



How to meet the needs of an evolving food system

Rapidly changing food systems are creating challenges and opportunities

As urban food markets have grown rapidly in recent decades, so too have rural–urban food supply chains. Urbanization and higher incomes are shifting dietary patterns away from staples and towards higher-value products (fish, meat, eggs, dairy products, fruits and vegetables, and more processed foods), thus driving transformations upstream in the food system. The growing urban demand for higher-value processed food is creating opportunities for producers and agribusiness, including input suppliers. Moreover, it has the potential to be a major force towards poverty reduction and inclusive rural development. However, it can also lead to food production being concentrated in large commercial farms and to value chains being dominated by large processors and retailers. This poses a challenge for the millions of small-scale family farmers who produce 80 percent of the food supply in sub-Saharan Africa and Asia – especially given that agribusinesses dominating global input markets have little incentive to develop technologies that serve the needs of small-scale family farmers.

Rural development policies should be tailored to facilitate the growth of small agribusinesses, and to overcome barriers to small farmer participation in modern value chains. For example, given the costs involved, it may be challenging for small-scale producers to comply with the stricter quality standards and contractual obligations that urban food value chains typically require. Enabling competitiveness is also important in a context where vastly expanded multidirectional supply chains leave rural areas exposed to outside competition.

Making sure that benefits are equally distributed along the value chain

As the figure above shows, urbanization may drive the expansion of the food system’s non-farm segments – trading, processing, packaging, distribution and storage. Understanding the links between these different components is key to designing



KEY MESSAGES

- ▶ Growing food demand and the dietary transition away from staple foods present an important opportunity for industrialization in late-transforming countries.
- ▶ To ensure that small-scale producers participate fully in meeting urban food demand, policy measures are needed that: improve access to inputs and credit; strengthen small-scale producer organizations; improve land tenure rights; and ensure equity in supply contracts.
- ▶ Institutional frameworks and policies that guide development of food systems should mitigate the risks associated with increased market concentration, so as to maintain the competitiveness of small and medium enterprises.



policies aimed at overcoming barriers to smallholder participation in the value chain. For example, as the food system transformation proceeds and value chains become longer, village-based processing and trading gives way to the agglomeration of processing, logistics, wholesaling and retailing in and near intermediate cities and towns. Among many examples of this trend is the development of the potato value chain in the Agra district in India, which was spurred by electrification, cold storage investments, improvements in road infrastructure, and growing demand for potatoes in urban areas.

Small-scale producers require the support of policy frameworks and investments in order to stay competitive in the domestic market. To enhance their productivity and incomes, smallholder farmers need to be connected to sources of knowledge, inputs and credit tailored to their conditions. This underscores the role of farmers' associations as a means to pool farmers' resources and gain scale. In Kenya for example, these associations enable small producers of leafy vegetables to comply with the quantity, quality and delivery requirements set out in contracts with supermarkets.

In the long term, the main challenge will be in generating much more rural non-farm employment. As agriculture becomes more mechanized, rural skills need to match job opportunities in the agro-industry and other manufacturing sectors to ensure the transformation processes are inclusive.

Policies to help smooth the transition of farming systems: reaching scale and accessing information

For small-scale producers to participate fully in meeting urban food demand, the following interventions are needed:

- 1. Strengthen producer organizations, public rural services, and property rights to overcome hurdles posed by fragmentation of landholdings and limited mechanization.** Some 85 percent of the world's farmers are endowed with fewer than 2 hectares of land. The necessary scale needed by smallholders to access markets and adopt new technologies underscores the importance of public rural services and collective action by farmers (e.g. achieving mechanization through shared use of machinery). Productivity can also be improved by strengthening property rights, essential for efficient land rental markets, which could help farmers achieve economies of scale.
- 2. Bridge the gap created by the decline of publicly supported extension services.** Improved targeting of resources and greater coordination with private advisory services can help farmers adapt to changes in demand. Rural advisory

services, in coordination with farmers' associations, can bring to fruition the huge potential of information and communication technology (ICT) to connect small-scale farmers to sources of knowledge, inputs and credit.

Policies beyond the farm: leveraging the food system for broader rural employment opportunities

A range of interventions to tap the economic potential of the food system should be considered and prioritized, based on the constraints faced in specific country contexts. Possible actions include:

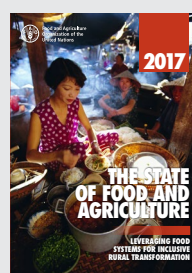
- 1. Value chain interventions that promote active links between farmers and markets, and support farmer aggregation and access to finance.** These include establishing value chain finance schemes, creating a database of input and service providers, and launching value chain partnerships.
- 2. Policy and regulatory frameworks that foster an enabling business environment and improved governance.** These frameworks aim to reduce transaction costs that impede agribusiness investments and prevent farmers from adopting new technologies and exploiting market opportunities. For example, in many African countries, land tenure security is highly linked to the speed of transformation.
- 3. Brokerage of arrangements that benefit smallholders and adoption of improved vehicles for financial inclusion.** Contract farming and outgrower schemes are at the heart of most cluster, agro-industrial park and SEZ initiatives, and can be combined with dedicated credit as part of agroterritorial development strategies to support farmers and agribusiness.
- 4. Skills development programmes and business development services.** Examples include public programmes of technical assistance to build enterprise capacities and the use of payroll taxes to finance training. Business development services, typically provided by agro-industrial parks, can help maintain the competitiveness of small and medium enterprises in the face of increasing concentration and integration.
- 5. Social protection interventions to promote inclusiveness of vulnerable social groups.** Social protection enhances inclusiveness by helping the poor to strengthen their human capital and increase their access to financial resources, thus allowing them to take risks – such as adopting new production methods or starting a small business.

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