Determinants of output prices in local sheep markets- a case study of Joe Xabi & Amathole Eastern Cape

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Introduction

• Official agricultural marketing policies support the direct participation of smallholder farmers in agricultural markets
• Policy assumes that small-scale sheep farmers, for example, face virtually zero barriers to participate in perfectly competitive markets for sheep and wool.
• However, livestock output prices transacted by smaller farmers diverge substantially from prevailing market prices, even in cases where their livestock quality is not lower.
• Field survey carried out in Ukhahlamba and Amathole, municipal districts in Eastern Cape (September 2009 and May 2010)
Guiding Questions:

- What are the main factors determining the average price of livestock for smallholder farm households in Eastern Cape Province?
- How and to what extent do these factors affect these prices?
- What policy measure can be recommended to improve smallholder farmer income from livestock sales?

Purpose:

- **Identify** factors that affect output (sheep) price,
- **Understand** how output price determinants influence farm incomes of smallholder farmers.
- **Highlight implications** for agro-food market policies aimed at improving the well-being of smallholder farming households.
Conceptual framework: determinants of avg. LS price

Market factors

Institutional

Structural

External Shocks

Demand Side

Transaction cost
Networks
Norms /rules

Supply side

Market development
Market size
Other socio-economic factor

Policy changes
Environment/
Ecological
Family emergencies

Average sheep price for a Household
Total number of sheep stock in Africa has expanded from 1961-2009; it has become the second largest ‘sheep producer’ in 2009.
Global sheep export prices are lower for LDCs and more volatile, 1961-2007 (FAO Stat)
In SA, sheep continues to be the dominant livestock; but numbers have been falling from 1961 to 2009 (million stock heads, DAFF Stat)
Average prices for wool and sheep meat are unstable but substantially higher than ‘live sheep prices’- and this gap might widening.
Self-reported occupation of males and females by district, Amathole & Joe Xabi Ukhahlamba

<table>
<thead>
<tr>
<th></th>
<th>Amathole</th>
<th></th>
<th>Ukhahlamba</th>
<th></th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmer</td>
<td>26</td>
<td>10</td>
<td>47</td>
<td>2</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Farm worker</td>
<td>11</td>
<td>0</td>
<td>16</td>
<td>5</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>1</td>
<td>8</td>
<td>2</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43</td>
<td>11</td>
<td>17</td>
<td>9</td>
<td>134</td>
<td></td>
</tr>
</tbody>
</table>
## Types of livestock owned by rural households in Amathole and Joe Xabi (Eastern Cape)

<table>
<thead>
<tr>
<th></th>
<th>Amathole</th>
<th>Ukhahlamba</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Farmer</td>
<td>Farm worker</td>
</tr>
<tr>
<td>Cattle</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Goats</td>
<td>16</td>
<td>0</td>
</tr>
<tr>
<td>Sheep</td>
<td>63</td>
<td>1</td>
</tr>
<tr>
<td>Pig</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Poultry</td>
<td>18</td>
<td>7</td>
</tr>
</tbody>
</table>
A few major findings on determinants of sheep output prices in local markets

• **Sheep markets are not gender neutral**: men participate more in local sheep markets and receive higher prices than women-this is accounted for by higher male bargaining power bestowed through patriarchal customs & traditions (Turner and Williams 2002)

• Active sellers have a **stronger market orientation** (consume small share of livestock) and are able to offer **discounted prices** - this runs counter to the ‘*distress sales*’ arguments.

• **Interdependencies exist in local markets**: prices and incomes from sheep interact with other local livestock product markets:
  - Average price of goats positively influences prices for sheep
  - Wool and sheep markets for small farmers interact
  - Farmers with larger numbers of other livestock (cattle, goats, etc) receive higher prices for their sheep
Conclusion, policy implications & recommendations for further research

- **Structural and institutional factors** are dominant determinants of local output prices for small sheep farmers and might reinforce the effects of ‘exogenous shocks’;
- This questions/challenges assumptions that local sheep markets are ‘perfectly competitive’

**The policy lessons:**
- Implementation of gender equity provisions in agricultural marketing and development policies must be fast-tracked and executed with greater vigour
- Small-scale sheep farmers rarely, if ever, specialize in either ‘sheep’ or ‘wool’ markets and **policies that pigeonhole smallholders might be counter-productive** - realities of mix livelihoods strategies must be recognized in policy

**Gap for further research:**
- Concrete evidence on **sheep quality** is hard to access and it continues to be informed by stereotypical perceptions, often serving as a barrier to access ‘formal markets’
- This requires rigorous investigation to distinguish the influences of ‘sheep quality’ from ‘perceptions’