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COMMITTEE ON AGRICULTURE

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Enhancing the Competitiveness of Small and Medium Agricultural Enterprises

I. Introduction

1. During the 2010-11 biennium, FAO launched an initiative to clarify strategies for improving the competitiveness of small and medium agricultural enterprises (SMAEs), and reinforce FAO capacity to assist member countries in supporting SMAEs and engaging SMAEs in agricultural development.
2. This paper recalls the rationale for launching an initiative focused on SMAEs, provides information on a series of regional Agribusiness Roundtables on SMAE competitiveness, highlights key conclusions, and identifies follow up actions planned for the Programme of Work and Budget (PWB) 2012-13.

II. Background on the FAO Initiative on SMAEs

3. During the past five years, FAO has assessed trends and issues related to the modernization and transformation of agriculture in developing regions, and has facilitated dialogue and debate among FAO member countries on appropriate responses (20th Session of COAG, April 2007; Global Agro-Industries Forum 2008; 21st Session of COAG, April 2009; regional agro-industries fora in Asia, 2009, Latin America, 2009, Near East, 2011). Two of the most important issues discussed have been the roles of SMAEs in agricultural development and prospects for SMAE competitiveness.
4. FAO appraisals and dialogue confirmed that SMAEs are key players in food systems globally and locally. Particularly in developing countries, SMAEs are responsible for generating a large share of products and services in the agricultural sector, with an especially strong role in agro-processing. SMAEs play a critical role in increasing demand for raw material supply and creating rural income and employment opportunities, especially for women - who often have prominent roles in SMAEs at both management and employment levels.
5. The appraisals also made it clear that there is often weak policy, institutional and technical support for SMAEs, in large part because they fall between the primary mandates of agriculture and industry ministries. Moreover, their interests often are not well represented by private sector federations and organizations, which tend to be dominated by larger firms.

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6. FAO concluded that there was justification to launch an initiative focused on enhancing SMAE competitiveness. One of the first steps was to clarify the views of SMAE managers on important trends and competitiveness challenges, and prospective strategies and actions to enhance the commercial viability of their enterprises. It was also important to reinforce FAO appreciation of regional specific circumstances and priorities.

III. Agribusiness Roundtables on SMAE Competitiveness

7. To launch the FAO SMAE initiative, a series of Agribusiness roundtables focused on SMAE competitiveness was organized during PWB 2010-11 starting in June 2010. To this point, SMAE roundtables have been carried out in sub-Saharan Africa, Central America, Asia, South America, and Central Europe. Nearly 150 SMAE managers have participated from 45 countries (see below).

Roundtable locations	Location of participating SMAEs ¹
United Republic of Tanzania, June 2010	Ghana, Kenya, Malawi, United Republic of Tanzania, Uganda
El Salvador, June 2010	Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, Panama
Malaysia, December 2010	Bangladesh, Cambodia, China, India, Indonesia, Lao People's Democratic Republic, Malaysia, Philippines, Sri Lanka, Thailand, Viet Nam
Hungary, April 2011	Armenia, Bulgaria, Croatia, Czech Republic, Georgia, Hungary, Poland, Republic of Moldova, Romania, Serbia, The former Yugoslav Republic of Macedonia, Turkey, Ukraine
Colombia, May 2011	Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela (Bolivarian Republic of)

8. In the roundtables, the SMAE managers identified regional specific constraints on SMAE competitiveness, and shared experiences on how they have:

- sustained procurement from small farmers,
- introduced quality and safety management systems,
- developed branded and certified products,
- improved logistics and operational efficiency, and
- financed business operations and investment.

9. Most SMAEs represented in the roundtables were family enterprises or were owned by a small number of partners. They tended to have strong roots in the local communities in which they operated, and were making significant contributions to value addition, employment creation, and income generation. Many of the enterprises, perhaps most, were providing technical support and other assistance to the small farmer suppliers. All the enterprises had taken steps to improve the quality and safety of their products, and to build skills of their employees. Most were producing products with specific traits for specific consumers; in many cases, products that were based on local diets and traditional recipes. The vast majority had financed their operations using savings, pensions and loans from family members, and had ploughed earning back into building their business.

¹ Companies were identified in consultation with the host regional organization taking into account diversity in size (target of under 100 employees for medium and under 10 for small enterprises), sub-sector (fruits, maize, coffee, etc.) and types products (fresh, bottled, certified, etc.). There was a target of 2-4 companies per country.

10. The roundtables made it clear that it is difficult, if not impossible, for most SMAEs to be competitive based on supply price alone. The ability to compete sustainably requires SMAEs to be able to innovate and sell unique products that are quality and safety assured, branded and labelled to comply with client and market requirements. It is difficult for the companies to innovate and be agile in the market place because they are squeezed by unreliable raw material suppliers; restricted access to and high cost of financial capital, equipment and packaging materials; limited availability of skilled labour; and inflexible regulations and certification requirements.

11. Regardless of region or country, the managers expressed hope that their governments and FAO would attach greater priority to ensuring equal opportunities for further growth of SMAEs. They urged governments to set up dialogue platforms, reinforce institutional and technical support capacity, and ensure transparency and a free flow of communication – especially with respect to government regulations, grants, technical assistance programmes, and investment and export support.

IV. Observations and Conclusions

12. In order to realize the developmental potential of SMAEs, these firms must have business and operational management practices, technologies and logistics that enable them to compete with large national and international companies. The Agribusiness Roundtables helped to clarify the challenges faced by SMAEs and the initiatives taken by their managers to tackle the challenges they face.

13. While SMAEs are taking impressive steps, consistent with their resources and competencies, to compete with large companies and the growing tide of imported food products in developing regions, there is a limit to what SMAEs can do on their own to sustain competitiveness. Perhaps inadvertently, policies, business costs and regulations are putting them at a disadvantage relative to larger companies and consolidated retailers.

14. The next priority for the FAO initiative on SMAE competitiveness is to consolidate the lessons learned from the managers themselves and from those countries that have been providing proactive support for their SMAE sector. These lessons, now being documented, can serve as a roadmap for helping other countries put in place policies and programmes to enhance the competitiveness of SMAEs.

V. Follow-up Action in PWB 2012-13

15. To develop the FAO initiative on enhancing SMAE competitiveness, the following actions are planned for PWB 2012-13:

- Finalization of reports on the roundtables, where not yet completed;
- Implementation of roundtables scheduled for the Caribbean (Jamaica) in March 2012 and the Pacific (Fiji) in April 2012;
- Preparation of a comprehensive document that will draw together lessons, including from other appraisals and partners, and provide strategic guidance on SMAE policy measures and development programmes;
- Organization of regional outreach and action planning meetings to promote regional and country level initiatives for enhancing SMAE competitiveness;
- Provision of policy and technical assistance, drawing on the practical insights of the SMAE managers;
- SMAE field programme development and resources mobilization.