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Smallholder farming: A panacea for employment creation and enterprise development in South Africa?

Lessons from the Pro-Poor Value Chain Governance Project in Limpopo Province

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PLAAS Working Paper 27: Smallholder farming: A panacea for employment creation and enterprise development in South Africa? Lessons from the Pro-Poor Value Chain Governance Project in Limpopo Province

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ABSTRACT

Recent government efforts point to the smallholder sub-sector as a potential source for employment creation and enterprise development. This paper presents an analysis of smallholder farmers' market participation and the potential links to rural poverty using the case of Limpopo farmers. The study showed that smallholder farmers are confronted with complex marketing arrangements which are different from the conventional dichotomies. An analysis on the margins showed that local channels (hawkers) allow them to realise bigger margins compared to those offered by formal channel (processors). The results also suggest that informal market channels should not be overlooked as they can play an important role in improving rural livelihoods through job creation and enterprise development. The study is inconclusive on whether smallholder farmers are a panacea to the challenges of rural poverty in South Africa, but it illustrates the linkages between smallholder farmers' market participation and rural poverty.

Keywords: smallholder farmers; market participation; informal markets; poverty



ACRONYMS

BFAP	Bureau for Food and Agricultural Policy
DAFF	Department of Agriculture, Forestry and Fisheries
DOA	Department of Agriculture
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
NPC	National Planning Commission
PTO	Permission to Occupy
UN	United Nations
UNIDO	United Nations Industrial Development Organization



1. INTRODUCTION

The Republic of South Africa covers less than 4% of the African continent yet the country produces 17% of Africa's red meat; 20% of its potatoes; 2% of its wheat; 31% of its sugar; 45% of its corn; 54% of its wool; and 81% of its sunflower seed (DAFF 2012). The country has impressive statistics on food self-sufficiency and is one of the world's six net food exporter nations. The average daily food consumption is 117% of the UN Food and Agriculture Organization's recommendation (FAO 2012). This success masks the huge inequalities of this sector, characterised by a skewed distribution drawn over racial and ethnic lines. According to Vermeulen *et al.* (2008) around 99% of the food in South Africa is produced by white commercial farmers. The performance of black agriculture has been dismal since the dawn of democracy (Jacobs *et al.* 2008). This is usually blamed on 'double barrelled' exclusion (Chikazunga 2013) in which smallholder farmers who were marginalised by past political regimes are now marginalised by market forces of scale, consistency and compliance.

Democratic South Africa was born amid high hopes of a significant reduction of poverty and inequality but this transformation has been rather slow. Agriculture has been earmarked as a sector with the potential to transform the skewed economy inherited from apartheid (Aliber *et al.* 2009; DAFF 2012). The industry is perceived to have a significantly higher multiplier effect to employment creation and income generation (Aliber *et al.* 2007), but has remained capital intensive and oligopolistic post-apartheid. The skewed nature of the agro-industry has been aggravated by increased dominance of agro-processors and supermarkets (Louw *et al.* 2007). Many studies have undertaken to understand the opportunities and challenges facing smallholder farmers in the mainstream food markets (Louw *et al.* 2007; Aliber *et al.* 2009; Chikazunga *et al.* 2009; Kirsten & Sartorius 2002; Jacobs 2009; Greenberg 2013; Vermeulen & Bienabe 2006), concluding that mainstream markets offer limited opportunities for smallholder farmers due to low productivity among smallholder farmers and stringent agribusiness procurement practices.

Supermarkets and agro-processors prefer sourcing their fresh produce from a few selected suppliers who can meet their procurement requirements. The preferred suppliers are mainly large scale farmers who have the production capacity and resources to meet the stringent demand on food safety and quality set by supermarkets and agro-processors (Vermeulen *et al.* 2008). Smallholder farmers are marginalised because of their limited production capacity; limited access to financial capital; limited access to production equipment; and limited post-harvest infrastructure (Louw *et al.* 2008). The focus of past literature and research has been on smallholder farmers' participation in formal value chains, mainly through supermarkets and agro-processors (Louw *et al.* 2008; Baipethi & Jacobs 2009).

Although agribusiness dominates food markets in South Africa, smallholder farmers highlight the importance of alternative systems such as informal markets and related intermediaries (Greenberg 2013; Chikazunga 2013; Du Toit & Neves 2007). The choice of a marketing channel is largely determined by the smallholders' pursuit of favourable prices with minimum transaction costs. These dynamics are disjointed with respect to policy development processes which are biased towards integrating smallholder farmers into corporate value chains through programs such as AgriBEE (Jacobs 2009; Du Toit & Neves 2007). Despite such limitations, the government is committed to finding innovative ways of linking smallholder farmers to markets (NPC 2011).

2. METHODOLOGY

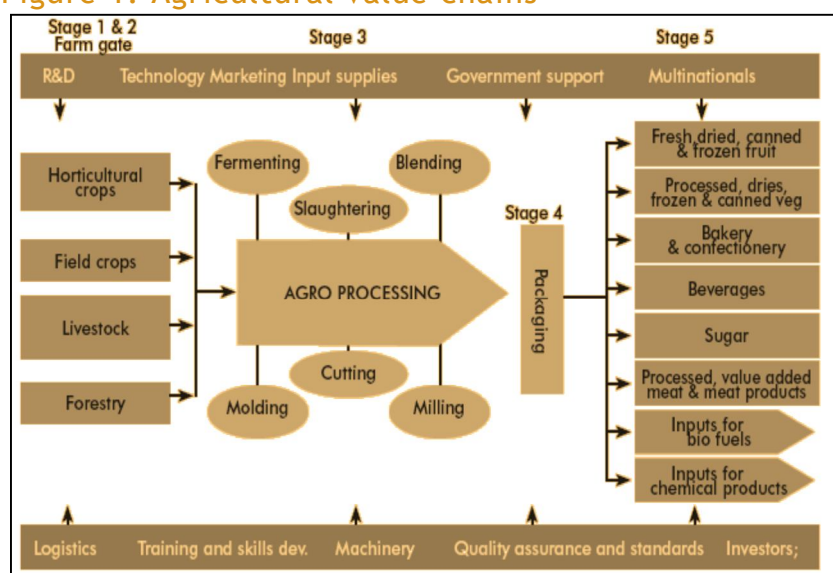
Following a limited literature scan on smallholder farmers' participation in food markets and the potential implications on rural poverty, a semi-structured survey was undertaken on fresh produce marketing in Limpopo Province. The survey purposively selected 100 households, based on whether a household is a net exporter of food and selling the bulk of the fresh produce which they produce. The research inquiry explored whether market participation by smallholder farmers can be a panacea to rural poverty by, for example, establishing whether farmers' marketing decisions have an impact on poverty variables such as employment. This paper is organised into two sections; the first section gives an overview on the agro-food complex and smallholder farmers. The second section discusses the study results and tries to illustrate linkages between smallholder farmers' market participation and rural poverty.

3. SMALLHOLDER FARMERS AND AGRO-FOOD SYSTEMS

3.1 Agro-food systems

The South African agro-food system contributes about R150 billion to South Africa's gross domestic product (GDP) (DAFF 2012). South African food systems have restructured significantly since the end of World War II, with restructuring characterised by consolidation, trans-nationalisation and the emergence and disappearance of supply chain actors (Louw *et al.* 2008). South Africa has one of the most rapidly transforming food sectors on the continent; it swung into the restructuring process during the second global wave of food market restructuring at the same time as some European and Asian countries (Weatherspoon & Reardon 2003). Supermarket chains have increased their market dominance (55% share of food retail), in the process displacing and replacing other value chain actors such independent retailers (Louw *et al.* 2007). The drivers of restructuring include income growth, population growth and urbanisation (Vorley & Proctor 2008).

Figure 1: Agricultural value chains



Louw *et al.* 2007.

South Africa's agro-food system includes: inputs production; primary production; processing; and retailing. Three of these four categories are described below:

- **Primary agricultural production** in South Africa has two main categories, smallholder and commercial. About 35 000 commercial producers (DAFF 2012) are the pillars of South African agricultural production, owning 87% of the country's agricultural land and responsible for 99% of the food production (BFAP 2013). They also provide livelihoods to about one million employees (10% of the South African workforce) and housing for an additional six million family members (DAFF 2012). About 70% of agricultural output is used as intermediate products in manufacturing and related sectors (DAFF 2012). According to the 2007 Labour Force Survey over 4.5 million households can be loosely described as smallholder farmers; while the Department of Agriculture Forestry and Fisheries (DAFF 2012) put this number at 1.3 million¹. Smallholder farmers reside mostly in communal areas of the former homelands and provide a livelihood for more than one million family members and occasional employment to others (Aliber *et al.* 2009), producing food to meet their family's needs while also supplying local and regional markets where large numbers of informal traders make a living.
- **Agro-processing** is an equally important sector to the country's food economy, consisting of more than 2 000 companies with an average turnover of R57 billion, employing 183 000 people and accounting for 2.4% of GDP, 3.2% of total exports, 15% of the manufacturing sector accounts and 2.6% of total employment (DAFF 2011). Because of its strong backward links with the agricultural sector, the food-processing sector is directly affected by agricultural output and prices, which are vulnerable to climatic conditions. By itself agricultural production only accounts for 2.7% of the country's GDP, but if we include processing the share increases to 12% (BFAP 2013).
- **Food retail** is a major component of the country's food complex, with a growing contribution to the economy due to the supermarketisation of food markets (Louw *et al.* 2008; Greenberg & Paradza 2012). The food retail industry has two broad functions: wholesaling and retailing, with each category having several sub-classes. Wholesalers play an intermediary role between manufacturers and retailers, conventionally known as *bulk-breakers*. Wholesaling is dominated by the National Fresh Produce Market system such as the Johannesburg Fresh Produce Market, but these are fast losing their market share to supermarkets. Retail chains have developed procurement arrangements to bypass wholesalers and procure directly from farmers (Louw *et al.* 2007). Given the pressure exerted by displacement by supermarkets of the eighteen markets, seven are privatised and eleven are still owned and operated by their respective municipalities (Chikazunga & Deal 2008).

The food retail industry in South Africa is dominated by four major supermarket chains (Shoprite-Checkers; Pick n Pay; Woolworths; and SPAR) who are responsible for 50% to 60% of all food sales in South Africa (Greenberg 2013; Greenberg & Paradza 2013). The supermarket concept appeared in South Africa as early as 1927 with the opening of the OK Bazaars department store in central Johannesburg (Louw *et al.* 2007). Discount stores and the first supermarkets were introduced in the late 1940s/ early 1950s (Louw *et al.* 2004). Direct procurement by supermarket chains has also led to private standards and preferential procurement procedures. Recently there has been a shift towards diversification into the supermarket format with retailers offering a number of different store formats ranging from franchise stores through convenience stores to hypermarkets (Greenberg 2013).

¹ The discrepancy emanates from the lack of census statistics, with no proper enumeration of this sub-population undertaken by government to date (Aliber *et al.* 2009)

The South African agro-food complex also comprises informal markets which cut across different stages of the food value chain, playing an intermediary role both in upstream² and downstream activities³. Informal trade plays a significant role in South Africa due to a history of township living. Informal traders include fixed location hawkers, semi-mobile hawkers, and roving hawkers (Louw *et al.* 2008). There are also about 14 000 spaza shops in South Africa with an annual market size of R110 million (Louw *et al.* 2007). Since the shift by supermarkets to direct sourcing from farmers, hawkers have become major buyers at the municipal fresh produce markets, commanding a 30%–40% market share for Tshwane and Johannesburg Fresh Produce Markets (Louw *et al.* 2007).

3.2 Characterising smallholder farmers

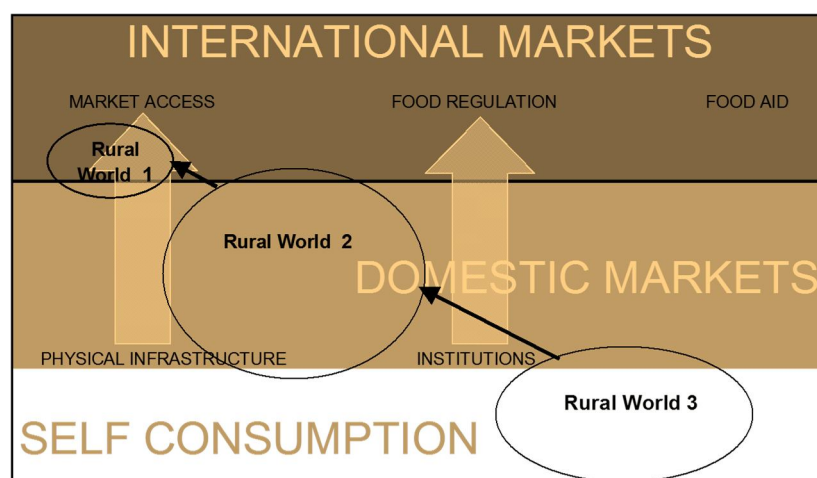
The definition of smallholder farmers in South Africa is highly contested among researchers and academics (Louw *et al.* 2007, 2010; Greenberg 2013; Jacobs 2009; Aliber *et al.* 2009; Kirsten & Vink 2002; Aliber *et al.* 2009). In the public debate a smallholder farmer is synonymous with a black farmer; in reality the smallholder farmer category is a continuum of farm types ranging from subsistence to commercial. This means that a small-scale farmer might be resource-rich, resource-poor or somewhere in between, and could be involved in commercial production, semi-subsistence production or somewhere in between. Smallholder farmers are generally categorised into small-scale, communal and emerging farmers (Jacobs 2009; DAFF 2011). Based on the various surveys and micro studies small-scale farmers include those who have access to very small pieces of land, sometimes only a couple of hundred square metres, such as home gardens and food plots of possibly 3ha to 5ha (Jacobs 2009).

Figure 2 shows a stylised approach which can be used to differentiate and understand the heterogeneity among smallholder farmers (Torero 2011). According to the framework, smallholder farmers largely belong to three groups (Rural world 1, 2, 3) depending on the market level they participate in. Rural world 3 consists of semi-subsistence farmers who sell part of their produce and are usually net importers; the best intervention is to give them food aid such as seed and fertiliser packs to allow them to produce enough for subsistence. Rural world 2 farmers sell most of their produce and are net food exporters in South Africa; they need institutional support in terms of access to extension, credit and markets to increase their competitiveness. Rural world 1 farmers are small scale commercial farmers fully integrated into agriculture markets; they require favourable trade policies for them to compete in exports markets. Rural world 3 is a common category for smallholder farmers in South Africa followed by Rural World 2.

² Upstream refers to activities in the value chain before production which include input manufacturing as well as supply.

³ Downstream refers to activities in the value chain from production going forward, such as harvesting, processing retailing, wholesaling including consumption.

Figure 2: Smallholder farmers' categories and markets



Source: Torero 2011.

3.3 Smallholder farmers and rural poverty

Agriculture is often held up as an employment-creating sector, especially in rural areas, given the low investment required (low cost-per-job) (Aliber *et al.* 2009). Agriculture can contribute to employment and livelihoods through commercial agriculture; agriculture in former homelands; and redistributive land reform (Jacobs 2009; Aliber *et al.* 2009). In terms of commercial agriculture, between 1985 and 2002 the number of employees in commercial agriculture dropped significantly, although farmers are spending more on labour, with farmers employing ever fewer workers who are presumably more highly skilled, together with sundry casual workers who account for a small portion of the agricultural wage bill (Aliber *et al.* 2009). In the former homelands, about 3 million hectares of high-potential arable land is under-utilised, while commercial farming areas comprise about 12 million hectares of arable land (BFAP 2012). Land reform has failed to create significant rural livelihoods as intended (Du Toit and Neves 2007), but the net impact of land reform on labour absorption is unknown, both in terms of direct (farm-level) and indirect effects.

The role of agriculture in employment creation is plagued with many questions, for instance: is the commercial farming sector able and willing to create jobs? In the Western Cape Province, agricultural shows a pattern of job shedding, labour externalisation and casualisation by large-scale commercial farms so that they can conform to the trends in developed countries with land-extensive economies (Du Toit and Neves 2007). The inability of the commercial agriculture sector to create jobs is also aggravated by the current low-interest monetary policy, driving down the cost of capital, and unintentionally 'weaning off' South African agriculture from a dependence on labour (Aliber *et al.* 2007). This leaves smallholder agriculture as the likely candidate for job creation, although a void in policy for smallholder farmers, especially in former homelands, set the odds against this option. However, smallholder agriculture may be a missed opportunity in the fight against rural poverty prevalent in the homelands.

3.4 Policy directions

Government and development practitioners seek to facilitate graduation of individuals/ groups from Rural World 3 and 2 to 1 (Figure 2). The 1996 Agricultural Marketing Policy is the main food marketing policy which post-democracy governments have been using to address the issues of market access and smallholder farmers. The policy aims to: promote efficient functioning of agricultural markets; maximise earnings from the export of agricultural products;

and enhance the viability of the agricultural sector (Vink & Tregurtha 2007). The act deracialised agriculture, without taking into consideration the racial skewedness of the sector. The policy was a major step in the development of the agricultural sector as it became the platform from which all the related agriculture policies were designed (Jacobs 2009), however the policy direction on smallholder farmers is conservatively luke-warm as they are treated under the commercial farmers category. Government has acknowledged the policy deficit and has facilitated contractual joint ventures between small-scale farmers and private investors, assuming that this would result in a transfer of skills and access by black farmers to capital, markets and technology (Tapela 2008). However, there is still no government programme targeting the pockets of poverty and aimed at reducing poverty as successive democratic governments have a nuanced urban-bias towards fighting poverty (Du Toit & Neves 2007). It is a remnant of apartheid policies which promoted widespread dependency on cash income forcing many people off the land (Du Toit 2009; Terreblanche 2002).

The current policy direction focuses on how smallholder farmers can be integrated into agribusiness, assuming that current agro-food systems are perfect in their structure, conduct and performance, and ignoring high concentration and integration in the agro-industry which renders them inefficient and irrelevant for achieving developmental goals. Configuring smallholder farmers in the agro-industry is not only dependant on one's ability to produce but also on being compliant to private standards on consistency, scale and quality (Louw *et al.* 2007; Greenberg & Paradza 2013). Therefore smallholder integration in agro-food systems may not be the desired solution, it may have negative outcomes (adverse incorporation), in which these farmers are bound to be exploited by big business (Du Toit and Neves 2007); 'integration of people or areas into global value chains and trading relationships will exacerbate chronic poverty if the "normal functioning" of these chains is left unchecked' (Ponte 2008).

4. STUDY RESULTS

4.1 Socio-economic profile

Most of the surveyed smallholder vegetable farmers in Vhembe District produce on communal land, acquired through the traditional tenure system, formerly known as the Permission to Occupy (PTO) tenure system. The average plot size is 10ha but some farmers have less than 2ha due to inheritance sub-division. There is a thriving informal land rental market with some households renting-out and others renting-in depending on their circumstances. Most households are poor, with social grants forming a major component of their budget expenditure. Most farmers in the study areas are elderly men with an average age of 55 years. On average the household heads have at least seven years of formal education with less than 20% of them holding advanced education above grade twelve. None of the farmers interviewed had formal training in agriculture, although some (36%) received short term training on different agricultural components (e.g. crop production, animal production, pest control, irrigation management, soil fertility management and post-harvest control). Despite low literacy levels, some individuals have post matric qualifications, mostly in teaching and policing. Most respondents are full time farmers; the rest are either engaged in formal employment or private businesses (see *Table 1*).

Table 1: Household characteristics

Male headed households	68%
Number of years farming	13
Family size (number)	6.9

Most farmers practice a mixed subsistence farming model largely dominated by maize and leafy vegetable production. According to the Vhembe LED officer, there are three categories of farmers in the area: 15% are subsistence farmers (concentrating on food security and selling their surplus); 75%–80% are emerging farmers (with farms between 2ha–5ha, and producing for markets); and 5% are commercial farmers (who have over 10ha of land and farming assets). The research focuses on the first two categories (subsistence and emerging farmers). This group grows a variety of vegetables for the market namely chilli, spinach, tomatoes, garlic and butternut. The bulk of the maize crop is grown for household consumption.

Although agriculture is officially the main source of income (84%), a significant number of households consider government grants as their actual main source of income. Few households have agricultural equipment: 31% own a tractor, 8% own a lorry and 34% have private vehicles. In terms of infrastructure, most farmers in the area have irrigation infrastructure whereas only few individuals have a greenhouse or a packhouse.

Table 2: Farm assets

Item	Response(n=100)
Transport	
Private car	34.55
Lorry	8.18
Tractor	31.36
Infrastructure	
Greenhouse	1.36
Packhouse	0.45
Irrigation	97.9

Around 60% of the farmers surveyed belong to a collective group with around 90% of these belonging to agricultural co-operatives. Farmers are organised into commodity associations; with about 68 co-operatives and 16 commodity associations operating in the Vhembe District. The best performing farmer organisation is the garlic co-operative which supplies its members with seeds and whose members market together.

4.2 Fresh produce marketing arrangements

Marketing channels

The marketing survey showed that farmers take produce to several markets: roadside markets; processors; retail shops (SPAR and Pick 'n Pay); and fresh produce markets (Tshwane or Johannesburg). About 40% of the farmers interviewed export crops outside the district, usually to City Deep at Johannesburg Fresh Produce Market. Local road side markets like the one in Tshakuma are popular, accounting for 25% of the market share of their products. Farm gate markets are as dominant as road side markets and account for about 23% of the market share. Supermarkets and processors are the least supplied market channels, 7% and 5% respectively. The survey respondents did not mention Vhembe Fresh Produce Market⁴ as one of the markets to which they supply their produce, perhaps because the packhouse is fairly new; it came into operation in 2011 and was experiencing low visibility and start-up teething problems.

⁴ Most respondents belonged to a primary cooperative which was affiliated with the secondary cooperative operating the Vhembe Fresh Produce Depot.

Table 3: Distribution of market channels

Market channel	Response (n=100)
Fresh Produce Markets	40
Local road side markets	25
Farm gate markets	23
Supermarkets	7
Processors	5

Vendors/hawkers

Vendors also known as road side markets are an important feature in the fresh produce market economy in Vhembe District. Tshakuma and Shayandima informal markets are a good case of the strong presence of vendors/roadside markets in the fresh produce sector. Vendors operate tables on these roadside markets, which are set up by the Tribal Authority in conjunction with local municipalities. The vendors pay an annual fee of R100 to the tribal authority to operate their business on these roadside markets. These vendors usually sell a basket of fresh fruits and vegetables depending on the season, mangoes, sweet potatoes, litchis, avocados and bananas are the dominant stock for most vendors. Vendors procure their stock from several sources: local communal farmers; commercial farmers; and also from the supermarkets, which is against conventional wisdom. SPAR does not stock mangoes, bananas and litchis whereas vendors do not stock onions, tomatoes, chilies and green peppers.

Fresh produce markets

Tshwane and Johannesburg Fresh Produce Markets are the main national fresh produce markets to which farmers from the study area send their fresh produce. On average farmers travel 400km to deliver their produce to these markets, at least three days a week (Mondays, Wednesdays and Fridays). They usually hire transport to take their products to the market — usually commercial haulage trucks plying the Limpopo–Gauteng highway daily. Most farmers who supply to the fresh produce markets (62%) are not happy with their market agents; they feel they are dishonest with respect to securing favourable prices on the floor. The mistrust between farmers and agents may emanate from language barriers and racial connotations. The relationship between the farmer and the agent is not equitable: market agents only share the profits with the farmer and not the loss, if the products do not sell or get spoiled the market agent does not share the risk, whereas if they do sell they charge a market commission. If the produce is rejected by the market the farmer still has to pay expenses such as transport and packaging costs.

Retailers

The share for retail stores is relatively small (7%) but the study showed some interesting dynamics in this channel. There are three retail chains (SPAR, Pick-n-Pay and Shoprite) which operate in the study area. SPAR is the most dominant when it comes to procuring fresh produce stock from local farmers. Almost all SPAR shops in the area ranging from Thoyandou SPAR, Tshakuma SPAR and Elim SPAR procure most of their vegetables from local farmers. The arrangement between retail chains and farmers is usually informally coordinated by the store manager who keeps a data base of local suppliers for selected products especially leafy vegetables. The farmers usually reside close to the store — in most cases within a 15km radius. The store manager treats them on a first come first serve basis with no contractual obligation (handshake transactions). SPAR's procurement from the local farmers is usually treated as a social responsibility under which the store supports local communities.

Vhembe Fresh Packhouse

Vhembe Fresh Packhouse was not mentioned by respondents as one of the market channels they are supplying, however it is an important market infrastructure established to redress market access challenges. The packhouse was constructed pre-1994, during the Vhenda Bantustans era and was operated by Agriven. Initially it was used for packing avocados and macadamias, but is now used to pack seasonal vegetables such as green beans, litchis, peppers, okra, tomatoes and garlic. The packhouse was re-opened in 2011 to serve local fresh produce farmers with a facility where they can wash, dry, sort and pack their produce before they dispatch them to various market channels. The facility is managed by a secondary co-operative which employs a full-time managers and floor workers responsible for day-to-day operations. The secondary co-operative is a conglomerate of 22 primary co-operatives strewn across Vhembe District. The facility operational model involves farmers (belonging to primary co-operatives) supplying their produce to the packhouse (managed by secondary co-operatives) which in turn pack and sort the produce for a fee. The produce will be shipped to different market outlets throughout the country mainly to the fresh produce markets in Johannesburg and Tshwane. The packhouse is operating well below capacity largely due to a lack of expertise in packhouse management and general business acumen.

Marketing channels and incomes

Table 4 shows a comparison of the net incomes realised by smallholder producers on two products they are growing for the market: tomatoes and mangoes. Farmers supplying to informal channels (e.g. hawkers) realise higher prices for their produce compared to prices received from supplying formal markets (e.g. processors). Conventionally it is expected formal market channels are more viable than traditional market channels. A possible explanation is that hawkers and most bakkie traders come from across the border where there is a shortage of some commodities like tomatoes which are in high demand in neighbouring countries such as Botswana, Zimbabwe and Mozambique.

Table 4: Market channels and pricing

Market Channel	Price per ton	Price per ton
Product	Tomatoes	Mangoes
Processors	R1 200.00	R400.00
Hawkers	R4 000.00	R1 000.00

4.3 Linking market participation to rural poverty

When smallholders are integrated with supermarket value chains, they impact on poverty by contributing to cheaper food (Du Toit & Neves 2007). Smallholder farmers' market participation also impacts on poverty through hiring production labour: most respondents hire labour, especially seasonal labour during harvest times. Relatively well-off farmers with larger farms and a higher production tend to hire more people with a higher likelihood of hiring permanent employees so as to sustain the labour requirements of their production enterprises. Smallholder farmers contribute to employment by hiring labour to assist them with marketing their products when ferrying produce to the market and when supplying hawkers.

Smallholder farmers also create income streams for themselves and for informal traders operating in the local economy. The smallholder farmers' marketing behaviour (dominated by local markets which are over 55% of the market share) has a multiplier effect on the local economy, causing capital to circulate within the community rather than capital flight resulting from supplying distant markets such as Johannesburg's fresh produce markets.

Supplying local markets has a value chain multiplier effect if it promotes the establishment of local enterprises in the downstream and upstream value chain stages, for example hawkers and bakkie traders. Using a rudimentary calculation — a headcount of fresh stalls at the Tshakuma informal market showed there are over 50 small businesses operating from there. Using a conservative assumption that one person manages one stall, 50 jobs (self-employment or hired labour) are created around informal retailing of fresh produce in the study area. A study by Tshwane Market 2010 supports this notion; it found that in downstream (after wholesaling stage) business by Tshwane Market can create around 5 000 jobs — most of these in the informal sector (hawkers and spaza shops) (Tshwane Market 2010).

Another calculation can be done with respect to enterprise development: the vendors operating the Tshakuma market and local farmers alike are serviced by bakkie owners for their transport needs. This demand has seen the rise of bakkie traders as an important and complex component of the local fresh produce value chain. Based on the survey results, both farmers and vendors usually pool in groups of three to five to hire a bakkie for delivery. Using the case of Tshakuma vendors around ten bakkies were needed to provide the transport services, literally translating into at least ten small businesses.

The discussion above is only an illustration of the potential implications of smallholder farmers' market participation on rural poverty in terms of job creation and enterprise development. This discussion does not dismiss the contribution of formal value chains such as supermarkets and agro-processors, but in the absence of statistics on jobs and enterprise emanating from smallholder farmers' participation in formal markets (supermarkets and agro-processors) we hypothesise that informal value chains have a high multiplier effect on the local economy compared to those derived from formal value chains. The hypothesis is based on the notion that formal value chains are capital intensive and highly consolidated thus their effect on rural employment and enterprise development is likely to be minimal. This hypothesis is supported by some researchers, who argue that formal value chains usually facilitate leakages from local economies (Du Toit & Neves 2007) thus having negative implications on the local economy. One cannot draw conclusions from this study on the implications of informal value chains on poverty but it suggests the potential role of smallholder farming in addressing rural poverty through employment creation and enterprise development.

5. SUMMARY AND CONCLUSION

The market survey characterised smallholder farmers in Limpopo province which mirrors the smallholder farming sector in South Africa. Their socio-economic profile in terms of age, land size, asset endowment and farming practises is a reflection of this sub-group nationally. Smallholder farmers have multiple markets both formal (supermarkets and agro-processors) and informal markets. Their marketing strategies suggest that they may not be victims of market exclusion rather they are rational economic actors whose aim is to maximise their income, subject to various constraints, and maybe the mainstream markets (e.g. supermarkets) may not be optimal given their circumstances. An analysis on the margins shows that local channels (hawkers) allow them to realise bigger margins compared to those offered by formal channels (processors). This may suggest the importance of local informal chains which usually fall out of the set of markets advocated by outsiders (bureaucrat's and academics).

This study shows that rural areas have complex economic systems and any innovation to assist smallholder farmers should conform to these complexities. Current government policies are

blind to these realities; therefore grand ideas, such as establishing the Vhembe packhouse, have had limited success. The study results on the packhouse facility points to the usual characteristics of government interventions in addressing the market challenges faced by smallholder farmers. Government interventions to empower smallholder farmers in the market do not take into account the business principles which are necessary for the sustainability of such interventions. Providing infrastructure support is not enough, without capacity building to support smallholder farmers to operate successful agribusiness operations. The case of SPAR in procuring from smallholder farmers is a good example of how to match business and empowerment imperatives: procurement empowers local smallholder farmers, but SPAR ensures it can competitively sell produce procured from smallholders.

This paper highlights the links between smallholder farming and rural poverty; however there was not enough empirical data to substantiate the hypothesis that 'smallholder farmers are a panacea to the challenges of rural poverty in South Africa'. The study hints that the role of the informal economy in poverty reduction should not be under-estimated as shown by job and business opportunities created around *Tshakuma Market*. Given the high informality levels in the rural economy, informal markets are likely to have relatively higher multiplier effects than formal markets. Two interesting issues emanated from the study in this regard. Firstly informal markets are highly competitive thus they can be a significant source of income revenues for supporting agro-based livelihoods; secondly they provide employment and enterprise development opportunities for the local economy.

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