

Das Nair, Reena; Landani, Namhla

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**The role of supermarket chains in developing
food, other fast-moving consumer goods and
consumer goods suppliers in regional markets**

Reena das Nair and Namhla Landani*

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Abstract: Supermarkets are strong catalysts to stimulate the growth and development of producers and suppliers of processed food and manufactured products in Southern Africa. This paper assesses the role of supermarkets and governments in developing supplier capabilities through supplier development programmes. In South Africa, a shift is evident in recent approaches by supermarkets away from mere compliance as part of black economic empowerment or social responsibility objectives, to more mutually beneficial, commercially oriented and long-term investments to develop supplier capabilities. There is still considerable scope to replicate, broaden and deepen these programmes, including extending them to the region. The paper draws lessons from the Namibian Retail Sector Charter of 2016 as the first and only sector-wide intervention in the region that combines a voluntary code of conduct and supplier development commitments. The paper further highlights interventions internationally through codes of conduct as a useful way to reduce possible abuses of supermarket buyer power.

Key words: supermarkets, supplier development programmes, upgrading, industrialization, retail codes of conduct

JEL classification: F15, L1, L5, L66, L67, L81, O1

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*Both authors: Centre for competition, regulation and economic development; corresponding author reenadn@uj.ac.za

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Katajanokanlaituri 6 B, 00160 Helsinki, Finland

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1 Introduction

Supermarket chains, as the final link to customers in many food, fast-moving and other consumer goods value chains, can be strong catalysts to stimulate the growth and development of food processing and manufacturing industries in the Southern African region. This is in line with the South African Development Community's (SADC) industrialization strategy which emphasises the importance of agro-processing and the role it plays in industrialization, as well as the importance of value chain participation to extend production possibilities (SADC Industrialization Strategy and Roadmap 2015; Action Plan for SADC Industrialization Strategy and Roadmap 2017).

Previous studies undertaken by the Centre for Competition, Regulation and Economic Development (CCRED) evaluated the impact of the spread of supermarkets in Southern Africa on suppliers in Zambia, Zimbabwe, Botswana and South Africa, and the implications of market power of the large supermarket chains (das Nair and Chisoro 2015a, 2015b, 2016, 2017;; Ziba and Phiri 2017; das Nair, Chisoro and Ziba 2018). Through firm-level interviews in each country, these studies highlighted the opportunities that growing supermarket networks in the region offered suppliers in terms of attaining economies of scale and developing capabilities.

This working paper builds on the foundational work in these previous studies to evaluate in greater depth the initiatives undertaken by supermarkets and governments to develop suppliers of food (fresh and processed), other fast-moving consumer goods (FMCG) and other goods (such as clothing). It analyses the impact that these programmes have had in developing suppliers, where such evidence is available, and the lessons that can be drawn from what has succeeded and what has failed.

The previous studies showed that the modernization of supermarket procurement systems and trading requirements in the region placed pressure on suppliers with regards to the ability to supply the required volumes, maintain consistency, ensure quality and contain costs of supplying products, amongst other factors. To supply supermarkets, suppliers in Southern Africa have to meet these 'critical success factors' and, as large buyers, supermarket chains put pressure on suppliers to meet these requirements. In addition to these, growing requirements to meet legal national and international standards, food safety, labelling and packaging requirements, and sanitary and phytosanitary standards require complex supplier capabilities. Supermarkets, in effect, govern these value chains and dictate the terms of production and participation through these critical factors and through other supply requirements. The research highlighted that supermarket chains were important in driving investments in the upgrading of capabilities of suppliers to meet these requirements by opening up larger regional markets for them, facilitating their climb up a regional or global value chain 'ladder' (das Nair, Chisoro and Ziba 2018).

However, the studies also revealed the obstacles to suppliers accessing supermarket shelf space and the threat of excluding suppliers from participating in value chains through the exertion of buyer power by supermarket chains. In Southern Africa, the large supermarket chains in many cases are able to control pricing in their trading terms by controlling elements such as listing fees, rebates, advertising allowances, promotion fees, payment period terms, settlement discounts and new store openings fees, amongst others. These elements were shown to collectively account for around 10–15 per cent of the price of the product sold to supermarkets, placing considerable strain on supplier margins by reducing the prices paid to suppliers (das Nair 2017; Bosiu et al. 2017). Other estimates are that rebates in South Africa range from between 2.97 per cent and 20 per cent, with the lower end of the range being attributed to SPAR's rebates and the higher end attributed

to Shoprite (Von Broembsen 2016).¹ These fees place additional pressure on suppliers and can be a means by which supermarkets extract a greater share of the surplus in a given value chain. This is especially the case if the fees are not justified by objective and reasonable estimates of the underlying cost in doing business with suppliers. The wide range of fees noted above also reflects the non-standardised approach to suppliers. The squeeze in supplier margins puts pressure particularly on small and medium-sized suppliers in the region who do not have countervailing power against the supermarket chains.

There is a powerful role that supermarket chains can play through supplier development programmes (SDPs) to assist in the building of supplier capabilities to meet supermarket requirements and in easing the terms of access to shelf space (das Nair, Chisoro and Ziba 2018). Scoping of various SDPs of the major supermarket chains found that, while such initiatives have yielded some positive results, these have been limited. Most of the earlier initiatives of the supermarket chains from around the mid-2000s involved small-scale farmers and were only for a short duration. The initiatives were also approached more as black economic empowerment compliance (a key requirement in South Africa) or corporate social responsibility (CSR) obligations rather than mutually beneficial commercial ventures with a longer-term view to developing and growing suppliers in the region.

This paper finds, however, that there has been a shift in more recent approaches by supermarket chains with regards to supplier development. The chains interviewed appear to recognise that intimate involvement with suppliers, deep expertise sharing and investments are critical to make suppliers succeed in the long run. Retailers are starting to approach supplier development more as part of mutually-beneficial, commercially oriented investments than in the past. There is still considerable scope to replicate, broaden and deepen these programmes, including extending the initiatives to the region.

An important initiative that is studied in this paper is the Namibian Retail Sector Charter of 2016. Established and administered by the Namibia Trade Forum, the Retail Charter serves the purpose of bringing about structural transformation to the retail sector that explores ways in which more local Namibian products can be shelved in retail outlets. As the only country in Southern Africa to have a formalised, voluntary retail charter, the Namibian experience provides valuable insights on how intervention (whether through voluntary or mandatory compliance) can be used to shape the nature and outcomes of supplier development initiatives. The Namibian Retail Sector Charter is unique in that, as far as we are aware, it is the only intervention that also includes explicit, formalised supplier development components in addition to the behavioural rules on supermarket conduct towards suppliers. In this sense, the charter is wider in terms of its scope than the ‘Code of Conduct’ in countries like the United Kingdom and Australia. Given the inclusive growth and structural transformation needs in the Southern African region, we argue that this approach by Namibia is attractive and should be extended and modified to suit the SADC region. There are important lessons to be drawn from this charter, especially in the role of government and institutions like the Namibia Trade Forum in supporting and spearheading the initiative and the significance this has had in encouraging buy-in of retailers. Upgrading capabilities requires effort from a range of stakeholders, especially governments, and requires political will to support such initiatives, including through coherent and aligned policies, and institutional support.

In light of the above, the key research questions that this working paper addresses are:

¹ Note that the different studies may include different fees under a broad categorization of ‘rebates’.

- What has been the impact of the Namibian Retail Charter on local supplier participation and development of local supplier capabilities?
- How have political economy issues affected the conceptualization, design and implementation of the Namibian Retail Charter?
- What SDPs have the main supermarket chains embarked upon for food and other FMCG suppliers in the SADC region and what has been the impact of these?
- What lessons can be drawn from the existing supplier development programmes on their design and implementation, and what are the respective roles of government, development finance institutions, non-profit organizations and donor agencies in such programmes?

This working paper will contribute towards informing a future policy roadmap on how such programmes can be structured to deliver the best possible results to upgrade suppliers in supermarket value chains. A qualitative approach is mainly taken. Primary data is gathered from interviews with key relevant stakeholders as listed in the Appendix, Table A1. Primary data is also gathered from the annual reports, publications and websites of the supermarket chains. This is supplemented with available quantitative data on the value of the SDPs and trade data from Trade Map.

The structure of this paper is as follows.

Section 2 provides a brief theoretical framework to situate how supplier development can be understood under Global Value Chains (GVC) principles.

Section 3 discusses the interventions by governments internationally through either mandatory or voluntary codes of conduct set up to govern the conduct of supermarket chains towards suppliers, and whether these contain any elements of active supplier development priorities.

Section 4 assesses SDPs in Southern Africa. In Section 4.1, the Namibian Retail Charter is evaluated. As the only formal retail charter that includes both elements of a code of conduct and active supplier development targets, the conceptualization, design and impact of the Charter are evaluated. This includes political economy considerations on the role of government in shaping the policy and ensuring buy-in.

Section 4.2 then evaluates the SDPs of the major supermarket chains in Southern Africa, including their impact, successes and failures. The role of government, development finance institutions and non-profit organizations is evaluated in context of the SDPs. An important aspect that is analysed is the extent to which SDPs, especially in South Africa, are undertaken by the supermarket chains as part of compliance to Black Economic Empowerment (BEE) policies, rather than undertaken with mutually beneficial, commercial structural transformation objectives in mind. We argue that the former results in less commitment to developing supplier capabilities and results in a lower likelihood of commercial sustainability. The recent change in approach by the supermarket chains to more sustainable and commercially viable SDPs is then assessed.

Section 5 concludes, drawing key lessons and providing recommendations that could inform a future policy roadmap for effective and sustainable SDPs.

2 Supplier development viewed under a GVC framework

The GVC framework is a useful tool to identify opportunities and bottlenecks for industrial upgrading and development of capabilities of suppliers in supermarket value chains. This is because the GVC framework provides a methodology for tracing patterns of value creation and to explore the linkages amongst geographically dispersed economic activities and actors (Gereffi and Fernandez-Stark 2011). The GVC literature employs two core concepts to assess global industries, (1) governance and (2) industrial upgrading.

Governance refers to authority and power relationships that determine the allocation and flow of resources within a value chain (Gereffi, 1994; Gereffi and Fernandez-Stark 2011; Gereffi, and Lee 2012; Gereffi, and Lee 2014; Dallas, Ponte and Sturgeon 2017). The role played by powerful 'lead' firms in coordinating production activities and shaping the distribution of profits and risk within an industry is central to understanding governance structures (Gereffi and Lee 2012). Lead firms in GVCs control production through setting and enforcing product and process parameters including standards and protocols that must be met by other players operating in the value chain. This includes controlling decisions about what to produce, how to produce and how much to produce (Humphrey and Schmitz 2002; Gereffi and Fernandez-Stark 2011).

This can be extended to include industrial organization or competition economics principles to evaluate market power and buyer power, providing a deeper understanding of the forms in which such power affects upgrading in value chains. Understanding the links to dimensions of control and market power, and how it is exerted in value chains, can allow for more targeted and effective interventions in value chains to remove bottlenecks and facilitate upgrading. In the context of the supermarket sector, understanding the forms and effects of buyer power has driven the creation of codes of conduct to govern the relationship between supermarkets and suppliers internationally as discussed in Section 3.

Understanding governance has also moved beyond just understanding buyer-seller relationships. The power exerted by mechanisms of collective action or social movements/conventions by consumers or institutions are also important in shaping value chains² (Dallas et al. 2017; see also the growing role of civil society organizations in the governance of GVCs (Davis, Kaplinsky and Morris 2018)).

While governance is about understanding the value chain in a 'top-down' manner, upgrading takes a 'bottom-up' approach, exploring how firms or countries can maintain or improve their positions within GVCs (Gereffi and Fernandez-Stark 2011; Gereffi and Lee 2014). Upgrading is not automatic and is selective, with only the very best firms being allowed the opportunity to upgrade. Nonetheless, this 'upgrading' effect has been credited for relatively underdeveloped regions becoming substantial exporters in a short space of time (Humphrey and Schmitz 2002). Opportunities for upgrading and the extension of capabilities primarily takes four forms (Gereffi and Lee 2014):

- process upgrading: The transformation of inputs into outputs more efficiently by reorganizing the production system or introducing superior technology;

² For instance, sustainability goals, good manufacturing practices, environmentally friendly farming and production, minimum chemical and pesticide requirements and organic systems etc.

- product upgrading: Moving into more sophisticated product lines;
- functional upgrading: Acquiring new functions to increase overall skill content of activities;
- intersectoral upgrading: Firms move into new productive activities (lateral migration) (Humphrey and Schmitz 2000; Humphrey 2004; Gibbon 2004).

It can be difficult to distinguish between product and process upgrading of products. Upgrading is also about deepening the specific capabilities required to explore new opportunities offered at the same stage of the value chain where the firm is currently engaged (Morrison, Pietrobelli and Rabelloti 2008; Ponte and Ewert 2009). Morrison, Pietrobelli and Rabelloti (2008) argue that a key issue is not necessarily aiming for ‘functional upgrading’ and moving to more advanced functions ‘along the value chain’. Rather, deepening the specific capabilities required to explore new opportunities offered at the same stage of the value chain where the firm is currently engaged is often beneficial. In as much as moving up the value chain from exploration, manufacturing, packaging, distribution to branding is important, deepening capabilities to explore new original features and varieties at each stage of the GVC is also important and it requires creation and deepening of higher skills and more complex technological capabilities.

While lead retailers are becoming increasingly demanding in terms of reducing costs, raising standards and increasing speed of production, if they actively provide support to suppliers, they can transfer skills, knowledge and best practice to suppliers relatively quickly in terms of how to improve layout, production flows etc. The strategies of lead supermarket chains set the pace and direction of knowledge flows and upgrading either in favour or against the interest of local producers (Morrison, Rabelloti and Pietrobelli 2008). This has implications for capabilities development of suppliers to supermarkets and is the foundation for encouraging greater participation by supermarkets in SDPs. This is more the case for small and medium-sized suppliers who lack the resources to develop these capabilities on their own, and who have less bargaining power with the supermarket chains.

Upgrading capabilities also requires effort from other stakeholders in value chains, including governments. Upgrading initiatives in the supermarket sector can include public and private investments in wholesale infrastructure developments, construction of distribution and warehouse facilities and cold chains. It can also include investment in systems to improve the sorting, grading, packaging, labelling, tracking, inventory maintenance and managerial systems of suppliers.

Political economy considerations are relevant to issues of power and governance. The development trajectory of industries is affected by the ability of the industry to lobby and influence outcomes within the industry, and the policy context in which the industry operates. Political economy related issues and the distribution of power is therefore important in understanding how these dynamics have shaped and continue to shape the structure and development trajectory of these value chains. Policies are driven by contextual (institutional and structural) and political economy factors, as well as by the policy space and rationales for government action (Andreoni 2016: 245–305). Powerful lobby groups and dominant players influence the policy space, which is important in gaining access to resources and extracting rents in value chains (see also Kirsten, Van Zyl and Van Rooyen 1994).

3 Lessons from the international experience: the role of retail chains and governments in supplier development

The power of large supermarket chains and their governance role in value chains has a significant impact on the participation, growth and development of suppliers. Appropriate intervention in the sector can reduce the harmful effects of abuses of buyer power and stimulate the upgrading and participation of suppliers, especially small, medium or emerging suppliers.

The skewed balance of power between supermarkets and suppliers has triggered regulatory responses in countries internationally. Intervention has typically taken the form of retail sector inquiries that have resulted in enforcement through codes of conduct that govern supermarket-supplier relationships, supplier development programmes to build the capabilities of suppliers, or a combination of both.

Competition authorities have generally been reluctant to take on cases of alleged abuses of buyer power directly given the potential for buyer power to result in lower costs that are ultimately passed on to end consumers. Instead, competition authorities have tended to undertake market inquiries in the retail sector to establish what features of the market are restricting or distorting competition.

This has also been the case in the Southern African region. For example, the Competition Commission of South Africa (CCSA) initiated a Grocery Retail Market Inquiry (GRMI) in 2015 to evaluate some of these competition concerns. Recent amendments to the Competition Act however aim to give the competition authorities more power to deal with the issues of buyer power.³ This includes recently issued draft guidelines on buyer power.⁴

In 2015/2016, concerns about the impact on suppliers resulted also in the Competition Authority of Botswana (CAB) undertaking an inquiry into the retail sector in Botswana. The authority evaluated the potential abuses of buyer power of supermarkets: the threat of de-listing when suppliers do not reduce their prices or agree to supermarket demands; charging advertising fees, retrospective rebates and after-sales rebates from manufacturers; delaying payments and demanding wastage payments. The CAB found that some of these concerns were legitimate and that the various trading terms typically lowered the price that suppliers could earn by at least 10 to 15 per cent (Bagopi et al. n.d). It is not clear if the CAB undertook any enforcement action against retailers following the findings of the inquiry.

The outcomes of some of the inquiries internationally have included establishing mandatory or voluntary codes of conduct. The international experience has shown that codes of conduct between suppliers and supermarkets are a useful way to control the exertion of buyer power and have been identified as a practical and effective approach in developing countries to level the playing field and reduce information asymmetries between suppliers and supermarkets (das Nair and Chisoro 2017).

These codes serve to reduce the cost of supplying supermarkets and promote transparency in procurement procedures and trading terms. They regulate the conduct of supermarkets towards suppliers by setting minimum standards and obligations for supermarkets with regards to drafting of supply agreements and various fees included in the trading terms. For instance, the code can

³ www.gov.za/sites/default/files/gcis_document/201902/competitionamendment-act18of2018.pdf, accessed January 2019.

⁴ www.gov.za/sites/default/files/gcis_document/201812/42133gon1424.pdf, accessed February 2019.

include provisions for prompt payment to suppliers; what proportion, if any, of advertising and promotion costs of supermarkets suppliers are responsible for; whether suppliers are liable for wastage costs; and/or if there should be listing fees or other fixed fee components. They can also cover termination of agreements, dispute resolution and a range of other matters such as payment, de-listing, standards and specifications for fresh produce, and the allocation of shelf space. Such codes can potentially address some of the concerns raised by suppliers in Southern Africa as the past research has highlighted.

In general, codes of conduct internationally govern conduct of supermarkets towards suppliers. They do not typically cover active supplier development initiatives in which the supermarkets are involved. It is nonetheless useful to discuss some of the outcomes of the interventions and draw lessons for potentially similar codes of conduct for the SADC region given the evidence from previous studies of the imbalance of power between supermarket chains and suppliers in the region.

For a mandatory code of conduct, like the Groceries Supply Code of Practice (GSCOP) in the UK, an independent groceries ombudsman called the Grocery Code Adjudicator (GCA) oversees the functioning and adherence to the code. The adjudicator was formally established on 25 June 2013 by an Act of Parliament following the Groceries Market Investigation Order of the Competition Commission recommending that government establish an ombudsman for the sector (Competition Commission 2008). The GCA was set up to ensure supermarkets treat their suppliers lawfully and fairly. Its operations are funded by a levy on the large retailers. Suppliers, trade associations and other representative bodies are encouraged to provide the GCA with information and evidence about how the large retailers are treating their direct suppliers. The GCA has the power to arbitrate in disputes, launch investigations, make recommendations and impose fines (Groceries Code Adjudicator Act 2013).

In the earlier years of the operation of the UK's GSCOP (2009–13), there was no independent grocery code adjudicator. During this period the code appeared to have limited impact as there were no powers to arbitrate, investigate and penalise retailers that were in breach of the code. However, since the establishment of the Grocery Code Adjudicator (GCA), there have been a number of interventions and successful outcomes. In 2014, Tesco, a large supermarket chain, was forced to remove its requirement for payments for better shelf space and Morrison's was found to be in breach of the Code by also charging suppliers (National Farmers Union UK 2014). In 2017, the GCA investigated the Co-Operative in the UK for de-listing concerns and the introduction of benchmarking and depot quality control charges (Smith Carey, UK, n.d.). These developments were welcomed by suppliers (The Poultry Site 2016). A survey undertaken in 2018 for the GCA with over 1000 responses showed that there were major improvements in the conduct of supermarket chains like Tesco, Morrisons, Asda and the Co-Operative following interventions by the GCA through investigations and case studies. Surveyed suppliers noted that in 2014, retailers' compliance with the Code categorised as complying 'consistently well' or 'mostly' ranged from 58 to 90 per cent. In 2018, the range was 84 per cent to 97 per cent, with only two retailers scoring less than 90 per cent (Groceries Code Adjudicator 2018). Published results from the previous 2017 survey showed improvements from 2016 in most categories of the code (Groceries Code Adjudicator Annual Report and Accounts, 1 April 2017–31 March 2018). The intervention has indeed been successful in addressing some of the concerns around surplus extraction by supermarkets through fixed fees and unjustified costs, as well as other behaviour that affected suppliers' profitability.

In Australia, the voluntary code of conduct enforced by the Australian Competition and Consumer Commission (ACCC) aims to reduce avenues through which supermarkets can extract surpluses from suppliers. This is through prohibiting the charging of fixed fee components like listing fees,

shrinkage fees, wastage fees, promotion fees or payment for better positioning of products on the supermarket shelves. Only certain exceptions are permitted, and any amount paid must be considered reasonable according to predefined criteria (Australian Government 2015; ACCC, n.d.) There are four signatories to the code, three of which are the largest retail chains in Australia. It requires the signatories (retailers and wholesalers) to act lawfully and in good faith, it also prohibits retailers from threatening suppliers with business disruption or termination without reasonable grounds. While there are no financial penalties for breaching the Code, other remedies are available for the ACCC to pursue after investigation, including court-ordered injunctions, compensation for losses or damage caused by misconduct and contract variations.⁵

The Australian code is said to have had beneficial impacts in improving the conduct of wholesalers and retailers in their relationship with suppliers (ACCC 2018). However, the ACCC in submissions in May 2018 to the Food and Grocery Code of Conduct Review process noted shortcomings and made recommendations to make the code mandatory; to remove the ability for retailers and wholesalers to opt out of certain obligations; to introduce penalties and for retailers to provide detailed reasons for de-listing of suppliers, amongst other recommendations (ACCC 2018).

In Ireland, a statutory code with fewer, legally sanctionable provisions was determined to be more beneficial than a voluntary code with more provisions. Certain practices in the grocery goods sector are regulated under the Consumer Protection Act 2007 (Grocery Goods Undertakings) Regulations 2016 under the powers given to the Minister for Jobs, Enterprise and Innovation. The regulations cover, amongst others, practices relating to payment terms and conditions, shelf-space allocation, promotions, marketing and advertising costs. The legislation prohibits fixed fee payments unless they are justified objective and reasonable estimates of the underlying cost to prevent extraction of rents by supermarkets (Consumer Protection Act 2007, revised September 2016).

A voluntary industry code of conduct, the Retail Trade Code of Practice, has also very recently been developed in Kenya, following a situation where late payments of US\$ 400 million led to the collapse of several suppliers. This was signed in January 2019. The main signatories from the supplier side are the Kenya Association of Manufacturers, the Retail Trade Association of Kenya and the Association of Kenya Suppliers. Similar to the precedent internationally, the code deals with behavioural matters, with a Retail Trade Settlement Dispute Committee to settle issues in the first instance. Disputes from this process can also be dealt with by a recently set up separate 'Buyer Power Department' within the Competition Authority of Kenya (CAK). The CAK has powers to prosecute abuse of buyer power with punishment including imprisonment for a term not exceeding five years or a maximum fine of KES 10 million, and potentially an administrative penalty for the firm of up to 10 per cent of annual turnover (Bowmans 2019).

In some countries, these practices have been driven by the private sector. For instance, China has retailer-led supplier development opportunities and Argentina has a private code of conduct enacted by the retail private sector through the Code of Good Commercial Practice (Berdegué and Reardon 2016: 149-162). Argentina's private Code of Good Commercial Practices has only four basic provisions, and also contains some guidance on conflict resolution. The provisions include compliance with contracts by both retailers and suppliers, equal treatment of suppliers, prompt payment, and co-operation in logistics development (Reardon and Gulati 2008). In the latter provision, there are elements of supplier development with regards to logistics. Although a private code that industry itself voluntarily agreed upon, the threat of regulation appears to have driven

⁵ <https://www.goodfruitandvegetables.com.au/story/5279643/mandatory-option-in-food-and-grocery-code-of-conduct-review/>, accessed in December 2018.

this result. Absent voluntary adoption, the Argentine Competition Commission would have enacted a national law to regulate supermarkets. The government did, however, enact a regulation to limit the payment period to suppliers of perishable goods such as horticulture, which is mandatory to every retailer procuring from such suppliers (Berdegué and Reardon 2016).

3.1 Supplier development: the role of government and retailers?

Governments in some countries have played an active role in facilitating links between suppliers and retailers to stimulate supplier development. Countries such as Malaysia and Mexico have government programmes that upgrade suppliers to meet supermarket standards and facilitate linkages between suppliers and retailers. Unlike the codes of conduct discussed above, these programmes are less about regulations on supermarket behaviour and more about actively building supplier capabilities (Reardon and Gulati 2008).

In Malaysia for instance, the state-run Federal Agricultural Marketing Authority (FAMA) has facilitated links between producers and hypermarkets and invested in training for the contracted farmers, technology and infrastructure support, logistics and collection centres (Reardon and Gulati 2008; Halim and Hamid 2011). It operated contact marketing⁶ arrangements with approximately six thousand farmers of horticulture, livestock, fish, coconuts and other products (Shepherd 2005). The supermarkets did not have an obligation to make a commitment on the quantity of products they would take as FAMA's monitoring system allowed them to forecast supermarket daily requirements with considerable precision. However, farmers have the obligation to produce according to strict cropping schedules designed to ensure consistent supply. Under FAMA, government also played an important role in providing risk management and financial facilitation to the contracted farmers. Farmers received payments in 3–7 days, while FAMA received its payment from the supermarkets in 60–90 days (Reardon and Gulati 2008). This initiative is still continuing as FAMA provides training, market information, and electronic platforms for marketing and grading, packaging, labelling and packaging to all contracted farmers and members (FAMA website).

Another example of government's role in supplier development is in Mexico's market promotion service of the Secretariat of Agriculture, ASERCA. ASERCA has a direct marketing programme and supports suppliers to meet retailers' standards (Berdegué and Reardon 2016). ASERCA facilitates trade shows and sponsors suppliers to attend an annual convention that all Mexican supermarkets attend. These physical interactions allow suppliers to meet face-to-face with retailers, an opportunity that particularly small suppliers may not otherwise get.

Some countries have seen close working relationships between suppliers and retailers in SDPs. For instance, in 2007, Metro Cash and Carry in China initiated a project in collaboration with several levels of the Chinese government. The project involved sourcing from farmers in Hefei, a city in the Anhui Province located a day's drive from Shanghai. The programme marketed fruits and vegetables, pork, poultry and eggs, and fish and other freshwater products through Metro Cash and Carry stores and eventually through Metro's distribution platform (Reardon and Gulati 2008). It can be argued that this initiative was driven by Metro's business strategy, which at its core, is to be a wholesaler that links business professionals (hotels, restaurants and caterers) to independent small traders around the world (Metro China website). Nevertheless, at the time (2007) Metro's initiative was closely linked to the Chinese Ministry of Commerce' 200 Markets Upgrading Programme. The ministry sought to upgrade wholesale markets by linking 100 dynamic anchor

⁶ Contact marketing involves using micro-focused campaigns to reach specific people of strategic importance so as to create a necessary connection or partnership.

firms including food retailers, logistics firms and cooperatives with 100 wholesale markets to upgrade operations and sow the seeds of best practices (Reardon and Gulati 2008). This created a mutually beneficial opportunity for government and the retailer, with small farmers deriving significant gains from the initiative. These gains included market access and training to meet Hazard Analysis and Critical Control Point (HACCP) standards, amongst others (Daily China 2008).

3.2 Summary

The international experiences above highlighted different ways in which governments and retailers have intervened to develop suppliers and increase their participation in supermarket supply chains. The codes of conduct have had benefits in terms of regulating the extent to which retailers with market power can extract surpluses from suppliers. This is evident in the prohibition of certain fee categories without cost justifications, the easing of trading terms and the provision of avenues through which suppliers can challenge supermarket practices. Mandatory codes appear to be more successful than voluntary codes, as the evidence from the UK relative to that of Australia suggests. The codes, whether voluntary or mandatory, have similar underlying principles, highlighting key constraints that suppliers face worldwide in accessing large supermarket chains. The codes broadly cover what our past research has shown to also be the case in Southern Africa.

It is important to highlight that the international experience on supplier development has been quite separate from the codes of conduct. The codes of conduct are mainly focused on dealing with competition concerns around the abuse of buyer power. However, these issues fundamentally affect supplier development. The only country to explicitly incorporate the two, as far as we are aware, is Namibia. We discuss the Namibian experience in Section 4.1. below.

With regards to supplier development, governments internationally have played a facilitating role to make links between suppliers and supermarkets to provide market access and have played intermediary roles as buyers to ensure regular offtake. Governments have also invested in training and development, as well as provided support in terms of technology and infrastructure. A key lesson is that this support is responsive to the unique needs of supermarkets and therefore calls for close collaboration between supermarkets (or retailers more generally), suppliers and government. The support has clearly extended well beyond just funding of suppliers.

4 Supplier development programmes in Southern Africa

Unlike the UK or Australia, the retail sector in the Southern African region is largely unregulated. The exception is in Namibia, where there is a formal, voluntary retail charter as discussed in Section 4.1.

The supermarket chains in the Southern African region also engage in supplier development. Their impact, successes and failures are discussed in Section 4.2, including the role of government, development finance institutions and non-profit organizations.

4.1 The Namibian Retail Sector Charter⁷

⁷ The material for this analysis was drawn, unless otherwise referenced, from an interview with the CEO of the Namibia Trade Forum (NTF), the custodians of the Namibian Retail Charter, 15/01/19.

In 2016, the Namibian government launched the voluntary Retail Sector Charter which is the first formalised regulatory intervention in the retail sector in the Southern Africa region. The Namibian Retail Sector Charter of 2016 was established by the Namibia Trade Forum (NTF) following the recognition that, to stimulate the manufacturing sector which has not been growing at the rate that it should be to meet the development objectives contained in the country's Vision 2030, intervention was necessary. The NTF is an agency of the Ministry of Industrialization, Trade and SME Development.

The Charter was enacted as part of the Namibian government's efforts to increase procurement of locally produced goods to boost local manufacturing and value-added processing of agricultural products. The Charter stemmed from Namibia's successful 2002 National Horticulture Development Initiative which aimed at stimulating economic growth and development, in line with Namibia's 4th National Development Plan (NDP4) and the 'Growth at Home' industrial development plan which all contribute to Namibia's Vision 2030 (Namibia Trade Forum 2016). This is significant in terms of the government's commitment in approaching its development goals with aligned policies and from learning from past successes to scale up the country's local manufacturing efforts.

Purpose and goals of the Retail Charter

The Charter aims to bring structural transformation to the retail sector and explores ways in which more Namibian products can be sold on retailers' shelves. The Charter is modelled on the experiences of the UK Groceries Code discussed in Section 3.

More than 80 per cent of supermarkets in Namibia are South African-owned supermarkets (Nickanor et al. 2017). Other South African retailers including clothing and pharmacy retailers also operate in Namibia. The Charter extends to all retailers, although not all retailers have committed to it. For instance, we understand from the NTF that the Clicks group and Pepco have not committed to the Charter.

With this South African ownership, the majority of products sold in Namibia through supermarkets and other retailers are imported from well-established supplier bases in South Africa. Retail modernisation through regional distribution centres located in South Africa has further encouraged sourcing from South African suppliers. In certain instances, given procurement practices, even products produced in Namibia would be moved to retail distribution centres located in South Africa first, and thereafter transported back to stores in Namibia as part of centralised procurement practices. This adds to costs of Namibian suppliers.

Against this backdrop, the goals and objectives of the retail charter include the following⁸:

- To transform the retail sector from one that relies predominantly on foreign imports, to one that gives preference to local manufactures by promoting the sourcing of locally produced products by retailers.
- To support local businesses in securing retail space at home, so as to increase the visibility of their products through the promotion, marketing and distribution of such products. This includes an overall local sourcing goal aimed at progressively raising local procurement from 6 per cent of purchases of all retailers, traders and hospitality sector enterprises to 20 per cent. The government does not specify the time in which they aim to achieve this goal. This

⁸ Drawn from Namibia Trade Forum (2016) and EPA Monitoring (2017).

commitment extends to signatories ensuring that their procurement bill comprises 10 per cent Namibian manufactured goods and services, 6 per cent of goods that are locally packed or co-packed, 5 per cent of local distributors and 30 per cent local content spend from Namibian suppliers. These retailers are to also increase their procurement of local fruit and vegetables, according to a standard that is determined by the Horticulture Market Share Scheme.⁹

- To support and assist new and existing SMEs to increase their participation in the Namibian retail sector by implementing enterprise development programmes. This includes assisting local suppliers in accessing shelf space, including through skills development, labelling and packaging upgrading to conform to retail specifications. Signatory retailers must also commit to spend 5 per cent of the annual advertising budget on promoting local brands. It also includes commitments from signatories of the charter to invest 1 per cent of their Net Profits After Taxes directly or indirectly on the development of SMEs; on discounts or business support programmes for SMEs within the retail supply chain; on grant contributions or loans or credit facilities at 0 per cent interest to SMEs.
- To promote transparency and fairness in procurement procedures, terms of credit and payment and rebate provisions so that no discriminatory practices are implemented against local suppliers. In this regard, the Charter commits signing parties to comply with the Retail Sector Code of Conduct and adopting good business practices.
- To promote consumer protection by safeguarding the safety and standards of products, the supply chains of the products, and minimising their adverse environmental impacts.
- To ensure that retailers fulfil their corporate social investment obligations.
- To promote greater ownership among previously disadvantaged groups.

Furthermore, the Charter promotes forums that facilitate discussions between retailers, manufacturers and producers. This aims to allow for retailers to discuss common concerns and issues with producers and manufacturers.

The objectives of the Charter therefore cover both code of conduct elements and active commitments to supplier development over and above this. Many of the issues that the charter aims to address which prevent local suppliers from supplying supermarket chains were identified in our previous studies as barriers to entry and participation of suppliers. The impact that the Charter has had in addressing some of these issues is discussed in the following sections.

The role of government in spearheading the Charter

Although still in its early days, the active role of the Namibian government from the inception of this initiative is important as it has had a positive impact in encouraging buy-in of retailers and will be fundamental for its on-going success. The Namibian government's approach to the Retail Charter is not overly prescriptive, allowing for the retailers to achieve the targets that they had set out in ways that they saw optimal. The government also understood that, from its side, it would have to address infrastructure backlogs and the cost of utilities to assist suppliers. Political economy considerations driven by institutional, structural and political factors, as well as by the policy space and rationales for government action, are important for shaping outcomes in the economy. There are lessons to be drawn for the rest of the region from Namibia on the role of government and institutions, like the Namibia Trade Forum, in driving changes in the retail sector.

⁹ This target was 41.5% in 2015. Namibian Agronomic Board Annual Report (2015).

First, government built on successes of previous initiatives to conceptualise and initiate the Retail Charter. As noted, the Retail Charter stemmed from the success of the National Horticulture Development Initiative. This initiative saw the local procurement of fresh fruit and vegetables increase from 5 per cent in 2002 to 49 per cent in 2015. This increase in procurement of local horticulture in turn improved access to investment funds for agricultural production. Part of the programme included contracts with large retailers or traders to supply produce on a clearly defined supply schedule. Farmers were able to then use these contracts to secure bank loans for production expansion (EPA Monitoring 2017). This programme was preceded by a scoping study on the local horticulture sector and extensive consultations with stakeholders on what the challenges and constraints were. Committees with relevant stakeholders were set to implement actions to expand sourcing from Namibian farmers. This ‘consensus based, participatory approach, implemented in a clear and transparent legal and policy framework’ has been credited for the success of the Horticulture initiative (EPA Monitoring 2017). By extending what has already worked in the Namibian context, the conceptualisation and design of the Charter was made easier.

Second, the role of government in constructive, early-stage engagement and commitment to the process was important to get the initial buy-in of retailers and other stakeholders. Drawing from the success of the Horticulture Development Initiative, and having identified that market access was critical, in 2013, government proactively launched consultations with stakeholders on a potential retail sector charter. The then Minister of Trade and Industry, Calle Schlettwein, approached retailers, wholesalers, distributors, manufacturers and regulators for a one-day strategic consultative meeting in 2013). Subsequently the first draft of the Retail Charter was formally launched in October 2014, and thereafter a finalised version of the Charter was launched in March 2016 (EPA Monitoring 2017). The involvement of the minister from the inception of the initiative to the launch and beyond was critical to signal government’s commitment to the process. Furthermore, the Managing Director of Pick n Pay Namibia (a subsidiary of the Ohlthaver & List Group) has been appointed as the Chairman of the Retail Charter Council, showing the willingness of the retailers to participate if effectively engaged and if there is political support. There is however the risk that the agenda of the Charter is captured by the retailers if there is not sufficient oversight and involvement by government.

Third, the importance of on-going support and having a ‘custodian’ for the Charter through the Namibia Trade Forum as the institution which oversees the workings of the Charter ensures buy-in and more concrete outcomes and reduces the risk of capture as noted above. The involvement and commitment of the Namibian government through the NTF is seen for instance in recent efforts to set up a barcoding centre in Namibia. A lack of barcoding facilities in Namibia meant that suppliers had to get barcodes from South Africa, increasing their costs to supply retailers. Barcodes are a minimum requirement of most modern retailers in the region. As such, there is a Memorandum of Understanding with a South African Global Standards 1 (GS1) accredited barcode centre to help Namibia build capabilities for a similar centre in Namibia. Manufactured products usually have a GS1 Barcode which consists of a country code, frame code and product code for logistics and supply. Given that Namibian manufacturers would have to use the nearest GS1 accredited barcoding centre in South Africa, the ‘origin’ of the product would have a South African identifier when scanned. Only a sub-scan would show that the product is manufactured in Namibia (Kaira 2018). Although the cost of barcoding in South Africa is not very high, most SMEs in Namibia do not know how to get a barcode, and this is a barrier to entry in leading retail stores, as previous studies in the region have also shown (see for instance, Ziba and Phiri 2017). The existence of a Namibian barcode centre will make it easier for products manufactured in Namibia to be sold in local and international retail stores and is consistent with the commitment of the government to play its part to develop enabling infrastructure for local suppliers.

The Charter has to date focused on three areas: (i) FMCG, particularly food, (ii) clothing and apparel, and (iii) building and hardware. It has only been a little over two years since the establishment of the Charter and therefore still early to critically evaluate any major impacts. As part of formal impact assessments of the Retail Charter, a scorecard is produced periodically. The NTF is set to release the scorecard from the first eighteen months of the Charter by the 31 March 2019 and is therefore not available at the time of writing this paper. The weights of the respective main objectives in the scorecard are given in Table 1 below. Local sourcing, enterprise development and marketing and visibility are allocated the highest weights, accounting for 80 per cent of the total weight.

Table 1: Charter scorecard composition

Pillars	% weighting in scorecard
Local sourcing	35
Marketing and visibility	20
Enterprise development	25
Transparency procedures	10
Consumer protection	5
Corporate Social Investment (CSI)	5
TOTAL	100

Source: <http://www.ntf.org.na/index.php/projects/29-retail-charter>

There have nonetheless already been some positive developments in two of the three focus areas — in food, and in the clothing and apparel sectors. These are evaluated below.

Impacts of the Charter in FMCG (mainly food) value chains

Certain retailers have increased local sourcing and investments in local food suppliers.¹⁰ For instance, a South African supermarket chain has increased its local sourcing of beef and poultry. This benefited the chain especially during the foot and mouth and listeriosis outbreaks that occurred in South Africa between 2017 and 2018 in that it did not have to rely on South African imports. The chain’s investments in local Namibian poultry producers have resulted in them now being able to produce non-brined, good quality chicken, that meets its high-quality requirements. This is a clear example of how retailers can assist suppliers in forms of process and product upgrading in line with GVC principles as discussed in Section 3. We are not aware if there are exclusive supply requirements by the chain on these suppliers under which they are not allowed to supply other retailers. Absent these, such investments are likely to have positive spill-over effects or externalities to the broader poultry industry in Namibia. We further discuss the implications of exclusive supply agreements in Section 4.2.

In 2017, Namibia’s broiler industry contributed 0.71 per cent to the country’s gross domestic product (GDP). This industry is said to have potential to grow to about 2 per cent of GDP¹¹

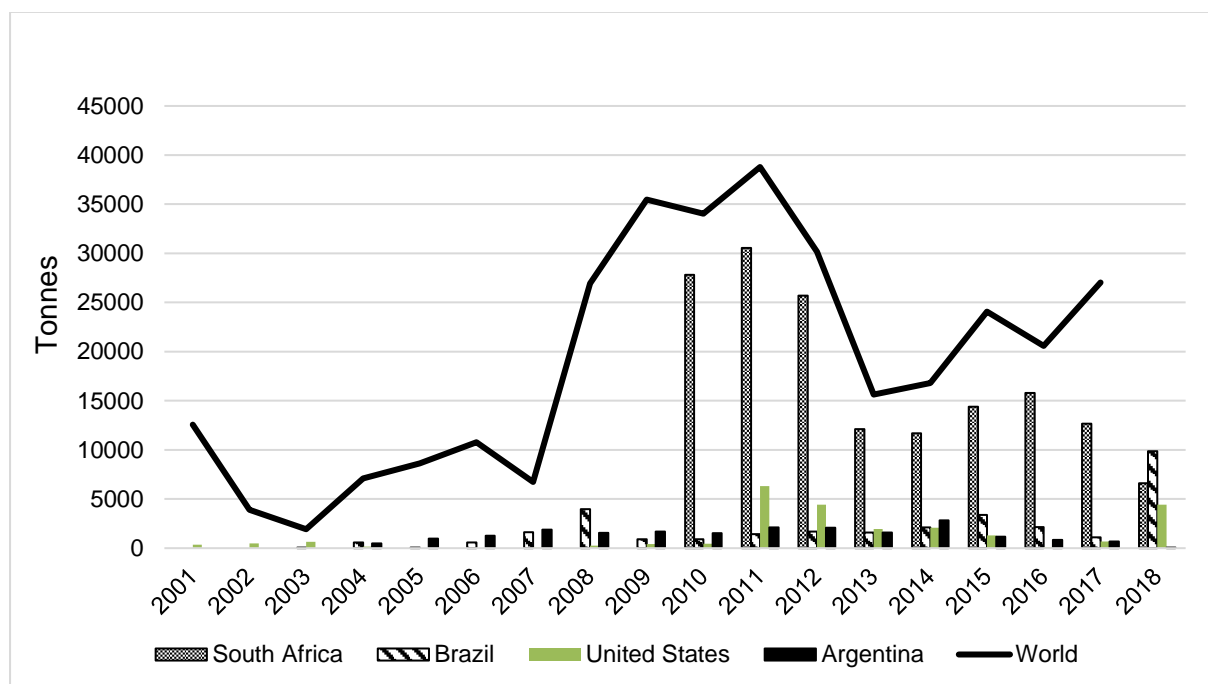
¹⁰ This account of retailer participation in the Charter is from the NTF and not directly from the retailers.

¹¹ It is not clear by when this growth is envisaged.

provided that government provides legislative support and Namibia increases its consumption of local chicken (Matthys 2018). Efforts by such supermarket chains are indeed encouraging greater local sourcing. According to the NTF, the Retail Charter combined with import tariffs imposed on South African chicken has positively impacted local procurement of chicken.

To evaluate this, we assess Namibia’s trade flows in chicken products over the last 6 years (2013-2018). In Namibia, large scale poultry production only started when Namib Poultry Industries (NPI) was established in 2012 (Bagopi et al. 2016). As a result, Namibia’s overall imports of poultry sharply decreased between 2012 and 2013. The sharp decline mostly affected South African imports as 85 per cent of Namibia’s poultry was sourced from South Africa in 2012 (Figure 1). Although South Africa’s share of Namibia’s poultry imports has declined to an average of around 64 per cent between 2013 and 2017 (see Figure 2), Namibia has not significantly increased imports from elsewhere, although in 2018, there is an increase in imports from Brazil. This means that the decline in import volumes has primarily been substituted by local producers. Nevertheless, Namibia still has a negative trade balance in poultry as local production is still at its infant stages (Bagopi et al. 2016).

Figure 1: Namibia’s poultry imports from the world and its top import countries¹



Note: ¹South Africa, USA, Brazil, Argentina.

Source: data from ITC Trade Map.

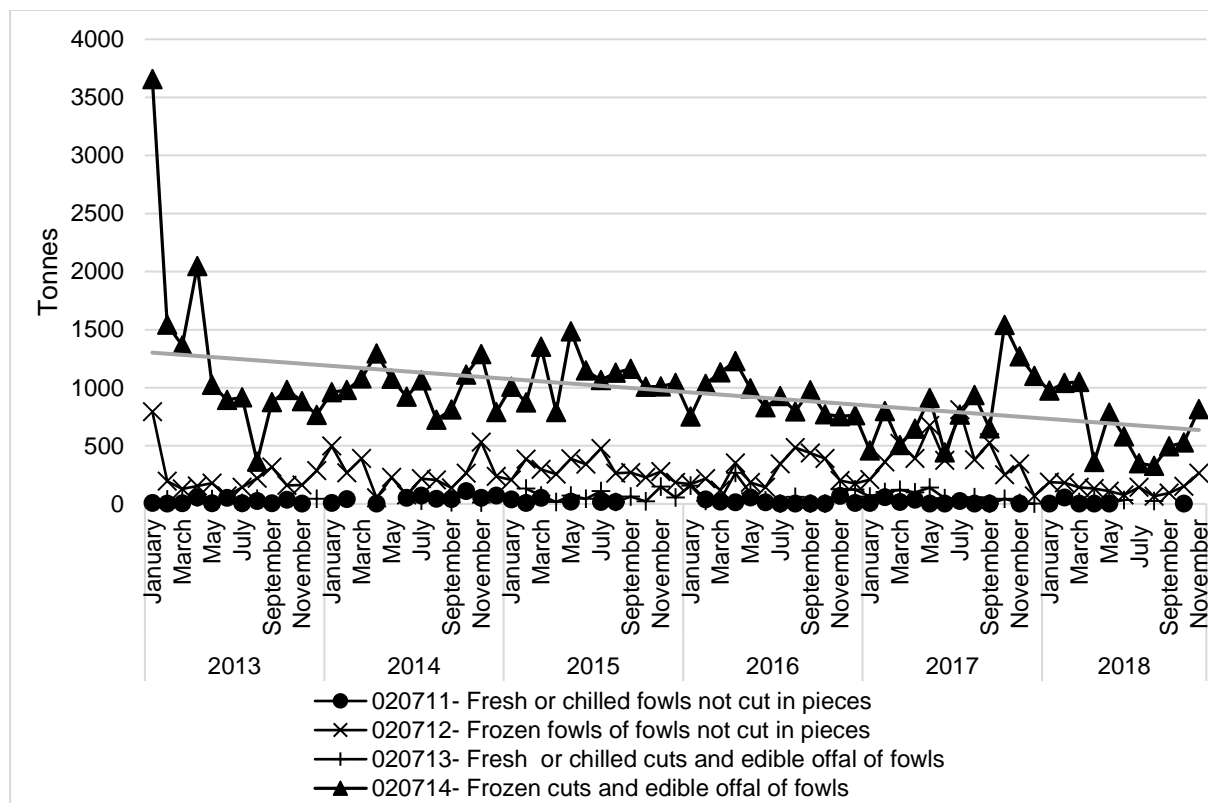
As noted, Namibia’s imports of South Africa’s chicken have declined (Figure 2).¹² The largest decline can be seen at the beginning of 2013 which was when the import tariff was enacted and when NPI production came on board. The import tariff was officially announced on the 5 April 2013 under the Namibia’s Import and Export Control Act of 1994 (Menges 2018; Bagopi et al 2016). The South African Poultry Association and five producers appealed the decision to restrict imports at the Supreme Court of Namibia (Menges 2018).

¹² The trend line is constructed on frozen cuts and edible offal of fowls. This category comprises 75% of all chicken imports from South Africa.

This raises a broader issue around the displacement of regional imports from other countries in SADC as a result of national protection policies in individual countries. Ambitions to develop local suppliers in one country and build their scale and capabilities can be limited if these suppliers are not allowed to export to other countries in the region using supermarket store networks. This creates a tension between national and regional objectives. Political economy issues also arise in this regard, including through lobbying of governments to protect local suppliers from imports from the region and, as noted in the case of poultry above, to open up regional markets for export. Codes of conduct and supplier development programmes with a more regional, rather than a national approach, may offer some solutions to this. We return to this in the conclusions in Section 5.

Given that the Namibian Retail Charter is only two years old, most of the decline seen in chicken imports from South Africa (Figure 2) is likely due to the restrictions on chicken imports sourced from South Africa to protect local production. The impact of local supplier development as part of the Charter is yet to play out in terms of contributing significantly to import replacement in Namibia.

Figure 2: Namibia's imports of South African chicken, tonnes



Source: data from ITC Trade Map.

There have also been increases in local sourcing of fresh produce as part of the initiatives under the Retail Charter. A South African supermarket chain in Namibia sources more volumes of carrots and asparagus locally. As we understand, this chain has embarked on a programme to build the capacity of such local farmers to supply to their stores, supporting around eight farmers

over 2-3 years to meet its standards.¹³ It is unclear however if this assistance was explicitly as part of charter although it is likely to have been so.

Another South African supermarket chain is also attempting to source more milled products locally as part of the Charter, according to the NTF. In response, local millers are upgrading from simply producing wheat flour to producing more value-added products like pasta, biscuits and croissants. For instance, Namib Mills, a grain processing company which holds 85 per cent market share in the milling industry already has a number of household pasta brands and is investing in milling infrastructure. In 2017, Namib Mills invested in a new wheat mill in support of government's vision of increasing local agro-processing and increasing the country's export potential (Namibia Economist 2018). Despite these positive changes, Namibia is yet to significantly decrease its imports of pasta, biscuits and croissants from South Africa. There are nonetheless investments in supplier upgrading on the back of government's aligned vision to decrease reliance on imported products. In this case, key local supplier, Namib Mills, has undertaken investments given greater policy certainty around local sourcing including through the Retail Charter.

The examples above of poultry and milling suggest that the impact seen may be more due to protection measures by government against imports, rather than the Retail Charter. Although it is too early to see the impacts of the charter, the Namibian government's aligned strategy and policy coherence to increase local production is evident. In addition to protecting local industries from import competition and supporting local manufacturing in other ways, the Retail Charter facilitates access to markets for locally produced products. This has encouraged investments and upgrading by local suppliers. This speaks to the importance of corresponding and mutually reinforcing policy measures in developing local capabilities.

Impact of the Charter in clothing and apparel

Similar to the case of food, Namibia imports most of its clothing and apparel from South Africa through South African retailers. Clothing and apparel retailers were not part of the initial consultation meetings and inception of the Retail Charter. The NTF had to have subsequent discussions with the retailers after the Charter had already been enacted (Mhudura 2016).

There have been recent concrete developments for clothing under the initiative.¹⁴ According to the NTF, the support from National Clothing Retail Federation (NCRF) of South Africa has been important in catalysing these developments. The NTF is also partnering with the NCRF to develop a benchmarking study to determine whether Namibian clothing suppliers have the capabilities to meet the requirements of retailers. A retailer has further visited Namibia to engage with suppliers and inspect their factories. In addition, the Charter has identified at least five Namibian clothing and apparel manufacturers that will be supported by a leading retailer.¹⁵ We understand that the NTF and the leading retailer are still negotiating these supplier development opportunities (Mhundururu 2016). These initial efforts will provide a more concise understanding of what needs to be done to improve the capabilities of Namibia's clothing manufacturers to meet retailers' requirements and standards (Brandt 2018).

While there may be several teething operational challenges faced (and these are expected in the early years of such initiatives), the NTF highlights that the Charter has indeed had an impact in

¹³ Workshop with retailers held on the 11 June 2018 in Cape Town.

¹⁴ This account of retailer participation in the Charter is from the NTF and not directly from the retailers.

¹⁵ This retailer is not disclosed since this project is still at the negotiation phase.

changing the mindsets of retailers with regards to local sourcing and developing supplier capabilities. Especially in the clothing and apparel sector where branding is important, changing the mindset of local customers is equally important and may only be achieved over time. Despite some local manufacturer capabilities in clothing, some corporate and government entities still import their corporate wear. This highlights the importance of branding. There have nonetheless been examples of successes in local Namibian clothing brands. For instance, 'My Republic' is a Namibian fashion brand which is seen as a success because it has expanded to open stores in three major shopping malls in Namibia since its launch in 2014 (Kaakunga 2017). There is potential for such brands to sell through retailers. The initiatives in clothing are however too recent to see any impacts on trade flows, with most of the initiatives yet to take off.

Despite initial signs of successful initiatives, the voluntary nature of the Charter has been a challenge to get all retailers to participate. However, like in the Argentinian case, there appears to be the implicit understanding that if the retail sector is not responsive or supportive to the voluntary provisions, more formal regulatory actions would need to be explored.

4.2 Landscape of supplier development programmes in South Africa – successes and challenges

The previous studies on the growth of supermarkets and modernisation of procurement systems in Southern Africa highlighted the pressures placed on suppliers to meet supermarket standards and requirements (das Nair, Chisoro and Ziba 2018; das Nair and Chisoro-Dube 2015, 2016, 2017; Ziba and Phiri 2017).

Supplying supermarkets requires making investments to meet basic legal standards, as well as to meet their private standards. Investments to meet private standards include those in packaging, branding (to build brand awareness and loyalty), advertising, sampling, point of sale material, merchandising and marketing. These are over and above investments needed to meet volume, consistency, quality and cost requirements of supermarket chains. The above requirements need significant investment in production processes, capital, technological, managerial, organizational, and financial upgrades. Under a GVC framework, retailers are best placed to provide support to develop supplier capabilities, and to transfer skills, knowledge and best practice to suppliers in terms of how to improve layout and production flows based on what customers want. Some supermarket groups in the Southern African region are more active in building the capabilities required through close partnerships with local suppliers than others. Similarly, some key suppliers have successfully entered supermarket value chains on the back of their own investments, facilitated by supermarkets opening up wider regional markets to suppliers.

The previous studies, which undertook high-level assessments of the SDPs of the supermarket chains, however highlighted that many of the supermarket SDPs at the time were limited in scale and scope, mostly involved small-scale farmers and were only for a short duration (das Nair, Chisoro and Ziba 2018). The initiatives were also approached more as corporate social responsibility obligations rather than commercially viable parts of the retail business. This results in less commitment to developing supplier capabilities and in a lower likelihood of commercial sustainability of suppliers. The studies however also noted changes in the approach to supplier development by retailers like Massmart, which appear to be moving in the direction of more long-term, mutually beneficial SDPs. In addition, they highlighted that the business model of some supermarket chains, such as Woolworths, lends itself to greater collaboration with suppliers to produce private label product as we discuss below.

This section builds on the general insights from previous studies but further analyses the SDPs of the major supermarkets in South Africa, their impact, successes and failures, to draw lessons for a

future policy roadmap on how SDPs can be structured. Table 2 provides a detailed snapshot of the SDPs of the listed supermarket chains between 2008–17 from publicly available information in annual reports, supermarket websites and interviews.

Table 2: Snapshot of supplier development programmes of the main South African supermarket chains in South Africa only

Programme/ Projects	Target suppliers						Programme/ Project Goal			Programme/Project Type								BBBEE Code goals				Stage of development		Outcomes		Notes				
	Food	Fruit and Veg Farmers	Animal Farmers	Agro-processing	Clothing and Apparel	General Merchandise	Other FMCG	Start-ups	Growth	Competitiveness	Financing				Capacity Development				Period of assistance	Market Access	Preferential Procurement	Black-owned businesses	Women Owned	Pilot	Roll-out		Number of Businesses Assisted	Employment		
Equity											Shorter payment terms	Grants	Zero-interest loans	Value	Training	Mentorship	Technical Assistance	Infrastructure												
WOOLWORTHS																														
Supplier and Enterprise Development (SED) (2009-Ongoing)	X	X	X	X	X	X	X	X			X		X	R63.13m loans disbursed since 2009	X	X					3-5 yrs	X	X	X	X		X	>61 (Almost all suppliers gained market access into Woolworths)	At least 1892 jobs in total (from 2018, 2017, 2016) and 2013 annual reports)	In some instances receives co-funding from Industrial Development Corporation
PICK 'N PAY																														
Enterprise development fund (2008-Ongoing)	X	X		X			X	X			X		X	R305.36m spent on CSI since 2008, CSI includes ED In 2018: approximat	X	X						X	X	X			X	>600 jobs		

Rural Hub Project & Fresh Assembly Points (2012-Ongoing)	X							X	X					R10m committed			X	X (Built Pack houses)		X	X	X	X		30				
MASSMART																													
Manufacturing SMMEs (2012-Ongoing)			X	X	X	X					X	X		R82.3m disbursed since 2012. ¹⁷						X		X	X		X	41 (All have market access into Massmart)	Approximately 1858 jobs since 2012.	Other FMCG: Building materials, bricks	
Ezemvelo Direct Farming Programme (2012- 2016)	X	X					X	X					X	X	R14.6m disbursed since 2012.	X	X	X	X (Built Pack houses)		X		X	X		X	146(fully supported) and >700 farmers received training only	259 jobs since 2012, 15 jobs in retained project	Discontinued except for one fresh producer.
Services to Suppliers (2012- 2016)				X	X	X	X	X					X	X	R15m disbursed since 2012.	X		X					X	X		X	50		
SHOPRITE CHECKERS																													
Nyama nyama emnadi (2008 - 2010)		X						X	X							X	X				X	X	X		X				In partnership with the Department of Agriculture, Forestry and Fisheries
Greenfields project (2009-2010)	X						X	X	X							X	X	X				X	X		X	358 farmers assisted at 88 farmers with mentorship only			
Freshmark suppliers initiatives (2012-Ongoing)	X						X	X									X	X			X	X	X			39 businesses			

¹⁷ Excludes funds spent on graduated and exited projects which were funded R37.33m in total since 2012.

Shoprite Checkers Development Trust (2011 - Ongoing)	X	X	X				X	X	X			X	X	R419.8m in the trust, the trust funds corporate social initiatives and enterprise development						X		X	X		X			
Homemade Supplier Development Programme (2013- Ongoing)			X					X	X				X	X						X	X	X	X		X	80 businesses (260 product lines given market access to Shoprite)		

Sources: Compiled by authors from annual reports of listed supermarket chains, websites and interviews.

The programmes in Table 2 extend to suppliers across food and non-food products in South Africa. Within food, there has generally been a stronger focus on small farmers in fruit and vegetables, and animal farming. There has also been some support to agro-processors, including to millers and bakers. In non-food categories, support has extended to clothing and apparel manufacturers, building and hardware and general merchandise manufacturers, although to a lesser degree than support to farmers historically. This trend is however changing as we discuss later.

Interviews with supermarkets¹⁸ and annual reports highlight that support has been given to start-up businesses, to assist in the growth of existing suppliers and to improve competitiveness of existing suppliers. Financially, the programmes are typically funded through equity by the retail chains themselves, through grants or through zero- or low-interest loans. In other instances, shorter payment periods act as a source of immediate funding and assist in alleviating the serious concern of cash flow for small businesses identified in previous studies. The South African government, through the Industrial Development Corporation (IDC) and other pockets of funding, have also assisted in co-funding in certain cases. There appears to be limited funding from donor agencies or NGOs in partnership with the supermarket chains, although these entities may offer support in terms of managing the programmes, including those co-funded by the IDC.

According to the supermarkets, from a capacity-building perspective, the support in the earlier programmes have included training, mentorship, specialist and technical assistance, business development and market readiness, as well as climate change risk mitigation. It has also included assistance to farmers to meet minimum food safety and quality standards (both legal and private standards).

Support further includes access to infrastructure, such as access to irrigation facilities, packhouses and distribution centres. Non-trade support is also offered by chains on services like logistics and lawyers. The support is typically for a defined duration, usually for relatively short periods (3 to 5 years) and the different programmes are at different phases with different groups of beneficiaries (pilot, rollout, replication etc.). The programmes have contributed to employment creation, but given their generally short duration, it is not clear what has happened to employees in the businesses post the programme.

The programmes also generally include commitments from the supermarket chains on offtake agreements, to provide access to shelf space, preferential trading terms to small suppliers, which can include lower rebates that suppliers have to pay them. Very recently, Pick n Pay announced that it would be dedicating shop space in eight stores to South African products produced by small businesses as part of its 'Meet the Maker' trial run for three months. The purpose of this initiative is to give greater visibility and awareness to local small businesses, with the aim of building suppliers to become long-term sustainable suppliers to Pick n Pay.¹⁹

Compliance or real transformation and capability building of suppliers?

The forms of support described above aim to address some of the barriers that particularly small farmers and small and medium-sized suppliers face in accessing supermarkets. By including behavioural elements, such as guaranteed offtake agreements, access to shelf space and preferential trading terms, some concerns of buyer power are also partially addressed through these

¹⁸ See Appendix, Table 5, for a list of interviews conducted.

¹⁹ http://www.702.co.za/articles/340817/pick-n-pay-dedicates-shop-space-and-r170-million-to-local-small-suppliers?fbclid=IwAR0KZfvS1GDkmHiq3vt7edPWK_qLqpEn_qTFeJrr3rhZuOJ-sAi9nSwukw, accessed in March 2019.

programmes. The initiatives aim to assist in upgrading suppliers to meet the standards required to supply supermarket chains.

However, these programmes, at least until recently, have been limited in scope, were ad hoc and only for short durations. Many of them have been approached mainly as part of Corporate Social Initiatives/Responsibility (CSI/R) or as part of compliance with Codes of Good Practice of 6 May 2015 under section 9 (1) of the South African Broad Based Black Economic Empowerment (B-BBEE) Amendment Act (Act No.46, 2013). The impact of such programmes is limited when approached as short-term compliance efforts rather than long-term, mutually beneficial and commercial projects as we discuss below.

According to the B-BBEE Code of Good Practice, Qualifying Small Enterprises (QSE) are entities that have an annual turnover of R50m or less, and at least 51 per cent black beneficiaries. These are recognised as ‘level two’ B-BBEE contributors while QSEs with 75 per cent black beneficiaries are recognised as ‘level one’ B-BBEE contributors. QSEs with less than 51 per cent black ownership are obliged to use a specialised QSE scorecard to prove their compliance.

The scorecards for compliance have categories of support with different weightings (Table 3). These include management control, skills development, socio-economic development and enterprise and supplier development. Of relevance to the supermarket sector with regards to supplier development is the Enterprise and Supplier Development category.

Table 3: Enterprise and supplier development specialized scorecard summary

Criteria	Weighting points	Compliance targets
Preferential procurement		
B-BBEE procurement spend from empowering suppliers as a percentage of total procurement spend.	5	80%
B-BBEE procurement spend from empowering suppliers that are QSE as a percentage of total procurement spend.	4	15%
B-BBEE procurement spend from all EMEs as a percentage of total procurement spend.	5	15%
B-BBEE procurement spend from empowering suppliers that are >=51% black owned as a percentage of total procurement spend.	11	40%
B-BBEE procurement spend from empowering suppliers that are >=30% black women owned as a percentage of total procurement spend.	5	12%
B-BBEE procurement spend from designated group suppliers that are >=51% black owned (Bonus)	2	2%
Supplier Development		
Annual value of all supplier development contributions made by entity as % of target	15	2% of Net Profit After Tax (NPAT) or 0.2% of annual turnover
Enterprise Development		
Annual value of enterprise development contributions and sector specific programmes made by entity as % of target	5	1% of NPAT or 0.1% of annual turnover
Bonus		
Graduating one or more enterprise development beneficiaries to the supplier development level	1	
Creating one or more jobs as a result of supplier development and enterprise development initiatives	1	

Source: Government Gazette 6 May 2015 No. 38766.

Many of the SDPs in Table 2 appear to be undertaken largely in compliance with these codes and other CSR objectives, rather than as part of long-term commercially oriented approaches to supplier development that are mutually beneficial to both supermarkets and suppliers. This limits the potential for sustainable growth and real transformation of suppliers in the long run. Undertaking enterprise development initiatives under the BEE code in practice mean that these are typically low-impact initiatives, and there is little incentive for supermarkets to engage and invest deeper in supply development beyond the bare minimum that is necessary to just comply

with the code. Under this approach, retailers find ways to minimise the cost and the work of compliance. The level of effort or investment in suppliers may not be sufficient to have real impact on sustainable transformation.

It is important to note that the programmes captured under Woolworths in Table 2 above do not reflect the chain's support to its larger, commercial supplier base of their private label products (accounting for most of Woolworths' sales), but rather reflect its efforts as part of its Supplier and Enterprise Development programme. The latter is guided by the above described B-BBEE Code of Good Practice. The details of the former - the relationship and support offered to its main suppliers of Woolworths' private label products - underpin its competitive advantage given its business model. We have no access to this information. However, Woolworths invests considerably in the development of its commercial suppliers to meet its quality and other requirements.

A new trajectory? Successes and challenges

The interviews undertaken and data analysed for this study suggest that there has been a positive move towards more long-term, commercially oriented SDPs, going beyond just compliance or corporate social responsibility. This was in line with the DTT's strategy for agro-processing in the Industrial Policy Action Plan (IPAP) of 2017/8–2019/20, although the most recent, tenth iteration of IPAP (2018/9–2020/21) is more muted in terms of the push on retailers to engage deeper in SDPs as we discuss below.

We highlighted this trend already by Massmart in our previous studies (das Nair, Chisoro and Ziba, 2018). What started off as an SDP created as part of the conditions imposed by the Competition Appeal Court in the Walmart/Massmart merger, support to suppliers has evolved beyond this and has extended past the required duration and scope of the merger condition. The Competition Appeal Court required that the merged firm set up a Supplier Development Fund (SDF) and make available approximately R 240 million over a period of five years to develop suppliers. Massmart worked with TechnoServe, a non-profit organization, to upskill and train farmers to supply fresh produce to its stores, in addition to providing preferential finance terms and inputs (Massmart, 2015). The retailer invested R40 million in smallholder farming to support Massmart's move into fresh produce and grocery market (Massmart, 2016).

The farmer programme was relatively unsuccessful and has been discontinued due to several setbacks. Small farmers were vulnerable to crop disease and weather and could not afford insurance leading to huge crop losses. Massmart ended up covering their costs and purchasing seeds for new crop. Massmart entered into pricing agreements with farmers but did not require exclusivity arrangements. The result was that farmers would supply other retailers who offered better prices than Massmart. In the end, Massmart only received suppliers' produce when the market price was low (below the contract price) thereby incurring losses. Massmart is also not a price-leader in fresh produce retail (a relatively new area for its Game store format), so it was not able to absorb higher costs of production and still be competitive in retail markets (Massmart, 2016). The requirement to provide additional support in terms of farming equipment, logistics, pack houses, extension services (soil science and fertilisers) and carry out significant investment in attaining food safety requirements, was also underestimated. Massmart was not financially prepared to carry out such investments under the SDF.

Initiatives in agro-processing under the SDF were successful initially, with Lethabo Milling, Marble Gold and Thistle Bakery being supported through the programme. The support extended to these businesses are similar to what is listed in Table 2. These however have also subsequently failed, with some of these businesses going bankrupt. A lesson learned by Massmart through the failure

of its agro-processing and farming SDPs was that supporting and growing suppliers for which it was not a ‘market leader’ in the retail level limited its ability to allow the supplier to get a foothold in the market. Massmart considers being a market leader an important aspect for it to be able to set prices at the retail level, and to ensure that it does not lose the suppliers it supports to rival retailers that can charge higher prices when there is no exclusivity.

Massmart, towards the end of the SDF, shifted its focus to the building supplies category where it is regarded as a market leader. It is notable that the extension of its SDP is undertaken on its own accord, with no requirement from the competition authorities under the condition. The current Massmart model focuses on established business that can be up-scaled quickly in FMCG, General Merchandise, DIY and Building, where it makes mutual commercial sense for both Massmart and the supplier (Massmart 2017). Focusing on suppliers of products in which Massmart has a large market share allows it to commercialise these businesses more easily, ensuring sizable offtake through its own store network.

It deals with manufacturers of different building materials ranging from tiles, bricks, doors, nails, ladders and chefs’ clothing. Massmart currently has around 30 suppliers in their SDP portfolio (Table 4). Suppliers in these categories have a greater chance of success because customer demand is more consistent and predictable allowing regular take-off orders with large procurement volumes and wider offering. Focusing in areas where there is a shortage of supply in the local market, either because there are concentrated local markets or imports, is another strategy in its SDP going forwards. Additionally, support is generally given to brownfield businesses that have been running for at least 3 years to ensure greater chances of success.

Table 4: Massmart supplier development portfolio

Cluster	Total projects since inception	Active projects as of 2018	Amount disbursed	Procurement	Market access
Building Materials	9	9 (3 import replacement)	R25.7m	R146.6m	Supply Massmart in South Africa; 2 also supply Botswana, Mozambique, Zambia
Bricks	5	2	R19.2m	R141.5m	Supply Massmart in South Africa
General Merchandise	18	12 (3 import replacement)	R40.35m	R100.1m	Supply Massmart in South Africa; 3 also supply Botswana, Mozambique, Zambia; 1 supplies United Kingdom; 1 supplies Australia, Chile, New Zealand
Clothing and Textiles	3	3	R5.5m	R72m	Supply Massmart in South Africa
Processed Food	6	3 (1 import replacement)	R10.8m	R49.4m	Supply in South Africa- import substitution

Source: based on Massmart 2017/18.

The other main supermarket chains also appear to be approaching supplier development differently from the past approach, focusing more on high-impact, commercially oriented, mutually beneficial initiatives that are not necessarily linked to BEE requirements and going beyond this. The form and impact of these SDPs would need to be evaluated after sufficient time has passed.

The approach to supplier development in South Africa by retailers is moving towards beneficiaries of the support being handled almost as subsidiaries of the supermarket chain. The chains appear to ‘project manage’ the SDPs much more closely than in previous programmes, including, as some retailers highlighted, deploying experts, turnaround strategists and industrial engineers if programmes involve manufacturing to manage the suppliers. This is to ensure the plant and

equipment of the supplier are running optimally, and to identify and fix bottlenecks in production processes. SDPs are designed by the retailer with an upfront projection of the prices and volumes that the supplier will supply the chain, and the retailer makes or supports the investments necessary to get the supplier to that target. This involves greater control and management of input requirements, financial management through the retailers own or appointed accountants (especially working capital management, which has been raised in past studies as a major constraint for small businesses), regular audits and site visits, in addition to all the support elements that were given in previous SDPs. Similar project management approaches are undertaken by non-profit organizations like TechnoServe to develop farmers that are part of enterprise development programmes.

Other aspects that are important for the sale of the product through supermarkets, such as packaging, are also managed closely by the retailer in certain cases, employing packaging engineers when needed to assess material and design of packaging. Retailers also provide pricing support in certain cases to allow the product to gain traction in the market.

A change in the approach to supplier development is therefore apparent and a positive step, where supermarket chains have recognised that deep expertise, investment and intimate involvement with the supplier is necessary to make them succeed in the long run. Approaching supplier development by just providing funding to suppliers is ineffective as seen in the earlier programmes. Importantly, there appears to be the understanding that such investments also benefit the retailer in the long term. As noted, government also strongly nudged retailers in this direction through the DTP's previous iteration of IPAP (2017-20).

This however also raises governance concerns, with supermarkets having even tighter control of suppliers in value chains by dictating and managing terms of participation. There is, in effect, a greater degree of vertical control by supermarkets. This governance resembles more captive and hierarchical forms of governance in the literature, where a few supermarkets possess considerable power and dictate the conditions of supplier participation in the value chain (Gereffi and Fernandez-Stark, 2011). Further research is needed to understand whether this control would extend to exclusive supply agreements with suppliers that fall under these programmes. Current indications are that this is not typically the case in the programmes undertaken for BEE compliance or CSR purposes, and suppliers are free to supply all retailers, although usually only after they have met their minimum offtake obligations with the retailer that provides the support or after a certain time period has passed. There are also various degrees and forms of exclusivity requirements that are beyond the scope of this study. Generally, if suppliers do not diversify who they supply to, then they run the risk of being completely dependent on the retailer that assists them.

Other retailers, as well as technical support organizations, have faced similar challenges to those faced by Massmart with regards to support to farmers in the past as highlighted above. These challenges still remain and are relevant for future programmes that involve farmers. Climatic conditions and water shortages affect farmers. In other instances, pests and diseases have spread from areas not covered by the support into the areas that are covered, affecting the yields and profitability of the farmers.

A key lesson in supplier development in the agricultural space is the role that government can play in ensuring plant and animal health, and in offering extension services. This needs to be done across the agricultural sector more widely, precisely to deal with matters that affect all farmers, like pests and climate change. An interview highlighted how farmers in one area under a supplier development programme were severely affected recently because of a pest outbreak in other farms in the same area that were not part of the SDP. It is the role of the Department of Agriculture,

Forestry and Fisheries to offer services to farmers to ensure that outbreaks like this are effectively and swiftly contained. Supermarkets alone cannot be expected to do this.

While access to markets, food safety and other requirements are important for SDPs involving farmers, aspects often overlooked are land ownership, water rights, community and environmental issues. Land ownership has an impact on the ability to access finance for expansion. In community-based farming initiatives, there is often internal conflict between communities, traditional leaders and municipalities. Community Property Associations (CPA) and trusts are usually not well capacitated and political and individual interests play an important role in the trajectory of these projects. The long-term sustainability of projects is often compromised if these aspects are not adequately concerned. The calibre and quality of NGOs and consultants that project manage farming initiatives also affects the success of the projects.

In the agro-processing and light manufacturing sectors for suppliers of products to retailers, another key challenge that suppliers face is the high costs of input materials, especially of packaging materials made of various types of polymers. Given the importance of packaging for FMCG, high material costs put significant pressure on supplier margins. Suppliers are less competitive relative to imports and retailers have to provide additional pricing support to suppliers to as a result.

Although retailers are increasingly involved in greater financial management of suppliers in their programmes, cash flow continues to be a concern for small players. This is an area that government co-funding in SDPs (discussed below) could be more usefully channelled into. Lack of financial support was a significant concern raised in previous research by small suppliers who encounter serious challenges with accessing finance to maintain cash flow and working capital.

Capacity-building under the SDPs in Table 2 include training provided by the retailers. This includes on-the-job practical training or simulation training to allow suppliers to make real-time decisions and engage with the outcomes. Such simulations test suppliers' decision making on cash flow matters and production decisions in ways in which traditional courses cannot. Retailers can provide practical, real life scenarios and information that can help to design such training programmes.

Another major challenge is the lack of public testing facilities and laboratories that small suppliers can use to develop their products and get relevant accreditations. Retailers interviewed have had to in some cases facilitate this by sending products overseas to get tested. This is an area that government can invest in to support small suppliers.

4.3 Current support from government in supplier development²⁰

There are a number of government programmes that offer support to suppliers in South Africa. The Industrial Development Corporation (IDC), a development finance institution, has two avenues of support. The first avenue is through its core funding mandate, for instance, through its Agro-processing and Agriculture Strategic Business Unit which funds horticulture and high-value field crops, beverages, wheat and sugar, livestock (cattle, poultry and pigs), fishing and aquaculture and forestry. Through this avenue, a stronger value chain approach to integrate suppliers into supermarket chains has recently been undertaken. A recent project in agro-processing is currently underway. The details of this are not yet in the public domain but the essence of the support is to help small farmers commercialise over a period of time through 'pairing' them with existing large commercial farmers. A combination of equity and debt funding is used, with commercial farmers

²⁰ This section does not cover the full spectrum of support from all spheres of government.

contributing to equity while the IDC provides grant and/or debt finance. The retailers are also encouraged to finance capital through grants or soft loans, in addition to providing access to markets. In fruit, the IDC has projects aiming to support black farmers by facilitating their integration into orchards, packhouses and infrastructure through linking them to large commercial farmers.

Other funds that the IDC has contributed towards that have stemmed from private sector initiatives include the Agro-Processing Competitiveness Fund, which was set up from the Pioneer cartel settlement. This fund of around ZAR200 million offered support to non-dominant agro-processing players in the form of investment support, business support and research grants. The IDC co-funded an additional ZAR220 million towards it. The Competition Commission of South Africa in 2016 undertook an impact assessment of the fund (Mandiriza, Sithebe and Viljoen 2016). The authors found that the fund indeed assisted in facilitating entry of non-dominant firms in the agro-processing and beverages sectors, as well as contributed to job creation. In total, 10 companies assisted were start-ups, while 24 were existing enterprises seeking to expand their operations in the poultry, animal feed, and the flour milling and bread industries. Enterprises were funded in almost all provinces and had by 2016 created around 2400 jobs. The forms of support have included non-financial support like marketing and business plans, and research grants (Mandiriza, Sithebe and Viljoen 2016). It is not clear how many of these businesses are still in operation today. There also does not appear to be any market access conditions with supermarkets as part of the fund, although supermarkets are an important route to market for the beneficiaries supported.

The second avenue that the IDC has to develop suppliers is through its Development Impact Support division. This division supports the main business units of the IDC with a narrow mandate to promote broad-based empowerment, transformation and inclusive participation. They have two funds to do this - the Social Enterprise Fund and the Special Intervention Fund. These are small funds, with a total of only ZAR 50 million a year. The funds assist partnerships in making businesses more inclusive, including private-public sector initiatives. The IDC mostly works with NGOs and social enterprises to project management the initiatives under these funds. The funds support businesses with a level 4 B-BBEE status and/or have level 4 B-BBEE status in their supply chain, and that promotes youth employment, community ownership and employee ownership. The IDC offers advice, strategic support, incubators and accelerators and project management in projects supported by the funds. In the retail sector, the funds assist small businesses to enter retail markets by upgrading them to meet consistency, quality and volume requirements, as well as to obtain accreditations. The IDC facilitates crowding in of public sector and private sector money, and these funds are used as catalytic funds for larger projects that meet the funds' criteria. The types of projects funded through this business unit are given in Table A2 in the Appendix. These projects have not always managed to negotiate market access for suppliers, and as mentioned, are very limited in scale and scope.

The Food and Beverages Sector Education and Training Authority (FoodBev SETA) which aims to promote skills development in the food and beverages manufacturing sector. This SETA identifies critical and scarce skills through annual reports submitted by employers in the following sub-sectors: Baking, Cereals, Confectionery & Snacks, Beverage Manufacturing, Dairy Manufacturing, Manufacture of Food Preparation Products and Processed and Preserved Meat, Fish, Fruit and Vegetables. It assists with skills gap in the food and beverages sector by awarding bursaries annually for undergraduate and postgraduate studies. Again, the usefulness of this initiative is uncertain at this stage and whether these programmes are designed with inputs from retailers is not apparent.

Government through the Department of Trade and Industry (DTI) also runs the Black Business Supplier Development Programme - a cost sharing grant offered to existing small black-owned enterprises aimed at improving small suppliers' competitiveness and sustainability. For existing businesses only, this programme shares costs with suppliers by extending grants for tools, machinery and equipment. It offers supplier business development and training interventions meant to improve corporate governance, management, marketing, productivity and use of modern technology.

Interviews with suppliers in previous research undertaken by CCRED generally revealed that the process of accessing public funds is onerous, complicated and requires extensive paperwork. Suppliers claimed to face considerable bottlenecks forcing them to use consultants at their own expense to try to access such pockets of funding.

The DTI, through the Industrial Policy Action Plan (IPAP) of 2017/8 – 2019/20 stipulated several interventions to support local suppliers in a number of sectors, including FMCG such as clothing, textiles, leather and footwear and agro-processing. However, in the latest (tenth) iteration of IPAP (2018/9 – 2020/21), the emphasis on supplier development and the involvement of retailers, especially in agro-processing, is much more muted. We understand that this was also partly due to the (at the time) on-going Grocery Retail Market Inquiry by the Competition Commission of South Africa.

In food, the Agro-processing Supplier Development Programme (Agri-SDP) in IPAP 2017-2020 explicitly recognised that SDPs in the retail sector need to move beyond CSR-type projects, and targets included building proactive partnerships between government, the private sector and donors to ramp up procurement by large retailers and agri-producers from emerging and marginalised producers and farmers, and medium-sized players. This iteration of the IPAP made it clear that this needed to be done through substantial investments into upgrading by both the public and private sector guided by the retailers and large producers. The role of state support for small producers, including through reducing barriers to entry and expansion in terms of regulation and infrastructure, land reform, access to utilities, extension services etc. was also recognised. The development of agri-parks further formed part of the key interventions in the sector. Targets for the major retailers and large processors included a doubling of procurement from emerging producers and farmers and upgrading of at least 500 emerging suppliers within a three-year period (by 2020). Key milestones also included agreements on a Procurement Charter and a Charter or Code of Conduct with leading retail chains and food processing conglomerates, amongst others. While there have been investments in the agro-processing sector and localisation partnerships with some retailers especially in clothing and textiles as highlighted in IPAP (2018-2021), there is little mention of the progress, if any, made on the above specific objectives highlighted in the previous IPAP. Agreements on a code or charter have not materialised and there is no indication from government's side that these milestones are still a priority to it in its industrial policy. This creates uncertainty and may slow down the momentum that has just begun from the supermarkets' side in their approach to supplier development. Again, we acknowledge that this was partly due to the pending outcomes of the Commission's retail inquiry. Perhaps now that the preliminary recommendations of the inquiry have been released,²¹ the timing is right for industrial policy interventions in the sector.

²¹ <http://www.compcom.co.za/wp-content/uploads/2015/06/GRMI-Draft-Report-non-Confidential-30-May-2019.pdf>, accessed in May 2019.

4.4 Regional initiatives

The supermarket chains are making efforts to procure locally in countries in the region into which they spread. This is evident in Section 4.1. in the different efforts of the South African retailers in Namibia under the charter. There have also been initiatives in other countries in the region to source locally largely for fresh produce and dairy from local farmers and traders.

We highlighted in our previous research that there were recent, more concrete efforts underway, where Memorandums of Understanding (MOU) were signed in Zambia between Shoprite and the Zambia Development Agency aimed at promoting small and medium-sized enterprises with support from the Ministry of Commerce, Trade and Industry. These have included engagements around sourcing value-added products in food processing and packaging industries, as well as in value-added chemical products from Zambian firms to the chain's store network in the country.²² There has also been an MOU signed between Shoprite and the Private Enterprise Programme Zambia under the Department for International Development programme supporting SMEs (das Nair, Chisoro and Ziba 2018).

However, aside from procuring fresh produce (vegetables, fruit, meat, poultry etc.) locally, there appear to be very few, structured SDPs in the region that aim to build long-term, commercially oriented SDPs in value-added and manufactured products. Most efforts have been on a country-by-country basis and have been largely reactive to increasing pressure from governments to source more locally (which has included banning of imports, raising import tariffs in certain product categories or soft local content policies). Concrete initiatives that we are aware of in value-added programmes in manufacturing industries in the region that are led or supported by supermarket chains presently are very few, although the progress (still in the early days) in Namibia under the charter is promising. Development finance institutions like the IDC in South Africa are currently also evaluating the viability of projects in the region. This is an area for further research, including around how SDPs can be tailored to have regional benefits, rather than narrower national benefits. We also note that there are implications for enforcing local content and local sourcing requirements under World Trade Organisation (WTO) law. The significance of this on regional supplier development requires further research.

5 Conclusions: lessons for a future policy roadmap on supplier development in supermarket supply chains

This paper builds on the premise that lead supermarket chains play a critical role in developing supplier capabilities through transferring skills, knowledge and best practice to suppliers. As highlighted in Section 2 under a GVC framework, the strategies of lead supermarket chains can set the pace and direction of knowledge flows and upgrading in supply chains. This section draws key lessons and provides recommendations that could inform a future policy roadmap for effective and sustainable SDPs.

For supermarket chains to have the incentive to invest in upgrading the capabilities of suppliers in the region, the costs of this assistance need to be more than offset by the benefits of integrating more suppliers into their value chains. This requires taking a longer-term view of the benefits of increasing a competitive supplier base overall for supermarket profitability. However, upgrading capabilities also requires effort from other stakeholders, especially governments. Upgrading

²² <http://www.zda.org.zm/?q=content/copperbelt-business-linkages-forum-yields-results>, accessed in March 2019.

initiatives can include public and private partnerships in investments in infrastructure developments, construction of distribution and warehouse facilities and cold chains. It can also include investments in systems to improve the sorting, grading, packaging, labelling, tracking, inventory maintenance, financial and managerial systems of suppliers. This is in addition to building capabilities through technical and other forms of training which supermarkets may be best placed to contribute towards.

While earlier SDPs of the main chains in South Africa appear to be undertaken more for BEE compliance and CSR purposes, there are encouraging developments in recent years that suggest that the main chains are approaching supplier development with a long-term, mutually beneficial, commercially oriented mindset. There is the realisation that increasing participation and upgrading of supplier capabilities requires much more than just funding of programmes. It requires identifying and remedying barriers to entry faced by suppliers and active participation of retailers in the SDPs. There is still, however, considerable scope to replicate, broaden and deepen the existing SDPs of retailers.

While deeper involvement by supermarkets in actively managing the current SDPs is important, we caution against these suppliers becoming captive to the chain, raising governance and buyer power concerns. The competition authorities have a role to play in ensuring that abuse of dominance concerns are curtailed in these relationships. An important approach to this is also actively supporting alternative routes to market to the mainstream retailers so that suppliers have greater choice in terms of market access. In previous studies, the importance of enabling a diversity of retail channels by reducing the barriers to entry and expansion for different types of retailers has been emphasised (das Nair and Chisoro 2015, 2017).

Government efforts in supplier development need to complement that of supermarket chains. The Namibian Retail Charter offers useful lessons on the importance of consistent political and institutional commitment from government's side. The Namibian government and the Namibia Trade Forum have committed to the Retail Charter and this has encouraged the active participation of certain retailers. While it is too early to quantify the impact of the Charter, there are promising indications of progress in the agro-processing and clothing sectors.

Internationally, the key interventions in the retail sector have primarily been through codes of conduct, either mandatory or voluntary, that govern the relationship between retailers and suppliers, but with little or no active supplier development measures incorporated into the codes. These codes have often followed market inquiries by competition authorities into the possible harm of unequal bargaining power or buyer power of large chains. Codes of conduct between suppliers and supermarkets are a useful way to control the exertion of buyer power and have been identified as a practical and effective approach in developing countries to level the playing field and reduce information asymmetries between suppliers and supermarkets. Other countries in Africa, like Kenya, have also very recently instituted a voluntary Retail Trade Code of Practice to protect suppliers as discussed in Section 3.

Mandatory codes are generally viewed as being politically difficult to implement and met with resistance due to fears of imposing added red tape and regulation on sectors like agriculture. However, the international experiences show that mandatory codes, with repercussions for its breach including through penalties, are more effective than voluntary codes in bringing about real changes in behaviour of retailers with buyer power. There needs to be a concerted effort on the part of an adjudicator or equivalent to take on investigations and prosecute breaches under a system with mandatory codes. There also need to be some form of penalties (aside from just reputational damage) to ensure that there is deterrence and no recidivism. This suggests regulation of the sector.

There is also finally some momentum in the approach to SDPs by South African retailers towards more sustainable, commercial programmes, and to which more elements of a code of conduct could be incorporated as has been done in the Namibian Retail Charter. Supplier development and the behaviour of supermarket chains are intricately linked and need to be considered together to realise the industrialization objectives of the region. The Competition Commission of South Africa's Grocery Retail Market Inquiry (GRMI) looked into issues of buyer power, amongst others, and the preliminary recommendations of this inquiry released in May 2019 indeed includes a call for a code of conduct or similar forms of regulation. These recommendations and the amendments to the Competition Act are a step in the right direction in dealing with the issues of buyer power.

Whichever route is taken by the government, political will and government's on-going commitment to the process is important as seen in the international and Namibian experiences. The interviews highlighted the importance of government providing enabling infrastructure to develop suppliers such as public testing facilities, extension services, and support to help suppliers build their brand.

Government and development finance institutions also need to appropriately channel funding in close partnership with retailers. The IDC's recent approach in its funding of projects by pairing small and medium-sized farmers with already established, large commercial farmers, is a useful way to transfer skills and capabilities. It will be important to evaluate the impact of this approach in a few years' time. In general, however, development finance and other government funding need to be more agile and flexible to cater for the unique and evolving needs of suppliers, which also speaks to the ease with which such finance can be accessed. The current processes to access government and development funding are too onerous and rigid (Roberts 2016; Ncube et al. 2016).

The interviews further revealed certain areas that are often overlooked in SDPs, such as land ownership and the linked ability to access finance, water rights, community dynamics and environmental issues. These need to be considered and incorporated into future SDPs to ensure the success of SDPs. Also overlooked are input costs to suppliers of FMCG products, especially that of packaging which is critical in establishing a brand that is accepted by consumers. The high costs of packaging, particularly plastics packaging, has been a long-standing concern in South Africa, particularly in relation to the high costs of polymer inputs into plastic conversion. Past competition cases have been largely unsuccessful in reducing the costs of input polymers into the plastics sector (das Nair and Mondliwa, 2017). These overlooked elements suggest that in addition to addressing bottlenecks in the value chain in a traditional vertical sense, an extended value chain approach is necessary which looks at the role of multiple actors, both at vertical and lateral levels, in shaping outcomes in supplier development.

The SDPs in the region undertaken by supermarket chains (which are mainly the South African chains) are limited and focus mainly on fresh products, with few formalised programmes in value-add or manufactured products, although there are some initiatives underway in clothing, food processing and packaging. The recent approach to supplier development in South Africa by lead retail chains needs to be extended to the region.

There are however tensions and political economy issues that arise with respect to the bias of governments towards protecting their own national industries. These needs to be balanced with long-term growth objectives of the SADC region as a whole. As noted, ambitions to develop and build scale and capabilities of local suppliers in one country can be limited if these suppliers are not allowed to export to other countries in the region using supermarket store networks. Not every country in the SADC region can, however, successfully grow and develop all their suppliers to become regional suppliers to supermarkets, and quid-pro-quo decisions may need to be made at the SADC level about which suppliers in the region have the potential to grow into regional

suppliers as part of bigger deep-sea import replacement strategies for the region. Codes of conduct and supplier development programmes with a more regional, rather than a national approach, may offer some solutions to this. This could take an extended form of the current Namibian Retail Charter, modified to suit the SADC region. This requires significant inter-government or SADC level co-operation, in addition to close collaboration between supermarkets and suppliers.

Appendix

Interviews with representatives from the following firms and organisations in Table A1 were conducted as part of the research. The supermarket chains interviewed did not want to be identified.

Table A1: Interviews conducted

Supermarket chain 1
Supermarket chain 2
Supermarket chain 3
Namibia Trade Forum
Industrial Development Corporation (IDC), South Africa (Agro-processing and Agriculture Strategic Business Unit and Development Impact Support division)
Technoserve

Source: Authors' compilation.

Table A2: IDC Supplier Development Funding Portfolio in the Development Impact Support division

Name of business	Business Type	IDC Funding Amount	Partners	Market Access
Thembanani Eagle Hout Project	Furniture-General Merchandise	R2m	Sindawonye -R80k pm, CBI Electric-R15k pm, Cennergi Windfarm- R35k pm.	Supplies to the local market.
Kat River Citrus Trust	Agriculture	R3.4m	Development of Rural Development and Land Reform - R1.5m.	No market access yet
Block yard	Bricks- General Merchandise	R700k	Eastern Cape Province - R3m.	No market access yet, but prospects to supply the local market.
Waste to Food	Compost - Agriculture	R5m	PEDi- R1m, Pick 'n Pay - R2m, Don't Waste Service-R1m.	Supplies to farmers
Khora Africa Projects	Agro-processing	R3.8m	Dti-R350k.	Supplies local spaza shops, B&Bs, Chesa Nyama Outlets.
Botanica Moringa Tree Project	Botanicals-Agro-processing	R5m	Anglo Zimele Fund, German Government.	Supplies to the international and local market.
Retsoga Pele Organic Farm	Agriculture	R4.3m		Supplies local retailers and the community.
African Honey Bee Enterprise	Agriculture	R5m	Absa- R2m, Australian Aid- R500k, Sappi- R500k.	Supplies large cosmetic retailers such as Clicks, Dischem.
D'Afrique Fairtrade Foundation	Clothing and Apparel	R3.3m		Customers come to the DAFTF shop.
Zuplex Botanicals	Botanicals-Agroprocessing	R4.9m	Flanders, CBI Netherlands.	No market accessed yet; distributors in SA, France, USA, Italy and

				Eastern Europe are interested in the product.
Everpix	Nut oil- Agro-processing	R3.8m	Technical Innovation Agency, African Conservation Trust, Enablis, DST Biotechnology Regional Innovation Centres.	Supplies to Amarula cream distillers, local market, international cosmetic shops.
Siyavuna	Agriculture	R1.6m	First Rand Foundation (Wesbank)- R1.2m, NPC - R343k, Flanders - R1.67m, Ray Nkonyeni Municipality - R350k.	Supplies to 10 health stores, Durban Fresh Produce Market, Spar, the Waffle House, a local diner.

Source: based on Industrial Development Corporation 2017.

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