



# The Future of Small Farms for Poverty Reduction and Growth

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## The Role of Agriculture

The case for rural development is easy to make: the large majority of the poor live in the rural areas of the developing world. Even with urbanization, this reality will not change for at least another 20 years. Although some of the rural poor may be helped by transfers from cities, for most poor households any improvement in their incomes will depend on generating more and better jobs in rural areas.

Agriculture is likely to be central to rural development and rural poverty alleviation. Farming has high potential to create jobs, to increase returns to the assets that the poor possess—their labor and in some cases their land—and to push down the price of food staples, which is crucial when so many of the poor are net buyers of food. Historically, few countries have industrialized successfully without prior development of their agriculture. Recent comparisons made across countries show that increases in agricultural productivity are closely related to poverty reduction. In most rural areas, moreover, there are few alternatives to farming as a large-scale source of jobs. The opportunities for mining and tourism are restricted to locations with mineral deposits or natural assets, and rural manufacturers find it difficult to compete with urban factories.

Nevertheless, some changes in the past quarter century make agricultural development more difficult than before. The prices of most commodities have fallen on world markets. The better opportunities for Green Revolution-type packages of improved seeds and fertilizer have already been taken up, and there are doubts about the ability of research to provide major technical advances. In some areas soil fertility has been lost, water tables are falling, and climate change may mean increasingly adverse weather. Parts of Africa face significant impacts from the HIV/AIDS epidemic. Finally, current policy preferences prevent the state from taking as active a role in fostering agricultural development as it did in the past.

How much these changes hinder agricultural development varies by context. Different countries have different prospects for minerals, manufacturing, and agriculture. In most cases, agriculture proves central to development efforts, either as a leading sector or as a supporter to other sectors.

## The Case for and against Small Farms

Should agricultural development efforts emphasize small or large farms? In terms of efficiency, small farms typically make intensive

use of land by using much labor, since the costs of supervising household labor are low. Self-provisioning saves costs of marketing. Large farms, on the other hand, have lower costs when transacting with the outside world in procuring inputs, marketing produce, and gaining access to credit.

With regard to equity and poverty reduction, small farms are preferred to large. Smallholdings are typically operated by poor people who use a great deal of labor, both from their own households and from their equally poor or poorer neighbors. Moreover, when small-farm households spend their incomes, they tend to spend them on locally produced goods and services, thereby stimulating the rural nonfarm economy and creating additional jobs.

The changes already described affect both small and large farms, and more or less equally. But other developments may pose more severe challenges for smallholdings. When new technologies require more capital inputs, mechanization, or high levels of education, these requirements may disadvantage smaller farms.

More worrying are the implications of changes to marketing chains. Supermarket operators are becoming increasingly important in parts of the developing world. The supermarkets impose stricter standards for the quality, consistency, and timeliness of supply. They may also require the ability to trace consignments back to the source to confirm how they have been produced. Supermarkets expect their suppliers to adjust rapidly to changing consumer demands. Small-scale, undercapitalized, and often undereducated farmers find it particularly difficult to meet these requirements, especially those of traceability and credence (that is, characteristics that relate to production methods like pesticide use but cannot be proved by examining the produce), even if family labor is often well suited to delivering high-quality products.

Will small farms be marginalized from the new supply chains? Much depends on whether they grow produce for which credence attributes matter and whether supermarkets can obtain their supplies from large farms. When supermarkets can deal with a few large farms, they will; when credence attributes are less important or there are no alternatives to small farms, then smallholders are likely to become part of the evolving supply chains. Equally important is how quickly supermarkets come to dominate food supply chains. Supermarkets thrive in growing economies, so as their control of marketing increases and some small farmers are excluded, chances are that new jobs are being created for them in nonfarm activities.

## The Policy Agenda for Small Farms

What are the policy implications? Policies for smallholders need to vary by context. In some cases, and for some small farms, smallholder development promises both to drive or sustain growth and to deliver reasonably equitable development. In other cases, policymakers need to consider whether there are social reasons to support small farms. If not, the policy agenda involves establishing social safety nets for the poor and facilitating good exits from farming for small farmers.

A contemporary agenda for smallholder development to promote growth and equity would have three central elements. One is getting the basics in place. These basics include ensuring that the macroeconomy is stable and that public goods—rural roads, rural education and health care, agricultural research and extension—are funded by the state. The basics also include good governance for agricultural and rural development: ensuring the rule of law in the countryside; providing opportunities for resolving disputes, especially over land; and making any public interventions in food and credit markets as transparent and predictable as possible.

A second element is encouraging farmers to follow demand and improving marketing systems. Improving marketing systems so that farmers receive a greater share of market prices may involve upgrading transport infrastructure and systems, providing credit to traders and processors, and forming farmer associations for bulk marketing.

There are also questions about how to respond to high variability of market prices, both between seasons and across the years. Some people argue that price variability requires public intervention in markets, but others argue for improvements to private marketing systems through, for example, incentives to invest in storage.

The third element is institutional innovation in providing inputs and services. As experience over the past two decades has shown only too clearly, markets—however much liberalized—often fail in rural areas. Critical problems are lack of information on the intentions and character of small farmers and the difficulty of overcoming complementary coordination problems in the delivery of input, financial, technical, and output marketing services needed for small-farm intensification. Institutional innovations are needed to overcome these failures, but who will take the initiative? In certain circumstances, the private sector has adequate incentives to innovate. In many cases, however, the state has a key role to play in coordination. Yet state agencies may be unfamiliar with this role and ill equipped to perform it, and they may lack the necessary incentives. Greater engagement with, and accountability to, other stakeholders (like private companies, nongovernmental organizations [NGOs], and farmer associations) can create incentives. Even in the best cases, however, one should not expect a completely smooth ride, because new roles take time to learn, old habits and mistrust persist, and some institutional experiments work better than others.

Even in situations where the agenda described is appropriate, it may not be carried out. Successful intervention on behalf of

small farm–led agricultural development requires that governments have an interest in mobilizing the support needed and the capacity to do so. Political will is a fundamental precondition for agricultural investment and policy reform, and it has been lacking in many of today's poorest countries, particularly in Africa. Even Asian countries that have consistently shown strong political commitment to small farm–led agricultural development now face major political economy challenges to cutting back subsidy support to agriculture in the Green Revolution heartlands and redirecting some of those resources to investments in public goods that can expand future small farm opportunities. Vested interests and widespread opposition in rural areas, among large farmers and the fertilizer and seed industries, have become major impediments to adapting the policy agenda to changing economic conditions.

African countries have produced much more government rhetoric about agricultural development over the years than actual commitment, but a number of changes to the development agenda have the potential to produce concrete results. These changes include increased emphasis on democratization, decentralization, and participatory policy processes (for example, poverty reduction strategy papers [PRSPs]). The impact of these changes on the orientation of agricultural policy (pro- or anti-small farms) is as yet unproven, but there may be opportunities to be seized.

## Conclusions

The case for smallholder development as one of the main ways to reduce poverty remains compelling. The policy agenda, however, must change to meet the new challenges facing small farms. The challenge is to improve the workings of markets for outputs, inputs, and financial services to overcome market failures. Meeting this challenge calls for innovations in institutions, for joint work between farmers, private companies, and NGOs, and for a new, more facilitating role for ministries of agriculture and other public agencies. New thinking on the role of the state in agricultural development and new opportunities to build on democratization, decentralization, and the introduction of participatory policy processes, plus a renewed interest in agriculture among major international donors, give grounds for hope that greater support can be delivered to enable small farm development. But unless key policymakers adopt a more assertive agenda toward small-farm agriculture, there is a growing risk that rural poverty will rise dramatically and that waves of migrants to urban areas will overwhelm available job opportunities, urban infrastructure, and support services.

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