 metres in elevation and has an average annual temperature of about 27 degrees Celsius, with an annual rainfall of about 510 millimetres. The subtropical zone consists of the highlands area of 1 830-2 440 metres in elevation and has an average annual temperature of about 22 degrees Celsius, with an annual rainfall between 510 and 1530 millimetres. The cool zone is 2 440 metres in elevation with an average annual temperature of about 16 degrees Celsius and an annual rainfall between 1 270 and 1280 millimetres. Ethiopia is one of the fastest growing economies in the world. It has maintained an average growth rate of 10.9% since 2004. The country’s industrial sector is still relatively small and accounted for about 14% in 2013/14. Manufacturing contributed about 4.4% to the overall GDP. Exports do not exceed 5% of GDP (Unido, 2016).

Agriculture is central to Ethiopia’s overall economic performance. The sector contributes about 40% to the GDP and accounts for 90% of exports; it engages 80% of the labour force and supplies 70% of the raw materials used by local industries. Five major cereals crops produced in Ethiopia are teff, wheat, maize, sorghum and barley. These constitute the crux of the country’s agriculture and food economy and account for about three-quarters of the total area cultivated, 29% of agriculture’s contribution to GDP. Other major agricultural crops include ensete, oilseeds, pulses and export crops such as coffee and chat. Livestock is also an important sector in terms of its contribution to both agricultural value added and national gross domestic product (Dorosh and Rashid, 2012). Ethiopia’s agriculture is characterised largely by subsistence agriculture. Farmers have little access to credit to fund marketing activities. Because many are subsistence farmers, they are therefore not wholly relying on agriculture, but they sell some of their produce in the local markets. Most smallholders exercise a mixed farming system with crops and livestock and participate in both livestock and crop markets. Engagement systems to have access to better markets based on bargaining power is therefore non-existent. The effect of market position in these industries is not the same. The market is stronger for crops than for the livestock markets. Generally, there is a dearth of information regarding commercialisation in Ethiopia (Hagos and Geta, 2016).

## 2.3.10 Senegal

Senegal is a country located on the far west of the outgrowth of the African Continent. The country’s land mass is about 196 190 km2 with a population of approximately 12 323 252. The total boundary length of Senegal is 3 171 km, of which 521 km is coastline. The country is bordered by Mali in the east, Muaritania in the north and north-east, Guinea and Guinea-Bissau in the south and the Atlantic Ocean in the west. The country surrounds the narrow Republic of Gambia on three sides (Enclyclopedia.com).

Senegal’s topography consists mostly of low, rolling plains. The country has five geographical regions; the coastal region, the Senegal River valley, the Ferlo, eastern Senegal or Sahel and the Casamance. The Senegal River floods each year and this allows farming in the Senegal River valley, which runs north and west along the northern border with Mauritania. The tropics in Senegal are characterised by hot regions with minimal temperature variation between summer and winter; temperatures may reach 43o Celsius in mid-summer and may go as low as 16o Celsius (Streissguth, 2009).

Agriculture constitutes the bulwark of Senegal’s economy. Cotton and nuts are the main agricultural crops and also an important source of foreign exchange income. Other economic activities that contribute significantly to foreign income include fish processing, tourism, phosphate mining, fertiliser production, construction materials and services. A major source of income for the country is derived from foreign aid. Senegal’s oil production is one of the country’s important industries characterised by the presence of an oil refinery and major international oil companies in the country. Mining activities are undertaken in the country and although the mining industry is small, it is an important source of export earnings (Stads and Sene, 2011).

Most of the farmers in Senegal are organised into farmer organisations that are primarily involved in land management, provision and reimbursement of credit, purchasing of farming input as well as for maintenance and management of irrigation (Demont and Swennen, 2013). Well established farmers and strong farmer’s organisations have grouped themselves into federations at regional and national level. These organisations represent the farmers’ interests and negotiate the conditions according to which the farmers must be involved as a whole, including trade, production and labour issues. They create support services for their members in terms of services in production, agricultural advice and training, among others. Another typology of farmers’ organisation in Senegal is farmer organisations created in the context of large developmental programmes. These organisations were created through regional projects managed by parastatal development companies and were created based on key economic functions such as primary marketing of products, credit, input supply or technical functions such as water management, cropping systems, and many more. These farmer organisations are seated outside the cooperative movement, but are considered often as pre-cooperative groups (Perret and Mercoiret, 2003:143)

## 2.3.11 Cameroon

Cameroon is located on the western part of the central African region bordering the Congo, Gabon and Equatorial Guiana to the south, the Central African Republic to the east, Chad to the north-east and Nigeria to the west. The total land area of the country is about 472 710 km2. The topography of Cameroon is divided into four geographical regions: coastal plains in the south-west, which consist of a dense forest cover, a dissected plateau in the centre, mountains in the west, a plateau region with elevations reaching about 1 370 m above sea level, and plains in the north, a region characterised by savannah that slopes down to the Chad basin (IBP, 2015). Cameroon has a tropical climate, is humid in the south, but dry to the north. The average temperature in the south is 25oC, on the plateau it is 21oC and in the north it is 32oC.

Agriculture is the principal sector for development for its activities are the main job creators for about 60% of the population. About half of the export earnings are derived from petroleum products. The country is Sub-Saharan Africa’s fifth largest oil producer. The main commercial crops in Cameroon are cacao, tobacco, cotton and bananas, rubber, palm oil and kernels, and peanuts. The main food crops are cassava, maize, millet and sugarcane (encyclopedia.com).

Collective action is one of mechanisms, through which the smallholder farmers in Cameroon are organised for the purpose of market access. Collective is about the group of farmers coming together to pursue or collaborate on joint action and decisions, which involves their common interests. It is an organisational development to link producers with traders and the private sector by many organisational and development practitioners (Gyau, *et al*., 2014). This type of organisational arrangement is more prevalent in the agro-forestry sector of Cameroon. It involves activities such as training of producer groups in value chain development, business development practices, group dynamics, financial management, marketing, conflict management and group marketing. This has in turn increased the farmers’ abilities in relation to negotiation and bargaining skills, enhanced leadership and entrepreneurial capacity. Farmers who are not in the group system, loose on many fronts because they are most often smallholder farmers who are in rural areas and have no access to information; they sell mostly at farm gate prices to local traders and are not able to participate in new markets, where larger product numbers and standards are emphasised. Because of this exclusion, they remain with little bargaining power with traders and accept any price offered (Gyau, *et al*., 2014).

## 2.3.12 Zambia

Zambia is a landlocked country situated in the southern hemisphere of the African continent. It is positioned between latitudes 8 and 18 degrees south of the Equator and between longitudes 22 and 36 degrees east. The country has a land mass of 752 000 km2. The country has a population of 15 million people. Most of the country is part of the high rolling plateau that forms the backbone of the African continent. Typically, it has an altitude of between 1 000 m and 1 600 m deeply incised by the plateau area with an altitude ranging from 900 to 1 500 m as well as Luapula that lies below 500 m (Chomba, 2004).

Zambia’s formal economy is concentrated on mining, especially copper. The minerals generally constitute about 85% of the country’s exports. Zambia also has many other proven mineral deposits, including cobalt, nickel. manganese, gold, nickel, gemstones, and non-metal resources such as coal and uranium. Other commodity resources include forest and fertile land. Agriculture is one of the key sectors in the growth plan and poverty alleviation agenda of the country. Over 60% of the population derive their livelihood from agriculture. The country is endowed with abundant arable land and climatic conditions suitable for crop production. The main crops in Zambia are maize at about 52%, followed by cassava 11%, ground nuts 11%, and seed cotton 9% (Tembo and Sitko, 2013). Agriculture contributes about 7% to GDP growth and employs an estimated 85% of the workforce. The sector further accounts for 5% of total merchandise export, while linkages with manufacturing are generally weak. Farming activity is mostly prevalent in the subsistence sector. Productivity in this sector is however low and so is the output per worker. There are two types of markets for these farmers; the local market within the farming household’s sphere of mobility and the larger external markets that require coordination and transport, including national and export markets. The major challenge for these farmers remains access to markets. Many farmers are distant from the market demand; transport and storage facilities are very poor. Furthermore, most farmers produce the same produce in the same area, which results in seasonal glut (Davis, *et al*., 2015). Farming organisations in Zambia consist of commodity associations, which represent specific commodities, crops or enterprises and are prevalent in tobacco, coffee, horticultural crops, cotton and dairy farming. Cooperatives mainly exist for savings and credit facilities. They tend to be centred on certain enterprises of commodities or functions. Contract farming is one of the mechanisms, through which the smallholders are presented with opportunities for market access. Other methods include certification. It is about the farmers obtaining certification that provides assurances of the quality of their products. The scheme provides farmers with a minimum floor price for their goods and a premium price for highest quality goods.

## 2.3.13 Summary of key learning from the countries examined

## Key lessons learned

In Russia, the collective farm enterprises, which were achieved through abolition of privately owned farms and the intervention by government agencies, constituted one of the key factors for farmers in Russia. The collective farming enterprises comprised farmers from one or more villages who came together to establish a collectively owned enterprise. Individuals in collective farming enterprises come together based on voluntary decisions and they are joint owners (or lessees) of the farming units they operate on. Collective farms benefit from extensive financial and organisational assistance that the state provides.

In Armenia, agricultural organisations are characterised by the formation of local and regional unions, including the Armenian Farmer Association, Armenian Agricultural Union and Agrarian Union. The establishment of cooperatives was a factor for cooperation among Armenian farmers who value lower price input costs as the most attractive factor when joining a cooperative; access to cooperative resources such as knowledge sharing, common machinery usage, financial and other incentives such as collective approach to market access.

In Georgia, registered forms for agricultural enterprises include the general partnership (GP), limited partnership (LP), limited liability company (LLC), joint stock company (JSC) and a cooperative (CO). These associations constitute important methods of engagement for the farmers in the country.

In Trentino, Italy, the major form of farming enterprise is the cooperative. Cooperative banks are the foremost cooperative enterprise in Trentino, providing easy access to credit for people living in towns. Other types of cooperatives in the rural areas are the consumer cooperatives and the cooperative rural bank food processing as well as the dairy and winery cooperative.

In Australia, the cooperative system is one of the preferred mechanisms of organisation and engagement for farmers. The motivation for belonging to and establishing cooperatives is as a result of the market structure and the incentives provided by government. Cooperatives are market-structure inclined and help farmers to strengthen their bargaining position, such as in the grain industry. Cooperatives in that industry established the farmer-owned companies and have well-entrenched statutory bodies that are prominent in grain marketing.

In Guatemala, because of segmented farming units run by family enterprises on smallholdings, coupled with the remote location of the smallholdings on mountain slopes, many farmers do not produce enough to dictate the price of their produce and as such do not have selling power. There is little form of collective engagement of farmers to establish bargaining power support mechanisms.

In Argentina, trade interaction for farmers is largely through agricultural cooperatives. The country has a significant number of agricultural cooperatives that add value to their members through selling their members’ produce and/or manufacturing their produce. Accordingly, cooperatives are the most preferred organisation pattern adopted by farmers in Argentina.

In Thailand, many of the smallholder farmers use contract farming as a way to gain access to markets. Contract farming appeals to smallholder farmers depending on the crops or produce, the objectives and resources of the contractor and experience of the farmer.

In Ethiopia, agriculture is characterised largely by subsistence farming. Farmers have little access to credit or knowledge to fund marketing activities.

In Senekal, most of the farmers are organised into farmer organisations that are primarily involved in land management, provision and reimbursement of credit, the purchase of farming input as well as maintenance and management of irrigation. Well established farmers and strong farmers’ organisations grouped themselves into federations at regional and national level. Farmers also created organisations in the context of large developmental programmes through regional projects managed by parastatal development companies. They were created based on key economic functions such as primary marketing of products, credit, input supply or technical functions such as water management and cropping systems. These farmer organisations are seated outside the cooperative movement, but are considered often as pre-cooperative groups.

In Cameroon, collective action is one, where the smallholder farmers are organised for the purpose of market access. This type of organisational arrangement is more prevalent in the agro-forestry sector of Cameroon. It involves activities such as training of producer groups in value chain development, business development practices, group dynamics, financial management, marketing, conflict management and group marketing. Collective farming assists the farmers with negotiation and bargaining skills, enhanced leadership and entrepreneurial capacity.

In Zambia, farming organisation consist of commodity associations, which represent specific commodities, crops or enterprises and are prevalent in tobacco, coffee, horticultural crops, cotton and dairy farming. The other form of farming organisation are cooperatives that are mainly involved in savings and credit provision. They tend to be centred on certain enterprises of commodities or functions. Contract farming is used by smallholders to provide opportunities for market access. Other methods include certification that provides assurances of the quality of the farmers’ products.

## 2.4. Conceptual Framework of the Study

The conceptual framework of the study centred on the review of existing organisational forms of smallholder farmers and their preferred patterns of engagement to take advantage of facilitated access to the government procurement system.

Open market

Government market

(Food Security) SHF able to feed themselves

Smallholder farmers

Government policies

Asia

Europe

Australia

Central America

South America

Africa

Focus for

chapter two

**FIGURE 1**. Conceptual illustration of the global review of smallholder farmers’ organisational setup

In practical terms, the study should form the basis for knowledge generation and advice to government such that the government policy development process to provide an institutional environment that is conducive to the growth and development of the smallholder farmers is sensible to the academic work, literature and experiences of the project initiatives and outcomes.

## 2.5 Chapter Summary

The literature review illustrated that different countries’ cultures and geophysical environments influence the way smallholder farmers operate. The extreme are smallholder farmers in remote, nearly inaccessible areas who lead survivalist lives, producing enough to feed their families and trade produce with their communities. If many farmers select to grow the same crops – possibly because of the climate, the soil or their easy access to seeds or where their animals can graze – such farming may result in a glut of produce, without external markets being reached.

The other extreme is where the market – or the state − controls the farmers’ operations and profit levels through tightly controlled cooperatives. While this lifts the farmers’ sustainability and livelihood, it will rest strongly on positive cooperation between all participating farmers, all equally working hard to achieve optimal returns. It was also obvious that cooperatives or contract farming enable smallholder farmers achieve better living standards. Therefore, should the South African government consider contract farming as a method public sector procurement, quality standards and specific goals would have to be put in place for participating farmers and such standards would have to be closely monitored. However, on a continent, where droughts, floods, pests and other challenges are regularly experienced, it will be more difficult to set standards that cannot be flexible.

# CHAPTER 3: RESEARCH METHODOLOGY

## 3.1 Introduction

In this chapter, a profile of Thabo Mofutsanyana district is provided. The profiling is conducted mainly on the basis of the district location within the Free State Province and the general population statistics. Furthermore, the chapter outlines the research design with emphasis on the population of the study, eligibility criteria, sampling technique and sample size, data collection and the data collection instrument as well as data analysis.

## 3.2 The study area

The Thabo Mofutsanyana District forms the north-eastern part of the Free State Province and is one of four district municipalities in the Free State. The district shares borders with all the other district municipalities of the province; namely, Lejweleputswa District in the west, Fezile Dabi District in the north, Xhariep district in the south and Mangaung in the south-west. Other borders are with the Kingdom of Lesotho in the south-east, KwaZulu-Natal Province in the east and Mpumalanga in the north-east. Topographically, the district is bordered for most of its eastern border by the Maluti and Drakensberg mountains. Hydrologically, the district is located between the Vaal River to the north and the Orange River to the south, with rivers within the district flowing into these major rivers. The Thabo Mofutsanyana District consists of six local municipal areas with Setsoto forming the south-western section, Dihlabeng the south-middle section, Nketoana the north-middle section, Maloti-a-Phofung the south-eastern section and Phumelela the north-eastern section of the district. The district includes the former homelands of Qwaqwa.

The table below identifies 26 urban centres for the Thabo Mofutsanyana District, grouped per their respective local municipality:

**TABLE 1.** Urban centres located within Thabo Mofutsanyana District.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Dihlabeng local municipality** | **Maluti-a-Phofung local municipality** | **Nketoana local municipality** | **Phumelela local municipality** | **Setsoto local municipality** | **Mantsopa local municipality** |
| Bethlehem | Harrismith | Reitz | Vrede | Ficksburg | Ladybrand |
| Clarens | Kestell | Petrusstyn | Memel | Clocolan | Hobhouse |
| Fouriesburg | Qwaqwa | Lindley | Warden | Marquard | Tweespruit |
| Paul Roux | Tshiame | Arlington  |  | Senekal | Exelsior |
| Rosendal | Phuthaditjhaba |  |  |  | Thaba Patsoa  |

Source: Thabo Mofutsanyana District Municipality Integrated Development Plan for the Financial Year 2017 to 2022

Bethlehem, Ficksburg, Harrismith, Vrede, Memel, Phuthaditjhaba, Senekal, Reitz and Ladybrand constitute the main economic centres within the district.



**FIGURE 2**. Thabo Mofutsanyana District Municipality Source: www.municipalities.co.za

The Thabo-Mofutsanyana District municipality enjoys high levels of connectivity to other districts and provinces within South Africa, as well as to airports and harbours.

* The N3 that links the Gauteng Province with the KwaZulu-Natal Province, passes Warden and Harrismith in the north-eastern part of the district. The Harrismith Logistics Hub will be established along this route;
* The N1 road borders the west of the district for a small section within Setsoto local municipality;
* The N5 road traverses the central part of the district from west to east, linking the N1 (at Winburg in the Lejwelepurtswa district) with Harrismith via Senekal, Paul Roux, Bethlehem and Kestell.
* The R26/R711/R712 primary roads also constitute a major road-link on the eastern border of the district, linking Hobhouse, Ladybrand, Clocolan, Ficksburg, Fouriesburg, Clarens, Phuthaditjhaba with Harrismith.
* Ladybrand links the district with the N8 route, which links Kimberley with Lesotho via Bloemfontein.
* Airfields are located in a number of towns throughout the districts, namely Ladybrand, Ficksburg, Bethlehem, Harrismith and Vrede.
* Railway connections within and to the outside of the district are well established. In this regard, Harrismith provides an important link with the rail line between Gauteng and KwaZulu-Natal. In this regard, the interprovincial rail freight arterial line (electric single railway track) from Kroonstad to Ladysmith via Bethlehem and Harrismith has reference. The Bloemfontein to Bethlehem via Ficksburg secondary main line (single track and diesel operated) is another major rail freight arterial line servicing the district. Branch lines located in the district include Heilbron to Arlington, Standerton (Mpumalanga) to Vrede, Arlington to Marquard, Bethlehem to Balfour North (Mpumalanga) via Reitz, Harrismith to Warden;
* Border posts at Ladybrand, Ficksburg, Fouriesburg and Phuthaditjhaba connect the district with the Kingdom of Lesotho.

Land use in the district is primarily agricultural in nature. The district is also an important tourism destination due to spectacular scenic beauty of the Drakensberg and Maluti mountain ranges, as well as the Golden Gate Highlands National Park. Thabo Mofutsanyana is well known for several tourist attractions and destinations and also features a variety of annual festivals. These annual festivals include the following:

Fouriesburg: Surrender Hill Marathon in February and the Rose Show in October; Qwaqwa: Basotho Cultural Village traditional workshop and Family Day celebration in March;

Ficksburg: Easter Festival at Rustlers valley in April and the Cherry Festival in November;

Bethlehem: Air show in May and the Hot Air Balloon competition in June; Harrismith: Free State Polo championships in May and the Berg Bohaai in October. Due to its regional characteristics, the main industries in the district thus focus on agri-beneficiation and tourism development.

**Table 2.** Demographic and service delivery statistics

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Population** | **Household** | **Population** |
| **Census 2001** | **CS 2007** | **Census 2001** | **CS 2007** | **Census 2011** |
| **Dihlabeng** | 128929 | 108449 | 33027 | 31836 | 128704 |
| **Maluti-a-phofung** | 360787 | 385413 | 90390 | 97172 | 335784 |
| **Mantsopa** | . | . | . | . | 51056 |
| **Nketoana** | 61951 | 62367 | 14904 | 16748 | 60324 |
| **Phumelela** | 50906 | 35090 | 11934 | 11531 | 47772 |
| **Setsoto** | 123194 | 102826 | 32746 | 29828 | 112588 |
| **Total district** | **725939** | **694316** | **183049** | **187115** | **517362** |

Source: Statistics South Africa, 2011, Census 2011-Municipal Report, Free State

## 3.3 The Research Design

A quantitative, descriptive method was adopted for the study. The quantitative method emphasises the objective measurement and the statistical, mathematical or numerical analysis of data collected through polls, questionnaires and surveys or by manipulating pre-existing statistical data using computational techniques. Quantitative research focuses on getting data and generating it across groups of people or to explain a particular phenomenon. The study also followed a descriptive approach with the characteristics stipulated by Brink and Wood (1989). Descriptive study has the following characteristics: Subjects are measured once, intention is to establish associations between variables and a valid estimate of a generalised relationship between variables is established through a sample of a population of subjects.

## 3.4 Population of the Study

In this study, the population was South African farmers of all races, various commodity groups, largely smallholder farmers from the Thabo Mofutsanyana District of the Free State Province.

## 3.4.1 Eligibility criteria

Eligibility criteria specify the characteristics that persons in the population must possess in order to be included in the study. The eligibility criteria in this study were that the participants had to be:

* Operating a small farming business in the Free State Provine’s Thabo Mofutsanyana District;
* Operating a registered farming business;
* Willing to participate in the survey.

## 3.5 Sampling Techniques and Sample Size

A process of selecting a portion of the population to represent the entire population is known as sampling (Boone and Kurtz, 2016). A two stage approach for the study was adopted. The first stage included purposive selection of the Free State Province and the selection of one district (Thabo Mofutsanyane District), where the smallholder farmers are found in large numbers. Smallholder farmers were included through stratified simple random selection from the smallholder farmers in the district. Smallholder farmers therefore had an equal chance of being selected or included in the sample. Information of the location and number of smallholder farmers was obtained from the district office of the Department of Agriculture and Rural Development (DARD). The sampling frame obtained from DARD consisted of 650 households of smallholder farmers. Simple random sampling was used to select participants from each local municipality within the selected district. An economical sample size was considered instead of studying the entire population of smallholder farmers in the district. The following formula was used to derive at the appropriate sample size of 242 smallholder farmers for the study (Krejcie and Morgan, 1970).

S = X2NP (1-P)

d2 (N-1) + X2P (1-P)

Where:

S = Required Sample Size

X = Z value (e.g., 1.96 for 95% confidence level)

N = Population Size

P = Population Proportion (expected as decimal) (assumed to be 0.5 (50%)

d = Degree of accuracy (5%) expressed as a proportion (.05); margin of error

## 3.6 Data Collection and Data Collection Instrument

Data collection is the way information is being obtained in the course of the study. For this study, data were collected through a survey using a structured questionnaire. The structured questionnaire was used to obtain data relevant to this study’s objectives and research questions. The questionnaire comprised the following sections:

* Section 1: Questions related to demographic information of the smallholder farmers;
* Section 2: Questions related to the smallholder production capacity;
* Section 3: Questions related to the success level of smallholder farmers to access the government procurement market;
* Section 4: Pattern of engagement of smallholder farmers for corroborative interest to supply target market.

The questionnaire was pilot-tested among 10 smallholder farmers. Pilot-testing was necessary to determine the usefulness and suitability of the questionnaire, detect major defects in the questionnaire design as well as to ensure validity and reliability of the questionnaire as a data collection tool (Potgieter and Naidoo, 2017). The pilot-test highlighted a few problems with respect to question wording, where some questions were not adequately clear. Queries from the pilot-test study were attended to and the researcher derived at the final questionnaire. The pilot-testing therefore provided the areas of improvement needed before the final questionnaire was distributed. Before conducting the survey, the participants were presented with the note on informed consent for participating in the research study, which explained the purpose and content of the survey and provided the explanation that they could withdraw from the survey at any time without any consequence. The 10 smallholder farmers involved in the pilot-testing were excluded in the main survey.

The pattern of engagement was sourced as:

* Investigative questions;
* Ownership type of the farm/business;
* Membership of a group, association or cooperative;
* Name of the group, association of cooperative;
* Main markets for sales available;
* Success or not in marketing own products;
* Mechanism of engagement for the various target markets;
* The basis and importance for the preferred method of engagement.

Data regarding the capacity among the smallholder farmers were formulated as:

* Type of farming activity;
* Years of experience in running the farming business;
* Value addition;
* Employment status;
* Where does the farmer sell his/her produce?
* Share of production that is sold and not consumed;
* Size of the farm;
* Marketable yield;
* Profitability of the farm
* Productivity status of the farm;
* Assistance required.

The purpose of these questions was to ensure that the research plan has considered possible strategies for data collection and the analysis procedures involved are driven by these questions (Saunders, 2009). The study was conducted through the structured questionnaire. For the questionnaire approach, it is important to integrate theory and method in the pursuit of empirical knowledge. The questionnaire is a well-established tool within social science research for acquiring information on participants’ social characteristics, present and past behaviours, standards of behaviour or attitudes and their beliefs and reasons for action with respect to the topic under investigation (Bird, 2009). To develop the questionnaire for this study, the questionnaire format, sequence and wording, inclusion of classification, behavioural, knowledge and perception questions were considered. Similarly, the length of a questionnaire and output were also considered to ensure validity and engagement that will not easily bore the participant. Classification questions related to age, education and place of residence were included. The aim with classification questions was to obtain information that would predict the main effect revealed from behavioural, knowledge and perception questions (Bird, 2009). For ease of administration, analysis and comparison of the questionnaire had a preponderance for closed questions. This was also important to avoid irregular responses, while allowing space for free form responses, which invite the participants to share their understanding, experience, opinion, interpretation as well as their reaction to the situation being probed.

The questionnaire was presented to the participants through a self-administered method of delivery. This method was important to ensure a greater coverage area for the participants in comparison to other methods that could have been used such as e-mail and telephonic. Furthermore, this method of delivery ensured that distribution was not shaped by age, class and gender bias that could occur with computer use and e-mail patronage.

The participations were initially approached through gatherings organised by the Provincial Government Administration for Agriculture, the Department of Agriculture and Rural Development. This initial contact was essential to build rapport and entreat participations partaking in the study. Importantly, participants were assured of no harm as a result of their participation and of their right for refusal to participate in the study.

## 3.7 Data Analysis

Quantitative research focuses on getting data and generating it across groups of people or to explain a particular phenomenon (Antwi and Hamza, 2015). Once the questionnaire was dispersed, completed and collected, raw data from the questions was converted into numbers for data entry. Continuous checks and cross checks were applied to certify quality during data preparation.

Once data had been checked, descriptive analysis was adopted in analysing the quantitative data. Analysis of the data was carried out by establishing frequency distribution corresponding to the tally for each variable. The achieved tally therefore determined the characteristic of the examined variable.

Data analysis was undertaken using Microsoft Excel 2010 to carry out the appropriate calculations and presentations for the research data. The use of Microsoft Excel 2010 provided a general and descriptive overview of the data through frequency tables and cross tabs, while correlation tests assessed associations between variables.

## 3.8 Ethical Considerations

When humans are used as study participants in a research investigation, care must be exercised that the rights of those individuals are protected. Ethical issues considered were as follows:

## 3.8.1 Voluntary participation

Participation was voluntary and there was no coercion or deception. The participants were invited to participate with a clear understanding that they were under no obligation to participate.

## 3.8.2 Informed consent

It was important that potential participants fully understood what they were being asked to do and that they were informed of any potential negative consequence. For this study, informed consent was obtained through the use of an information sheet, which was provided to all farmers who were invited to participate.

## 3.8.3 Confidentiality and anonymity

Anonymity requires that the identity of participants remains hidden, while confidentiality means that one knows who the participants are but their identity will not be revealed. Care was taken to protect the participants’ right to both confidentiality and anonymity.

## 3.8.4 Potential for harm

Participants theoretically may experience physical harm, psychological harm, emotional harm or embarrassment during a survey when being questioned. In this study, the potential for harm was identified and that potential for harm was overcome.

## 3.9 Chapter Summary

In this chapter, the theoretical and philosophical rules underlying the research methodology were reviewed, furthermore a discussion of the research design for the study was held. A summary of this chapter is presented in table 3 by highlighting the major decisions made in order to conduct this research.

**TABLE** **3**. Study decisions taken

|  |  |
| --- | --- |
| **Level of decision**  | **Choice** |
| Epistemological and ontological assumptions | Observation of the objects  |
| Research paradigm  | Quantitative |
| Research design  | Descriptive = Subjects are measured once, intention is to establish associations between variables and a valid estimate of a generalised relationship between variables established through a sample of a population of subjects. |
| Nature of group involved | Farmers |
| Sampling method | Stratified random sampling |
| Eligibility criteria of the group  | * Operating farming business in the Free State Province Thabo Mofutsanyana District
* Operate a registered smallholder farming business
* Willing to participate in the survey
 |
| Data collection method | * Structured and piloted questionnaire
 |

# CHAPTER 4: RESULTS AND DISCUSSION

## 4.1 Introduction

This chapter presents the results of the data analysis and discussion of the results. The results are presented mainly in the form of tables, frequencies, percentages, figures and charts. The sections presented in the chapter include: Demographic and socio-economic characteristics of the smallholder farmers in the study area; pattern of market engagements among the smallholder farmers; success of smallholder farmers to access government markets; preferred pattern of engagement for building effective linkages for smallholders to derive optimal value through the notion of local money supporting local supply and production; and the challenges of smallholder farmers from accessing the existing government procurement market.

## 4.2 Demographic and Socio-economic characteristics of the participants

The demographic and socio-economic characteristics of the smallholder farmers/participants are hereby presented.

## 4.2.1 Gender distribution among participants of the study

On the issue of gender, the results indicate that 56% of the participants were male and 44% were female (Figure 2). The margin of difference between the smallholder farmers in terms of gender is not large in the district of Thabo Mofutsanyane according to the results. This shows that there has been success in improving opportunities for women’s access to land and that the gap is closing between the female farmers and male farmers. The closing of the gender gap between the male and female farmers is essential for the sector’s potential to drive inclusive growth, improve food security and create decent job opportunities as well as business opportunities (FAO, 2011).

The South African Government has a core programme on land reform. Amongst the various items, these include:

1. The land redistribution programme is based on provisions of the Land Rights for Settlement Act 1993 (Act 126 of 1993) and section 25(b)(5) of the Constitution, 1996. The programme provides for the description of land for settlement purpose and financial assistance to people acquiring land for agricultural purposes.
2. The land tenure reform programme is based on upgrading land tenure rights 1993 (Act 112 of 1993 and section 25(b)(5) of the Constitution, 1996. This programme is based on availing and providing security of tenure in different ways to the beneficiaries.
3. The Land Restitution Programme has its base in the Restitution of Land Rights, 1994 (Act 22 of 1994), which provides for the restitution of rights in land to those dispossessed of land in terms of racially based policies of the past (Moeng, 2011). Therefore, the policy directive is clear in terms of gender equity. However, this commitment should also find expression in the implementation programmes, which should have a gender focus, if they are to make land ownership in South Africa equitable. The Department of Rural Development and Land Reform has limited statistics available on female access to land in South Africa, which should make it easy to measure progress in this regard. However, in terms of the data of this study, it seems the effect of the land redistribution programmes is delivering results in terms of gender equity.

**FIGURE 3.** Gender distribution among the participants of the study

## 4.2.2 Age distribution among participants of the study

The results of age distribution among the participants of the studyare presented in Figure 3. Of the participants, 29% were in the age bracket of 60 years and above. Furthermore, 25% were in the age category of 51 to 60 years. Overall 54% of the respondents were above 51 years old. The opportunities opening up for smallholder farmers through land reform programmes largely account for the preponderance of farming participants concentrated in the age category of between 51 to 60 years and above 60 years category. According to Mokoele (2014) and Sihlobo (2015), the average age of farmers in South Africa is 62. It is posited that poor access to finance and lack of interest by the younger generation to work hard doing physical work are part of the reason for the lack of generational renewal in the farming system (Leavy and Hossain, 2014). Furthermore, the perception of the sector by many young people is such that agricultural work is regarded as dirty and hard work (Leavy and Smith, 2010). As a result, the majority of younger people are not interested in farming, but would prefer office-bound employment. These attitudinal problems may lead to an assortment of agricultural development problems, including diminishing knowledge transfer, diminishing mentorship and ultimately diminished household sustainability between generations. Most significantly, the outcome of these problems especially those that relate to the failure to bring young people into the system will be diminished farm productivity, diminished market competitiveness, diminished rural economy viability and ultimately diminished food security (Cadger et al., 2017).

**FIGURE 4**. Age distribution among the participants of the study

## 4.2.3 Educational background of participants of the study

The results of educational levels among the participants of the studyare presented in Figure 4. According to the results, 41% of the participants have secondary education. This was followed by 33% who only have primary education. The results indicate that agriculture and particularly smallholder and subsistence farming, are largely occupied by people with primary and secondary education. The pattern realised in this regard is that most of the participants are at older or in a more mature age range with either primary or secondary level of education. By extrapolation, this may mean that for historical reasons, many entered farming at an older age as agriculture provides them with the means for sustaining their livelihoods. Money was often not available among the rural population to send their children to school for a longer period. Tertiary education was mostly out of reach for them. Based on the fact that historically, people from previously disadvantaged communities were not able to go to better schools or learn beyond the most basic levels, results from this study point to a disjuncture between opportunities available regarding agriculture and the lack of better education, acquiring extra skills for the farmers. In a situation, where a potential career path in agriculture was within the range of thought for the majority of the beneficiaries, the potential farmers could enrol at the university, university of technology or agricultural colleges to undergo training offered in number of agriculture related programmes such as economics, farm management, the various natural sciences. This way the potential farmers could earn a degree, diploma or a certificate in agriculture. The information derived from this study’s data points to the existence of the weak spot between opportunities for land redistribution and younger, highly skilled and educated people returning to the land. It seems as if younger people wish for better education, but one that takes them to employment in the cities.

Furthermore, a time honoured approach entails gaining experience and knowledge through observation and hands-on experience for the farmers who are borne into family farming businesses (Moyo, 2013). There may also be the need for formal knowledge in this regard; however, the experience from working in the family business is most advantageous.

**FIGURE 5**. Educational levels among the participants of the study

## 4.2.4Types ofbusiness *o*wnership among the participants of the study

The types of business ownership among the participants of the studyare presented in Figure 5, which indicate that 29% of the participants are vested in a cooperative type of farming business. Only 26% of the participants individually own their farms. Another 26% operate “another” type of farming structure, probably leasing the farm or are employed to work the farm for somebody else.

The relatively large number of cooperative type of farming business falls in line with the desired state of smallholder farmers by government. The preponderance of cooperatives in the area of Thabo Mofutsanyane epitomises the government support framework for smallholder farmers for which cooperatives are seen as critical in achieving government development targets, given their primary drift to contribute to production (DAFF, 2012). If smallholder farmers are expected to participate in and benefit from government support, such public support often takes into consideration the relevance of the farmers’ organisational model (Ferris et al., 2014). The results regarding the cooperative model emerge slightly superior in number weight compared to other models; therefore, go well together with the government commitment to facilitate the establishment of cooperative network of individual entrepreneurs or micro enterprises. Government intention with cooperatives is to intervene through designing supply and demand sides support measures to grow the cooperatives sector and ensure that this sector access markets, government and private sector contracts (dti, 2012). This objective is undertaken relative to the implementation of the Broad Based Black Economic Empowerment with specific emphasis to promoting equity and greater participation in economic activity. A number of policy instruments were put in place to realise this objective. They included developing the Cooperatives Act 2005 (Act 14 of 2005) to enhance the establishment of the Cooperative Advisory Board that will provide for deregistration and winding up of cooperative enterprises, the establishment of a cooperative development fund, providing for access to SMME tax incentives as businesses and setting clear targets to increase the levels of preference to black owned and black-empowered cooperative enterprises through a preferential procurement system (Cooperatives Act 2005).

**FIGURE 6**. Ownership types of business among participants of the study

## 4.2.5 Types of Farming activities among the participants

The results on the types of farming activities undertaken by the participants from the studyare presented in Figure 6, where 69% of the participants raise their revenue from vegetable farming. Only 20% plant and sell maize; others plant and sell fruits, wheat and sunflower. The planting and selling of vegetables and other crops by the participants is noteworthy, considering that the areas had been affected by drought and had been without water for almost a year. The high number of participants farming vegetables may be due to their crop production perspective, where vegetable production provides the most important source of income for the farmers in the area. If, for instance, production is through rain-fed farming, then farmers are still able to manage low input and low yield such that the production carries low risk but they can still can be profitable at comparatively low input prices. If this is the case then vegetable production is important for sustaining the livelihood for the farmers; it may also act as their means for becoming self-sufficient (Toms, 2010).

However, it remains to be determined the extent to which an efficient marketing network is available for the farmers in the area. It can also be inferred that the underlying determining factor behind these farmers leaning toward vegetable production as a farming activity is not driven by market forces. This would have meant that it would have allowed the farmers to increase their income by producing that which provides high returns and use proceeds thereof for consumables. The driving force rather may be the need to balance what may be marketable with what may be used for household consumption (Baloyi, 2010).

**FIGURE 7.** Types of farming activities among participants of the study

## 4.2.6 Livestock farming among participants

The results of the types of livestock farming activities among participants of the study are presented in Figure 6, where 24% of the livestock farmers who took part in this study are involved in cattle production. Another 23% derive their revenue from dairy production. Notably, the area of Thabo Mofutsanyana experiences rainfall at around 100mm/annum. While this amount of rainfall is sufficient for farming in the area, it should be noted that the recent drought and potential futures droughts could impact negatively on these farmers. Under normal circumstances, such amount of rainfall augurs well for farmers and creates a potential for agricultural production in the district. Coupled with the Provincial Department of Agriculture and Rural Development public-spirited effort on improving milk/dairy production, especially by smallholder farmers, together with the fact that the area is characterised by moderately-well adapted cultivation land, the area is also well suited for moderate grazing and wildlife potential. Participants who derive their income from livestock-related commodities may have chosen this type of farming as a means of securing their necessities of life or to purchase input materials for planting. The study did not establish the extent of mixed farming with the participants. Mixed farming may not be ruled out as an element of creating a farming system with portfolios that will allow stabilisation of income flow and consumption (Ongunkoya, 2014).

**FIGURE 8.** Livestock farming among participants

## 4.2.7 Number of years in farming business

Number of years in farming business of the participants is presented in Figure 8, where 35% of the participants state that they were new farmers, with less than six years of having been involved in farming. Participants who have 11 to 15 years, 16 to 20 years and 21 years and above experience in farming are almost equally distributed (15%, 15%, 16%, respectively).

Access to land is an important facet for participation in any farming business. However, access to land has always remained a challenge despite the number of government mediated land ownership programmes since 1994. The 35% of the participants with less than 6 years’ experience in farming as well as the 19% of farmers with 6 to 10 years’ experience indicate a measure of continued and slow accomplishment in the land reform programme, noting that the era for land redistribution got off the ground after the year 1994. The number of years of experience in farming is important to create sustainability in the business of farming (Khapayi and Celliers, 2016). This is because the business of farming has unique challenges, which would require education and training. Among the many challenges that the farming businesses face, are climate change related problems, including the use of sustainable methods for environmental management, sustainable water management practices, inconsistent and changing weather patterns, pests and diseases as well as providing sustainable livelihood. For farmers to be self-supporting and able to master some of these challenges requires that the farmer to apply scientific knowledge to enhance the stewardship of the land, water and ecosystems. The farmer has to be able to use new farming techniques and tools such as conservation agriculture to enhance operations and boost profit as well as rely increasingly on scientific discoveries and technology to improve production (Tanentzap et al., 2015). Many of these interventions will not be familiar to the smallholder farmers, let alone those with limited experience. Continuous learning combined with increasing experience remain important for the farmers to be able to access the government procurement market, even though such a market is characterised by less stringent requirements (Markelova et al., 2009). It still remains important that the farmers’ learning and experience can influence their ability to lower production costs, which can lead to lower pricing, and in turn lead to increased market share, increased profitability and ultimately to market dominance.

**FIGURE 9.** Number of years in farming business

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## 4.3 Pattern of Market Engagements among the Smallholder Farmers

## 4.3.1 How participants sell their products

Almost all of the participants (98%) sell their products unprocessed (Figure 9). Sourcing decision of buyers may be more a determining factor than the market opportunities of the participants (Aspelund and Butsko, 2010). Value addition often entails high value processing of the raw product. By adding value to farm products, farm income can be enhanced and provide jobs for the rural area, a key element for rural growth (Coltrain, *et al*., 2000). However, value addition may also be carried without altering the physical form of the product by introducing activities such as cleaning, grading or labelling. Value can also be added by putting in place logical, marketing and quality control systems that mostly involve strategic planning and cooperation with value chain partners (Kelly, 2012). Selling products raw/unprocessed means the farmers are selling to the user without any value addition. Based on this observation, it is obvious that farmers who participated in the study and sell raw products have not given due regard to studying the market. They follow traditional forms of selling their products to the same consumers and this is an unstable trading, which leads to unstable raw product sales. This means the farmers have no guarantee of the price they are going to be able to sell their produce for, which would have given them stability (FAO, 2011). Farmers may possibly rely on monitoring their market on an ongoing basis and their regular sales activity to be able to respond to their end user patterns of preference and consumption, which is why they sell their produce raw. However, it means they have no guaranteed market (Kahan, 2013). Having a selling guarantee comes with many conditions, which the farmer has to satisfy, regarding elements of food and safety requirements, which need to be satisfied for guaranteed markets. Such markets also have many requirements regarding product features, including traceability (Trienekens et al., 2012). It could also be inferred that the high number of participants who sell their products raw reflects that the level at which they are institutionally organised is either ineffectual or not adapted to the wider markets. Institutional organisations can serve as vehicles to improve access to resources, services and markets.

In terms of access to markets, institutional organisations are able to improve the collective market position of the farmers through economies of scale, input provision, technical assistance or commercial logistics. The market position may also be affected though non-price factors such as reputation and commercial logistics (Kariuki et al., 2012). Institutional organisations therefore leverage on the negotiation skills, power and collective representation critical for the farmer to benefit from the institutional environment. So far, participants do not have a guaranteed market to sell their products to and they do not belong to an institutional organisation or if they do, its efficiency is suboptimal.

**FIGURE 10.** How participants sell their products

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## 4.3.2 Market place

In order to probe the market, the participants were asked, where they sell their produce. A number of options were provided, which included at a market, at the farm, at home, through a marketing agent, local community and other (Figure 10). Of the participants, 49% sell their produce at home (Figure 10). Selling at home is generally characterised by selling from booths, tables and or stands, which are erected by the farmers to sell their produce (Ernst, 2014). In some instances, it involves selling from a car garage or temporary structure established adjacent to the house. It is interesting, however, to note that 27% of the farmers are selling to the formal market and only 1% are selling their produce through marketing agents. The place, where the participants sell their produce, is one of the important parts of the marketing mix for selling their produce (Lynn, 2011). The selling place can significantly affect product, price and promotion efforts of the farmers as the actual physical location is important for customer access.

The farmers who are selling from home are able to save on the cost of getting the product to the consumer, which maybe about one fifth of the cost of their production. Furthermore, selling from home cuts out marketing costs because only direct marketing activities are undertaken. This positions the farmer’s products to appeal to targeted segment. By selling at home, the participants are able to take advantage of personal interaction in a way that will increase the confidence of those who consume their produce. Depending on factors such as product quality, freshness and price, it seems the participants have built loyalty with their end users to the extent of motivating their customers to go and buy at the place, where they are selling. However, it is important to consider whether selling at home is the site, where the farmer’s customers are located (Fafchamps and Hill, 2005). It can therefore be extrapolated that the farmers selling at home should be producing popular products for the people in the area, that they grow enough of each produce and produce to an acceptable quality standard. Although selling directly to customers benefits the farmer by getting paid faster, the farmer cannot increase his prices easily and cannot grow the market.

**FIGURE 11.** The market place of the participants

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## 4.3.3 Proportion of the produce that the farmers sell

The proportion of the produce that the farmers sell are presented in Figure 11, where only 41% indicate that they sell most of their production. That the participants are able to sell most of their produce is dependent on the type of selling avenue they employ. Being able to sell all of their produce makes the participants less disposed to losses due to unsold products (Gosh, 2013) When the participants sell most of their produce, they are able to offset negative factors such as storage space, regular delivery of small volume orders and documentation, which increase operational costs (Vink and Van Rooyen, 2009). Furthermore, being able to sell all the produce enhances profitability of the participants (FAO, 2005). Selling all produce also creates a positive cash flow for the participants, which enhances their working capital and decreases their potential expense on interest (FAO, 2004).

Apart from enhancing profitability for the participants; to be able to sell most of their production illustrates the relationship or connectedness between them and the consumers. It is noted that the primary mode of distribution for their produce is through selling at home. It seems the participants are able to produce products that sell and their products are in demand from consumers. As only 41% of the participants are able to sell all their produce and 16% sell nearly everything, and have thus identified the need of their customers, it leaves 43% who only sell half or even less than half. It could, however, be that the remainder of the produce, which they do not sell, is meant for consumption at home, otherwise it would mean that a large portion of what is produced is wasted.

**FIGURE 12**. Proportion of the produce that the farmers sell

## 4.3.4 Farmers’ membership in organisations

Participants were asked about their membership of the farmers’ organisations. Slightly more than half of the participants (52%) indicated that they belong to a producer group (Figure 12). The remainder do not belong to any producer group. Producer groups refer to associations, which join together to form economic units in order to obtain a stronger position on the markets (Kumar, *et al*., 2015). Usually, agricultural groups are created to adjust agricultural production to market conditions, improve the effectiveness of farming, develop production plans, accumulate supply and organise sales of agricultural products and other rent seeking activities (UN, 2014). It may seem the number of participants who belong to producer groups have other reasons for belonging to a farmer organisations, given that about 49% are selling from home, a further 11% are selling from the farm through a direct distribution channel and about 57% sell almost everything they produce. It might be that the organisation helps these farmers by providing training and improving skills in production and management techniques. It may also be that the response provided by the participants on being a member of the farmer organisation is misinterpreted as belonging to a cooperative within the context of the definition of the Cooperative Act of South Africa, Act no. 14 of 2005. This model encourages voluntary associated of individuals with common needs and aspirations who come together and jointly establish and own a democratically controlled enterprise. These enterprises are developed with the idea to support enterprise development, while also fulfilling the criteria for socio-economic development (DAFF, 2014). This has a potential to create an environment, where financially sustainable enterprises can be stimulated, which tackles social issues such as unemployment, lack of income and poverty. With this type of cooperative model issues such as improving farm productivity by obtaining inputs at low cost and encouraging sustainable farming technique are not their primary responsibility descriptions. This type of organisation may be the grounds on which some of the participants indicate that they belong to a farmer organisation. The survival rate of the cooperatives is a concern.

According to the study conducted by the Department of Trade and Industry in 2009, only 31% of the cooperatives that were surveyed were fully operational and growing and only 21% of the cooperatives surveyed were operational and stable. According to the report, the majority of the members of cooperatives are elderly and often have very little or no formal education background (dti, 2009). Consistent with the results of this study, 54% of the participants are in the age category of 51 years and above. The high number of the older category of the participants may indicate that the farmers joined the farming business due to lack of other opportunities in the job market. On the other hand, the inability by cooperatives to scale up their business activity and expand the market access are among the reasons for poor survival rate of the cooperative. Most agricultural cooperatives are unable to create economies of scale, owing to weak capacity, poor access to finance and lack of information and linkages (Poole and Donovan, 2014). These are some of the prime reasons for the poor survival rate of the cooperatives.

**FIGURE 13.** Farmers’ membership in organisations

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## 4.3.5 Preferred main sales market

The participants were asked about the main sales market that they aspire to enter, irrespective of the current form of market they serve. Unexpectedly low, only 32% of the participants indicate that they want to have a contract market (Figure 13). The contract market is an arrangement between the producer and the buyer for which a fixed commitment is made by a buyer in an out-growers’ scheme (Adjognon, 2012). The core principles for a contract market include compliance obligations, operational capability, surveillance obligations and product requirements (Oya, 2012). The contract market is built on trust between the buyer and the producer. Any trust based relationship like contract farming takes a long time to build and very few, if any, close substitutes to gain such advantage (Howicani, 2015). The formal contract is usually the basis of the agreement between the buyer and the producer.

Only 5% of the participants indicate that they want to join the local market. Local market entails the producer being able to sell the products in the region or area, where they are produced. Local markets are synonymous with the farmers’ market and have the benefit of reducing transport costs, increasing availability of fresh produce and an increased connection with the end users of the farmers produce (Van Schalkwyk, *et al*., 2012).

Noting the 32% who would like to have access to the contract market, this segment of the participants should be able to determine how much of their core competencies can be leveraged for the contract market, noting the rigorous delivery regime associated with a contract market. In this regard, it is important for the farmers to have an understanding of how many other farmers produce the same produce in their vicinity. This will be a distinguishing feature for the farmer in case there is no competition. However, if there are other competitor farmers, some farmers might consider an alliance-focused arrangement to develop efficiency in serving the contract market. Another strategic element to consider for contract farming are the sales channels or infrastructure (ADB, 2015). Farmers could also consider a joint venture approach (Duff, 2014). The approach would require sales channel identification, due diligence, deal negotiation and closing the deal. It is interesting that 26% would like to enter the government procurement market and some would even consider exporting (18%). A very low percentage (6%) consider selling their produce to agro-processors, which should have been an ideal opportunity for many farmers to add value to their produce as well as having some contracts in place and so guaranteed off-take.

**FIGURE 14.** Preferred main sales market by the farmers

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## 4.3.6 Own marketing

Participants were asked if they were able to market their products and 75% state that they market their products on their own (Figure 14), meaning that the majority of the participants do not outsource marketing to a third party. Noting that the participants are smallholder farmers who have few savings and limited access to credit, many prefer selling their produce through avenues that will offer cash upon delivery. As a result, many of them trade their products through less sophisticated means, which include selling from home and at the farm gate. This mechanism requires low levels of marketing and may account for the high number of participants affirming their ability to successfully marketing their products. The 25% of the participants who indicate that they are unable to market their produce successfully and the 13% who do not market their produce because of poor access to information, indicate that lack of knowledge, finance and infrastructure could also limit farmers from proper marketing efforts. Important, however, is that the majority of farmers are able through their own efforts to create and sustain their markets. Noting from earlier observation that about 57% are able to sell almost everything they produce (and the remainder is probably consumed at home), it indicates that the participating farmers have a strong product focus sense, which in turn translates to their market focused sense, making sure that they are able to produce what is needed by their customers and that way being able to keep selling to their customers (Nicholson; 2011). It should also be remembered that the local rural market is very traditional and unsophisticated in its consumption habits and probably used to seasonal glut of some produce and scarcity at other times. The global drive toward buying locally produced and seasonal produce could also further enhance the demand in close-by towns and cities for locally grown produce. Some form of agro-processing could then add further value to the produce during “glut” seasons to heighten potential prices charged.

**FIGURE 15.** Own marketing

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## 4.4 The success of smallholder farmers to access government procurement markets

## 4.4.1 Government procurement market

Governments often shape the development of agricultural support. Governments operate through demand-side interventions from either direct procurement or through agencies buying a range of merchandise demanded in government. With the growing support for SMMEs, including smallholder farmers, a rapidly growing share of goods demanded by government are expected to come from this sector. The government procurement market is thus essential for the smallholder farmers and it is in this context that the participants were asked whether they had ever entered the government market. The response obtained proves that 92% have not entered or served the government market (Figure 15). This huge percentage has not benefitted from the opportunity to boost their productivity as a result of government market participation. The low 8% who managed to enter the government market did so as

individuals, they were not in a grouping or organisational formation.

When participants were asked if they would be interested in accessing the government market, 95% indicate that they would like to have access to the government market. The response illustrates the understanding by the participants of the potential that the government market holds for them if they could be able to participate in it. The government market through public procurement remains a huge potential for smallholder farmers. This market is mostly known to the suppliers, and may involve selling to an entity that is using suppliers’ taxes for the purchases (Qaim, 2012).

**FIGURE 16.** Participants’ participation in government market

**4.5** Preferred pattern of engagement for building effective linkages for smallholders to derive optimal value through the notion for local money supporting local supply and production

## 4.5.1 Preferred method of engagement if participants were to participate in government markets

This question is at the root of this study. The preferred method of engagement for the smallholder farmers rests on a number of factors. Very often, the decision is influenced by the farmers’ perceptions as to whether there is a benefit that can be derived from participating in a group or approaching the market individually. The underlying principle is that the individual farmers make decisions to maximise utility within a range of constraints. For example, transaction costs, the level of technological capability, the cost of engaging in commerce in relation to the quality of the road and transport, social norms and rule of law. The asset value (equipment and land) of the farm is also an important factor that may influence the farmers’ decision for the preferred method of engagement in order to participate in the government market. Smallholder farmers generally have less land, labour resources and arable area owned and equipment, and as a result, they could be more likely to seek membership in farmer institutional organisations than their counterparts who own more land, have more labour resources and equipment. Accordingly, the preferred method of engagement for farmers is an avenue for smaller farmers to be able to achieve higher levels of production and low management risk (Sabates-Wheeler, 2006). Institutional organisations for farmers are considered to assist in the facilitation of access to better agricultural technologies, access to better earning markets, transport to markets for financial security and household investment, access to credit, where group members act as collateral for each other, to invest in agricultural value chains and value additions and also in natural resource management and conservation (Sabates –Wheeler, 2006).

Of those who have not been able to access the government market, but have an interest to participate, 49% would like to do so individually and not as a cooperative or through a market agent (Figure 16). Some would require assistance of a marketing agent (5%), while 32% would like to participate as a cooperative and 8% would prefer to access government business as a secondary cooperative. The response to the types of engagement from the 92% who wished for access to government shows that 49% would want to sell to the government market as individuals and not belonging to either a cooperative, marketing agent, secondary cooperative or any other form of grouping. There may be advantages and disadvantages for the farmers who prefer to engage as individuals to be able to access the government market. Farmers may wish to retain full control over all aspects of their farms, the produce and their selling prices. However, smallholder farmers use labour to such an extent that its marginal productivity becomes equal to zero (Graeub, *et al*., 2016) because in most instances, these smallholder farmers have relatively small farms and use hired labour only to a limited extent. Literature noted that productivity per hectare for smallholder farmers is larger than on farms under other systems (Samberg, *et al*., 2016). The main reason is the greater intensity of crop planting as a result of greater use of labour per hectare on small farms. Dispensing decisions for smallholder farmers are easy when the farm size is small especially during the time of disasters (Fafchamps, 2000).

**FIGURE 17.** Preferred organisational form to access government business

## 4.5.2 Basis for the preferred method of engagement

When participants were asked about the basis for their preferred method of engagement with government, 40% cite transportation as the main reason for choosing a particular mechanism of engagement. Less than 1% cite government being an unrestricting and unfussy market as their reason for their preferred mechanism of engagement with the government market.

**FIGURE 18.** Basis for the preferred method of engagement

## 4.5.3 Importance of choice of engagement

The participants who want to access the government market indicate that they would want to do so as a result of the phenomenal buying power of government, which makes the market attractive to smallholder farmers to be able to sell their produce. Furthermore, the government market provides a structured demand for the farmers, from which aspiring smallholder farmers may derive benefit through a procurement process that facilitates equal opportunities to participate directly as well as providing an empowering and enabling environment for smallholder farmers to invest in their farming enterprises and implement change in agriculture and processing activities.

## 4.6 Challenges of smallholder farmers from accessing the existing government market

## 4.6.1 Profitability of the farm

Participants were asked if their enterprises were profitable throughout the year. Profitability is the relative measure of the success or failure of the farming operation. There are two major factors about farm profitability; experiencing good crop growth and being close to the market (Khapayi and Celliers, 2016). According to the results, 59% of the participants run farming operations that are profitable throughout the whole year (Figure 18). It can be assumed therefore that they either experience good crop growth or are close to their market.

**FIGURE 19.** Profitability throughout the year

## 4.6.2 State of business over the last 24 months

This question is essential in determining whether the farmers business was in a positive or negative trajectory in an effort to foretell the sustenance of a business over a long period of time. This is usually done through a combination of assessment of both financial and operational metrics that benchmark the business performance and past results. The results obtained show that 33% feel their farming business remained the same over the past 24 months (Figure 19). Interestingly, the tally for businesses that declined significantly (11.7%) and those whose businesses improved significantly (13.5%) are similar, with a slight tendency toward the positive.

The participants who indicate that their farming business declined in the last 24 months attributed the cause to the drought, whereas better access to transport and equipment are the reasons attributed to farming operations having slightly improved or improved significantly. The Free State Province has been experiencing a prolonged period without rain. For agriculture, this has resulted in diminished soil moisture content, which put farming operations under severe pressure because crops could not be planted and were not growing soon enough, affecting both food production and farming profitability.

**FIGURE 20.** State of business over the last 24 months

## 4.6.3 The assistance that will improve the current farming performance

When asked what type of assistance will improve their farming operations, 48% highlight the need for financial support as most important for their farming operation (Figure 20). Training (34%) and equipment (26%) also emerge as strong points. Only 3.5% indicate the need for bargaining power skills as essential to improve their farming performance.

**FIGURE 21.** Assistance that will improve the current farming performance

## 4.7 Chapter Summary

A brief account of the main points from the results is that:

* 29% are involved in a cooperative type of farming business;
* 26% own their farms individually;
* 69% of the crop farmers who took part in the study derive revenue from vegetable farming;
* 24% of the livestock farmers who took part in this study are involved in cattle production;
* 23% derive revenue from milk/dairy production;
* 35% have less than 6 years’ experience in farming business;
* Participants with 11 to 15 years’ farming experience (15%), 16 to 20 years’ (15%) and 21 years’ and above (16%) are almost equally distributed;
* Almost all participants (98%) sell their products raw/unprocessed
* 49% sell their produce from/at home
* About half belong to a producer group;
* Only 32% want to be part of a contract market;
* 95% would like to access the government market;
* Slightly less than half of the participants who would like to participate in government market would like to do so individually and not as a cooperative or through market agent;
* 75% market their products on their own;
* Only 5% would require assistance of a marketing agent;
* 8% would prefer to access government business as a secondary cooperative;
* Provision of transport seems the major factor for the choice of for the market participation choice;
* Those whose businesses declined significantly (12%) and those whose businesses improved significantly (14%) were similar;
* 48% highlight the need for financial support as important for their farming operation.

# CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

The aim of this chapter is to present the conclusions drawn from the results of the analysis of the data and make meaning from the results obtained.

## 5.2 Conclusion and Recommendations

The study focused on smallholder farmers from one of the five districts of the Free State Province in South Africa, Thabo Mofutsanyana. The Free State Province as a whole has a preponderance of smallholder farmers. The area of Thabo Mofutsanyane was chosen on the basis of the intended pilot project by the Free State Government on the National School Nutrition Programme. According to the project, government will procure perishables such as vegetables and milk directly from the smallholder farmers. This intention by the Free State Government provided the basis for this study to be undertaken, which was to establish the mechanism of interaction for smallholder farmers, if they were to supply government with their fresh produce. The decision to support smallholder farmers through public procurement emanates from the broader government policy, which is aimed at empowering the previously disadvantaged communities by directing resources towards meeting the needs of the poor communities, implementing policies to deracialise the economy, build the skills base and create sustainable economic growth. With regard to government support for smallholder farmers, one of the planned levers is public procurement. This government undertaking emanates from recognition that the opportunity for smallholder farmers to derive sustainable means for livelihood is through their ability to participate successfully in broader markets.

It is in this regard that the focus of this study was to establish the preferred mechanism of engagement of the farmers to be able to access government procurement. The recent severe drought in the Free State Province and across South Africa has provided smallholder farmers with enormous challenges, whereby they were unable to plant in normal times, crops failed and therefore these farmers could not participate successfully in the markets. This is in addition to the normal challenges smallholder farmers experience such as lack of access to funding, market information, infrastructure and resources. Access to markets is particularly noteworthy for the smallholder farmers because although market opportunities are available, such opportunities are associated with stringent performance requirement. Food safety standards are inhibiting exports by smallholder farmers particularly in discerning International markets, while other contract markets present daunting requirements. This results in smallholder farmers being side-lined and only achieving sporadic participation in formal markets despite the competitive advantages of low cost family labour and the use of non-disrupted traditional production methods.

It is evident from the study that a noteworthy number of these smallholder farmers are not operating in any formal markets; they are either characterised by limited experience in terms of number of years in farming and are mainly farming vegetables, which concomitantly serves for their own consumption; or they are older and probably would not have found any formal employment, particularly as their education level was low. Noting these realities and considering the need for astuteness with regard to information and technology, access to credit and access to connections to established market actors, it will be challenging for these farmers to be able to participate in market contracts. The focus therefore turns towards opportunities presented by government procurement. This opportunity provides that the state’s demand for goods and services will be preferentially sourced from the SMMEs for which the smallholder farmers are the qualifying enterprises.

This government policy undertaking requires that smallholder farmers gear themselves to take full advantage of the opportunity. One of mechanisms for smallholder farmers to take advantage of this government policy undertaking is that smallholder farmers must organise themselves. This means that smallholder farmers choose the collective approach towards the market access, while most actually prefer the individual approach towards market access. There is literature evidence that the collective approach through farmer organisations offer one way for smallholder farmers to participate in the market more effectively (Bijman and Bitzer, 2016). Evidence shows that when farmers work collectively, they will be in a better position to reduce barriers to entry into markets by improving their collective bargaining power with buyers and intermediaries (Mbugua and Oduol, 2016). Collective action increases the likelihood for voluntary action by a group to pursue shared objectives for technology adoption and sustainable natural resource management practices (Vanni, 2014). This type of collective action assumes, however, that smallholder farmers are or become an established and legal entity in their own right and choose to belong to a particular organisation. There is another type of collectivism through cooperative grouping, which is promoted through the South African Cooperative Act (South African Cooperative Act of 2005). In this type of grouping, the individuals who are not established and legal entities in agriculture come together on a voluntary basis to establish a cooperative. This type of grouping is important for government to ensure that there is inclusiveness in government support services. Cooperatives are therefore considered cornerstones of rural development as well as an important vehicle to deepen democracy. In this study, the vast majority of participants have no post matric qualification. Taking into consideration that many did not have farming experience above five years in agriculture, the objective for belonging to a group was motivated by access to resources (mostly finance and transport/equipment).

It is within this context that while government considers cooperatives as mechanisms to deepen democracy, there has to be specific resources support that is currently in the main geared towards cooperatives. Access to market and access to resources are therefore important obstacles for smallholder farmers operating with farmer organisations and South African cooperatives. The objectives constitute important parallel factors that motivate group formations and cooperative formation, and serve as mechanism to gain access vital resources and markets. Accordingly, the two types of cooperatives can be expounded further, considering the two forms of social capital namely the structural and cognitive forms. Both are cognitive rather than materialistic. The main difference between the two categories of social capital is that the structural form is relatively external and objectified, whereas the cognitive form is more internal and subjective. Roles, rules, procedures and precedents constitute the important tenets for structural social capital. Therefore, the roles for decision-making, resource mobilisation, communication and conflict resolution are supportive of collective action, making it easier for people involved to engage in mutually beneficial collective action, by lowering the transaction costs as well as accumulating social learning. This is typical of the formation of cooperatives according to the model envisaged by the South African Cooperatives Act (South African Cooperative Act, 2005). Cognitive social capital, on the other hand, predisposes people involved to norms, values, attitude and beliefs to cooperate for mutually beneficial collective action (Uphoff and Wijayaratna, 2000). Farmers engaging in this type of collective action do so on the basis of trust and reciprocity and are more driven by values of truthfulness, attitude of solidarity and belief in fairness to maintain an element of mutually beneficial collective action. The other form of cooperative, which is characterised by individual farmers coming together to form a cooperative more generally befits this category of social capital for mutually beneficial collective action (Ramos, 2009).

Cooperative formation and belonging to a producer organisation are among the focus points for smallholder farmers’ market approach (Hellin, *et al*., 2007). However, important observation through this study is that although 52% of the participants were able to market their own products, when asked about accessing government procurement, 49% of those who have not yet had done business with government were interested to gain such access, but that they would like to do so individually and not as a cooperative or through a market agent. Only 5% indicated that they would make use of the assistance of a marketing agent, while 8% would prefer to access government business as a secondary cooperative. This means that while a section of the participants considers subscription to cooperatives a good option for efficiency of income generation, their true expectations and thus motivations remain debatable. Indeed, their case may be that when poverty reduction is the overriding goal of cooperatives; facilitating access to resources may not be the best way forward. It is therefore important to understand exactly under what circumstances farmer collectiveness and cooperative formation make sense. When the desired objectives are individual sustainable income generation and market access; mechanism of interaction, collectiveness or cooperation is not paramount. However, it is key that the processes that are put in place to facilitate market access. Typically, smallholder farmers sell their crops at home or from the farm-gate and often at low prices.

A variant form of cooperatives that defines the commercial agricultural sector is essential to ensure the global competitiveness of different agricultural products and associated value chain. This model which consist of integration and consolidation of agri-business sector to facilitate expansion into national footprint through corporate actions. Its association with smallholder farming section could be beneficial to provide competitive access to finance, access to technology and access to technology and thus contributes significantly to food security for the country and the communities. On the other hand, government can open up new market opportunities through creating new marketing opportunities for smallholder farmers. This can take place through government institutions creating new demand for traditional products through agro-processing and value adding. Therefore, cooperatives as envisaged in the South African model will be in a better position to benefit. This type of organisation for smallholder farmers is growing in numbers. Market opportunities are, however, not growing at the same pace. Government procurement of fresh produce for the school feeding scheme will help smallholder farmers to build capacity and be able to face and satisfy stringent requirements to become part of the private sector procurement system. The proneness of the private sector to contract smallholder farmers and the confidence of the smallholder to participate in consolidated procurement chains, will be enhanced as a result of the track record and capabilities that farmers would have improved as a result of participation in government procurement.

Smallholder farmers aspire to participate in consolidated procurement chains. Consolidated procurement chains, however, prefer working with producer groups as they are considered better capacitated than individual farmers to provide a stable supply of quality products. For the farmers, there are incentives to cater for contract or private sector markets; they offer stable markets with good profits and in some cases less strict conditions as compared to those posed by the international markets (UNCTAD, 2015). It is, however, an interesting observation that about half of the farmers would prefer to access the government market in their individual capacity and not as a cooperative or belonging to a specific producer organisation. It therefore begs the understanding of this individual fundamentalism and its basis.

Literature emphasises the role of trust amongst the fundamentals for collective action or for belonging to a group. Trust can be expressed in many forms such as toward other group members or the group as an institution tasked with certain responsibilities. To correlate the observation from the study on smallholder farmers who do not want to have to belong to a group to access government procurement and the emphasis from literature on group formation and or collective action, it can be suggested that interpersonal relationships may be an important factor in this segment. Similarly, it may be that the social structure within the producer organisations or the cooperatives is the area of concern for this segment of participants, maybe believing that there is no economic justification for the producer organisation and that they exist only to take advantage of government support.

Farmers have different preferences to belonging to a collective or a producers group. Benefits that may be derived from producer organisation include improved bargaining position in food chain, technology, scale of farming, and human and social capital available. It may also appear based on the data obtained from the study that the current farm management approach used by these farmers is far removed from the notion of collective action or the aspirations for commercialisation. This is based on the following observations:

1. There is no coordinated production or marketing decisions. Most of the participants believe they are able to sell most of what they are producing. However, it is the context within which this is happening and taking note of the fact that these farmers largely sell their produce at home or the farm gate. Farmers who sell at their farm-gate are small; they develop their own markets and sell their produce directly to consumers during the harvest season.
2. In contrast to such approach, established production requires storage facilities to market production throughout the year.
3. There is a trust deficit in the markets from the supply side, and this may be the result from lack of access to information and the farmers believing there will not be enough sales of their produce.

These aspect are critical for collective farming action; however, the type of response from participants, where half of them indicate that they do not want to belong to a cooperative or a group, indicates that they do not have trust in a cooperative or group. They are reluctant to work together in production, marketing and selling. However, as individuals they may not be able to fulfil the large quantity requirements by market traders. Most cooperatives are not financially strong enough to be able to deliver requisite products and services to ensure their market share. Operating from a weak financial position is therefore unsettling and often increases the risk of vulnerability and leading to the demise of the cooperatives − and most of them unfortunately fail. Poor management may also be a point of concern for the participants who prefer individual approaches to collective action to be able to access government business.

The collective decision-making process, unclear roles and responsibilities are often a cultural standard in the cooperative setting, which may not suit the needs of an entrepreneur who insists on clearly defined roles and an immediate decision-making process. In most cooperatives, business is not conducted in accordance with modern management principles and is often led by people who are not dynamic. They share common, but non-farming related challenge(s) and their coming together is not on the basis of leveraging each other’s strengths, but to be able to gain access to available support systems. Therefore, careful consideration of the concept of critical fit is amiss. Unfortunately, such support systems stipulate group prominence at the core of their emphasis. Without experience, training and professionalism required for cooperative operation, it will always be a major challenge for any cooperative to survive. The philosophy for cooperation is skewed and fundamentally not sound as it is based on access to available (mostly government) resources, unlike following the general tenets for working together through collaboration, coordination and cooperation.

This makes such cooperative government funding or buying dependent and it becomes less innovative. In fact, the possibility of easy access to resources for cooperatives dilutes the cooperative spirit. The vast majority of cooperatives are dependent on government support.

Cooperatives therefore need to develop on their own terms and not in response to outside offerings and pressure. They must have the desire and ability to establish a working relationship in order to succeed. These relationships should develop at their own pace and not the pace dictated by gaining early access to resources. Furthermore, interaction between the cooperative members is not robustly rooted in dynamic farming dictums and edicts. Therefore, there is a lack of complex and delicate exchanges that are necessary to make the cooperative achieve their goals. The success of the cooperative should be anchored on strong relationships and trust between members and should be supported through an effective marketing approach, service support and transparency of the exchange process.

Based on their past experiences, cooperative members maybe have internalised a sense of trusting only themselves, which makes them unable to take their cooperative initiative to greater levels, and cooperative members feeling discouraged, powerless and unable to move larger forces that affect their lives and their worth in the collective. Getting an enthusiastic and energetic membership is important for the cooperative. Encouraging everyone to be part of the process is therefore essential and getting people to contribute their thinking to create a pool of opinions for which the cooperative will benefit to make best farming decisions. According to literature, some of the strategies that the farmers use in their farming operations include development of communities of practice. Communities of practice is a group of farmers who share a common pursuit, activity or concern; however, members do not necessarily work together, but form a common identity and understanding through their common interest and interaction (Lowitt, *et al*., 2015). The communities of practice are informal and are necessitated by the need for the farmers to learn from each other. As individuals, farmers go through learning as a practice and learning through participation in the social world. That means away from theories involving cognitive process, farmers continue to gain knowledge through social practice. Community of practice therefore involves internalising knowledge gained through interaction with others as well as learning through participation in the social world. This could suit participants who prefer non-alliance as a mechanisms of interaction to enter government market. For cooperatives to be empowered, it is essential to improve governance at all levels. As mentioned earlier, many cooperatives are constrained by low managerial capacity, low skills flow, lack of a focused approach and lack of resources. The generally low socio-economic status of the members may create pressure to spend whatever returns the co-op makes. Savings, which are needed as an investment to grow the business, may prove challenging. Individuals have varying levels of investment interest and as such their commitment is not firmly etched in the realisation of success for the cooperative. Cooperatives are unable to invest in long-term tangible assets and as such are unable to make capital gains. Furthermore, because of individual members’ socio-economic situation, there is also an element of insistence on cash payment or cashing in on dividends with little regard for re-investment in order to potentiate future earnings. Members are anxious for access to cash and end up driving divergence away from the cooperative core matters of farming to becoming social safety nets for individual members. To meet these challenges will require strong managerial capacity and a system of discipline within the group and the group ensuring that they apply rules even against powerful members of the group.

On the other hand, there is an inherent risk for individual farmers preferring to gain government market access as individuals. Most of them come from a underprivileged background and do not understand how the markets work. They have little information on market conditions, prices and quality standards of goods. Because they are not organised collectively, they will be exposed in terms of experience of market negotiations and possess little appreciation of the capacity to influence the terms and conditions upon which they enter the market. With no information, no experience and not being organised, smallholder farmers who prefer to access government business and any other markets will therefore have unstable platforms upon which to plan a market-oriented production system or to negotiate prices and conditions. They will therefore be at risk of accepting offers, which may not be solidly beneficial for them. Ultimately, their lack of relevant knowledge means they are passive rather than active players in the market; they can be exploited and may fail to realise the full value of their production.

However, smallholder farmers who have sufficiently developed will be able to turn to contract markets, especially contract markets involving retail supermarkets, which are common in the country. While most of the retail buyers prefer to deal with larger and medium-sized farmers, there is potential for the smallholder farmers, if they can be able to deal with economies of scale and coordination issues. Fortunately, this is, where collective action in the form of a farmer organisation can help to become part of these procurement systems.

Unfortunately, even with collective action, there are some dynamics that should be taken into consideration. An example of such dynamics includes the size of the group and shared norms and social capital. Farmer group formations for collective action, which have a small size, often have higher internal cohesion, members have a better chance to connect, know each other and monitor each other. On the other hand, belonging to a larger group has benefits of economies of scale, which could be leveraged for marketing opportunities. According to literature, the membership size of farmer groups differ, ranging in size from 5 to 9 000. Although a larger farmers group has market benefits, it may become unmanageable, if the size is too big. For instance, a group of 9 000 members may not promote cohesion or a great degree of interaction between members.

Similarly, the viability of the groups is important. An organisation that is able to adapt the strength in numbers within the group and create links with government, broader networks for technology development, networks of international markets, donors and present a perfect product message, will be able to create value in association, will position and destine the collective for success. Shared norms and the wealth of past successes working together are also important for collective action. Farmer group formations that are anchored on pre-existing social groups have an advantage because they build on corollaries and trust. However, external interventions that push collective marketing on other types of groups may exceed their capacity or interest. This may create a challenge, which may threaten the founding idiosyncrasies and characteristics for the group. It is therefore important that external programmes do not overly exert influence on the social capital for the group.

## 5.3 Recommended Future Research

This study examined the factors influencing potential access of smallholder farmers to government business. Future research should examine the major hurdles experienced by those farmers who already gained a government contract, the challenges they had to overcome and how they mastered them. Do they see long-term success in such business linkage? Has it made a difference to their incomes, job creation and in a wider circle also benefitted their communities? This should be compared with a control sample of those who tendered for government business and failed to gain the tender. What made them lose the tender? Could they have done something differently?

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