BRIEF

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Challenges and opportunities to improve the livelihoods of smallholder farmers in the Pacific Island Countries

This brief contains:

- ✓ Production and marketing challenges of smallholders farmers
- ✓ Available opportunities for the improvement of smallholders farmers' production and access to markets
- ✓ Recommendations to mitigate smallholder farmers' production and marketing challenges

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Challenges and constraints

Agriculture in the Pacific Island Countries (PICs) is largely dependent on smallholder family farms. Smallholder family farmers often have access to less than two hectares (ha) of land and depend on labour supplied by household members, and few other inputs. Smallholder production strategies typically utilize a mixture of root crop, vegetable, fruit and livestock varieties for own consumption, sale and gifts, supplemented by income from cash crops such as copra, cocoa, coffee and vanilla. PIC smallholders are also extremely vulnerable to natural disasters, and price and weather variability. The challenges of poor economic geography (including small market size and large distances between internal and export markets), costly marketing infrastructure, and lack of domestic value-adding opportunities have reduced the competiveness of PIC smallholders in domestic and niche export markets. These smallholders also face strong competitive pressures due to their lack of access to improved inputs such as planting material and labour-saving machinery, and poor access to credit. This has decreased their capacity to consistently meet the supply, quality and food safety standards required by modern retail outlets. In addition, consumers' diets patterns have changed toward less expensive imported and convenience food products.

Constraints to market integration:

Smallholders face some constraints in seeking to take advantage of both domestic and export market opportunities[1]:

(a) *Constraints that inhibit production and consistency of supply*:

Small farmers are often unable to produce sufficient quantities to fully meet market demand, leading to lost income and to a loss of competitiveness. As mentioned before production problems include: lack of suitable inputs resources, urban drift of labor from agriculture sector, low foreign investment in production and less competition with imported cheaper convenience products. Inconsistency in supply has shifted supermarkets and resorts demand toward imported products.

(b) Constraints that increase market costs:

Poor economic geography (remote location from markets, small land and population mass, large internal distance between islands) [4], inadequate supporting policies, weak institutional support, unreliable infrastructures and services: raises processing and marketing costs, leads to deterioration in the quality of goods and provide market opportunities for imported products in the domestic markets.

(c) Constraints that reduce market access:

Meeting international sanitary and phytosanitary (SPS) legislation and private quality certification standards which are required by modern retailing system, can be a major challenge for smallholders[7]. Smallholders (those who have capacity to export) must be able to export

[1] FAO Agri-food system brief: *Overcoming constraints to agricultural exports 4*

products that meet the minimum standards required by importing countries/enterprises and should be price competitive in niche export markets. Without the assistance of private-public sector and donor agencies, it is somehow difficult for stallholders to access niche export markets.

(d) Constraints that break market relationship and linkages:

Though both sides have an interest in doing business together, smallholders and large companies in many cases find it difficult to enter in a productive business relationship. Often, the two sides lack the mutual trust and access to one another required for successful cooperation. Structural challenges including a lack of information, a lack of skills and knowledge, insecurity, resource scarcities, and gaps in infrastructure stand in the way. Trust and access are basic requirements for success in any business relationship[2].

Limited access to capital and input resources:

Lack of access to credit has reduced the competiveness of smallholders relative to imported products in domestic markets, and in export markets[4]. Although there are some development/commercial banks and micro-finance schemes providing loans to smallholders, their limited knowledge of the sector, remoteness from rural areas, high collateral requirements and resulting high interest rates given their risk perception of the industry, have made it challenging for small-scale farmers. Smallholders need capital and financial resources to buy inputs, and invest in equipment, storage facilities, animal stock and necessary services[3] for intensification of crop production. Limited access to financial resources with short terms makes it hard for smallholder to make investments that don't pay off immediately [for example investment in machinery or long-term cash crops (such as trees)][3].As the agriculture sector is often perceived as high risk by many financial institutions, smallholder access to loans, is often limited. Financial constraints are more pervasive in agricultural production, which forms the basis for agribusinesses and agro-industries[4]. Lack of land tenure security and formal property titles make it more difficult for smallholders to use their land as collateral when attempting to access loan capital.

Diversification:

Small farmers have the potential to raise their incomes by switching from low quality bulk produces to high-value agricultural produces, but they face a number of constraints. Since high-value agricultural commodities are perishable, there is significant volatility in their prices, and thus significant market risk. In addition, small farmers have low volumes of marketable surplus and their farms are mostly located in remote areas with poorly developed infrastructure and transportation, leading them to face high transaction costs and risks in production and marketing of such commodities[5]. For niche export markets smallholder need quality certifications (such as

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[2] GIZ-*Growing business with smallholders* –A guide to inclusive agribusiness

[3] Douglas.K. 2013. *Five reasons why companies and small-scale farmers are not in business together*. HWMIIA. Available from: http://www.howwemadeitinafrica.com/five-reasons-why-companies-and-small-scale-farmers-are-not-in-business-together/23079/2/ [Access 12th Jan 2015]

[4] FAO-*Enabling environments for agribusiness and agro-industries development - Regional and country perspectives*

[5] IFAD (G.Thapa). 2009. *Smallholder Farming in Transforming Economies of Asia and the Pacific: Challenges and Opportunities*. Available from: http://www.ifad.org/events/gc/33/roundtables/pl/pi_bg_e.pdf [Access 18th Jan 2015]

organic and GAP-Good Agricultural Practices) which are costly and difficult to implement, particularly for small farmers.

Opportunities

Contract farming[6]: Contract Farming (CF) can address some constraints to small-scale productivity and can be institutional solution to the problems of market failure for credit and information (CF benefits on Box-2). Imbalance power between farmers and companies, violation of the terms of the agreements, lack of contract enforcement and social differentiation can be still some challenges[10].

Farmer organizations for the Chain coordination: Forming small-scale farmers' cooperatives, associations, groups (for example PGS[7]) and societies can reduce high transaction costs and market risks; increase returns, products quality; improve bargaining power and obtain needed services[8].

> **BOX-1:** One example of farmers' organizations in the PICs is PGS (Participant Guarantee System) group. It is a group of 12-15 (or more) farmers with specific principles and responsibilities run in Fiji who sells their collected produces on good prices. *(Source: PARDI, 2014)*[7]

Production for domestic and tourism markets: PICs can produce quality and healthy food products for its domestic and tourism markets by investing in market-oriented farming system and agrotourism sector development. Producing for domestic markets will decrease food dependency, poverty in rural communities and non-communicable disease caused by low quality imported food. Access to inputs and resources, inadequate infrastructures, intuitional policies and services are some challenges of smallholders' farms to compete with imported products in the domestic markets.

High value produces for niche export markets: Producing origin based, certified, and premium quality traditional products for niche export market can provide some opportunities for the PICs to compete with low quality bulk products. But absence of large innovative processing sector, high requirements and cost of standards, lack of private sector investment are still challenges in this field.

Recommendations

1. Enhance access to finance and input resources:

-Contract farming is one way of accessing to finance and input resources, as buyers often provide farmers with both inputs on credit and technical assistance. Governments can help to encourage contract farming by linking farmers with purchasers[9]and by developing contract enforcement policies and regulations.

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[6] Contract Farming (CF) can be defined as an agricultural production system carried out according to an agreement between a buyer and farmers, which establishes conditions for the production and marketing of a farm product or products (follow FAO's Contract Farming Resource Centre for more information: http://www.fao.org/ag/ags/contract-farming/index-cf/en/).

[7] PARDI (Pacific Agribusiness Research for Development Initiative). 2014. *Participant Guarantee System: Farmer Group Handbook*.

[8] Agricultural Co-operatives- A Start-up Guide: http://www.agf.gov.bc.ca/busmgmt/bus_arrange/bus_arrang_pdf/coop1.pdf

[9] GIZ-Growing business with smallholders –A guide to inclusive agribusiness

-Increasing the outreach of financial institutions and service delivery in rural areas where smallholders are located.
-Broadening the range and scope of services offered by formal financial institutions.
-Expanding microcredit programs and rural community banking.
-Deepening rural and agricultural finance by supporting financial institutions to be more innovative in managing risk[10].

BOX-2: Potential incentives of Contract Farming for smallholders	
Monetary incentives	**Non-monetary incentives**
• stable income through higher yields and reduced losses • improved access to inputs through buyer credits or direct provision by buyers • reduced input costs due to procurement in bulk by buyers • improved liquidity (e.g. through pre financing of inputs or adequate terms of payment) • reduced credit risk in case banks accept forward contracts as collateral • financial support for standard compliance/ certification to satisfy market requirements	• reliable and stable market access • improved access to non-financial services (e.g. technologies, extension, training) • reduced market risk through forward contracting/ market-oriented production planning • reduced production risk through longer term farm planning/ better utilization of capacities • reduced production risk through access to inputs, extension and new technologies • lower barrier to produce higher-risk crops, which resource-poor farmers usually avoid • improved overall farm system performance through spill-over of technologies and skills • improved food security/ better nutrition through increased diversification

Source: GIZ. 2013- Contract Farming Handbook -*A practical guide for linking small-scale producers and buyers through business model innovation*

2. Develop access to markets through supporting domestic supply chains:

Export markets' barriers such as, high certifications and standards requirements, transportation and quarantine issues have caused to exclude smallholders from the global markets; governments of PICs should develop smallholders and private sectors inclusive policies and regulation settings in-order to develop access to domestic, tourism and niche export markets and reduce food dependency on imported food. The introduction of new macro-economic policy settings designed to attract investment (e.g. adjusting value of currency), pricing policies (taxes and subsidies), and the introduction of higher sanitary and phytosanitary standards (SPS), will help to improve the competitiveness of domestic production relative to imports. Improving infrastructure will reduce the costs of doing business while policy measures designed to reduce the cost of the farm inputs will help to improve productivity of the domestic agricultural sector[11].

[10] FAO-*Enabling environments for agribusiness and agro-industries development - Regional and country perspectives*
[11] FAO-Regional conference for Asia and Pacific-*Realizing economic opportunities in agriculture to promote greater food security in Pacific Island Countries*-Agenda item 11

BOX-3: Fiji import substitution of vegetables (case study)

Despite being a major agricultural producer, Fiji is the most urbanized of the PICs. More than 50 percent of Fiji's population now resides in its urban areas. It is also a major importer of food: its food import bill is estimated to be growing by 20 percent every year. As a result, the Government of Fiji has sought to incentivize an increase in agricultural production for a number of targeted import substitution commodities through the introduction of policy measures aimed at improving the environment for agriculture sector growth. In 2009, the Fiji Government devalued the Fijian dollar by 20 percent, which immediately increased the price of all imports, including for the targeted commodities. They also introduced 5-13 year tax holidays for investors in commercial agriculture and agro-processing and reduced all import levies of specialized agricultural machinery, equipment like greenhouses and hydroponics and other agricultural inputs, in order to foster increased productivity. Furthermore, Fiji has established designated geographic tax free zones, in order to encourage clustering of agro-processing. The provision of interest subsidies for loans to agricultural enterprises provided by both commercial banks and development banks, encouraged lending to the agriculture sector. As a result, Fiji was able to foster competitive local production and reduce imports of a number of targeted products, e.g. the volume of imported tomatoes declined from 160 000 tonnes in 2008 to 20 000 tonnes in 2011; the volume of lettuce declined from 140 000 to 30 000 tonnes, and of capsicum from 60 000 tonnes to 10 000 tonnes, over the same period.

Sources: Martyn, T. (2011) Fiji Domestic Market Study: opportunities and challenges for vegetable import substitution, FAO SAPA, Apia: Samoa; Fiji Ministry of Primary Industries (2009) Agriculture Strategic Development Plan 2010-12, Suva: Fiji; Fiji Ministry of Finance (2013) Agriculture Incentives, Presentation to the Agriculture Taskforce, Suva: Fiji; Fiji Bureau of Statistics, Trade Data 2008-2012

3. Develop value adding through improved food processing activities:

Looking to the rapid urbanization, diet diversification and retail transformation in the Pacific region, demand for processed food products has increased[12].

PICs should develop value added food chains through improved food processing activities in order to (1) meet the food safety and quality standards required by modern retails outlets (2) reduce dependency on imported processed food (3) improve shelf life to overcome seasonality and (4) produce nutritious food for the domestic markets by:

(a) facilitating access to cheaper processing technology through reducing import levies on processing machinery, equipment and packaging materials (b) establishing geographic tax free zones for clustering of agro-processing in order to enable domestic food processing companies to be competitive (c) establishing food processing research and development centers in order to provide technical support to the food processing enterprises; develop new products based on consumer expectations and disseminate appropriate food processing technologies (d) making adequate national food safety and quality management food systems in order to translate international standard into food processor codes of practices and (e) building public-private partnerships (PPPs) to enable adequate business environment for food processing-industries development in the PICs.

[12] FAO. 2009. *Regional Agro-industries forum for Asia and the Pacific*-Report.