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# COMMITTEE ON COMMODITY PROBLEMS

## Sixty-ninth Session

Rome, 28–30 May 2012

### ENHANCING THE IMPACT OF IGG COMMODITY DEVELOPMENT ACTIVITIES ON SMALLHOLDER VALUE CHAIN INTEGRATION

#### Executive Summary

This document reviews the results of the experience gained in the implementation of CFC projects with a view to highlighting the factors that have contributed to increased levels of integration of smallholders into processes of market and value chain development. It gives a brief account of the historical involvement of the IGGs in commodity development activities. It then provides, on the basis of a more detailed examination of selected projects, an indication of factors that may have favoured or weakened the achievement of smallholder integration objectives. Lastly, the document proposes future actions to build on the lessons learned in order to strengthen the positive impacts on smallholders of future commodity development work.

#### Suggested action by the CCP

The Committee may wish to:

- Comment on the apparent impact of **the commodity development work** undertaken under the auspices of the IGGs on the commodity sectors of many LIFDCs and LDCs.
- Underscore the importance of **analysis and research** in this area to improve the understanding of patterns of smallholder market participation and their determinants.
- Suggest how the IGGs might improve their effectiveness in promoting **the formulation, approval, financing and implementation of commodity development projects** having as their main focus the strengthening of smallholder integration into markets and commodity value chains, with particular attention to women.
- Request that in reporting on their activities, the IGGs should review **the commodity development actions** that have been taken to strengthen smallholder integration into commodity markets.

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## I. INTRODUCTION

1. At its 68th Session, the Committee on Commodity Problems (CCP) indicated that priority should be given to *inter alia* work on strategies and policies to support smallholder integration into value chains.<sup>1</sup> The Committee noted that the smallholder market integration priority reflected also one of the priorities expressed by the Africa Regional Conference as a priority. This CCP recommendation was subsequently endorsed by the Council at its Hundred and Fortieth Session.

2. Possible activities to support the objective of smallholder market integration are wide ranging and encompass many FAO programmes. Within the Trade and Markets Division (EST), activities to support smallholder market integration include both analytical research on the determinants of smallholder participation and advice on policies supportive of inclusive market and value chain development<sup>2</sup>, as well as commodity development measures that can have direct and concrete impacts in improving smallholder integration.

3. Commodity development activities have been undertaken for more than twenty years by the Committee's subsidiary intergovernmental commodity groups (IGGs) that have been designated as International Commodity Bodies (ICBs) by the Common Fund for Commodities (CFC). Perhaps these activities have not been given (outside of the IGG constituencies) the attention and importance that they deserve considering that some 125 projects have been implemented under IGG auspices with a mobilization of resources amounting to nearly USD244 million (Table 1).

**Table 1 - Number and cost of development projects under IGG auspices, by commodity (1993 - 2011)**

	Regular projects		Fast track projects		Total projects	
	<i>N. of Reg. Proj.</i>	<i>USD</i>	<i>N. of Fast Track Proj.</i>	<i>USD</i>	<i>Total Proj.</i>	<i>USD</i>
Bananas	6	32,118,158	2	306,040	8	32,424,198
Tropical Fruits	1	5,437,268	10	1,247,889	11	6,685,157
Cashew	1	3,194,344	2	217,650	3	3,411,994
Fruits and Vegetables	6	15,199,813	1	40,000	7	15,239,813
Medicinal Plants and Herbs	1	2,306,689	1	61,160	2	2,367,849
Citrus	2	3,780,938	-	-	2	3,780,938
Cassava	5	14,866,331	2	177,336	7	15,043,667
Grains (warehousing etc)	2	7,409,565	2	91,750	4	8,952,897
Fonio	1	1,451,582	-	-	1	1,451,582
Millet and Sorghum	5	14,276,507	3	423,028	8	14,699,535
Potatoes	3	10,894,044	2	148,000	5	11,042,044
Abaca	1	1,613,634	-	-	1	1,613,634
Coir	4	3,868,673	3	210,092	7	4,078,765
Sisal and Henequen	3	8,188,267	4	578,650	7	8,766,917
Natural Fibers	-	-	2	236,900	2	236,900
Meat and Dairy	8	26,560,536	4	333,741	12	26,894,277
Coconut	4	12,899,451	1	67,405	5	12,966,856
Groundnut	2	8,007,469	-	-	2	8,007,469
Palm oil	3	8,695,355	-	-	3	8,695,355
Rape and Jatropha	1	4,343,800	-	-	1	4,343,800
Sesame	1	3,889,298	1	135,400	2	4,024,698
Shea nut	1	3,225,312	1	68,000	2	3,293,312
Soybean	1	2,790,562	1	68,000	2	2,858,562
Rice	4	10,414,339	4	1,733,099	8	12,147,438
Tea	4	14,042,914	-	-	4	14,042,914
Hides and Skins	5	10,898,913	3	440,071	8	11,338,984
Arachis	1	5,171,700	-	-	1	5,171,700
<b>Total</b>	<b>76</b>	<b>235,545,462</b>	<b>49</b>	<b>6,584,211</b>	<b>125</b>	<b>243,581,255</b>

<sup>1</sup> CCP, Report of the 68th Session, 14-16 June 2010, C 2011/16, paragraph 28.

<sup>2</sup> See in particular document CCP 12/6 - *Identifying appropriate policy interventions in support of smallholder participation in markets.*

4. This document reviews the results of the experience gained in the implementation of CFC projects with a view to highlighting the factors that have contributed to increased levels of integration of smallholders into processes of market and value chain development. It gives a brief account of the historical involvement of the IGGs in commodity development activities. It then provides, on the basis of a more detailed examination of selected projects, an indication of factors that may have favoured or weakened the achievement of smallholder integration objectives. Lastly, the document proposes future actions to build on the lessons learned in order to strengthen the positive impacts on smallholders of future commodity development work.

## II. BACKGROUND REGARDING COMMODITY DEVELOPMENT ACTIVITIES UNDER THE IGGs

5. The Trade and Markets Division has had a long involvement in efforts to improve conditions in international commodity markets including through *inter alia* analysis and policy advice under the auspices of its IGGs<sup>3</sup>, participation in commodity advisory missions to member countries and training under its Umbrella Programme for agricultural trade negotiations. With the establishment of the CFC in the early 1990s, additional focus was given to the “other measures” approach for improving market conditions, in particular through projects aimed at strengthening the commodities sectors of developing countries.

6. In total, 125 projects dealing with agricultural commodities have been undertaken, with the mobilization of significant resources. The total value of these agricultural commodity-specific development projects approaches USD244 million. About 90 percent of the projects implemented under IGG auspices were in Low-Income Food-Deficit Countries (LIFDCs). Nearly 70 percent were located in Least Developed Countries (LDCs). Projects undertaken in other developing countries generally addressed problems of low-income disadvantaged areas. These resources comprise mainly CFC funds, but also include significant co-financing and counterpart components.

7. The projects initially implemented through the IGGs did not specifically target smallholders. Aside from some efforts to improve “small scale” palm oil extraction, the main thrusts were on improving production and strengthening demand, including through product development and promotion. Success in achieving these objectives was expected to result in enhanced earnings for producers in developing countries. This was the case of most of the seven projects completed by the year 2000 (Annex Table 1).

## III. FACTORS SUPPORTIVE OF SMALLHOLDER MARKET INTEGRATION IN COMMODITY DEVELOPMENT PROGRAMMES

8. While these projects may have been successful in attaining their stated objectives, little quantitative evidence is available to document the beneficial impacts on producers, let alone smallholders. Such analysis requires detailed country surveys that are costly and time consuming, and are also subject to methodological weaknesses in the absence of comparative baseline data<sup>4</sup>.

9. To more fully evaluate the extent to which commodity development projects can be designed to promote smallholder market participation, the Trade and Markets Division is currently undertaking a series of in-depth case studies of selected CFC/IGG projects. Ultimately, the objective of this exercise is to develop a set of guidelines for best practices to be pursued in designing and implementing future commodity development projects, with the objective of facilitating smallholder

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<sup>3</sup> The FAO IGGs dealing with those commodities of particular significance to developing countries were designated as International Commodity Bodies (ICBs) by the CFC for the purpose of defining appropriate commodity development strategies and prioritizing project proposals for submission to the Fund for financing. Eight FAO intergovernmental commodity groups and sub-groups have been designated as ICBs: Bananas and Tropical Fruits; Citrus Fruit; Hard Fibres; Meat and Dairy; Oilseeds, Oils and Fats; Rice; Tea; Hides and Skins.

<sup>4</sup> One exception was a special evaluation carried out by the CFC at the country level in 2005 for the Value Added Meat Products Project and a follow-up project to the Banana Improvement Project. This detailed analysis confirmed the significant impact of both projects in enhancing employment, incomes and economic growth for vulnerable populations in the country concerned.

market integration. Such guidelines could also assist in mobilizing international and national resources for commodity market development.

10. The case study evaluation has been designed to better understand how commodity development projects have addressed factors which, based on an initial review and examination of selected projects<sup>5</sup> and the Division's own experience with project design and implementation, appear to be key components of successful projects. The rest of this section lists and analyses some of these factors.

11. Foremost among these factors is the need for sincere and dedicated **commitment to addressing the economic, social and organizational constraints** faced by smallholder populations, often unable or ill-equipped to make their difficulties known to wider society. This commitment must be shared by all those involved in project formulation and sponsorship and above all among the public and private institutions charged with implementation.

12. Both immediate and longer term benefits depend on **economic viability**. In projects aiming at production and sales growth, careful evaluation is needed of market conditions and risks. In two of the projects examined, insufficient attention to this aspect resulted in a lack of relevance of some of their components because alternative uses of the commodities concerned were more remunerative than those envisaged under the projects. For example, the improvement of flaying techniques to enhance hide quality was not successful in areas where hides were destined for human consumption; and the possible use of sisal for paper pulp did not take sufficient account of competition from other pulping materials at prices that were not remunerative for the fiber in this use.

13. Considerable attention has been devoted in development circles to the appropriate **roles for the public and private sectors** in promoting smallholder value-chain integration. In the projects examined, the public sector often provided start-up support in terms of financial and human resources along with continued targeted services in the fields of research, infrastructure, extension and training and capacity building. The public sector also usually had an important role to play in defining the organizational and management arrangements for targeting smallholders such as in the case of the project on tropical fruits in Mexico (Chiapas). However, in some cases the private sector has taken a lead with public support, as in the case of sisal product development in Tanzania.

14. Partnerships with the **private sector** have proven instrumental for promoting smallholder market integration. These arrangements function on the basis of mutual economic advantage for farmers and the private sector. Thus, for example, in Tanzania one of the major private estates released its land deeds which were transferred by the Government to the Tanzania Sisal Board (TSB) for allocation to smallholders to engage in sisal cultivation and supply the processing mills. The entire area released under the smallholder scheme was taken up, and farmers outside the scheme also developed land for sisal cultivation. The total area under smallholder cultivation increased from 32 hectares in 1999 to 5129 by the end of 2009 reflecting the economic incentives offered by the partnership which provided not only initial start-up resources for smallholder enterprises but also assurance of market outlets. Similarly, for the vegetable export development project in Ethiopia, local authorities allocated land plots for the construction of two privately managed pack houses, which was key in enhancing smallholders' returns on their produce.

15. The **ability of small farmers to organize themselves** into a grouping or enterprise, to develop and implement a production plan that is integrated into the value chain, appears to be a very important component of successful projects. Ideally, such groups are better able to achieve economies of scale in production and purchasing of inputs, and as a result of increased productivity their competitive position and market integration are improved. For example, in Tanzania the Association of Sisal Smallholders, that gradually took shape with the implementation of the CFC Project, is

<sup>5</sup> The projects reviewed in greater detail include: *Diversification of Agriculture in Guatemala and Mexico (Chiapas) through the Production of Export Fruits* (CFC/FIGTF/06); *Product and Market Development of Sisal and Henequen Products* (CFC/FIGHF/07); *Hides and Skins Improvement Scheme in West Africa* (CFC/FIGHS/04); *Production of Oleaginous Plants and Commercialization of Natural Vegetable Oils as Substitutes for Diesel Fuel for Public Transportation in Peru and Honduras* (CFC/FIGOOF/26); *Diversification Programme for Export Vegetable Development in Ethiopia and Sudan* (CFC/FIGTF/17); *Strengthening the Productivity and Competitiveness of the Smallholder Dairy Sector in Lesotho and Zambia* (CFC/FIMDP/14).

actively engaged in dialogues with the management of estates (that represent the outlet for their fiber) regarding issues of interest to members. In 2010, the Smallholder Association organized a three-month strike in harvesting in order to secure more advantageous payment conditions.

16. **Capacity building** for farmers is an important component of successful market integration and contributes significantly to sustainability of project results. For example, the dairy project in Lesotho and Zambia provided training to smallholders on how to grow and preserve feed for dairy operations. As a result, milk yield per cow increased and the seasonality of supplies to the milk collection centers had decreased significantly, contributing to higher returns to smallholders.

17. Such capacity building extends well beyond just agro-technical aspects to encompass training on such issues as evaluation of market conditions and negotiations on pricing and payment terms. The latter is an area where farm groups feel that more needs to be done to better equip them to face the challenges of operating in the market. For example, such requests were formulated by the Sisal Smallholder Association of Tanzania, with respect to training regarding price formation and financial management and by producers of tropical fruits in Mexico (Chiapas) with regard to marketing and assessment of prospective commercialization opportunities.

18. **The sustainability of smallholder programmes has various dimensions.** One relates to the extent that the project participants can be builders of support through the demonstration effect. A closely related aspect is the extent to which the project and its results may be replicated. Thus in the early stages of formulation and implementation, attention is needed to developing business models that are versatile and can be easily *adapted for replication*.

19. This advance planning also relates to the institutional involvement needed to maintain the momentum of the projects and promote scaling up and replication. Such longer term vision provides participants with greater assurance of continuity and thus also strengthens commitment. In the case of the tropical fruits project in Mexico (Chiapas) it was determined that there was a need to establish a central public body charged with organizational overview, coordination and management of funding for further start-up activities. On the contrary, in projects where such provision has not been made, such as the tropical fruits project in Guatemala, replication seems to be much slower, if at all. In the case of the vegetable export development project in Ethiopia, it was the establishment of a revolving credit fund with farmers' union which provided a source of sustainability in input provision at the farm level.

20. **One of the most difficult issues to address for the sustainability of smallholder projects is associated with the market environment in which the farmers must operate.** In particular, market conditions may change over time, and prices may differ considerably from those obtained during the project, particularly in the case of produce destined to world markets. For example, following the successful diversification to tropical fruits in Mexico (Chiapas), the prices of lesser-produced traditional crops such as maize, coffee, pulses and sugarcane, tended upwards. Those of most fruits also increased, but some "exotics" showed variable performance leading to uncertainty regarding farmer investment in additional greenhouse facilities. In the case of hides and skins improvement in West Africa, it was not possible to realize premiums for better quality in the international market, and thus abattoirs and small farmers continue to use traditional low-quality flaying practices, with little impact on smallholder participation in the value chain. With respect to vegetable export development in Ethiopia, the packing facilities established under the project were transferred to a vegetable growers union charged with collecting produce from smallholders and grading for local and regional markets. While the basis was established for enhanced market participation by smallholder vegetable producers, actual performance has been constrained by weak demand from export markets.

21. During the implementation of projects, the farmers' benefit from financial support as well as assistance and coordination in the marketing of products. However, once the project is concluded, successful market integration implies autonomous action by producers in commercializing their produce. Even in the most successful projects, the issue of marketing presents many uncertainties. Therefore, it appears that there is great need in commodity and agricultural development projects for **more detailed analysis of commodity market conditions and outlook, and of the opportunities and constraints to increasing the participation of smallholders in the value chain.**

#### IV. RECOMMENDATIONS FOR CONSIDERATION BY THE COMMITTEE

22. In the light of the above analysis, the Committee may wish to:
- a) Comment on the apparent impact of **the commodity development work** undertaken under the auspices of the IGGs on the commodity sectors of many LIFDCs and LDCs.
  - b) Underscore the importance of **analysis and research** in this area to improve the understanding of patterns of smallholder market participation and their determinants. This effort should contribute to the design of effective project interventions benefiting a large number of smallholders and fostering the sustainability of their sectors. It may also wish to note that the methodology being developed currently by EST, which builds towards elaborating best practices for successful implementation of development projects, could provide a valuable contribution.
  - c) Suggest how the IGGs might improve their effectiveness in promoting **the formulation, approval, financing and implementation of commodity development projects** having as their main focus the strengthening of smallholder integration into markets and commodity value chains, with particular attention to women.
  - d) Request that in reporting on their activities, the IGGs should review **the commodity development actions** that have been taken to strengthen smallholder integration into commodity markets.

**Annex Table 1 - IGG commodity development projects completed by year 2000**

<b>Project</b>	<b>Cost (USD million)</b>	<b>Completed (Year)</b>
<i>Small-Scale Palm Oil Mills</i>	0.2	1996
<i>Improvement of Small-Scale Extraction of Coconut Oil</i>	2.9	1998
<i>Product and Market development of high value-added Coir Products with special reference to rubberized Coir and Geotextiles</i>	0.5	1998
<i>Improvement in Drying, Softening, Bleaching and Dyeing Coir Fibre/Yarn, and in Printing Floor Coverings</i>	1	1999
<i>Banana Improvement</i>	10.7	1999
<i>Development and Promotion of Value-Added Meat Products in Sub-Saharan Africa</i>	1.3	1999
<i>Increased Demand for Tea</i>	4.8	2000