Smallholder Agriculture in Africa’s Changing Economy: Case Studies

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Background

The choice between smallholder farming and large-scale agriculture has continued to generate a controversy in Africa’s agricultural development. The debate, however, should not be about the choice between two. It should be about the optimal conditions for them to promote desirable economic outcomes in different social contexts. Recent food security problems have made it imperative to investigate the role and future of smallholder farmers and the kind of support they need to function well in a globalised world. It is in this context that the AfDB’s Development Research Department (EDRE) and the Agriculture and Agro-industry Department have initiated a study on Smallholder Agriculture in Africa’s Changing Economy.

Specifically, the project has the following objectives:

1. Determine the viability, role, and future of smallholder agriculture in Africa and analyse its contribution to poverty reduction on the continent; and

2. Analyse the impacts of the food crisis on smallholder agriculture and the economies of African countries.

The study was conducted in collaboration with the Agriculture and Agro-Industry Department (OSAN). It involved desk research and the use of secondary data which was complemented by country visits in four case study countries, namely; Kenya, Ethiopia, Uganda, and Tanzania.

Implementation Status

The study was conceptualised in 2007 and implementation started in early 2008. Field missions and desk research were successfully conducted in the four case study countries between March and July 2008. The analysis has been concluded and the findings were presented in a Bank seminar in November 2008. The study report is being finalised.

Findings

In the four case study countries, smallholder farmers account for over 70 per-
cent of agricultural production and over 75 percent of the labour force (Figure 1). The agricultural sector is the primary source of export earnings, contributing an average of 60 percent share of the total merchandise export between 1995 and 2006. In 2007, the sector contributed 30 percent of GDP in Uganda, 47 percent in Ethiopia, 24 percent in Kenya and 45 percent in Tanzania.

Production is still characterised by lack of modern techniques, and it is constrained by limited access to credit, modern inputs and markets. In addition, landholdings are, on average, 2ha per household. This is compounded by complex land tenure arrangements that do not allow the emergence of land markets. The result is that tenure insecurity dominates the system and leads to low investment in land improvement. Ultimately, productivity remains low. For example, less than five percent of all agricultural output is produced under irrigation. Cereal yields have consequently been far lower than the world average, though there have been improvements over the last five years. Other constraints include inadequate infrastructure and frequent droughts and floods, causing food deficits, especially in Ethiopia and Kenya.

The recent food crisis aggravated the situation. Its impacts were far-reaching among the urban poor, rural landless, and many smallholder farmers and pastoralists. The crisis led to increased costs of production, especially due to the high cost of inputs such as fertilizer and fuel. As a consequence, smallholder farmers in most of East Africa cut back on the area planted. They lacked the capital to cope with increasing production costs. Some medium- and large-scale farmers, however, took advantage of the emerging market opportunities and increased production.

In response to the crisis, the Kenyan government reduced import duty on wheat from 35 percent to 10 percent. Tanzania authorised duty-free imports of maize, and banned exports of agricultural commodities. The government in Ethiopia cancelled the value-added and turnover taxes on food grains and flour. In addition to these measures, Uganda and Tanzania planned to set up a regional fertilizer production company. The global response, especially AfDB’s Africa Food Crisis Response (AFCR), was timely and will go a long way in revitalising the agricultural sector.

Fig 1: Economic Profile and Contribution of Agriculture to the Economy 2007

Source: AfDB Data Platform and FAOSTAT Data Base
Conclusions and Recommendations

Despite these constraints, smallholder farmers still hold substantial opportunities for growth and expansion. But for this to be achieved and sustained, there is need for improved access to land, and adequate and affordable inputs such as fertilizers, agrochemicals, and seeds. Also necessary is the improvement of infrastructure, such as roads and railways, and better access to financing. Barriers in domestic and international markets should be removed.

However, the current declines in commodity prices in the wake of the financial crisis pose a serious challenge for farmers to realise positive returns on their investments in the short-term. However, returns on investments will be realised as the global economy recovers.

Furthermore, taking smallholder farming to the next level requires significant contributions of all stakeholders, including governments, development partners, multilateral development banks, private sector, financial institutions, as well as farmers and community associations in the process of financing, production, processing, storage or marketing. It is important that focus on smallholder farming in the short and medium-term remain high on the development agenda. In the long-run, there should be a programme of transition of smallholder agriculture from subsistence to commercial farming through increased productivity and access to inputs and extension services.

The Role for the African Development Bank

The Bank’s role in attracting investment into agriculture remains crucial. In this context, the Bank and other sponsors of the Africa Agriculture Investment Fund need to finalise the proposal and ensure early take-off of the Fund. Other roles for the Bank include:

1. Encouraging Regional Member Countries (RMCs) to adopt measures that attract investment in land, to ensure sustainable production systems and increased productivity at the farm level.
2. Supporting African governments in building capacity in public extension services for smallholder farmers with a view to increasing the adoption of new technologies in agriculture.
3. Laying greater emphasis on the Spatial Development Initiative in its regional integration programmes to ensure inclusive rural sector development and promoting both domestic and regional trade in agricultural commodities.