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POLICY BRIEF 45

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CAN AGRICULTURE CONTRIBUTE TO INCLUSIVE RURAL ECONOMIES?

FINDINGS FROM SOUTHERN AFRICA

KEY ISSUES

- Policymakers often emphasise the importance of agricultural development to ensure inclusive economic growth and job creation. Very often, this is linked to calls for measures to increase the efficiency and productivity of agriculture, and for more investment. Large-scale land deals all over Africa are often justified by referring to these needs, in the belief that such interventions will in themselves boost rural incomes and create jobs.
- However, agricultural development on its own is not enough to ensure inclusive growth. Much depends on the nature and path of development. International experience shows that often increases in the efficiency and productivity of agriculture can push people off the land. And in many parts of Africa, urban economies are not able to provide viable employment alternatives. The question, therefore, is whether agricultural development can foster the rural non-farm economy.
    - Do different forms or paths of agricultural development play a role in terms of the employment impacts in the non-farm economy?
    - To what extent does the scale of agricultural enterprise make a difference to the nature of the non-farm employment opportunities created in the local economy?
    - What is the role of the **spatial** pattern and the **governance** of the value chains that connect farming to input and output markets? What, for instance, are the implications of increasing degrees of concentration and the development of monopolies and monopsonies?
    - **Transnational food retail chains and supermarkets** are becoming more prominent in many African countries, making cheap staples readily available to pensioners or those with some income – but do these these chains help or harm the development of local agriculture and its ability to create rural jobs?

INTRODUCTION

If agricultural development is to contribute to economic growth, it has to do more than increase the productivity or efficiency of farming. It also needs to contribute to employment in the rural non-farm sector.

This is because increases in the intensity, efficiency or competitiveness of agriculture often push large numbers of people off the land – and opportunities for finding alternative employment in the cities are scarce. Inclusive growth thus also depends on the development of an inclusive and diverse rural non-farm economy (RNFE). This is something often ignored both by agricultural and labour market policy. Policymakers, therefore, need to ask how different pathways of agricultural development affect non-farm employment.

Research conducted by PLAAS indicates that agricultural development can indeed stimulate local non-farm job creation – but the links are neither simple nor direct. While access by farmers to lucrative global markets or national markets can stimulate the local economy, much depends on the precise nature of the forward and backward linkages that connect farming to the rest of the economy. The ability of farming to stimulate the RNFE depends greatly on the scale of agriculture, the social and spatial organisation of agricultural value chains and the political economy of local institutions.

In this project, as part of the Economic and Social Research Council's (ESRC) 'Growth and Agriculture' platform, PLAAS and its partners investigated the linkages between agriculture and the non-farm economy in three rural districts: Weenen in

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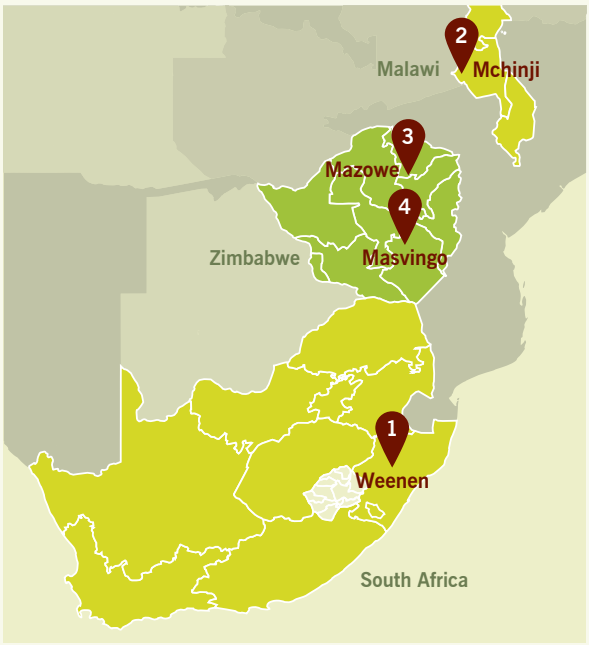
South Africa, Mchinji in Malawi, and Mazowe and Masvingo in Zimbabwe (see map). For this research they recursively mapped the flow of money and resources that connect local agricultural enterprises to upstream and downstream markets.

Each case study revealed a very different scenario: in Mchinji, small-scale farmers in a densely populated, impoverished region accessed local fresh produce markets by venturing into horticulture. Many densely clustered new livelihood opportunities were created but these were small and vulnerable. In Weenen, large-scale agriculture turned out to be locally disembedded, linked to distant markets and contributing little to local non-farm employment. In Mazowe, small-scale tobacco growers benefiting from fast-track land reform accessed significant opportunities in distant markets (particularly tobacco) and created many opportunities for specialised local entrepreneurs.

Analysis suggests that these differences are shaped by the high-level 'emergent' characteristics of the networks created by forward and backward linkages. Four network properties appear to be particularly important: **density** (the number of local nodes that exist within a given area); **local embeddedness** (the extent to which the conduct of activities is subject to local social influence, regulation, and governance); **external connectedness** (access to distant markets and resources), and patterns of **power and inequality.**



Emerging smallholder farmer

Informal rural market

WHAT WORKS TO BOOST INCLUSIVE RURAL ECONOMIES?

A central finding is that **external connectedness on its own is not enough** to guarantee that agricultural development benefits the local non-farm economy. Access to distant markets through vertically integrated value chains can support local development – but only if these value chains 'touch down' in local agro-food networks that are dense, locally embedded and not characterised by highly unequal power relations. Where this is the case, trade and income flows can lead to significant benefits to the local economy through the purchase of intermediate inputs, local consumption expenditure and investment expenditure; and, in particular, through the forward linkages of agriculture: local retail, processing and transport.

The scale of agriculture is an important factor here. In South Africa, large-scale (mainly white) commercial farmers are able to gain significant incomes from highly efficient farms that access distant markets. But their input links often bypass local markets, they provide limited local employment, and much of their consumption expenditure occurs elsewhere. In Malawi, the same tends to be true of large estate farms. This contrasts strongly with Zimbabwe where, for instance, small tobacco farmers' windfalls from trade with China circulate in the local economy, creating opportunities for other rural entrepreneurs. In all these case studies, a common pattern emerges: where large-scale agriculture is owned by distant players or by a local farming elite with few local political or social commitments, economic networks are created that are unlikely to stimulate local opportunities.

Similarly, **some kinds of regional integration can actually exacerbate local marginalisation and unemployment.** The positive spin-offs of agricultural development in Zimbabwe and Malawi, for instance, seem to be strongly related to the absence of powerful, vertically integrated and internationally owned corporate food retail chains and supermarkets. When these enter, they can marginalise local farmers while also competing with local traders, sucking money out of the local economy and undermining economic multipliers. The existence of small, locally owned retail enterprises and markets is a key element of the local agrarian structure, and is crucial for circulating money and economic opportunities.

In all three countries, research suggests that beneficial connections with the broader economy are about more than growth in the extent of externally traded goods. Exporting agricultural produce is not the only or even the main way in which rural economies can tap into the national and urban economy. Rather, rural districts are multiply connected to urban centres – not only through market linkages, but also by way of **fiscal distribution** (social grants and public service salaries), the **expansion of the non-agricultural urban economy** into rural areas, and the existence of **migrant networks** and household economies that straddle the urban-rural divide. Additionally, many of the entrepreneurs that are linked to agriculture also depend on other, non-agricultural service industries (such as tourism, hospitality, the building trade and small town services). So, while agriculture can contribute to local employment, its ability to do this is enhanced by the existence of a diverse, rural, non-agricultural economy ensuring that more money is circulating in the local markets on which small-scale farmers (and entrepreneurs upstream and downstream from them) depend.

Grain storage

RECOMMENDATIONS

- Agricultural policy should promote **smallholder agriculture** – not simply as a contribution to food security, but also as a **source of employment** in itself, and as a powerful hub for forward and backward linkages into the local economy.
- There is a strong case to be made for land reform to be more effectively oriented towards smallholder farmers who are not tightly integrated into spatially extensive, centralised, corporate value chains.
- In South Africa, land reform that is oriented towards smallholders can help achieve an economic and political 'win' scenario by enabling beleaguered medium-scale white farmers – who contribute little to food security anyway – to exit the market.
- Elsewhere, land and investment deals that create large-scale farming enterprises, externally owned and plugged into distant export markets, are unlikely to contribute positively to local employment growth and should not be supported in the mistaken belief that they do.
- Maximising the economic benefit from agricultural development and smallholder farming will require **better support for local retail and informal markets**, including livestock; often disregarded by urban planners.
- Local planning, land use, zoning and anti-trust law and policy should be geared at **protecting small informal markets and retailers** from being swamped by large commercial agriculture and the intrusion of powerful corporate retailers into rural markets.

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