

Agricultural Market Reforms and the Rural Poor in South Africa

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Norway Seminar / Oslo / Norway

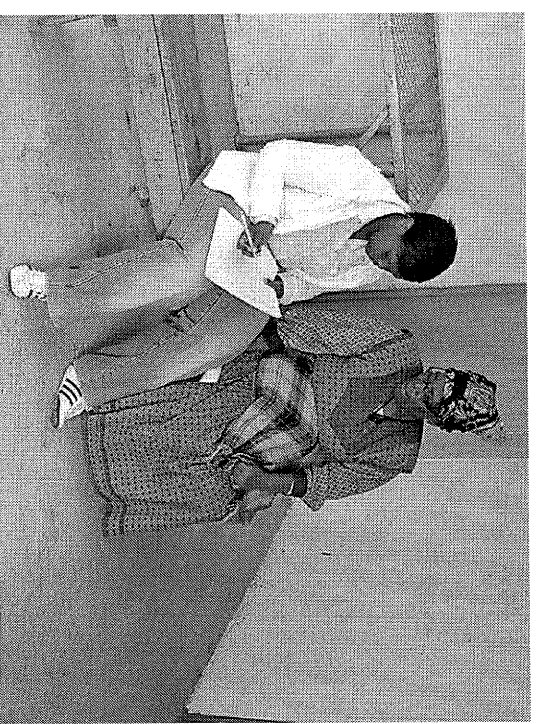
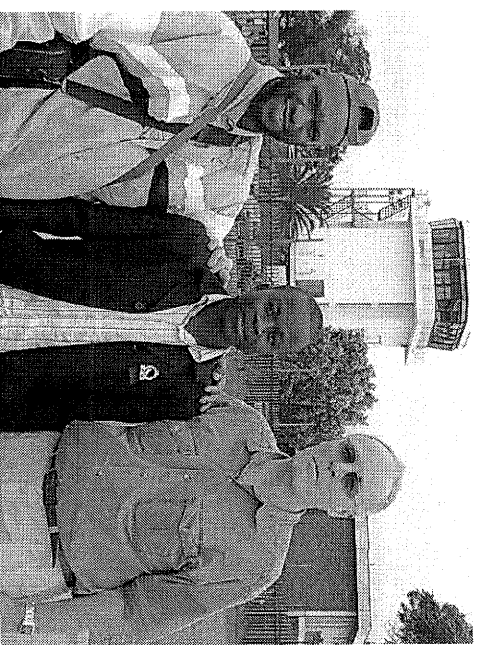
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HSRC RESEARCH OUTPUT

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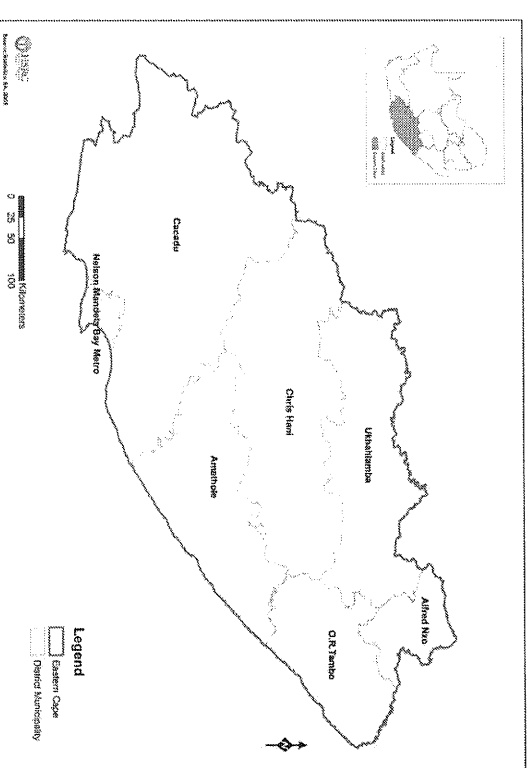
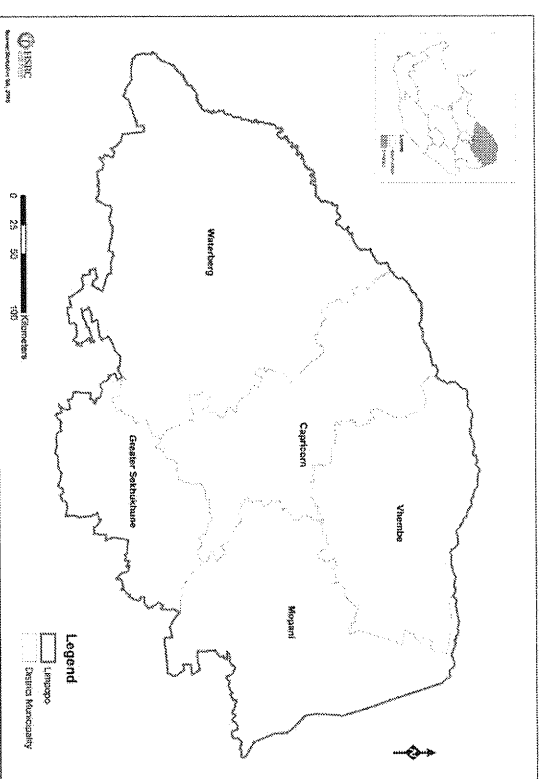
Background: Research collaboration and project technical note

- Longstanding research collaboration between [UWC (Cape Town & UMB (Oslo))] post-1994
- A multi-year project under the NRF/Norway scientific research programme: 2007-2010
- Two principal researchers (Norway/SA) and 3 MA-level research assistants based at UWC
- Three parts:
 - Agricultural trade theory- exploring competing perspectives (*first phase until June 2008*)
 - WTO and SA agriculture (*ongoing, data surveys*)
 - District level case studies (*Limpopo & E-Cape, with a focus on specific commodities; after July 2008*)



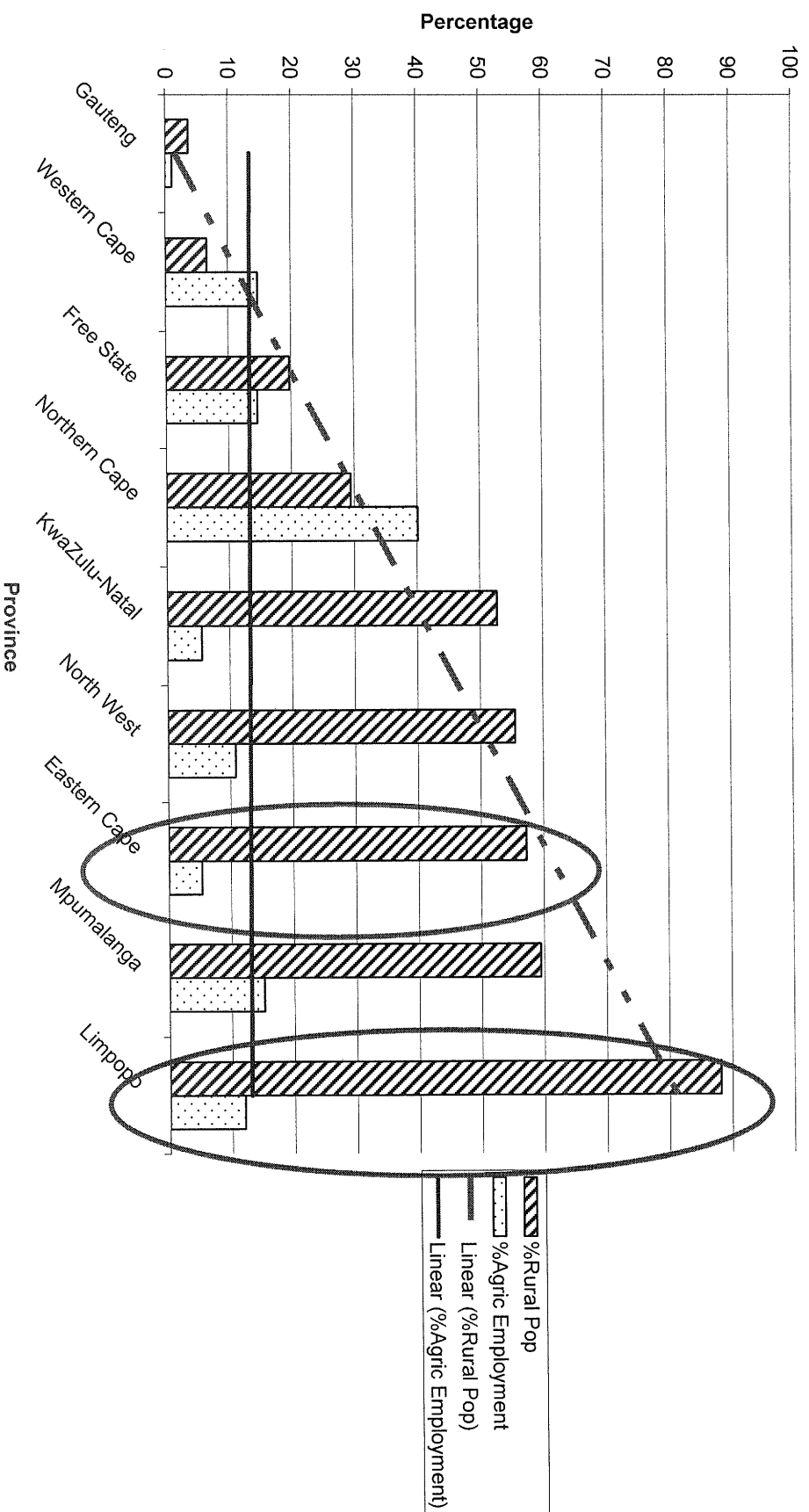
Contribution towards research capacity development: 3 M.Eco students (UWC)

- **Mogau Aphane: Small-scale mango farmers, transaction costs and changing agro-food markets: Evidence from Vhembe and Mopani, Limpopo**
- **Robert Dzivakwi: The determinants of price formation in local sheep markets: A case study of small-scale sheep farmers in Ukhahlamba and Amathole, Eastern Cape**
- **Ndiaphi Kwinda: Agro-food market liberalization and farm worker livelihoods: case studies of crop and livestock value chains**



SA Rural livelihoods puzzle: rural population, agricultural employment and livelihood strategies

Figure 1: Rural Populations and Agricultural Employment, by Province



Why Aggro-food market reforms?

- Traditional **economic growth arguments** - eliminate state interference in the market pricing mechanism;
 - underscores *state failures* but little attention is given to *market failure* and how it might affect economic growth.
- The need for **global policy conformity**: embrace the dominant discourse, thinking and policy consensus on globalization;
 - a ‘conditionality’ imposed on poor countries incorporated into a structurally unequal process of economic globalization.

Why Aggro-food market reforms?

- Direct and indirect linkages of agricultural market reforms and the rural poor- farm workers, small farmers and informal traders
 - What are the mechanisms through which agricultural market reforms affect the rural poor?
 - How do these reforms affect the rural poor?
- Contesting analytical frameworks inform agro-food policy reforms

Conceptual issues

- “Making agricultural markets work for the rural poor” – WDR 2008
- It is presumed that the prosperity associated with well-functioning agricultural markets should trickle down to the rural poor.
- *Benefits* to the rural poor will presumably trickle down through *more competition and trade* in local and external markets
- Global value-chain or network analysis systematically probes how different market actors drive agro-food networks and the governance issues that arise from their actions.

Agro-food markets with state intervention

- Newly independent and post-colonial state after the Second World War subscribed to a heavy interventionist role for government in agricultural sector
- Marketing boards, operating under the weight of bloated bureaucracies invested little in the agricultural inputs and market infrastructure
- Pricing philosophy of the marketing boards was to deliver low cost food to cities

Rural poor and market reforms

- In poorer countries with relatively larger agricultural sectors and rural populations, the effects of market-oriented reforms tend to be unevenly spread across poor and non-poor social groups
- Rural economic activities are rapidly diversifying;
- Rural households combine two or more income generating activities, working in one domain as the primary source of income whilst also engaging in secondary income earning activities
- **Rural workers** interact with both the input and output sides of agricultural markets:
 - in terms of income distribution, the *agricultural wage* might be too low and therefore inadequate to lift wage-dependent rural households permanently above a socially acceptable deprivation threshold
 - agricultural workers spend a larger share of total household expenditure on staple agro-foods which means that their *food security status* is very *sensitive to food price shocks*.

Market pricing mechanism

- Price risk is one of the key risks associated with the development of markets.
- Rising frequency and magnitude of price shocks in market-oriented environments.
- *Food price volatility* is closely associated with the introduction of liberalized markets in agriculture
- Rural poor therefore exposed to risks and uncertainties as they integrate into markets; threatens the food insecure consumers for whom the cost of their staple foods drastically escalated

Agro-food market reforms in SA

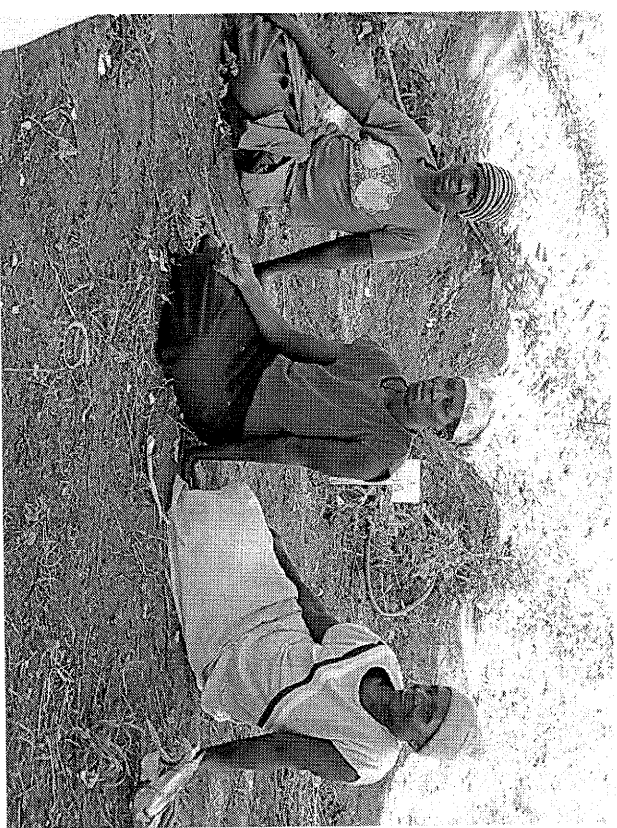
- Pre-1994 reform of agricultural markets: far-reaching market-oriented reforms, but catering for a segregated and whites-only farming sector
 - White Paper on Agriculture (1984);
 - separate FSP advocated a shift away from the centralized farming in former bantustans
- Marketing of Agricultural Products Act no 47 of 1996 (Marketing Act) introduced an adapted framework for agricultural market reforms
 - Template for the Strategic Plan for Agriculture of 2001, the Broad Based Black Economic Empowerment in Agriculture (Agri BBEE), land reform programmes and the CASP

Agro-food market reforms in SA

- The four main objectives of the 1996 Act:
 - Increase the **market access** for all market participants
 - Promote the **efficiency of the marketing** of agricultural products
 - **Optimize export earnings** from agricultural products
 - Enhance the **viability** of the agricultural sector
- **No special mention of “smallholders”** as such; instead they are lumped together with other competitors in the market place
- Food access and distribution is at the heart of agro-food market policies, especially in so far as it affects the **food security status of the rural poor**, yet existing policy is silent on this dimension

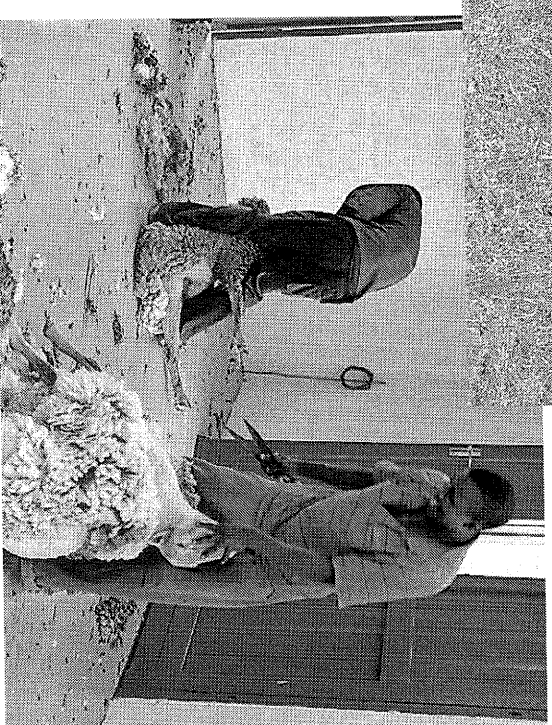
Changing socio-economic landscape in rural South Africa

- Demographic shift: ongoing rural-urban migration; on average 40% of SA in rural areas
- Economic shifts: falling share of commercial farming in national output, growth and employment; decline of commercial farming units from over 60,000 in the mid-1990s to roughly 45,000 (2005);
- Farm employment: falling and expanding non-permanent work force
- Deregulated farming sector is not absorbing the abundant rural surplus labour and thus aiding the war on poverty



Small farmers and agro-food markets

- Resource-poor small farmers that produce a marketable surplus
- Three typical downstream linkages of smallholder farmers: to fresh produce markets, informal markets and supermarket chains.
- National markets, such as JFPM: decentralized pack-house and grading point facilities- example in the Vhembe district (Limpopo); Vhembe District Municipality + Limpopo Department of Agriculture
 - Reduce the transport costs for smallholders and offer modern cold storage facilities



Small farmers and agro-food markets

- In the communal areas of Limpopo and KwaZulu-Natal, at least 50% of households had engaged in selling agricultural produce in 2001
- Smallholder farmers interact with *large-retail chains* (or supermarkets)- a potential market to smallholders that produce high-value agricultural foods, which are usually produced in smaller volumes.
- Thohoyandou SPAR, one of the largest supermarkets in Limpopo, sourced up to 30% of its fresh vegetable sales (cabbages, spinach, carrots and beetroot) from smallholders.
 - Recently there has been a decline in the average number of smallholders supplying SPAR (from 23 to roughly 15)
 - Interest free loans and training programmes to ensure the supply of a better quality, provided by SPAR in the earlier period seems to have dropped from this arrangement.

Informal Trades and Agro-food markets

- Informal small traders (predominantly women) participate in the agro-food value chain
- Source produce from national markets (JFPM), large-scale commercial farmers and smallholders
- For example in Tshakhuma and Khumbe most of the fruits sold in the informal market sourced from large-scale commercial farmers in the Levubu valley (Limpopo)
- Smallholders supply a limited range of fruits with low input intensity and indigenous varieties (such as mango and avocado).



Conclusion: Overcoming agro-food value chain constraints

- **Infrastructural constraints:** storage and packaging facilities, roads, transportation and telecom networks, etc (availability and quality of support services...)
- **Structural constraints:** Economies of scale in local production and demand; local multiplier effects (employment and income spillovers and dynamic linkages...)
- **Institutional constraints:** Strengths/capacity of local associations and public institutions; power relations in input and output markets local markets

