

### What is a small-scale farm? (Mainly from Guidi D., 2011)

**Half the undernourished in the world, three-quarters of Africa's malnourished children, and most of those in absolute poverty live on small farms** (IFPRI 2005). There is no universally accepted definition of a small farm. 'Small' may refer to number of workers, capital invested, or amount of land worked. Land is the criterion most commonly appreciated, but given the differing potential of land in soil quality and rains, a single measurement hardly captures the sense of limited resources. **FAO has adopted a two hectare threshold as a broad measure of a small farm. This allows the estimation of the phenomenon of small farms at over 525 million (IFPRI, 2005) globally, hosting approximately 2 bn. people** (Hazell, 2011).

When looking at the small-scale farming sector, we need to understand the relevance of the context, and their human and geographical landscape and ecosystem, as issues and solutions are intimately imbedded in a locally relevant policy environment, infrastructures, and support services.

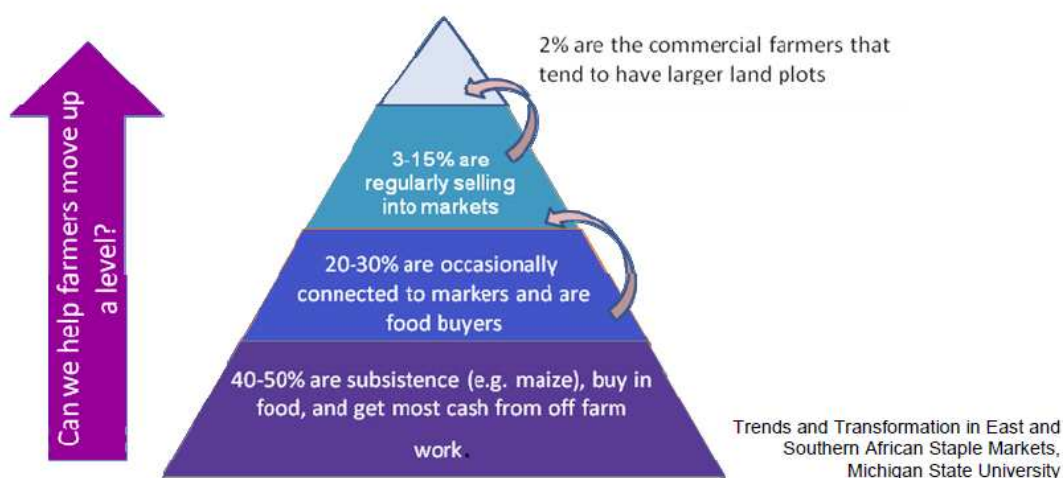
The location of small-scale producers within the spectrum of rural poverty has been described using the 'rural worlds' rubric (Vorley 2012).

**Rural World 1.** Globally competitive, embedded in agribusiness, commodity producers and processors, politically connected, export-driven, adopters of Green Revolution and GMO tech.

**Rural World 2.** Locally orientated, with access to and control of land, multiple enterprises, undercapitalised, declining terms of trade, the 'shrinking middle' of agriculture.

**Rural World 3.** Fragile livelihoods, limited access to productive resources, multi-occupational migrants straddling rural and urban residencies, unskilled and uneducated, dependent on low-waged, 'casual' family labour, redundant relative to global food and fibre production.

Figure 1 – an example of rural worlds from East and Southern Africa



Understanding these rural worlds is critical when developing appropriate value chain opportunities and in implementing strategies for leveraging those opportunities to increase benefits. Studies on the benefits of supply chain participation suggest that **producer's assets are a critical factor in their ability to participate in and benefit from formal markets**. Identifying pre-existing assets is important for evaluating the likelihood of a producer benefiting from a trading; and understanding the gap between available assets and those necessary to successfully benefit in the long-term in a particular market is critical to designing the upgrading strategy.

### Issues and Myths of Smallholder Participation in Market Value Chains (From Guidi, 2011)

Beyond the differing farm sizes, the heterogeneity is also apparent in a) farming attitude (subsistence, commercial), b) existing land tenure regime, and c) the presence or absence of other non-agricultural income and employment sources for the smallholder family members. In addition, all these factors of

diversity are dynamic, making **smallholder farming a landscape in continuous evolution**. At any point in time, across the continuum, small farms can be commercially oriented and run as a small business which provides the primary (if not the sole) household income, or partially cultivated as a secondary source of family income, or for most poor rural people, the only source of subsistence and food security. Smallholders have an ample spectrum of potential market targets: local staple outlets, traditional cash crops markets, non-traditional high value crops for domestic, export market channels. The globalization and liberalization of food trade produced a shift towards consumer-driven markets, imposing smallholders the challenge of adaptation to new production standards, grades, quality and food safety regulations.

**Some of the agriculture development issues and myths which are particularly relevant to the question of the participation of smallholders to market value chains are:**

**Land Tenure Uncertainty Issues** - The weakness of land tenure regimes can be singled out as one of the main causes of inefficient land use and environmental distress in rural agricultural areas of the developing world. Weak land tenure regimes discourage farmers from committing to investments in market-oriented agricultural systems. Uncertainties of land rights are reported to hinder a long term use perspective by farmers, thus inducing smallholders to both a) refrain from farming investments (labour and physical infrastructure) and b) contribute significantly to the overexploitation of the land and its natural resources (IFAD, 2010).

**Deficits in Rural Infrastructure** - The infrastructure deficits most relevant for agricultural development that typically hinder the participation of smallholder farmers in markets include the network of rural roads, rural energy provision, communication infrastructure (which in turns hinders access to market information), rural finance and insurance services, rural health and education services. In Sub-Saharan Africa, all of these infrastructural deficits are substantially widespread and are among the main factors of the scarce participation of smallholders to commercial agriculture.

**Productivity of Smallholder Farming** - There is ample scholarly debate on the relationship between agricultural productivity and farm size (Brower, 2004; van Der Meer, 2006). Some argue that smallholder farms are in a weak position to compete in modern markets due to their limitations in acquiring the necessary technology, finance and farm management capability to obtain the quality outputs required by commoditized markets. A historical trend of farm land consolidation reinforces this view. However, this trend is not disjointed from a) historical and political distortions due to coercive private or public initiatives of land use, for instance during the colonial era (Lipton, 2005) and b) the presence of significant public subsidy programmes in support of large commercial farms (World Bank, 2009). Others argue that empirical evidence shows an unequivocal inverse ratio between farm size and productivity when sustainable technologies and techniques are adopted (Cornia, 1985). Moreover, this debate is much less salient within a poverty reduction perspective: smallholder farming has proved to maintain an advantage over agro-industrial approaches with large scale farms on a set of broader grounds (Hazell et al., 2010). Not only do small farms employ poor households as they tend to apply labour-intensive techniques, but their expenditure patterns are also more favourable in promoting demand for goods and services produced in the rural non-farm economy (World Bank, 2009).

**Ecosystem Services of Agricultural Systems**- Agricultural practices can reduce the capacity of agro-ecosystems to supply ecosystems services through several pathways of inefficient natural resources use and the overuse of polluting external inputs. **Many current incentive frameworks favour increased agricultural yields at the expense of ecosystems services** (Tilman et al., 2002). **The challenge lies in identifying and implementing sustainable agriculture practices** that are capable of not compromising ecosystems services, while maintaining the productivity required for adequate primary production supply. There is wider consensus on the fact that **soil health and fertility should be considered a major**

**production factor in agriculture, a missing link overlooked** in much of the intensive cereal mono-crop farming experience to date. In the rural developing world, small farmers can be drivers or victims of environmental impact, as well as stewards of careful natural resource management. The resource-poor farmers pose the threats of deforestation and desertification of land by implementing farming practices (i.e., slash and burn) that are the result of traditional coping strategies under conditions of high vulnerability. Rural poverty and the land tenure uncertainty issues exacerbate such trends. In many circumstances smallholders must also meet the challenge of adopting farming systems that improve their resilience in the face of climate change events. Some of the small farmers traditional knowledge systems already include such “coping knowledge”, and modernization of farming systems risks to erode it.

**Specialization in Crop Production and Price Fluctuations-** One of the implications of the liberalization of agricultural markets for small farmer access to market linkages is the necessity to adapt to the dynamics of consumer demand driven markets. This implies the necessity of a progressive acquisition of knowledge, information and inputs geared at a specializing in farming certain crops, of a certain grade, and a certain quality. For the smallholders that manage to **increase their farming specialization** to include a few cash crops, **providing them with the potential of** new skills development and **value addition** on-farm **but** at the same time expose themselves **to new risks** in terms of a) fluctuating agricultural commodity prices and b) production risk, in terms of yield fluctuations, and c) for export crops, increasing exposure to international trade competition and unstable prices.

**R&D in Agriculture, Indigenous Knowledge and Innovation Systems-** Following the structural adjustment policy period, with trade liberalization and the progressive dismantling of state-led agricultural extension and market promotion mechanisms, a dramatic reduction in public R&D and extension services has taken place. Meanwhile, the private sector has expanded its role in leading the industrial agriculture model of intensive farming focused on a few agricultural, with R&D geared mainly towards crop yield increase, dependency on the use of agri-chemical inputs, associated with a positivist knowledge system in which farmers are only recipients. Such a **standardized production model** (and the associated R&D agendas often technology-driven) **incorporates the risk of being short of the sophistication required to address the multi-functionality paradigm. It tends to overlook the diversity of the needs of the different agro-ecological systems**, as well as the broader consequences in terms of social and distributive goals and environmental impact (FSPG, 2008). Scientific and practitioner consensus is growing on the fact that a more systemic approach needs to be adopted if agriculture R&D is to be genuinely recognized as a development aid tool that addresses the needs of small farmers and their rural communities (IAASTD, 2009).

**The Market Concentration and Value Addition Process-** Many countries, especially in Sub-Saharan Africa, have to face the reality of an incomplete transition from largely ineffective state-led agricultural development policy frameworks, away from “supply push” models and towards “demand pull” approaches that recognize the new driver of consumer demand, as mediated by the large scale downstream buyers and retailers. The processes of organizational and institutional restructuring needed to accompany this transition constitute a significant challenge for policy makers and market operators (Henson, Cranfield, 2009). **There is the emergence of a phenomenon of market concentration**, in the input supply industry, in agro-processing and in the retail industry segments. Four firms (Dupont, Monsanto, Syngenta and Limagrain), are reported to control over 50 % of the global seed industry sales (Meijerink et al., 2009). There is also the risk of supermarket chains progressively “crowding out” the informal agricultural markets that needs to be acknowledged and mitigated. **If the agri-food market becomes controlled by an oligopoly of players, concerns are raised about the distribution of rents along value chain** and the scope of small farmers to increase their share of value added through upgrading strategies. **For an efficient value chain dynamic, the distribution of rents has to be correlated with the**

**role played by each actor in the value addition process.** Further, for a balanced and equitable value addition process attention must be paid to harnessing the potential for it to happen upstream, at the farming and local processing stages. Here the public sector has the opportunity to take a proactive role in guiding these processes. National governments need to set regulatory frameworks that can enhance agricultural investments, while safeguarding a pluralistic market growth as well as distributional objectives, according to a growth cum equity approach.

**Financial Missing Middle in smallholders agriculture** (from Dalberg Catalyzing Smallholder Agricultural Finance and Doran, McFayden, Vogel, 2009)

So far the private sector has made only small progress in responding to the needs of, and opportunities in, the market segment of small-scale agricultural enterprises. The unmet needs for finance of producer associations and other forms of SMEs in agriculture, especially for women-led enterprises, for transactions in the size range £5,000 to £500,000, constitute the missing middle.

As well as supply, effective demand for missing middle finance is also constrained. Only one third of smallholders are aggregated in some form of group enterprise, appropriate for larger transactions. Formal collateral is frequently lacking. In addition, women farmers suffer from educational discrimination, limited mobility, lack of land rights, and restrictive social norms. They are virtually excluded from agricultural credit and extension services. This is despite heading up one in five farms, and being capable of achieving gains in productivity as large, if not larger, than men farmers.

Aggregating smallholder agriculture clearly improves access to markets but the financial constraint often remains. Risks and transaction costs are still high in relation to expected returns. Finance alone, or linked to, tightly-integrated and hence lower-risk value chains, may be valuable, but cannot meet the needs for finance of all smallholder farmers, most of whom are not in any organized group.

Many of the promising initiatives aimed at reducing the missing middle finance gap rely on combinations of actors, playing to their respective strengths. The common theme is working with the grain of the private sector to remove frictions of various kinds, thus improving the balance between risk, cost, and return. Over the past decade, social lenders have pioneered a model for financing smallholder farmers. The social lending model in agriculture focuses on producer organizations, totalling \$354 million disbursement in 2011. However, social lending model has two important limits: it requires aggregating farmers into producer organizations, but only about 10 percent of smallholders currently belong to producer organizations. Second, 90 percent of existing social lending is for short-term export trade finance, but smallholders and producer organizations have comparable needs for long-term finance.

Beyond the market currently addressable by social lenders lies a frontier area of smallholder finance demand of hundreds of billions of dollars.

#### **Key questions:**

1. Are the issues of small scale farmers typical of the global south and more broadly linked to economic development dynamics or related to the distribution of rents and value along value chains?
2. Under which conditions value chains can be a driver of local economic development?
3. Which are the actors needed to generate accountable and effective interventions having a positive impact on smallholder communities livelihood? Are those strategies agricultural only or should look at diversified economic outputs and outcomes?
4. Can value market and value chains sourcing from smallholders incorporate and mitigate the risk of reducing diversity and embrace a landscape approach to support small scale farming?

**Recommended resources:**

<http://www.iied.org/tag/small-scale-farming>

Guidi D., 2011, Sustainable Agriculture Enterprise: Framing Strategies to Support Smallholder Inclusive Value Chains for Rural Poverty Alleviation - CID Research Fellow and Graduate Student Working Paper No. 53. Center for International Development at Harvard University -

[http://www.hks.harvard.edu/var/ezp\\_site/storage/fckeditor/file/pdfs/centers-programs/centers/cid/publications/student-fellows/wp/053.pdf](http://www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/pdfs/centers-programs/centers/cid/publications/student-fellows/wp/053.pdf)

Catalyzing *Smallholder Agricultural Finance* - Dalberg

[http://dalberg.com/documents/Catalyzing\\_Smallholder\\_Ag\\_Finance.pdf](http://dalberg.com/documents/Catalyzing_Smallholder_Ag_Finance.pdf)

The *Missing Middle* in Agricultural Finance Authors: *Doran, Alan* · *McFayden, Ntongi* · *Vogel, Robert*

<http://policy-practice.oxfam.org.uk/publications/the-missing-middle-in-agricultural-finance-relieving-the-capital-constraint-on-112348>