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Briefing

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Agricultural Commercialisations – A Level Playing Field for Smallholders?

Accelerated growth in agriculture is seen by many as critical to meeting MDGs in Africa. Many national governments and international development agencies see intensification and commercialisation of smallholder agriculture playing a central role in achieving poverty reduction. The potential benefits of commercialisation are well documented. According to this thinking, smallholder agriculture is uniquely positioned to deliver broad-based growth in rural areas, where the vast majority of the world's poor people still live.

Others fear that strategies for commercialising agriculture will not bring benefits to the majority of poor rural households, either directly or, in the view of some, at all. Instead, they fear that efforts to promote a more commercial agriculture will benefit primarily large-scale farms. At best, a minority of better-off smallholders will be able to benefit.

This paper from the Future Agricultures Consortium considers alternative perspectives on agricultural commercialisation. The paper attempts to get away from the idea that there is one ideal commercial agriculture, following a linear path to some clearly defined end point. Commercialisations can take different pathways, especially if simple distinctions, e.g. between 'food' and 'cash' crops, are avoided. The authors argue for a diverse range of commercialisations, locally specific trajectories, and engagement with both domestic and export markets. Growth-poverty reduction linkages for smallholder farmers through commercialised agriculture do not lie along just one or two channels.

Box 1: Defining Commercialisation

The lynchpin of most definitions of agricultural commercialisation is the degree of participation in the (output) market, focusing on cash incomes. Other dimensions of commercialisation can include:

- ***input markets participation***
- ***increased reliance on hired labour***
- ***profit motive within the farm business***
- ***a move from diversification to specialisation, over the long term***

Who are commercial farmers?

Farmers benefit from participating in markets wherever opportunities are, and will respond to any available market opportunities. This does not mean exclusively export markets. Staples markets in Sub-Saharan Africa (SSA) are estimated to be worth US$50 billion per annum and growing at 4 per cent per annum (Diao et.al. 2003). In reality, large-scale and smallholder farming have different strengths, giving each of them advantages in producing certain crops.

Better-endowed smallholders continue to feature prominently as suppliers of staples, horticultural products and a variety of other crops for domestic and regional markets, where quality requirements are modest and safety and traceability are yet to become major issues. Large-scale producers continue to expand as horticultural exporters (see, for example, Maertens and Swinnen 2007), but are less prominent in domestic markets where high-value segments are often still small.

The dominant farm type will depend partly on the crops promoted (also a function of agro-ecological conditions and market opportunities) as well as markets targeted. Large-scale farms might flourish because they are the most appropriate mode of commercialised agriculture for particular crops and markets where the country or region has comparative advantage – not necessarily because there is a large farm bias in policy. Equally, a country or region may do well in

Box 2: Commercialisation in Ethiopia

Future Agricultures research in Ethiopia (Samuel Gebreselassie and Ludi, 2007; Samuel Gebreselassie and Sharp, 2007; Sharp, Ludi and Samuel Gebreselassie, 2007) considers the various and potential meanings of commercialisation (or market-oriented agriculture) for Ethiopia, complemented by empirical work in coffee and tef-growing areas of the country.

Preliminary research and consultations identify four different categories of farmer in Ethiopia, corresponding approximately with those defined in Tables 1 and 2, who could benefit from, and contribute to, market-oriented agricultural growth. Different policy support may be needed for each group, representing four potential "pathways" for commercialisation. Field research carried out with 'type B' smallholder farmers in tef and coffee producing areas raised the following points:

- *Tef: At the farm household level, the major constraints to commercialisation in the study areas appear to be production constraints, particularly land and labour (at the household level, and especially at peak seasons). Income and consumption data indicate that crop farming cannot be the sole livelihood for any of the surveyed households. This remains true whether farmers sold a higher or lower proportion of their output: however, crop income met a lower percentage of consumption needs among the less-commercialised farmers, who cultivated smaller areas. The survey finding that even commercialised households in these prosperous farming areas cannot meet their consumption needs from crop income reinforces the need to understand smallholder commercialisation in the context of the whole household livelihood, including livestock and other non-crop income sources both on and off-farm. While the technical challenges of raising crop yields and improving the efficiency of agricultural markets are important, they are not the full picture.*

- *Coffee: The findings demonstrate the integrated nature of the farming system in coffee growing areas, combining coffee, fruits and vegetables (mainly for market) with food staples (mainly for household consumption). Despite an overall high level of coffee commercialisation – on the average, farmers marketed 84% of their farm production, and coffee contributed 70% to this - diversified farming is a strategy pursued by the majority of the surveyed households. A high degree of inter-household differentiation was found: whereas the 25% highly commercialised smallholders generated over 95% of their cash income from coffee sales, the bottom 25% earned 63% of their cash income from selling food crops. The study findings, however, suggest that further specialisation in coffee could enhance overall agricultural productivity. Total farm size owned and cultivated by the surveyed farmers did not significantly explain observed variation in household coffee commercialisation: more important was the proportion of land planted with coffee. This result highlights two points: (i) the homogeneity of farm size among surveyed households, which makes the probability of commercialisation among different farmers comparable, and (ii) the difficulty smallholders face in expanding their coffee and non-coffee (notably food crop) production simultaneously.*

two product groups (say, coffee and export horticulture in Ethiopia), with smallholder production systems dominating in one and large farms dominating in the other. With better organizational, technical and policy support the two can also engage in the production, processing and marketing of a single product by sharing different responsibilities which suit their comparative advantages and specific conditions along the value chain, for the benefit of both as well as the economy at large. Contract and outgrower schemes may have a role here.

Crudely speaking, the competitive advantages of smallholder farms are centred on their low-cost supply of highly motivated family labour. Large-scale farms face lower costs in most other input and output market transactions

Large farm bias?

A mix of interventions to assist both large–scale and smallholder farm enterprises is observed in policy. However, in practice, policy may favour of large scale farming to the detriment of smallholder commercialisation. Why?

1. Lack of clarity about what commercialisation means, and on the range of potential interventions needed to achieve it, as well as the diversity of alternative paths, varying across regions and localities.

2. Expanding commercial agriculture by smallholder producers requires complementary investments to support food (staples) market development and/or to increase food staple productivity. Rural food markets in Africa are risky with wide seasonal price variations. Therefore, it is rational for small farm households to prioritise growing subsistence food crops, even when they would get higher returns from growing other crops for market. Recent developments in some countries, for example, the commodity exchange markets expected to be launched in Ethiopia at the end of the year, could help to increase the benefit of markets to smallholders and support commercialisation.

3. Commercialisation policy can have unintended outcomes. There are potentially various reasons for this:

Table 1: Competitive strengths and weaknesses of different farm types	Smallholder farmers		Small Investor-farmers	Large-scale farming
	Type 'A' Small-scale 'non-commercial' farmers who might sell some produce but do not or cannot make their entire living from farming	Type 'B' small-scale commercial farmers who tend be market-oriented and make a living from selling their output		
Land	*	**	**	**
Finance / Credit		*	**	***
Inputs: access/ purchase	*	*	**	***
Skilled labour: access		*	**	***
Unskilled labour: motivation, supervision	***	***	**	*
Contacts/networks	*	**	**	***
Market knowledge	*	**	***	***
Technical knowledge	*	**	***	***
Product traceability and quality assurance			*	***
Risk management	*	*	**	***
* = poorly positioned (no star is worse!); *** = well-positioned				

Table 2: Predicting Competitiveness of Farm Types in Different Crops and Markets, given technical and economic requirements of different crops and demands made by different markets.	Smallholder Farmers		Small Investor-farmers	Large-scale farming
	Type 'A'	Type 'B'		
food staples (local/national/ regional markets)	YES	YES		?
high value crops, e.g. horticulture (local/national/regional markets)		YES	YES	?
low value export commodities, e.g. cassava, soya, grains				?
horticulture exports		?	?	YES
traditional export commodities		coffee, cotton, cocoa, tea, groundnuts	YES	sugar, tea, tobacco

• Individual officials or politicians do not believe pro-smallholder rhetoric of policies;
• Implementation may reflect the personal or collective priorities of elites, rather than the priorities set out in national poverty reduction or agriculture sector strategies (see Chirwa et al, 2006 on Malawi).

4. Smallholder farms need more support than large-scale farms if they are to flourish. Whilst large-scale commercial farming can grow where there is an adequate enabling environment (macroeconomic stability, banking systems, core infrastructure – roads, electricity, telecommunications), broad-based smallholder commercialisation is likely to require a range of pre- and post-harvest services (finance, extension, input markets, market information). There nearly always has to be some state role – either in coordinating or in regulating service provision. Where state capacity is lacking, large-scale farms may still perform well because they are able to source critical production and marketing services themselves. But the majority of smallholder systems will languish. This is different from a pro-large scale bias, but the outcomes may not look that different.

Creating a level playing field?

Most elements of the enabling environment outlined above are centrally provided – the responsibility of the Ministry of Finance or Planning. However, whilst these ministries undoubtedly have a critical role to play in promoting agricultural growth and commercialisation in Africa, broad-based smallholder commercialisation is unlikely to be achieved without an active role being played by the Ministry of Agriculture. Historically, Ministries of Agriculture have seen their role as providing services – which have rarely reached more than a tiny minority of largely privileged, well-connected farmers. Instead, their role should be to support decentralised service provision and local level coordination mechanisms for broad-based smallholder commercialisation.

This points to reorienting Ministries of Agriculture, maintaining strong state capacity and well-defined responsibilities but, as a recent Future Agricultures paper on policy narratives in African agriculture suggests, "refocus[ing] attention on key roles – including investment in state-led reforms to help create the structural conditions for kick-starting the agricultural economy" (Cabral and Scoones, 2006, p32). This means on-going investment in coordination and intermediation functions. This is certain to be challenging in terms of organisation and capacity, not to mention politically. But if we want to see agricultural commercialisation policy promoting pathways that are truly pro-poor, pro-smallholder and pro-'development', governments and donors need to move beyond rhetoric to action that supports channels and environments through which poor smallholder farmers can benefit from greater market engagement.

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