

SMALL-SCALE PRODUCERS, MSMES, AND AGRIFOOD CLUSTERS IN AFRICA AND LATIN AMERICA

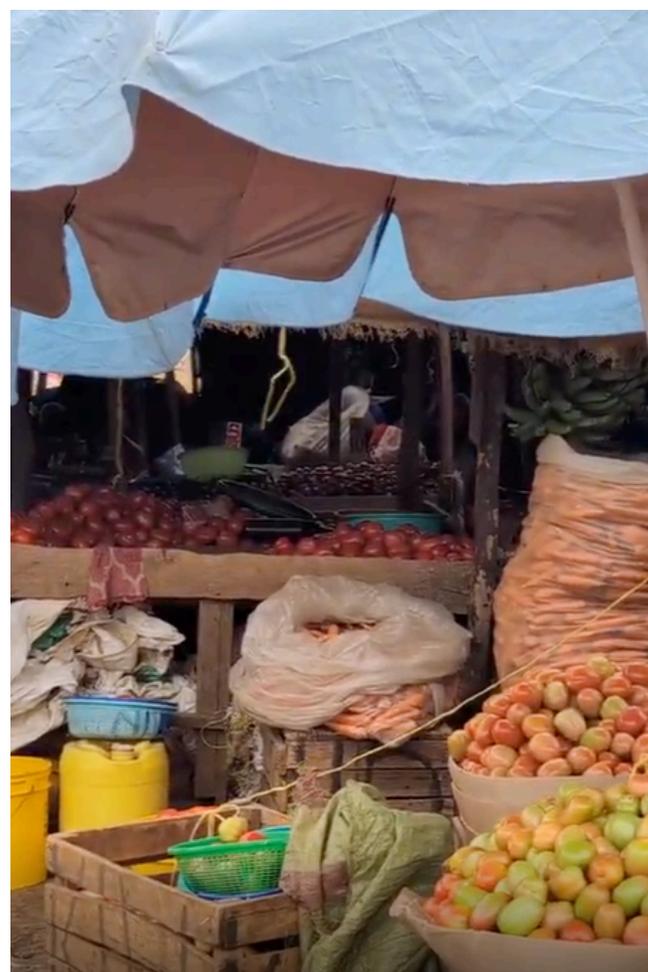
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Commercial smallholders, hidden-middle firms, and inclusive rural transformation

Comparative evidence from ten countries

Key messages

- ▶ Small-scale producers remain central to agrifood systems. They account for most crop producers across the six African countries and still supply most crop output in Africa.
- ▶ The conventional wisdom of the prevalence of subsistence smallholder is outdated. In both regions, most small-scale producers sell part of their harvest and many also buy modern inputs, showing that market participation is already widespread.
- ▶ Smallholders are also business owners. A sizeable share of small-scale producer households operates non-farm MSMEs in trade, processing, transport, retail, and services tied to agrifood value chains.
- ▶ Dynamic agrifood clusters matter. Commercial small-scale producers and agrifood MSMEs are concentrated in territories with denser local market linkages, and firms in these areas tend to generate more jobs per enterprise.
- ▶ Participation is linked to more inclusive outcomes. Households that sell crops or run MSMEs tend to have higher inclusion scores, with gains strongest in non-farm income and women's economic participation, although benefits are not equally shared everywhere.



WHY THIS STUDY MATTERS

Debates on agrifood transformation often swing between two incomplete views. One sees smallholders mainly as subsistence producers who will gradually disappear as economies modernize. The other focuses on large farms and export chains as the main engines of growth. The working document challenges both views. It shows that small-scale producers remain deeply important to food production, but also that their livelihoods are tied to a wider agrifood economy comprising traders, processors, transporters, food retailers, and other micro, small, and medium-sized enterprises.

This matters for policy because inclusive rural transformation does not happen on farms alone. It depends on whether commercial smallholders can connect to the hidden middle of agrifood systems and whether rural territories develop the infrastructure, services, and firm networks that let those links thicken over time. The paper also shows that the benefits of clustering are not automatic: in some settings, dynamic territories lift participants and non-participants alike, while in others the gains accrue mainly to households already plugged into markets.

DATA AND APPROACH

The study compares ten countries: Ethiopia, Ghana, Malawi, Nigeria, Tanzania, and Uganda in Sub-Saharan Africa; and Chile, El Salvador, Mexico, and Peru in Latin America. African evidence comes mainly from LSMS-ISA household panels spanning roughly 2009 to 2020. In Latin America, the analysis uses repeated cross-sections from national household surveys, with the deepest agricultural evidence available for Peru and, to a lesser extent, Mexico.

Small-scale producers are defined primarily by cultivated land size, usually using country-specific thresholds or the bottom 90 percent of the farm-size distribution. The paper distinguishes between all small-scale producers and commercial small-scale producers, i.e., those who sell some of their crop output. It also tracks non-farm MSMEs that operate in agrifood processing, trade, retail, catering, logistics, and related services.

Two original summary measures organize the analysis. The Cluster Index captures territorial agrifood dynamism by combining commercial farming, enterprise density and revenue, and market participation. The Inclusion Index combines indicators of food security, resilience, women's economic empowerment, and monetary welfare. Econometric analysis then relates commercialization, MSME ownership, and cluster conditions to inclusion outcomes using fixed-effects models in Africa and comparable specifications in Peru and Mexico. These estimates should be read mainly as strong associations, not definitive causal effects.



MAIN FINDINGS



SMALLHOLDERS STILL ANCHOR FOOD PRODUCTION

The first message is straightforward: small-scale producers remain the backbone of crop production in the African sample and in Peru. They represent 96 percent of crop producers in Malawi and roughly 83-85 percent in Ethiopia, Tanzania, and Uganda. Even in Ghana and Nigeria, where agrarian structures are somewhat more mixed, they still account for about two-thirds to three-quarters of producers. In output terms, smallholders account for about 62 percent of crop production in Ghana, 72-79 percent in Ethiopia, Malawi, Tanzania, and Nigeria, and 87 percent in Uganda. Peru shows a similar structure, with small farms producing about 70 percent of crop output.



MOST SMALLHOLDERS ARE COMMERCIAL, NOT AUTARKIC

The second finding overturns a persistent stereotype. Across the six African countries, 54-72% of small-scale producers sell some of their crop output. In El Salvador, Peru, and Mexico, the corresponding figures are 59, 61, and 69 percent. Among those who sell, commercialization is substantial rather than token: crop sellers' market around 43 percent of output in Ethiopia, about half in Malawi, Peru, and Mexico, and around 60 percent or more in Tanzania, Uganda, Nigeria, and Ghana. Market participation also runs through input use. Between 42 and 61 percent of producers simultaneously buy agricultural inputs and sell crops, while only a small minority in most countries remain fully outside both markets.



THE HIDDEN MIDDLE IS ALREADY LINKED TO SMALLHOLDER LIVELIHOODS

The report's third contribution is to show that smallholders are not only farmers. They are also operators and clients of non-farm MSMEs. In Africa, the share of small-scale producers that own a non-farm MSME ranges from 20 percent in Ethiopia to 58 percent in Nigeria. In El Salvador, Peru, and Mexico the figures are 34, 22, and 20 percent. In most African countries, smallholder households own more than half of all rural non-farm MSMEs. These businesses matter for household welfare: non-farm MSME income accounts for roughly 9 to 33 percent of total household income in the African sample and 7 to 24 percent in the Latin American cases highlighted in the paper. Women are central to this hidden middle. They own a large share of food-retail and agrifood midstream firms in both regions, although male-owned firms are generally more likely to hire outside labor.



CLUSTERS RAISE OPPORTUNITIES, BUT NOT FOR EVERYONE EQUALLY

The fourth and fifth messages connect territory to welfare. Commercial smallholders and agrifood MSMEs are concentrated in more dynamic clusters, and enterprises in those clusters tend to generate more jobs. In low-cluster African territories, non-farm MSMEs often employ fewer than one worker on average, while the ratio rises in medium- and high-cluster zones, especially in Tanzania and Nigeria. The gradient is even steeper in Latin America: jobs per MSME rise from about 0.7 to 0.8 in low-cluster areas of El Salvador and Peru to roughly 0.9 to 1.4 in stronger clusters, and from around 1.7 to 1.9 in low-cluster Mexico and Chile to about 2.2 to 2.8 in high-cluster areas.

These territorial differences are tied to outcomes of inclusion. In Africa, households that sell crops or operate an MSME score about 0.06 to 0.31 standard deviations higher on the Inclusion Index than comparable non-participants, depending on the country. In Peru and Mexico the estimated gains are about 0.22 to 0.25 standard deviations. The biggest improvements tend to come through non-farm income, lower poverty, and stronger indicators of women's economic participation or empowerment. Yet the pattern is not uniform. In Mexico, Malawi, and Nigeria, more clustered territories appear to deliver broader spillovers. In Ethiopia and Peru, by contrast, clustering mainly amplifies the gains for households already engaged in commercialization or MSMEs, leaving non-participants further behind.

LIMITS TO INTERPRETATION

The authors stress three limits. First, standard household surveys do not capture the full universe of large farms, so smallholders' production shares may be somewhat overstated in countries with concentrated farm structures. Second, Latin American data are less detailed than those in the African panels, especially for the land and crop modules. Third, even with rich controls and fixed effects, commercialization and clustering are not random, so the econometric results should be interpreted as informative associations rather than full causal estimates.

RECOMMENDATIONS

- **Invest beyond the farm gate.** Policies that aim to raise rural incomes should support wholesale markets, storage, transport, local processing, and business services that lower the fixed costs of commercialization for smallholders and small firms.
- **Build territorial strategies around clusters.** The evidence suggests that agrifood development works best where producers and MSMEs are connected through dense local markets. Public investment should therefore focus on secondary cities, feeder roads, market facilities, and service ecosystems that help clusters grow.
- **Put women-owned agrifood micro and small firms at the center of inclusion policy.** Women already play a large role in food retail and midstream activities, but their firms are less likely to scale through external hiring. Finance, business support, labor-saving technologies, and childcare can help convert ownership into stronger employment and bargaining gains.
- **Improve visibility in the data.** Better survey modules on land, production, enterprise activity, employment, and intra-household gender roles, especially in Latin America, are essential if policymakers want to track how smallholders and the hidden middle contribute to agrifood transformation.



FIGURE 1. HOW COMMERCIAL SMALLHOLDERS, MSMEs, AND AGRIFOOD CLUSTERS SUPPORT INCLUSION

How smallholders, MSMEs, and clusters support inclusion

