

# SMALLHOLDER FARMERS PARTICIPATING IN COMMERCIAL AGRI-FOOD CHAINS: LEARNING FROM EKSTEENSKUIL RAISIN PRODUCERS

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## Abstract

*The strict rules and regulations associated with supplying agricultural products to commercial agri-food chains often contribute to the exclusion of smallholder farmers from the formal market. New Institutional Economics theory is used in this paper to investigate the way how a group of smallholder raisin producers from South Africa cope with the strict rules and regulations associated with supplying raisins to the Fairtrade market. The findings show that, instead of viewing the rules and regulations as a fatal stumbling block, the farmers from Eksteenskuil created additional rules and regulations to help them coping with the strict requirements of the Fairtrade initiative. The conclusion is that, if incentives are correctly aligned and the financial benefit for the farmers is significant, the farmers will find a way to cope with the requirements to successfully participate in the formal market.*

*Keywords: linking farmers to markets, New Institutional Economics, smallholder farmers*

## 1. Introduction

The strict rules and regulations associated with supplying agricultural products to commercial agri-food chains are well documented to be a major stumbling block that excludes smallholder farmers from developing countries from participating in such food chains (Bienabe and Vermeulen, 2007; Louw *et al.*, 2008; Jordaan and Grové, forthcoming). There are, however, smallholder farmers from South Africa who do overcome the stumbling blocks and who are successfully participating in highly competitive commercial agri-food chains as described by Sartorius and Kirsten (2002); Ewert *et al.* (2006); Louw *et al.* (2006); Bediako and Debrah (2007); Louw *et al.* (2008); Hendriks and Lyne (2009). While the success stories are well described, the scope of the research did not allow the authors to comprehensively describe the way through which the farmers cope with the rules and regulations to participate in commercial agri-food chains. Consequently, there is limited information available to help other smallholder farmers how to cope with the strict rules and regulations that exclude them from commercial agri-food chains.

The aim of this paper is to explore the way through which a group of smallholder raisin producers from Eksteenskuil, South Africa, cope with the strict rules and regulations to export their raisins through the Fairtrade initiative. The theory of New Institutional Economics is used as the theoretical framework to describe the way the farmers behave within the institutional environment (Williamson, 2000; Jordaan and Grové, 2013) as specified by the Fairtrade initiative. Such

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information may provide insight that can be used to help other smallholder farmers to cope with the strict rules and regulations associated with the formal market.

Information that was used for the purpose of this paper was obtained by means of personal interviews with key role players along the value chain within which the farmers participate in 2008. These role players include the board of directors of the Eksteenskui Agricultural Cooperative (EAC) as which the farmers have organized themselves, representatives from raisin processing companies who buy the raisins from the farmers, input suppliers, a previous governmental extension officer that was heavily involved with the farmers from Eksteenskui, and some of the farmers from Eksteenskui and other commercial raisin producers in the region.

## 2. Background to the case of Eksteenskui raisin producers

Eksteenskui is a rural Colored settlement situated in the Lower Orange River Valley in the Keimoes area in the Northern Cape Province of South Africa (Figure 1). Eksteenskui consists of about 600 hectares of irrigable land. Currently, there are 76 households who farm on an average of 3.8 hectares of farmland. The main crop that is currently produced at Eksteenskui is vines for raisins (Kok, 2008).

Despite Eksteenskui farmers being organised as the EAC, members of EAC do not produce nor market collectively. Farmers produce individually and each farmer is responsible for selling his own produce and delivering it to the depot of South African Dried Fruit (SAD) in Keimoes.

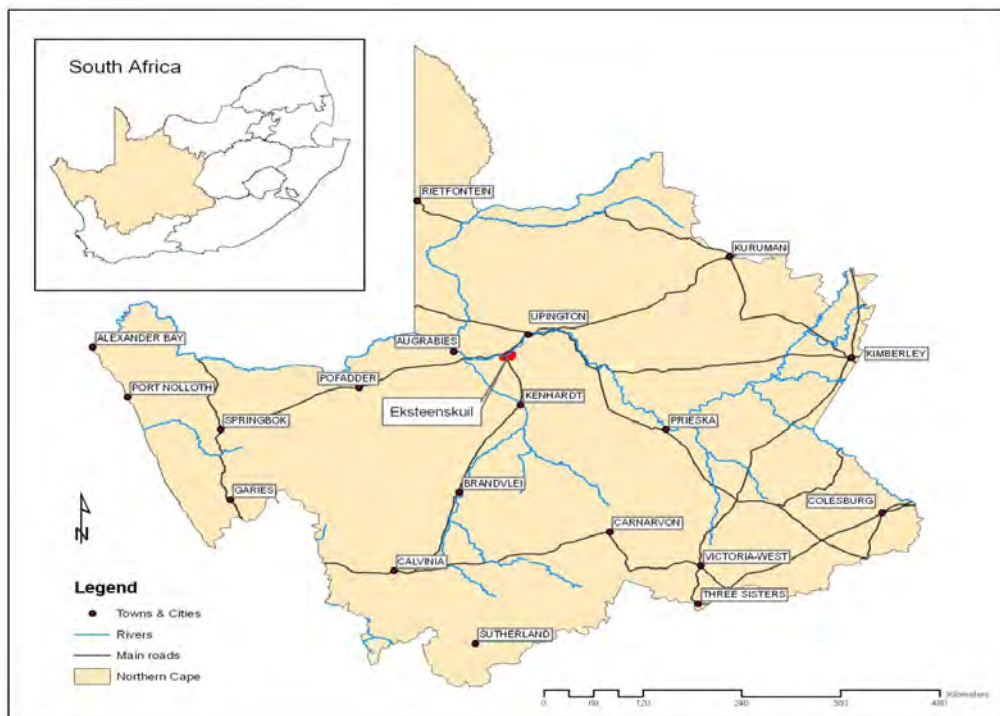


Figure 1. Map of the Northern Cape Province of South Africa to show the proximity of Eksteenskui in South Africa

At the processor, SAD grades the raisins based on quality into choice grade, standard grade and industrial grade. Only choice grade raisins are exported via the fair-trade initiative. Eksteenskuil farmers who sell their choice grade raisins through the fair-trade initiative do receive an additional payment from the fair-trade buyer once the raisins have been exported. The additional payment is made possible through the fair price which the fair-trade buyer is willing to pay to previously marginalised producers.

SAD is the only fair-trade accredited processor in the area. Farmers thus have no choice other than to sell their raisins to SAD if they want to participate in the fair-trade value chain. Important to note, however, is that farmers do have a choice of within which marketing channel they want to participate. The additional amount paid by fair-trade, however, seems to be enough incentive for them to choose the chain via fair-trade.

### **3. Institutional analysis of raisin production and marketing at Eksteenskuil**

Based on the theory of New Institutional Economics one would expect that changes in the institutional environment would affect the way economic agents behave (Williamson, 2000; Jordaan and Grové, 2013). Since the focus of this paper is the institutions that are specifically applicable to the case of Eksteenskuil, only the rules and regulations that are specific to the case of Eksteenskuil will be discussed. These rules and regulations include regulations that relate to Eksteenskuil raisin producers' functioning as an agricultural cooperative, Eksteenskuil raisin producers' partnership with Fairtrade, and their relationship with SAD.

#### **3.1. Formal rules related to the Eksteenskuil Agricultural Cooperative (EAC)**

Since 1994 the farmers from Eksteenskuil were organized as the Eksteenskuil Farmers' Association (EFA). As EFA the farmers started exporting their raisins through the Fairtrade initiative in 1995. In 2006, the EAC was registered and farmers are exporting their choice grade raisins via the Fairtrade initiative as EAC. Farmers who sell their choice grade raisins through the Fairtrade initiative receive an additional payment from the Fairtrade buyer (Traidcraft) once the raisins have been exported. The additional payment is made possible through the fair price that the Fairtrade buyer is willing to pay previously marginalized producers.

The conversion of EFA to EAC is a direct result of exporting raisins under Fairtrade. Members of EFA recognized that their legal status as an association was a hindrance to their functioning in the value chain. EAC consequently was registered in 2006 (Kok, 2008). The constitution of EAC provides specific requirements that have to be met by members. In addition to the constitution, EAC also has a list of guidelines that specify the conduct related to renting and using implements under its control. Most of the farmers at Eksteenskuil do not own machinery and hence they use equipment from EAC. These guidelines aim to ensure that everyone has equitable access to the equipment and that the equipment is maintained in a good, working condition.

#### **3.2. Fairtrade Labeling Organization (FLO) standards and requirements**

An individual farmer cannot become a Fairtrade producer himself. Individual farmers have to form an organization that is able to contribute to the social and economic development of their members and their communities. The requirement to form an organization resulted in the estab-

lishment of EFA in 1994. The mere formation of an organization, however, is not sufficient. Such organizations can be certified by FLO only if they comply with the requirements of the Generic Fairtrade Standards for Small Farmers' Organizations (FLO, 2005). The organization is expected to assess the environmental impact of its operations, develop plans that are designed to decrease those impacts, and monitor the implementation of those plans. Fairtrade producers are expected to continually reduce the volumes and types of agrochemicals that are used in production processes. FLO publishes a list of chemicals that may not be used at all. Producers are expected to reduce, reuse, recycle and compost waste in a manner that is suitable to the materials in question. A plan should be established for the disposal of all hazardous waste materials and also for the sustainable use of organic waste. Producers are expected to maintain and enhance the fertility and structure of soil, as well as manage water resources with the aim to conserve and not to contaminate. Fire should not be used in a manner that will be detrimental to the natural system. Finally, producers are required to ensure that no Genetically Modified Organisms (GMOs) are used either in the production or processing of the product (FLO, 2005).

In order to comply with the requirement of assessing the environmental impact, EAC contracted the services of the Environmental Monitoring Group (EMG) from Cape Town, to assist them with the interpretation of FLO specifications and with the required environmental impact assessment. With regard to reducing the amount of agrochemicals used in raisin production, EAC began to purchase chemicals in large volumes and distribute these to farmers in smaller volumes. This enabled EAC to provide only the required amount of chemicals at a lower price to individual farmers, and helped to monitor the amount of chemicals being used. Chemicals are kept at a central location and farmers have to complete and sign a form when they obtain these. A structure was erected for the disposal of empty chemical containers and other hazardous waste.

In addition to all the generic rules that have to be complied with, there are also some standards that are specific to dried fruit that need to be met. These standards can be placed on three legs: social development, economic development and environmental development (FLO, 2006). The social development leg strives for at least 80% of the delivered fruit to be supplied by members of the organization. Suitable measures must also be taken to increase the percentage of registered women growers and to promote their active role with regard to decision-making within the organization. The organization must develop a plan to ensure that all suppliers benefit from the premium until 80% of the fruit is supplied by members. The producer organization must show efforts to promote the marketing of other crops, in order to decrease the economic dependency on one single crop, and to provide producers with additional sources of income. The organization must also have the necessary infrastructure and capacity to communicate with, sell to, and deliver to overseas markets. Finally, the environmental development leg requires that all dried fruits sold with the Fairtrade label are produced by organizations that are FLO-certified.

Although the regulations specify that a small proportion of non-members may deliver under the name of the accredited organization, EAC decided that only members would be allowed to do so. Instead of allowing other farmers to deliver under its name, EAC invited other previously marginalized farmers within the region to become members. Women producers also have a major role to play at Eksteenskuil. Two of the five directors of EAC are females. EAC has also contracted Vinpro to conduct a feasibility study for wine production at Eksteenskuil. EAC aims to obtain FLO accreditation for exporting wine in order to reduce their dependence on raisins as their sole source of income.

With regard to the Fairtrade Premium, there are also some strict specifications that have to be

met when spending the premium. The premium is paid only once the organization has sold their produce and submitted a report to FLO which contains the volume sold, the price received, and also the premium that was earned (Dillenseger, 2005). The premium has to be spent on activities that improve the lives of the small farmers, farm workers, and the community. More specifically, FLO stipulates five criteria that have to be met when using the Fairtrade Premium, namely, the benefit must be to the whole community rather than only to individuals; the benefit should last at least five years; the project needs to respond to the most urgent and basic needs of the workers; the benefit should also reach the families of the workers; and finally, the project also needs to bring an additional benefit to the community (Dillenseger, 2005). These specifications thus ensure that producers invest in their farms and communities.

In the case of Eksteenskuil, EAC also serves as the Premium Committee. The projects where money from the premium has been utilized include equipping and maintaining of EAC's office; buying and maintenance of farming equipment; coordination and dissemination of agro-chemicals to individual farmers; organizing farmers' days (twice-yearly) and information sessions; funding of educational equipment for primary schools; funding of women's projects; organizing and facilitating training of a group of women in tourism; workshops on basic business management (for farmers and non-farmers); and hydroponic training for a group of youths from the community. These projects meet the requirements specified by FLO.

It is clear that there are a number of strict regulations that need to be met by Eksteenskuil raisin producers in order for them to continue benefiting from Fairtrade. Should farmers fail to meet the specified requirements, the accreditation of the whole organization is suspended until the organization can prove that the necessary corrections have been made.

### **3.3. Relationship with SAD**

Upon the request from Traidcraft, a formal contract had to be drawn up between EAC and SAD (Koch, 2009). The contract has to specify a list of farmers allowed to deliver under the name of EAC for the purpose of selling raisins through Fairtrade. The aim of the contract is to protect the Eksteenskuil farmers who are regularly audited through compliance with strict rules and regulations, and to protect the integrity of the Fairtrade initiative by ensuring that produce comes from previously marginalized producers. SAD also require from all farmers from whom they procure raisins to complete and submit a list that state all chemicals that has been used during the production season on the grape vines. In order for farmers to sell their raisins to SAD, they have to comply with the above specifications.

## **4. Discussion and conclusions**

The analysis of the institutional environment within which Eksteenskuil raisin producers operate indicated that the farmers from Eksteenskuil face a number of strict rules and regulations that have to be met to supply raisins to the Fairtrade market. Eksteenskuil farmers collectively export their raisins via the Fairtrade initiative which earns them prices that is higher than market prices, and a Fairtrade Premium. EAC plays a major role in helping the farmers to cope with the strict rules and regulations associated with the Fairtrade initiative.

Although Eksteenskuil farmers initially exported raisins as EFA, EAC was established as a legal entity to allow the farmers to export their raisins themselves to increase their share in the final price. Currently, the South African Government has an incentive scheme whereby groups of



previously marginalized farmers who organize themselves as smallholder farmers' cooperatives get access to government grants. The aim is to incentivize smallholder farmers to form cooperatives since it is believed that collective action will enable them to supply enough produce of an acceptable quality to enable them to enter commercial agricultural value chains. Stimulating collective action is in line with developments in other developing countries (Chibanda, *et al.*, 2009). Kaganzi, *et al.* (2009), however, conclude that collective action as such is not the only answer to enhance performance and increase profits of individual farmers. They argue for the need to evaluate when to use collective action, since it will only be effective if gains from working together sufficiently compensate additional costs. Strong leadership within the group and ensuring the transfer of skills to individual farmers are required to ensure effective collective action (Kaganzi, *et al.* 2009). The EAC management board exhibits strong leadership which is evident from their endeavors to maintain FLO accreditation, capacitate farmers to improve their farming practices and enhance their share in the final price for the past seven years. It is important to note that the farmers have taken full ownership of EAC without any government involvement. In fact, government has played no role in the development of the value chain within which the Eksteenskuil producers participate, nor have the farmers accessed any government grants through their collective action. The sole reason for Eksteenskuil farmers becoming part of the Fairtrade value chain is because the benefits of participating in the value chain outweigh the costs of participating in the value chain. The conclusion is that correctly aligned incentives may get farmers to organize themselves into an appropriate collective entity (not necessarily a cooperative) to help them to cope with the strictly enforced institutions of commercial agri-food chains.

The case of Eksteenskuil confirms that smallholder farmers can benefit from integration in high value niche markets (Hendriks & Lyne, 2009; Reynolds, 2009) and global value chains (Dollar & Kraay, 2004; Roy & Thorat, 2008; Minten, *et al.* 2009; Béné, *et al.* 2010). Eksteenskuil raisin producers also prove that emerging farmers can upgrade their traditional value chain to a higher value option. The South African Government should reconsider its current policy where access to government grants serves as an incentive for emerging farmers to form cooperatives. Instead of incentivizing collective action, government should rather incentivize business development. Collective action will then be used as the vehicle to develop the business, and not only to gain access to grants. The role of government should be to provide an enabling environment for these businesses to develop through the establishment of secure property rights, institutions, policies, and service delivery.

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