

Linking Farmers with Markets in Rural South Africa: Rural Development and Poverty Alleviation through Supply Chain Management

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ABSTRACT

The growing demand for high-value food commodities is opening up opportunities for farmers, especially smallholders to diversify towards commodities that have strong potential for higher returns to land, labour and capital. However, there is an apprehension about the capability of smallholder farmers to participate in the market-oriented production due to their lack of access to markets, capital, inputs, technology, and extension services. In this paper, possibilities have been explored of linking smallholder farmers to markets through such institutions as cooperatives, growers' associations and contract farming that reduce marketing and transaction costs and alleviate some production constraints. The study also attempted to identify critical factors for success and preconditions for scaling up successful interventions. The results of this study show that interventions that target farmers' collective knowledge and experience by developing enterprises that farmers have been engaged in for many years are more successful than introducing new commodities. Evidence has shown that smallholder farmers do participate and make a sizeable contribution to the production of high-value food commodities, but their links to markets are not strong. Though market institutions like cooperatives, contract farming and growers' associations do not altogether ignore smallholder farmers, some policy support is imperative to strengthen their linkages with the markets. The study uses communal livestock farmers and small-scale wool growers (sheep farmers) in KwaZulu-Natal and the Eastern Cape as case studies.

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INTRODUCTION

The growing demand for high-value food commodities is opening up opportunities for farmers, especially small-scale farmers to diversify towards commodities that have strong potential for higher returns to land, labour and capital (Birthal et al. 2007). However, there is doubt about the capability of small-scale farmers to participate effectively and meaningfully in the market-oriented production due to their limited access to markets, capital, inputs, technology and extension services. In this proposed research work, possibilities will be explored of linking small-scale farmers to markets through institutions such as cooperatives, growers' associations and contract farming which are known to reduce marketing and transaction costs and alleviate some production constraints. The participation of small-scale farmers and the contribution they make to the production of high-value food commodities and their links to markets were explored. It was hypothesized that though market institutions such as cooperatives, contract farming and growers' associations do not completely ignore small-scale farmers, some policy support is imperative to strengthen their linkages with the markets. It is against this background the study was undertaken.

RATIONALE OF THE STUDY

There is consensus that the South African agricultural and agro-food market landscape is changing in line with changes occurring internationally as a result of globalisation and market liberalisation. It is the view of the researcher that the food basket of the average South African household is fast evolving toward high-value food commodities such as vegetables, fruits and animal products. It is postulated that the agricultural production portfolio is diversifying and moving toward producing these high-value products in response to the changing tastes and preferences of the consumers. Concurrently, food procurement and distribution systems are also evolving accordingly as illustrated by the resurgence and emergence of institutional innovations like cooperatives, producers' associations, contract farming and supermarkets.

The foregoing changes present opportunities as well as challenges for farmers, especially small-scale farmers, in South Africa. It is envisaged that farmers would benefit from diversification into high-value commodities that have a strong potential for higher returns to land, labour and capital. Institutional innovations in marketing should enhance farmers' access to markets, quality inputs, technology, information, and services, which eventually would lead to

improvement in productivity and reduction in marketing and transaction costs as well as increased wealth. The afore-mentioned notwithstanding, South African agriculture is dichotomous, divided into few large-scale commercial white farmers and many small-scale and predominately black and previously disadvantaged, largely subsistence, farmers. Given the number of small-scale farmers and the emphasis that South African policy has placed on the development of small-scale farmers and migrating them into commercial farmers, it was imperative to have research into this section of the agricultural sector. There is widespread scepticism whether small-scale farmers can benefit from such innovations given that agri-business firms often prefer contracts with those large-scale commercial farmers who can fulfil their quantitative and qualitative requirements.

This paper examines opportunities and challenges for small-scale farmers in market-oriented production of high-value commodities, and identifies the enabling institutional and policy requirements for their participation. The research reported in this paper broadly uses three cases studies, namely: 1) Red meat production under small-scale, communal farmers in the Eastern Cape Province and 2) Communal wool growers in KwaZulu-Natal and the Eastern Cape.

In South Africa, the supply chain of agricultural products typically involves many players and agents with many farmers at one end and consumers at the other. Generally these traditional supply chains are tightly linked with social structures. Small-scale farmers in South Africa are largely concerned only with producing their crops or animals without having sufficient knowledge of what consumers really want. By and large, small-scale farmers in the country are not concerned with meeting consumers' needs and they often are price-takers. Small-scale farmers' contact with markets is often limited to dealing with a produce collector or to sales village market and district markets. The Msinga/Tugela Ferry green mealies and tomatoes market in the Msinga Local Municipality in the uMzinyathi District of KwaZulu-Natal are a case in point. This is not a phenomenon unique to South Africa. Johnson (2003) stressed in his case with cocoa and banana farmers in Indonesia and Papua New Guinea that, given that farmers' contact with market is so restricted, it is not surprising that farmers have little awareness of the suitability of their product, or indeed if they are producing the right crops.

Consumers' wants and preferences are not transmitted directly to the farmers who produce or plant the crops. Hence there are missing links in connecting consumers at one end, and farmers at the other. As communities continue to develop, greater focus on linking farmers

with markets may be the key to sustainable income generation. This income, in most cases of rural South Africa and small-scale farmers, can be increased and sustained to reduce poverty. Not many will disagree there is a need for a shift from just supplying the products that one produces to consumer-driven production and this is true for both cash crops or food crops.

The focus of the paper now turns to the case studies and the next section deals with the red meat production in the Eastern Cape.

THE EASTERN CAPE RED MEAT PROJECT: COMMUNAL BEEF PRODUCTION

Population growth, urbanization and income growth suggest an increase in the future demand for livestock products (Nieuwoudt 1998), creating opportunities for livestock farmers across South Africa. In addition to this the livestock industry has experienced historic changes over the last decade the most noteworthy being the deregulation of the industry and the closure of the Meat Board. This opened the industry up to new entrants and presented opportunities for small-scale farmers. Small-scale farmers in the Eastern Cape own approximately 65 percent of the 3.1 million cattle found in the province, and just under 43 percent of the 350, 000 households in the Eastern Cape own cattle (Table 1).

Table 1: Distribution of cattle ownership among communal livestock farmers

Percentage of households	Number of head of cattle
84	5-15
12	16-25
4	>26

Source: ComMark (2009:26).

Taking into consideration the potential of livestock industry to uplift the Eastern Cape out of poverty, the Eastern Cape Red Meat Project was founded with the crucial objective of converting this desire to partake formal markets into *active involvement* in formal markets – where the opportunities for increasing turnover are far greater. This was without in any way

attempting to preclude the continued operation of informal markets. The novelty of the project lies in its chief concentration on the marketing attribute of the value chain, taking cognizance of the fact that production interventions are essential for profitable livestock production.

Communal farming of livestock has traditionally relied on local informal village level marketing, and major contributions of the intervention has been setting up of cattle buyers' days, introduction of auctions and continuously searching for new markets for emerging farmers. Inroads have also been made towards brokering pre-slaughter agreements with large retail chains in an attempt to secure markets for the farmers. Finally a Custom Feeding Programme (Ngethu, 2009) that focuses on adding value to weaners for their chosen markets was instituted. Custom feeding refers to communal feedlots set up to fatten cattle before being sold in order to improve the body condition of the cattle thus attracting better prices.

Auction Pens

ComMark, with a lot of help from the Eastern Cape Department of Agriculture has managed to draw attention of buyers to the potential red meat market, through the resuscitation of the auction pens throughout the Eastern Cape. The auctions serve two major purposes, they provide farmers with an entry point into the formal markets, and they also act as market signals to other farmers on the prices, quality and type of animals that buyers are interested in. Auctions also have the advantage of eliminating the middleman, speculators that were rampant in the Eastern Cape area before the inception of the programme, offering to buy animals from farmers at low prices and later on resale them to abattoirs.

Pre-slaughter sale agreements

Pre-slaughter sale agreements are entered into to secure future markets for farmers by way of entering into a contract of supplying livestock produce sourced from the farmers. Currently there are talks with large retailers in the area including Pick 'n Pay, Shoprite-Checkers and Boxer retail groups in order to secure these markets on behalf of the farmers. The major barrier to entry by small-scale communal livestock farmers into these formal markets has been the farmers' inability to meet set production targets consistently. There is also the general problem of getting the farmers in an area to work as a single unit to meet these targets thus realizing economies of scale and increased bargaining power. These identified shortcomings need to be addressed if, especially the small-scale farmers are to become meaningful players in the market in the long run – long after the intervention has been withdrawn.

SUCSESSES IN LINKING SMALL-SCALE FARMERS TO MARKETS

There have been a number of achievements in linking small-scale communal livestock farmers to formal markets in the Eastern Cape. However, only a few salient ones will be discussed and these include:

- 1) Gaining the trust and respect of livestock farmers in the districts in which the project has been most active. This is an important achievement in that without trust very little progress can be made;
- 2) Training several thousand small-scale communal farmers on aspects of livestock production and/or marketing;
- 3) Developing strong positive relationships with key external role-players, including the Eastern Cape Department of Agriculture and Rural Development (especially the veterinary public health division), local authorities (especially the Amathole District Municipality and the Umzimvubu District Municipality into whose local economic development (LED) programmes the Eastern Cape Red Meat Project (ECRMP) has now been integrated), local private sector auctioneering companies (especially Stewart Auctioneers and Shared Auctioneers) and the civil engineering industry (especially Wilson Bayly Holmes-Ovcon Ltd (WBHO));
- 4) Establishing and renovating seven auction pens;
- 5) Facilitating nearly 50 auctions and buyers' days in five district municipalities, averaging about one a month; more than 1 500 head of cattle have been sold, realizing about R4,5 million for small-scale communal farmers;
- 6) Achieving a rate of increase of the weighted average selling price of on-the-hoof cattle which exceeds the rate of increase of the price index of C-grade meat at the East London abattoir; and
- 7) Establishing three custom feeding programme feedlots - in the Peddie/Ngqushwa and Mount Frere districts and, most recently, at Fort Cox Agricultural College near Fort Beaufort.

LINKING SMALL-SCALE COMMUNAL WOOL PRODUCERS IN KWAZULU-NATAL AND THE EASTERN CAPE TO MARKETS

Most of the wool production in Southern Africa was derived from about 9,500 commercial farmers (owning around 20 million sheep) in 2008, nationally organised, receiving the services of two major brokerage firms, and selling largely via the Wool Exchange. The rest of the production came from around three million sheep owned by about 200,000 black small-scale communal farmers, largely in the Eastern Cape, Free State and Lesotho. Although this

represented 13 percent of the regional sheep flock, these farmers only produced about three percent of the total regional wool production and little more than one percent of the value realised at auction (ComMark 2009).

Although it was found that most households in the rural areas of South Africa kept livestock for a mix of economic and non-economical reasons (Grant et al 2004), they did not make effective use of these agricultural assets, and hardly any could be regarded as commercial farmers. In short, ownership of animals did not necessarily translate into decisions to invest labour or any available cash assets into improving livestock income generally, or into wool production as a specific activity.

The constraints to emergent and traditional stock-keepers in particular in the rural areas of South Africa increasing their production and productivity and thus their incomes from wool were formidable. The principal constraints are technical in nature, especially genetic (stock quality) improvement, better herd and health management (to increase reproduction and reduce mortality rates), and improvements in shearing, grading and sorting standards. However, most of the technical solutions are known and capable of being addressed.

The study reported in this section is based on the work done by the National Wool Growers' Association (NWGA) which is a private sector initiative at developing small-scale producers and increase wool throughput. The NWGA is a producer's organisation that seeks to promote profitable and sustainable wool sheep production in South Africa through achieving the following six strategic objectives (de Beer, 2009):

- Improved policy and legislative environment.
- Improved institutional environment.
- Improved market environment
- Improved production environment
- Constructive training and development programmes
- Establish strong producer organisations

The linking of wool producers in areas to markets focuses on infrastructure development, training and mentorship, resource management and genetic improvement of sheep flocks in communal areas. The emphasis on developing small-scale farmers is an acknowledgement of the importance of agriculture to rural economies and the fact that wool as an export product can play a significant contribution in developing rural economies. The success of communal wool producers can also be used as a model to be considered for future beneficiaries of the land reform programmes.

SUCSESSES AND LESSONS LEARNT

The project of linking small-scale communal farmers to the market wool has been quite successful. Figure 1 illustrates the trend in wool production by small-scale communal wool farmers and it is clear that there has been steady growth in wool output from this group of farmers as shown by the almost linear trend line. The data illustrated in Figure 1 covers the period from 1998/1999 to 2008/2009 wool production years.

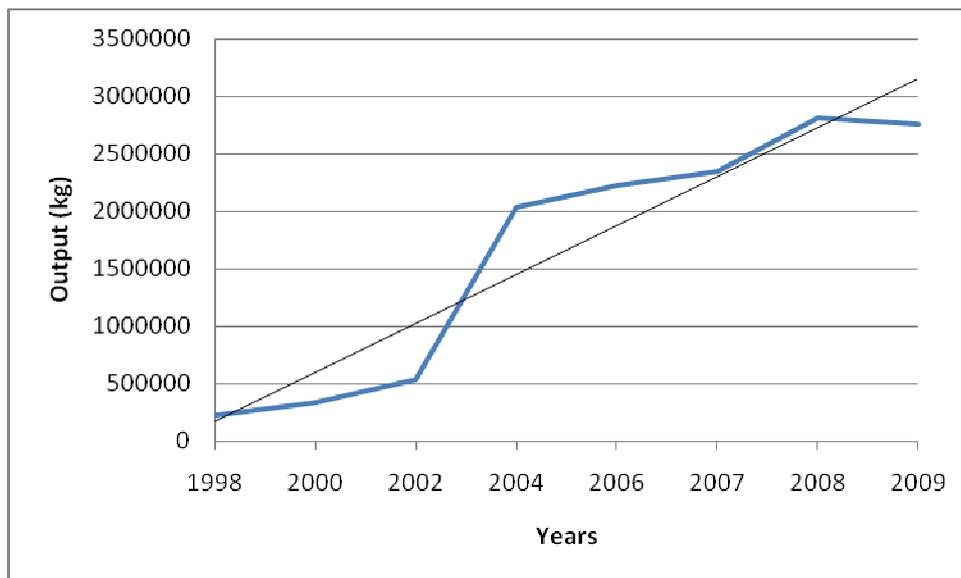


Figure 1: Trends in wool production by small-scale wool farmers

Source: Author (based on data from de Beer 2009).

Table 2 outlines the progress that has been made in linking communal wool producers and the impacts of such. It is worth noting that intervention by the National Wool Growers' Association (NWGA) to increase wool production by small-scale farmers was not limited to marketing. However, wool in South Africa is marketed via a single marketing channel for through the NWGA.

Table 2: Communal wool production and farmers' income from 1998 to 2009

Season	Output (kg)	Value (R)	Commercial Price (c/kg)	Communal Price (c/kg)
97/98	222 610	1 502 908	1 225	675
99/00	336 700	1 965 557	1 102	584
01/02	535 911	6 927 640	2 277	1 293
03/04	2 029 556	17 768 955	2 109	876
05/06	2 222 883	14 954 931	1 695	673
06/07	2 345 991	30 791 496	2 594	1 313
07/08	2 809 551	45 514 726	3 239	1 620
08/09	2 756 441	34 659 116	2 548	1 257

Source: NWGA 2009:11

From Table 2 it can be seen that communal production has increased both in quantity and quality. For example, quantity increased from 222 610kg in 1997/98 season to 2 756 441kg in 2008/2009 season. There has also been a steady increase in income for farmers from sales of wool and mutton from just over R1.5 million in 1997/98 to R34 million in 2008/09. Furthermore it can be established by looking at the results reported in Table 2 that the price received by communal farmers for their wool has been improving compared to the price received by their commercial counterpart (from 675c/kg in 1997/98 to 1257c/kg in 2008/09). It should be noted however that the price received by communal farmers has been consistently about half of that received by their commercial counterparts. This differential indicates that there is still room for improvement in quality of wool produced by small-scale communal wool producers, although there has been significant improvement.

Another interesting achievement has been the improvement in social indicators for participants in wool production. For the period 2004 to 2009 there has been substantial improvement in the lives of wool producing rural folks. For example, household savings accounts have increased from 56.9 percent to 77.3 percent and the number of households borrowing money for school fees has decreased from 78.4 percent to 52.3 percent.

Equally important has been the linking of farmers to brokers as well as formal markets especially export markets where farmers earn foreign currency which speaks to institutional development and forward linkages which are important for long-term sustainability of the gains achieved. There has also been infrastructure developed as shown by the increase in the number of sheds receiving wool of better quality as a result of collective marketing. Increased participation of producers at all levels of decision making through provincial, regional and national congresses; improved flock in communal areas due to genetic improvement and improved animal health management; improved infrastructure in communal areas especially sheep housing, sheds, equipment and roads; and improved relations between NWGA, government departments, municipalities and other stakeholders are other milestones that have been reached.

However, there is no success that is without challenges. The main challenge faced by the wool production initiative is limited capacity to reach all farmers and there is need for funding to finance projects that will improve the organisational capacity such as training extension workers to improve their capacity to offer better extension services to emerging farmers. An interesting facet of the successes of this intervention is that the experience gained from working with emerging farmers can be expanded to other emerging farmers thus offering a valuable learning opportunity that can easily be scaled-up.

RECOMMENDATIONS

There is growing recognition of the relevance of agricultural and related production in rural development and local economic development of remote areas such as those in KwaZulu-Natal and the Eastern Cape Provinces. Furthermore, it is now generally accepted that for any development intervention to be successful and sustainable, in the long run, participatory approaches are necessary to engender ownership of projects by the beneficiaries.

Collaboration between government agencies, non-governmental agencies, and private agribusinesses offers the greatest potential for applying value chain concepts, with the aim of increasing income and employment through improved farming.

The approaches can be applied to a wide range of situations and for different beneficiary groups, including youth and women's groups. It can be used for the identification of relevant sub-sectors, commodities or groups of products and in the implementation of a rural development or food production strategy.

With a view to future research priorities, public–private partnerships in research and dissemination can improve the technologies available to small-scale producers and processors, while capacity building can help small-scale communal farmers meet new quality and safety requirements, as well as learning how to manage cash. Value chain programs also facilitate and support producer organisations, which allow economies of scale in buying inputs and selling products.

Improved business services to small-scale farmers and agribusiness help to improve quality and efficiency by reducing costs and expanding operations. It is important that governments anticipate future vulnerabilities and build the capacities of chain participants to innovate, diversify or exit as markets change: support for value chains can increase vulnerability if incentives favour products and services susceptible to large shifts in demand and price. The potential of value chain programs to increase vulnerability underscores the importance of appraising comparative advantage and investment requirements in the exploratory and diagnostic phases before intervention begins.

Another advantage of the value chain concept is that it is applicable across a range of products produced in the primary sector, including non-timber forest products, handicrafts, processed agricultural and fish products, livestock and livestock products and, of course, agricultural fresh produce.

For the future, there is ample justification to consider the participatory value chain concept as a key concept for defining and formulating agricultural development interventions in Pacific island countries. More specifically, it is suggested that donors, regional organisations, researchers, and decision makers in government agencies consider the following.

For South Africa, at least the areas studied, processed food products based on readily available staple food crops and farming activities familiar to the farmers (such as maize, vegetables, beef and related products, wool, lamb, mutton etc) are seen widely as the most promising products for agribusiness ventures in rural areas. They have the potential to substitute for food imports and improve national food security

Higher emphasis must be placed on the establishment of agribusinesses and farm enterprises in rural areas in order to mitigate the pressures of migration to major urban areas by stimulating the growth of employment and income opportunities elsewhere, and by providing fresh, locally grown food for growing urban populations.

In the livestock sector, there could be support for domestically available feed resources and the construction of clean and safe slaughter facilities near major consumption areas. This is an important sub-sector with considerable potential for growth, substituting for unhealthy and

nutritionally poor imported products as well as to create employment along the entire livestock value chain, from domestically grown feed to marketing, veterinary health, and distribution of the final livestock products.

Development efforts in agribusiness and enterprise development should be linked closely with improvements in food safety and development of national food standards and regulations in order to enable food vendors in the informal sector to continue earning a living from marketing processed food based on local agricultural products

A key area for government support is improvement of infrastructure, especially transportation and communication. Improved communication technology can have an immediate positive impact since it provides farmers with better access to market and production information and enables them to optimise production and realise new income opportunities.

Governments are encouraged to seek collaboration with the private sector and non-governmental organizations for improved research and advisory services. Regional and international organisations could be asked to assist in in-country capacity building activities in support of the value chain concept.

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ACKNOWLEDGEMENTS

The author would like to acknowledge that the Eastern Cape Red Meat and Small-Scale Communal Wool Growers projects reported here were implemented by ComMark Trust and the NWGA in collaboration with their various partners. The contributions of various people involved in the projects are acknowledged.