# SMALLHOLDER FARMERS: HOW TO OVERCOME THREE PARADOXES

## KEYNOTE SPEECH BY SOLIDARIDAD EXECUTIVE DIRECTOR NICO ROOZEN

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> *'Agriculture is not a way of life. It is not a social sector or a development activity, despite what people may claim.*
> *Agriculture is a business.*
> *And the more we treat it as a business, as a way to create wealth, the more it will promote development and improve people's lives to boot.'*
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> **AKIN ADESINA**
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> **PRESIDENT OF THE AFRICAN DEVELOPMENT BANK**
> **(FORMER MINISTER OF AGRICULTURE AND RURAL DEVELOPMENT OF NIGERIA)**

This quote touches on some essential points. We have to develop strategies for smallholder segments of the agricultural sector from the perspective of a business. Not only to feed a growing and more demanding world population but also in order to build vital rural communities for good economic, social and cultural reasons. And today's reality is that, in many cases, smallholder farming is not beautiful at all. Romanticising the life of small farmers does not reflecting reality or is purely ideological. Unfortunately, this notion is broadly shared in the community of NGOs and development agencies.

The paradox of agriculture is that large scale farming is not future proof either. Large scale monocultures rely heavily on fossil and chemical inputs. It is often difficult to reconcile agriculture on this scale with other critical landscape functions – such as biodiversity, water use and local cultural values.

**So the first paradox is: Small is not beautiful; but neither is big.**

Let me go into more detail about smallholder farming.

One of the issues we have to address is the issue of production size. What's the current picture?

**SEGMENTATION OF SMALL HOLDERS**

| | 1. Subsistence / non-commercial | 2. Commercial in loose value chains | 3. Commercial in tight value chains |
|---|---|---|---|
| Strategy | Farming for survival rather than choice | Looking for diversification | Business oriented |
| Land Size | < 1 ha | 1 -2 ha | > 2 ha |
| Engagement with markets | Buyers of food | Some surplus food + cash crops | Reliable surplus |
| Number of families (in mln) | 300 | 165 | 35 |

This classification is interesting.

There are 500 million smallholder farmers in the world who sustain 2.5 billion people.

These farmers can be classified in three categories.

Three hundred million smallholdings with less than 1 hectare, an income below – even far below - the poverty line and they are net consumers of food instead of producers. This is the most vulnerable group. These smallholders see agriculture as their fate rather than a profession by choice.

The second category are 165 million farmers with 1-2 hectares. They are commercially active in loose value chains and have some surpluses.

And the third category consists of 35 million farmers. They are commercially viable with reliable surpluses and are linked with tight value chains.

But farm size is still going down. In Africa in the last decade, farm size has gone down from 2.4 to 2.1 hectares and is increasingly too small for a decent living. This agricultural structure makes Africa a net importer of food.

In India, the average size went down from 2.2 hectares in 1970 to 1.1 hectares in 2011. Within that 56 million smallholders segment in India, 70% are marginal farmers with an average farm size of 0.38 ha and this category is growing every year. Without a radical change in heritage systems and succession we cannot stop this fragmentation.

A tea smallholder whose average land size is 1 acre would be producing a half a ton of black tea. If we assume 40% of the local market price comes back to him, his net income will be 417 euros for a year, which is less than the government approved labour rates for unskilled workers. Full implementation of good agricultural practices will have the potential to increase his income slightly, but the farmer cannot escape from poverty.

A paradox related to yield increase among small holders is that according to a recent report by the FAO, a 5% increase in the world's production of tea could lead to a 40% decline in prices over the next 10 years.

**The second paradox: Introducing good practices increases efficiency and reduces costs.** This leads to lower tea prices, but does not create a higher income for the farmer.

As a consequence of this, children of farmers are voting with their feet and swapping life in the countryside for a difficult life in rapidly growing megacities. The average age of active farmers is still increasing, and in many sectors and regions, it's reached more than 60 years.

From historical experience in different places in the world, Solidaridad knows how to bring the smallholder segment to professional family farming with a living income. If we make the deliberate choice to organize the process of upscaling in say one hundred years – so four generations – the result will be much better than just leaving this issue to market forces.

But we have to be realistic: the end picture will be that only one out of ten farmers will stay in business and the 50 million remaining family farms will produce five times more than the 500 million farmers of today.

One out of 10 sounds drastic, maybe even dramatic. For India, this would mean reducing the actual percentage of farmers from 60% of the Indian workforce to just 6%.

By comparison, in the two biggest food exporting countries of the world, the United States and the Netherlands, only 1% of the work force are farmers. The amazing thing is that in these economies, 4% of the work force is combating overconsumption and obesity. These are the dieticians, doctors and the guys and girls at the fitness centre.

The process of modernization is led by four factors: good governance, access to knowledge and technology, access to finance and market development.

I believe a critical factor here is the good governance of producer companies. If they can run viable farms that are aggregates of small holdings, it frees up other people while providing them with a base income that is probably higher than it currently is.

So, we need to look at separating land "ownership" from land "stewardship".

Good governance starts with new regulations on registered land ownership, succession that prevents more fragmentation, spatial planning and re-allotments that fits with a new thinking about sustainable landscape innovations. It starts with helping entrepreneurial small farmers to lease or buy the land from neighbouring farmers. This process has to be embedded in policies to create alternative jobs for those who are leaving their farms. A processing industry of agricultural products, for example, could be a first step for creating new jobs. Or even a guaranteed basic income from a social security system to help farmers sell their farms.

I believe polarized thinking on this scale does not help us - small against big. Future proof agriculture will be much more differentiated than agriculture is today. Smart and more robust structures will take into account optimal size, living income and wages, complexity of production, returns per hectare, cost of infrastructure like water management and demands from different markets.

Doubling food, feed, fibre and biofuels – while protecting the forest – will be needed by 2050, and can only be achieved by the main guiding principle: sustainable optimization. Some agriculture products – like sugar, soy, palm oil – have to be produced at scale. Vegetables, high quality coffees or cacao can be produced on a relatively small scale, but at least at four times the current scale. The rest needs to come from restoring degraded lands.

Besides the size of family farms, finance seems to be a crucial factor. We have to develop businesses worth investing in to unleash the funding needed to make agriculture more inclusive and sustainable.

**The third paradox: money is urgently needed and available but does not reach the farmer.**

From our experience, we have to conclude that direct funding of small holders is not easy. They still are not "bankable". For banks and investors, scale is a decisive factor in managing operational costs. Small holders often have no collateral, and price fluctuations and weather conditions make agricultural production a hard to predict business. Often, cooperatives have weak membership bases with a risk for side selling. In this structure, attracting loans or equity is not easy.

Investable business has to be developed in a service and processing industry. Through these companies, innovations at field level can be funded and supported. For example, through small and medium sized enterprises introducing mechanisation and new techniques, delivering inputs and knowledge. Only a business model will create scale and speed. A processing industry for agricultural products can create new jobs and add value to the local community.

Overcoming these three paradoxes:
- Small is not beautiful, but neither is big
- Good practices do not always lead to better incomes
- Money is available, but not reaching the farmers

Overcoming these in a world full of turmoil, heavily dependent on fossil fuels, and with strong climate changes, is a hazardous journey. It will require multiple efforts from multiple players.

We need to move beyond the paradigms of small is beautiful and poverty alleviation when we talk about smallholder farming. It is time we start talking in terms of value creation and admit that smallholder farming is almost never viable – and therefore needs to be transitioned out. This will either happen by itself and at the cost of the most marginalized farmers in the world, leading to increasing conflict and flows of refugees – or we can plan for it to happen by taking the interests of current and future farmers into account. I believe this is what needs to happen with a strong agenda supported by governments, financial institutions, markets and NGOs.

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