Chapter 5

The Emergence of Supermarkets in Malawi: Implications for Agrifood Markets and the Small Farmer[a]

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1. INTRODUCTION

In the past decade, many countries in eastern and southern Africa have witnessed a rapid rise in supermarkets, which are quickly transforming the agrifood systems that form the economic backbone of these countries. Propelled by the strong forces of globalization and urbanization, the rapid rise of these supermarkets throughout the southern and eastern Africa has been inevitable. At a regional level, the rise of supermarkets has been rapid, though it is lagging about a decade behind the expansion of supermarkets in Latin America (Readon and Berdegue 2002). The take-off of supermarkets in Malawi, though slow, has significant implications on different actors in the agrifood system.

In countries where they had their earliest foothold, supermarkets have completely taken over the urban areas which are the most dynamic segment of the food retail markets. These are the type of food markets that small agrifood producers need to target to be able to escape from poverty. In Malawi, where supermarkets are in their take-off stage, their existence has the potential to completely transform the agrifood market, and this could imply great challenges for the smallholder farmer and agrifood processors. On the other hand, the rise of supermarkets could also bring about great opportunities for the players in the agrifood market in Malawi. However, to be able to benefit from the great opportunities that supermarkets could bring, the local agrifood suppliers need to do their business differently. Strict adherence to supermarkets' procurement procedures would enable the local suppliers to access this highly rewarding agrifood market.

The paper proceeds as follows. Section 2 discusses the main players in the agrifood market in Malawi. In section 3, the pattern of the development of supermarkets in the eastern and southern African regions is presented. In particular, we focus on the trends in South Africa and Kenya

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[a] Tsutomu Takane, ed., *Agricultural and Rural Development in Malawi: Macro and Micro Perspectives* (Chiba, Japan: Institute of Developing Economies, 2005).

where supermarkets had the earliest foothold. The section also discusses the nature of supermarkets in Malawi. Section 4 considers the determinants of the rise of supermarkets in the regions, with a particular emphasis on Malawi. Section 5 presents the changes in the procurement systems for supermarkets globally, particularly in those countries where they are well developed. The nature of the agrifood products available in supermarkets in Malawi is outlined in section 6. It also considers the socio-economic characteristics of current suppliers of agrifood products to supermarkets and the determinants of supermarkets choice of suppliers. Section 7 outlines the major challenges facing local suppliers to penetrate the supermarket markets. It also describes how two cooperatives in Malawi are faring with respect to their ability to supply agrifood products to high-value markets. The effects of the emergence of supermarkets on the fruit and vegetable supply chain are presented in section 8. The next section outlines the expectation of the rise in supermarkets and its implications on the smallholder farmers. Finally, section 10 outlines the policy implications.

2. BACKGROUND

Malawi is a small landlocked country in southern Africa with a population of over 11 million people. It is bounded by Mozambique in the south and east, Zambia to the west, and Tanzania to the east and north. The country has an area of 118,484 square kilometres, of which approximately 20% is water. Malawi is one of the poorest countries with over 65 % of the population living below the poverty line (of US$ 1 per day), and income distribution is extremely unequal, with a Gini coefficient of 0.62. Agriculture is the backbone of the economy, accounting for 30 – 40 % of the gross domestic product (GDP). Furthermore, about 90 % of all export earnings come from agriculture, and the sector also employs over 80 % of the rural labour.

2.1 The Agrifood Market in Malawi

Agricultural-related food products are mainly produced by the small-scale farmers, who dominate the agricultural sector, comprising over 90% of all agricultural activities. Their agriculture is mainly rain-fed so that production is seasonal. The nature of their farming practices severely undermines both the volume and quality of their produce.

Agrifood retailers, particularly those dealing with fresh fruit and vegetables in Malawi comprise three groups. First, there are ‘traditional markets’, which are usually open-air, although in some places they are covered. They are commonly found at the centre of cities, towns and neighbourhoods. In trading centres within the districts, such markets operate on a specified day of the week. The group encompasses vendors who have small stands serving pavement traffic in the three major cities of the country (Lilongwe, Blantyre, and Mzuzu) (Map 1). This category often buys their products from the local markets within the city and sell them along the roads at a higher price.

Map 1: Map of Malawi Showing Cities, Districts and the Locations of Cooperatives Considered in the Paper

Second, there are 'small self-service stores,' that are much smaller than supermarkets, which deal with fresh fruit and vegetables. These tend to be in the neighbourhoods of the cities of Blantyre and Lilongwe (see Map 1). Most of these, however, usually fail to establish a name and command a significant share of the fresh fruit and vegetable market within the neighbourhoods.

Third, there are the large self-service stores, which we call supermarkets. These sell different types of fresh fruit and vegetables, meat and meat-related products, and diary products. They are located in the large cities. This category of agrifood retailers is the subject of discussion of this paper.

3. PATTERNS IN THE RISE OF SUPERMARKETS IN EAST AND SOUTHERN AFRICA.

Traditionally, supermarkets are viewed as markets for rich consumers. For a long time, they were only found in large cities of the developed world and middle-income countries. However, urbanization and increasing incomes in the developing world, including the sub-Saharan Africa, have inevitably invited supermarkets into the region. Supermarkets have been spreading rapidly in the East and Southern African region since the early 1990s. The development of these supermarkets has taken place in three stages. The same pattern seems to have appeared in the Latin America and East Asia scenarios ten years earlier. The first stage is the development of supermarkets in 'richest' country within the region. The second stage involves the flow of foreign direct investment (FDI) from the rich country, leading to the establishment of supermarkets in poorer countries within the region. The third is the extension of the supermarkets into poor neighbourhoods of large cities and towns in all the countries.

In East and Southern Africa, South Africa continues to play the major role in the spread of supermarkets in the region. The foreign direct investment from South Africa, which is the richest country in the region, is the major driving force in the rapid proliferation of supermarkets across East and Southern Africa. Thus, supermarkets started in upper-income niches in large cities of South Africa and then spread into middle-class and then poorer consumer markets, and from large cities to secondary cities to towns within South Africa. Supermarkets then spread from South Africa to 'poorer' and less urbanized countries, like Malawi, Zambia, and Mozambique. Within these countries, supermarkets are now slowly spreading to secondary cities and small towns.

3.1 The Case of South Africa

Supermarkets have been part of the agrifood system in South Africa for over three decades now. However, until 1994, the supermarkets were confined to South Africa due to the nature of the trading arrangements that were precipitated by Apartheid. The abolition of Apartheid and the introduction of democratic rule in South Africa initiated a process of liberalization of its foreign direct investment, which has led to a rapid diffusion of supermarkets within the region.

South Africa has the largest number of supermarkets in the whole of Southern and Eastern Africa. With over 70,000 formal sector food markets, the sector is well-developed and some experts fear that it has reached saturation levels. Of the 70,000, more than 1,380 are supermarkets, and 33 are hypermarkets[1] (Weatherspoon and Reardon 2002). Although they represent only about 2 percent of the total number of the formal retail food outlets, supermarkets contribute over 55 percent of the total gross turnover of the formal food retail sector, which was over US$ 6.5 billion in 2002 (Reardon and Berdegue 2002). This confirms the fact that supermarkets are one of the most high value outlets for agrifood products.

The last decade has witnessed a rapid expansion of the two largest supermarkets in South Africa to the rest of the African continent. Having undergone the first two steps in the spread of supermarkets, Shoprite, the largest supermarket in South Africa, is now on the drive to establish its branches throughout Africa. Shoprite has different types of supermarkets in South Africa, such as Checkers supermarkets, Shoprite supermarkets, OK convenience stores and Hyperamas. Shoprite targets lower and middle-income groups in South Africa, while Checkers targets the high-income groups. The Hyperamas are hypermarkets, which also serve the high-income customers. These different formats of Shoprite add up to over 830 supermarkets just in South Africa.

Shoprite has, within the last ten years, managed to penetrate the food retail market in more than fourteen countries in Africa, with South Africa as its base. To date, Shoprite is present in Lesotho, Botswana, Swaziland, Zambia, Mozambique, Namibia, Zimbabwe, Tanzania, Uganda, Ghana, Angola, and of course, Malawi. Other large South African based supermarket chains that have made important strides in establishing their presence in other African countries include Pick 'N' Pay and Metro Cash & Carry. Pick 'N' Pay operates in Tanzania, Zimbabwe, Botswana, Namibia, Swaziland, Zambia, and Mozambique. Metro Cash & Carry is present in Swaziland, Botswana and Namibia (Reardon and Berdegue 2002).

The South African case clearly shows the 'domino effect' in the geographic and socio-economic patterns of the spread of supermarkets. In the early 1990s, supermarkets quickly spread from their 'base' in the large cities to intermediate cities, and then to small towns by the turn of the Millennium. All other countries within the region are slowly following the same pattern.

3.2 The Case of Kenya

Kenya is the second advanced country in terms of presence of supermarkets, after South Africa. Kenya has over 206 supermarkets and 10 hypermarkets (Weatherspoon and Reardon 2002). In the last ten years, the formal food retail sector has undergone massive transformation, with traditional retailers, including small shops and public markets, losing a significant proportion of the market share to supermarkets. There are at least four Kenyan owned supermarkets, including Uchumi (which is the largest), Nakumatt, Tusker Matresses, and the smallest is Ukwala Group. Two South African supermarkets, Metro Cash & Carry and Woolworths operate in Kenya. Kenya's advancement in supermarkets is evident from the fact that its top five cities (Nairobi, Mombasa, Nakuru, Eldoret, and Kisumu) have at least 165 supermarkets and 13 hypermarkets (Weatherspoon and Reardon 2002).

Supermarkets are quickly diffusing into small towns and secondary cities to target poorer consumers in Kenya, while expanding to other countries within the East African region. Uchumi and Nakumatt are now operating in Tanzania and Uganda in an attempt to broaden their annual turnover. The pattern of expansion in Kenya is similar to that of South Africa. This pattern of first penetrating upper class urban market and then moving into lower income and rural-town markets shows that there will be a steady and rapid increase in supermarkets in East Africa (Weatherspoon and Reardon 2002).

3.3 The Case of Malawi

Supermarkets are relatively new in Malawi. Before the economic liberalization in 1994, government owned People's Trading Centre (PTC) operated small 'self-service stores', which were referred to 'supermarkets' in the Malawian context. The opening up of the economy in 1994 inevitably made Malawi one of the destinations of foreign direct investment (FDI), including FDI of foreign retail chains that were seeking competitive territory. Shoprite, which has been operational since 2001, is the only foreign-based supermarket in Malawi. However, within these three years Shoprite has managed to open several outlets, mainly of two types: Shoprite supermarket, and U Save (which is smaller both in size and stocks). At present, there are two Shoprite supermarkets, one in Lilongwe (the capital city) and Blantyre (the commercial city). There are currently four U Save stores, one each in Lilongwe, Mzuzu (the third largest city), Zomba (fourth largest town in Malawi), and Limbe (a commercial town within the city of Blantyre).

Among the four locally based supermarkets in Malawi, PTC is the oldest having been in operation for over 30 years. Within the past year, PTC has made important transformation in a bid to retain its share of the market in the face of fierce competition from other supermarkets, and Shoprite in particular. Such changes include the change of name from PTC to 'People's Supermarket'. People's Supermarkets are the most commonly found supermarkets in Malawi, as they operate in almost all the 26 districts of the country, and they usually have several outlets in major towns and cities. Most of these are, however, convenience stores with at most two cash registers. People's Supermarkets also has small outlets in the neighbourhoods of the cities of Lilongwe, Blantyre, and Mzuzu, where they are commonly known as PTC Kwiksaves.

Seven Eleven Supermarket is the second oldest locally based supermarket, with an operational period of 7 years. It has just two outlets, both based in Lilongwe. However, the second outlet is smaller than a superette. Foodworths is also a locally based supermarket that has been serving customers for the past six years. It only has a single outlet, which is based in Lilongwe. It serves the top end of the market, and it is strategically located for that purpose. Another supermarket, which is also Lilongwe-based, is Tutla's Supermarket. It has two outlets within the city of Lilongwe, both of which are quite large by Malawi standards. Tutla's has been serving middle to lower income groups for the past five years. In the commercial city of Blantyre, located in the southern region of Malawi, the most notable supermarket (besides People's and Shoprite) is

Iponga. It is locally based and has about three outlets in Blantyre, although they are all small outlets.

Apart from People's, the local supermarkets have very limited potential for diffusion into other cities and towns in Malawi. The underlying factors for their lack of expansion include lack of capital investment to establish other outlets in the cities that they are currently not operating. However, it should be noted that as the number of city inhabitants increase, these supermarkets would slowly begin to expand to other cities and towns.

4. DETERMINANTS OF SUPERMARKETS' DIFFUSION IN SOUTHERN AND EASTERN AFRICA.

The rapid expansion of supermarkets in Southern and Eastern Africa can be explained by a number of factors. The greatest force behind the rise of supermarkets in the region is the high level of urbanization. With an urbanization rate of 3.5 percent, over 38 per cent of Africa's population live in urban areas. The Southern African region has also witnessed high levels of urbanization rates, as people move to cities and towns in search of employment, educational opportunities and higher standards of living. For instance, according to the United Nations Centre for Human Settlements (UNCHS 2001), at 6.3 % Malawi has the highest rate of urbanization in all African countries. Rural to urban migration is very high in the region because of high rural poverty. With increased prices of agricultural inputs, returns in the agricultural sector have been very low for most of the poor smallholder farmers. Due to low opportunities in the rural areas, most of the rural residents resort to migrate to cities in search for employment. The increase in the urban population consequently leads to the growth in the catchment areas of supermarkets.

The second determinant of diffusion of supermarkets within the region has been the economic reforms in the form of economic liberalization. For example, since 1994, Malawi has witnessed a rapid transformation in the retail sector due to the liberalization of retail foreign direct investment. The paper follows the International Monetary Fund's (IMF) definition of foreign direct investment as net inflows of investment to acquire a lasting management interest (at least 10 percent of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term as shown in the country's balance of payments. The southern African region continues to record significant increases in foreign direct investment. Mozambique, in particular, has been the major destination of foreign direct investment in the region since the end of civil war (see Table 1). This liberalization of foreign direct investment in the retail sector can be explained in part by the new trading patterns that are being propagated by the World Trade Organization (WTO).

The third determinant has been an increase in access to cars by high-income and middle-income individuals. Due to economic liberalization, Malawi has been a ready market for second-hand cars from Japan and Dubai in the United Arab Emirates. Second-hand cars from Durban, South Africa are also flooding the local market. The availability of these relatively cheap cars eased transport problems among middle and upper class town dwellers, thereby making shopping easier even after sunset.

Since the 1990s, many countries within the region have experienced a rapid growth in real mean per capita income. The rise in real income has led to an increase in the number of households owning refrigerators among city dwellers. This implies that a significant number of households now have the means to store the perishables for a week rather than buying food from the market on a daily basis.

With the growing awareness of gender equality, there has been an influx of entry of women into the workforce. With more women entering the workforce, the demand for ready-made foods that are commonly found in supermarkets is increasing in the urban areas, because women have less time to spend at home preparing food.

Table 1: Foreign Direct Investment (FDI) as a Percentage of GDP in 2001 in Selected Countries In Southern And Eastern Africa

Country	**FDI as a Percentage of GDP in 2001**
Kenya	0.01
Malawi	3.30
Mozambique	13.30
South Africa	6.30
Tanzania	2.40
Zambia	2.00
Zimbabwe	0.10

Source: Globalis at http://globalis.gvu.unu.edu/indicator.

5. SUPERMARKETS PROCUREMENT SYSTEMS

Countries where supermarkets are well established have witnessed changes in their procurement systems. Studies have shown that there are six pillars of change in procurement systems of the supermarkets, in a bid to increase quality and increase the diversity of products while cutting costs, in the face of stiff competition. Reardon (2004) gives an excellent exposition of these changes. First, there has been a shift toward centralized procurement systems. In countries where supermarkets are deeply rooted, such as South Africa, leading chains are progressively shifting from use of brokers and the traditional wholesale markets towards the use of large distribution centres. This is done in an attempt to reduce coordination costs, generate economies of scale by buying in larger volumes, work with fewer wholesalers and suppliers per unit merchandized and have a firmer control over product consistency in meeting standards.

The second major change has been a shift towards cross-border sourcing. Supermarkets are establishing regional sourcing networks. For example, an Argentine supermarket, Ahold, sources apples from Chile to supply its distribution centre in Peru (Reardon and Berdegue 2002). Third, there has been a shift from traditional wholesale markets and traditional brokers, toward specialized wholesalers. These wholesalers are preferred because they are more responsive to quality, safety, and consistency requirements of supermarkets than the traditional wholesalers who aggregate products over many producers and qualities with little capacity for segregation.

Fourth, there has been an increased use of global logistics multinationals, often in joint ventures with the chain in a country or region. Fifth, there has been a shift toward preferred supplier systems and away from buying on the spot market. The leading chains are increasingly shifting toward purchasing products directly from growers, whether they are individual farmers or operating as a cooperative. In this context, buying directly from farmers is managed by as a specialized wholesaler, acting as a preferred supplier. This is done in order to select producers capable of meeting quality and safety standards of the supermarkets and thus lower transactions costs for the chain both by lowering search costs and by reducing the number of suppliers per unit of the product sold. Sixth, there is a shift toward private safety and quality standards, either to replace missing public standards or impose standards tougher than those of the public standards. The reasons for shifting towards higher quality and safer products include increasing their market share by wooing customers.

As supermarkets are only emerging in Malawi, their procurement system is not as sophisticated as described above. However, as more investment is undertaken so that supermarkets spread through urban centres and even rural towns, the global procurement system would be introduced.

6. AGRIFOOD PRODUCTS IN SUPERMARKETS IN MALAWI

Supermarkets are only emerging as an alternative marketing channel for agrifood products in Malawi. The main agrifood products that are available in the supermarkets in the fresh fruit and vegetables (FFV) sector in Malawi include onions, Irish potatoes, tomatoes, apples, eggplants, cabbages, and lettuce, among others. The majority of the supermarkets studied procure their fresh fruit and vegetables from the local suppliers. Only Shoprite and Tutla's depend on both the local and international suppliers for products such as Irish potatoes and onions. All the supermarkets in Malawi sell apples that are procured from international suppliers from South Africa. The oldest supermarket network, People's, is the only one that sells all of its fresh fruit and vegetables (apart from apples) that are sourced from local suppliers.

It is important to note that about 50 percent of the fresh fruit and vegetable products that are available in supermarkets in Malawi are sourced internationally. This has serious implications on the ability of local producers to access supermarkets as a market for their fresh fruit and vegetable products. So far, the local suppliers have managed to be the sole suppliers of tomatoes in all the supermarkets that sell tomatoes. These include Shoprite, People's, Seven-Eleven, and Foodworths.

6.1 The Socio-economic Characteristics of the Local Suppliers

Table 2 shows the major socio-economic characteristics of the local fresh fruit and vegetable producers that are able to supply to supermarkets in Malawi. The majority (85.4 percent) of the local suppliers of fresh fruit and vegetables to supermarkets have at least secondary education. This has a direct bearing on their ability to negotiate contracts and deal with all paper works that are involved when signing contracts with the respective supermarkets. The supermarket managers also prefer relatively more educated local suppliers because they are quicker to understand all the requirements of the contracts and the need to be consistent in the supply of the products. It should be pointed out that the supermarkets enter into a written contract with the local suppliers, to minimize cases of breach of contracts.

Table 2: Socio-economic Characteristics of the Local Suppliers

Characteristic	**Percent**
At least secondary education	85.4
Urban resident	97.1
Car ownership	83.0
Telephone	100.0
Small-scale production	5.3
Medium-scale production	92.3

Furthermore, about 97 percent of the suppliers live in the urban areas where communication with the supermarket officials is relatively easy. For a small-scale farmer who resides in the rural areas, supplying to supermarkets would not be possible because of the communication problem that is aggravated by poor road networks and lack of access to telephone. It is therefore not surprising that 100 percent of the current suppliers have access to a telephone. Furthermore, the majority of the smallholder fresh fruit and vegetable producers have problems to transport their produce to the markets and hence cannot access the supermarkets. In contrast, 83 percent of the local supermarket suppliers own cars so that transportation of the produce is no longer a problem to them.

The study also shows that the majority of the local suppliers are involved in medium-scale production of the fresh-fruit and vegetables, producing tomatoes, cabbages, carrots and vegetables in one large piece of land. This implies that the small-scale fresh fruit and vegetable producers, who only produce one type of produce, find it difficult to negotiate contracts with the supermarkets.

6.2 Determinants of Suppliers of Fresh Fruit and Vegetables in Supermarkets in Malawi

In southern and eastern African region, just like in all the regions of the world, the effects of supermarkets on the agrifood supply chains are better understood in the context of the incentive and capacity variables that affect the supermarkets' choices of procurement systems. Readon and Berdegue (2002) argue that the incentives are driven by the fact that supermarkets are everywhere in stiff competition to win customers by cutting costs, assuring consistency from day to day, and raising product quality and diversity.

In countries where supermarkets are well established, such as South Africa and Kenya, supermarkets seek large volumes from their suppliers, high and consistent quality, safety and packaging of the products. In particular, in countries where supermarkets are in stiff competition for market share, cutting costs has meant significant improvements in all aspects of procurement. In South Africa, for example, improvements in co-ordination and logistics systems have taken the form of improved distribution centres (to ensure centralization) and logistics platforms, and contracts with wholesalers and producers.

Choice of fresh fruit and vegetable suppliers to supermarkets in Malawi is determined by factors that are similar throughout the southern and eastern African regions. First, contracts in Malawi are given to suppliers on their ability to supply high quality products. This is particularly important because supermarkets are increasingly becoming shopping places for fresh fruit and vegetables for the high-income and middle-income classes in Malawi. In this respect, supermarkets aim at providing their customers with high quality carrots, tomatoes, and other vegetables.

The second criterion is consistency of quality and actual supply of the products. Supermarkets in Malawi aim at ensuring that the needs of their customers with respect to quality are always met. Unlike the customers who buy their fresh fruit and vegetables from the open market, supermarket customers are very cautious with the issue of quality of the products that they buy. In this regard, procurement officers only offer contracts to suppliers who have the means to maintain the quality of the products that they supply. Furthermore, because supermarkets are in competition to increase their share of the fresh fruit and vegetable market, contracts are given to suppliers who are able to be consistent in their supply. This is done to ensure that incidents of out-of-stock are minimized.

Although cost of supply is an important factor in the supermarkets' choice of suppliers in many countries within the southern and eastern African regions, in Malawi costs are not a very influential factor in the fresh fruit and vegetable sub-sector. Apart from onions and apples, most of the fresh fruit and vegetable products that are found in many supermarkets in Malawi are locally sourced. The costs of procuring these products from the local suppliers are generally low, and easily affordable to the supermarkets. However, supermarkets major concerns remain ensuring the quality and the consistency of these local supplies.

7. CONSTRAINTS FACING LOCAL SUPPLIERS

The fact that supermarkets are slowly taking over the high-value segments of the food retail market in Malawi offers great opportunities for local suppliers to broaden and deepen their markets and to increase their incomes. However, selling to supermarkets is not as easy as selling to open markets in the neighbourhoods of large cities and small towns. For those small suppliers of the food chain providing high quality graded products, the emergency of supermarkets in the food retail sector is an incredible opportunity (Weatherspoon and Readon 2002). However, for the majority of the suppliers in the agri-food supply chains, the rise of supermarkets is a huge challenge as they risk exclusion from the dynamic segments of the food retail market, thereby threatening their livelihoods.

Local suppliers face many challenges as they supply fresh fruit and vegetables to supermarkets in Malawi. First, local suppliers have to adhere to strict food safety and quality standards that are demanded by supermarkets. Unlike supplying to the open market, suppliers to the supermarkets have to ensure that the quality of their products is compatible with the needs of the high-income customers. This pose as a big challenge because the suppliers, mainly small and medium-scale fresh fruit and vegetable producers, have to ensure that their products are of the required quality right from the nursery stage in the gardens. In the country where quality agricultural inputs (such as fertilizers and seeds) are very expensive and agricultural extension services are very weak so that farmers lack the knowledge of good husbandry practices (particularly in the fresh fruit and vegetable sub-sector), most local farmers are automatically excluded from supplying to the supermarkets.

Second, in the supermarket supply channel, suppliers are expected to deliver the agricultural produce directly at the backdoor of the supermarkets. However, with poor private infrastructure, such as packing houses and lack of pre-cooling and cooled transportation, post-harvest losses among local suppliers are very high. Tomatoes, lettuces, carrots and other perishable products require special transportation facilities that ensure that quality and safety standards of the products are maintained. The majority of local suppliers cannot afford the refrigerated cars that would ensure the quality of the products. Instead, most suppliers just use vans with no refrigeration, and as a result shrinkage of the perishable products is common and quality is severely compromised.

The third factor that is undermining local suppliers' ability to participate in the supermarkets channel is their ability to remain consistent in their supply to the markets. Contracts with supermarkets in Malawi require a supplier to deliver the agri-food products at the doorsteps of the supermarket at least twice a week. Under such conditions, suppliers need a high level of professionalism to be able to consistently produce high-quality products. However, fresh fruit and vegetables are largely smallholder crops so that for most suppliers, supplying the products for at least twice per week is not feasible. Even for those who manage to supply to the supermarkets, the produce is mainly procured from small farmers within their neighbourhoods, and they may not always have control over the quality of the products that they supply.

7.1 The Case of Farmer Cooperatives in the Fresh Fruit and Vegetable Sector in Malawi

Farmer cooperatives are not a new phenomenon in Malawi's agricultural sector. Since the country's independence in 1964, the Government of Malawi has placed emphasis on the development of the agricultural sector. One of the tools used has been the establishment of farmer cooperatives, which are commonly known as 'farmer clubs' in Malawi. Under the program, farmers are organized in groups of about twenty men, and with the help of agricultural extension workers they are trained on farm management techniques. They are also able to access agricultural loans from government and other micro finance institutions.

However, the change of the system of government from one-party system to multi-party system in Malawi in 1994 brought with it many changes and the agricultural sector was not spared. The new government put relatively less interest in the farmer clubs, and they slowly disappeared. The major contributing factors to their disbandment include government inability to continue giving farmers' clubs agricultural input loans, and the new government's inability to appreciate the positive developments put forward by the dictatorial regime of Dr. Banda[1].

However, two cooperatives in the fresh fruit and vegetable sector have been operational, even in the midst of government unwillingness to offer assistance. The study considers the two to find out their ability to participate in the high-value segment of the fresh fruit and vegetable market.

7.1.1 *The Case of Ngolowindo Horticultural Co-operative Ltd.*

The Ngolowindo Horticultural Co-operative Ltd. is located in Salima District in the Central Region of Malawi. It covers an area of 17 hectares and it comprises 113 farmers. The Co-operative was started in 1985 by Bunda College of Agriculture, a constituent college of the University of Malawi. It was started as an irrigation scheme, with technical support from the government of Malawi and financial support from the European Union. The scheme was handed over to the farmers in 1996. The farmers ran the scheme until it was registered as a cooperative in 2001, with the help of Ministry of Commerce and Industry. Since then, the farmers themselves have been responsible for managing the cooperative through various committees including management, discipline, irrigation, supervisory, education, marketing and credit.

In a country where only 26,100 hectares of land is irrigated (although it has an irrigation potential of at least 200,000 hectares), Ngolowindo Cooperative Ltd. offers great lessons on how to manage irrigation schemes. It is in this respect that the cooperative has managed to attract the attention of an Italian non-governmental organization, COSPE[3] to provide financial and technical support since 2001.

Ngolowindo Cooperatives produce tomatoes, onions, cabbages, green beans, turnips and green pepper, all of which is produced under irrigation that uses hydroelectric power. The Cooperative irrigation scheme ensures that the products are always available. Before the involvement of COSPE, the Cooperative's major problem was access to high-value and reliable market for their produce. The cooperative main source of market was vendors who used to come from the capital city, Lilongwe, which is about 120 kilometres away. The underlying cause was the fact that the produce was sold by each farmer as an individual. It was therefore not possible to obtain contracts from organizations and supermarkets.

The involvement of COSPE into the Cooperative has eased the problem of marketing. The organization runs farmer trainings in crop marketing so that the members of the Cooperative are equipped with the knowledge of how to market their produce. Furthermore, the establishment of the marketing committee, which is mandated to identify different markets for the Cooperative's produce, has meant that some markets are being identified even before the crops are planted. Through the involvement of COSPE, individual farmers within the Cooperative sell their products to the Cooperative, and the Cooperative finally sells to other establishments such as supermarkets, boarding secondary schools, and hospitals around the area. Currently, Ngolowindo Cooperative sells tomatoes and onions to Shoprite, cabbage, tomatoes, and onions to various secondary schools in Salima and Lilongwe districts. It is through the marketing committee's ability to negotiate with potential clients that the Cooperative is now able to grow the specific varieties that are demanded by Shoprite.

Despite the technical and financial support from COSPE, the Cooperative's profits are severely undermined by high prices of inputs, such as seeds, fertilizers and pesticides. Members also complain of the high cost of electricity that is used to pump water for irrigation. They argue that electricity alone accounts for more than 60 percent of the Cooperative's total cost of production. Furthermore, apart from Shoprite and a few schools, their market access is still limited. As such, vendors still account for 30 percent of the Cooperative's market. Unlike supermarkets which are known for being consistently responsible and professional in making payments, vendors usually buy at lower prices and are not consistent in the frequency of their demand for the produce.

7.1.2 *The Case of Tsangano Potato Association*

Tsangano Potato Association comprises 370 Irish potato farmers, based in Tsangano area in Ntcheu District in the Central Region of Malawi. Tsangano is about 200 kilometres away from the capital city. The association was formed in 2002 with the help of the Ministry of Agriculture through Nkhande Rural Development Programme. The association receives technical support from both the Ministry of Agriculture and the Ministry of Commerce and Industry.

The Association sells potatoes only and they have a contract with Universal Industries Ltd[4]. The Association supplies 14 tonnes of potatoes to the company every week. The Association was able to get into contract with Universal Industries through Nkhande Rural Development Programme. Due to transport problems facing the Association, Universal Industries collects the potatoes from the farmers and use its own vehicles to transport the produce to Blantyre. In order to maintain consistency of supply to Universal Industries, the Association is split into three divisions and weekly supply to Universal Industries rotates among members of the three divisions.

Membership into the Association costs approximately US$ 10. Although farmers sell their potatoes as individuals to Universal Industries, there are required to pay about US$ 0.40 to the Association for every 50 kilograms sold. These costs act as barriers preventing many farmers from joining the Association. It is therefore not surprising that although Tsangano is the leading potato growing area in Malawi, most of the farmers are not members of the Potato Association.

Potato production within the Association is too much to be absorbed by a single buyer (Universal Industries). As a result, most of the produce is sold to local vendors, at a cheaper price than the one offered by Universal Industries. The cause of the Association's failure to obtain contracts with major supermarkets in Malawi is two-fold. First, most of the supermarkets require the Association to deliver the potatoes at their doorsteps. However, due to lack of transport facilities, the Association fails to penetrate these markets. For instance, Shoprite demanded the Association to supply already-peeled potatoes. This required the Association to have the required equipment for peeling, and the appropriate transport facilities to ensure food safety and quality of the product. Second, the supermarket channel is stricter with the quality of the potatoes that they can buy from the local suppliers. Members of the Association, on the other hand, continue to produce local varieties of potatoes. As a result, the Association fails to enter the supermarket channel, which is well paying and which needs be targeted if they are to escape from the trap of poverty.

Their main buyer, Universal Industries, introduced improved varieties of potatoes to the Association members, which were sourced from the Republic of South Africa in a bid to help the farmers to improve the quality of their produce. However, due to poor management techniques, the farmers failed to maintain the improved varieties. As a result, the local varieties, which are less yielding and smaller in size, are still widely grown within the Association.

The Association members suffer from heavy post-harvest losses due to the lack of appropriate storage facilities. After harvest, the potatoes are stored in homes as members continue to look for viable markets. With time, the quality of the produce diminishes and they are forced to sell at low prices to local vendors. Members now realize the need for collective marketing and the need to access loans and credit from the Government and other micro finance institutions. They are, therefore, now in the process of registering the Association as a cooperative. They hope that their problem of markets will be minimized once the cooperative is operational.

8. EFFECTS OF THE EMERGENCE OF SUPERMARKETS ON THE FRESH FRUIT AND VEGETABLE SUPPLY CHAINS.

The fresh fruit and vegetable sub-sector is important because, on the retail side, supermarkets consider it as an important and strategic marketing instrument to attract consumers and generate profit. On the production side, however, it is of particular interest to small-scale farmers on account of the relative lack of economies of scale and its income-generation potential (Reardon and Berdegue 2002). However, the impact of the rise of supermarkets will take some time before the fresh fruit and vegetable supply chain is completely transformed in Malawi. The reasons for this are that, first, the majority of Malawians still consider fresh fruit and vegetables from open markets as being more fresh and also cheaper as reflected by the price/quality ratio than those in supermarkets.

The second reason is that vendors selling fresh fruit and vegetables can be found easily in dense urban neighbourhoods where supermarkets cannot physically locate. Residents can therefore easily reach them on foot even in the evening. The third reason is that open markets seem to be more attractive to poor customers than the supermarkets. Furthermore, vendors in open markets are able to charge prices lower than those of the supermarkets.

It should be realized that supermarkets have come to stay, and in the long run, they will increasingly influence the structure and conditions of the agri-food system throughout the southern and eastern Africa regions. Their stay will also determine, to a large extent, the conditions and the potential for small farms and firms to sell agri-food products to this dynamic portion of the food economy. And, these are the very markets that the poor need to supply in order to escape from poverty (Weatherspoon and Reardon 2002). It is just a matter of time before the impact of supermarkets on small producers is severely felt in the fruit and vegetable market in Malawi. Supermarkets are larger customers who come with greater opportunities than traditional buyers of agri-food products. For example, Freshmark, which is owned by Shoprite, is the largest produce buyer in Africa. Freshmark's produce division procures, imports and exports from 8 pack houses throughout South Africa alone (Weatherspoon and Reardon 2002).

However, supermarkets are tougher customers for the majority of the small producers throughout the region. Supermarkets require high standards with respect to quality, safety, consistency, volume, and packing. In the countries where supermarkets have been in existence for more than a decade, such as South Africa and Kenya, it has been shown that small producers have found it difficult to address these standards for a myriad of reasons including the lack of financial and human resources. Furthermore, the use of global procurement systems by these supermarkets implies the introduction of foreign competition into the domestic market. For example, Shoprite in Malawi sources Irish potatoes from South Africa although the crop is widely grown in Malawi, including the Tsangano Association. In Kenya, a major distributor sources orange juice from Israel and Uganda to supply supermarket chains in Kenya (Weatherspoon and Reardon 2002). Such procurement means that supermarkets bring and facilitate competition for the local small-scale producers, right into their own backyard.

9. EXPECTATIOS AND IMPLICATIONS FOR FARMERS

Supermarkets have come to stay in Malawi. As they expand and firmly establish their existence, the new high-value market that is being created by the supermarkets will continue to offer important, and potentially large benefits for small farmers, who are currently confined to supplying to the open markets where prices are depressed. Due to the forces of globalization and urbanization, an ever-increasing number of city dwellers will depend on supermarkets rather than traditional markets as their main food source. For those farmers that would be able to access these markets, they would enjoy a high degree of security in selling to the supermarkets which are known for being consistently responsible and professional in making payments (Mainville 2003). Thus supermarkets would provide a stable, dependable market for farmers' produce, besides boosting employment in cities and surrounding areas by providing jobs in transport and distribution, in addition to improving the quality and lowering the price of food for urban populations.

Although there are potential benefits that would accrue to the small farmer from the rise of supermarkets in Malawi, farmers' ability to access the supermarket channel is a big challenge. Supermarket procurement practices, including quality and safety standards, packing and packaging, cost, volumes, and consistency are an important challenge for farmers and supply chains in the region (Reardon and Berdegue 2002). As supermarkets continue to transform the agri-food markets in Malawi, many farmers would be forced out farming unless they would be able to supply what supermarkets demand.

There are significant barriers to entry for farmers who seek to market their produce to supermarkets throughout the southern and eastern Africa. First, farmers need a lot of investment to ensure consistent compliance with quality standards. Second, there is need for infrastructure to comply with service and logistical requirements, such as delivery trucks, computer and Internet access for product orders (Mainville 2003). Third, there is need for certification and documentation costs that would have to be incurred to ensure strict adherence to food quality and safety standards. These barriers will become more pronounced as supermarkets spread within the country.

The barriers to entry mean that farmers who would be able to participate in the supermarket channel when it is highly developed in Malawi would need to be highly professional, with access to investment capital, and with knowledge of market-oriented crop management practices to be able to produce a consistently high-quality product. Therefore, for the fresh fruit and vegetable sub-sector, farmers that would be able to access the high-value supermarket channel would need to be specialized in fruit and vegetable production. They also need to be relatively more educated than growers participating in the open-market channel, and have access to financing for operational and investment expenses (Mainville 2003).

10. POLICY IMPLICATIONS

The supermarket sector is slowly rising to have an important and dominant share of food retailing. The participation of supermarkets in the domestic food market will substantially change the conditions of farmers. This change will mean new opportunities for farmers who are able to supply to these supermarkets, but also stiff challenges to those small producers who are not able to supply what supermarkets demand. It is, therefore, important for the Government of Malawi to be aware about these changes, as well as the opportunities and challenges facing farmers. With this kind of information, Government would be able to put in place programs that will help farmers to upgrade their pre- and post-harvest practices in order to meet the requirements of these new markets, and do so in win-win ways that will make this inevitable transformation most advantageous for farmers, consumers, and retailers (Reardon 2004).

Supermarket expansion can only be seen as an opportunity for small farmers if they are enabled to participate. Farmers need to have the resources and training to be able to actively participate in the rapidly transforming domestic food market. In particular, the government can work in partnership with the private sector, non-governmental organizations and international development organizations to provide assistance to the small farmers. The assistance can take the form of helping to organize cooperatives and effective associations in order to be able to meet the scale and volume needed to supply to a supermarket. Credit schemes need to be introduced for the farmers to be able to obtain the technology that is required to meet the stringent quality and safety standards demanded by supermarkets. The third form of assistance could be in the form of knowledge dissemination to place farmers in a stronger position ahead of complex negotiations.

The rise of supermarkets in Malawi is inevitable and the Government cannot stop this change. However, it can shape this change to ensure that, instead of facing exclusion from the high-value markets brought about by supermarkets, the small farmers benefit by fully participating fully in the highly rewarding markets. If this could be achieved, the farmers' incomes would rise while ensuring greater food safety and diversity of products available to poor consumers, and a relatively cheaper food basket for them relative to that of the traditional retailers.

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ENDNOTES

1. One hypermarket has roughly 10 times the sales of an average supermarket
2. Dr. Hastings Kamuzu Banda was the first president of the Republic of Malawi. He ruled between 1964 and 1994. His rule was characterized by dictatorial tendencies, especially after he was made life president in 1971.
3. COSPE is an Italian acronym whose English translation is cooperation for the development of emerging countries.
4. Universal Industries Ltd. is Malawi’s leading biscuit manufacturing company. It also manufactures potato crisps and other confectioneries. It is based in the commercial city of Blantyre, (about 300 kilometres away from Tsangano) in the Southern Region of Malawi.