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**EXECUTIVE SUMMARY OF THE HIGH-LEVEL PANEL OF EXPERTS
(HLPE) REPORT ON
INVESTING IN SMALLHOLDER AGRICULTURE
FOR FOOD SECURITY**

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High Level Panel of Experts on Food Security and Nutrition

Extract from the Report¹ *Investing in Smallholder Agriculture for Food Security*

Summary and Recommendations

In October 2011, the Committee on World Food Security (CFS) requested the High Level Panel of Experts (HLPE) to prepare "a comparative study of constraints to smallholder investment in agriculture in different contexts with policy options for addressing these constraints, taking into consideration the work done on this topic by IFAD, and by FAO in the context of COAG, and the work of other key partners. This should include a comparative assessment of strategies for linking smallholders to food value chains in national and regional markets and what can be learned from different experiences, as well as an assessment of the impacts on smallholders of public-private as well as farmer cooperative-private and private-private partnerships" (CFS, 2011 – Final report of the 37th session).

Addressing this request requires defining smallholder agriculture, understanding what it covers, the scope and purpose of investments, and framing the question in a broader perspective on smallholder agriculture, including its contribution to food security and its future trajectories, taking into account diverse regional and national situations.

Of the 1.4 billion extremely poor people in the world (living on less than USD1.25/day), 70 percent are estimated to live in rural areas and most of them depend partly (or completely) on agriculture. For this reason, the urgent and undeniable need to reduce poverty puts smallholder agriculture at centre stage.

¹ HLPE, 2013. Investing in smallholder Agriculture for Food Security. A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security, Rome 2013. Full report forthcoming at www.fao.org/cfs/cfs-hlpe.

Main observations

1. What is smallholder agriculture?

1. There are a number of different definitions of “smallholder agriculture”² and each definition carries implications for the measurement of the number of smallholders. Definitions also guide our understanding of the investment needs of smallholders. A discussion on definitions is therefore neither trivial nor academic, but has real implications for policies and impacts on livelihoods.
2. Smallholder agriculture is practised by families (including one or more households) using only or mostly family labour and deriving from that work a large but variable share of their income, in kind or in cash. Agriculture includes crop raising, animal husbandry, forestry and artisanal fisheries. The holdings are run by family groups, a large proportion of which are headed by women, and women play important roles in production, processing and marketing activities.
3. The definition of “smallholder agriculture” cannot be rigid or “one size fits all”: there are many variations in each specific context at the regional, national and local levels, and also over time as economies transform. Classifications of smallholder agriculture based only on farm size can be misleading. A smallholding is “small” because resources are scarce, especially land, and using it to generate a level of income that helps fulfil basic needs and achieve a sustainable livelihood consequently require a high level of total factor productivity, requiring in turn a significant level of investment.
4. Smallholder agriculture is also defined in relation to, and in contrast with, two opposites – larger commercial holdings with hired labour on the one hand, and landless workers on the other.
5. Off-farm activities play an important role in providing smallholders with additional income and as a way of diversifying risk, thus improving their resilience to the shocks that impact on agriculture. Off-farm activities are a common feature of rural economies, both in developed and developing countries, and offer opportunities for investments in support of smallholders.
6. The family is at the same time a social unit of production and consumption and the source of labour for agriculture. The productive and the domestic sides of smallholder farmers are closely linked. These linkages explain some of the constraints faced by smallholders regarding investments, as shocks and risks can spread between the production side and the family side; they also explain the resilience of rural societies because of reciprocal ties relying on kinship and social proximity.
7. Today, smallholder farmers detached from any type of market exchange are no longer significant in social or economic terms, but smallholders producing only or mainly for subsistence are not uncommon – in all regions. These farms rely on their own production for food consumption, as a complement to low monetary incomes. These smallholders are part of the market economy through their provision of labour, and their food security depends on their production, which does not necessarily enter the market.
8. At the collective level, smallholders’ families are part of social networks within which mutual assistance and reciprocity translate into collective investments (mainly through work exchanges)

² This report deals mainly with crop and livestock systems from a smallholder perspective. Some of the analysis and recommendations can also apply to other systems. Specific issues related to fisheries and aquaculture will be dealt with in the upcoming report of the HLPE on the role of sustainable fisheries and aquaculture for food security and nutrition (forthcoming, 2014).

and into solidarity systems. They also participate – when political freedom allows it – in rural producers' organizations and local development associations in order to improve service provisions, including market access and market power, access to productive assets and to have a voice in public policy debates.

9. To appraise the magnitude and diversity of smallholder agriculture and to inform sound policy-making, more accurate and extensive data are needed: not only on land size, but also on assets' composition (resulting from past investments), production and sources of income. Such data are currently not available at the global level, and at the national level for some countries only. The FAO's World Census of Agriculture (WCA) frames and organizes the way censuses have to be implemented in all countries. However, there are three difficulties that need to be overcome: (i) not all the countries have the means, the interest and the capacities to carry them out: the last completed WCA round covered 114 countries; (ii) data are not always homogeneous and comparable; they can vary according to the specific focus of each country; and (iii) they are not linked to production statistics, making it difficult to make the link to national and global production according to the type of holding.

2. Why invest in smallholder agriculture?

10. Smallholder agriculture is the foundation of food security in many countries and an important part of the socio/economic/ecological landscape in all countries. With urbanization, integration and globalization of markets, the sector is undergoing great transformations that are of vital national interest, that are often against the interests of smallholders, and that are neither inevitable nor a matter of chance, but of social choice. Depending on regional, national and subnational contexts, these transformations can lead to various patterns, which all entail a certain proportion of smallholders and larger farms, with impacts on the diversification of the rural economies.
11. The structural transformation that occurred in the Western countries and in some of the Asian and Latin American countries has been grounded on intensive use of resources, and on the capacity of these economies to create jobs in other sectors, or on the possibility of massive domestic or international migrations. The situation is quite different today owing to regionally contrasted demographic and economic patterns with implications for job creation in non-agricultural sectors to absorb new entrants into the labour market.
12. Smallholders contribute to world food security and nutrition while performing other related roles in their territories. Historical evidence shows that smallholder agriculture, adequately supported by policy and public investments, has the capacity to contribute effectively to food security, food sovereignty, and substantially and significantly to economic growth, the generation of employment, poverty reduction, the emancipation of neglected and marginalized groups, and the reduction of spatial and socio-economic inequalities. Within an enabling political and institutional environment, it can contribute to sustainable management of biodiversity and other natural resources while preserving cultural heritage.
13. The contribution that smallholder agriculture makes to world food security and nutrition is both direct, in as far as it links production and consumption for many rural households, and indirect because (a) it is provisioning domestic markets with the main food products, (b) it does so in a potentially resilient way, and (c) because in many countries smallholder agriculture functions as an important social safety net.

14. The potential efficiency of smallholder farming relative to larger farms has been widely documented, focusing on the capacity of smallholders to achieve high production levels per unit of land through the use of family labour in diversified production systems.
15. Predicted challenges in feeding humanity point to the need to pay greater attention to the sustainable use of natural resources and to limit damage to the environment. At a global scale, attention must be given to the increasing scarcity of fossil fuels, water, soil fertility and biomass. Many examples of efficient and sustainable smallholder farming exist (from China and Viet Nam, to Costa Rica and Guatemala) that demonstrate that it can be an economically, socially and environmentally effective way of organizing agricultural production.
16. Despite the limitations of defining smallholders by the size of their holdings, comparable data compiled for 81 countries offer a telling global picture: worldwide, 73 percent of the total number of holdings dispose of less than 1 ha of land and 85 percent dispose of less than 2 ha. The majority of holdings below 2 ha are found in Asia. In Africa, 80 percent of the holdings are below 2 ha. In developing countries, the total number of smallholdings tends to reach 500 millions unit. According to the WCA, has close to 200 million smallholdings; they cover only 10 percent of the agricultural land that is globally available, and they produce 20 percent of all food in the world. This is an important indication of the productivity that can be achieved in smallholder agriculture relative to larger farms.
17. Even in developed countries, smallholders have changed but have not disappeared. Though they have been neglected by policies often favouring larger farmers, they remain numerically important depending on the prevailing national context, often combining farming with other activities in the rural non-farm economy.

3. Who invests in smallholder agriculture?

18. Most investments in smallholder agriculture are realized by smallholders themselves. This occurs through different modalities but mostly through labour investments to enlarge and improve the resource base, and to a lesser extent through personal savings and remittances from family members that are used for the acquisition of new, additional resources. However, these investments are limited since domestic needs receive priority when food, health or education expenditures are at risk.
19. Public investments in and for agriculture have fallen considerably since the 1980s. It is now widely recognized that agriculture has been neglected at both the national and international levels. Many agricultural banks (mostly linked to, and supported by, the state) have disappeared, and extension services, applied research and investment in infrastructure projects have declined since the mid-1980s.
20. Meanwhile, larger enterprises mostly oriented at agro-exports have been favoured, while the smallholder sector, mainly (although far from exclusively) producing for the domestic market, has been neglected. Major corporations and other private sector companies were expected to provide the appropriate market services as well as the technical knowledge to help producers upgrade their standards in order to meet market requirements. This has occurred in some places, but not in most, and often not in ways that have benefited smallholders. When related to the total number of smallholders, only a minority has actually been able to participate in such schemes.

21. There is growing interest in making more effective use of public–private partnerships (PPPs) in order to better mobilize and orient private investments towards collective goals. This generic term covers various types of partnerships between public and private actors, used initially for large investments projects, research and technology, and now increasingly putting emphasis on agriculture. Many governments are in the process of designing legal frameworks for PPPs, including in the agriculture sector. One difficulty here is how to make them work for smallholders and how to involve them in their design.

4. What are the constraints to investing in smallholder agriculture?

22. When confronted with the need to invest, smallholders face a diversity of often interrelated constraints: poverty, high levels of risk (personal, natural and technical, and economic and financial), declining size of land holdings, lack of incentives in their economic and institutional environments, difficulties in accessing appropriate markets, and the weak voice of smallholders' organizations in policy debates.
23. The diversity of such constraints to investment can be organized along three dimensions related to (i) assets, (ii) markets and (iii) institutions. These dimensions not only present a basis for understanding the variety of constraints to investments, they also hold clues to overcoming them.
 - a) The first dimension addresses natural and productive assets, including physical, financial, social and human assets. Investment decisions need to address the totality of the asset base of the smallholding. Among the assets, the natural resource endowment of the holding is a key factor, and it is important to note that, even when limited in size, it can be improved through investments. Limited access to land and other natural assets (especially water) is one of the most binding constraints on smallholder farming investment, especially for women. Highly skewed distribution in the access to land and water critically hinders the productive potential of smallholder farmers.
 - b) The second dimension addresses markets and market agents. Unfavourable conditions such as price volatility, lack of access to appropriate markets, including to financial markets, lack of collective bargaining power and high transaction costs discourage investments or even make them impossible.
 - c) The third dimension addresses institutions and policy design. Good policy design is essential, as well as innovative and enabling institutional environments. Smallholder organizations and collective action are crucial, yet there are many impediments to their effective participation, including, in some cases, a lack of recognition of their basic rights.

5. What strategies have been shown to work in overcoming these constraints and enhancing investment in smallholder agriculture?

24. To realize the full potential of smallholder agriculture, there is a need to reduce or eliminate the constraints that limit its investment capacity. The first objective is to support investments by smallholders themselves, but their capacity to do so depends on other related investments in collective action, private initiatives and in public goods.
25. To be more effective, policies need to be integrated in the sense that each policy should support (rather than hinder) the other. For example, investments in appropriate research and extension will not necessarily lead to improvements unless investments are also made in accessing and creating new appropriate markets. Similarly, investments in infrastructure work better if they support the

models of production and markets that are appropriate to smallholders and, further, these investments would not reach their aim unless investments are also made in securing tenure rights.

26. Governance for agriculture and rural development needs to be designed to support the multifunctional roles of smallholder farming in development. Traditional ministries of agriculture are typically insufficient in fulfilling this function. Experience shows that the efficiency of specific sectoral or ministerial policies is mutually enhanced by their coordination. This often calls for specific national level governance and coordination mechanisms between different ministries, public administration and concerned stakeholders.
27. Smallholder agriculture in particular and agriculture as a whole are often left to undergo great transformations that are sometimes positive but sometimes adverse for smallholders and their food security. These transformations are not inevitable but are the result of explicit or implicit political choices, very often of vital national relevance. Within such political choices, depending on national specificities, it is paramount to recognize and support the important socio/economic/ecological functions of smallholder farming. Appropriate choices and policies result from transparently determined political processes that involve smallholder organizations.
28. Coordinated actions to enhance smallholder investments and capacities to invest can be described along three lines of actions: improving assets, improving markets and improving institutions for smallholders. These actions are not limited to agriculture, but may concern off-farm activities.
 - a) *Increasing smallholders' access to natural and productive assets.* Increased access to land, tenure security and the right to use common property resources are essential to the livelihoods of many smallholder communities. With secure access to resources (and adequate incentives and institutional settings that allow increasing the productivity of smallholder family labour), the smallholder family may realize a level of income that enables further investments. This implies that investing in smallholder agriculture to improve efficiency and outcomes for smallholders can be done even without increasing holding size.
 - b) *Improving smallholders' access to markets.* Smallholder agriculture needs to be better linked to markets by reducing transaction costs, with better infrastructure and key public investment. An additional issue is how to invest and with which stakeholders to increase and keep more value-added at the holding and territorial level. In order to create favourable conditions, it might be necessary to develop new markets (such as “short circuits” that reduce the distance between consumers and producers, and public procurement schemes) and to regulate existing markets differently. In particular, the efficiency of the domestic market can be improved, benefiting both producers and consumers through adequate strategies combining public and private investments.

The advantages and disadvantages of contract farming for smallholders have been a subject of controversy. Contract farming cannot be a miracle solution to problems smallholders are facing, or applicable to all smallholders in the world. However, given its potential, this report suggests investigating the economic and institutional conditions for making contract farming an inclusive, fair and transparent process for smallholders. This includes monitoring accountability mechanisms on impacts on their food security at the household level and beyond, and on the distribution of value-added among stakeholders. Improving access to innovative credit schemes, collective investments in physical and social capital, and in collective assets to improve market access, are important to enhance the competitiveness of smallholder farming.

- c) *Making institutions work for smallholders.* The state has a key role to play in regulating market relations. It is therefore important to invest in re-establishing (whenever needed) the authority and capacity of the state through rebuilding and strengthening the ability of the public sector to act efficiently in support of smallholder development, including achieving accountability of the resources allocated. The state and local authorities also have a key responsibility in recognizing and enforcing the rights of smallholders, for instance to access land and water, and above all to ensure security of tenure and access to common property resources.

Most agricultural development programmes have been designed to increase productivity through technology-driven intensification, yet, while productivity is important, other related objectives must also be considered, especially increasing resilience. Research and extension systems are crucial to enhanced investment in smallholder farming by designing and promoting appropriate systems and practices adapted to the needs of smallholders, such as agro-ecological approaches and other sustainable intensification practices aiming at a more efficient use of inputs and decreasing the drudgery of agricultural labour.

29. Investing in public goods is essential for poverty reduction in the rural population as well as to reduce regional disparities. This includes specific attention to agriculture, through research and extension, for example, but also basic public goods for the rural population such as roads and communications, electricity, irrigation, education, health, water and sanitation. The family labour force is smallholders' first and foremost asset. Undernutrition, lack of safe and accessible drinking water, diseases, lack of education, highly unequal gender relations, etc., all degrade the quality and quantity of the family labour force. Consequently, safeguarding basic needs is absolutely essential. Providing better services for smallholders would enable them to better invest – not only in farming, but also in non-farm activities that could provide a source of monetary incomes and remittances to invest in agriculture.
30. Strengthening the collective voice of smallholders at various levels remains high on the agenda to improve investment capacities; the organizations themselves have to consider investments to serve their members within a market-led economy. They will need public support to be more effective in servicing their members and voicing their interests.
31. To be effective, policies that address poverty and malnutrition and hunger must be based on respect for the right to food. The right to food differs from food security in providing entitlements to individuals – and placing legal obligations on states – to access adequate food and the resources that are necessary for the sustainable enjoyment of food security. Achieving the right to food for smallholders requires improved investments in their capacity to produce and earn incomes.

Recommendations

Smallholder farmers are the main investors in their own farming as they seek to increase productivity, improve their well-being, including food security and nutrition, and reduce environmental degradation. However, governments and donors have a fundamental role to play in providing the policies and public goods necessary to make smallholder farmers' investments possible. In what follows, we make recommendations to governments, donors and the CFS for policies and public investments in support of smallholder farmers' own investments. The recommendations are also offered as input to the ongoing CFS consultations on the principles for responsible agricultural investments.

1. Developing a national strategy and mobilizing political will

- a. National Smallholder Investment Strategies:** Governments should design and implement medium- and long-term strategies, with the accompanying set of policies and budgets, to increase the capacity of the smallholder sector to fulfil its multifunctional roles in national development. These roles include contributing to growth, maintaining employment, reducing poverty, enhancing the sustainable management of natural resources and achieving food security. These National Smallholder Investment Strategies should be solidly grounded in participatory processes involving first and foremost the smallholder organizations and all concerned stakeholders.
- b. Citizenship and rights:** When it is not already the case, governments should recognize in law the individual and collective rights of smallholders, including their right to organize democratically, to have voice in policy debates and to defend their interests, with gender- and age-balanced representation. Securing such rights is important not only intrinsically for them but also in contributing to building the political will necessary to implement the proposed National Smallholder Investment Strategies.
- c. Achieving the right to food for smallholder farmers:** This population is more exposed to malnutrition and hunger. It derives its access to food through self-provisioning, the exchange of products and market purchases based on monetary income. Attention thus needs to be given not only to increasing purchasing power, but also to accessing productive assets and increasing the productivity of land and labour in smallholder farming through appropriate training, technology and support services to achieve food and nutrition security with a rights-based approach.

2. Gaining access to natural assets

Governments must guarantee tenure security for smallholder farmers over land and natural resources, by implementing the *Voluntary guidelines on responsible governance of tenure of land, fisheries, and forests*. They must also take relevant measures to improve cooperation and governance in the management of common property resources, including open-range pastoral resources, biodiversity, water, forestry and fisheries. Women's rights to land and natural resources use must be developed and strengthened. Governments should improve access to land by various means including land reform processes, making use of the lessons learned from other countries' experiences.

3. Providing a favourable investment climate

- a. Access to public goods:** To support their investment efforts, smallholder farmers need adequate access to public goods on both the production and consumption sides of the household, with benefits reinforcing each other. On the production side, public investments are needed, for example, in water management facilities and soil conservation. On the consumption side, public investments are needed in health services, education, water and sanitation, and social protection. By increasing the

productivity of labour, these consumption goods reinforce the production side of the smallholder operations. Gender-specific support services are needed to recognize the differential roles of household members in production, consumption and the reproduction of the family unit over time. Achieving level playing fields for smallholder farmers in accessing public goods and services is the responsibility of governments and is essential to securing their well-being and competitiveness.

- b. Access to markets:** Governments should give priority to linking smallholder farmers to domestic, national and regional markets, as well as to new markets that create direct links between producers and consumers, and to schemes that rely on smallholders for the procurement of food for school and institutional feeding programmes. Developing these market linkages also requires investment in small- and medium-size food processors, and small-scale traders at the retail and wholesale levels. Market failures and price volatility are major disincentives for smallholder investment. Government intervention is important to reduce transaction costs on markets and to stabilize prices and smallholders' incomes. Regarding contracting opportunities in value chains, governments should strive to establish the necessary regulatory instruments to bridge the significant gap in economic and political power that exists between smallholders and their organizations on the one side, and the other contracting organizations on the other side.
- c. Access to financial services:** There is an urgent need to improve smallholder access to financial services adapted to their needs. This includes facilitating monetary transactions (such as mobile-phone based money transfers), safe savings deposits (with incentives to save), low-priced credit (such as through joint-liability group lending), and insurance (such as index-based weather insurance). Novel solutions are needed that reduce financial risks, lower transaction costs and facilitate long-term investments, for instance in technological innovations and soil fertility improvements in sub-Saharan Africa. Liquidity constraints must be relaxed not only on working capital expenditures (fertilizers, seeds), but also on medium- and long-term investments, supported by fair subsidy mechanisms.

4. Improving productivity through research and extension.

There is an urgent need to upgrade and finance national research and extension systems targeted specifically to the needs of smallholders, with supporting financial mechanisms. The main objective would be to increase productivity and resilience through diversification of the production system with a high concern for the self-provision of diverse foods with a high nutritional value. Combining increased productivity and resilience will require a high level of investment in research to develop productive land-use systems with minimal ecological risk such that biodiversity may be used productively and conserved. Agricultural research and extension should support the *in-situ* and *ex-situ* conservation of agricultural biodiversity in the context of climate change. Agro-ecological approaches and production ecological principles may be instrumental. Smallholder farmers need appropriate seeds as well as machinery for field operation, food processing and other value-adding transformations. International collaboration and the sharing of experiences in technology development for smallholder farmers in different regions of the world should be promoted with a strong engagement, if not leadership, of smallholder organizations.

5. Investing beyond the farm: rural non-farm economy and territorial development

- a. Diversification of sources of income.** When confronted with the need to escape poverty and malnutrition, smallholder households often need access to complementary sources of income in the rural non-farm economy. Successful rural non-farm employment in turn consolidates the farm economy, providing it with liquidity and risk-reduction that support on-farm investments. For this, investment must be made in support of the rural non-farm economy and the decentralization of economic activity towards rural areas. Investment must correspondingly be made in the qualifications of young people so that they can find employment either in modernized agriculture or in other related activities and labour markets. Territorial development can offer an effective platform to coordinate public and private investments in agriculture and in the regional non-farm economy.
- b. Governance for agriculture and rural development.** Extensive market failures for agriculture and smallholders, and the need to coordinate public and private investments and programmes in a territorial perspective, require appropriate governance. Governance for agriculture and territorial development requires going beyond the traditional ministries of agriculture. Different solutions must to be tailored to national political and institutional contexts. Early lessons from implementation of the Comprehensive African Agricultural Development Programme (CAADP) and the Global Agriculture and Food Security Programme (GAFSP) offer an opportunity to reflect on best practices across countries and regions for investments in support of smallholder farmers.
- c. Up-to-date information on the smallholder sector.** In order to better inform National Smallholder Investments Strategies, international agencies and especially FAO, in cooperation with national governments, need to better document the evolution of smallholder agriculture and its contributions to various outcomes. These outcomes include measurement of non-market food production and of the diversity of diets. The World Census of Agriculture [WCA] and other data collection efforts should be harmonized to strengthen the evidence-base for investment decisions. International funding should support countries in implementing censuses and related surveys.

Recommendations to the CFS

1. Given the critical role for smallholder farmers to attain food security through the combination of self-provision, exchange of products and market transactions, and the fact that a large portion of them are suffering from food insecurity, the CFS could promote awareness on the specific instruments, programmes and policies needed to realize the right to food for smallholders by creating a specific platform for the sharing of lessons learned and best practices among countries.
2. To support the National Smallholder Investment Strategies, CFS could request IFAD, the World Bank, bilateral funding agencies and regional development banks to finance pilots of the design, implementation and monitoring of such strategies in a small number of countries. These efforts should build on the findings of the present report. The results of these experiences should be fed back to the CFS as a means of assessing and improving the design of multisectoral policies on this complex issue.
3. Contract farming and public–private partnerships (PPPs) may offer opportunities to improve smallholders' food security. To maximize benefits, improve fairness and the food security impacts of these arrangements, there is a need for implementable and monitorable frameworks agreed by all countries and crafted with the involvement of smallholders themselves. The CFS could take up the challenge of leading inclusive processes to develop (i) guidelines on contract farming and (ii) guidelines on PPPs that relate to investment in smallholder farming.