

Chapter 5

Formal and Informal Agricultural Markets in Sub-Saharan Africa

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ABSTRACT

Agricultural marketing determines the extent of smallholder farmer commercialization. However, this needs effective agricultural markets. Evaluating these markets and their interaction with small farmers is critical in harnessing the potential from the rural farming sector. The chapter aims to evaluate formal and informal agricultural markets, highlighting opportunities for smallholder agriculture. The findings reveal that smallholder producers' interaction with formal markets is limited by a lack of knowledge and resources, poor safety and quality standards, and inconsistency in supply. However, they can benefit from opportunities in the formal markets through effective collective action arrangements. Informal markets are critical to smallholders' access to markets, and with legislation that seeks to address infrastructure, safety, and quality standards, they can be a conduit for small producers' access to formal markets. Some informality still exists in the supply chain of formal markets. Thus, informal markets remain important in agriculture marketing in Africa.

INTRODUCTION

The pathway to sustainable rural development and poverty reduction in Sub-Saharan Africa (SSA) is achievable through the commercialization of smallholder agriculture (Ogutu & Qaim, 2019). However, this is not possible without the development of effective agricultural markets (Barrett, 2008). The transformation of subsistence farming to market-oriented production is the backbone of economic development in the smallholder sector (Gc & Hall, 2020; Ogutu & Qaim, 2019; Olwande et al., 2015). The benefits of smallholder participation in the market on income security, food supply, employment creation and poverty reduction are well documented (Carletto et al., 2017; Muricho et al., 2017; Ogutu & Qaim, 2019). The effects of commercialized production also transcends the local economy and agricultural

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sector, impacting economic growth in other sectors of the economy (Carletto et al., 2017). However, for this to happen it requires, among other things, a sustained active participation of smallholder farmers in lucrative agricultural produce markets (Gc & Hall, 2020).

Agricultural marketing, both produce and input marketing, plays an important role in the transformation of smallholder farming (Olwande et al., 2015). The focus of this paper is on produce markets, although this does not undermine the importance of the input markets. Agricultural produce marketing encompasses all activities involved in the movement of farm produce to the market/consumers, conducted by different players such as traders/hawkers, wholesalers, marketing agencies, exporters, and retailers, among others (Ghosh, 2013). The activities include postharvest operations, assembling, grading, storage, transportation, and distribution. The produce markets are further segmented into formal and informal markets, commonly evident in developing regions such as Sub-Saharan Africa (SSA). Formal agricultural markets are marketing activities that are regulated and monitored, that adhere to taxation and standards as stipulated by the authorities/government (Weng, 2015). The reverse is true for informal markets, they are neither regulated nor monitored by government. However, there is regulation and legitimacy in the informal markets but not by government (Vorley, 2013). The dynamics between these two market systems define the practical possibilities of growing or transforming smallholder agriculture in SSA.

The emergence of informal markets stems from several factors which include the unavailability of formal markets and the failure/unwillingness/inability of the existing formal marketing systems to serve/accommodate the needs of small-scale farmers (Olwande et al., 2015; Vorley et al., 2012). Critically, informal markets also emerge as a survival strategy for small-scale farmers in light of the competitive environment in the formal markets (Vorley, 2013). Smallholder farmers' inability to access formal markets threatens rural livelihoods, making informal markets important for their survival. Linkages do exist between the two marketing sub-systems, i.e., formal, and informal markets, though the relationship is biased in favor of formal markets. There is also competition for space and legitimacy among the two (Vorley et al., 2012). It appears formal produce markets in SSA thrive from the price inefficiencies inherent in the informal markets. In fact, in most cases the informal agricultural market presents as a sub-system of the formal markets, acting as a source of cheap agricultural produce (Vorley, 2013). The natural design of the two sub-systems tends to serve different clientele. Whereas the informal market mainly serves the smallholder farmers, the formal market is focused on large-scale farming and agrobusiness enterprises. The orientation and relationship between the formal and informal agricultural markets in SSA will determine the future of smallholder farmers in the region.

Several studies argue that without access to lucrative formal agricultural markets, the smallholder farming sector will remain small, unable to compensate the millions of small producers toiling for their survival (Fan & Rue, 2020; Olwande et al., 2015). Hence, governments' attitude towards informal markets is negative due to lack of organization, non-tax paying, un-hygienic and backward nature (Vorley, 2013). There is a drive to transform informal markets so that they can adhere to expected regulations and standards. However, these moves have been criticized as those that ignore or try to regulate informal markets out of existence (Vorley et al., 2012). The reality of the informal sector is often ignored in favor of the formal sector. However, the truth is that smallholder farmers use a combination of both formal and informal markets to sustain their livelihood. This means informal markets serve a specific and critical role in smallholder agriculture and hence should not be undermined. Rather the focus should be on how such markets can be supported to serve their clientele better.

The frictional dynamics between the formal and informal markets of SSA, where the narrative is that they are operating in tangent with each other (Vorley, 2013), might be slowly degrading the avenues

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