

Farming for profit: an old idea coming of age

As market liberalisation and globalisation occurs farmers are increasingly, having to compete to ensure profits. Farm business management skills and knowledge is widely regarded as important for farmers to effectively respond to the present day challenges that farming is all about. This requires the design of effective training programmes and the delivery of farm management extension messages. The critical policy challenge is how to provide farm management skills to small scale farmers in developing countries. This Briefing describes the current relevance of farm management, explains the various elements involved as well as the framework required for programme design, implementation and evaluation.

Small farms, open markets

Market liberalisation and market reform impose challenges for farmers in shifting from the traditional production-oriented system towards a more market-led commercial production. Farming is becoming a much more competitive business and farmers are being compelled to become better managers in order to survive. Small scale farmers increasingly have to adapt their farm business to market changes, to improve efficiency and increase profitability in order to take advantage of the new opportunities that are constantly arising.

If small scale farmers are to successfully

Farm Management Decisions

- What enterprise or combination of enterprises should be chosen?
- What markets and market channels to select?
- How to get premium prices?
- What combination of resources (or factors or inputs) should be used to produce the enterprise selected?
- What production methods should be used?
- How much of each commodity to produce?
- What level of output should be aimed at each enterprise?
- When and where to buy and sell?
- How to cut back on the risks of farming?

navigate the new competitive landscape, ways are needed to improve their capacity to respond to these market changes. This requires the development of managerial capabilities for decision-making in farm planning, budgeting, and marketing, elements of farm management.

What is farm management?

Farm management is an important part of agriculture. It is concerned with improving farmers' decision making by using concepts of economics and applying them to management tools. Farm management requires an understanding of economics to select and combine farm enterprises and allocate resources adequately.

There are two forms of relationship between farm management analysis and extension activities. On the one hand, information on farm management may be extended to farmers with the aim of improving their farm management activities. This is farm management extension. On the other hand

Key Questions

. Why is farm management relevant?

.What is farm management?

.What are the limitations on farm management in developing countries?

.What are the tools used in farm management?

. What types of training programmes are there?

. What type of advice is needed?

. How is farm management advice delivered?

. How can extension workers effectively deliver farm management advice?

farm management analysis may be used by extension services, planners and programme decision makers to aid their understanding of farm level information needs.

Farmers are concerned about improving the efficiency of their resource use in goal achievement. Farm management helps farmers to make the right choice between crop enterprises and/or livestock according to individual levels of financial, labour and land endowments and at their level of risk adversity. As farmers become more market-oriented, extension needs are changing and extension workers face new challenges in providing appropriate advice.

Government policy makers and administrators are also primary clients. Their intervention in agriculture usually has two aims – to encourage efficient and sufficient production of surpluses for domestic consumption and export, as well as to promote the welfare of rural communities. These clients are interested in predicting farmer’s managerial responses to different policy interventions.

Extension workers and technical research workers are ‘secondary’ users. They tend to use farm management techniques to promote the interests of the ‘primary’ clients. Understanding farm management and improving agriculture are important to extension workers as they attempt to assist farmers with information on changes in resource allocation and production technologies. Improved use of farm management techniques may also allow them to identify areas where new technologies would be particularly beneficial to farmers, so that they can inform research workers of farmers’ needs.

Farm management can take two principle forms:

Data and information: Farm management decisions are underpinned by good

information. Farmers require timely information on markets, production and processing technologies, government policies and regulations, and a host of other practical matters. Policy makers also require micro level farm management information for better policy formulation and programme design.

Farm management extension: Farmers make decisions in a risky, continuously changing environment and the consequences of their decisions are generally not known when the decisions are made. Farm management extension can help farmers plan new enterprises; examine the suitability of new practices; identify changes than can be made to existing enterprises; comparing different enterprises and identifying the most appropriate; examining and comparing farmers practices over time.

Key Questions

. Why gender issues need to be taken into account?

How can a farm management programme be designed?

What prerequisites are needed?

What is the contribution of farm management?

Farm Management Information Systems

- Farm surveys
- Farm and enterprise budget data base
- Farm management handbooks
- Market information system
- Rural information centres
- Farm record keeping
- Telecentres
- Rural knowledge centres
- GIS and remote analysis

Source: *Bridging the Rural Knowledge Gap: Information Systems for Improved Livelihoods*

Farm management in developing countries

In developing countries farm management is not a priority subject to many farmers, service providers and policy makers. The following constraints are commonly found:

- An absence of institutions dealing with farm management

- A shortage of extension workers, thinly spread, poorly motivated and with shortages of transport.
- Deficiencies in collecting information and using databases.
- Limited access of farmers to information.
- Low priorities for farm management in formal education
- Low levels of general education amongst farmers.
- Limited availability and suitability of training and extension materials.
- Lack of well trained extension personnel in farm management.

Extension has in the past focussed largely on issues of production and productivity, limiting itself to the transfer of technologies. This singular focus has, however, not been sufficient to meet the changes occurring in farming locally, nationally and internationally.

In many regions family farms are becoming more and more integrated in to the market economy. From mere subsistence farming they have moved to more intensified ways of production, using modern inputs. Productivity has risen and a substantial part of their production is sold in the market. Farmers are increasingly diversifying their activities in relation to market opportunities. For many farmers this situation is relatively new. Farmers are now asked to manage combinations of land, labour and other resources significantly different than those with which they have been familiar with in the past. They are confronted with problems they did not know before. In short, they are confronted with farm management problems for which their past experience is of little support.

Farm management tools

Most farmers are aware that the production of non-staple or even non-traditional crops can generate a higher income and a higher productivity of land and labour, although often at an increased risk. Farm management advice can help farmers to better choose crops most appropriate to their individual level of financial, labour and land access endowments and to their level of risk adversity.

Farm management extension has traditionally focused on the development of two sets of techniques: diagnosis and planning. Diagnostic techniques are those which help a manager to recognize and define a problem initially, while planning methods are used for comparing alternative solution strategies. Most conventional farm management tools fit into this scheme. Under the diagnostic category, this would include record keeping, farm profitability analysis, and budgetary appraisal. Planning implies consideration of the future and the techniques used explore, analyse and evaluate future possibilities. Diagnostic techniques, by contrast, analyse past events. A range of farm business management tools has been traditionally applied in this process.

Farm Management and Planning Tools

- record keeping
- enterprise budget/ whole farm income
- partial budgeting
- comparative analysis
- whole farm planning
- labour planning
- machinery planning
- market planning
- cash flow
- investment appraisal
- risk management

Farm management essentially involves two functions: the appraisal of and choice between alternative strategies in relation to a given objective, and the routine application of technical skills to implement the chosen

strategy. Planning is therefore a crucial part of farm management.

Planning and implementation process:

1. Definition of problem
2. Collection of data for analysis
3. Identification of possible solutions
4. Selection of preferred strategy
5. Implementation of strategy
6. Monitor and evaluation performance and impact

Farm management and extension training

Farm management training and extension needs to be targeted at three levels of client use: extension programme managers, extension workers and farmers. The first level is concern with providing strategic guidance on the types of advisory and training services that might be provided to farmers in order to improve their managerial and entrepreneurial skills. Decision makers need to become aware of the increasingly important role of farm management in extension and programme design. The second level is concerned with the design of training programmes for extension workers in order to improve their capacity for working effectively with commercially oriented farmers. The third level is to develop information, training and extension programmes for use by extension workers in supporting farmers.

A portfolio of training materials are being prepared within AGSF to respond to these needs.

Training of trainers:

- ‘Remedial’ training programmes directed towards trainers of extension workers (two week training)

Experiential in-service training:
(learning by doing)

- Cascade Training Model directed towards training institutes (conducted over 18 months)

- Materials preparation for farmer field school and farmer group training (season and annual training)

Extension information

Farm management extension has shifted from a production cum technology focus to the dissemination of information beyond the farm. Farmers need more than just technical information. They need farm management information; information on markets, credit facilities and consumer demand. Market-oriented farm management extension will only be effective if the focus of the extension programme shifts to management advice, the provision of market information and the drawing up of contracts with private sector input suppliers, processors and market outlets as well as monitoring their compliance.

Farm management extension delivery

There has been a general dissatisfaction with centralised extension systems over they years. With this recognition decentralisation of the re-organisation and management of extension is occurring globally. This process is paired with an effort to involve a broad variety of actors in increasing the flow of farm management information. Pluralism is often regarded as the solution to service provision gaps that have emerged in the light of public sector restructuring and cuts in public finance.

There are four types of actors involved in farm management extension: public agencies, private service providers, farmer organisations and non-government organisations (NGOs). The roles of these groups of actors vary according to specific country contexts.

Partnership programmes with farmers and farmers’ organisations

In some countries demand for management training and extension advice has come through farmers’ organisations. As stakeholders in the governance of such services, farmers, either individually or through their organisations are increasingly participating in the design and implementation

of programmes for extension delivery and evaluation. The participation of farmers facilitates a more accurate identification of resources, opportunities and needs, adapted to the situations and circumstances of farmers.

To the degree to which farmers themselves are an integral part of the governance and delivery of extension services, will the extension service be successful, valued and effective. Success rests in partnerships with farmers; incorporating farmer-to-farmer approaches, working informal groups of farmers, and working with formal Farmers' Organisations (FO's), at village, district and national level.

Management Advice for Family Farms (MAFF)

This approach has been introduced in the Francophone countries of Sub-Saharan Africa in savannah zones dominated by rainfed agriculture and family farms. MAFF is concerned with providing farmers with tools that enable them to make better decisions. It includes tools for evaluating past year's records and tools for planning next season's crop and animal production. Farmers learn how to evaluate assets in terms of labour, land, equipment and animals and analyse data.

Gender issues

Women perform a major part of agricultural tasks and manage some 20 percent of small farms. Due to the multiple demands on their time they have special needs that must be given special consideration in farm management extension. Changes in farm management must take into account this factor and attempts made to reduce their work load and increase their income and influence on how family income is spent. Experience indicates that improving this situation is usually only possible through specific farm management extension programmes targeted towards and implemented by women.

Farm management extension worker as facilitator

Extension has too often been merely seen as a vehicle for spreading scientific and technical progress and technology transfer. But the dissemination of knowledge is not a one way street from scientists to producers. Farmers' own knowledge must be collected, analysed and disseminated. Simply making information more readily available is not enough to ensure that it is used effectively. Farmers must be able to analyse the constraints, seek out and test solutions and make choices from a range of service providers.

Farm management extension requires extension workers to facilitate:

- direct exchanges between producers as a way of diagnosing problems, capitalising on existing knowledge, exchanging experiences, disseminating proven improvements and even designing common programmes.
- relations between farmers and service providers (private and public).

Extension workers must think in terms of market opportunities, increasing farmer income and total farm management and as facilitators of information exchange, they must be adept in participatory techniques and resourceful in drawing on a mix of communication methods and technologies. This is a new and different role for extension workers.

Working with groups of farmers

Group methods of extension have been seen to be the most effective means of developing farm management skills, disseminating farm management information and ensuring efficiency of extension delivery. Farmer groups provide the opportunity to get information over to a number of farmers at once, and for farmers and extension workers to exchange information and ideas with each other. Small groups have been seen to be an effective mechanism of influencing people to take decisions and subsequent action. Care is needed in selecting group members to ensure

common interests and problems. Farmers are commonly grouped according to farming system, wealth, gender and age. Farmers are usually best equipped to categorise themselves into these groupings using their own criteria.

Private sector linkages

Without input supply and market outlets, the effect of farm management advice is curtailed. Better linkages between farmers and the private sector are essential, but the inherent biases of business must be recognised. Impartial and unbiased marketing and technical information are needed if farmers are to respond to market conditions. Farm management extension should deliver that advice and facilitate balanced relations between farmers and private business is likely to ensure greater long term sustainability.

Participatory farm management- design and implementation

Farm management advice could be introduced through the design of pilot programmes that receive the full support of the governing agency. Management advice, however, is not a panacea for all extension needs. It demands careful identification of target groups, regions and choice of personnel. Sufficiently qualified, and dynamic persons should be selected for participation and training in the programmes. Extension agencies need to be convinced of the usefulness and relevance of participatory extension as a methodology, and the importance of group dynamics. They should be ready to accept increased involvement of the beneficiaries and other stakeholders in programme definition and governance of delivery service.

Steps in programme design

Best practices suggest that farm management extension programmes include the following steps:

- Analysis of the farm situation by the farmer, and the farmers together within the group, facilitated by an extension agent.
- Analysis of constraints, identification of opportunities, and development of actions.
- Acquisition of information and knowledge by farmers.
- Implementation of new activities and/ or technologies.
- Group monitoring of implemented activities/ technologies.
- Individual and group assessment of the profitability and performance.
- Farmer to farmer extension.

These aspects of the methodology are based on participatory group approaches, complemented by individual advice given to each participant and farm family.

Components of farm management extension programmes

- Farm management analysis
- On farm experimentation
- Participatory data collection and problem analysis
- Marketing and input supply

Prerequisites for the application of farm management

There are four crucial preconditions for the successful application of farm management in the process of agricultural development.

1. Improving the source of technical and economic background data through research and surveys.
2. Provision of farm management training for trainers and extension workers.
3. Improving methods of delivering farm management advice
4. Improving the provision of credit within the rural finance sector.

While the application of farm management to farm business operations is a necessary condition for increasing farm income, it is not sufficient by itself. Conditions must prevail

which create a conducive environment for rational decision making.

These conditions include attractive prices for farm products, up to date information on prices, stable input prices and readily available inputs, accurate weather forecasts, dissemination of new technologies, improvements in rural infrastructure. The sustainability of farm management initiatives in the long term cannot be envisaged without a minimum of stability combined with public support.

Impact of farm management programmes

A better understanding of the links between farm management and increases in small farmer income can be gained through impact assessments. This measures the differential impact of farm management advice on the income and livelihoods of male and female headed farm households which result from field level programmes. Impact assessment can help examine how farm management policies affect the lives of small farmers. By adopting a sustainable learning approach the focus moves from proving impact to improving ongoing policy, making it more effective.

Analytical frameworks could be designed using sets of indicators and methodologies for collecting and reporting farm management performance information. The framework proposes a wide range of indicators according to common goals and objectives seen to be important to practitioners and donors. These are categorized as follows.

- reaching large numbers of people (scale)
- reaching under served markets particularly the poor (outreach)
- doing so at the least possible cost (cost effectiveness)

- improving farm household lives through increased farm income (impact).
- ensuring that advisory services and benefits continue in the long run (sustainability)

Contribution of farm management

There is a link between farm management training and extension and increased management skills, profitability and income. The major achievement is the expected shift towards 'demand driven' advisory services where farmers articulate their own needs to which extension staff can respond.

In Africa farm management programmes have contributed to agricultural development by:

- Increasing farm income by guiding resource allocation and farm operations towards enterprises that have secure markets.
- Ensuring optimum allocation of scarce resources so that food supply needs are met and income can be enhanced.
- Utilising scarce family labour more productively by the better planning of farm operations and diversifying farm enterprises into higher value activities.

Farm Management in Kenya

Farm Management Extension projects in Kenya have facilitated a shift towards higher value, income generating activities. In some areas farmers' groups have been established to generate economies of scale for its members. Both activities have resulted in increases in farm income.

In general, farmers who participate in farm management training are more likely to make changes to their practice and improve profitability. Farm management training can influence change in the following ways: first, by delivering new knowledge and skills; second by providing interaction with trainers and extension workers; and third by providing

interaction with peers (that is fellow farmers). These interactions provide opportunities for receiving new information and together with improved skills have been seen to improve farm profitability and income.