

Investing in smallholder agriculture for food and nutrition security

V0 DRAFT A zero-draft consultation paper

Notes from CROCEVIA
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Specific recommendation in text

32 – more focus on resilient small farming systems based on knowledge exchange, networks and local systems

33 – risk sharing could be reach through a different model of production and consumption, community supported agriculture and consumption not only on the financial side

Box 1 : Low levels of contract farming even in favorable market dynamics 14 [Rural Struc program]

Contract farming with agro-business will create a greater dependency on few traders in international markets and dependency on foreign markets demand, allocating most of the contracting power to the international dealers operating along the value chains.

Pg 32 “avoiding demonization (?) of the use of chemical fertilizers in situations where ~~access to such innovation~~ is strategic for increasing food security” – “This is assumed to have huge consequences for investments at different levels, from the provision of public goods to the smallholder level: (i) how can the conditions for smallholders market integration be improved including technical issues?”

Chemical Fertilizer should not be considered a technical innovation to be provided to smallholders as public good or technical factor for market integration

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5 - Recommendations

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“There are numerous ways of increasing agricultural productivity and the yields gap between already available genetic material and their performance at farm level indicates that progress is possible with targeted and accessible investments”.

The gap between laboratories and on farm performances should support participatory breeding and peasants’ selection of “genetic material” in order to ensure productivity and resilience in the long term, almost considering also adaptation to climate change. Reducing biodiversity to adapt site specific on farm conditions to homogeneous laboratory conditions is a greater risk for resilience and long term productivity.

“house gardening types” production.....are we talking about seeds savers or agroecology?!?
Quite picturesque...

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Box 10: Closing the yields gaps and challenging diversity of agro ecological condition

Reference to farmers seeds networks to improve productivity and resilience (for example maison de semences)

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Rabobank also refers to co-operatives is “key for smallholder inclusion into value chains”

Inclusion in a value chain is not desirable per se: it depends on how the value is shared by the different actors

For the most vulnerable households, access to improved seed and fertilizer should be increased through subsidy as well as combined with social protection through safety nets to reduce the pressure on domestic budgets

Improved seeds and fertilizer will destroy the economy of most vulnerable households making them dependent from “zero value chains”, where they will compete on each other on low costs of production, having no contracting power. While industry of fertilizer and improved seeds (hybrids or GMOs) will benefit of the subsidies, like in the case of Indonesia (see the case study of SPI - Indonesian Peasants Union)

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5.2.4 Reducing economic risks and improving the investment environment

Since all the real markets are imperfect by definition, the market failure approach could be risky if it’s not clearly stated that the desirable solution is not the integration of small holders in global value chains as price taker (and not price setters), where the contracting power is in the hands of transnational corporation in a monopsony position. So the remedy to market failure is not a further liberalization and integration of the markets, but a deeper regulation and the possibility of segmentation and construction of different markets.

These markets very often suffer from serious limitations and imperfections that limit competition and transparency, resulting in very high transaction costs and barriers to smallholders. Developing and perfecting the traditional wholesale and retail markets, from the local to the national levels, is a top priority to create a favorable environment for greater investment in smallholder agriculture.

The improvement and investment in local markets is a priority for public goods and infrastructure, to be developed according to the productive and consumption needs of the local communities. The integration of all markets in a frictionless, perfect national (or regional, or global) one (see the note above) is a theoretical neoclassical model which is suitable for commodities (low cost competition), not for local and differentiated productions (for instance according to local diets, etc).

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to improve and upgrade their ways of farming in order to cope with standards requirements

This is a retail driven approach almost valid for (capital intensive) agriculture in rich countries, which requires a high rate of investments (labelling, certification etc) and it's highly contradictory with the rest of this HLPE report.

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5.3.1 Finance and banking system

There is a focus on informal systems, but not enough attention on the first part of the report: the paragraph is focused only on investments in capital, while the smallholders models of productions are almost labour intensive and their resilience and productivity schemes are based on exchange of knowledge and experiences through networking (that should be facilitated).

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This includes investments in infrastructure (storage, cold storage, electricity, clean water, pavement, access, ~~bank branches, regulated weights and measures~~), ~~but also in the modern management of the markets themselves, and, last but not least, in rules such as quality grades and standards and weights and measures that are effectively enforced by public officials.~~ Upstream, at the farm level, training, market information, business advisory services and producers' organizations, are critical for traditional markets to function better.

5.3.2.2 Contract agriculture

No focus on orientation of production: risk dependency from final buyer and not orientation on local diet.

Useful Quotations

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the bulk of investment in smallholder agriculture is made and will have to be made by smallholder farmers themselves [FAO, 2012], which makes smallholders necessarily part of the solution of increasing the amount of investments in agriculture in general.

But the question of amount of investments needed in agriculture shall not hide the more important question of the kind, nature and direction of these investments. As an investment means using current resources to increase capacities in the future, the “vision” of the future of agriculture is central to the question of priority investments and of which related constraints to unlock in priority.

In the past three decades, after structural adjustment policies, the vision was often driven by the expectations of a development driven by agricultural export markets and a focus on investments for export value chains, with the consequence of leaving smallholders with very limited access to investments opportunities to develop their farming activities

First there is a close integration between productive assets and the patrimony of the family. This may induce de-capitalization in the event of urgent, unpredictable and costly expenditure (for health or social obligations such as for funerals). It also allows some of the patrimony to be sold in order to increase productive assets. The high level of risks and the modest means available imply that unpredictable expenditures can trigger an impoverishment circle. Secondly, when products are sold, there is pressure to first feed the family and repay loans or debts; thus the marketable surplus is reduced, cash incomes remain low and, consequently, investments through cash expenditures become difficult. Thirdly, smallholders often make investments by using their family labor. This implies that the quality of life in terms of health, and access to basic domestic services is of primary importance. This is also true for education and training to improve family's skills.

Expressed in absolute terms: corporate agriculture produces, on average, 358 Reais / hectare per year while smallholder agriculture produces an average 677 Reais / ha per year. These data show that the inverse relationship between farm size and land productivity⁷, is still omnipresent today. This is reflected in the strategic contribution of small holder agriculture to food security. Carefully documented in the well-known CIDA studies of the 1960s for the continent as a whole

Yields are higher than those achieved in large entrepreneurial farms or in corporate farm enterprises. This partly associates with the type of crops. Many high value crops that require a labor-intensive way of farming perform far better in well-developed smallholder agriculture than in other types of farming. This was already clearly argued in a previous HLPE study (Report 2, July 2011: p 33), “Small farms may be more efficient in growing these crops [that require significant manual input]⁸ than large ones because of the favorable incentive structure in self-employed farming and the significant transaction and monitoring costs of hired labor” (see also de Janvry *et al.*, 2001).

It was argued that yield gaps may occur in small holder agriculture as a consequence of *limited or restricted access*⁹ to the factors of production and the non-factor inputs needed (which may be caused by a variety of reasons):

Important here is that of all food and agricultural products produced globally, only 16% physically crosses international borders. The remaining 84% circulates only in national, regional and local markets. This does not exclude, of course, that this latter flow becomes also increasingly subordinated to the parameters that reign in the global market.

As a general trend, however, recent analyses¹³ show the growing and in many countries already dominant position of modern, globalized agrifood markets controlled by multinational retail and agro-processing firms. The institutional, organizational and technological characteristics of these new markets have important distributive consequences given the exclusion of a large proportion of the resource-poor segments of the smallholders sector. These markets also affect the dynamics and conditions of traditional regional, national and sub-national wholesale and retail markets.