



Farm Structures: Managing Transitions and Improving Livelihoods

Highlights

- In most economies, agriculture has large numbers of small-scale farms that co-exist with a smaller number of large-scale farms. The vast majority of farms worldwide are very small (< 2 hectares).
- In many emerging and developing countries, small-scale farmers lack skills and managerial ability, have inadequate resources at their disposal, and operate in areas with underdeveloped markets and infrastructure. Many of these producers operate low-productivity semi-subsistence farms, are very poor, and are themselves food-insecure.
- There is no single solution to addressing these problems. Governments need to create an enabling environment that improves the capacity of farm households to make and implement their own decisions on where future economic opportunities are greatest.
- Policies must recognise that some farm households will want to improve their farm productivity and competitiveness, some will seek to diversify sources of household income, and some will prefer to leave the sector for better-paid non-agricultural activities.



What's the issue?

Analysis of farm structures worldwide reveals two particularly striking features: the vast majority of those active in agriculture live in developing or emerging economies, and most farms are even too small to ensure food and nutrition security for the farm household.

According to the Food and Agriculture Organization's 2014 State of Food and Agriculture (SOFA) report, around 85% of farms are below 2 hectares and almost 95% are below 5 hectares. These farms only account for a small share of the world's agricultural land – 12% for farms below 2 hectares and approximately 20% for farms below 5 hectares. The remaining land is farmed by larger, often high-productivity farms, in high-income and upper middle-income countries (see figure overleaf).

Farm size is declining in Africa and Asia, but increasing in Europe, some parts of Latin America, the United States, Canada, Australia and New Zealand. Between 1971 and 2005, average farm size in India fell by 50% from 2.3 to 1.2 hectares, with a doubling of the number of smallholders from 49 million to 108 million. Average farm size in the People's Republic of China, where 198 million farms are smaller than 2 hectares, seems to have stabilised around 0.6 hectares.

Farm size change is driven by many complex factors including farm and rural development policies and economic, demographic, and social developments, along with norms and inheritance laws.

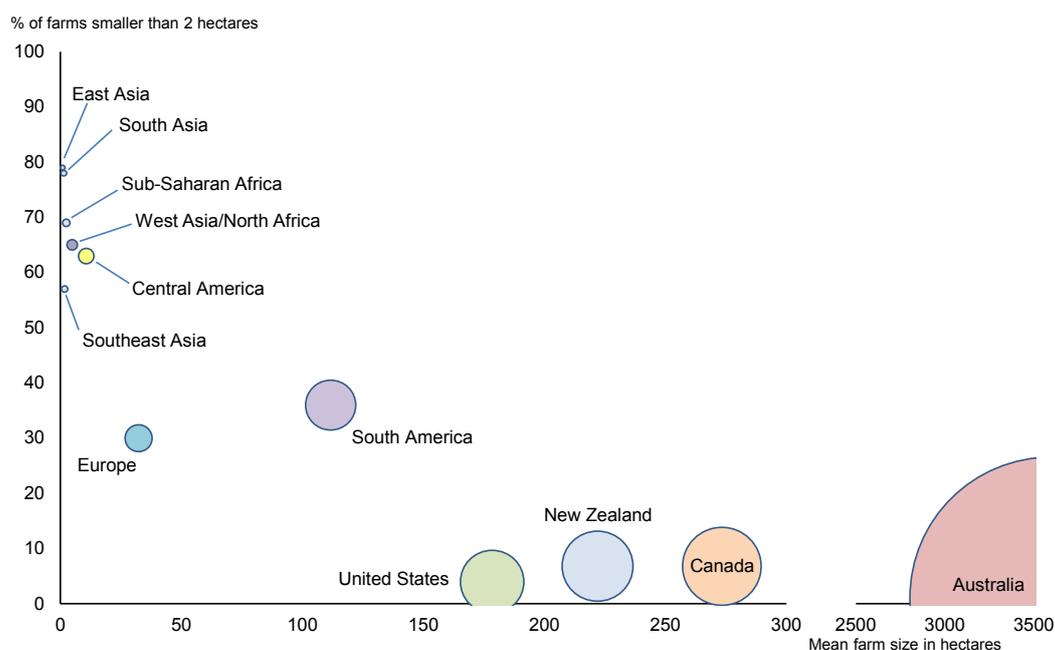
Although the economic viability of farms depends on a number of factors, such as agro-ecological conditions and commodity composition, farm size is of fundamental importance.

Many small farms are unable to generate sufficient income from farming to provide a decent standard of living for the farm household. Even when efficient in agronomic terms, they lack the scale needed to overcome the fixed costs associated with supplying commercially to markets which insist on quality, quantity, continuity and traceability. In emerging and developing countries, unless they are able to diversify into other economic activities, on- or off-farm, many small-sized farmers are trapped in poverty and food insecurity.

The well-being of these populations is a chief concern for governments. Policy often concentrates on attempting to raise and stabilise the prices that farmers receive for their products or on reducing the prices of inputs such as seeds or fertilisers.

While such policies can increase output and create marketable surpluses, they are very costly to the economy at large and impose a heavy burden on poor consumers – both urban and rural – through higher prices. They are also inefficient in raising farm household incomes on small farms because of the scale of production of such farms and the poor transfer efficiency of the measures. Moreover, they do not overcome any of the longer-term obstacles to the emergence of a more productive agricultural sector.

AVERAGE FARM SIZE VARIES SIGNIFICANTLY ACROSS REGIONS



Source: Eastwood, R., M. Lipton and A. Newell (2010), "Farm Size", *Handbook of Agricultural Economics*, Vol. 4, based on FAO estimations.



What should policy makers do?

- **Invest in the hard and soft infrastructure that will stimulate development and bring about a reduction in poverty.** This will enable some small farms to become commercially viable, while also affording opportunities for engagement in other economic activities in rural areas. Priority areas for governmental support are infrastructure, such as roads and electricity; education, such as skills and training for farm and off-farm activities; and institutions, including producer groups and standards. Particular attention should be paid to female farmers in this respect.
- **Assist a move towards farm structures which allow for adequate livelihoods.** This can be achieved by clarifying property rights, reforming land tenure systems, improving credit availability and ensuring that tax, inheritance and social security provisions do not impede or discourage needed consolidation and contribute to changing norms.
- **Reorient scarce fiscal resources away from costly blanket output and input subsidies, towards a longer-term, broader policy agenda** that would foster competitiveness and sustainable productivity growth for those destined to remain in the farm sector.
- **Design policies which enhance the capacity of farm households to choose pathways which offer them the greatest opportunity.** This means improving competitiveness – productivity, for example – within the agricultural sector for some, diversifying income sources among household members for others, and, for another group, leaving the farm sector altogether for better-paid non-agricultural activities.



Further reading

This document is based on the evidence and analysis found in a number of OECD reports and papers published in recent years:

- **Food Price Formation**
- **Strategies for Addressing Smallholder Agriculture and Facilitating Structural Transformation**

A complete list of relevant books and papers can be found at <http://oe.cd/taking-stock> or on the Agriculture Ministerial website at www.oecd.org/agriculture/ministerial.

