

CREATING A NEW FUTURE TOGETHER: SPAR'S RURAL HUB BUSINESS MODEL

November 2018

EXECUTIVE SUMMARY

Small-scale rural farmers are pivotal for a new and sustainable future. Their development improves food security, affordability and nutrition for rural communities in South Africa. With support from the Dutch government, SPAR created a sustainable rural hub business model based on packhouses serving as mini distribution centres in outlying areas. These areas have been selected based on the number of existing small farmers, access to water and basic infrastructure. The model fits seamlessly into SPAR's existing distribution model and store network – with SPAR stores in the area offering a receptive market for fresh produce. The rural hub business model develops local supply chains of fresh produce in a cost-efficient and environmentally responsible way. The model is scalable: three rural hub businesses will be in operation by the end of the year. Read more in this feature about how the model is funded, managed and about the small farmers at the heart of the hubs.

KEY FACTS

- The first rural hub business was established in Mopani in the Limpopo province in June 2016.
- The first permanent packhouse was opened outside Ofcolaco in August 2017.
- Five small-scale farmers joined the first rural hub in 2016.
- The second rural hub business was established in Ikhwezi in Mpumalanga in October 2017.
- A third rural hub is set to be opened before the end of 2018 in the King Cetshwayo district in KwaZulu-Natal (KZN).
- 44 black farmers are now part of the rural hub businesses of which 14% are female.
- Fresh produce from 61 hectares of land supplies the rural hub businesses.
- Funding, capital investment and operational support of >R44 million were provided by the Dutch government and SPAR over three years.
- 30 SPAR stores are currently directly supplied by the rural hub businesses.
- Produce to the value of more than R5 million was traded in the two rural hub businesses in 2017/2018.
- The two packhouses currently provide employment to 36 people.

A small farmer living in rural Limpopo is likely to tell you a life story that speaks of hardship: how to grow healthy crops, stagger and rotate these so they do not have to be harvested at the same time; how to get products to market at the right price while ensuring his or her family is adequately nourished.

This small farmer does not face a unique set of challenges. South African agriculture overall is threatened by an unsustainable model of polarity. The number of large commercial farming operations are declining. They typically contract with formal retail for bulk supply of products via established routes to market and apply the latest technology for mass production.

Small-scale rural farmers, on the other hand, are increasing in number but find it difficult to access markets and achieve economies of scale.

The same divergence exists in the retail sector where a few large players dominate the formal market in South Africa. Informal retail is widespread, survivalist and reliant on an inconsistent supply network.

SPAR took up the challenge to link these two disparate sectors to create an authentic, sustainable and growing model for a new future together.

We realised that the development of small-scale farmers is key for the long-term sustainability of rural communities, for agriculture in general and for a food wholesale distributor such as SPAR.

WHERE IT ALL STARTED

The seed for our rural hub business was planted in 2014 when SPAR International, based in the Netherlands, approached our South African business with an opportunity to source funds from the Dutch government. The funding was aimed at agricultural development as part of its wider mandate to promote food security in Africa.

We started out by gathering a range of experts to understand the challenge and to put together a business model that would pass the test of sustainability. Our agenda included a range of factors: from affordable food to nutrition, empowerment and infrastructure. We coordinated a workshop with retailers, the SPAR marketing, risk and sustainability teams, our Freshline experts, and included agricultural consultants.

It was a major challenge to develop a business model that was not reliant on grants. It was evident, early in the process, that formal credit providers were not geared to provide funding to small farmers who in many cases did not own the land on which they were farming.

Once we understood the challenges and opportunities it was clear: our plan had to focus on small-scale farmers without access to markets. We would have to develop these entrepreneurs by facilitating technical assistance, financing and mechanisation.

The concept of having rural farmers supply fresh produce to SPAR stores started as an aspirational idea. In theory, we knew that this would provide employment, grow rural economies, ensure food security and improve nutrition, reduce transport costs for SPAR, shorten lead times, and increase freshness and shelf life. Even as a concept, there were evident challenges such as financing, infrastructure and skills. Nevertheless, four years later, we have created a sustainable model that can be rolled out nationally.

A PARTNERSHIP BECAME A PLAN

The Dutch government provided funding over a period of three years to establish three rural farmer hubs. The hubs were conceptualised as fresh assembly points - packhouses from where produce would be transported to market.

Once the concept was developed, we identified criteria for farmers to participate sustainably. Small-scale farmers had to live in a rural area with access to at least three hectares of land. When we do a feasibility assessment we consider existing irrigation arrangements, access to water and basic infrastructure such as fencing.

We also required a minimum number of SPAR stores to be within a radius of 200 km of the hub. The location of the packhouse had to be suitable for transport to these stores, but also had to allow for direct selling to hawkers and traders from the area.

Once the farmers were on board and our packhouse site identified, we started focusing on growing interventions: cropping plans, fertilisation schedules, irrigation, the use of tractors and practical guidance and advice.

“Fresh assembly points were envisaged to be much like a mini distribution centre to which local farmers in the surrounding rural hub bring their supplies for distribution to stores within a 200 km radius.” – SPAR Integrated Report 2015

CREATING A SUSTAINABLE FUNDING MODEL

The Dutch government provided funding for the development of small-scale farmers without access to markets. This included funding for consultancy services to support their development. The original value of the funding was R22 million, with SPAR matching – and eventually exceeding – the funding through capital and operational expenditure support.

A separate company was established for each hub to ringfence the project with an oversight governance structure put in place. Key indicators of progress were identified, and a monthly reporting process initiated. Funds are managed via a project bank account and tightly controlled.

Each hub has a R5 million overdraft facility to provide for day-to-day expenses and salaries. Capital expenditure included delivery vehicles, tractors, ploughing equipment and refrigeration at the packhouse.

Ownership of the packhouse business started out with the farmers co-owning the SPAR subsidiary. The plan is to create two trusts – one for farmers and one for retailers as beneficiaries – and for SPAR to relinquish ownership over time. At this stage, the packhouse facilities are leased.

Farmers are paid by the packhouse every seven days for produce delivered, which assist with their cash flow and enable them to scale up continuously.

The small farmers are building operational and physical assets as they grow the business: they pay off their loans and are turning the business profitable. Their growing financial track record brings security for their families and will enable them to access further funding to scale up and expand the business.

SMALL FARMER SUPPORT AND TRAINING

As a distributor and supplier of food, SPAR adheres to strict health and safety standards and practices. These also apply to the rural hubs, which led us to adopt localg.a.p. as the entry-level food safety standard. This puts these small farmers on the way to full compliance with GlobalGAP. As with all our other suppliers, they are expected to comply with the Global Food Safety Initiative (GFSI).

The GFSI has a tiered approach to certification, which allows individuals responsible for food safety within small and less developed businesses, such as the rural hubs, to develop a systematic action plan that can be implemented over time.

To support the small farmers in achieving these standards, we partnered with a non-profit organisation (NPO) specialising in emerging farmer development. This NPO was selected as the technical services provider for the duration of the programme, and provides comprehensive, on-the-ground support to the smallholder farmers. A commercial farmer mentor was also appointed, providing a critical link between the rural and commercial supply chains.

GlobalGAP is a farm assurance programme, translating consumer requirements into good agricultural practice. Good agricultural practice are specific methods which, when applied to agriculture, create food for consumers or for further processing that is safe and wholesome. GlobalGAP certification applies to crops and is a requirement for SPAR Freshline fruit and vegetables.

The localg.a.p. program is a stepping stone toward full GlobalGAP certification. It is a cost-effective solution for emerging markets and entails an assessment rather than certification.

All the participating small-scale farmers have been trained in the following modules:

- Economics
- Land preparation
- Planting
- Legal
- Pest and disease
- Fertilisation
- Irrigation
- Harvesting

To date, six Mopani rural hub farmers have been trained in localg.a.p. The remaining farmers are currently receiving the training.

The aim of the training is to develop these small-scale farmers to a point where they can become self-sufficient, commercial and able to sell to other customers. Because of the training interventions and the commitment of the small farmers, the yields from the lands that supply the packhouse are now of commercial farming quality.

“We wanted to create a unique model that could have lasting implications for the way rural and commercial supply chains operate in South Africa.” – SPAR Integrated Report 2015

OUR FIRST PACKHOUSE OUTSIDE OFCOLACO

We opened the Mopani rural hub in June 2016 with a permanent packhouse operational since August 2017. The packhouse is located outside Ofcolaco in the Limpopo province. Ofcolaco is a tiny village named after the Officers Colonial Land Company (Ofcolaco), 43 km south-east of Tzaneen. What is unique about Ofcolaco’s location is that there are 27 SPAR stores within a 150 km radius of the village with a range of formats: SPAR, KWIKSPAR, SUPERSPAR and SaveMor.

The village trade is dominated by roadside hawkers and vendors who sell fresh produce from makeshift structures.

SPAR’s contribution to the packhouse included a full mechanisation plan, two delivery vehicles and a refrigeration upgrade.

We made a conscious decision not to brand the packhouse as a SPAR facility as these facilities are intended to serve the broader agricultural economy, allowing farmers to supply a range of retailers in the formal and informal trade.

“Key to the success of the venture is the creation of dedicated markets for fresh produce consisting of local retail stores, potential informal markets and government-led schemes within the area.” – SPAR Integrated Report 2015

With the assistance of our NPO partner, five emerging smallholder farmers were selected to participate in the initial planting of the first crops: butternut, peppers, beans and cabbage.

The first crops were successfully harvested in June 2016, with the five farmers supplying produce to four SPAR retailers and an additional local retailer. The excess produce was sold to a food processor.

While this was a milestone achievement in realising the potential of the programme, SPAR and the Mopani hub team faced many challenges. These included difficulties in selecting the correct product mix and in forecasting appropriate planting schedules to ensure offtake, as well as negotiating a suitable price that would entice retailers while guaranteeing the farmers a profit.

HOW THE HUB OPERATES

SPAR understands that the success of the rural hub model rests on the ability to make produce available to consumers at affordable prices, while offering smallholder farmers an economically sustainable fair value price. This requires keeping operational overheads to a minimum, as well as ensuring a favourable and stable price structure.

SPAR has been working closely with the hub teams to monitor local pricing trends and overheads to determine areas of sensitivity.

To ensure that a level of turnover is achieved in each hub, the group appointed a rural hub operations manager who is responsible for identifying retailers and working within the value chain to determine a positive pricing structure. This includes identifying new markets for fresh produce beyond SPAR retailers.

“We also provide services to farmers who are not part of our programme. If someone needs help preparing a field or finding a market – we are here to help. The programme benefits the community as a whole.” – Kevin O’Brien, SPAR Risk and Sustainability Executive

ROLLING OUT AND SCALING UP THE RURAL HUB BUSINESS MODEL

The second rural hub business – situated in Ikhwezi in Mpumalanga – commenced operations in October 2017.

Our aim is to have three hubs up and running by December 2018, with 100 trained smallholder farmers supplying them regularly. Each hub will be supplied by a group of about 30 farmers with approximately 1 000 tonnes of produce a year.

In the past year, we launched the SPAR Radical Agrarian Socio-Economic Transformation (RASET) alignment project: a collaboration with the KwaZulu-Natal government to build an effective and secure agro-food system for the province. The aim of the project is to ensure meaningful participation by previously disadvantaged farmers in the food value chain and improve the distribution of fresh produce in KwaZulu-Natal.

We have signed a memorandum of understanding with the KwaZulu-Natal government to establish the third hub in the King Cetshwayo district. The programme addresses socio-economic challenges by providing jobs, eradicating poverty and redressing economic imbalances. SPAR will *inter alia* provide technical and back-office support to rural shops which also serve as pension and social grant pay points.

There are also plans to integrate the KZN rural hub with school feeding programmes in the area, in addition to supplying SPAR stores.

THE FOOD SYSTEM CHALLENGE

On the supply side, supermarkets source produce from large commercial farmers who deliver products in bulk to centralised distribution facilities. This entrenches the dualistic nature of the agricultural sector, where smaller producers struggle to enter value chains.

On the demand side, many households in rural communities are food insecure and face malnutrition due in large part to affordability. Fruit, vegetables and dairy are some of the least consumed food groups.

SPAR'S RESPONSE

SPAR supports small farmers and creates markets for their products. This contributes to job creation, income generation, infrastructure development, skills transfer and empowerment.

SPAR contributes through improved food security, availability and affordability, supported by a nutrition campaign to improve health and well-being.

“By taking a holistic approach to food system development and working with a network of partners, the SPAR rural hub concept is gaining traction and creating a multiplier effect to the benefit of all stakeholders. We are creating a new future together.” - Kevin O’Brien, SPAR Risk and Sustainability Executive

We want the products that are on our shelves to reflect the SPAR values. This is how the rural hub business aligns to our values:

SPAR values	What does it mean?	How does the rural hub business relate to our values?
Entrepreneurship	We encourage creativity and innovation. We solve problems by taking ownership and responsibility for the outcomes we deliver. This value supports a long-term focus versus short-term gain.	The small-scale farmers who participate in the rural hubs are all entrepreneurs who have built up their own operations despite many challenges and hardships – often over generations.
Family values	We create a sense of belonging in the SPAR family by supporting and embracing every person's contribution. We personalise work and business relationships to better work together for the greater good.	The rural hub business requires all players in the value chain to work together for the greater good: improved food security, affordability and nutrition for rural communities.
Passion	We demonstrate passion through an unrelenting commitment to our stakeholders, the SPAR brand, our jobs and teammates. We display authentic positive energy and attitude by wanting to do what we are currently doing and enjoying it in the process.	The participants in the rural hub business are all committed, passionate and dedicated to their collective success. The growth in the number of participating small farmers, the size of the operations and the quality of their produce are all evidence of the passion with which they toil the land.

“We provide support to small farmers. We provide a brand and home where people can become part of the family of SPAR. The rural hub business is the SPAR values in action: entrepreneurship, family values and passion.” – Kevin O’Brien, SPAR Risk and Sustainability Executive

FREQUENTLY ASKED QUESTIONS ABOUT THE SPAR RURAL HUB BUSINESS

Who is SPAR?

SPAR is a warehousing and distribution business with eight distribution centres throughout South Africa. SPAR stores are not owned by SPAR. Store owners sign an agreement with SPAR to use the name, and then have the opportunity to source all their stock through SPAR’s distribution system.

SPAR stores thus form a network of independent retailers who trade under the SPAR brand and are supplied on a voluntary basis through the SPAR distribution centres.

The distribution centres provide a full range of groceries and general merchandise to retail stores and supply them with fresh produce to supplement in-store service departments, such as the in-store bakery, butchery, deli, ready-to-eat meals and home-meal replacements.

There are about 2 236 SPAR stores across South Africa, broken down into different brands: SUPERSPAR, SPAR, KWIKSPAR, Build it, TOPS, SaveMor and Pharmacy at SPAR.

The distribution business employs around 3 743 people.

Why is SPAR establishing rural hubs?

SPAR has a role to play as business in addressing significant challenges facing society. This is part of our sustainability approach. People often associate sustainability with environmental issues – we believe that social issues are just as important.

We have made a sustainability pledge to create authentic shared value, through the following outcomes:

- Contribution to societal change
- Contribution to responsible living
- Opportunity creation
- Resource stewardship

The rural hub business contributes to all these outcomes. It also ensures that we live our purpose: to inspire people to do and be more.

We live our purpose when we contribute, for example, to making sure that those who did not share in the benefits of the formal market in the past are now also able to participate.

Together we are creating a new future.

How does the rural hub business fit into the SPAR supply chain?

SPAR has a decentralised distribution model with eight distribution centres throughout South Africa. They supply the stores in their vicinity.

About 60% of the goods stocked by the distribution centres are provided by major, big-brand suppliers. The rest of the stock depends on the demand of the store owners in the area, who adapt their offering to the unique requirements of the communities they serve.

SPAR's trading model gives store owners a fair amount of freedom. Most store owners focus purely on increasing their margins, which means that they will be keen to support local suppliers who can supply fresh produce at a lower price but might not necessarily pass the saving on to consumers.

Through the rural hub business, we aim to create buy-in from all players in the value chain to support the aim of affordable food. This will help equalise a supply chain that is currently characterised by a wealthy middle portion: primary producers on the one extreme, and consumers on other extreme, have low power in the chain and are therefore most vulnerable. In the long term this threatens the sustainability of the food system.

If we work together we can create shared value for all stakeholders in the supply chain.

How does the rural hub business help reduce food miles?

One of the world's environmental challenges is the distance that food has to travel between the land where it is harvested and the shelf where it is displayed for sale. Transporting food contributes to higher CO₂ emissions and increases fuel use.

The more food miles associated with a food item, the less sustainable and environmentally desirable that food is.

Food miles are seldom a consumer purchase consideration: they expect convenient, comfortable stores with a large range of quality produce. Distributors like SPAR have developed sophisticated networks, distribution facilities and logistics to meet these consumers' need – often increasing food miles in the process.

This can be overcome by developing local suppliers, such as the rural hub business.

Where a small farmer might have sent produce to a formal market from a rural area to Johannesburg in the past – a one-way trip of up to 450 km – the distance to the rural hub and furthest store in the hub network is no more than 200 km. This allows produce to be sold in the area where it is grown, and makes fresher, more affordable food available to local communities. It shortens the supply chain and reduces cost (and food miles) for all participants in the chain.

How are we aligning the rural hub business with the National Development Plan?

The rural hub business concept supports South Africa's National Development Plan (NDP), which focuses *inter alia* on an integrated and inclusive rural economy and firmly positions the importance of developing a thriving smallholder farming sector for job creation and food security. The NDP states that agriculture, as the primary economic activity in rural areas, has the potential to create 1 million new jobs by 2030. Many of these new jobs will be in the smallholder sector.

How are we addressing nutritional challenges through the rural hub business?

Improved food security and nutrition are two of the cornerstones of the rural hub business. SPAR has commissioned comprehensive research on nutrition in the rural areas where there are SPAR stores. The research included interviews with about 900 women between the ages of 18 and 45 years. It provided us with a dietary diversity score based on household size, income and food purchased.

The research indicated that the dietary diversity in the rural hub areas are very low – there is a huge opportunity to increase the intake of healthy fruit and vegetables in the communities surrounding the hubs.

Based on the research, a nutritional campaign was developed according to five levers of change:

- Make it understood
- Make it easy
- Make it desirable
- Make it rewarding
- Make it a habit

The nutritional campaign aims to increase awareness and provide education by using a variety of channels – newspapers, radio and point-of-sale material. By providing consumers in targeted areas with messages, tips and opportunities to learn about the benefits associated with certain fruit and vegetables, the campaign supports health and well-being in communities, while driving demand for the rural hub produce.

SPAR developed a nutritional strategy in 2015 in support of its commitment to innovate house brands and to raise awareness about healthy nutrition for consumers. The following are the core principles of the strategy:

- Providing enough information to enable consumers to make informed choices.
- Leveraging our house brands and our suppliers’ brands to deliver on our strategy.
- Ensuring compliance with legislation.
- Fortifying products for lower-income consumers on an economically sustainable basis.
- Collaborating with government where possible to deliver nutritious food to the bottom end of the market.

We apply these principles in all aspects of the rural hub business. We also plan to connect our rural hub businesses with school feeding schemes where possible – thereby driving further nutrition improvement.

How do we ensure that we improve the availability and affordability of fresh produce in South Africa?

- Develop and drive a model of more localised sourcing of fresh produce.
- Enable the inclusion of emerging smallholder farmers.
- Reduce transport costs, improve lead times, increase freshness and shelf life.

The real benefits to aim for:

- development of an inclusive agricultural system; and
- enabling a food system that can provide affordable and nutritious food for rural communities.

From: *“Getting to the roots of food security and improved nutrition: the proactive implementation of Rural Hubs”* by Kenneth Carden and Bongani Sambo

INSIGHTS AND LEARNINGS

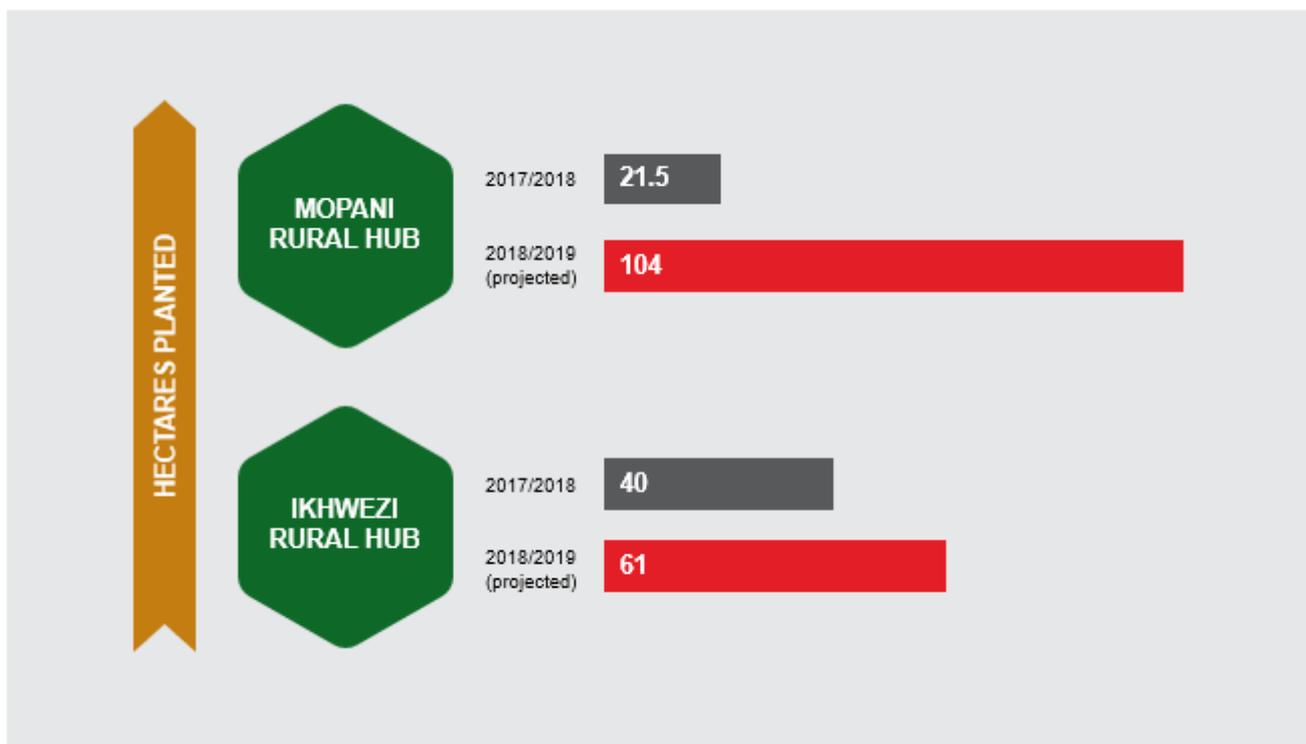
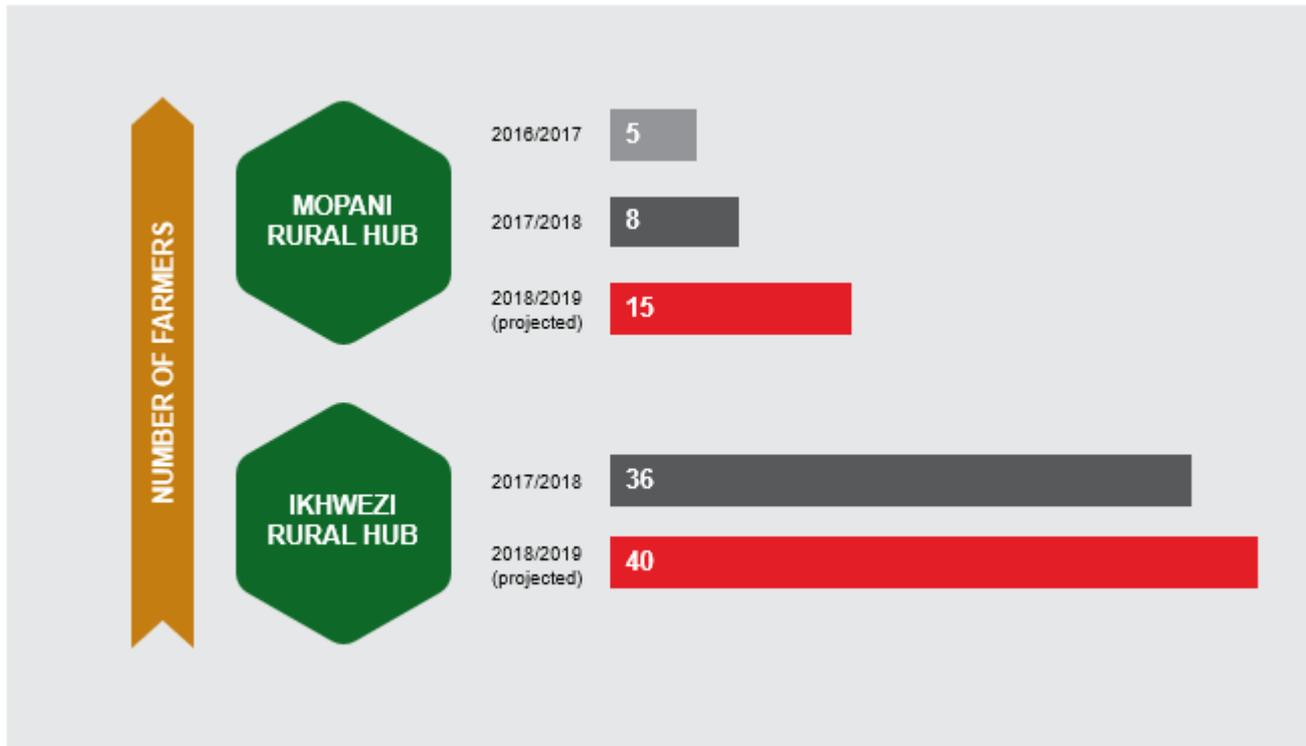
- The involvement of commercial farmers is critical.
- Accessing finance through the formal banking system was almost impossible.
- Value chain partners must be aligned in their vision for the project.
- Where there are skills weaknesses – for example in financial management – there is risk.

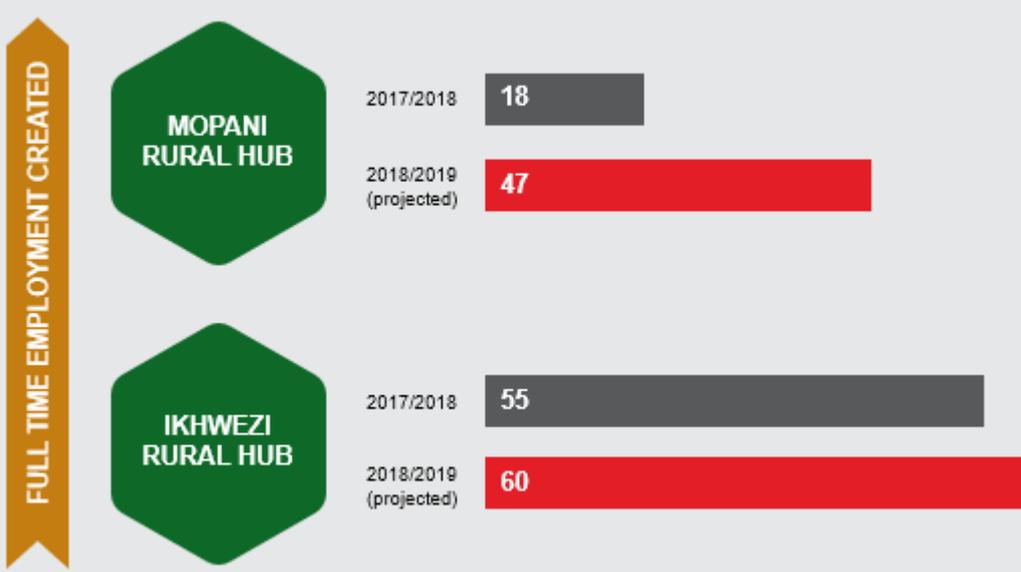
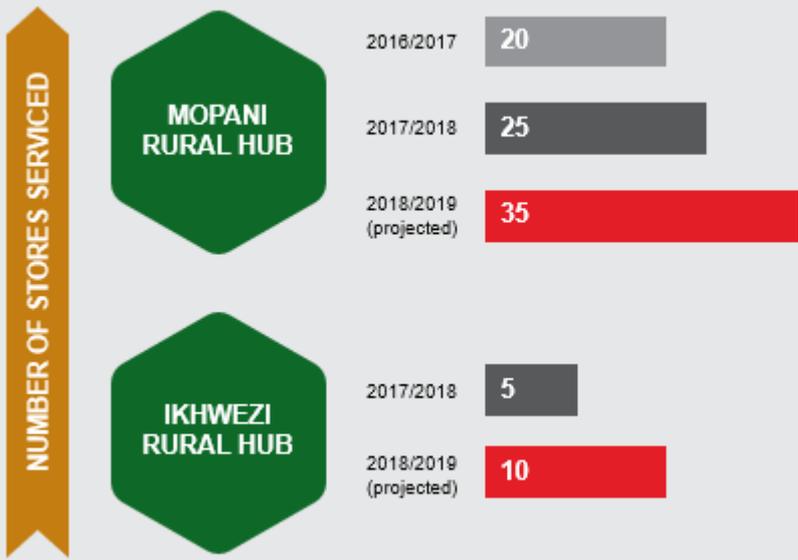
SMALL FARMER PROFILES	
Leydah Sekgobela	Edward Monyela
<p>Leydah is the owner of Leydah farming projects. She started farming when she was still young, inspired by her mother who taught her to look after her crops and to be a hard worker. She was part of a community farming project for over ten years before joining SPAR’s emerging farmer development programme. Today she has her own farming operation of 15 hectares and employs 16 people. She prefers women as employees because they are the fastest pickers and learn quickly.</p> <p>Leydah works hand in hand with a technical advisor from SPAR. She regards this as valuable because the technical advisor has a lot more education and training than she has. Leydah realised, for example, that she had been using chemicals incorrectly. With the support of her advisor she is now able to look after her crops better and knows what kind of fertiliser or chemicals to use, and how to keep records.</p>	<p>Originally a nurse and then a policeman, Edward Monyela has been farming since the beginning of 2015, and was one of the initial farmers selected to participate in the emerging farmer development programme.</p> <p>Edward has a five-hectare farm and is localg.a.p. accredited. He employs ten permanent staff, which increases during times of harvest. He recently bought a tractor to enable him to grow his production and increase his yield. Looking ahead, Edward hopes to increase his farm to 15 hectares, boosted by his partnership with SPAR.</p>

“Our emerging farmer development programme focuses on increasing smallholder participation in the rural food supply chain.” – SPAR Integrated Report 2015

“SPAR’s sustainability vision is built on an understanding that retailers and their communities are interdependent and that, from an agricultural point of view, it is critical that emerging farmers play a greater role in the rural food supply chain.” – SPAR Integrated Report 2015

KEY FACTS ABOUT THE RURAL HUB BUSINESS IMPACT AND PERFORMANCE







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