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Helping Small Family Farmers to Move Up or Move Out

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SUMMARY How can family farmers best contribute to their country's agriculture needs as well as broader development goals? First, we should determine which farmers can be profitable and assist them in doing so. Second, for those who aren't profitable, we need to help them shift to other economic pursuits.

THE UNITED NATIONS DESIGNATED 2014 AS THE INTERNATIONAL YEAR of Family Farming. The goal that year was to place the potential and challenges of small family farming firmly on the development agenda via various platforms at the national, regional, and global levels. Throughout the year, significant attention was placed on the potential, constraints, and needs of small family farms, as well as actions to support them.

To sustain the momentum built during the year, a number of forward-looking events were held. The Global Dialogue on Family Farming, organized by the Food and Agriculture Organization of the United Nations (FAO) on October 27–28, brought together diverse stakeholders to take stock of achievements during this International Year of Family Farming and set the tone for concrete actions beyond 2014. The Family Farming Knowledge Platform, to be launched in early 2015 and hosted by FAO, was presented at the Global Dialogue as a tool for sharing knowledge and data on family farming. This platform will be vital for policy dialogue and policymaking.[1] To help formulate better-targeted policies, FAO is also developing guidelines that will assist governments in defining family farming at the regional and national levels.

In many parts of the world, especially in developing countries, agriculture is mainly a small-scale, family-based activity. These small family farms play a significant role in achieving global food security and nutrition, yet they also employ some of the poorest and most food-insecure people in the world.

The important role of small family farms in enhancing global food security and nutrition should not be construed by policymakers as "small is always beautiful." Smallholders are not a homogeneous group that should be supported at all costs but are rather a diverse set of households living in different

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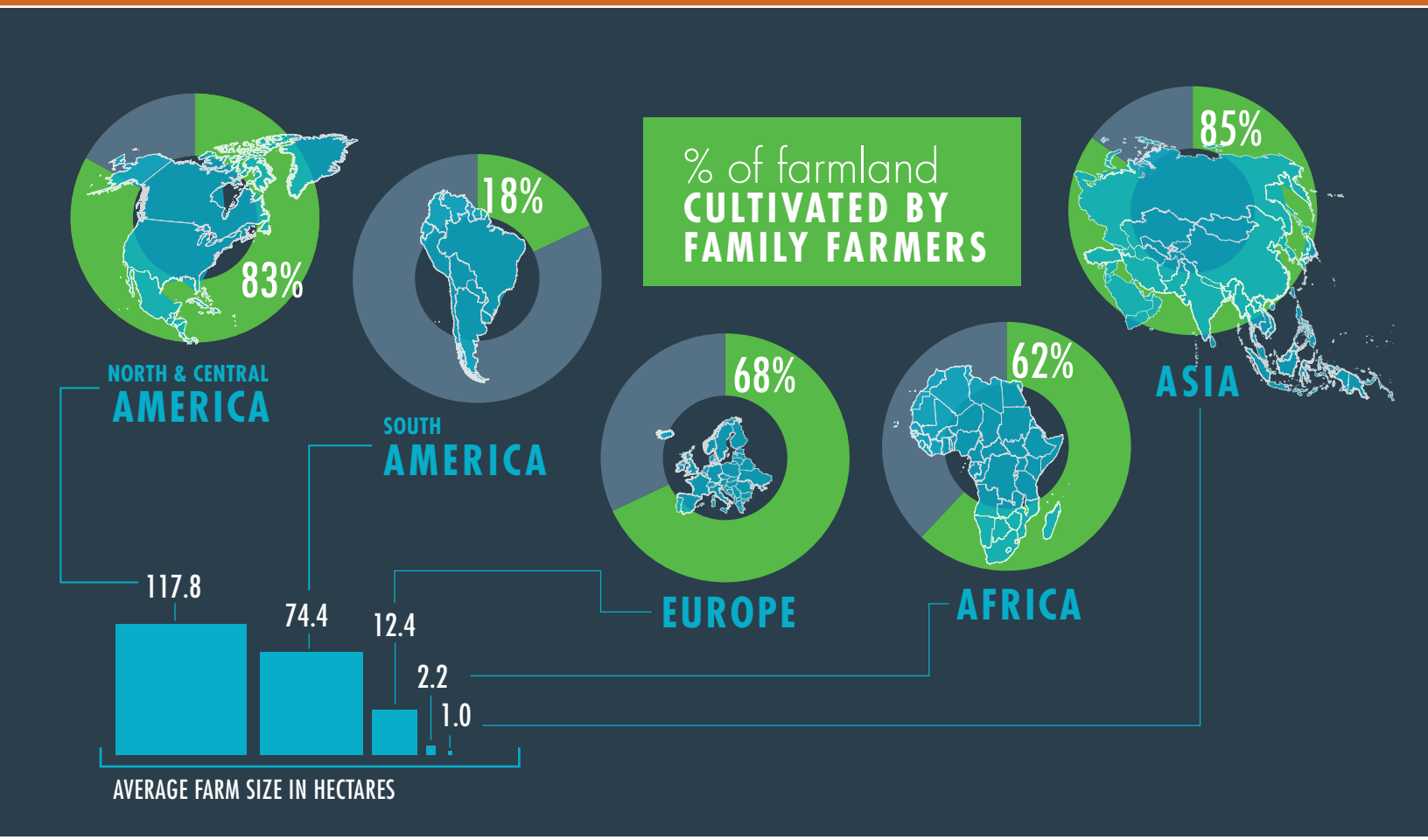
types of economies. As a result, small family farmers can prosper either through a "move up" or a "move out" strategy. While some small farmers have the potential to undertake profitable commercial activities in the agricultural sector and expand their farm operation, others should be supported in exiting agriculture and seeking nonfarm employment opportunities.

FAMILY FARMS ARE DIVERSE IN SIZE AND CHARACTERISTICS

There are 570 million farms in the world. Approximately three-quarters of the world's farms are located in Asia, and 60 percent of these can be found in just two countries: China and India.[2] A closer look at the characteristics of the world's farms reveals a multifaceted portfolio with implications for global food security and nutrition. Agriculture is predominately a family activity: an overwhelming majority (more than 90 percent) of the world's farms are family farms. This means that these farms are owned, managed, or operated by family members who also provide a minimum share of farm labor. Family farms cultivate a large portion of global farmland (about 75 percent on average) and produce 80 percent of the world's food.[3] The share of land held by family farms varies across regions, ranging from 85 percent in Asia and 62 percent in Africa south of the Sahara to 18 percent in South America (Figure 1).

The majority of the world's farms are small. There is a significant overlap between small farms and

FIGURE 1 Distribution of land held by family farms and average farm size by region



Sources: Food and Agricultural Organization of the United Nations, *Family Farmers: Feeding the World, Caring for the Earth,* infographic, 2014, www.fao/org/resources/infographics/infographics-details/en/c/230925; FAO, *2000 World Census of Agriculture: Analysis and International Comparison of the Results (1996–2005)* (Rome, 2013), www.fao.org/fileadmin/templates/ess/ess_test_folder/World_Census_Agriculture/Publications/WCA_2000/Census13.pdf.

family farms in the developing world, with the two terms often used interchangeably in Asia and Africa south of the Sahara—places where family farms have limited access to land. While more than 80 percent (475 million) of the world's farms operate on less than two hectares of land, these farms account for only 12 percent of the world's farmland.[4] There are significant regional variations in farm size: farms in Asia and Africa average 1–2 hectares while, at the other end of the spectrum, farms in the Americas average 74–118 hectares (Figure 1).[5]

HOW SMALL FAMILY FARMS CAN IMPROVE GLOBAL FOOD SECURITY AND NUTRITION

Global and national food security and nutrition are closely tied to small family farms through a two-way relationship: small family farmers are likely to experience the three challenges of poverty, food insecurity, and undernutrition, yet they also play a crucial role in improving food security and nutrition. The three challenges are inextricably linked and remain primarily a rural phenomenon: approximately three-quarters of the world's poor live in rural areas, and half of the world's hungry are estimated to live on small farms.[6]

Agriculture remains the main source of income and employment for 2.5 billion people in low income countries: 60 percent of these people are members of smallholder households.[7] At the same time, food production systems in many parts of the world are heavily dependent on small family farms.[8] This is particularly true in Asia and Africa south of the Sahara, where small farms (which are mostly family operated) provide an estimated 80 percent of the regional food supply.[9] Thus, the food security and nutrition of many small family farms depends (at least partly) on their involvement in the agricultural sector, either through the consumption of food from their own production or from income earned as a result of agricultural activities.

Empirical evidence shows that small family farms often have efficiency benefits—that is, higher land productivity (or higher farm output per unit of land) than large family farms.[10] These advantages come from more intensive use of inputs, lower labor supervision costs, and better local knowledge compared with their larger counterparts.[11] However, small family farms exhibit lower labor productivity than large family farms. This trend is reflected in an overuse of mainly family labor (as a result of both scarce alternative sources of employment and income and labor market imperfections) as well as in an underuse of modern farming technologies.[12]

The role of small family farms in advancing national and global food security and nutrition, as well as overall development, is increasingly seen in a broader context. The old wisdom of "small is always beautiful" because of efficiency gains cannot be universally applied. Research suggests that small is still beautiful in countries where nonfarm growth is weak and the rural population is increasing (such as in agriculture-based economies), but bigger is better where the nonfarm sectors are booming and the urban population is increasing (as in transforming and transformed economies).[13] Thus, optimal farm size is a dynamic concept that changes as a country's overall economy grows and as nonagricultural sectors develop.[14]

A SPECTRUM OF CHALLENGES HINDERS THE PROFITABILITY OF SMALL FAMILY FARMS

Small family farms are increasingly faced with a mix of challenges, including those that are naturally occurring and those that are caused by humans, that influence their capacity to increase production and move toward profitable farming systems. These challenges lead farmers to undertake lower-risk and lower-yielding agricultural activities that perpetuate a cycle of poverty, including that of little or no profit. Women on small farms—who account for an average of 43 percent of the agricultural labor force in developing countries—are particularly disadvantaged in accessing productive resources, such as land, livestock, agricultural inputs, technology, markets, and extension and financial services.[15] Yet women play a vital role in improving agricultural output, enhancing food security and nutrition in the household, and promoting overall development. High production constraints also make agriculture unattractive to young people—the very ones who can bring energy,

vitality, and innovation into the agricultural labor force in many developing countries.[16]

Limited Farm Size

Over the past several decades, high population growth and inheritance-based land fragmentation have resulted in decreasing farm size and high population density in many Asian countries and parts of Africa.[17] Recent trends indicate that Africa south of the Sahara will continue to experience declining farm size, but Asia is showing signs of farm consolidation.[18] An analysis of the relationship between increasing rural population density and smallholder farming systems in Kenya shows that, in addition to declining farm size and incomes, increasing rural population density is associated with decreasing agricultural labor productivity after a certain population density threshold.[19] This inverse relationship is potentially the result of unsustainable agricultural intensification.[20]

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Access to Financial Services

Many small family farmers are excluded from productivity-enhancing financial services, such as loans and saving accounts, and are thus unable to secure much-needed capital and lack the buffer against adversity and shocks that financial services offer. An analysis of maize farmers in Ghana reveals that small farms face more credit constraints than large farms.[21] In rural areas, where the majority of smallholders reside, access to formal financial services is particularly limited.[22] Reasons for this include dispersed demand and the high cost of service in low-population areas; weak administrative capacity of rural banks; agriculture-specific risks such as variable weather patterns, pests, and price fluctuations that affect whole communities; and lack of formally defined property and land-use rights to act as collateral for loans.

Climate Change

The growing incidence and intensity of extreme weather events increasingly threaten the global food system.[23] If business as usual continues and the world becomes 3–4°C warmer by 2050, crop yields could decline by 15–20 percent across Africa south of the Sahara.[24] In some countries, yields from rainfed agriculture could decrease by up to 50 percent by 2020, with small-scale farmers being hit the hardest.[25] In Malawi, smallholder farmers have experienced greater economic losses during droughts than have large landholders, in part because smallholders grew more drought-sensitive crops.[26] Small family farms are particularly vulnerable to more frequent extreme weather events because of such factors as chronic food insecurity, lack of access to formal safety nets, and high reliance on climate-dependent agriculture coupled with limited resources and capacity for mitigating and adapting to the effects of climate change.[27]

Price Spikes and Volatility

Recent food price volatility and spikes have affected both producers and poor consumers. The complex set of factors behind the recent food price crises in 2007–2008 and 2011—including diversion of crops for biofuel, extreme weather events, low grain stocks, and panicky trade behaviors—is still present or has the potential to reemerge. The magnitude and direction of the impact on small family farms depend on several variables, including whether input costs increase, whether the farmers are net buyers or sellers of food, farmer capacity to step up production and to bring the increased output to market, and off-farm income.[28] Recent studies in Bangladesh and Malawi suggest that an increase in the price of staple crops (rice and maize) resulted in a higher welfare loss for small landholders compared with large landholders.[29]

Access to Modern Markets

Profitable market access by small family farmers is challenged by a multidimensional set of factors. The participation of smallholders in modern market channels has a positive effect on their income, but participation is determined by a mix of non-land assets, with varied results on the role of farm size in determining participation. These non-land assets include rural infrastructure (such as road access and irrigation), membership in cooperatives, education, modern market participation of nearby farms, and rural nonfarm employment.[30] Lack of information (regarding price, supply and demand, and quality standards) leads smallholder farmers to face higher prices from opportunistic middlemen and traders as well as lower market participation.[31] Amid rapid economic growth, urbanization, and globalization, food supply channels are becoming longer geographically but shorter in terms of participants.[32]

SMALL FAMILY FARMERS NEED TO MOVE UP OR MOVE OUT

As stakeholders continue to deliberate on action plans for supporting sustainable small family farms, it is important to recognize that there is no "one size fits all" policy. The appropriate development pathway and livelihood strategies for each small family farm should reflect its particular characteristics and the level of transformation within the country's economy (see Infographic on next page). Public policy should support small family farms in either *moving up* to commercially oriented and profitable farming systems or *moving out* of agriculture to seek nonfarm employment opportunities.

In agriculture-based economies, it is important to focus on advancing policies that move up small family farmers who have the potential to become profitable by increasing their productivity. In both transforming and transformed economies, it is equally imperative to help such family farmers move up by promoting high-value agriculture and improving links to urban and global markets. For small family farmers that are already profitable, policies that help scale up commercial activities are essential. Small family farms without profit potential, however, will require humanitarian assistance in the short run and viable exit strategies out of agriculture to engage in urban and nonfarm economic activities in the long run.

To move small family farms with profit potential toward greater prosperity while at the same time improving global food security and nutrition and health outcomes, a number of steps must be taken, as outlined below.

Promote Land Rights and Efficient Land Markets

Institutional reforms are needed to facilitate the efficient transfer of land through the certification of land rights and through well-functioning and transparent land-rental and sales markets. Lifting restrictions on minimum or maximum landownership or land-rental markets and securing property rights improves agricultural productivity. It does so by encouraging the transfer of land from small and poor farmers who have less ability or willingness to undertake agricultural activities (but who stay in agriculture due to fear of unfair compensation for land transfers) to more efficient (but often still poor) producers with more interest and resources.[33]

Enhance Risk-Management, Mitigation, and Adaptation Strategies

Small family farms urgently need better access to risk-management tools and strategies to increase their resilience to a spectrum of shocks, including weather and price shocks. Tools such as index-based insurance can help farmers take productivity-enhancing risks, although their commercial viability for a smallholder clientele is still being studied. In the face of volatile crop prices, collaboration is needed among the private sector, governments, and donors to design innovative and flexible market-based price stabilization tools—such as hedging in futures markets—that are suitable for small family farms.[34]

In terms of climate-induced shocks, a pro-poor climate change policy that creates value for small family farms and integrates them into global carbon markets is essential, although a viable modality has not yet been developed.[35] Investments in triple-win agricultural practices and technologies can be effective in raising smallholder productivity alongside climate-change mitigation and adaptation strategies.[36]

MOVE UP OR MOVE OUT

WHICH PATH?

Whether a small farmer should be targeted to "move up" in profitability or "move out" of agriculture depends on whether they face the hard constraints that inhibit profit potential:

SOFT CONSTRAINTS	MOVE UP	MOVE OUT
Limited access to markets and information	●	●
Limited financial capital	●	●
Limited access to infrastructure	●	●
Limited access to smallholder-friendly technologies	●	●
HARD CONSTRAINTS		
High population density		●
Low-quality soil		●
Low rainfall and high temperatures		●
Remote location		●

WHICH STRATEGY?

The best supportive strategies to aid farmers in either moving up or moving out depend on the type of economy:

AGRICULTURE-BASED ECONOMY	MOVE UP	MOVE OUT
Productive cross-sector social safety nets that combine long-term tools with short-term support	●	
Investment in infrastructure, agricultural research and extension, and smallholder-friendly and climate-smart technologies	●	
Access to innovative financial services	●	
Social safety nets		●
Nutrition-focused crop production for own consumption		●
Education and training for nonfarm employment		●
Migration to urban centers and other agriculture areas with greater profit potential		●
TRANSFORMING ECONOMY		
Flexible arrangements for land transfer	●	●
Risk reduction and management tools	●	
Access to market information (e.g., ICTs)	●	
Pro-smallholder, nutrition-sensitive value chains	●	
Social safety nets	●	●
Improved access to housing, education, and health services for rural migrants	●	●
Vertical and horizontal coordination to meet safety, quality, and quantity standards	●	
Enhanced role of farmers' organizations, particularly for women farmers	●	
Education and training for nonfarm employment		●
TRANSFORMED ECONOMY		
Provide incentives for high-value production	●	
Reduced trade restrictions and subsidies	●	
Flexible arrangements for land transfer	●	●
Efficiency- and quality-enhanced production systems	●	
Vertical and horizontal market coordination	●	
Social safety nets		●
Improved access to housing, education, and health services for rural migrants		●
Education and training for nonfarm employment		●

Source: Adapted from Table 1, "Typology of Smallholder Farms and Appropriate Strategies and Interventions," in S. Fan, J. Brzeska, M. Keyser, and A. Halsema, *From Subsistence to Profit,* IFPRI Food Policy Report (Washington, DC: International Food Research Institute, 2014), 4.

Support Efficient and Inclusive Food Value Chains

Linking small family farms to modern agrifood value chains is critical for improving agricultural productivity, food security, and nutrition. Overcoming barriers to accessing modern value chains requires institutional innovations for coordination among small family farms, including group lending and producer associations. Such mechanisms require strong institutional capacity in a stable policy environment that promotes private-sector investments that are adapted to the needs of small family farms. Information and communication technologies also offer the opportunity to link small family farms to markets, by helping them reduce transaction costs, increase their bargaining power, and acquire real-time market information. Financial services (bundled with, for example, insurance) and investments in rural infrastructure also need to be scaled up.[37]

Furthermore, participation of small family farms in modern value chains can be leveraged for better nutrition and health. Greater investments in the development of nutrient-rich crop varieties accessible to the poor, coupled with public information campaigns and pricing policies, can help increase the availability and consumption of nutritious foods.[38] Sound regulatory and monitoring systems along the entire chain can also help to ensure that agricultural intensification does not harm people's health.[39]

Close Gender Gaps and Develop Young Farmers

Addressing the inequity in access to productive resources, services, and markets for women farmers (who account for a large percentage of small family farmers) is not only a rights issue, but also an efficiency issue. Gender inequality also leads to inefficient allocation of resources, which in turn means reduced agricultural productivity and poor nutrition and health outcomes.[40] Closing the gender gap in agriculture has high returns that accrue to the entire society—not just women.[41]

Developing youth participation in agriculture is also essential to realize agricultural growth, improve food security and nutrition, and promote overall development. Interventions to increase the profitability of small family farms should target young farmers. Such steps would include better agricultural training, improved land rights, and enhanced access to financial and nonfinancial services.

Scale Up Productive Cross-Sector Social Safety Nets

Productive cross-sector social safety nets that combine long-term tools (to build productive and resilient livelihood strategies) with short-term social safety support (to provide a cushion against shocks) can be of great benefit to small family farmers. Ethiopia, for example, has created the Productive Safety Net Programme (PSNP) and Other Food Security Programme (OFSP)/Household Assets Building Program (HABP), which provide a portfolio of productivity-enhancing mechanisms. These programs are targeted at food-insecure households, most of which engage in small family farming,[42] and are designed to ensure a minimum level of food consumption, protect and build assets, and assist households in boosting income generated from agricultural activities. Based on recent evidence, the PSNP reduced the length of the hungry season by one-third compared with households with no program benefits. Households with access to both PSNP and OFSP/HABP had even greater reductions in their hungry season and increases in their livestock holdings.

CONCLUSION

We must break the vicious cycle—of vulnerability, low-yielding activities, and food insecurity and undernutrition—that is plaguing small family farmers. While many smallholders can find more profitable livelihood opportunities outside of agriculture, others can transform their businesses into profitable and efficient agricultural enterprises. However, the group of potentially profitable small family farmers needs a policy environment that supports and nurtures this transformation and helps them overcome the increasingly complex challenges they face. Providing such a favorable environment for growth and prosperity should also contribute to the achievement of multiple Sustainable Development Goals. ■

NOTES

CHAPTER 4

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