

**HLPE Study on  
Constraints to Smallholder Investment in Agriculture**

**Proposed Scope of the study for the online-consultation**

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**1. Rationale for the study and objectives**

Following the CFS's request, the objective of this study is to identify constraints to smallholder investment in agriculture and to explore strategies pursued by smallholders and by others to overcome these constraints. Recognition is that the bulk of investment in smallholder agriculture has to be made by smallholder farmers themselves. It is consequently important to understand what motivates, facilitates, and constrains these investments, taking into account the totality of the livelihood strategies that these households and their communities pursue, including activities in both agriculture and non-agriculture. The study is motivated by the fact that some 75% of world poverty is rural, largely directly or indirectly associated with smallholder farming. Smallholder farmers, many of whom are women, produce most of the food consumed locally, and also contribute importantly to nutrition-sensitive integrated value chains and to regional and global markets. Food security at a world scale thus importantly depends on the contributions made by smallholders in investing in their own agricultures. These investments are in turn affected by investments made by others, first and foremost coming from the public sector, but also through partnerships with the private sector, producer organizations, and philanthropic organizations.

Within the overall household livelihood perspective, the study will pay particular attention to a number of themes that relate to smallholder investment in agriculture. One is the role of access to markets, as either net sellers or net buyers of food. Investing in agriculture for these market-integrated smallholder farmers has the purpose of achieving competitiveness either in increasing sales on markets or in reducing purchases, substituting home production for food purchases. The study will also consider smallholder farmer investment in cash crops, as achieving competitiveness in these crops can be an effective way of reducing rural poverty and improving food security through income generation and the purchase of food. Other themes of importance include the crucial role of women and youth in smallholder farming, the resilience of traditional food production systems to natural and market shocks, the preservation of biodiversity in smallholder farming systems, achieving environmental sustainability, and the role of producer organizations and community relations in contributing to investment and the survival of this form of production.

The expectation is that there exist many under-explored opportunities to help increase and improve smallholder investment in agriculture with potentially major implications for food security, global poverty reduction, and gender empowerment. The report will help identify these opportunities and propose strategies as to how to implement them.

## 2. Building blocks of the report

In addressing the question of constraints to smallholder investment in agriculture, the report will make use of (1) information derived from the theory of rural household behavior, (2) typologies of smallholder farmers to recognize heterogeneity of types and conditions, (3) a broad diagnostic of the current status of smallholder investment in agriculture and effective constraints, (4) alternative visions that different countries have for the future of their smallholder farmer sector, and (5) cases of successful investment in agriculture by smallholder farmers and other associated parties and the role of policy support.

*(1) Theory:* The study will start with a review of theory about the motivations, advantages, and constraints of smallholder farmers in investing in agriculture. Advantages include lower effective labor costs, incentives to effort derived from residual claimancy of family labor on net revenues, and potential advantages of local information and social capital in community support to achieve such potentially beneficial processes as mutual insurance, collective action, and cooperation. Constraints include difficulties in achieving economies of scale in production associated with increasing capital intensity and mechanization, in adopting technologies that require high levels of education, in gaining access to financial capital when property rights are incomplete, in keeping up with rapidly rising economies of scale in marketing, particularly with the spread of supermarkets, increasingly stringent sanitary and phyto-sanitary standards, and the rising prevalence of contracting in integrated value chains. The community that can be a source of support to entrepreneurship can also be an obstacle to change due to social conservatism and resistance to social differentiation. Potential technological, institutional, and policy solutions to these disadvantages should be reviewed in the context of smallholder farmer theory. The review of theory will provide a set of propositions on the determinants of smallholder investment that can be taken to the data and checked against case studies.

*(2) Typology:* The study will also start with construction of a typology that recognizes the great degree of heterogeneity of smallholder farmers in both who they are, the objectives they pursue, and the conditions under which they operate. This typology will be essential to guide the design of differentiated investment strategies that are adapted to particular circumstances. Typologies will likely be different across major geographical regions and at different levels of structural transformation of agrarian economies.

*(3) Diagnostic:* Finally, the study will start with a quantitative and qualitative diagnostic of the current status, constraints, and determinants of smallholder investment in agriculture. It will characterize the state of the arts in smallholder investment, comparatively with investment by other subsectors such as commercial and corporate farming. It will look at new threats and opportunities to the competitiveness of smallholder farmers created by urbanization, increased consumer incomes and changes in consumption patterns, as well as by the globalization of agricultural markets, the development of integrated value chains in food commodities, emerging technological and institutional innovations, rising resource scarcity and climate change, the development of more diversified rural economies with opportunities within and outside agriculture, and eventual presence of social safety nets in support of risk-taking. It will illustrate this analysis with case studies of successful and not so successful smallholder investments in agriculture that have affected their survival and welfare.

*(4) Visions:* The study will proceed to a normative analysis of policy and program options to help increase smallholder investment in agriculture. Particularly important will be to identify alternative long term national visions for the future of smallholder farming, expectedly part and parcel of comprehensive national food security strategies as advocated by the CFS' Global Strategic Framework. Is smallholder farming seen as a managed transition to large-scale farming and urbanization of the population? Can it be a stable equilibrium able to accommodate the coexistence of small and large farms? Or is it a social choice justifying subsidies to preserve family farming and the values of rural life? These are political choices, so the political economy and cultural context of alternative visions of what to expect from smallholder investment in agriculture and the future of smallholder farming should be explicated.

*(5) Policy support to smallholder investment in agriculture:* In seeking to identify policy instruments that can support smallholder investment in agriculture, particularly important will be to study the following:

- (1) The role of increased access to productive assets by smallholder farmers, in particular land and different forms of capital, including differentiated by gender and age.
- (2) The role of improvements in the context where these assets are used, such as access to local and broader dynamic markets, public goods such as infrastructure and extension services, new technological options available for adoption, institutional innovations especially in finance, and territorial development with a lively rural non-farm economy.
- (3) The potential role of “smart” transfers and social protection in assisting smallholder investment.
- (4) The role of support to smallholder organizations and community behavior toward investment.
- (5) Elimination of unfair competition with other classes of farmers or policy biases toward urban and consumer interests.

In achieving these changes, attention will be given to the role of public policy as well as to effective private-public, cooperative-public, and private-private partnerships.