28 Importance of small rural markets in the transformation of Southern African agriculture

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Introduction

In most African countries, agriculture is still the largest contributor to Gross Domestic Product (GDP), the biggest source of foreign exchange, accounting for about 40% of the continent's hard currency earnings and the main generator of savings and tax revenues (Ruane and Sonnino, 2010). As 70% of the continent's extreme poor depend on agriculture for their livelihood, it is estimated that growth in agriculture is about four times more effective in raising incomes of extremely poor people than growth originating from other sectors (World Bank, 2008). However, growth in agriculture, especially emanating from rural markets, has been limited. This can be attributed to the dualistic system which favour large-scale commercial farmers to the detriment of smallholders (Van Rooyen, 1997) (see also Kherallah et al., 2002).

Christy (2001) posits that smallholder farmers' access to markets is a function of the characteristics and performance of the food marketing system that they find themselves in. Such economic performance can in turn be explained by a range of complex issues, including the structure of the marketing system and social, cultural and behavioral aspects of institutions, human values and goals. The purpose of this chapter is to present an analysis of the constraints and challenges that limit or otherwise enhance the impact of small rural markets on agricultural transformation in Southern Africa. Policy proposals that have the potential to improve the development of rural markets through increased income as well as the long-term impacts on food security will be assessed. As it is the case in the broader African continent, the rural economy of Southern Africa is based on smallholder agriculture (Livingston et al., 2011), whose development is constrained by poor physical infrastructure, weak private markets, widespread information asymmetries and low levels of marketed surplus (World Bank, 2009).

Based on Christy's (2001) argument that a study of the dynamics and performance of one segment of the agro-food marketing system (small rural markets in this case) calls for a look into the entire complex system whose performance is in turn affected by a multiplicity of factors, the next section summarizes these factors as they are relevant in the context and character of small rural markets in Southern Africa.

Factors affecting development of small rural markets

There is an increasing demand for food in developing countries of sub-Saharan Africa. This trend is expected to continue due to increasing population, urbanization, changing lifestyles and consumer preferences associated with increasing disposable incomes (Soji et al., 2015). It is also expected to create opportunities for small-scale producers while consumers are likely to benefit from modern retail structures and an advanced processing sector. With access to modern retail outlets supplied by a sophisticated processing sector, consumers increasingly have access to a greater variety of better-quality food products (Mather, 2005). However, the implications of these changes may be less positive for small-scale farmers and small medium enterprises (SMEs) involved in food processing and production where changing market requirements and strict quality control mechanisms are being put in place along the value chain to ensure that high quality products with long shelf life reach the consumer. Such stringent measures as well as other challenges such as high transport costs, poor health management practices, poor nutrition, lack of infrastructure and poor marketing management, inadequate knowledge and not keeping abreast with current technology (Spies and Cloete, 2013) drive informal livestock producers away from the formal market. Christy (2001) classifies the key factors that drive transformation in small rural markets into two broad categories, namely *structural* and *institutional* factors.

Structural factors

One of the key characters of small rural markets in Southern Africa is that they tend to be informal. Becker (2004) defines the “informal economy” as “the unregulated nonformal portion of the market economy that produces goods and services for sale or for other forms of remuneration”. In the context of agriculture in Africa, including Southern Africa, informal markets provide a platform for farmers, traders and consumers to exchange agricultural commodities and money, perform barter deals and share knowledge (Dhewa, 2016).

Although the informal economy in general has been stigmatized in various ways in literature, being associated with such labels as “undeclared labour”, “tax evasion”, “unregulated enterprises” and “illegal and criminal activity” (Becker, 2004), it plays a vital role in developing economies such as those of Southern Africa. In South Africa, 40% of all beef production takes place in communal areas (Sotsha et al., 2018), which could be considered part of the informal economy. In Namibia, over 50% of all cattle are produced in communal areas. Small-scale farmers often cannot compete in formal markets on the basis of health, safety and quality standards (Kalundu and Meyer, 2017). Moreover, while food retailing in developing countries historically operated in the informal market, implementation of private standards particularly in the supermarket sector have proliferated recently, and these are often out of reach for smallholder farmers in terms of cost (Das Nair and Chisoro, 2015). Smallholder farmers are therefore restricted

to operate informally. In some cases, the informal nature of small rural markets creates opportunities for speculators that lead to smallholder farmers selling produce (notably livestock) at unprofitably low prices (Uchezuba et al., 2009).

Delgado (1997, 1999) argues that structural constraints facing smallholder farmers manifest themselves in high and often prohibitive transaction costs, that is, the full costs of carrying out exchange, including marketing costs. A number of studies have analyzed these in detail – see Musara et al. (2018) among others.

Institutional factors

Institutional bias that favoured large-scale, modern, urban and capital-intensive production over small-scale peasant farming in much of the region has left a legacy that has proven difficult to correct (Matungul, 2000). In addition to structural constraints, a large body of literature also mentions institutional constraints as drivers of agricultural transformation in the region – see Ortmann and King (2010) for a comprehensive review. In a study that includes two Southern African countries (Zambia and Mozambique), the World Bank (2009) concluded that institutional bottlenecks and policy constraints have hampered economic growth in general and agricultural growth in particular.

In his study of communities in rural South Africa, Matungul (2000) introduces the notion of “informal constraints” (as opposed to formal rules or institutions) as factors affecting participation in rural markets in the region. He states that informal constraints come from tradition and customs and are social norms of a culture transmitted from one generation to the next. In their study of northern Namibian cattle farmers, Duvel and Stephanus (2000) concluded that farmers tend to be overshadowed by cultural or socioeconomic incentives and considerations in their marketing decisions.

Policies and strategies to improve market access for small farmers

There is rich literature on various strategies that can be implemented to develop rural markets in Africa. There is consensus that structural and institutional factors are important in achieving efficiency and growth in rural or small markets. Hazell et al. (2010) contend that the strategies and policies to develop small farmers will vary by context, implying that policy needs to match the circumstances and change through time. A number of policy proposals are outlined in the following section.

Institutional changes

Successful implementation of policies that promote small farm development will require more than just technical capacity but rather actions from various players. These include government agencies, civil society, farmer organizations and agribusiness firms. Weakness in administrative and technical capacity have

been exacerbated by structural adjustments that neglected, rather than reformed, many public institutions serving rural areas. In addition, the demolition of the marketing boards has shifted the control of agricultural activities into the hands of the private sector, where small farmers remain marginalized. Policies that reform and strengthen public agencies that serve rural areas will require political will, especially where there are vested interests. Even in the aftermath of structural adjustments, many African countries still experience heavy presence of government intervention in markets due to the resistance from entrenched political and bureaucratic interests that retain the control of policy level that are useful for patronage and rent-seeking purpose (Hazell et al., 2010).

Increased participation

According to Hazell et al. (2010) innovative ideas that involve partnerships between government, civil and community bodies as well as private firms can be more cost effective and may offer possibilities for involving local people and communities. Increased participation from local people and communities is heavily propagated by many stakeholders as a workable poverty reduction strategy both within the relevant government ministries and outside (Foster et al., 2001).

Studies that advocate numerous benefits that smallholder farmers could gain when they participate in the decision-making process include Aphane (2011) and Alene et al. (2008). Alene et al. (2008) outline the benefits associated with the participation, which vary and range from improved cash-flow, market access and viable farming entities. Thus, participation itself is catalytic to access the markets and sustainability of smallholder farming. According to Smith (1983), participation gives farmers the right to be consulted, involved and informed by other stakeholders. This kind of interaction has potential to enrich the farmers' decision-making processes, build trust and network among the participating farmers as well as share formal and informal knowledge. Table 28.1 that follows outlines the benefits of initiatives based on increased participation from the affected parties as well as the institutional support. The National Red Meat Development Programme (NRMDP) coordinated by the National Agricultural Marketing Council (NAMC) in South Africa, provides anecdotal evidence of the success of such processes.

Future impacts

Food and nutrition security

Due to dysfunctional rural markets, countries may produce enough and readily available food but it may not be accessible to both rural and urban households (Timmer, 2017), thereby compromising a country's/region's food and nutritional status. Developing small rural markets is anticipated to enhance access to nutritious food from the producing areas to areas where it is needed. The

Table 28.1 The NRMDP, South Africa

Institutional Support: NAMC in collaboration with the Department of Rural Development and Land Reform in South Africa, provincial governments of the Eastern Cape, KwaZulu-Natal and Northwest (with Limpopo and Mpumalanga provinces being considered as part of future expansion), district and local municipalities in the aforementioned provinces, as well as some municipal development agencies

The purpose: Afford communal livestock farmers an opportunity to increase their income through greater participation in the market and better marketing of their cattle

Main drivers:

- To enable farmers to understand the structure, operation and requirements of red meat markets
- To develop marketing channels that will increase their participation in the red meat markets
- To assist with practical training to align the age, health and breeding of animals more closely to market demand

Achieved outcomes:

During the funding period (five years) more than R100 million (US\$7 million) was generated from sales by communal cattle farmers with jobs in catering, transport and construction created along the value chain. Furthermore, during the funding period, 16 custom feeding facilities were successfully constructed in five provinces, thereby providing sustainable solution to the already stressed natural communal grazing pastures, enhancing the nutrition and the marketability of the cattle. This has translated into improved livelihoods in the beneficiary areas.

development of food marketing systems is bound to foster structural, agricultural and dietary transformations.

When small rural markets are developed, food will be easily transformed in time, from one place and form to another (Ogotu and Qiam, 2018). Transformation in form entails value addition into more nutritious products. A functional food marketing system will also help to address challenges of soaring food prices, thereby enabling those who cannot produce it on their land to afford it. Reducing the distance to markets is noted to increase household food security due to the lower transaction costs involved in distributing food items. Small rural markets will also counter the dominance of the few big retail food market groups which force small food markets out of business due to price competition. The small rural markets enable the distribution of food items in relatively less geographical accessible communities. However, there is a risk that food market systems may lead to food insecurity due to easy access to less nutritious but cheaper processed food items. In this case, food insecurity manifests in form obesity in grown-ups and stunting in children.

Income generation

Studies by Lubinga et al. (2018) revealed that the sale of livestock through auctions in rural areas in the KwaZulu-Natal and Eastern Cape provinces of South Africa generate higher incomes. Developing small rural markets is bound

to minimize postharvest losses, increase product shelf life and also bring more income to market participants. Beyond the farm produce, development of rural markets is also anticipated to stimulate growth in the use and sales of agricultural inputs. Furthermore, development of markets will stimulate the purchasing power of the rural communities.

Poverty alleviation

Market development fosters poverty alleviation in its different forms (Ogutu and Qiam, 2018). For instance, through the NRMDP that helps communal livestock farmers to participate in formal markets, farmers were able to acquire more assets. Therefore, further, establishment of marketing systems will be critical in reducing poverty. However, it is important to emphasize the need for special market-linkage support to help farmers to ensure equality in incomes received.

Conclusions

This chapter presented a concise analysis of the constraints and challenges that limit agricultural transformation in Southern Africa region as well as the policies that can unlock the potential in underdeveloped small rural markets. Potential benefits such as improved nutrition, income and poverty alleviation were also presented. While there is vast literature detailing the constraints that limit agricultural transformation in Southern Africa, much still needs to be done in terms of strategies and actual implementation of the policies. Any successful policy will require more than just technical capacity. Thus, engagement from various bodies, both public and private, is crucial for agricultural transformation. The main challenge that rural markets face is access to the vibrant economy where maximum profits can be earned. Structural barriers and institutional barriers are considered the most inhibiting factors towards market access. Smallholder farmers in the rural markets cannot break these barriers alone. Technical and institutional capacity from both the public and private sectors is required. The NRMDP coordinated by the NAMC in South Africa provided anecdotal evidence of the benefits that can be achieved through processes which involve partnerships between government, civil and community bodies as well as private firms. Such processes have the potential to increase income and to address poverty.

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