



New institutions, differential policy and public-private partnerships are just some of the mechanisms being used by Latin American governments to promote sustainable development among smallholder farmers.

## RECOGNISING THE DIVERSITY OF SMALLHOLDER FARMERS IN LATIN AMERICA: A NEW ERA IN RURAL DEVELOPMENT

### SUMMARY

Smallholder farming is the predominant sector in the rural economy of Latin America where it is characterised by large heterogeneity and represents an important source of rural employment and food security. Although the last decade has been a historic period of prosperity and growth in Latin America, the persistence of high poverty levels and low productivity continues to limit smallholder development across the region. Today, the globalised economy presents additional challenges to smallholders who must operate in new market structures with demanding requirements. Likewise, as global demand for agricultural land has increased, a new land grabbing phenomenon is threatening the very survival of smallholder farmers. This Guide examines recent efforts by Latin American countries to support smallholders in this new context by analysing a range of interventions aimed at reviving the institutions and strategies for achieving sustainable rural development goals. Latin American experiences demonstrate some key success factors that will be of interest to policymakers and practitioners in other regions of the world.



### SMALLHOLDER FARMING IN LATIN AMERICA

In Latin America, smallholder farms have evolved alongside various transitional processes that have dramatically changed the face of agriculture in the region over the last fifty years. In the majority of Latin American countries, smallholder farms re-emerged from the transformation of large agrarian estates into capitalist enterprises. Together with land reform, including the subdivision of lands held by peasant and indigenous communities during the 60s and 70s, these processes have configured what is known as the “bimodal agrarian structure” in which medium and large capitalist enterprises

### KEY LESSONS LEARNED

Although market liberalisation provides opportunities for certain categories of smallholders, overall policy should focus on improving access to domestic food markets rather than agro exports since the majority of smallholder farmers still depend on local markets.

It is important for policies to consider the territorial context in which smallholders operate; the Rural Territorial Development approach provides some useful tools that can aid governments with planning and coordination of multi-sector activities in a given area.

Participatory approaches that include smallholders in the design and implementation of policy and programmes can improve the relevance, impact and sustainability of efforts to promote rural development and reduce poverty.



(with different levels of modernisation) coexist alongside smallholder farmers (with various levels of differentiation).<sup>1</sup>

The presence of such a structure poses complex challenges for policymaking given the inherent differences between agrarian producers. Furthermore, in all Latin American countries smallholders are a heterogeneous group. A common size-based definition of smallholding sets a threshold on farms of two hectares of cropland or less.<sup>2</sup> Yet this approach precludes a deeper understanding of smallholder farmers since it neglects other key aspects such as degree of market integration, in particular to labour markets.<sup>3</sup> Ignoring these arrangements may have substantial implications for the effectiveness of policies and programmes.

Smallholder farmers in Latin America are generally considered a social and economic sector conformed by family-operated farms that mostly rely on family labour.<sup>4</sup> Based on this definition, there are roughly 14 million smallholder farmers in the region, considerably more than the five million farms that would qualify as smallholder using the farm size measure.

## THE ROLE OF SMALLHOLDER FARMERS IN RURAL DEVELOPMENT AND BEYOND

The potential of smallholder farming to contribute to more sustainable and equitable production systems, increase food supply and improve the living standards of the most vulnerable populations is recognised across Latin America,<sup>5</sup> and it is this realisation that has driven the emergence of a new generation of policy responses from governments and international institutions alike.

Smallholders own a significant percentage of land in Latin America and represent more than 75% of total farmers in each country (with the exception of Uruguay, where they represent 57%). However, their participation in total agricultural area is relatively low, and quite different depending on the country, ranging from just 6% in Paraguay to 71% in Nicaragua (Table 1).

**Table 1:** Smallholder Participation in Agricultural Land Division in Latin America

Country	Participation in total number of farms	Participation in total agricultural area
Argentina	75%	20%
Brazil	84%	24%
Chile	95%	44%
Colombia	87%	57%
Ecuador	88%	41%
Paraguay	91%	6%
Uruguay	57%	15%
Nicaragua	98%	71%
El Salvador	99%	51%

Author's own elaboration.

Sources: Maletta, H. 2011. *Tendencias y Perspectivas de la Agricultura Familiar en América Latina (Trends and Perspectives of Family Farming in Latin America)*. RIMISP, Santiago; CEPAL, FAO and IICA. 2014. *Perspectivas de la Agricultura y del Desarrollo Rural en las Américas: Una Mirada hacia América Latina y el Caribe (Perspectives on Agriculture and Rural Development in the Americas: A Look at Latin America and the Caribbean)*. IICA, San José.

In almost all Latin American countries smallholder farms play a fundamental role in national food security and nutrition given their contribution to the production of fruit, vegetables, meat and dairy (Table 2). In fact, in many countries of the region smallholder farms produce more than 60% of the nation's basic food supply.

**Table 2:** Agricultural Production on Smallholder Farms in Latin America<sup>6</sup>

Country	Main agricultural products (% of total national production)
Argentina	82% goats, 64% pigs, 26% cattle (for meat), 25% sheep, 33% dairy cows, large participation in fruit and vegetable production
Bolivia	70% corn and rice, 45% vegetables, almost 100% potatoes and cassava, 40% milk
Brazil	34% rice, 38% coffee, 70% beans, 46% corn, 87% cassava, 59% swine herd, 58% milk
Chile	44% annual crops, 23% fruit, 54% vegetables, 29% vineyards, 54% beef, 42% sheep herd, 94% goat herd, 40% dairy
Colombia	30% annual crops

<sup>1</sup> Shejtman, A. 2008 *Alcances Sobre la Agricultura Familiar en América Latina (An Assessment of Smallholder Farming in Latin America)*. RIMISP, Santiago de Chile.

<sup>2</sup> Nagayets, O. 2005. 'Small Farms: Current Status and Key Trends' In: *The Future of Small Farms: Proceedings of a Research Workshop*, Wye, UK, June 26-29, 2005. International Food Policy Research Institute, Washington, DC.

<sup>3</sup> It is worth mentioning that while in Latin America the two-hectare definition rules out a large proportion of smallholders, in Asia it accounts for a large majority of farms. See Eastwood, R., Lipton, M. and Newell, N. 2004. *Farm Size* In: *Handbook of Agricultural Economics* 4: 3323-3397.

<sup>4</sup> While this definition does not imply a specific farm size to classify smallholders, the notion of smallholder itself suggests relatively small-scale land ownership. Berdegue, J. and Escobar, G. 2002. *Rural Diversity, Agricultural Innovation Policies and Poverty Reduction*. ODI, London.

<sup>5</sup> Hunger-Free Latin America and the Caribbean Initiative. No Date. *Family Farming in Latin America and the Caribbean*. Online publication.

<sup>6</sup> Crops were selected due to their importance in the Latin American diet. Available information does not allow for more detailed data.



Costa Rica	22% rice, 2% meat, 74% bananas, 10% fruit, 9% vegetables, 97% corn
Ecuador	64% potatoes, 85% corn, 83% sheep herd
El Salvador	84% rice, 9% meat, 42% bananas, 32% fruit, 64% vegetables, 44% corn
Guatemala	73% rice, 21% meat, 13% bananas, 3% fruit, 3% vegetables, 30% corn
Honduras	78% rice, 10% meat, 14% bananas, 12% fruit, 8% vegetables, 40% corn
Nicaragua	21% rice, 2% meat, 2% bananas, 8% fruit, 66% vegetables, 23% corn
Panama	16% rice, 6% meat, 52% bananas, 6% fruit, 9% vegetables, 81% corn
Paraguay	53% sugar cane, 94% fruit, 94% cassava, 80% swine, 55% dairy
Peru	Almost 100% of potatoes, cassava and quinoa and a large participation in fruit, vegetable, meat and dairy
Uruguay	38% fruit, 80% vegetables, 27% vineyards, 25% meat, 27% dairy

Author's own elaboration.

Sources: Shejtman 2008, above n1; CEPAL, FAO and IICA. 2014. *Perspectivas de la Agricultura y del Desarrollo Rural en las Américas: Una Mirada hacia América Latina y el Caribe (Agriculture and Rural Development Perspectives in the Americas: A Look at Latin America and the Caribbean)*. IICA, San José.

As well as the main suppliers of basic foods in most of these countries, smallholder farms are also a major source of income for the poorest households and are therefore considered a key sector for poverty reduction and sustainable economic development. A large percentage of the rural poor rely on agriculture for generating household income; around 75% of rural households in South America are at least partially involved in agricultural activities, while in Central America this figure is 35%.<sup>7</sup> Studies have shown that aggregate growth from agriculture is 2.7 times more effective for poverty reduction than growth outside agriculture in Latin America.<sup>8</sup> Furthermore, greater reductions in poverty are commonly observed amongst the poorer households, strengthening the case for the development of appropriate policies and programmes to support smallholder farming.

Yet while smallholders are responsible for producing the majority of basic food stuffs in many countries, their contribution to total agricultural production is significantly lower, ranging between 38% in Brazil and 58% in Panama (excluding Argentina and Chile where a large proportion of

the agricultural industry relies on large farms). On the other hand, the participation of smallholders in total sectorial employment is significantly higher in almost every country (with the exception of Costa Rica, characterised for having high productivity farming), indicating large productivity gaps.

**Table 3:** Economic Importance of Smallholder Farms in Latin America

Countries	Contribution to national GDP	Contribution to total agricultural GDP	Participation in sectorial employment
Argentina	1.7%	19%	53%
Brazil	2.0%	38%	74%
Chile	0.8%	22%	61%
Colombia	2.7%	41%	57%
Ecuador	4.5%	45%	Data not available
Costa Rica	2.6%	41%	36%
El Salvador	5.1%	43%	51%
Guatemala	5.7%	49%	63%
Honduras	8.4%	57%	76%
Nicaragua	9.8%	49%	65%
Panama	2.3%	58%	70%
Mexico	1.4%	39%	70%

Author's own elaboration.

Sources: Maletta, H. 2011. *Tendencias y Perspectivas de la Agricultura Familiar en América Latina (Trends and Perspectives of Family Farming in Latin America)*. RIMISP, Santiago de Chile; CEPAL, FAO and IICA. 2014. *Perspectivas de la Agricultura y del Desarrollo Rural en las Américas: Una Mirada hacia América Latina y el Caribe (Agriculture and Rural Development Perspectives in the Americas: A Look at Latin America and the Caribbean)*. IICA, San José; UN online database "[Agriculture, Value Added \(% of GDP\)](#)", accessed July 2014.

The reality in Latin America is that many smallholder farms face low productivity levels and low incomes. Rural poverty is highly concentrated among smallholder farmers in the region, and recent figures paint a worrying picture about the inability of policy and practice to support these communities to enjoy greater well-being in accordance with their own values and goals.<sup>9</sup> Over the last decade, however, there has been a shift in rural development discourse and practice in Latin America, largely thanks to fresh approaches that have fostered greater appreciation for the economic and social role of smallholders. It will take time for these new generation institutions, policies

<sup>7</sup> Trivelli, C., Yancari, J. and De Los Ríos, C.A. (2009) *Crisis and Rural Poverty in Latin America*. Rimisp, Santiago.

<sup>8</sup> World Development Report (2008), based on a study by Ligon, E. and Sadoulet, E. 2007. *Estimating the Effects of Aggregate Agricultural Growth on the Distribution of Expenditures*. Background Paper for the WDR (2008).

<sup>9</sup> ECLAC, 2012. *Panorama Social (Social Panorama)*. ECLAC, Santiago de Chile. Poverty estimates are based on 19 Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.



and programmes to make an impact on overall poverty rates amongst smallholders, however there is broad agreement that public policy is now better informed and better orientated to prioritise the needs and choices of this sector, while attempting to address the challenges of the modern era.

## SMALLHOLDER FARMS IN A GLOBALISED WORLD: A NEW CHALLENGE FOR POLICYMAKING

The last decade has been a historic period of prosperity in Latin America, which has registered the fastest sustained growth over the last 30 years and met important poverty reduction goals. Although these achievements are indeed important, rural poverty and extreme poverty levels have not reduced accordingly.

In this context, Latin America's rural sector has shifted from being a food producer for local markets to a growing economic sector inserted into global markets. This change is partially attributed to the economic and trade liberalisation processes that took place in Latin America during the 90s, opening the door to foreign direct investment. At the same time a myriad of international trade agreements have been signed to facilitate the export of Latin American food products to international markets. More recently, the food export boom in Latin America, that has almost quadrupled in value over the last decade, reaching US\$197 billion,<sup>10</sup> has also been associated with the sharp upward trend in international food prices. For more information see the [ELLA Brief: Latin America's Rural Family Farmers: Evolutions in Access to Markets and Rural Income Structure](#).

While production for global markets tends to be concentrated on large commercial agricultural firms, domestic markets in Latin American countries are still the largest and fastest growing markets for agricultural production and are creating important opportunities for growth amongst smallholders. On the other hand, the emergence of trade agreements and

foreign direct investment policies over the last decade has threatened the survival of Latin American smallholder farms due to the requirements of rapidly changing domestic markets and high levels of competitiveness.<sup>11</sup>

New actors have emerged in local food markets over the last two decades. Large investments in commercial chains have changed the structure of demand, with supermarket operators and their agents becoming increasingly important in Latin America, concentrating the food purchasing power in few hands.<sup>12</sup> Around 60% of the retail food market in Latin America was dominated by large supermarkets in 2003,<sup>13</sup> and their participation has been increasing ever since.<sup>14</sup> This implies important challenges for smallholder farmers since they now need to compete with large commercial firms and adapt to new market conditions such as standards relating to quality and packaging, timeliness of delivery, product homogeneity and payment schemes.

Export markets tend to be the domain of large commercial agricultural firms, and entrepreneurs that invest in agriculture, resulting in a concentration of most of the benefits in certain crops, regions and large farms, and leaving the majority of smallholder farms to focus on domestic markets. Nevertheless, there are some specific cases where smallholder farmers have established a significant presence in international markets, such as organic and fair trade coffee, banana and cocoa. Around 13 Latin American countries account for almost 50% of total planted area of organic coffee and around two thirds of the world's fair trade certified producers live in Latin America.<sup>15</sup>

Over the last decade competition for participation in large markets has increased pressure over land. There is wide recognition that agricultural growth in Latin America is not going to be achieved through incorporating new land with the exception of the Amazon, where some areas are being incorporated into agricultural production, mainly for

<sup>10</sup> FAOSTAT <http://faostat3.fao.org/faostat-gateway/go/to/download/T/TP/E>, comparing total crop and livestock products from all countries in South and Central America, and the Caribbean (US\$52.1 billion in 2001, versus US\$196.7 billion in 2011).

<sup>11</sup> Berdegue, J. and Fuentealba, R. 2012. *Latin America: The State of Smallholders in Agriculture*. Paper presented at the IFAD conference on New Directions for Smallholder Agriculture, 24-25 January 2011.

<sup>12</sup> For more information read Hazell, P et al. 2007. *The Future of Small Farms for Poverty Reduction and Growth*. International Food Policy Research Institute, Washington DC and Shejtman 2008, above n1.

<sup>13</sup> Berdegue, J. and Reardon, T. 2003. *La Rápida Expansión de los Supermercados en América Latina: Desafíos y Oportunidades para el Desarrollo (The Rapid Expansion of Supermarkets in Latin America: Challenges and Opportunities for Development)*. Inter-American Development Bank, Washington, DC.

<sup>14</sup> Various local newspapers report large mergers and acquisitions of supermarkets in Latin America, and most news reports show increasing participation in food consumption markets.

<sup>15</sup> For more details, refer to Henson, S. 2006. *New Markets and their Supporting Institutions: Opportunities and Constraints for Demand Growth*. Background paper for the World Development Report 2008; Lyon, S. 2006. *Fair Trade in Latin America*. University of Kentucky, Department of Anthropology, Lexington KY.



soybean and livestock pasture. Some new areas are also being adapted for large-scale irrigated agriculture along the Peruvian coastline. In this context, land grabbing has emerged as a new social and economic phenomenon that can menace the sustainability of smallholder farms. In Latin America, land grabbing is used to acquire control over land and associated resources, such as water, and it is often linked to a transformation in the meaning and use of land. For more information refer to the [ELLA Brief: Land Grabbing in Latin America: Opportunity or Threat?](#)

The globalised economy has created both opportunities and risks for smallholder farmers. On the one hand, significant opportunities have emerged from trade liberalisation and the signing of free trade agreements. On the other hand, smallholders may be excluded from these opportunities due to quality and quantity requirements. Furthermore, competition for land from large companies and landholders is posing a considerable threat to the very livelihoods of smallholder farmers. In this context, policies to promote smallholder sustainability are required, such as promoting producer associations or improving access to niche markets, such as organic and fair trade goods.

## LATIN AMERICAN POLICY RESPONSES

The importance of smallholder farming is becoming increasingly reiterated and prioritised in public policy in Latin America where political will has been vital for driving through reform. In the last five years, Bolivia has declared smallholder farming an activity of national interest, Argentina has assigned large financial resources towards family farming, Costa Rica adopted the Sectorial Plan for Family Farming 2011-2014, Chile incremented its rural development budget by 8.2% to strengthen smallholder policies, and Mercosur (the “Common Market of the South” comprising Argentina, Brazil, Chile, Paraguay and Uruguay) developed the regional programme [Public Policy Dialogue on Family Farming and Food Security in the Southern Cone of Latin America](#), an initiative that supports the formulation of public policies aimed at developing family farming, while at the same time promoting South-South cooperation between national governments, multilateral agencies and smallholder organisations.

Some countries have created new institutions and structures to lead and coordinate these actions, while in others existing institutions have been given new responsibilities in this field.

Coordination between different ministries and institutions has been a key element in Latin America, helping to strengthen the efficiency of actions aimed towards a common objective. Prominent examples are shown in Table 4 below.

**Table 4:** Latin American Institutions Responsible for Coordinating Smallholder Farming Policy

Country	Institution and key programmes
Argentina	The <a href="#">Sub-Secretariat of Family Farming</a> set up in 2008 within the Ministry of Agriculture coordinates differential policies for family farming.
Brazil	The <a href="#">Secretariat for Family Farming</a> within the Ministry of Agricultural Development runs the <a href="#">National Programme to Strengthen Family Farming</a> and the <a href="#">Family Agriculture Insurance Programme</a> .
Chile	The <a href="#">Institute of Rural Development</a> runs programmes to support <a href="#">improved productivity</a> and provide <a href="#">financial assistance</a> to smallholders.
Ecuador	The <a href="#">Coordinating Ministries</a> , of a higher rank than any individual ministry, is responsible for linking up efforts in key issues such as rural development, allowing for more efficient implementation of public policies.
El Salvador	The <a href="#">Plan for Family Farming</a> is carried out by the Government of El Salvador, through the Ministry of Agriculture and Livestock and the <a href="#">National Center of Agricultural and Forestry Technology</a> with support from the FAO.
Mexico	The Inter-ministerial Rural Sustainable Development Commission was created under a new law passed in 2001 and implements the <a href="#">Concurrent Special Programme for Sustainable Rural Development</a> to mainstream public policies for supporting smallholder farms.
Nicaragua	The <a href="#">Ministry of Family, Community, Cooperative and Associative Economy</a> has been created to take over responsibilities from the Ministries of Finance, Agriculture and Social Development.
Paraguay	The Ministry of Agriculture and Livestock runs the <a href="#">Promotion of Food Production for Family Farming</a> programme.
Peru	The Ministry of Agriculture - <a href="#">AGRORURAL</a> - runs a range of innovative programmes targeting smallholders, including a virtual platform for linking up rural agricultural services by territory ( <a href="#">MOSAR</a> ), micro-insurance schemes and business planning support.
Guatemala	<a href="#">The Ministry Social Development</a> is responsible for developing coordination mechanisms and cooperation with other government entities.

Latin American governments receive financial and technical support for family farming from a range of multilateral and international organisations, most notably the [International Fund for Agricultural Development](#) (IFAD), the [Food and Agriculture Organisation](#) (FAO), the [Inter-American Institute for](#)





[Cooperation on Agriculture](#) (IICA) and the [Latin American Center for Rural Development](#) (RIMISP). As well as direct support for business development, access to technology and financial services, and improved infrastructure, these institutions facilitate the exchange of experiences between government officials and civil society organisations. IFAD also supports a key programme in the region, the [Specialized Meeting on Family Farming \(REAF\)](#), co-financed by members of Mercosur. The REAF provides a platform for shaping public policies and programmes through consultation processes involving local governments and small-scale farmers' associations. REAF's main achievements include supporting the development of institutional frameworks for family farming and getting family farming higher on national policy agendas.

### Differential Policy and Programmes

Across Latin America, there has been wide agreement that policies for rural development and smallholder farming in particular should be differentiated so as to take into account not only differences in farmers' assets and capabilities, but also the territorial environment they live in. Mercosur, the Andean Parliament and the Andean Community are three inter-regional organisations that adopt this view.<sup>16</sup>

Smallholder farming is a concept that embraces a wide array of rural households; from farms exclusively dedicated to agricultural activities and closely linked to markets, to ones that have a mixed portfolio of agricultural and non-farm activities, often with limited market access. Due to the large heterogeneity observed within smallholder farmers, researchers and other stakeholders in Latin America have identified sub-categories in order to better orientate policy towards different needs and priorities (Table 5).<sup>17</sup>

**Table 5:** Subsistence, Transitional and Consolidated Smallholdings in Latin America

Sub-category	Number of farms (millions)	Participation in total agricultural area (million hectares)
Subsistence	9.0	100.0
Transitional	4.0	200.0
Consolidated	1.0	100.0
TOTAL	14.0	400.0

Source: Soto *et al.* 2007, see n17.

<sup>16</sup> Márquez, S. and Ramos, A. No date. *Differential Policies for Family Farming in MERCOSUR: Contribution of Political Dialogue in the Design of Public Policies and Institutionalization*. IFAD, Rome; Familyfarmint.net. 2013. [The Andean Parliament Recommends "Specific Policies" in Favour of Family Farming](#). Familyfarmint.net, online publication.

<sup>17</sup> This section is largely based on work by Soto Baquero, F., Rodríguez Fazzone, M. and Falconi, C. 2007. *Políticas para la Agricultura Familiar en América Latina y el Caribe. (Policies for Family Farming in Latin America and the Caribbean)*. FAO, Rome. The authors conducted field studies in six Latin American countries: Brazil, Chile, Colombia, Ecuador, Mexico and Nicaragua.

<sup>18</sup> For more information see the [ELLA Brief: Harnessing the Potential of the Nonfarm Economy for Smallholders in Latin America](#).

### i) Subsistence Farms

This group of smallholders is typically resource-poor, lives in low-productivity environments and uses almost all agricultural production for household consumption. Their low level of economic resources (on average around a third of the cultivable land of the other smallholder categories) limits their self-sustainability and diminishes their ability to access formal financial services, preventing them from taking advantage of new innovations and entrepreneurial activities that would diversify and strengthen income generation. Subsistence farms are also generally concentrated in certain geographic areas where lower investment is made in public infrastructure such as roads, communications and basic services, further impeding economic growth.

Poor agricultural productivity and high vulnerability forces this group of farmers to diversify income strategies to sustain their livelihoods. Often, subsistence farms sell their labour to low-quality non-farm jobs and rely on social programmes (such as cash transfer programmes) for financial support. Sometimes, members of the family are forced to migrate temporarily to find alternative work. Finally, this group also typically relies on remittances from family members that have migrated to urban areas. Migration, although an economically important decision, can have significant social and cultural consequences for the household and wider community. For example, in some villages most working-age adults have moved away, leaving only children and the older population behind.<sup>18</sup>

It is estimated that in Latin America around 9 million subsistence farms work around 100 million hectares of cultivable land. While agriculture is not necessarily their main source of income, it is absolutely critical for food provision, income generation, employment and for reducing vulnerability to adverse shocks. Policy strategies for this group typically include public investment in basic infrastructure and services to improve context-specific conditions associated with rural poverty. Policies orientated towards strengthening on-farm activities generally aim to guarantee a minimum level of living standards and reduce vulnerability, while, promotion of non-agricultural activities is increasingly being viewed as a new source of income and employment.



## ii) Transitioning Smallholders

A second category belongs to “transitional” farmers or small commercial farms, typically characterised by a larger resource endowment. These farmers mostly live in adequately productive environments, however they often lack access to land and credit markets, which can restrict their development.<sup>19</sup> Their livelihood revolves mostly around agricultural activities, with little off-farm labour supply, and, implicitly, a lesser degree of income diversification. In general, transitional smallholders are not eligible for social programmes, nor strong enough to participate in competitive global markets (mostly due to market and institutional failures).

In Latin America, this group is made up of around four million farms that work around 200 million hectares of arable land.<sup>20</sup> This group is an important source of food for Latin Americans, and increasingly for other parts of the world as well. The nature of their economic activity generates important commercial linkages with local and regional partners. Furthermore, this group of farmers is highly heterogeneous and comprises extremely different households and production systems.

Despite making important contributions to regional economies and livelihoods, low productivity levels and low incomes have been the source of prolonged debate around the viability of transitional smallholders.<sup>21</sup> Contrary to this trend, several studies point out that this group is the most likely to develop within a market economy, with potentially significant impacts on economic development and poverty reduction. However, there are multiple factors that prevent this group from successfully engaging in regional, national and even international markets.

Literature identifies two main market failures that affect this group in particular. First, little or no access to capital markets limits the ability of transitional farmers to adopt new technologies or to make adequate investments to improve productivity. Second, the inability to insure against unexpected events forces transitional farmers to adopt low-risk low-income activities.<sup>22</sup> Structural characteristics of smallholder farming including low levels of human capital, insufficient

scale, limited organisation, limited access to public services and infrastructure, high levels of dispersion, can also create barriers to transitional farms moving out of poverty.

For this group, basic public infrastructure and services generally exist. However, policies to improve the context where agricultural decision-making processes take place are crucial for economic development, such as access to information and financial and technology markets. Improving assets and capabilities (organisation, commercialisation and management) are key policies to ensure successful market sustainability and development.

## iii) Consolidated Smallholders

This final group is better endowed with resources and has a larger productive potential. Consolidated smallholders are fully integrated into markets (capital, technology, products) and are able to capitalise their productive unit by providing a substantial contribution to domestic and international consumption markets. In general this group is able to regularly hire non-family labour to help with farm operations, however some degree of family labour is still involved in specific tasks, particularly management and operation.

Approximately one million consolidated smallholders own around 100 million hectares of highly productive areas across Latin America. They are fully commercial and some are also highly competitive, having participated in the recent export-orientated agricultural boom in the region. Due to strong commercial linkages with other regions and sectors, this group is considered a central player for economic development and rural poverty reduction. For this group, government policy focuses on building direct and stable linkages with local and foreign markets.

Based on this fuller understanding of smallholders, most of the programmes implemented by governments and international organisations have used a combination of the following three approaches: a) recognising the value of rural resources; b) improving linkages to dynamic markets; and c) supplying infrastructure, goods and services.<sup>23</sup>

<sup>19</sup> Trivelli, C., Escobal, J. and Revesz, B. 2006. *Pequeña Agricultura Comercial: Límites y Posibilidades para su Desarrollo (Small Commercial Farms: Constraints and Prospects for Development)*. Instituto de Estudios Peruanos (IEP), Lima.

<sup>20</sup> Berdegue, J. and Fuentealba, R. 2012. *Latin America: The State of Smallholders in Agriculture*. Paper presented at the IFAD conference on New Directions for Smallholder Agriculture 24-25 January, 2011.

<sup>21</sup> For a summary of the discussion around the viability of small commercial farming, see Hazell *et al.* 2007, n13 above.

<sup>22</sup> Although there is significant evidence of the existence of “informal” credit and insurance arrangements, literature shows that these instruments are most likely to be incomplete and do not adequately fulfill the needs of the smallholder farmers.

<sup>23</sup> Trivelli, C., Remy, M., De Los Ríos, C.A. and R. Lajo. 2010. *Caja de Herramientas para el Desarrollo Rural (Toolbox for Rural Development)*. Universidad Andina Simón Bolívar and Instituto de Estudios Peruanos.



### a) *Recognising the Value of Rural Resources*

In rural societies important resources such as knowledge, fixed capital, land, water, and traditions are usually undervalued by development initiatives. Yet successful initiatives from Latin America show that every intervention should value these resources and contribute to their transformation into assets, with the farmer at the centre of development processes. In various projects, farmers are working hand-in-hand with technical assistants to identify critical issues in production and develop low-cost technological solutions that are then disseminated to other farmers via peer-to-peer mechanisms. In various cases these projects have evolved to create a market for technical assistance.

#### **Box 1: Valuing Traditional Agricultural Advisors in Peru**

An IFAD-funded project in Peru - Promotion of Technology Transfer to Peasant Communities in the Highlands Project - has improved agricultural production amongst smallholders by strengthening skills of local technical assistants. Appreciation for the valuable role of “yachaq” (local technicians, farmers and professionals that teach a specific production technique) in rural farming communities of Peru enabled the IFAD to run popular training schemes based on experimentation and peer-to-peer learning methods. The project also improved the quality of technical services by stimulating market demand, and thus competition between providers, while at the same time building the prestige of the yachaq in their communities.

Source: FAO. No date. [Innovative Experiences of IFAD: Executive Summary](#). FAO, online publication.

### b) *Improving Market Linkages*

Rural development is achieved through linking smallholders to dynamic markets, by optimising the value chain and by minimising transaction costs. These strategies not only seek to create better market conditions for food products, but also to orientate processes of technological change based on local demand.

Since the vast majority of smallholders depend on domestic commodity markets, there is considerable potential for investments that strengthen their access to and participation in those markets to support economic development and poverty reduction efforts. However, most international agencies and local governments have mistakenly allocated resources to promote smallholder participation in export markets, ignoring domestic markets that are the source of income for more than 13 million subsistence and transitional smallholders.<sup>24</sup>

#### **Box 2: Improving Market Linkages in Colombia, the Rural Opportunities Programme**

The IFAD-financed Rural Opportunities Programme was designed to reduce rural poverty through improving competitiveness and linkages to markets for rural microenterprises. The programme co-finances farmers’ business plans through a competitive mechanism and runs specialised commercial activities such as farmers markets and road shows. The programme has also improved the supply of rural financial services such as microcredit, savings and life insurance.

Source: MinAgricultura. 2013. [Programa Desarrollo de las Oportunidades de Inversión y Capitalización de los Activos de las Microempresas Rurales – oportunidades rurales \(Rural Opportunities – A Programme for Developing Investment Opportunities and Capitalizing Rural Microenterprise Assets\)](#). MinAgricultura, online publication.

### c) *Supply of Infrastructure, Goods and Services*

A characteristic of Latin American countries, and in particular the Andean countries, is that geography matters. Distances between settlements and cities are so large that in many cases they hamper the flow of people, goods and information; a scenario that is frequently aggravated by the presence of particular landforms.<sup>25</sup> The geography of rural areas often limits access to capital (human, financial, physical and even social), resulting in low levels of productivity and high transaction costs (mostly related to transportation and information). Therefore, policies that support the supply of public infrastructure, goods and services are fundamental for assisting smallholder farms in Latin America.

<sup>24</sup> For more detail see: Berdegue, J. and Fuentealba, R. 2012. [Latin America: The State of Smallholders in Agriculture](#). Paper presented at the IFAD conference on New Directions for Smallholder Agriculture 24-25 January, 2011.

<sup>25</sup> Most of the rural population in South America lives in the Andean mountain range which bisects the continent from north to south and reaches up to 5,000 metres in height.





In Peru, for example, an impact evaluation of the Inter-American Development Bank programme [Provias Rurales \(Rural Roads\)](#)<sup>26</sup> shows that improving the condition of rural roads leads to greater increases in smallholder income when combined with the development of other productive infrastructure such as electricity and telecommunications. In order to scale-up these benefits, the programme introduced an innovative mechanism called the [Local Development Window](#), through which NGOs helped rural dwellers to identify and prioritise productive activities while also offering entrepreneurial and commercial support. Thanks to its success, the experience in Peru has been replicated in other Latin American countries including Bolivia, Ecuador, Guatemala and Honduras.

Different tools have been used in the implementation of these strategies based on the specific characteristics of the programmes and the beneficiary population. Noteworthy examples include:

- *Rural Finance*: Loans and financial support to smallholder farmers to encourage improvements in production and infrastructure. May also include the development of insurance markets to support farmers to engage in riskier and more profitable investments. Examples include the [Agricultural Insurance National Commission](#) in Chile, the [Agricultural Insurance Programme](#) in Peru, the [Agricultural Risk Office](#) in Argentina and the [National Institute of Insurance](#) in Costa Rica.
- *Technical Change*: Technical assistance provided through training and education programmes for smallholders, individually or in groups. These initiatives also promote technological innovation by supporting institutions that promote the use of new and low-cost technologies by smallholder farms. Two noteworthy examples are the [National Family Production Research Programme](#) in Uruguay and Chile's [Institute for Agricultural Development](#).
- *Final Destination*: These projects link smallholder farmers to markets and integrate them into production value chains with the main objective of promoting the commercialisation of smallholder products in domestic

and international markets. A good example of this type of programme is the US\$15 million [Programme of Support Services to Rural Markets](#) funded by the Inter-American Development Bank to promote entrepreneurial initiatives in Peru using a competition-based scheme.

- *Institutional Change*: Support to new institutions that facilitate technical change or market linkages. This includes the creation of institutions that buy smallholder production to supply national programmes, and provide purchase guarantees to the farmers. For example, the [Family Farming Purchase Programme](#) and the [School Food Programme](#) in Brazil, which require at least 30% of school funds to be used to purchase food from smallholder farms, or the [Nicaraguan Basic Foods Company](#).
- *Information*: Tools that provide access to relevant information for improving farmer decision-making. An innovative tool developed by the Ecuadorian government is the [SMS MAGAP](#) programme, which provides market price information to farmers through text messaging.

It is worth noting that different programmes may include various combinations of these tools to achieve their objectives. For example, the [Mi Chacra Emprendedora](#) programme in Peru uses strategies to recognise the value of traditional knowledge by promoting low-cost technological solutions to rural farmers through a farmer-to-farmer scheme. The same programme also uses market linkage strategies to promote rural businesses using final destination tools and promotes access to rural financial services by smallholder farmers. This programme developed differential strategies for different types of farmers, while coordinating between various ministries (Agriculture, Social Inclusion, Finance), and various levels of government (promotion of rural businesses is coordinated at the local level, for example).

### *Rural Territorial Development Approach*

The Rural Territorial Development approach has emerged as a policy alternative to address rural poverty and inequality in rural communities in Latin America and encompasses many of

<sup>26</sup> Escobal, J., Inurritegui, M. and Benavides, J. 2005. [Infraestructura Rural: Guías para Diseñar Intervenciones y Lecciones Aprendidas de PROVIAS Rural-Perú \(Rural Infrastructure: Intervention Design Guide and Lessons Learned from Provias Rural - Peru\)](#). Inter-American Development Bank, Washington DC.

<sup>27</sup> Schejtman, A. and Berdegué, J. 2004. [Rural Territorial Development](#). Rimisp, Santiago de Chile.



the strategies and tools described in the previous sections.<sup>27</sup> It is essentially defined as a process of simultaneous productive transformation and institutional change. Productive transformation is key to linking the local economy to dynamic markets in a competitive and sustainable way. On the other hand, institutional development has the objective of building capacity for joint action between local stakeholders.

There are six components to the Rural Territorial Development approach:

1. Adoption of the territorial dimension. This implies that the scope of action for rural development goes way beyond agriculture to include all other current and potential economic activities.
2. Acknowledgment of economic and social heterogeneity within a territory - the inclusion of all actors within a territory rather than focusing exclusively on poor rural households.
3. Inclusion of farm and non-farm economic activities within the objectives to increase productivity.
4. Focus on the economic linkages between agriculture and other economic sectors (industry, services, agro-industry, among others), as they may also be potential engines of growth.
5. Recognition of the potential of urban-rural linkages.
6. Acknowledgment of the importance of rural institutions as a critical component of any approach to rural development.

The Rural Territorial Development programme developed by the Latin American Centre for Rural Development (RIMISP) gathered evidence from 20 territories within 11 Latin American countries to identify critical and demonstrative factors of what is required to achieve an ideal territorial dynamic; one that promotes growth, while reducing poverty and inequality (Table 6).<sup>28</sup>

**Table 6:** Results from the Rural Territorial Dynamics Programme

Territory (Country)	Characteristics and Results
<a href="#">Villamontes</a> (Bolivia)	In a region that houses 30% of Bolivia's oil and 85% of national gas reserves, the local authorities implemented a strategy that sought to expand gas exploitation for exports. The revenue from this activity made it possible for local governments to invest in long-awaited infrastructure such as street paving, schools, bridges, health centres and installing electric energy. While the process has been a successful engine of growth, further improvements in agricultural production are required.
<a href="#">Central Chiloe</a> (Chile)	Productive transformation of the territory from a traditional rural sector to the development of salmon-raising with a significant segment of the population working in the industrial and service sectors. This was possible thanks to the regulation of access and use of natural resources.
<a href="#">Loja Province, Cariamanga</a> (Ecuador)	Agriculture-based dynamics: organic coffee and intensive corn production for the poultry industry. The territory previously relied on the weekly market to commercialise its production. The engine of growth in this case was the development of new markets, together with a restructuring of the traditional production process.
<a href="#">Ostua-Guija Basin</a> (Guatemala)	Economic diversification (agriculture, nonfarm employment and remittances) together with linkages to internal and external markets. In this territory, diversifying household income through female employment was a key element for success.

Source: RIMISP 2012, see n28.

<sup>28</sup> Latin American Centre for Rural Development (RIMISP). 2012. *Rural Territories in Motion. Rural Territorial Dynamics Programme - Final Report*. RIMISP, Santiago de Chile.



Three elements characterise the success of Latin American efforts to support smallholder farmers.

### *1. Public-Private Partnerships*

Public-private partnerships for agribusiness development are typically promoted by the public sector as part of a set of mechanisms designed to promote rural development and reduce poverty. In the majority of cases, a specific programme or unit from the public sector develops a framework under which it encourages the private sector, organised rural farmers, and other actors such as NGOs and local municipalities to form partnerships and develop a business plan and bid for government funding on a competitive basis. Successful bids must comply with a strict set of rules enforceable under contract. The government generally provides the framework, a large portion of the funding and technical assistance, while the private sector tends to deliver other resources, mostly technical assistance to farmers to help improve the quality and quantity of production, and input supply. Farmers usually contribute labour and tools as part of the partnership.

While in general public-private partnerships in the region are carried out under the umbrella of a specific government programme, other types of partnership have also emerged such as arrangements in which private firms provide insurance to farmers which is subsidised by the government.

Public-private partnerships require all stakeholders to share a common goal and acknowledge the incentives of other parties to participate under such schemes. In this sense, a key aspect of the public-private partnership has to do with transparency and accountability of resource allocation. The challenge is to create mechanisms under which the public sector does not ignore the priorities of smallholders, and mechanisms to ensure that public funds are not allocated for political reasons. To address these issues, various Latin American initiatives use competitive funds to allocate resources to private sector providers for goods or services, maximising transparency of resource allocation and including civil society as members of the evaluation committees. For example, Local Resource Allocation Committees (CLARs) have been established in various Peruvian rural development programmes managed

by AGRORURAL, such as [Sierra Sur](#) and [Sierra Norte](#). Other public-private partnerships coordinate yearly activities during joint sessions, between authorities and farmer associations. For more information on these mechanisms, read the [ELLA Brief: Alliances Towards a Common Goal: The Role of Public-Private Partnerships in Rural Development](#).

### *2. The Role of Local Governments*

Another fundamental factor to the success of Latin American initiatives has to do with the role of local governments in the rural development process. Local governments in Latin America have demonstrated the ability to coordinate actions across various sectors in order to promote rural development. Examples include the development of communications and commercialisation infrastructure, organisation of trade fairs and support for farmers' organisations. Another advantage of local governments is that they are closer to local actors, and therefore become a key element in the generation of coordination and participation, having the ability to channel demands from the population. In this sense, various policies in the region rely on local governments to execute programmes.

### *3. Demand-driven Policies*

Finally, in Latin America, there has been increasing attention towards demand-driven policies for rural development that take into account differences between smallholder farms. These policies tend to use participatory methods for involving smallholders in processes to define local priorities and needs, often resulting in policies that are better orientated to address context-specific challenges.

Participatory methods for demand-driven policies are embedded in local policymaking, such as participatory budget development in which peasants express their priorities for productive projects to improve the quality and quantity of their production, or their organisational and commercialisation skills. In various rural development programmes, participation of farmers is promoted by competitive-based funding for business plans. Also, value chain development programmes typically require the participation of all actors in any given market system.

- 1 Smallholder farming is important for its potential to overcome rural poverty and for sustaining national food security. The global context of market liberalisation and free trade agreements is generating some new opportunities for smallholders, but also represents a threat to this sector in terms of competition for land and other resources. In this sense, policies to promote producer association, improved productivity and quality standards and access to new markets (organic, fair trade etc.) are key for promoting sustainable smallholder development.
- 2 Smallholder farms are an extremely heterogenous group, and require differentiated, demand-led policies. Latin American experiences suggest that for subsistence farmers, agricultural policies should prioritise interventions to improve living standards and reduce vulnerability through strengthening non-farm activities as a source of income diversification. For transitional farmers, key areas of action relate to improving the context where decision-making processes take place (access to financial and technology markets) and strengthening assets and capabilities (organisation, commercialisation and management). Finally, consolidated smallholders require support to promote direct and stable linkages with markets where they demonstrate competitiveness.
- 3 Greater policy focus on domestic food markets than agro exports is also vital since smallholder farmers depend on local markets. Domestic markets in Latin American countries are still the largest and fastest growing markets for agricultural production, creating important opportunities for local economic growth. While there are significant challenges to local markets, such as the increasing presence of large supermarkets with specific requirements regarding quality, quantity and regularity of supply, with adequate support from the public sector, smallholders can improve their competitiveness to seize these new opportunities.
- 4 It is important for policies to consider the territorial context in which smallholders operate. The Rural Territorial Development approach is being successfully applied in Latin America and has some useful tools that can aid governments with planning and coordination of multi-sector activities in a given area. Provision of public goods and services is a key element for success.
- 5 Strengthening the public sector and the institutions providing support to smallholder farmers is central for rural development. In Latin America, specialised national institutions and local governments have played a decisive role in ensuring that rural development programmes are more efficient and responsive. Furthermore, participatory approaches that include smallholders in design and implementation processes can improve the impact and sustainability of such initiatives.
- 6 Public-private partnerships represent a successful strategy for catalysing rural development through innovation, particularly where based on transparent relationships and participatory processes.

## CONCLUSION

Smallholder farming is the predominant sector in the rural economy in Latin America and makes a significant contribution to food production in the region. Yet despite this, widespread poverty and low productivity levels are persistent problems affecting this group. The new rural development model being adopted in Latin America recognises the diversity amongst smallholder farmers and proposes differentiated policies and a territorial approach as two key strategies for improving the effectiveness and sustainability of programmes aimed at supporting this socially and economically important group. The most successful experiences have been developed at the local level using participatory methods, have involved a diverse range of stakeholders and have been able to harness the competitive advantages of the private sector. While the longer-term impacts of this new approach are yet to be fully understood, Latin American experiences are already providing some useful insights and lessons for policymakers and practitioners in other regions of the world.



## FIND OUT MORE FROM ELLA

These four ELLA Briefs provide analysis of some of the most important issues related to smallholder farming in Latin America.

[Latin America's Rural Family Farmers: Evolutions in Access to Markets and Rural Income Structure](#). Over time, the rural reality in Latin America has changed, with family farmers now more integrated into markets and significantly less dependent on agriculture for income. This Brief explores what this means for family farmers today.

[Land Grabbing in Latin America: Opportunity or Threat?](#) In Latin America, government interventions in land grabbing processes provide some preliminary lessons on dealing with this phenomenon, while highlighting some serious threats.

[Harnessing the Potential of the Nonfarm Economy for Smallholders in Latin America](#). Latin American countries have implemented a range of strategies to boost the rural nonfarm economy, with positive impacts on local economic growth and poverty reduction.

[Alliances Towards a Common Goal: The Role of Public-Private Partnerships in Rural Development in Latin America](#). In Latin America, public-private partnerships have been a successful tool for promoting rural development. Adequate coordination and integration of stakeholders at the local level has been fundamental to achieving positive results.

## KNOWLEDGE PARTNERS

Below is a sample of some of the key organisations researching, assessing and implementing projects related to small-scale farming in Latin America. For information about additional organisations read the [ELLA Spotlight on Organisations: Smallholder Farmers and Rural Development](#).

[Agricultural Research for Development \(CIRAD\)](#) is a French research centre that conducts applied research projects in a number of different fields related to agriculture and development. In Latin America, CIRAD aims to support the development of ecological agriculture, pest and disease management, improving product quality and safety, and producing public information useful for small and medium-sized farms.

The Latin American Centre for Rural Development, ([Centro Latinoamericano para el Desarrollo Rural - RIMISP](#)) is a regional

non-profit organisation set up in 1986. RIMISP contributes knowledge to support processes of institutional change, production innovation and the strengthening of social actors, thereby revitalising and transforming Latin American rural societies, as well as making them more just and equitable.

Through research and projects implemented around the globe, the [International Food Policy Research Institute \(IFPRI\)](#) aims to have a direct impact on public policy.

IFPRI's areas of research in Latin America include rural infrastructure and trade and covers issues such as market access, market integration, value chains and nutrition, food security, poverty and rural development. Readers can search by country to access the wealth of research available on the Latin America region.

The [Inter-American Institute for Cooperation on Agriculture \(IICA\)](#) is an agency specialised in research, knowledge production and technical cooperation to make agriculture more inclusive, competitive and sustainable in the Americas. IICA works on an array of issues related to agriculture, including management of rural territories and family agriculture, with thirty-four member states from Latin America and the Caribbean and North America, specifically with their ministries of agriculture.

## RECOMMENDED READING

Below is a selection of some of the key publications related to small-scale farming in Latin America. For additional information about important documents, read the [ELLA Spotlight on Publications: Smallholder Farmers and Rural Development](#).

Berdegue, J. and Fuentealba, R. 2012. [Latin America: The State of Smallholders in Agriculture](#). Paper presented at the IFAD conference on New Directions for Smallholder Agriculture 24-25 January, 2011.

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Soto Baquero, F., Rodríguez Fazzone, M. and Falconi, C. 2007. [\*Políticas para la Agricultura Familiar en América Latina y el Caribe. \(Policies for Family Farming in Latin America and the Caribbean\)\*](#). FAO, Rome.

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