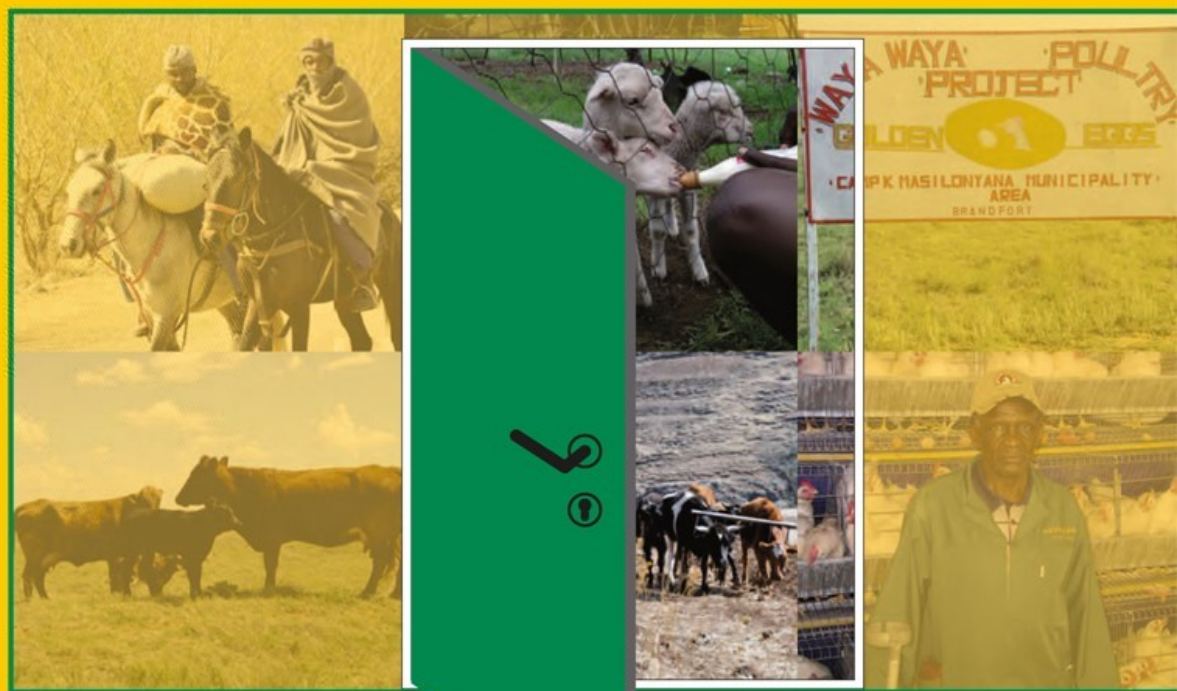


# Unlocking markets to smallholders

Lessons from South Africa



Mansholt publication series - Volume 10

edited by:  
Herman D. van Schalkwyk  
Jan A. Groenewald  
Gavin C.G. Fraser  
Ajuruchukwu Obi  
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**Upper-left: SA farmers near Lesotho**  
**going to the market**  
**(photo Andries Jordaan)**  
**Bottom-left: cows (to be) fattened**  
**for the market (Free State)**  
**(photo Aad van Tilburg)**  
**Upper-central photo: lambs on**  
**bottle feeding (farm near Clarence)**  
**(photo Aad van Tilburg)**  
**Bottom-central: Ploughing**  
**farmers near Lesotho**  
**(photo Andries Jordaan)**  
**Right-side: Emerging farm in the**  
**Free State (photo Aad van Tilburg)**

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## **Preface**

This book documents the key findings of a study designed to investigate the institutional and technical constraints to smallholder agriculture in selected areas of South Africa. To what extent can small-scale farmers share in the expected gains of integration into national or international markets and what institutional and other reforms are necessary to enhance their effective and profitable participation in the regional economy?

In order to answer this question, the book attempts to shed some light into the diverse factors that affect access to output markets for South Africa's small-scale farmers or their access to input markets where they procure needed inputs and farm services (e.g. credit). South African smallholders are predominantly black farmers who generally started their business from a situation in which they lacked basic resources such as economic, social and human capital. The ideal is to attain a situation in which these smallholders become more productive, more market-oriented and better connected to markets than before. Some categories of these smallholders, usually called emerging farmers, are more market oriented than others because they produce purposely for local, national or international markets. With improved knowledge about the opportunities and constraints facing smallholders or emerging farmers, private and public policy makers at national and provincial levels will be better equipped to focus their support activities on the needs of these smallholders or emerging farmers with the aim to improve their relative positions in the value chain.

The original ideas for the study – as represented in this book – were hatched at the Dean's office of the Faculty of Natural and Agricultural Sciences of the University of the Free State, Bloemfontein, South Africa in 2003 where Herman van Schalkwyk and Ajuruchukwu Obi developed a concept note for a research on 'Assessing the institutional and technical constraints to smallholder agriculture in selected areas of South Africa and implications for market access, poverty alleviation, and socio-economic sustainability'. This note was shared with Aad van Tilburg who made inputs leading up to the elaboration of a project proposal that was submitted to the South Africa Netherlands Research Programme on Alternatives in Development (SANPAD) and was approved in 2004 as SANPAD-project 04/11. Gavin Fraser was invited to participate in a start-up workshop during which a project team of the four persons mentioned was formally established to initiate and supervise the study. Jan Groenewald joined the team when the ideas about a book were put into practice. The book consists of contributions by the five editors and both colleagues and (former) PhD students of the University of the Free State as well as former MSc students of both the University of the Free State and the University of Fort Hare.

The editors and authors of the book express their gratitude to the editors of the Mansholt Series of Wageningen Academic publishers for the inclusion of this book in their series and to the peer reviewer who gave highly valuable comments and suggestions for improvement of the manuscript in two rounds.



The book has been written with the following audience in mind:

- members of the farming and institutional community in South Africa being or supporting smallholders or emerging farmers;
- the South African agribusiness community that is – with the support of Black Economic Empowerment regulation – integrating the smallholder sector in their activities;
- South African policy makers with respect to smallholder farming or emerging farmers;
- students and scholars in the domain of agriculture, agricultural economics and regional development in South Africa; and
- similar categories outside South Africa with a keen interest on how to improve market access of smallholder farmers.

*The editors*

South Africa/the Netherlands

September 2011

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# 1. Market access, poverty alleviation and socio-economic sustainability in South Africa

*Ajuruchukwu Obi, Herman D. van Schalkwyk and Aad van Tilburg*

## 1.1 Introduction

Markets continue to be seen as the means for ensuring that smallholder producers of agricultural products are effectively integrated into the mainstream of national economies, especially in developing countries. For one thing, markets provide the opportunity for farm production to contribute to poverty reduction through the cash income realised from sales of farm produce. In turn, markets drive production as farmers strive to meet the demands of consumers and end-users in terms of quantity and quality. But their very existence, or how effectively they function, cannot be guaranteed in many developing countries. In South Africa, there is a certain urgency to address the real concern that, in spite of considerable investments into restructuring the sector since 1994 and directly tackle agrarian and land reform, poverty is still rife and there is the clear indication that much of this arises from farmers not being able to sell produce at a profit. Unlocking markets for this group of farmers is therefore considered a crucial developmental necessity. Research conducted from 2004 in various parts of the country point to the importance of the market access to smallholders. The aim of this book is to attempt an aggregation of the findings from an investigation into the technical and institutional constraints to smallholders' market access and how these affect other aspects of community life. Without a doubt, such concerns are not new and have formed part of theoretical and policy work focusing on the gains from trade for several centuries.

From the 16<sup>th</sup> century when the Mercantilists began to debate on the gains from trade, the issue of market access has been of more than passing interest to development theorists and policy makers alike. Apart from recognising the importance of trade in reducing differences in welfare between nations by building up their stock of economic assets, those early economic theorists conceptualised a role for trade also in creating and sustaining differences in economic well-being of nations when one country was able to expand its exports to another while simultaneously choking off imports from such a country. Introducing the notion of access to markets as well as of comparative advantage at the beginning of the 19<sup>th</sup> century no doubt arose from such a mindset. According to David Ricardo (1817), trade 'powerfully contribute(s) to increase the mass of commodities and therefore the sum of enjoyments'. Modern-day development planning, advisory and technical assistance have all tried to build on such knowledge to enhance the capacity of countries to bring about their own development by expanding the production of goods for which a vibrant market exists. In much the same way, regional and local development have been found to owe a great deal to the differences in production possibilities as well as the ease with which surplus produce can be marketed at a profit. The expectation, following Ricardo's thesis and its numerous

modern versions, including the Heckscher and Ohlin Model and more recent trade theory of Paul Krugman (Krugman, 2008; Leamer, 1995), is that the discovery of new markets increases the value of a nation's goods and services thus add to the growth of national wealth.

While the foregoing views about markets remain unchanged, the current global environment is defining new roles for markets especially in developing and emerging economies. Globalisation has changed the dynamics of the agro-food systems to the extent that new questions are being asked about the role of the smallholder, what happens to traditional agriculture, how traditional markets are evolving, how roles are allocated between the private and public sectors, and the power relations among all the stakeholders in the global market arena (Gabre-Madhin, 2006). Despite the unquestionable importance of markets, the irony is that their existence is not always guaranteed; asymmetries in access to remunerative markets remain a crucial obstacle. The reality of present-day economic life in sub-Saharan Africa is that either markets fail to function efficiently, representing various degrees of market failures, or they simply disappear – the so-called missing markets.

The structural adjustment programmes (SAP) that were launched in many countries of the continent from the mid-1980s onwards were predicated on the notion that the fight against poverty is meaningless if farmers cannot raise revenues by selling what they produce at a profit. South Africa's return to the international arena occurred at a time when it was unavoidable to embrace that mindset, including its fundamental misjudgment that 'getting prices right' was all that was required to reverse market failures and bring markets into existence. According to Makhura and Mokoena (2003), several 'market deregulation' and 'trade liberalisation' policies were introduced by the government in the post-1994 era as part of the menu of strategies to link small farmers to agricultural markets. But these policies have met with limited success and the problem of insufficient market access for smallholders remains a serious concern today. Why is this so?

In the past decades, numerous studies have attempted to answer this question. Many of these studies have been designed to come up eventually with a listing of the key obstacles that confront smallholders who are unable to enter new markets or perform satisfactorily in existing ones. Organisations like the World Bank, the International Fund for Agricultural Development (IFAD) and the International Food Policy Research Institute (IFPRI) have been in the forefront of the efforts to understand the nature and extent of these problems. Bienabe *et al.* (2004), IFAD (2003), Minot and Hill (2007), and the World Bank (2007) have all concluded that four categories of constraints are important and include:

- constraints associated with high costs of transaction that raise marketing cost;
- constraints associated with the riskiness of agricultural production especially in respect to new products;
- constraints associated with the riskiness of marketing of agricultural produce in the presence of poor infrastructure and/or high price variability;

## **1. Market access, poverty alleviation and socio-economic sustainability in South Africa**

- constraints associated with weakening of primary markets and/or bargaining power of producers and sellers.

In the context of developing countries and the current global concern with poverty alleviation, hardly any sector has received as much attention in relation to market access as the agricultural sector. The reasons for this are obvious. In the first place, agriculture remains a dominant sector for these countries in terms of its share of national wealth and employment. This means that any actions to enhance the livelihoods of the population must either be based on agriculture or have strong links with that sector. Secondly, as a result of limited opportunities elsewhere in these economies, efforts to expand employment opportunities, at least in the short-term, must be pivoted on agriculture. How the sector is faring in terms of gross production, what constraints are encountered in the production process, and the opportunities for marketing, thus assume crucial practical implications for national policy to achieve sustained economic growth and poverty alleviation in all sectors of the economy including the communal areas.

The purpose of this chapter is to set the context for such an enquiry into the performance of the agricultural sector of South Africa against the backdrop of its recent economic and political history. For a country, like South Africa that emerged from economic and political isolation since 1994 with the promise to pursue an all-inclusive development strategy at home while assuming regional and continental leadership aiming at greater economic integration, such an analysis cannot be avoided. The question as to why nearly two decades of reforms have not produced the dramatic change in rural livelihoods as expected has not yet been confronted systematically. The answers to these questions are even more urgent at this time when local discontent is brewing and the population is showing signs of impatience with what seems to be the slow pace of the reform process. In this regard, the spate of 'service-delivery protests' and industrial actions that have rocked the country since 2006, are stark reminders of the enormous burden that the democratic regime in South Africa must shoulder in order to achieve meaningful socioeconomic transformation.

Without question, the challenge of reform for South Africa is complicated by factors and developments that are exogenous to the system and are inevitable fall-outs of the greater openness that liberalisation and democratisation brought about. One of the most significant developments from the standpoint of poverty alleviation and socioeconomic sustainability is the global food crisis that came to a head in 2008. An unprecedented 50 odd years when world food supplies expanded astronomically on the wings of technological developments (triggered by the Green Revolution of the early 1960s), resulted in significant declines in real food prices (Southgate 2010; Southgate *et al.* 2007). Ironically, these gains have been largely reversed by economic progress since March 2007. Several analysts have suggested that the phenomenal growth in energy demand, especially in emerging markets such as China and India, has fuelled increases in oil prices, which in turn raised the costs of vital farm inputs such as fertilisers, diesel, and other inputs (FAO, 2008; Southgate, 2010). The



last major commodity price increase in 1973-1974 followed the Middle East oil shock of the early 1970s (Church, 2005; Green, 1978; Wakeford, 2006), and subsequently oil shocks have led to similar food price increases. Of course, there is the now famous demand side culprit of biofuel development, particularly the production of ethanol from maize, which is causing food prices to spike (Masters, 2008; Southgate, 2010). Estimates summarised by USAID (2009) show that overall increase in food prices averaged 43% in the one year period beginning in March 2007 up to the first quarter of 2008, being most serious for wheat, soybean, maize and rice which rank among the most important staples in the developing countries.

According to Aerni (2008) and Masters (2008), among others, food price increases worsen poverty even if some poor people also benefit from rising food prices. Data generated by USAID show that as many as 8.7 million people in Southern Africa were most severely affected by these food price increases to the point of starvation or related hardships. While most of these persons were in the poorer countries of the region, such as Zimbabwe, Lesotho and Swaziland, there are many parts of South Africa, including the Eastern Cape, where real hunger stares people in the face, forcing the government to adopt food aid schemes in the form of distribution of food parcels and social grants. Whereas in 2003, 6.8 million South Africans were recipients of social grants, by 2010 the figure has grown to 14 million (Department of Social Development, 2010). Further evidence of the negative impact of the high food prices is that government has increased the social relief budget, that is the support provided to persons that fall into destitution as a result of food price increases, from R124 million to R624 million between 2008 and 2009 (Department of Social Development, 2010). There is also evidence that child hunger, diseases and deaths are taking place in many parts of the country as a direct consequence of high food prices as unemployed or low-wage persons are finding it increasingly difficult to afford basic necessities such as milk, meat and even cereals.

This chapter initially examines the background and problem context and then more comprehensively reviews the relevant literature on market access, poverty alleviation, and socio-economic sustainability. These issues are situated within the country's dualistic structure and the plethora of policy initiatives currently underway to redress mistakes of the past. Since the book is the product of a systematic investigation and research process, the chapter also provides insights into the research methodology employed and restates the fundamental argument that informed the research effort in the first place. The concluding part of the chapter is devoted to a description of the three provinces of South Africa in which the bulk of the research was undertaken in order to show the prior conditions that constituted the justification for the study in the first instance. This is then followed by chapter summaries that highlight the main findings of the studies.

### **1.2 Problem context**

In the nearly two decades since democratic governance was enthroned in South Africa, the circumstances of the smallholder agricultural sector of the country have attracted considerable attention. With the knowledge that policies promoted before 1994 confined this smallholder sector to a mere 13% of the available agricultural land, there was already considerable urgency on the part of the new policy élite to right past wrongs. The parts of the country previously designated 'independent homelands' and 'self-governing territories' formed the living and farming environments of the majority black population and featured extreme cases of infrastructure deficiencies. According to Van Zyl and Binswanger (1996), these former homelands were characterised by inadequate market access, infrastructure and support services. Data available at the inception of democratic rule suggest that three million black farmers lived in these former homelands and produced food mostly for subsistence on much less than 17 million hectares of largely unfertile land (National Department of Agriculture, 2001). This contrasted with the about 50,000 large-scale commercial farmers who owned or operated about 102 million hectares of land (Ortmann and Machethe, 2003; Van Schalkwyk, 1995). A study conducted in 1999 had put the number of commercial farmers at about 60,000 and suggested that these farmers controlled 86% of the country's land while an estimated 1.25 million black people operated at subsistence levels on about 14% of the available land (Eicher and Rukuni, 1999). The importance of commercial farming in South Africa is underlined by the fact that they generated an export value of about US\$ 2.3 billion in 2000 (Ortmann and Machethe, 2003). Although much of the pre-1994 government support that almost exclusively targeted the large-scale commercial farms has been discontinued, some even before political liberalisation, their effects are still well-entrenched and very much around in the form of well-laid infrastructural networks and know-how built over many years with substantial state subsidisation (Mbongwa *et al.*, 1996; Van Schalkwyk *et al.*, 2003).

The foregoing scenario defines the dualism of South African's agriculture and presents serious policy-making challenges. The government has embarked on a comprehensive land reform programme aiming to narrow the yawning gap in land ownership (Makhura and Mokoena, 2003; Van Schalkwyk, 1995; Van Zyl and Binswanger, 1996). Obviously, because of the high cultural significance of land and the deep emotions surrounding land matters (Obi, 2006; Van Schalkwyk, 1995), the land reform programme has received a significant, if not disproportionate, amount of both official and media attention. But land ownership, though a serious matter and obviously politically-sensitive and highly emotive given the history, is only one dimension of the problems facing the previously-disadvantaged communities of South Africa. According to Lyne (1996), smallholder farmers are further constrained by limited access to the other factors of production, including credit facilities and information. As Ortmann and Machethe (2003) noted, even with small farm sizes, agricultural productivity can be improved if adequate access to support services and markets is guaranteed.

Where poverty reduction is a central goal of economic policy, market access for producers assumes immense significance. How the food marketing system functions also has implications for the pace and level of regional development (Van Tilburg, 2003). So, the food marketing systems of developing countries have naturally been the subject of considerable academic and policy interest in recent times. Recent studies on the role of trade and market access have shown that significant gains can accrue to farmers if systems and procedures for the marketing of surplus produce are improved, especially in the African context (Rodrik, 1998; Roe, 2003; Van Schalkwyk and Jooste, 2003). The Government of South Africa has accordingly initiated far-reaching trade liberalisation and market deregulation processes alongside the other measures aiming to 'democratise' the agricultural sector (Makhura and Mokoena, 2003; Van Schalkwyk *et al.*, 2003).

However, more than 10 years into these reform measures, there has as yet been too little visible change in the circumstances of the rural small-scale producers of South Africa. The measures aimed at liberalising the domestic food market and integrating the country into the international system may actually have hurt rather than helped the small-scale farmers within the former homelands of South Africa (Makhura and Mokoena, 2003; Mokoena, 2002; Ndirangu, 2002; Nyamande-Pitso, 2001; Van Schalkwyk *et al.*, 2003). While the role of South African agriculture has grown in regional and international trade, it appears that small-scale farmers have hardly been part of this process (Makhura and Mokoena, 2003; Van Schalkwyk *et al.*, 2003). In many situations where surplus production has been realised by the rural small farmers, lack of access to markets has forced them into exploitative exchange arrangements, which further erode their welfare and drive them deeper into destitution.

Expectedly, the level of dissatisfaction among the populace is growing as the larger population confronts a reality that contrasts sharply with the lofty expectations they had in 1994. The Government is aware of this state-of-affairs. For example, at the presentation of the 2004 Budget Speech, the Finance Minister, Mr. Trevor Manuel, was bemoaning the emergence of a '...second economy characterised by poverty, inadequate shelter, uncertain incomes and the despair of joblessness...' in which many South Africans are currently 'trapped' (Government of South Africa, 2004). In desperation, Government is committing a sizeable chunk of the budget to the provision and upgrading of infrastructures serving local communities under a newly-created Municipal Infrastructure Grant (Department of Provincial and Local Government, 2003; Government of South Africa, 2004). There is an urgent need for empirical data and comprehensive information on the actual circumstances of the smallholders and the constraints they face to enable policy makers in programming future support initiatives, including the Municipal Infrastructure Grant, aiming to enhance the living conditions of the smallholders by raising their productivities and improving their market access.

For the purpose of the investigation into the constraints to smallholder market access in South Africa, a review of the relevant literature was considered necessary to establish the

## **1. Market access, poverty alleviation and socio-economic sustainability in South Africa**

conceptual and theoretical basis for the current concern and subsequent actions that will need to be taken to correct the present situation. The literature review directly focuses on the importance of trade for agricultural and economic development, the role of agriculture in African economic recovery, the impact of marketing and agrarian reforms on smallholder agriculture, and the role of institutions and other public policy measures in enhancing market access and improving rural livelihoods. The next few sub-sections attempt to draw attention to the major highlights of the review.

### **1.2.1 Importance of agricultural trade and market access**

At a broader level, the primacy of trade in the quest for economic development is no longer in dispute, and with globalisation its importance becomes even more pervasive (Rodrik, 1998; Summers, 1992; UNDP, 2003; Van Schalkwyk and Jooste, 2003; World Bank, 2002, 2003). Despite its challenges, globalisation does present immense opportunities for better development outcomes that can best be accessed through trade. For African countries whose principal economic activities are in agriculture, adding value by processing and trade is the only means for realising the benefits of globalisation (Van Schalkwyk, 2003). Even if the significant paradigm shifts of the late 1980s and early 1990's in the Eastern bloc countries are ignored, and regardless of the anti-market rhetoric of the professional protesters, there is hardly any question about the strong intellectual and, even ideological, support for, and merit of, market-led development strategies (Summers and Thomas, 1993). It is equally recognised that the 'gains from trade are a key source of national wealth' (Jooste and Van Zyl, 1999). Pro-poor policies that emphasise income generation perform best and have high potential for 'sustained and broad-based poverty reduction' when they are anchored on strategies that improve market access for the poor (Dorward *et al.*, 2002).

World leaders and the development community have therefore adopted trade as a key strategy for achieving the first Millenium Development Goal of halving extreme poverty by 2015 (UNDP, 2003; World Bank, 2003). The emphasis is now more on openness to trade, rather than trade *per se*, as an 'important element of sound economic policy towards alleviation of poverty' (Van Schalkwyk and Jooste, 2003). It would seem that the reality has finally dawned on the development community that the other alternatives to trade for achieving economic growth in Africa, namely aid and debt relief, are in the long run unsustainable solutions for obvious reasons (UNDP, 2003). The Southern African Development Community (SADC), which emerged in its present form following the Windhoek Treaty of 1992, has similarly adopted the enhancement of intra-SADC trade as an article of faith (Chauvin and Gaulier, 2002; Hess, 2002; Mafusire, 2002, among others). This regional body recognises the 'central role for trade within southern Africa, as well as trade between the region and the rest of the world...' (Jooste and Van Zyl, 1999).

### *1.2.2 Role of agriculture in African economic development and recovery*

There is a strong belief that agriculture will drive much of the economic growth on the African continent over the medium to long-term (Eicher, 1999; NEPAD, 2003). Having now recovered from what Eicher (1999) described as ‘industrial fundamentalism’ of the immediate post-Independence era, African leaders increasingly see that ‘...Africa will be for many generations, primarily a producer of agricultural and other primary products’ (Eicher, 1999, quoting a prominent African leader). The past food and humanitarian crises in the Southern African region serve as a powerful reminder that ignoring agricultural development only accelerates the pauperisation of a region with an unemployment rate of 78% (Van Schalkwyk, 2003). With about 40% unemployment rate and the poor conditions in many ‘townships’ and ‘locations’, South Africa has many of the features of a typical dualistic economy. The Cotonou Agreement that provides for non-reciprocal and duty-free access to the European Union markets for poor countries of Africa, Caribbean and the Pacific (ACP), does not classify South Africa as a poor country (European Union, 2000; Makhura and Mokoena, 2003). The continent-wide picture of the incidence of chronic hunger, estimated at some 200 million during 1997-1999 (NEPAD, 2003), is evidently worse for southern Africa where, according to UNDP (2003), ‘...a set of interlocking problems of unprecedented proportions and complexity, namely, the world’s highest levels of HIV/AIDS, food insecurity, and weakened capacities...’ are at play.

### *1.2.3 Impact of market and agrarian reforms*

In the words of the Executive Secretary of the SADC (2003), ‘...it is a question of management’. But he recognises that the question goes deeper than that and adds: ‘we are looking at irrigation...at other issues, such as agrarian reform, how we can bring extension services to the rural areas, how we can use information technology’. Many countries in Africa have since the 1990s been dismantling government controls and converting to market-based food systems, believing that market reforms would enhance farm profitability through their positive effects on prices, investment levels, and commercialisation (Jayne *et al.*, 1997; Thorbecke, 2000). In fact, the need for such agrarian reforms, including commercialisation of the smallholder production systems, has received considerable attention from governments and development organisations, including the SADC (FANRPAN, 2003). But the results of the reform programmes have been mixed and frequently inconsistent with the expected increases in productivity. It is now being realised that the sectoral reform prescriptions of the past have, in many cases, been based upon superficial knowledge of the prevailing economic institutions and how they affect economic outcome in particular economies. There is also an emerging general consensus that future productivity growth within the evolving market economies in Africa will require closer attention to the institutional details of the system – i.e. going beyond generalisations that property rights, market rules, and exchange mechanisms need to be identified and worked out, to actually conducting pragmatic applied research on the specific kinds of property rights, rules, and exchange arrangements that

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would most contribute to economic development under particular circumstances. The process of globalisation has a major impact on the development of institutions and should be taken into account in future research.

### **1.2.4 Role of institutions**

It has been argued that trade reform induces institutional change which in turn facilitates economic growth (Roe, 2003). From numerous studies on the subject of institutional economics (e.g. Dorward, 2001; Dorward *et al.*, 2002; Hall and Soskice, 2001; North, 1990) it is clear that institutions, defined broadly as 'rules of the game', encompassing such elements as transactions costs and risks, information flows, property rights, etc., can enhance or inhibit market access and market development. According to MacFarlan *et al.* (2003), Rodrik (1998) and Rodrik *et al.* (2002), institutions can be viewed in terms of their 'market-creating' or 'market-inhibiting' attributes, to the extent that such issues as property rights and rule of law influence the participation of persons and groups in the economic lives of their societies. Van Schalkwyk and Jooste (2003) have drawn from studies in South Africa and the region to suggest that institutions play an important role in promoting or hindering economic performance in general, and market access in particular.

### **1.3 Relevance of study to development in South Africa**

The dualism that characterised the apartheid-era in South African agriculture remains till today despite more than a decade of reforms. The rural smallholders' impoverishment has not abated probably as a result of inadequate economic infrastructures and lack of access to markets where surplus output can translate into enhanced profitability for the poor rural farmer. The Government has declared that the second post-apartheid decade is devoted to tackling this problem. This vision is consistent with the goals defined under various government programmes, including the Reconstruction and Development Programme (RDP), the Integrated and Sustainable Rural Development Strategy (ISRDS), Black Economic Empowerment (BEE), the Broadening Access to Agriculture Thrust (BATAT) initiative, and others. A sound analysis of these initiatives is needed to obtain empirical data and comprehensive information on the extent and nature of the constraints and opportunities as a guide to more effective programming of development strategies to attain the goals of efficiency, equity and sustainability defined in the Strategic Plan for Agriculture (SPA).

Government and donor policies converge on the need for more effective local development efforts to integrate fully South Africa's smallholders into the mainstream development process. This study coincides with renewed concern at the policy level in the country to address the problems arising from market liberalisation which may have had considerable impact on information flows and a range of ancillary marketing functions including storage, transportation, financial aspects, food processing, etc. The results of this study will make an important contribution towards addressing the fallouts of the marketing reforms on a

sustained basis, especially as they relate to the special circumstances of the emerging farmers and the smallholders in the former homelands of South Africa.

## **1.4 Objectives, research questions and research methodology**

This book is based on a systematic information gathering process and analytical framework that were aligned to the thematic interests of the South Africa-Netherlands Research Programme on Alternatives in Development (SANPAD) during the funding cycle of 2004. Nonetheless, the issues remain valid today. The objectives and research questions, as well as the study methodology followed by the various components are elaborated in the following sections.

### *1.4.1 Objectives and research questions*

The smallholder agricultural sector is constrained both by its history of past deprivation and focus on more macro-level reform processes which largely by-pass them. Although the existence of smallholders has been recognised, studies and policy actions generally excluded them, but nowadays more emphasis is being given to access of the emerging and small-scale farmers to institutions, which can improve their livelihoods. In this study, we wanted to ascertain the specific constraints to the development of the smallholder.

The study aims to investigate the institutional and technical constraints to smallholder agriculture in selected areas of South Africa. To what extent can the small-scale farmers share in the expected gains of integration into the national or international markets and what institutional and other reforms are necessary to enhance their effective and profitable participation in the regional economy? This is the central research question that informed the entire research design and the conduct of the research process. The specific research objectives, narrowly linked to the research questions, are partitioned into three levels, namely the micro, meso, and macro levels as follows:

Micro-level research objectives:

- Identify key production and marketing constraints faced by these smallholders.
- Investigate the degree of participation of these smallholders in both input and output markets.

Meso-level research objectives:

- Determine the kind of farmer-based structures and institutions that are needed to empower smallholder farmers to address their constraints.
- Investigate the feasibility of governance systems that can be used in the supply chains of farm commodities produced by smallholders.

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Macro-level research objectives:

- Recommend to stakeholders and policy makers how to improve the institutional and policy environment of smallholders.

### **1.4.2 Research methodology**

In general, there are three main research designs in small farmer studies, namely welfare optimisation of producers, analysis of market access of farmers, which involves investigation of market channels and supply chains, and institutional analysis aimed at improving the institutional environment for smallholder agriculture focusing on infrastructure, markets, and human capital aspects. The present study embraced the second and the third strands and therefore employed a variety of methodologies to answer the central research question. A summary of the methodologies used, in relation to the research objectives, is provided below and subsequently elaborated in a separate section at the end of this introductory chapter.

#### **Methodologies related to the micro-level objectives**

For this set of objectives, the characteristics of the smallholder farm sector, and present information about their dominant production practices, constraints and opportunities were obtained. Specifically, the methodologies were selected to:

- analyse results of previously conducted studies;
- conduct discussions with groups of key informants and/or a representative set of smallholders;
- conduct surveys to clarify issues that cannot be obtained or solved through analysis of secondary data or group discussions.

#### **Methodologies related to the meso-level objectives**

A range of methodologies were employed to achieve this set of objectives, which are described briefly:

- determine the kind of farmer-based structures and institutions that are needed to empower smallholder farmers to address their constraints by reviewing the literature in this respect;
- investigate the feasibility of governance systems that can be used in the supply chains of commodities produced by smallholders.

#### **Methodologies related to the macro-level objectives**

Under this category, descriptive statistics were employed to specifically:

- analyse smallholders' access to supply chains of commodities which enter national or international trade;



- recommend to policy makers on how to improve the institutional policy environment of smallholders.

## **1.5 Description of selected study areas**

In the original design, three provinces were identified for the study: Eastern Cape, Free State, and North West Provinces. Within the Eastern Cape, the focus was the former Ciskei homeland where the Nkonkobe Local Municipality was selected. Within the Free State, the study focused on Qwaqwa area, another former homeland/self-governing territory during the Apartheid era. In the North West Province, the study area was the Taung area. Although the book embraces a much wider context than the more restricted geographical setting identified in the original design, this description will focus on the original three provinces since they are representative of the prevailing conditions.

### *1.5.1 Eastern Cape Province – Ciskei and Nkonkobe*

#### **Introduction**

The Nkonkobe Municipality of the Amathole District covers a relatively large area, which is predominantly in the former Ciskei Homeland but also includes a portion of the former Cape Province. The towns of Alice, Seymour, and Middledrift, in the former Ciskei, and Fort Beaufort and the hamlet of Hogsback, in the former Cape Province, make up the municipality. The agricultural activities as well as the intensity of agricultural practices vary quite noticeably from one part of the municipality to the other. It also includes the white commercial sector, which concentrates on citrus and beef production. Agriculture in the former Ciskei portion consists of the traditional agricultural sector farming on communal land, emerging commercial citrus farmers and irrigation schemes. This makes it an interesting area to study from the point of view of the institutional and technical constraints to the various forms of agriculture. Another reason for the choice of the Nkonkobe Municipality is the fact that a large body of research that has been conducted in the area. The Faculty of Science and Agriculture and the Agricultural and Rural Development Research Institute (ARDRI) of the University of Fort Hare have been active in the local municipality through Masters and Doctoral theses and research funded by local and international organisations.

#### **Profile of farmers**

Studies carried out at the University of Fort Hare have provided characterisations of the smallholder farmer in the Nkonkobe Local Municipality and the former Ciskei homeland. The most recent studies include those by Brown (2000), Dlova (2001), Eiseb (2000), and Monde (2003) which characterised small-scale farmers of the Municipality over a broad range of settings. The study by Eiseb (2000) specifically examined small-scale farmers in terms of their physical and human resource capabilities and constraints, while Brown (2000)

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focused on the reconciliation of the dominant stereotypes of black farmers against the realities on the ground. Monde (2003) reported on the food security status of households in two villages of the former Ciskei homeland. Overall, the studies confirmed that the majority of small-scale farmers in the municipality generally had limited education, were poorly resourced in terms of capital endowment and land, and lacked sufficient access to institutional credit or technical support that would enable them expand production and improve their livelihoods. It was clear that the effects of past discriminatory policies were still in evidence and that recent policies to achieve greater inclusivity had had limited success.

### **Marketing of agricultural products**

The marketing of agricultural products in the Nkonkobe Municipality follows the same pattern that has been observed in many other smallholder environments where small-scale producers deliver a meager output to diverse formal and informal outlets, often in the absence of a systematic coordinating mechanism. The product range can be extensive even if limited to the dominant vegetable and food grain staples of cabbages, tomatoes, onions, butternut, peas, beetroot, potatoes, watermelon, pumpkins, maize, sugar beans, peas, spinach and other leafy vegetables. Direct sales to consumers at the farm gate seem quite frequent although a few producers truck produce to the towns of Alice and Fort Beaufort. It is also common to see the retailers going into the villages to purchase the produce from producers for sale in the towns. Undoubtedly, small farmers in the municipality face the serious challenges of poor infrastructure in delivering produce to markets where profitable sales can be undertaken. It was clear from preliminary investigations that this would be a major focus of the study to identify such constraints that the smallholders face in the marketing of produce that could be factored into recommendations about unlocking markets to smallholders.

#### **1.5.2 Free State Province – Qwaqwa area**

##### **Introduction**

Qwaqwa is a former homeland area, which was granted self governance on 1 November, 1974. On 27 April, 1994 it was reunited with South Africa, together with the nine other former homelands. The area is situated in the eastern part of the Free State, bordering KwaZulu-Natal and Lesotho. It is home to more than 180,000 Sotho-speaking South Africans. It covers an area of about 655 km<sup>2</sup>. During the period 1986 to 1994, about 70,000 ha were identified and developed for resettlement of black farmers.

##### **Profile of Qwaqwa farmers**

A study conducted by Jordaan and Jooste (2003) provided a thorough descriptive profile of the emerging farmers of Qwaqwa. The farmers generally have had little formal schooling

with, on average, 15% of the farmers without any school qualification, whilst 65% were qualified at primary school level. Only 6% have post matric qualifications. A large majority of the farmers are above 50 years old. Approximately 20% are between 35 and 50, and only 2% are younger than 35. Jordaan and Jooste (2003) found that only 12% of the farmers do not have their own title deeds. They lease their land from the Department of Land Affairs, but expressed their desire to purchase the land they lease. The fact that 88% of the farmers actually own the land they farm could increase the commitment to find solutions to their problems to secure their ownership rights. In general, most of the farmers in Qwaqwa have also non-farm income, which is used for agricultural enterprises.

### Marketing of agricultural produce

In Qwaqwa the main crops produced are maize, wheat, dry beans, soybeans and sunflower seed. Beef and milk production are the most important livestock enterprises. The major challenges farmers face are successful marketing of their products.

In terms of maize, the nearest marketing point for Qwaqwa farmers is Genfood, with their Maluti maize mills, situated in Phuthadithjaba. The maximum distance from farms to the maize mills is 40 km. The Maluti maize mill's demand for maize is very high and it has under-utilised capacity. This provides great potential for expanding the maize production in the area. Three silos in the area are owned by OTK and are situated in Harrismith and Afrikaskop. None of these silos is further than 40 km from the Qwaqwa farms. OTK and VKB are the main buyers of wheat in the area. Silos equipped with drying capacity are also located in Harrismith and Afrikaskop. Dry beans are a risky enterprise, but the high income per unit is high enough to create an incentive to produce it. OTK, VKB and many cash buyers, especially from KwaZulu-Natal, are the main buyers of dry beans. Soy beans and sunflower seeds are enterprises with much room for improvement. There are market possibilities in the whole of the Eastern Free State through OTK and VKB.

Marketing of milk seemed to face more problems than realised. Seasonal production is a serious concern, for milk production is very low in the cold and dry winter months. There is also a lack of cooling facilities for the farmers, and traveling distance is very far to the delivering points. Three cooling and collection points have been established at strategic points. Farmers deliver their daily production at the delivery point nearest to their farms, and tankers from Thaba Dairies collect the milk. Farmers get paid according to the quality of their milk. In the past, Thaba dairies used to buy milk from AgriEco, of which 50% of the shares were kept by the dairy farmers in Qwaqwa. The revitalising of this cooperative can open great potential for milk production in Qwaqwa (Free State Government, 2004).

The food retail environment is rather well developed, with two cash and carry wholesalers, three large chain supermarkets, two non-chain supermarkets, multiple small supermarkets and numerous fruit and vegetable stalls, tuck shops and spaza shops. There are also a few