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### **Better production to increase access to diverse and nutritious food**

#### **Executive summary**

This background document provides information and analysis on how to improve access to diverse and nutritious foods in Europe and Central Asia. It explains the role of diversification and how and why it has the potential to increase production, productivity, economic growth, social inclusion and positive environmental outcomes. Members are invited to discuss the relevance of the approach for the region, and policy recommendations in favour of diversification for three determinants of access to diverse and nutritious food that have shown substantial dynamism in recent years: markets, digitalization and finance

## **I. Introduction**

1. The Europe and Central Asia region is making progress overall to reduce malnutrition. However, it is not on track on childhood overweight, adult obesity, micronutrient deficiencies (mainly iron), and exclusive breastfeeding during the first six months of life (FAO, 2021). Further shifts in mindset and bold policies and actions are needed to address food insecurity and nutrition issues and prevent obesity and overweight. In 2012–2016, the prevalence of adult obesity in all countries in the region rose from 21.5 percent to 23.2 percent. The rapid increase of obesity represents a growing concern, especially in Central Asia, where the 14 percent increase from 2012 to 2016 was higher than the world average of 11 percent and the regional average of 8 percent. Although data on childhood obesity in the region are

scarce and need updating, it is estimated that the prevalence of overweight among children younger than 5 in the ECA-15<sup>1</sup> countries could be more than double the global level.<sup>2</sup>

2. Inequalities, overweight and obesity, as evidenced by Sustainable Development Goal indicators, are key problems in the region. Preliminary figures for 2020 and 2021 indicate that these deteriorated due to the COVID-19 pandemic, eroding the progress that the region was making towards achieving the SDGs. Extreme poverty was already less than 1 percent, on average, during the period 2010–2015, and some countries in the region where the prevalence was greater than 10 percent had reduced it by half. Poverty according to national poverty lines had been reduced substantially since 2010, and poverty is important because the cost and affordability of healthy diets determine a person’s food choices and ultimately, food security and health. In 2020, approximately 18 percent of the population in ECA-14<sup>3</sup> countries could not afford a healthy diet. Appropriate policies are needed to reduce food prices and/or to increase incomes for millions of people in the region.

3. Important actions in the region to successfully address all form of malnutrition, as outlined in the Voluntary Guidelines on Food Systems and Nutrition (VGFSyN),<sup>4</sup> include the development of sustainable food supply chains. These ensure healthy diets in the context of economic, social and environmental sustainability and climate change. In other words, these seek to make healthy diets more affordable while broader social, economic and environmental trade-offs are also taken into consideration. Agrifood systems transformation represents a holistic challenge, to which the FAO Strategic Framework (FAO SF) responds with the four aspirational principles of better production, better nutrition, better environment and better life. The main purpose of this document is to analyze how the development of sustainable agrifood systems could support the formulation of policies that increase the availability of more diverse and healthier food for the region.

4. The agrifood systems approach is defined as “the ... journey of food from farm to table – including when it is grown, harvested, processed, packaged, transported, distributed, traded, bought, prepared, eaten and disposed of.”<sup>5</sup> Such a holistic approach is also considered in the Farm to Fork Strategy of the European Green Deal, which seeks to achieve, *inter alia*, neutral or positive environmental impacts, climate change adaptation, the reversal of biodiversity losses, and increased trade opportunities while ensuring that everyone has access to sufficient, safe, and nutritious food and that the incomes of primary producers are improved.<sup>6</sup>

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<sup>1</sup> The ECA-15 includes the following countries: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyzstan, Montenegro, North Macedonia, Republic of Moldova, Serbia, Tajikistan, Turkmenistan and Uzbekistan. The ECA-18 includes these 15 countries plus three others – the Russian Federation, Turkey and Ukraine – that together account for 70 percent of the total ECA-18 population.

<sup>2</sup> **FAO.** 2021. *Europe and Central Asia – Regional Overview of Food Security and Nutrition 2021: Statistics and trends*. Budapest. (also available at <https://www.fao.org/documents/card/en/c/cb7493en>).

<sup>3</sup> The ECA-14 includes the countries in Europe and Central Asia for which the necessary data were available. They are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, Montenegro, North Macedonia, Republic of Moldova, Russian Federation, Serbia, Tajikistan and Turkey.

<sup>4</sup> **CFS.** 2021. *CFS Voluntary Guidelines on Food Systems and Nutrition (VGFSyN)*. Forty-seventh Session of the Committee on World Food Security. (also available at <https://www.fao.org/cfs/workingspace/workstreams/nutrition-workstream/en/>).

<sup>5</sup> **FAO.** 2021. *The State of Food and Agriculture: Agriculture Food Systems Transformation: from Strategy to Action*. Forty-second Session of the FAO Conference. (also available at <https://www.fao.org/3/nf243en/nf243en.pdf>).

<sup>6</sup> **European Union.** 2020. *Farm to Fork Strategy: for a fair, healthy and environmentally friendly food system*. Brussels, European Union. (also available at [https://ec.europa.eu/food/system/files/2020-05/f2f\\_action-plan\\_2020\\_strategy-info\\_en.pdf](https://ec.europa.eu/food/system/files/2020-05/f2f_action-plan_2020_strategy-info_en.pdf)).

5. Section II summarizes the key problems in Europe and Central Asia that constrain production from granting consumers better access to diverse and nutritious food. Section III explores how production and income diversification, as well as short and global value chain development, can address these problems. Section IV provides, based on the analysis, policy recommendations for the region.

## II. Overview of food systems in Europe and Central Asia

6. As noted, the most challenging food security issues in Europe and Central Asia are overweight, obesity and inequalities. These stem from – and result in – problems of both access to and availability of healthy diets in the region. Food access is constrained, on one hand, by the higher cost of healthy diets compared to poor diets<sup>7</sup> and, on the other hand, by a poor understanding of healthy diets. A poor understanding of healthy diets fails to raise the demand for healthy food and to provide incentives for the production of rich and diverse food. In addition, poorly functioning markets result in suboptimal investment decisions along food supply chains and thus a suboptimal use of existing resources.<sup>8</sup>

7. A substantial share of the economic value of food is lost in these inefficient supply chains, with farmers receiving low prices for their produce and consumers paying expensive prices for food. Many food supply chains in the region are inefficient from lack of investment and technical capacities and from inadequate agro-processing, which results in low food value and food loss and waste.<sup>9</sup> A widespread lack of information and communication, both vertical and horizontal, constrains market functionality. Poor information flows also represent a high risk in the propagation of harmful pathogens and transboundary animal and plant diseases; for example, they constrain the ability of consumers to rapidly respond to episodes of contaminated food. An estimated 23 million people fall ill and 5 000 die annually from eating unsafe and poor-quality food in Europe and Central Asia. This situation is particularly difficult for countries of the region that struggle to align national trade policies and requirements with agreed human, plant and animal health standards, including those that form the backbone of the World Trade Organization Agreement on Agriculture: the Codex Alimentarius, the International Plant Protection Convention (IPPC) and the World Organisation for Animal Health (OIE). Poor infrastructure, expensive logistics, low use of science and innovation, and low labour productivity technologies combine with poor consumer choices in production and consumption patterns that are not sustainable.<sup>10</sup>

8. Room exists in the region for transforming existing inefficiencies in agrifood supply chains into value addition in an inclusive manner. In this sense, the FAO Sustainable Food Value Chain Development (SFVC) framework represents a promising strategic direction that is explored in the

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<sup>7</sup> **FAO, WFP, UNECE, UNICEF, WHO, WMO.** 2021. *Regional Overview of Food Security and Nutrition in Europe and Central Asia 2020: Affordable healthy diets to address all forms of malnutrition for better health.* Budapest, FAO, WFP, UN, UNICEF, WHO and WMO. (also available at <https://www.fao.org/documents/card/en/c/cb3849en>).

<sup>8</sup> **FAO.** 2018. *Overviews of food systems and agro-industry, value chains, and food loss and waste in the countries of Eastern Europe and Central Asia.* Technical report. Budapest. (also available at <https://www.fao.org/3/i9788en/I9788EN.pdf>).

<sup>9</sup> **FAO.** 2018. *Overviews of food systems and agro-industry, value chains, and food loss and waste in the countries of Eastern Europe and Central Asia.* Technical report. Budapest. (also available at <https://www.fao.org/3/i9788en/I9788EN.pdf>).

<sup>10</sup> It has been argued that food supply chains remained functional during the COVID-19 pandemic, but the extent to which this represents resilience cannot be fully ascertained because food and agriculture were declared essential and thus spared from lockdown restrictions.

coming sections. Before doing so, the document addresses how diversification can provide the basis for sustainable agrifood systems and, notably, for making diverse and nutritious food available to everyone.

### **III. Analytical Background: Agrifood production for increased access to diverse and nutritious food**

#### **3.1 Diversification**

9. Access to healthy diets improves via the diversification of production and of income growth. The diversification of production, including value addition, allows a broader offering of food products, while income growth allows consumers (including agrifood producers and their families) the opportunity to buy food that is of better nutritional quality and relatively more expensive than poor-quality food.

10. In addition to improving access to healthy diets, diversification also has the potential to contribute to broader economic, social and environmental outcomes. Diversification fosters sustainable agriculture production through a number of channels that work at different levels. Where diversification is a common path for the environment, the economy and societies, it has the potential to generate benefits that are more than the sum of its individual parts. For example, stronger social inclusion (the progressive acceptance of social diversity) is accompanied by economic inclusion and generates opportunities for environmental protection and, ultimately, sustainable development (i.e. “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”<sup>11</sup>).

11. From a nutritional perspective, given the emphasis of this background document, empirical evidence suggests that in very poor and small-scale farming households, diversified farming practices can support higher levels of dietary diversity, and farm diversification can result in a more even distribution of consumption expenditure across all food groups, including more nutritious foods.<sup>12</sup> However, there is evidence that this is not a universal phenomenon, suggesting that such efforts require holistic approaches including awareness of and behavioural change to dietary consumption patterns, thus highlighting the need for a systems approach.

12. The diversification of primary production can be a powerful instrument to improve access to food and tackle soil, water and land management problems. For example, agroecology and nature-based solutions are well-known and promising technologies that are environmentally friendly and generally lower in cost, though so far they have proven more persuasive to small and medium – rather than large-scale – agriculture. Nevertheless, they provide a rule of thumb for policy formulation: any practice that conserves and enhances biodiversity can also be good for nutrition, soil and water resources (for example, intercropping, crop rotation, nutrient recycling, catch diversification across fisheries, aquaponics, agroforestry, and compositional and structural forestry diversification). Clearly, the link is not guaranteed if a system’s approach does not also address holistically the challenges across the food system to improve access to healthy diets.

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<sup>11</sup> **WCED.** 1987. *Our Common Future: report of the World Commission on Environment and Development.* (also available at <https://digitallibrary.un.org/record/139811>).

<sup>12</sup> **FAO.** 2017. *Linking farm diversification to household diet diversification: Evidence from a sample of Kenyan ultra-poor farmers.* ESA Working Paper No. 17-01 February 2017. Rome. (also available at <https://www.fao.org/3/i6852e/i6852e.pdf>).

13. From an economic point of view, the vast majority of farmers in Europe and Central Asia are micro, small and medium enterprises, including family farms that follow agriculture-based livelihood strategies that are less reliant on primary agriculture and more on value addition. They consist of on-farm and off-farm activities that diversify their sources of income, including the processing of their produce, agri-tourism, and gainful off-farm entrepreneurial activities that are linked to their own agricultural production. They may include jobs outside their farms that generate enough income to cover variable production costs or the purchase of agricultural assets.<sup>13</sup>

14. Investment in agriculture, including for value addition, is key for improving access to diverse and nutritious food. However, investment is suboptimal because of a lack of understanding among farmers of financial institutional needs and a reciprocal lack of understanding among financial service providers of how agriculture works. Improving their mutual understanding would undoubtedly unlock commercial credit to agriculture.<sup>14,15</sup> In this sense, a “financial systems paradigm” is gaining prominence that tends to favour an ecosystem-based approach in which governments, development agencies and donors are encouraged to use their funds to promote the reduction of risk among agricultural financing services by pursuing indirect rather than direct subsidies and interventions that address a constellation of market failures.<sup>16</sup> These include, *inter alia*, improving the legal and regulatory environment governing rural finance systems, the establishment of meso-level financial system infrastructure (wholesale refinancing facilities, credit guarantee schemes, credit registries), promoting the diversification of retail-level financial products and services and competition among providers, raising awareness of supply-side actors on how to (re)design their products, outreach strategies that are customer-centric and demand-responsive, promoting value chain finance, reducing gaps in and costs of accessing information, leveraging information and communications technologies to reduce unit costs of delivering financial services, and financial literacy. This new paradigm is fully aligned with the spirit of diversification and may be considered a strategic policy direction.

15. Digital technologies and big data are powerful tools for both the diversification and specialization of production and markets. They are increasingly affordable and available to small-scale producers, thanks to the combined effect of falling prices and increased mobile network coverage. These serve, *inter alia*, to support farm management practices such as the selection of crops and crop varieties; the monitoring, identification and control of pests and diseases; market- and weather-driven harvest decisions that optimize the value of produce; and the facilitation of cross-border trade.<sup>17</sup> Digitalization facilitates value addition through diversification by reducing the information costs that are needed in multitasking. While rural areas of Europe and Central Asia may have the opportunity to “leapfrog” older agrifood technologies in favour of a digital agriculture, this new scenario will require radical rethinking by policymakers, international organizations, business leaders and individuals.<sup>18</sup> In fact, a precautionary

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<sup>13</sup> This document concentrates on primary production, though diversification downstream is pivotal for this path.

<sup>14</sup> **FAO.** 2010. *Agricultural Value Chain Finance*. Rome. (also available at <https://www.fao.org/3/i0846e/i0846e.pdf>).

<sup>15</sup> Notably in the age of digitalization, which is providing increasing opportunities that reach out to those normally excluded, including smallholders and family farmers. See: **FAO.** 2021. *Digital finance and inclusion in the time of COVID-19: Lessons, experiences and proposals*. Rome. 94 pp. (also available at <https://www.fao.org/documents/card/en/c/cb2109en/>).

<sup>16</sup> **Meyer, R.L.** 2011. *Subsidies as an instrument in agriculture finance: A review*. Washington, DC, World Bank. (also available at <https://openknowledge.worldbank.org/handle/10986/12696>).

<sup>17</sup> See, for example, the UN/CEFACT eQuality standard.

<sup>18</sup> **FAO.** 2019. *Digital technologies in agriculture and rural areas*. Briefing paper. Rome. (also available at <https://www.fao.org/3/ca4887en/ca4887en.pdf>).

approach to digitalization in agrifood systems should be adopted, notably in relation to its threats to undermining inclusiveness.

16. Sophisticated technologies that foster diversification in primary agriculture include remote sensing and earth observation technologies to support water use efficiency in agriculture, land suitability, and geospatial maps to develop holistic, ecological approaches. However, simple solutions are also available that make a difference to diversify production. For example, where land is a limiting factor – a characteristic of farming in the region – intercropping, or the simultaneous use of different crop species and varieties, can have significant impacts on the provision of diverse, safe and nutritious food. Mechanization – in particular small engines, including two-wheeled tractors – is a powerful labour-saving technology that allows for a significant increase in labour productivity, saving hours of labour that can be relocated to value-added or complementary activities. Special attention should be given to technologies that give women opportunities to save on productive labour, because they already are disproportionately involved in reproductive roles.<sup>19, 20</sup>

17. Overall, trade (domestic and international) influences nutrition and health outcomes through its impact on food supply chains and the food environment by affecting food availability and physical and economic access.<sup>21, 22</sup> Trade has the potential to expand consumer choices and contribute to healthy diets, including allowing sufficient quantities of diverse, nutritious foods to be available year-round. Imports may be a source of minimally processed, nutritious foods with a longer shelf life that can contribute to offsetting the seasonal scarcity of perishable foods. Trade can also contribute to nutrition outcomes through its support to livelihoods and income generation for those working throughout the food system, particularly those engaged in primary food production. Certain global value chains and agrifood industries currently produce food products high in unhealthy fats, sugars and/or salt. Clearly, the increased globalization of the food supply increases the risk of exposure to various food hazards.

### 3.2 Markets: Value chains, arm's length transactions and “coopetition”

18. The rural areas of Europe and Central Asia are mostly agrarian, and their economies depend heavily on agrifood supply chains.<sup>23</sup> The activities that take place in the supply chains of Europe and Central Asia are mostly uncoordinated, though some organizational arrangements exist, depending on the country and degree of economic development. While formal value chains have strong penetration in the European Union, those present in other parts of the region are mostly informal.

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<sup>19</sup> For an in-depth analysis of the role of gender on diversification, see: **FAO**. 2019. *Advancing gender equality in the region, providing support to rural women in income diversification*. Budapest. ECA/41/19/6. (also available at <https://www.fao.org/3/na870en/na870en.pdf>).

<sup>20</sup> **FAO**. 2014. *A regional strategy for sustainable agricultural mechanisation*. Bangkok. (also available at <https://www.fao.org/3/i4270e/i4270e.pdf>).

<sup>21</sup> **FAO**. 2016. *Nutrition in the trade and food security nexus. The state of agricultural commodity markets*. Rome. (also available at <https://www.fao.org/3/i5223e/i5223e.pdf>).

<sup>22</sup> **FAO**. 2017. *Nutrition and food systems: a report by the High Level Panel of Experts on Food Security and Nutrition*. HLPE Report 12. Rome. (also available at <https://www.fao.org/3/i7846e/i7846e.pdf>).

<sup>23</sup> **FAO**. 2021. *Territorial approaches and community development to drive local change and prevent all forms of malnutrition*. Forty-second Session of the European Commission on Agriculture. Budapest. (also available at <https://www.fao.org/3/nh846en/nh846en.pdf>).

19. In FAO's sustainable food value chain (SFVC),<sup>24</sup> "value" is understood in a broad sense, as the value chain is "profitable throughout, has broad-based benefits for society, and does not permanently deplete natural resources." In this holistic framework, there is value in forming an association that brings higher income to its partners, that reduces market risk, or that guarantees a steady income, and there is also value in coordinating efforts that preserve natural resources (for example in redressing the tragedy of the commons), that protect cultures and traditions, that promote gender equality, and that leave no one behind. One major barrier to the transition to sustainable food systems is the way food is valued, with market prices that take little or no consideration of externalities, including the economic value of nature, health, or food security. In this sense, SFVCs are aligned with some of the "game changers" of the United Nations Food Systems Summit, notably the "true price" of food.<sup>25</sup>

20. Value chains can be short or long, depending on whether they are measured by their geographic coverage or the number of transactions they embody. They can be formal contractual or informal verbal agreements based on trust. They can be built from institutional arrangements, including certification and standards (organic certification, geographical indications, Fair Trade, Slow Food, resource recovery). In sum, value chains constitute a broad range of organizational arrangements that, not surprisingly, have raised the interest of policymakers for their potential to add environmental, social and economic value.

21. When looking for improved availability, affordability, quality and acceptability of safe and diverse foods for healthy diets, a nutrition-sensitive value chain (NSVC) approach has been developed to unpack the complexity of agrifood systems and to identify entry points for policy, investment and capacity development. The NSVC framework, which has been jointly developed by FAO and other Rome-based agencies, is contributing to the identification of the roles and motivations of value chain actors, of the enabling policy and regulatory environment, and of cross-cutting factors that affect them, such as gender and climate change. Using nutritional outcomes as the entry point for addressing agrifood systems, NSVCs represents a holistic approach that seeks to maximize the contribution of agrifood systems to improved nutrition via collaborative action.<sup>26, 27</sup>

22. Value chain approaches at large have also raised the interest of FAO Member States in the region for their potential to promote rural development. Value chain selection, for example, seeks to identify organizational arrangements with high payoffs in light of the objectives being sought. Gender-sensitive value chain development<sup>28</sup> seeks to mainstream gender in value chain projects and programmes. Value chain analysis helps to understand how supply chains are organized to cater for markets. Value chain analysis is useful for understanding the fallacy of composition: why solutions that are valid for one group of beneficiaries may not be valid to all. In a typical example, small-scale production that caters only to a limited number of buyers can saturate markets quickly. A small expansion of supply can very easily crash prices and, *inter alia*, lead to food loss and waste. In other words, organizational arrangements of

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<sup>24</sup> FAO. 2014. *Developing sustainable food value chains: Guiding principles*. Rome. (also available at <https://www.fao.org/3/i3953e/i3953e.pdf>).

<sup>25</sup> United Nations. 2021. *Potential game changing and systemic solutions: A second compilation*. United Nations Food Systems Summit Action Track 1: Ensure access to safe and nutritious food for all. (also available at <https://foodsystems.community/members/anoukdevries/activity/5298/>).

<sup>26</sup> FAO. 2017. How can value chains be shaped to improve nutrition? Summary of Online Consultation. FSN Forum. Rome. (also available at <https://www.fao.org/3/i7605e/i7605e.pdf>).

<sup>27</sup> FAO. 2020. Sustainable Food Value Chains for Nutrition. In: *FAO eLearning Academy* [online]. <https://elearning.fao.org/course/view.php?id=566>

<sup>28</sup> FAO. 2018. *Developing gender-sensitive value chains*. Rome. (also available at <https://www.fao.org/policy-support/tools-and-publications/resources-details/en/c/1175525/>).

local stakeholders could minimize market risks on goods that are locally produced, locally consumed, and locally important.<sup>29</sup> These local arrangements are often described as “short value chains.”

23. At the other end of the scale, global value chains<sup>30</sup> (GVCs) are also gaining prominence across the region. FAO estimates that about one-third of global agricultural and food exports are traded within GVCs.<sup>31</sup> They are also important at the local level – i.e. where local produce enters a GVC – and have potential for economic and social inclusion. However, policymakers should also beware of the reality of GVC investment operations in the developing world. More often than not, GVCs that seek where to invest or that seek partners with whom to invest (contract farming, for example), would pick winners. Investors would favour investments that result in higher financial return on investment. They would favour farmers that are “fit for purpose” – farmers who are qualified (the educational bias), have a proven record (the experiential bias), or that are best located for their needs (the geographical bias). Clearly, this does not argue that there is no room for fostering GVC investment. Rather, the intended message is that incentives should be sought to channel those investments in favour of inclusiveness.<sup>32</sup>

24. In this sense, FAO has been seeking to explore the potential for incentives to boost responsible investment in agriculture and food systems. While the imposition of negative incentives that prevent the use of irresponsible business practices is relatively straightforward, the formulation of positive incentives that foster responsible investment requires deep thinking. Enterprises, big or small, are not inherently economically disruptive, environmentally damaging, or socially exclusive. They are not inherently good or evil; they simply follow incentives. Thus, a thorough understanding of the context in which enterprises operate is fundamental, not only to identify incentives that drive global value chain investment, but also to ensure that if new incentives are proposed, they are inclusive and non-discriminatory.<sup>33</sup>

25. Supply chains consist not only of value chains, but also of a vast range of activities in which stakeholders act independently, seeking their own self-interest, and with decisions that are not subject to pressure from the other party.<sup>34</sup> These so-called “arm’s length transactions” have a different governance structure than those of value chains. While market transactions take place in value chains, they are never purely arm’s length because agents do not act independently from each other. Agents in value chains engage in so-called “coopetition,” which has elements of both competition and cooperation. Attempts to integrate farmers into supply chains then may not necessarily start by developing value chains. Depending on the context, connecting smallholders may entail improving the functioning of markets, the development of inclusive value chains, or both.<sup>35</sup> Incidentally, all supply chain operators,

<sup>29</sup> What is “local” depends on how the problem being addressed has been demarcated.

<sup>30</sup> According to The State of Agricultural Commodity Markets 2020, global value chains are production chains that encompass at least three countries. See: **FAO**. 2020. *The State of Agricultural Commodity Markets 2020. Agricultural markets and sustainable development: Global value chains, smallholder farmers and digital innovations*. Rome. (also available at <https://doi.org/10.4060/cb0665en>).

<sup>31</sup> **FAO**. 2020. *The State of Agricultural Commodity Markets 2020. Agricultural markets and sustainable development: Global value chains, smallholder farmers and digital innovations*. Rome. (also available at <https://doi.org/10.4060/cb0665en>).

<sup>32</sup> **OECD/FAO**. 2016. *OECD-FAO guidance for responsible agricultural supply chains*. Paris, OECD Publishing. (also available at <https://doi.org/10.1787/9789264251052-en>).

<sup>33</sup> **FAO**. 2021. *Guide on incentives for responsible investment in agriculture and food systems*. Rome. 124 pp. (also available at <https://www.fao.org/publications/card/en/c/CB3933EN/>).

<sup>34</sup> **Dotdash**. 2021. *Investopedia.com* [online]. <https://www.investopedia.com/>

<sup>35</sup> **FAO**. 2013. *Smallholder integration in changing food markets*. Rome. (also available at <https://www.fao.org/3/i3292e/i3292e.pdf>). See also: **CFS**. 2015. *CFS High-Level Forum on Connecting Smallholders to Markets. Background document*. 25 June 2015. (also available at



including those that belong to well-established value chains, are in constant search for alternatives that could generate value addition, including marketing channels where arm's length transactions may prevail.

26. In conclusion, the value chain approach is powerful for exploring how supply chain actors are organized, including the identification of existing organizational arrangements that have the greatest payoffs for food security and nutrition.<sup>36</sup> However, the choice (from an economic point of view) between supporting value chains depends on local drivers and opportunities for value addition, including those that originate from processing, storing and distributing agrifood products (the so-called “middle sections” of supply chains).

#### **IV. Conclusions and policy recommendations**

27. The above argues that the diversification of agrifood systems improves access to healthy diets. Moreover, when addressing nutritional problems along agrifood supply chains, policymakers are advised to think of diversification in all its forms. The question is where to prioritize diversification. Proposed solutions should have the highest social, economic and environmental payoffs, and, for this, context and opportunities are paramount. For example, policymakers should not assume that value chains are a panacea, but ways in which market players organize themselves to replace market failures for added value.

28. Though policy formulation necessitates extensive analysis of context, the balance tips in favour of diversification in all its forms: of scales of production, crops, marketing channels, financial sources, financial instruments, technologies, value addition, and social processes. All of them can strengthen the sustainability and resilience of agrifood systems and, ultimately, improve access to diverse and nutritious food. The diversification of production, technologies and farm structures has a long history of success in favour of improving access to diverse and nutritious food. This section expands this set by addressing three additional factors that have shown substantial dynamism of late: markets, digitalization and finance.

29. A large number of “game changers” were submitted to the United Nations Food Systems Summit Secretariat in preparation for the FSS, some of which are aligned with the arguments of this background document. A selection of just a few examples of those that are relevant for the issue being discussed include:

- including the “true price” in food labels to reflect social, environmental and health costs;
- putting farmers' access to crop diversity first in seed policy and practice;
- increasing fruit and vegetable consumption (demand) through consumer-level subsidies; and
- implementing nutrition-sensitive agriculture services by agricultural extension staff, advisers, and lead farmers (“frontline staff”).

30. Based on the analysis presented in this document, the following recommendations in support of diversification are put forward for consideration:

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[https://www.fao.org/fileadmin/templates/cfs/Docs1415/Events/HLF\\_Small/CFS\\_HLF\\_Smallholders\\_Markets\\_EN.pdf](https://www.fao.org/fileadmin/templates/cfs/Docs1415/Events/HLF_Small/CFS_HLF_Smallholders_Markets_EN.pdf)).

<sup>36</sup> Work on inclusive value chains represents attempts to integrate smallholder farmers into existing organizational arrangements.

- 1) Member States are requested to address not only value chain development but also market functionality, where different types of marketing channels can develop and multiply. Diversity in marketing channels thrives where markets are efficient and competitive, and this very diversification improves market functionality. In this sense, sustainable agrifood value chains is one marketing arrangement among many whose support should be based on a clear understanding of the market failures they seek to address in any particular setting.
  - 2) As with markets, Member States should play a proactive role in creating an enabling adequate environment for digital technological innovations to thrive. In this sense, support to any specific technology, such as block-chain, e-commerce, or digital lending should adopt a precautionary principle (evidence-based approach) to risks and challenges for inclusive growth.
  - 3) Member States should support the development of financial ecosystems where financial instruments and service providers proliferate and diversify. In this sense, the traditional approach of assigning funds to existing service providers for specific credit loans to agriculture should be phased out in favour of investing for the development of products, institutions and lending infrastructure.
31. Based on the analysis presented, and taking into consideration FAO priorities in the region and available resources, FAO would concentrate its work in this area under the following actions:
- 1) Technology:
    - Development of knowledge products, including policy analysis, that enhance sustainable natural resources management and environmental sustainability in diverse, inclusive and resilient agrifood systems.
    - Promotion of nature-based solutions, but on the basis of a clear understanding of the problems they seek to address and of the additional benefits they would deliver to protect, sustainably manage, and restore ecosystems.
    - Provision of digital platforms for the dissemination of technologies that deliver green agriculture and that improve the connectivity of food players of agrifood supply chains, leaving no one behind.
  - 2) Institutions:
    - Promotion and technical assistance for the development of sustainable food value chains, including geographical indications, organic certification and Globally Important Agricultural Heritage Systems (GIAHS).
    - Review and analysis of agricultural policies and market trends to strengthen the capacities of central and local governments and relevant experts for evidence-based policymaking, monitoring and impact assessment.
  - 3) Investment:
    - Promotion and support of the CFS Principles for Responsible Investment in Agriculture and Food Systems.
    - Promotion and support of the OECD–FAO Guidance for Responsible Agricultural Supply Chains.

- Promotion and support of the development of financial ecosystems, with an emphasis on sustainable value chain development.