



IN TRANSFORMATION INITIATIVE

LAND REFORM AND RURAL DEVELOPMENT MODELS

**THE MOOKETSI FRESH PRODUCE MARKET
A MODEL FOR ESTABLISHING REGIONAL/DISTRICT
INNOVATIVE MARKET-LINKAGES FOR BEGINNER AND
EMERGENT FARMERS?**

INTRODUCTION

1. The report is rooted in, and serves to augment and support, the on-going discussions and continuing work, between the ruling political party and a number of large-scale commercial and emerging farmers to determine those policy principles that will provide policy congruence, synergy and stability in the agricultural sector.
2. This report has been commissioned as part of an effort to identify and develop a range of viable land reform models that can: contribute to South Africa's land reform imperative; improve general food security; and stimulate the economic development of rural communities.
3. Experience has proven that land in itself cannot generate wealth, alleviate poverty and bring about sustainable rural communities. This is rather achieved through the transformation of the new or emerging farmer activities to those of viable, sustainable commercial agri-business over time. Partnerships in this regard with existing large-scale commercial farmers are therefore key to the enablement of this process. Thus the transfer of land must be linked to the establishment of viable economic units or agri-businesses.
4. The transition of the new or emerging farmer entrants towards their participation in sustainable agri-businesses requires the formalisation of a tripartite relationship between Government, commercial agriculture and the new farmers, as well as measures to incentivise the transformation of the agricultural sector as a whole. This transition requires that the entire spectrum of civil-society, and not just existing commercial farmers, work together to address the issues of land reform and its associated challenges, to alleviate poverty in rural areas, to create decent jobs and enhance agricultural profitability through inclusive institutionalisation of partnering, mentoring, monitoring, measuring and assistance.
5. It is clear that the key to successful agricultural transformation lies in the establishment of vibrant and sustainable agri-businesses in which emerging farmers can thrive. To this end, the role that existing commercial farmers can play must not be under-estimated.
6. Furthermore, the agricultural sector as a whole needs to move from being viewed and managed as a social sector and be evolved into a fully-fledged economic sector within the broader South African economy. This imperative remains part of the national interest and fundamental to South Africa's future security.

7. To this end, a number of successful land reform and rural development projects have been identified for analysis and modelling, with a view to providing proposals in the interests of this transformation.
8. Key to the development of sustainable agri-business and rural agriculture is the ability to access markets. One of the challenges facing rural agri-based communities remains the lack of adequate marketing infrastructure, which includes the transport infrastructure and the location of the markets themselves to the primary producers. Without adequate access to markets beginner and small-scale farmers are unlikely to progress beyond subsistence.

PURPOSE OF THIS REPORT

AIM

9. This report outlines the establishment of a regional fresh produce market, initiated by a large commercial farmer, from which important lessons can be garnered related to establishing innovative market-linkages for beginner and emergent farmers, and links lessons for government preferential procurement from SMMEs and co-operatives.

IMPORTANCE

10. A conceptual analysis of the Mooketsi Fresh Produce Market serves to illustrate the importance of the marketing dimension, not only providing an offset for fresh produce generated by emerging and small-scale farmers but also, serving as a catalyst to rural development as a whole.
11. The Mooketsi Fresh produce Market is important for the following reasons.
 - 11.1. Firstly, the establishment of local markets provides the vehicle through which beginner and emerging farmers can access traders.
 - 11.2. Secondly, this initiative speaks directly to the imperative in Chapter 6 of the National Development Plan, which requires the establishment of innovative market-linkages for farmers to markets in South Africa, the sub-continent and further afield.
 - 11.3. Thirdly, it speaks to the central policy theme in the priorities of Government of unlocking the potential for SMMEs, co-operatives and township and rural enterprises.

- 11.4. Fourthly, it speaks directly to the Government initiative for preferential procurement where the State is the main procurer, and specifically those initiatives targeting departments with a diverse spatial footprint in the rural areas.

**NATIONAL PRIORITIES OF GOVERNMENT
(THE MEDIUM TERM STRATEGIC FRAMEWORK CHALLENGE OF GROWING THE ECONOMY)**

STATE OF THE NATION ADDRESS: FEBRUARY 2015

12. The Medium-Term Strategic Framework (MTSF) of Government is linked to the electoral cycle. The theme for the January 2015 Cabinet Lekgotla was the development of a nine-point plan for the economic sector aimed at growing the economy. The President, in the State of the Nation Address (SONA) on 12 February 2015 identified the 'nine-point plan to ignite growth and create jobs', these being.

12.1. Resolving the energy challenge.

12.2. **Revitalising agriculture and the agro-processing value chain.**

12.3. Advancing beneficiation or adding value to our mineral wealth.

12.4. **More effective implementation of a higher impact Industrial Policy Action Plan.**

12.5. Encouraging private sector investment.

12.6. Moderating workplace conflict.

12.7. **Unlocking the potential of SMMEs, cooperatives, township and rural enterprises.**

12.8. State reform and boosting the role of state owned companies, ICT infrastructure or broadband roll out, water, sanitation and transport infrastructure.

12.9. Operation Phakisa aimed growing the ocean economy and other sectors.

13. The President further stated in the February 2015 SONA that:

"Small business is big business."

Government will set-aside 30% of appropriate categories of State procurement for purchasing from SMMEs, co-operatives as well as township and rural enterprises.

We will also continue to promote opportunities for the youth. The National Youth Development Agency has disbursed 25 million rand to 765 youth owned micro enterprises in the last financial year nationally.

The Agency has also partnered with the IDC and the Small Enterprise Finance Agency in a 3-way partnership that has resulted in a 2.7 billion rand fund for young people.”

UNLOCKING THE POTENTIAL OF SMMEs AND COOPERATIVES

14. Government has identified that most SMMEs and Co-Ops fail due to lack of access to opportunities and markets, inclusive of problems related to legislation and regulatory frameworks and access to finance.
15. In the 2015/16 financial year, the focus will be on **advancing public sector procurement as a transversal activity to support SMMEs and Co-Ops**. This will **require significant changes to the currently centralised procurement by government**, including revised procurement policies and practice notes from the National Treasury in order to allow government departments (across the four levels of government) to direct such preferential procurement.

THE NATIONAL DEVELOPMENT PLAN: VISION FOR 2030

AN INTEGRATED AND INCLUSIVE RURAL ECONOMY

16. Chapter 6 of the National Development Plan - Vision for 2030 - speaks to rural communities requiring greater social, economic and political opportunities to overcome poverty, thus requiring a land reform and job creation strategy that ensures that rural communities enjoy economic advancement and have jobs. It envisages growing one million jobs in the agricultural sector.
17. The National Development Plan views agriculture as having the potential to expand significantly if the necessary conditions can be created. This would include the improvement in the livelihoods people if **land in communal areas** can be better used¹. A further 70 000 livelihood opportunities can be created if **land reform beneficiaries** are better supported to use land productively and not **constrained by security of tenure, infrastructure and market institutions**². Expanding **commercial**

¹ National Development Plan; Chapter 6, Page 198.

² National Development Plan; Chapter 6, Page 199 & 200.

agriculture³ has the potential to create an additional 250 000 direct jobs and a further 130 000 indirect jobs by picking winning agricultural subsectors where the expansion in production and further value-adding processes are sustainable over the long-term.

18. A stepped up programme of financing would address most of the financial problems of land reform beneficiaries, give the implementers reassurance that beneficiaries have the necessary skills for successful farming and spread the cost of the programme between the future earnings of the farmer and the pockets of the taxpayer.

THE MOOKETSI FRESH PRODUCE MARKET INITIATIVE

NATURE OF THE OPERATION

19. The Mooketsi Fresh Produce Market is situated at the Mooketsi Operation of the ZZ2 farming enterprise and operates as a regional market.
20. Originally the site of the ZZ2 farm stall at Mooketsi, this farm stall gave way to the conversion of a 3 000 m² packing shed into a state of the art market structure and with the associated ICT systems. The converted facility boasts six cold-rooms, each of which can run at a different temperature, with trucks being able to deliver directly into the cold-rooms. The infrastructure and information technology systems at the new facility are identical to those in markets in urban centres around SA and have been designed to streamline the transaction process.
21. The Mooketsi Fresh Produce Market is South Africa's first regional market and has a growing list of around 3 200 registered buyers, these being predominantly from Limpopo but also from Gauteng, Mpumalanga, Mozambique, Botswana and Zimbabwe. The facility currently handles over twenty fresh produce lines in various packaging types and will expand into a one-stop-shop for all products as demand grows.
22. The market is vigorously pursuing its vision of greater collaboration between industry role players in the region. The expanded development of this regional market ensures greater food security, improved accessibility and provides a much wider variety of fresh produce at cheaper prices.

³ National Development Plan; Chapter 6, Page 200.

- 23. A number of new jobs have already been created in transport and distribution services as well as in the portering of product from the market floor to the loading area. With regards to the porters, the market has elected to absorb the costs of registering them and providing them with all necessary equipment, which allows them to retain their day’s earnings in their entirety — a move to improve service delivery and create a symbiotic relationship between the market and the entrepreneur.

BUSINESS MODEL

- 24. Regional Market Management Services (RMMS) was created to own and operate the Mooketsi Fresh Produce Market. This is owned in equal shares by ZZ2, RSA (Market Agent) and FGX (Figure 1).

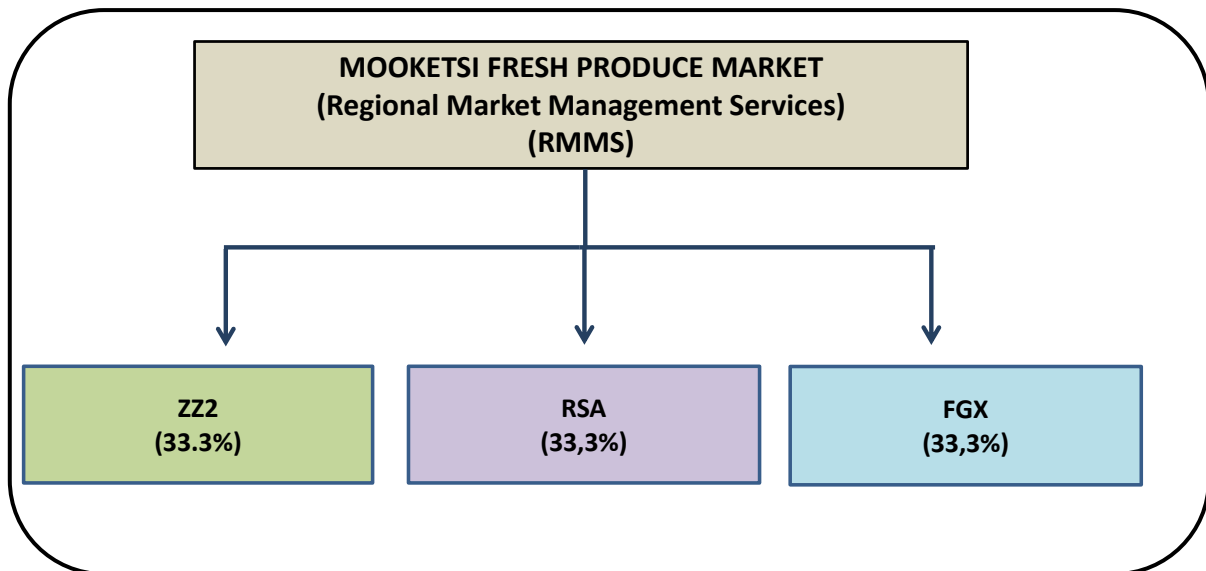


Figure 1: Ownership of the Mooketsi Fresh Produce Market

- 25. The Market Agent, RSA, is APAC-accredited, which gives producers legislative protection through the Agricultural Produce Agents Act. Producers also enjoy the unique advantage of cover through APAC’s Fidelity Fund.
- 26. The business model of the market is based on the following principles:
 - 26.1. The producer (farmer) retains ownership of the product until the first transaction is done. The sales agent derives his income strictly on commission. This principle ensures that accurate price discovery based on supply and demand takes place and that true market intelligence is available to the producer;

- 26.2. The market owner operates as a facilitator to ensure that the rules of the commission market are respected and that the market information is available to all participants. This principle ensures fairness and equity to all participants;
- 26.3. The market is not exclusive and open to all suppliers and buyers who agree to the commission system. This principle ensures freedom of participation to sellers and buyers alike.

**THE CHALLENGE FACING GOVERNMENT
(SMMEs; Co-operatives and Unlocking Growth Through Preferential Procurement)**

THE NDP: MARKET ACCESS FOR BEGINNER AND EMERGENT FARMERS

27. The National Development Plan acknowledges that attention must be given to the bureaucratic systems required to ensure that all farmers in South Africa can access both foreign and domestic markets with food that is fresh, safe and socially and environmentally friendly. The National Development Plan is very candid on the challenge that beginner and emergent farmers face in accessing markets:
- 27.1. “Substantial investment must be made in **market linkages for small-scale farmers in the communal and land reform areas**, with provisions to **link these farmers to markets** in South Africa, and further afield in the sub-continent.
- 27.2. This will require **infrastructure to improve the time and place utility of farm products** through road, rail and communications infrastructure that gets the product from the farm gate through the **different stages of the value chain**.
- 27.3. **Information on buying and selling prices and supply and demand trends** needs to be provided to farmers, traders, processors and consumers. **Linking farmers to markets** will also **require new forms of intermediaries**, such as cooperatives, to **assist small producers create economies of scale** in processing. This will require infrastructure for processing and all forms of **value add for raw commodities**.
- 27.4. Finally, it requires infrastructure to operate **cold chains**. If this is not achieved, these farmers will be excluded from **markets for high-value produce** and rural consumers will continue to pay higher prices for food that their urban counterparts.”

28. The National Development Plan consequently argues that:

28.1. “Linking farmers to existing markets is not enough. A **substantial proportion of agricultural product is consumed** in “**food away from home**” market in South Africa. In the rural areas it also includes **school feeding schemes** and other forms of **institutional catering**, such as food services in **hospitals, correctional facilities** and emergency food packages where the **state is the main procurer**.

28.2. As part of the comprehensive support packages for farmers, **preferential procurement mechanisms** should be put in place to **ensure that new entrants into agriculture can also access these markets**”.

PREFERENTIAL PROCUREMENT

29. In the 2015/16 financial year, the focus will be on advancing public sector procurement as a transversal activity to support SMMEs and Co-Ops. This will require significant changes to the currently centralised procurement by government, including revised procurement policies and practice notes from the National Treasury in order to allow government departments (across the four levels of government) to direct such preferential procurement.

GOVERNMENT FINDS IT DIFFICULT TO DO BUSINESS WITH SMALL SUPPLIERS

30. The principle being pursued by government is very commendable -use the diverse spatial foot print of government in the rural areas to divert procurement spending power to change the lives of the rural poor (Figure 2).

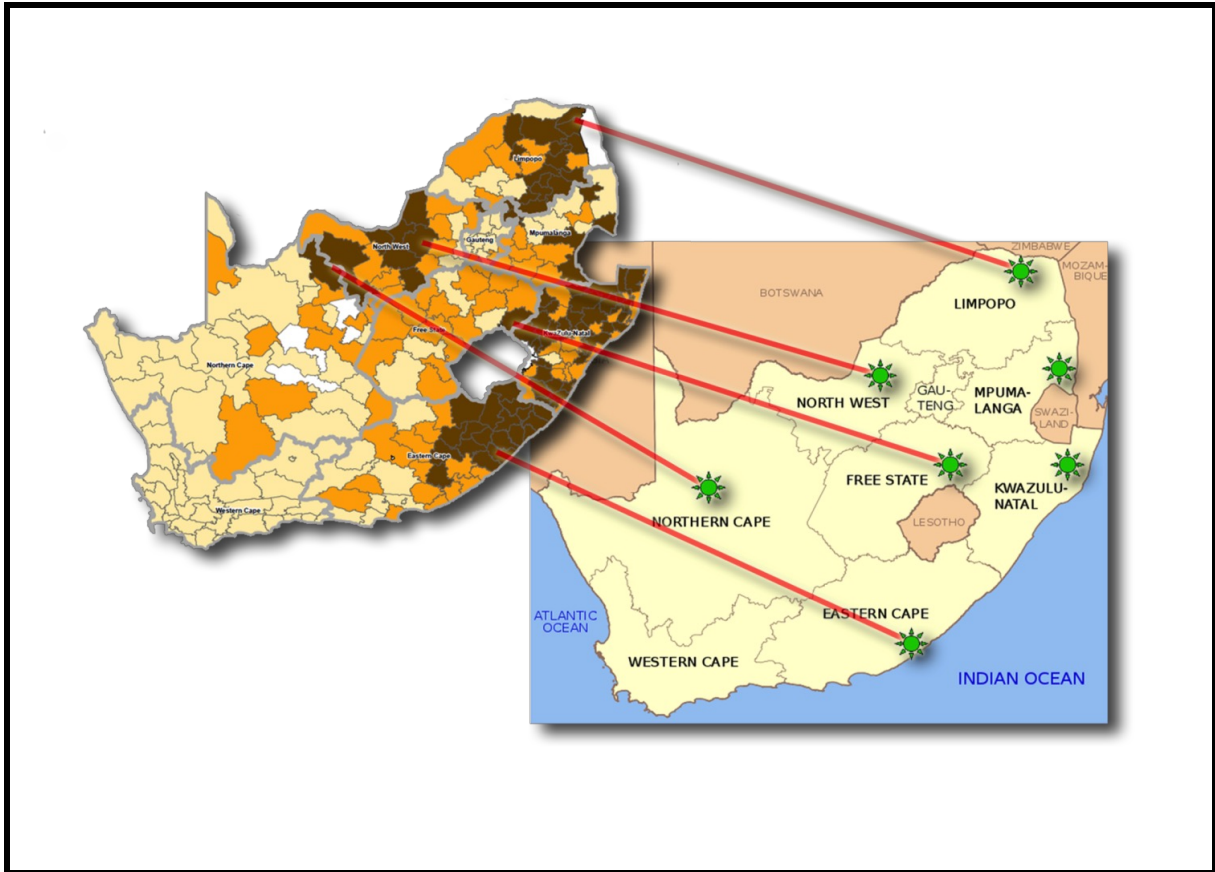


Figure 2: The link between areas with the lowest per capita income and potential government procurement spending to create corridors for development

31. The imperative for preferential procurement poses a significant challenge for those government initiatives where the State is the main procurer, and specifically those initiatives targeting departments with a diverse spatial footprint in the rural areas.
32. The oligarchic nature of government procurement means that it is highly centralised process based on significant tenders and government contracts, and with ICT systems that provide complex checks and balances to ensure the veracity and security of taxpayer’s money. Instruments used to provide this veracity include:
 - 32.1. Procurement centres.
 - 32.2. Supplier data bases.
 - 32.3. Term contracts.
 - 32.4. Financial authorities established on the Financial Management System.
 - 32.5. Government Orders on the logistics and procurement system.

32.6. Receipt Vouchers.

32.7. Supplier payments.

32.8. etc

33. This complex system does not lend itself to small transactions, nor does it lend itself to handling a myriad of small suppliers. The only existing manner by which small purchases can be managed is on the Petty Cash System, but with attenuated risk to veracity, accountability and audit. The above is exacerbated by the State's requirement for 'security of supply'. Large government suppliers (hospitals, schools, SANDF units) simply cannot risk the fluctuation of supply that arises from purchasing perishables and other produce from small suppliers.
34. Government is thus simply 'caught between a rock and a hard place'. On the one hand, it wishes to stimulate the rural economy and roll-back poverty by procuring from SMMEs and Co-operatives, and on the other its procurement juggernaut just simply does not have the flexibility to manage a myriad transactions from small producers, let alone the supply-risk that arises from this.

WHY IS THE MOOKETSI FRESH PRODUCE MARKET INITIATIVE IMPORTANT?

35. The Mooketsi Fresh Produce Market is a win-win opportunity for everyone in the fresh produce chain, including the consumer. It provides us with a successful template against which future modelling can be done. The discussion below argues that this market represents and is indeed a successful template that can be developed as an empowerment model that can be replicated throughout South Africa and ultimately the rest of Africa.
36. As indicated earlier, the National Development Plan speaks to the development of innovative market linkages and the development of new forms of intermediaries.
- "Linking farmers to markets will also require new forms of intermediaries, such as cooperatives, to assist small producers create economies of scale in processing. This will require infrastructure for processing and all forms of value add for raw commodities."*
37. The Mooketsi Fresh Produce Market, once the farm stall of a single supplier with less than 75 buyers, now has 70 suppliers under one roof with the necessary cold storage, and services over 4 000 traders and numerous other customers in the region.

38. The importance of the establishment of district or regional markets, like the Mooketsi Market, is that such markets provide a special purpose vehicle through which government can trade with a single entity, but nonetheless distribute the power of its procurement spend to poor rural communities and provide innovative market access to beginner and emergent farmers.
39. The specific advantage is that for the buyer risk is reduced and the security of supply is ensured (in the case of Mooketsi, by providing bulk produce to traders from 70 producers), meaning that:
- 39.1. The interface between large procurers (government and business) and SMMEs is ensured.
 - 39.2. Market related supply and demand is ensured.
 - 39.3. As it is linked to the National Pricing System, fluctuations in price are benchmarked nationally.
 - 39.4. State-of-the-art ICT systems and controls are in place which will satisfy future decentralised procurement governance and administration by government.
 - 39.5. Auditability and accountability is ensured.
40. This not only alleviates the pressure on the government procurement system to provide practice notes, but further provides three possible business models against which government can contract district or regional markets.
- 40.1. The district/regional market as intermediary supplier.
 - 40.2. The district/regional market as an agent (chandler) on a fixed fees structure.
 - 40.3. The district/regional market as a hub for inputs required by the primary producers that supply the market.
41. In conclusion, the development of the district/regional market concept together with the required transport infrastructure is an essential catalyst and enabler to beginner, emerging, small and medium-scale producers. These markets will provide the critical and essential link to enable trade by farmers who are not large enough to create their own infrastructure and are too far from existing marketing infrastructure for their endeavours to be viable.

ENDS