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Agenda item 10

**Revitalizing the rural economy through enhanced linkages between
small-scale agricultural production and value chains**

Executive summary

The agriculture sector is the largest employer in developing countries of Asia and in Pacific Island Countries (PICs). Smallholders, landless and marginal farmers and their families, who comprise the main category of the rural self-employed in the sector, face a large number of economic, demographic, social and technical constraints. Strengthening capacities of this target group to link to modern value chains would offer them the opportunity to increase their agricultural output, improve their incomes and food security and contribute to rural economic growth.

In line with the Strategic Objective 4 of FAO's Strategic Framework (Enable Inclusive Agriculture and Food Systems), this paper discusses strategic approaches to support agricultural value chain development toward the revitalization of rural economies in Asia and the Pacific.

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Guidance sought by the Regional Conference

The Conference is invited to:

- support FAO's work geared toward assisting member countries in facilitating the integration of rural smallholders and particularly marginalized and vulnerable groups into value chain development as a means of revitalizing rural economies.
- provide advice on priority actions required for rural value chain development that integrates smallholders, landless and marginal farmers and their families in Asian countries and in PICs.

I. Background

1. The thirty-first session of the Asia-Pacific Regional Conference (APRC), convened in Hanoi, Viet Nam, discussed value chain development and post-harvest loss reduction for smallholder farmers within the context of promoting smallholder competitiveness.

2. In line with Strategic Objective 4 of FAO's Strategic Framework (Enable Inclusive Agricultural and Food Systems), this paper focuses on key requirements to facilitate the engagement of small-scale rural producers (i.e. crop and livestock farmers and fisher folk and their organizations) in inclusive agricultural value chains as a basis for revitalizing rural economies in Asia and the Pacific region.

“The battle to end hunger and poverty must be principally fought in rural areas, which is where almost 80 percent of the world's poor and hungry live. To do this, we need to show a strong political will while also investing in the critical agents of change – smallholders, family farmers, rural women, fisher folk, indigenous communities, youth and other vulnerable or marginalized people.”

Source: FAO and the 17 Sustainable Development Goals

<http://www.fao.org/3/a-i4997e.pdf>

3. This paper highlights the important role of agriculture in rural poverty reduction across the region, outlines trends and drivers of agricultural growth and development in the region and discusses the critical constraints faced by the rural poor in accessing market opportunities created by these trends. Strategic approaches to support value chain development towards the revitalization of rural economies are outlined, followed by a brief overview of the thrust of FAO's work in Asia and the Pacific region towards building inclusive value chains. In summing up, issues that warrant a high level of attention across the region and key areas in which FAO may provide further assistance to member countries in addressing the issues are identified.

II. The role of agriculture in rural development in Asia and the Pacific region

4. The agriculture sector is the largest employer in developing countries of Asia and in Pacific Island Countries (PICs), and it plays a critical role in rural poverty reduction by generating employment and income-earning opportunities. Despite sustained economic growth and impressive progress, especially in East and Southeast Asia, poverty in the region still remains a major challenge, particularly in rural areas where the vast majority of poor people depend on agricultural production for their subsistence. While agriculture is not the largest sector in any country as measured by gross domestic product (GDP), agriculture creates job opportunities, generates income and contributes to reducing the dangers of excessively rapid urbanization. It is also an important source of export earnings.

The important role of the fisheries sector in rural development in Pacific Island Countries

The fisheries sector contributes significantly to the food and nutrition security of PICs. Inshore fisheries provide the primary or secondary source of income for up to 50 percent of households in the Pacific region. Among rural populations, 50–90 percent of consumed protein comes from fish which are estimated to comprise 49 percent of the total fisheries' contribution to GDP.

5. Smallholders, landless and marginal farmers and their families comprise the main category of rural self-employed in the region's agricultural sector, where smallholders have 60 percent of agricultural land. Their contribution to the total value of agricultural output is significant in many countries of the region. Rural women play a key role in agricultural production, and are mainly responsible for food production, sale and procurement, food preparation and distribution, family food and nutrition security, as well as child-rearing and care giving. Linking men and women smallholders to modern value chains offers them the opportunity to increase their agricultural output and improve their food security and nutrition while contributing to poverty reduction and economic growth.

III. Trends and drivers of agricultural growth and development in Asia and the Pacific region

6. The Asia-Pacific region is rapidly urbanizing as its population continues to grow. As of 2011, approximately 52.7 percent of the region's population lived in cities. Projections indicate that by 2050, 63 percent of the region's population will dwell in urban areas (FAO 2014). Urbanization trends are contributing to the significant transformation of food systems.

7. Across many Asian countries, there is rapid income growth, particularly in urban centres. With rising per capita incomes, diets are becoming more diverse. The consumption of staples (e.g. rice) is declining in many countries, while per capita consumption of higher-value livestock products, fish and high-quality fruits and vegetables is increasing. These trends are driving a shift in the composition of agricultural output across the region, from traditional staples to fruits, vegetables, meat, milk, eggs and grain for animal and fish feed. In addition to rising household demand, there is rising demand for these high-value commodities in the tourism and food service sectors and in export markets. Fruits and vegetables, livestock products, fish and animal feed also constitute a rapidly growing share of international trade.

8. Increasing female participation in the workforce has also increased the demand for ready-to-cook, ready-to-eat and processed foods. Consumers with higher incomes and education levels are demanding foods that are compliant with sanitary standards which meet their expectations for taste, packaging and appearance, and they are willing to pay more for these foods. In addition to necessitating compliance with food regulations and standards, their demands are driving innovation in processing, packaging and branding in micro, small and medium processing enterprises (MSMEs).

9. Asian consumers are increasingly becoming aware of the specific attributes of agricultural and food products, particularly in terms of their identity and means of sustainable production. Growing consumer concern for safe and sustainably sourced food is driving market expansion for certified products – whether organic, fair trade or geographic indication (GI) – from specialty retailers to high-volume retailers.

10. Supermarkets, hypermarkets and specialized luxury stores are gaining importance across the region, supplying a range of processed food imports as well as traditional foods and fruits and vegetables. Supermarkets, in general, prefer large suppliers that are more reliable as business partners and generate lower logistics and transaction costs. These establishments are largely patronized by educated and middle- to high-income shoppers.

11. Urbanization and population growth in the PICs have led to the twin policy challenges of increased dependence on food imports and the reduced capacity of the smallholder sector to satisfy national food and nutritional security needs. While migration of households from rural to urban areas and diversification through off-farm activities are commonly associated with improved welfare outcomes, evidence from the Pacific suggests that these trends are associated with reduced household nutrition as a result of dietary substitution towards imported cereals and processed meat products. Local food crop value chains struggle to supply modern market channels with price-competitive domestic produce.

IV. Constraints faced by the rural poor

12. Despite wide-ranging diversities across the region, the rural poor share a number of economic, demographic and social characteristics, including the lack of access to natural resources (e.g. land and water), a low level of education and underemployment. Their access to finance, equipment and technology is severely limited. Other constraints faced by the rural poor include a lack of training opportunities and information required to support their agricultural activities, fragmentation and the lack of a voice and representation. These constraints are more pronounced for certain subgroups including women, youth and ethnic minorities. Further challenges include outdated technologies, deficiencies in infrastructure, lack of safe storage facilities and affordable transportation, poor logistics and low rates of investment and innovation in the smallholder farming sector. These challenges result in inefficiency, low productivity, high levels of post-harvest loss, impeded access to markets and increased costs. Given the risks posed by the perishability of high-value agricultural commodities, smallholders must make significant investments in modern technology and new production methods if they are to sustain the high quality demanded by markets.

13. Much of the land cultivated by rural smallholders is located in remote areas with poorly developed infrastructure. Lack of formal land titles and security of tenure leaves these smallholders vulnerable to land acquisition and displacement which, in turn, limits their incentive and interest in adopting sustainable management practices. Furthermore, the lack of formal land titles makes it difficult for smallholders to use their land as collateral for financing.

14. Information systems, financial institutions and services for market-oriented producers and MSMEs are weak, and poor infrastructure in many countries also impedes market access and increases the cost of doing business.

15. Because of their low level of organization, smallholders – particularly women and youth – and MSMEs lack access to advice, varieties and/or breeds, and they face high transaction costs in accessing inputs, credit and marketing facilities. Moreover, they often struggle to comply with public and private standards for food safety and quality and to meet certification costs. They therefore face increasingly stiff competition in highly demanding export and domestic markets.

Improving market opportunities and incomes of rural tomato producers in Timor-Leste through improved bulk packaging

In order to link to supermarkets, small-scale producers must improve the quality of their agricultural outputs. Under a Technical Cooperation Project (TCP), smallholder rural tomato producers in Baucau, Timor Leste were trained in good harvest management, field-level sorting of their tomatoes and packing using stackable plastic crates for transportation to Dili as opposed to their traditional practice of using plastic sacks.

The net return for tomatoes transported in plastic crates was US\$0.38/kg as compared with US\$0.05/kg for tomatoes transported using the traditional plastic sacks. This clearly showed that replacing plastic sacks with plastic crates for bulk packaging is an economically viable technical option to reduce the high levels of loss (21 percent) from compression damage during transportation. The improved practices introduced by the project resulted in a 100 percent reduction in losses during transportation to Dili.

By applying these improved practices in their tomato supply chains, smallholders in Baucau will benefit from increased incomes because the improved quality of their produce will enable them to market their tomatoes to supermarkets in Dili.

16. Business relationships between small-scale farmers and large companies are poor. While both sides have an interest in doing business together, smallholders and large companies may find it difficult to enter into productive business relationships. Often the two sides lack the mutual trust and transparency required for successful cooperation. In addition, the policy environment may not foster and incentivize the design and implementation of inclusive business models. Structural challenges include a lack of information, lack of skills and knowledge, insecurity, resource scarcities and gaps in infrastructure.

17. Decent rural employment (DRE) is essential for sustainably increasing agricultural productivity and improving access to food for the rural poor. The liberalization of trade and increased competition leave exporters of perishable agricultural produce exposed to global markets that may be volatile at times. At a micro level, many of these risks are transferred to workers and this is reflected in the widespread use of informal, seasonal or casual arrangements that are seldom covered by national labour legislation. These jobs are insecure and low-paying with limited prospects for upward mobility, particularly for women, and they are often overlooked by policy-makers and employment statistics. Labour legislation is often not enforced, and rural workers are often not protected by

legislative frameworks. As waged agricultural workers, women are more likely to be engaged in part-time, seasonal and/or low paying jobs. Vulnerable groups – in particular, youth, women and migrant workers – suffer from limited access to social protection such as benefits associated with unemployment or the inability to work for reasons including pregnancy, sickness, disability or age. Along with generally low returns to labour, they are particularly vulnerable to shocks. Many are exposed to hazards and safety risks on the job.

Some key concepts

Decent work involves opportunities for productive work that delivers a fair income, security in the workplace and social protection for families; better prospects for personal development and social integration; freedom for people to express their concerns, to organize and participate in the decisions that affect their lives; and equal opportunity and treatment for all women and men (ILO, 2006).

FAO's work on DRE is addressed under Strategic Objective 3 (SO3): "Reduce Rural Poverty - Organizational Outcome 2: The rural poor have greater opportunities to access decent farm and non-farm employment."

Social protection is one of the four pillars of the decent work agenda. Extending social protection to small-scale producers and rural workers includes mechanisms to address occupational safety and health, social security, working conditions and major diseases. Together with rural employment mechanisms, social protection can have positive impacts on value chain development and on-farm and off-farm investment in agriculture.

V. Strategic approaches to support value chain development towards the revitalization of rural economies

18. Empowering rural smallholders - Strong links to markets are essential to increasing agricultural production, generating economic growth in rural areas and reducing hunger and poverty. Improving these links creates a virtuous circle by boosting productivity, increasing incomes and strengthening food security. By participating in smallholder organizations (e.g. farmer groups, cooperatives and clusters), rural smallholders, particularly vulnerable groups such as women and youth, can derive many essential benefits – including a voice, representation and capacity development – as well as access to wider social and economic opportunities.

Empowering organized groups of smallholder dairy producers to access markets

Small-scale dairying is recognized as one key area in which smallholder farmers can actively participate in growing Asian markets. Almost 80 percent of milk in Asian countries is produced by smallholders, and the demand for dairy products in the region has doubled since 1980. Capitalizing on these growing market opportunities, however, necessitates strong farmer organization to facilitate adoption of technology and enhancement of bargaining power in the increasingly complex marketplace.

Under the project *Smallholder Dairy Development in Bangladesh, Myanmar and Thailand* financed by the Common Fund for Commodities (CFC) and implemented by FAO, women farmer groups in Bangladesh, dairy cooperatives in Thailand and small- and medium-scale milk processors in Myanmar were empowered to increase their productivity and equipped to undertake systematic testing and monitoring to verify the safety and quality of their milk. Milk processors were also capacitated to diversify their production base and the business practices of cooperatives were strengthened. These interventions resulted in a 30 percent increase in milk productivity per animal and a 20 percent increase in the farm gate price of milk for the 5 000 smallholder beneficiaries in the three countries.

19. Rural organizations facilitate the integration of smallholders into inclusive value chains and play a critical role in overcoming the costs associated with their dispersion, diseconomies of scale and poor access to information, technology and finance. Poor rural smallholders can engage with inclusive value chains at all nodes as producers, intermediaries, workers and consumers and can benefit from wage and self-employment with better opportunities than those that exist in traditional agriculture. By participating in such organizations, smallholders are also assisted in meeting market requirements for volume, quality and traceability and promote changes in markets that adapt to their specificities and requirements. Smallholder rural organizations offer services (e.g. bulk purchase of inputs, transportation, business services, negotiating with companies, obtaining credit from financial institutions and enforcing contracts to members) at low cost. Smallholder organizations have a good chance of success if the members share common economic interests and are committed to enhancing their development.

20. Mature and well managed rural smallholder organizations must be strengthened to influence policy, dialogue constructively with the private sector and promote the implementation of good agricultural and manufacturing practices, hazard analysis and critical control point compliance in order to meet market safety requirements. Such organizations must also seek to facilitate women's active participation and member access to finance and technologies and to develop business services and technical skills and capacities in production, post-harvest handling, processing, packaging, labelling and branding, all of which are key to empowering farmers to deal with the private sector on a level playing field. These capacities can be developed through extension support or through the creation of partnerships.

21. Public-private partnerships (PPPs) that help to link organized groups of rural smallholders to service providers and agribusiness firms can assist smallholders in improving their skills and capacities to increase their quality and yields. This can provide them with secure markets and incomes, which would allow them to increase investment in human and agricultural resources. PPPs provide a possible approach to addressing smallholders' technological and infrastructure requirements (e.g. certified testing laboratories, cool and dry storage facilities, cold chain development, packhouse and warehouse facilities). The corporate sector can also assist smallholders in capturing market

opportunities by providing technical and industrial training. Large firms have adopted such a role as part of their corporate social responsibility. Defining clear roles and aligning the objectives of partners are key to the success of PPPs.

22. Inclusive and gender-sensitive business models, such as well-designed contract farming models that are successfully implemented, are key to generating income streams to organized groups of smallholder farmers while allowing them to benefit from a package of services, including credit support, input supply and technical knowledge. Through such arrangements, farmers can obtain or deliver predetermined/negotiated quantities at specific prices and quality within a specified time frame. Guaranteed prices insulate producers/farmers from volatility. Contract farming is practised in many countries across Asia and the Pacific region. The organic asparagus supply chain of the Swift Co., Ltd in Thailand is a successful case of contract farming between the private sector and poor landless households which, through organization into producer groups to grow organic asparagus, are able to comply with private standards of export markets in the United Kingdom and Japan and have benefitted by doubling their earnings. The Swift Co., Ltd. provides the farmer groups with inputs, technical assistance, training and a post-harvest infrastructure in the form of collection stations, and acts as the buyer and exporter of the produce.

23. Developing a conducive infrastructural and institutional environment - catalysing rural poverty reduction through inclusive value chain development requires the creation of an enabling environment at the national level that is supportive and conducive to the participation of smallholders in the value chain – from the policy level all the way to the implementation of programmes and measures. This, in turn, necessitates not only the availability of public goods such as infrastructure (i.e. rural roads, electricity, water, storage facilities, communication technologies), but also food safety standards, a favourable environment for enforcing contracts and accreditation and certification systems and services that conform to market requirements. Other important elements of the enabling environment that allow rural smallholders to actively participate in and benefit from inclusive value chains include access to transportation facilities, an appropriate level and scale of technologies and services and regulations that facilitate the ease of doing business. It is also important to secure rights over land and natural resources and ensure that rural smallholders and agricultural workers are covered under national labour and other relevant laws and regulations and are protected in practice. Trainings, ensuring workplace security and reducing health hazards are also critical factors.

24. Savings, credit and insurance arrangements that provide cash in times of need are key requirements to overcome two of the most severe constraints faced by poor smallholders – particularly women and other marginalized groups: (1) lack of own savings and access to credit, and (2) lack of insurance against risks. Provision of participatory and gender-equitable rural advisory services, both at the public and MSME levels, and capacity building programmes directed to extension-providing institutions are important in enhancing service delivery.

Public-private partnership (PPPs) in fresh produce value chains in Lao People's Democratic Republic

Under a CFC¹/OFID²-funded and FAO-executed project, the Government in Champasak Province in Southern Lao PDR and a Thai-based company successfully collaborated to establish and operate a small packing house in a vegetable production area.

The Government made available a plot of land on which the project constructed a small packing house for the post-harvest treatment and retail packaging of produce for export. Small-scale farmers in the area were trained to produce herbs and vegetables under contract for the Thai-based company. The company signed a six-year lease with the provincial administration of Champasak Province to use and operate the packing house. The crops produced (i.e. coriander, Thai basil, strawberries and others) are delivered to the packing house where they are cleaned, sorted, graded and retail-packaged, mainly for the ethnic European and Japanese markets.

Infrastructure of this type is required in most rural areas if farmers are to be linked to international markets. The role of the government would be to ensure that the basic infrastructures, such as electricity, potable water supply and road access, are available, as well as a long-term lease for a site suitable for packaging or processing facilities. The location of packing house facilities in the production areas is often key to lowering the cost of logistics. As this example shows, government can play an important role as facilitator.

¹Common Fund for Commodities

²OPEC Fund for International Development

VI. FAO's activities and initiatives towards building inclusive value chains in Asia and the Pacific region

25. FAO, in cooperation with member governments and with the support of donor agencies, is actively engaged in field-level projects designed to build inclusive value chains across the region, with gender, nutrition and environmental concerns as key cross-cutting issues.

26. Field-level projects in Asian countries that address value chain development among the rural poor promote a focus on:

- developing and strengthening producer organizations that support the rural poor;
- developing effective linkages with the private sector, research institutes, civil society and governments;
- strengthening agribusiness capacity;
- complying with quality, sanitary and phyto- and zoo- sanitary standards and certification requirements to facilitate market access and trade;
- supporting niche market development, particularly for organic crops and products with geographic indications;
- reducing post-harvest losses and adding value, including through processing and packaging agricultural outputs; and
- promoting decent working conditions in inclusive value chains.

Geographic Indications (GI)

GIs are names or signs used on products which correspond to a specific geographical location or origin (e.g. a town, region or country). A GI may act as a certification that a product possesses certain qualities, is made according to traditional methods or enjoys a certain reputation because of its geographical origin. Examples of GI products produced in the region are Thung Kula Rong-Hai Hom Mali rice (Thailand), Kampot pepper (Cambodia), Darjeeling tea (India), Long-Ging tea (China) and Nuoc Mam Phu Quoc fish sauce (Viet Nam). This differentiation can be attributed to the unique local features of the product, its history or its distinctive characteristics linked to natural or human factors such as soil, climate, local know-how and traditions. These characteristics are often already recognized to some extent by consumers at the local, national or even international levels.

27. Field-level projects in PICs that address value chain development among the rural poor promote:

- improving the quality and quantity of domestic food and cash crops;
- complying with sanitary and phyto- and zoo- sanitary standards;
- reducing post-harvest losses and adding value, including through processing and packaging of agricultural outputs; and
- linking to local markets and particularly the tourism and hospitality sector through contract farming arrangements.

VII. Recommendations

28. Revitalizing the region's rural economy through agricultural value chain development hinges greatly upon public incentives in favour of the organization of rural smallholders. Therefore, support mechanisms must be put in place by governments in order to create a conducive environment for rural smallholders and particularly marginalized and vulnerable groups to participate in smallholder organizations and to engage in inclusive and efficient value chains. Within the context of PICs in particular, the focus must be on linkages to domestic markets in view of the need to address import substitution and nutrition security.

29. Stable economic incentives must be provided along with investment in the necessary public goods, and PPPs must be developed. The rights of particularly vulnerable groups of rural workers (e.g. small-scale farmers and migrant and casual workers) and indigenous peoples, especially youth and women, must also feature on the policy and programme agenda. All of these issues warrant the attention of governments across the region.

30. The gradient of developmental contexts across the region provides considerable opportunity for knowledge exchange and South-South collaboration. Smallholders would benefit greatly from knowledge exchange on successful value chain models and systems that have worked across the region.

31. The Conference may request FAO to further assist member countries in the following areas:

- Foster constructive dialogue among policy-makers, government authorities, rural organizations and the private sector for the development of inclusive, gender-equitable value chains.
- Support countries in upgrading the business skills and technical capacity of producer organizations and poor rural value chain stakeholders and agro-entrepreneurs to address quality issues, food safety, certification, post-harvest systems management, logistics, agro processing, packaging, branding, marketing and contractual arrangements.
- Assist countries with the development of business models – including the development of financial models – that have positive implications for rural employment and income-generating activities for both women and men, enabling them to access appropriate levels of technology, including sustainable mechanization to address their specific technical needs.
- Promote South-South collaboration among member countries in order to facilitate access to technology and the development of off-farm value adding activities (i.e. processing and packaging).
- Work with PICs, in particular, to evaluate the feasibility and cost effectiveness of implementing national programmes to: 1) introduce trade and market-related policy reforms to improve price incentives for households to substitute towards food items that contribute to improved nutrition outcomes; and 2) introduce measures to stimulate investment in the adoption of improved technologies and systems in order to increase food production and marketing efficiencies.
- Document, publish and disseminate information on models of success relevant to inclusive value chain development in the region.

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