

Scoping Report

**“Piloting Smallholder Agricultural Development under a Transforming China:
Implications for the Syngenta Foundation for Sustainable Agriculture”**

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Executive Summary

This report describes the outcome of a scoping study mission for the potential smallholder agricultural development projects funded by the Syngenta Foundation for Sustainable Agriculture (SFSA) in the People's Republic of China, carried out in Beijing and the four selected provinces of Guizhou, Sichuan, Yunnan and Shaanxi between 1 January and 30 June 2018.

The objective of the mission was to define a long-term strategy and framework for SFSA's smallholder development program in China and suggest potential interventions and approaches of programs at the county level. The mission reviewed the latest national policies for agriculture and rural development, conducted meetings with decision and policy makers, agricultural experts in Beijing, as well as field visits with a semi-structured interview guide to a total of eight selected counties, including two counties in each province of Guizhou, Sichuan, Yunnan and Shaanxi. The team also attended the China Agriculture Development Forum, learning about agricultural policy directions, and the International Workshop on Agriculture Green Development, sharing a concept of China's approach initiated by China Agriculture University. The selected target provinces and counties for the scoping study are based on the selection criteria reflecting the goodness of fit among the stakeholders, including SFSA, ChemChina, Syngenta China, and the Chinese government in terms of SFSA strength and priority needs of beneficiaries.

The mission found that the portion of GDP from agriculture has declined to 7.9% in 2017 from 30.2% in 1980. Urbanization continues, having reached 58.5% in 2017 and is expected to reach 70% by 2030. Though recognized as an upper middle-income country, China has witnessed growing social inequality in terms of income gaps across different regions, industries and sectors. In 2016, the Gini coefficient was 0.465, higher than 2015. Per capita income of urban residents was 2.71 times that of rural residents, with even larger disparities in terms of education and social protection. Agricultural development is trending toward higher efficiency, better quality and becoming more environmentally friendly. The approaches to improve agricultural

production efficiency include intensification and mechanization, supply chain integration, land circulation and consolidation, supply side based restructuring and zoning. The efforts to increase compliance of quality and environmental standards aim to produce safer agricultural products, achieve greener agricultural development, and realize the National Nutrition Plan (2017-2030). Smallholders will retain a dominating role in the challenging transition from subsistence to commercial farming. The challenges include increasing imports of agricultural products, agricultural resource scarcity against industrialization and urbanization, increasing risks from climate change, aging and declining rural labor for agriculture and the rising cost of agricultural inputs.

During field visits to the selected counties, the mission observed a number of issues and challenges faced by the smallholders, particularly those in poor counties/villages. The farm conditions are quite heterogeneous among smallholders. Many of them have limited access to water resources or irrigation, and land degradation is common in mountain areas. There is a lack of climate smart technologies available for smallholders. Safety assurance practices on farm food safety are not incentivized. Farmers face many pressures, such as rising production costs, land consolidation by large agribusinesses supported by government, aging and feminization, shortages of productive rural labor, lack of access to affordable high quality inputs, ineffectiveness of pro-smallholder farmer cooperatives, low small-scale investment returns on new technologies, and declining contributions from agriculture in family incomes. The government agricultural extension service is project driven with inadequate capacity, and there is limited access to smallholder-friendly insurance and financing services. In poor areas, there is a lack of value-added processing capacity. Most farm produce is sold as raw ingredients without branding, and smallholders largely sell products through brokers without alternative market linkage.

The government is promoting specialty agriculture, such as “One Village One Product” or “One County One Industry”, which concerns the risk management of farmers in the marketplace. Smallholders are in a disadvantaged position on the supply chain, and globalization would amplify such disadvantages. The County government is overwhelmed by the national precision poverty alleviation campaign which will run until 2020. The current supporting policy is focused on farmer cooperatives, family farms, specialized households with scaled up operations,

and dragon head enterprises, while there is a lack of pro-smallholder policies. The adjustment plan for crop production based on agricultural supply side reform and zero growth of chemical fertilizers and pesticides have limited impact on smallholders due to an absence of incentives. Among the above issues, a shortage of water resources, a lack of value-added processing services and inadequate market linkages are priority constraints to smallholder agriculture development in poor counties.

It is concluded that the role of smallholders in China's agriculture sector is progressively reduced, but will remain a dominant feature of China's agriculture for a long period. During the transition period, the smallholders have become increasingly vulnerable to a spectrum of emerging climatic, technical, marketing, and financial risks and challenges, and thus can hardly benefit from agricultural production due to their small-scale operations. In the past decades, China has attempted to overcome the disadvantages of smallholders in modern commercial markets and rapidly changing economic contexts through supporting the development of specialized households, farmer cooperatives, large-scale family farms, large agricultural enterprises (Dragon Head Enterprise) and extension services. While those efforts were successful in improving smallholders' production efficiency, many challenges and issues related to climate smart technologies, value-added processing, and marketing remain to be tackled, particularly in the poor counties covered by the scoping study. More recently, the Chinese government has initiated a number of policies to address the above challenges through a comprehensive approach, including a rural revitalization strategy, rural land ownership reform, poverty alleviation, supply chains, rural complex, agricultural supply side reform, zero growth of chemical fertilizers and pesticides, and an agricultural go-global strategy. The emerging challenges and policy initiatives provide a unique opportunity for SFSA to develop a business model that includes smallholders in modern agriculture development, resulting in potential policy impact in the rest of China beyond the pilot provinces and other countries, through South-South Cooperation and the Belt & Road Initiatives.

The report makes a number of recommendations to SFSA, aimed at effective and efficient project design and implementation. It is suggested that SFSA should mainstream the national poverty alleviation, rural revitalization and agricultural green development initiatives. In the selected counties of Guizhou, Sichuan, Yunnan and Shaanxi provinces, the SFSA project shall

focus on subsistence smallholders with profit potential and commercial smallholders transitioning into modern agriculture. A special intervention strategy for specific types of smallholders shall be developed to address their needs. The generic project interventions include access to better quality, safer and greener agro-inputs, technologies to produce high-value crops, and improving market linkages to sell marketable products, improving smallholder friendly agribusiness services to reduce production and market risks, and adjusting pro-smallholder policies. Policy makers shall be included in the project design and implementation, so as to achieve potential policy impact. Besides technical objectives, the SFSA project shall aim at innovations in smallholder-friendly training methodologies, incentive-based technology transfers, risk management, financing and market linkage. A value chain approach shall be considered to map out the constraints/weaknesses of smallholders and the required project inputs to narrow the gaps. Training of trainers is recommended to build sustainable human resources to support local smallholders after the project is finished. Key crops, project activities and technical interventions, as well as local partners, are recommended for each project county. To minimize risks of new projects/programs, a phased approach is suggested to SFSA by initiating projects in 1-2 poor counties in Sichuan and/or Guizhou provinces in the first year, then expanding to Shaanxi and Yunnan provinces in the second year, and finally to be in full operation in the four provinces and beyond.



Selected countries for field consultation