Commercialisations in Smallholder Agriculture: A General Framework

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Motivation

- In current policy dialogues, making agriculture more commercialised is seen as a key element in achieving growth and poverty reduction in SSA
- **But** fears of what this will entail
  - Even if, on paper, commercialisation strategy is meant to benefit primarily smallholder households, in practice will main gainers be large-scale farms and top few smallholder households?
- Consider:
  - What commercialisation is
  - Different pathways for agricultural commercialisation
  - Conditions for pro-smallholder strategy

Definitions

- Market (as opposed to subsistence) orientation

CCI = gross value of all crop sales / gross value of all crop production

- Not a farm size issue
  - But smallholders rarely as commercialised as large-scale farms
- Distress sales (empirically how important?)
- What drives subsistence production?

"Subsistence production for home consumption is chosen by farmers because it is subjectively the best option, given all constraints. In a global sense, however, it is one of the largest enduring misallocations of human and natural resources, and, due to population pressure and natural resource constraints, it is becoming less and less viable."

(von Braun and Kennedy, 1994, p3-4)

Definitions II

- Dependence on purchased inputs and services
- Motive: profit vs self-sufficiency or risk minimisation
- Labour use: reliance on family vs hired labour

- Household commercialisation

HCI = gross income from market sources / total income

- Can hiring labour out be considered as commercialisation?
  - Pull (opportunity) vs push (survival)
  - Senegal export horticulture example

Level of Market Orientation	Farmer's Objective	Sources of Inputs	Product Mix	Household Income Sources
Subsistence Systems	Food Self-Sufficiency	Household (Non-Traded)	Wide Range	Mainly Agricultural
Semi-Commercial Systems	Surplus Generation	Mix of Traded and Non-Traded	Moderately Specialised	Agricultural and Non-agricultural
Commercial Systems	Profit Maximisation	Mainly Traded Inputs	Highly Specialised	Mainly Non-Agricultural

Source: Pingali and Rosegrant, 1995

Commercialisation Process (Pingali + Rosegrant)

- Long-term perspective (not complete in Asia 40 years after start of GR)
- Commercialisation as an “endogenous process … accompanied by economic growth, urbanisation and the withdrawal of labour from the agricultural sector” (p171)
- Apparently linear commercialisation path, but:
  - Heterogeneity across households within system
  - Livelihood strategies of those who do not progress as farmers: hiring labour out, exiting agriculture
- Based on Asian experience: might evolution of bimodal system be different?

Commercialisation and Specialisation

- Notion of comparative advantage underlies advocacy of commercialisation
  - Growth will occur if households do/grow what they are best at
  - Buy in staple foods if no comparative advantage in production
- Pingali + Rosegrant: range of crops grown by individual households narrows over time, but range grown within region grows
- Heltberg (2001): “at least at initially low levels of commercialisation”, commercialisation associated with diversification, not specialisation
  - Add cash crop to food crops (extra land and/or more intensive food production)
  - CI↑, but Herfindahl index ↓

Drivers of Commercialisation

- Population growth
- New technology
- Market access
- Food staples intensification
- Asset accumulation

Market Access

- Conventional approach
  - Infrastructure
  - Market information
  - Supply chain linkages, e.g. contract farming
- But, if farmers are to produce new “commercial” crops, they will need to be able to buy food in
  - Food markets are critical! (Fafchamps 1992, Jayne 1994)
  - Whilst food markets are too risky or high cost, it is mainly households that are (close to) self-sufficient in food that will engage in significant production for market: top 10-20%
- Asia: GR + higher population density + better infrastructure + food price stabilisation policies
  - Asian smallholders increasingly commercialised

Staples Intensification

- In many areas, this should go hand in hand with commercialisation strategy
- Contributes to food market development
- Whilst food markets still developing, enables households to devote smaller share of land to meeting food needs
  - Hence more room for cash crops
- Not suitable everywhere, e.g. semi-arid areas
  - But then commercialisation may have to await food market development
- Differentiate policies for surplus vs deficit food producers
  - Former benefit from higher prices; latter lose out
  - Input subsidy better for latter (Malawi fertiliser example)

Asset Accumulation

- Differentiated response to given market opportunity
  - Food self-sufficiency constraint
  - Differences in asset holdings
- Land
  - small holdings exacerbate food self-sufficiency constraint
- Animal traction (AT)
  - Respond quickly to rains → yield ↑
  - Cultivate more land (if have access)
  - Manure for soil fertility (staples intensification)
- Virtuous circle of cash crop and AT: W.African cotton
- Top 10-20% tend to be those who, by extra skill or hard work, have entered virtuous circle
  - Policy seek to expand numbers (extension, AT promotion)

Which Crops and Markets?

- Export crops and large-scale farms?
- Wherever the opportunities are!
  - Diao et.al. (2003): staples markets in SSA worth US$50 bn p.a. and growing at 4% p.a.
- Different farm types better placed to respond to different opportunities

	Smallholder farmers		Small Investor-farmers	Large-scale farming
	Type 'A'	Type 'B'		
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	*	*	**	***

	Smallholder farmers		Small Investor-farmers	Large-scale farming
	Type 'A'	Type 'B'		
food staples (local/national/regional markets)	✓	✓		?
high value crops, e.g. horticulture (local/national/regional markets)		✓	✓	
low value export commodities, e.g. cassava, soya, grains				?
horticulture exports		?	?	✓
traditional export commodities		coffee, cotton, tea, groundnuts	✓	sugar, tea, tobacco

Large Farm Bias?

- Activities of individual officials or politicians
- Implementation issue: no service provision
- Large-scale farms can cope if basic enabling environment is there
  - Macro stability, banking sector, trunk infrastructure, political support for private enterprise, (R&D)
- Smallholders require pro-active service provision
  - Finance schemes, extension, input markets, market information and linkages, capacity building for FOs
  - None of these will be entirely private sector driven under current conditions in SSA

Implications for Ministry of Agriculture

- Enabling environment is not MoA remit (Finance etc)
  - Large-scale farms can develop even where MoA is ineffective
- **But** ensuring service provision has to be!
- Old approach: service provider
  - Rarely reached more than small % of farmers
- Instead, facilitate coordination processes for service provision at local level
  - Private sector, local government, farmer organisations, NGOs
- Ethiopia: regional dimension
  - Centre cannot drive commercialisation alone
  - Impact will depend on quality of service provision at regional level