



منظمة الأغذية
والزراعة
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粮食及
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Food
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Organisation
des
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pour
l'alimentation
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Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

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Agribusiness and Competitive Agro-industries in the Context of Globalization and Free Trade

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I. Introduction

1. Food and agricultural systems in many countries in the Asia-Pacific region are moving rapidly towards market-driven systems, with a greater reliance on input markets and growth of post-production enterprises. The role of the private sector is becoming increasingly important, smallholder farming is becoming commercialized, and the impact of agribusiness and agro-industry on economic and social development is increasingly being felt. Many governments in the region are responding to these changes through policy and programme reforms and increased investments designed to accelerate the pace of agribusiness and agro-industry development.

2. A large and growing number of governments within the region have reformed their policies, adjusted programmatic priorities, and increased investments in order to accelerate the pace of agribusiness and agro-industry development. During the past five years, agribusiness development and promotion programmes have been launched in countries such as Bangladesh, India, Indonesia, Lao People's Democratic Republic, Papua New Guinea and Sri Lanka. A number of member countries, including Afghanistan, Bangladesh, China, India, Myanmar, Pakistan and Viet Nam have recently requested FAO assistance for agribusiness or agro-industries development.

3. A paper presented to FAO's Committee on Agriculture (COAG) in April 2007 highlighted the global issues linked to developing sustainable agribusiness and agro-industries. The analysis of trends and challenges contained in this paper was accepted by COAG members, who also recognized the growing importance of agribusiness and agro-industries in developing regions; the crucial role of agro-industries in economic development and poverty reduction; and that the rebalancing of policies, institutions and services focusing on agribusiness and agro-industries development has now become a matter requiring urgent attention.

4. This paper is intended to bring a number of pertinent issues and trends relating to agribusiness and agro-industry in the Asia-Pacific region for the Conference's consideration and comment, and seeks guidance on the priority that FAO should give to agribusiness and agro-industry development.

II. Sectoral Trends and Impacts

5. Changes in the agrifood systems within the Asia-Pacific region are being driven by rising per capita incomes, technological changes, trade liberalization and urbanization. Higher incomes, changing diets and increasing numbers of women in wage employment are leading to greater demand for high-value commodities, processed products and pre-prepared foods.

6. Diets are changing and increasingly include more animal products, such as fish, meat and dairy products, as well as fruits and vegetables. Staple crops are still the source of agricultural value addition, but are increasingly being differentiated into a range of products and services in order to meet quality and delivery standards of agroindustries.

7. Prices for many traditional agricultural commodities have stabilized since 2000, however, there are no significant demand factors, aside from biofuels, to suggest that the long-term decline in agricultural commodity real prices has ended, or that an agricultural growth strategy based on expanding primary commodity production is more viable now than it has been over the past two decades.

8. The prospects in developing countries for further expansion of food manufacturing appear to be greater than for the supply of primary commodities. Over the past 25 years, global manufacturing value addition for food, beverages, tobacco, textiles and leather products – the main agro-industry manufacturing product categories tracked by UNIDO – generated by

developing countries has nearly doubled. For cotton textiles, developing countries accounted for 22 percent of value addition in 1980 but more than 40 percent in 2005. Tobacco accounted for the largest increase, reaching 44 percent of global value addition in 2005. European Union countries collectively accounted for the largest share of manufacturing value addition for foods and beverages in 2005 – a share it has maintained since 1980; however, by 2005, developing countries together accounted for 23 percent of the share of manufacturing value addition, as compared to 21 percent from Japan and 19 percent from North America.

9. There are large regional disparities among developing regions in the distribution of formal sector agro-industry value addition. For food and beverages, Latin American and South and Southeast Asian countries respectively accounted for nearly 43 and 39 percent of value addition in 2003. In contrast, African countries contributed less than 10 percent of value addition. There are similar disparities and patterns in value addition for tobacco products, textiles and leather products, although South and Southeast Asian countries account for a higher share of value addition for these product categories than Latin American countries.

10. Substantial organizational and institutional changes have taken place in the agricultural sector of most developing countries. These changes include:

- Growing concentration at all levels, particularly in the retail and processing sectors;
- Agribusiness enterprises are getting larger as firms seek economies of scale in food manufacturing, marketing and distribution;
- Private sector standards for food quality and safety are proliferating;
- Transactions of foods are increasingly being arranged through the use of contracts;
- More large-scale retailers and manufacturers are relying on specialized procurement channels and dedicated wholesalers; and
- Food is increasingly being “pulled” into formal sector retail outlets, such as supermarkets, rather than grown for sale in local markets.

11. Food distribution systems in developing countries have seen some notable changes over the past two decades. The structural transformation of the retail sector took off in Central Europe, South America and East Asia (excluding China) in the early 1990s. The share of food retail sales of supermarkets grew from around 10 percent to 50 to 60 percent in these regions. By the mid- to late 1990s, the share of food retail sales in Central American and Southeast Asian supermarkets accounted for 30 to 50 percent of total food retail sales. Starting in the late 1990s and early 2000s, substantial structural changes occurred in Eastern Europe, South Asia and parts of Africa where the share of food retail sales in supermarkets rose from five to 10 percent in less than a decade, and is growing by 20 to 40 percent a year.

12. The changes in agrifood systems have significant implications for growth, poverty and food security. On the positive side, there is a rapid increase of value addition opportunities through agribusiness relative to primary production. Agro-processing enterprises are stimulating demand and the effective market size for farmers’ products. Exporters and agro-processing enterprises are providing crucial inputs and services to the farm sector for those with access to such inputs. This is encouraging productivity and product quality improvements. Agro-industries are also stimulating market-induced innovation through value chains and networks, and domestic and export systems are increasingly becoming more mutually supportive.

13. While agribusiness and agro-industry development can increase competitiveness in international and domestic markets, the benefits are not automatic and will certainly not be shared by all.¹ Changes in agrifood systems pose particular risks for smallholder farmers, traders, processors, wholesale markets and retailers. Smallholder farmers are experiencing short-term

¹ Unfortunately, it is not possible to quantitatively characterize the impacts of agribusiness development on employment, value addition and rural incomes because national statistical surveys do not collect or report the necessary data on the informal and formal sectors, as well as on small, medium-sized and large enterprises.

difficulties in meeting agro-industry standards and contractual requirements; small-scale processors have increasingly to compete with larger scale food manufacturers that can benefit from economies of scale in processing technologies; and traders in local markets will be squeezed by the growing importance of specialized procurement practices and certified products.

14. There is no broad agreement on how the changes in agrifood systems will influence traditional players (i.e. wholesale markets, small traders and small businesses) in the long run. Current indications suggest that some sectors will experience significant impacts while other sectors will see more limited impacts from these changes. There is, however, agreement that the development of agribusiness and agro-industries will be context-specific and will be dependent on the product sector, market requirements, the development stage of a particular country or area, agricultural sector policies, institutions and services, as well as government actions to promote agro-industries and agricultural value chains.

15. If agribusiness development is to play a key role in reducing rural poverty in the Asia-Pacific region, then governments will need to create enabling conditions for agribusiness, while monitoring and taking the necessary steps to protect and enhance the livelihoods of smallholder farmers and other members of rural and urban communities most likely to be affected by agribusiness and agro-industry development.

III. Enabling Policies and Institutions

16. The business environment represents one of the most important drivers of competitiveness for domestic and export-oriented agro-enterprises and agro-industries. Although many countries in the region have implemented major policy reforms over the past two decades, the business environment is still far from being conducive for agribusiness and agro-industries. Many countries continue to have complex laws and regulations governing business activities, ineffective systems for enforcing intellectual property rights, inadequate commercial services, lack of infrastructure, ineffective local government including trained staff, and weak information and communication technology systems.

17. There are large and growing disparities both within and between regions in the creation of enabling business environments. The World Bank's "Doing Business 2008" shows a continuing large gap between OECD countries and countries in the Asia-Pacific region with respect to procedures, time required and costs for enforcing contracts, starting a business, dealing with licenses and trading across borders. Consequently, farms and firms have to be much more efficient and better managed than their counterparts in other regions just to overcome the extra costs involved in operating in contexts with poor business investment policies and measures.

18. Through FAO's cross-regional appraisals and country case studies focusing on issues such as farm-agribusiness linkages, contract farming, farm commercialization, small enterprise development and changing retail procurement practices, a number of priorities for policy reform and institutional strengthening have been identified and endorsed by the COAG, these include:

- Legal and regulatory frameworks for resources, assets and business operations;
- Public sector cooperation with the private sector;
- Development of industry and producer organizations; and
- Clarification of institutional mandates for supporting investment in agribusiness and agro-industries.

19. **Legal and regulatory frameworks** that define rules and determine rights and obligations with respect to resources, assets and business operations are particularly important. For example, domestic and international investors are likely to expect protection of intellectual property rights (e.g. brands, genetic materials), and will also consider the extent to which they may be disadvantaged by legal or procedural preferences favouring government-owned or assisted enterprises. The rules and regulations under which commodity markets, exchanges and auctions operate also impact heavily on agribusiness investment. The regulatory framework is also

crucially important as it establishes rules relating to employment conditions and contracting that affect agribusiness profitability, as well as the distribution of benefits from agribusiness development.

For example, FAO in Myanmar is providing technical assistance to the government in order to improve its policy and regulatory framework in order to develop the edible oils sector. This includes the development of analytical capacity to formulate and monitor sector development policies, as well as the establishment of grades and standards for edible oil production and trade. Support is also being provided for the privatization of state-owned processing facilities and to enhance the roles of the private sector and commodity associations in promoting the development of the edible oil sector.

20. **Strengthening public sector cooperation with the private sector** merits particular attention. Strong communication and cooperation between the public and private sectors are essential because agro-industry development is generally driven by the private sector. The public sector can, for example, direct its science and technology investments to support private sector innovation and product development and, in doing so, also mobilize the assets, specialized knowledge, and capacities of agribusiness firms. Policy initiatives to attract foreign direct investments can improve national access to new technologies, as well as the introduction of new management methods and new agricultural business models. As another example, public-private sector cooperation can enhance the effectiveness of regulatory frameworks and private sector compliance.

For example, the government in China is encouraging the establishment of “leading enterprises” as a link between farmers and local markets. “Leading enterprises” are privately owned companies that have been selected by local authorities to invest in village assets of land and labour by building infrastructure, and provide training and extension services to farmers in close collaboration with local authorities.

21. **Commodity, regional, industrial and/or professionally-based associations**, including producer organizations and cooperatives, have valuable roles to play in connecting producers and clients, crystallizing and expressing the viewpoints of similar groups, taking collective action, networking among themselves, facilitating linkages with other enterprises and organizations, and providing training, information, technology and legal support.

For example, Chambers of Commerce in the Philippines, composed of producers, traders, input suppliers, exporters or processors and key ministry officials, are actively encouraged to facilitate dialogue between the government and various value-chain participants.

22. **Trade-offs between the pace and nature of agro-industrial development and poverty** and food security objectives need to be identified and addressed. Rapid agro-industrial development could displace small farmers, processors, stores and traders who depend on traditional marketing and distribution channels at a pace which does not allow enough time to create alternative opportunities. Moreover, it is unlikely that policies aimed at agribusiness and agro-industrial development can by themselves address food insecurity and poverty.

For example, the government in Viet Nam is actively encouraging the development of industries related to agricultural raw materials in rural areas in order to complement existing agricultural activities, thus following a policy example set by Taiwan Province of China. Land reforms and the strengthening of farmers’ associations have also helped preserve agriculture and populations in rural areas. The government has also promoted private sector activities in rural areas, thereby encouraging rising agricultural productivity and incomes, while at the same time investing in rural infrastructure in order to provide easier access to markets and social services and attract industries.

23. **Review of institutional mandates** for influencing, regulating and supporting private sector investment in agribusiness and agro-industry is required. Ministries of agriculture operate under specific mandates and few – if any – ministries have mandates over all the different issues

that enable or inhibit agribusiness and agro-industry development. Mechanisms are needed to strengthen linkages among public agencies responsible for policies, institutions and services impacting on agribusiness and agro-industry.

For example, a project co-funded by the Canadian International Development Agency, the Ministry of Agriculture and the Ministry of Commerce of the People's Republic of China, aims to assist smallholder farmers to adapt to global markets. High-level representatives from eight different ministries and state administrations sit as members on the project's board of directors. The project thus fosters interministerial dialogue and discussions on issues related to smallholder farmers and global markets.

24. A growing number of UN technical agencies and financial institutions are starting to support the development of business enabling environments. However, some of the most important policy and institutional reforms required are sector-specific. The FAO has an excellent opportunity and a comparative advantage for partnering with these agencies, building on its specialist knowledge of the agricultural sector, in order to develop enabling policies and institutions for agribusiness and agro-industries development.

IV. Agro-industry and Value Chain Programmes

25. Recent recommendations by the COAG and the Independent External Evaluation of FAO specifically drew attention to the need for value chain programmes that seek to improve the delivery of services to agro-industries, create value addition for small farmers and help farmers respond to changing markets and consumer requirements.

26. Many countries have launched programmes to support the development of specific agro-industries and value chains. In most cases, these programmes have complemented agribusiness-related policy reforms and institutional strengthening. Particular attention has been given to strengthening business linkages, reducing transactions costs, fostering a better alignment of the capacities of farms and firms to collaborate on meeting requirements, ensuring fair governance within chains, improving market intelligence, improving management practices, strengthening producer organizations and upgrading technologies.

For example, between 1993 and 2003 World Bank projects have encouraged the establishment of Agribusiness Development Centres (ADCs) in order to provide advisory and analytical services to private sector agro-entreprises in a number of countries in the Asia-Pacific region. Since 2000, the Asian Development Bank has provided support for agribusiness and agro-industry projects to more than ten countries in the Asia-Pacific region.

27. FAO provides support for the development of specific agro-industries and value chains in all agricultural sectors, e.g. in the crop, livestock, forestry and fisheries sectors. This is not a recent development, but FAO is now beginning to review, appraise and apply value chain concepts and methods systematically. The scope of FAO work on agro-industries has historically focused primarily on farm and agro-enterprise level technologies, productivity and efficiency. In recent years, FAO has provided support for several specific agro-industries, including dairy, sericulture and apiculture, as well as support in a limited number of countries for beef, goat, sugar, edible oils, coconut oil, cashew, rubber, sweet sorghum, date palm, organic coffee, biofuels and tomato processing.

For example, FAO is helping the Ministry of Agriculture of the People's Republic of China to develop the production of sweet sorghum and transfer it for use in livestock farming and processing industries. FAO is assisting Mongolia to develop its dairy sector through an integrated approach encompassing different steps in the various stages of the dairy chain, as well as in the policy and regulatory environment.

28. There are a number of reasons why some governments in the Asia-Pacific region are supporting the development of specific agro-industries and value chains, most of which relate to public sector developmental objectives, or which have public-goods characteristics. These reasons include:

- Progress being made in one part of the value chain should not be negated by poor performance in other parts of the chain. For example, when farm productivity is increased complementary attention must be given to agro-enterprises responsible for post-production product handling, processing and distribution.
- Public sector facilitation and information provision can help in developing productive partnerships among firms in value chains. Although collaboration between firms is increasingly important, developing the trust and commitment that is crucial to achieve partnerships and chain integration is neither easy nor without costs. The public sector can absorb some of the high transaction and information costs, as well as the risks that often discourage potential lead firms from developing value chains.
- When governments participate in value chain development, they can help ensure fair governance in value chains. There is concern that if agribusiness and agro-industry development is left entirely to the private sector, the larger scale and more powerful participants will capture most of the benefits leaving disproportionately small gains for the farmers and smaller agro-enterprises that might participate in the chains. Governments can, for example, provide advisory support to producer organizations on contracts negotiation and compliance. Ancillary development of financial institutions, products and services to fund agribusiness undertakings can help to level negotiating positions and equities among chain participants.
- Governments can provide support to improve the performance of domestic market value chains that may not be able to attract private investment by themselves. Multinational firms and large-scale national firms can and do invest in establishing global value chains, but agro-industry and value chain promotion is seen in many countries as not simply a trade competitiveness issue. There is in particular an interest in reinforcing value chains for products based on local and traditional crops, where small-farmers may have some comparative advantage and specialized knowledge.

29. FAO regional appraisals, case studies and country experiences point to **several key lessons** on strategies and interventions for promoting specific agro-industries and value chains, while ensuring that smallholder farmers and small agro-enterprises can benefit from agribusiness and agro-industry development:

- The public sector can use public-private partnerships to ensure that the **specialized management competencies and technical expertise of private sector firms are directed at benefiting small farmers and processors**. As one example, public-private partnership in research and dissemination of results can improve the technologies available to small scale producers and processors.
- The public sector, in partnership with chain partners, needs to **strengthen the entrepreneurial capacities of farmers** to understand and meet the timing, quality and safety requirements of processors, exporters, importers and retailers. Capacity-building should also address the start-up financing and development of small- and medium-sized agro-processing enterprises.
- Value chain programmes should **facilitate and support farmer organizations and producer alliances**. By consolidating their interests, small producers can achieve economies of scale in buying inputs and selling products. Producer associations and cooperatives can provide a platform for small farmers to do business with larger-scale input suppliers, traders, agro-processors and retailers. Such associations need to be profitable in order to be sustainable in the long run: business management capacities and governance issues are therefore important in this respect.
- Specific attention is needed to **reinforce financial and business services to small farmers and processors**. Business services that help firms to improve the quality and

efficiency of their processes, reduce their costs and expand their operations are important to all firms, and especially critical to smallholder farmers, small firms and new start-ups whose transaction costs are large in relation to the size of their output. Services can and often are embedded in the contracts established between producers, agro-processors, exporters and other firms.

- It is important to anticipate future vulnerabilities and **build the capacities of chain participants to innovate, diversify or exit as markets change**. Just as is the case for enterprise development programmes, support for specific value chains can increase vulnerability if incentives induce farmers and firms to develop skills and assets that are specific to products and services susceptible to large shifts in demand and prices.
- The potential of value chain programmes for improving livelihoods, but also for increasing vulnerability puts a premium on appraisals of comparative advantage and investment requirements in the exploratory and diagnostics phase before intervention. During programme implementation, attention is needed to **monitor and assess impacts and the distribution of benefits**.
- **Public sector engagement with the private sector** to support specific agro-industries and value chains can be an important dimension of the global partnership for development envisaged in Goal 8 of the Millennium Development Goals. The above public sector actions will help ensure that agro-industries are rules-based and non-discriminatory, and include a commitment to good governance, development and poverty reduction. Proactive support for specific agro-industries is particularly needed to address the constraints faced by least developed and landlocked countries, as well as small island developing states.
- **Support for specific agro-industries and value chains** can also help reduce the cost of food, increase employment opportunities, and provide incentives for sound environmental management practices, thereby also contributing to Millennium Development Goals 1 and 7 on extreme hunger and poverty and ensuring environmental sustainability.

V. Industry Standards and Quality Requirements

30. One of the most significant challenges faced by the public sector in relation to agribusiness development is the rapid proliferation of industry standards and quality requirements. Many agribusiness firms, industry organizations and consortia have over the past decade developed their own standards and quality requirements, which often surpass public standards. The main objective of most industry standards and requirements is to manage risks relating to product safety and quality, improve consistency of food quality and safety, enable the comparison of prices between suppliers, reduce transaction costs and strengthen consumer confidence and loyalty.

31. A distinguishing feature of industry standards and quality requirement programmes is the existence of some type of branding or labelling along with certification. Private sector retailers and food manufacturers initially took the lead in developing branding, labelling and certification capacities in their supply chains in response to consumer. In some cases, brands and labels are used to differentiate specific products to consumers, in other cases certification is carried out on a business-to-business basis and consumers are informed about supply chain practices but not on a product specific basis.

32. More recently, several interprofessional organizations have been driving development of process, as well as product industry standards and requirements. Some of the better known organizations working on certification programmes are: Fairtrade Labelling Organizations International (FLO); Social Accountability International (SAI); Sustainable Agriculture Network/Rainforest Alliance; the Sustainable Food Laboratory (SFL); and the International Federation of Organic Agriculture Movements (IFOAM). Perhaps the best known is the

GLOBALGAP consortium, developed by selected European retailers, that now includes partners in more than 70 countries worldwide.

33. As is the case for international standards and frameworks, **industry standards and requirements can make a significant contribution to agribusiness and agro-industries development.** By establishing standards, the agro-food industry ensures consumer protection and provides both incentives and sanctions for improvement of product quality and safety. Quality assurance and control systems are put in place, and inspections and controls are enforced. The proliferation of industry standards has resulted in a number of positive, as well as negative impacts for agribusinesses in the Asia-Pacific region. These are further described in the APRC information paper on “Food Safety and Trade in Asia-Pacific”.

34. As product specifications and certification requirements advance, it is unlikely that poorer countries will be able to keep up and benefit from their lower labour costs. Many industry standards and requirements cannot be met, or if they can only at very high cost in countries that lack access to sophisticated technologies, efficient and low-cost communication and information systems, adequate infrastructure, and supportive institutions and services.

35. **Governments can play a role in optimizing the impacts and improving the fairness of industry standards and requirements,** including by initiating a dialogue on standards between the public and private sectors. Several measures can strengthen capacity for compliance and certification while reducing costs, including: reform of institutions and legal frameworks; investments in physical facilities, laboratories, equipment and other kinds of infrastructure; reinforcement of institutions charged with responsibility for food safety, control of frauds, animal and plant health; strengthening of applied science capacity and facilities; provision of technical assistance to build capabilities at different levels; public-private alliances to strengthen participation of small-scale producers; and market feasibility and impact studies.

36. FAO has long played a major role and enjoyed a high profile in negotiations and in the implementation of frameworks and conventions establishing international standards, guidelines, recommendations and protocols for food safety and essential quality, plant protection and genetic resources, among others. This includes the work carried out by the Codex Alimentarius Commission, the World Organisation for Animal Health (OIE) and the International Plant Protection Convention (IPPC). While negotiation of international standards and frameworks will remain at the core of FAO’s activities, FAO cannot ignore the implications and impacts of industry standards and requirements.

37. In the light of the growing importance of industry standards and requirements and the roles that governments can play in optimizing the impacts of these standards and requirements, **FAO needs to provide policy advice and capacity-building support relating to industry standards and requirements, and not confine itself to only working on official and international standards.** For further information about recent FAO initiatives in this area please refer to the Information Paper “Food safety and Trade in Asia-Pacific”.

Responding to the challenges

38. The trends toward **increasing concentration, vertical coordination and contracting** in agricultural sectors within the Asia-Pacific region will certainly continue. A rebalancing of agricultural policies, institutions and services that focus on agribusiness and agro-industry development will be required sooner or later. Deliberate and strategic interventions by governments can play an important role in fostering the development of agro-industries and value chains. However, few governments have developed a coherent vision for agribusiness development. Moreover, coping with the complex challenges of agribusiness and agro-industries development exceeds the capacity of most public sector agencies.

39. Responding to the challenges of agribusiness and agro-industries development will require **increased attention to, and enhanced capacity for**, the following public sector actions relating to:

1. Information and analysis:

- Analysis of country, regional and global trends, changes and factors affecting the transformation of agrifood systems;
- Characterization and appraisal of the structure of agro-industries and value chains linking input suppliers and producers through to final retail markets;
- Diagnostic analysis and benchmarking of agro-industries and value chains to identify strategies for agro-industry and value chain development; and
- Development of information and knowledge management systems for agribusiness as well as small-scale producers and processors, and inter-professional organizations.

2. Enabling policies, institutions and services:

- Formulation and implementation of strategies for improving agribusiness and agro-industry policies, legal and regulatory frameworks, institutions and services;
- Incorporation of agribusiness and agro-industry development strategies and actions into country-level programme frameworks and strategic plans for agricultural development;
- Reinforcement of communication and cooperation with private sector firms, foundations and NGOs active in agribusiness and agro-industry development;
- Reinforcement of compliance and certification systems for food safety standards and industry quality requirements;
- Reinforcement of market information services and financial institutions and services for market-oriented farmers and agro-enterprises; and
- Provision of basic infrastructure to improve market access and reduce business costs.

3. Support for specific agro-industries and value chains:

- Appraisal of market and agribusiness opportunities and sound methods for prioritizing specific agro-industries and value chains;
- Facilitation of innovative arrangements linking smallholder farmers with commercial farmers, exporters or agro-processing firms in long-term relationships combining cooperation, coordination and services provision;
- Identification of innovative microfinancing products that facilitate the participation of small farmers in agribusiness ventures;
- Design and implementation of initiatives that improve entrepreneurial capacities of smallholder farmers and small agro-enterprises to participate in value chains for high-value products, including branded and certified products; and
- Identification and use of innovative mechanisms to link public funding with private sector resources.

40. Despite current limitations, FAO has a strong potential comparative advantage to assist Member Nations to respond to the challenges of agribusiness and agro-industries development. FAO-RAP can help build and develop strengths relating to agricultural policy analysis and advisory support, agricultural development economic analysis, commodity markets appraisal, agricultural data and statistics, crop production and protection, animal production and health, agricultural marketing, rural financing and agro-processing. Non-governmental organizations and the Consultative Group for International Agricultural Research (CGIAR) provide complementary expertise. NGOs and bilateral donor agencies are not always recognized as honest brokers in establishing enabling business environments, or assisting the public sector to work effectively with the private sector. FAO can and will need to partner with other UN technical agencies that can provide specialized knowledge to complement the knowledge of the agricultural sector that FAO has. International and regional financial institutions can and are playing a key role in the financing of agro-industry investments.

41. The role and comparative advantage of FAO also derives from the significance of inter-country linkages. Many agribusiness firms plan and act globally, substantively impacting on livelihoods, food security and environments. Domestic policies in developed and developing countries within the Asia-Pacific region and outside have an impact on the development and competitiveness of agribusiness. In addition to changes in tariffs, subsidies or preferences within the framework of trade negotiations, national-level decisions on legal and regulatory frameworks, policies, field programmes and support services for agribusiness and agro-industry can lead to major changes in the competitiveness of farms and firms, with corresponding major impacts on rural, as well as urban livelihoods and incomes. As agribusiness and agro-industries extend their regional and global reach their potential impacts on welfare distribution will also shift from a local to a global context. This suggests that there may be a need for international dialogue on legal and institutional frameworks, policies, and support services for agribusiness and agro-industries.

42. The capacity of FAO to support actions and dialogue relating to agribusiness and agro-industries is in part being addressed by steps taken to reinforce partnership with UNIDO. In a memorandum of understanding signed in November 2006, FAO and UNIDO agreed to develop joint planning, programming, coordination and reporting in agro-processing biofuels and post-crisis activities, and to consider the establishment of a joint organizational unit or joint programme relating to one or more of these areas. The growing partnership with UNIDO is, however, only a partial solution in the light of the scope of public sector actions needed to respond to the challenges of agribusiness and agro-industries development.

43. In order to increase understanding and reinforce dialogue among Member Nations on the trends and challenges relating to agribusiness and agro-industries development, FAO is making preparations for a Global Agro-industries Forum (GAIF). The Forum, which will take place in April 2008, is being co-sponsored by UNIDO and IFAD and will be hosted by the Government of India. The Forum is expected to contribute to the development of a shared vision and partnerships aimed at increasing the role of agro-industries in economic development and poverty reduction, and to identify and build on innovative policies and coordination arrangements for agro-industrialization.

VI. Recommendations to the Regional Conference

44. The Regional Conference may wish to:
- Endorse FAO's objective of fostering sustainable agro-industries that incorporate small-holder farmers in the Asia-Pacific region.
 - Recommend that Member Governments in the Asia-Pacific region should consider holding interministerial dialogues so as to agree upon concerted actions to foster the development of agro-industries in their respective countries.
 - Recommend that FAO and Member Governments in the region develop public-private partnerships in order to build the business and entrepreneurial skills of smallholders and improve their inclusion into sustainable value chains.
 - Urge FAO to implement activities supporting Member Governments to develop the appropriate enabling environment to allow smallholder farms to participate in sustainable agro-industries.
 - Recommend that FAO acts as a neutral forum for an interministerial dialogue to allow Member Governments to devise concerted action plans which will foster the development of agro-industries in their respective countries.
 - Encourage FAO to collaborate with the private sector in designing capacity building programmes targeted at extension workers and smallholders on business and entrepreneurial skills that are geared to upgrading technical and entrepreneurial skills for the development of sustainable agro-industries.