

Agribusiness Investment Promotion



Lessons from selected country case studies



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Agribusiness and Finance Group
Rural Infrastructure and Agro-Industries Division



Outline

1. Introduction
2. Investment promotion agencies: APIA in Tunisia
3. Support to producer organizations: The Kalangala Oil Palm Growers Trust in Uganda
4. Financial mechanisms for agribusinesses: Agricultural Credit Guarantees in Estonia
5. Agro-clustering: Food parks in India
6. Conclusions



Introduction to the FAO study

1. We analyze 20 country cases to synthesize lessons from promising approaches to agribusiness investment promotion
2. We explore how can the public sector promote private agribusiness investment in a more cost-effective manner
3. In addition, how can related interventions enable poor households to participate in growing agribusinesses
4. Virtues, limitations and pre-conditions are presented to provide criteria to policy makers



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Investment promotion Agencies

Agency for the Promotion of Investment in Agriculture (APIA), Tunisia:

APIA is a specialized department of Tunisia Invest, the national IPA

Provides common IPA services: image building, policy advocacy, information services and niche identification

In addition, it provides TA to agribusiness on technical, managerial and financial matters through an agribusiness incubator



Delivery of services

Services are delivered through a network

- Regional offices at the governorate level leading strategies
- Regional committees composed by private sector representatives to identify opportunities
- Specialized TA department focused on financial analysis and production and managerial techniques
- Partnership with local universities
- Library and website focused on production costs, fiscal and legal processes, and general performance in the agricultural sector



Key criteria for success

Recognition of the agricultural sector's uniqueness led to the establishment of a separate agency with specialized staff

Impact evaluation has led to identify most effective services as policy advocacy, image building and information services. So scarce resources should be used accordingly

TA services are important complements, as they signal investors effective coordination among important value chain actors



Limitations and pre-conditions

The network required for an effective IPA implies large fixed costs that imply a minimum budget

Strong producer organizations and functional communication infrastructure facilitating operations in agricultural value chains

IPA effectiveness largely dependant on the level of support from top level government, mainly the presidency



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Support to producer organizations

Kalangala Oil Palm Growers Trust in Uganda

- BIDCO, a private company registered in Kenya, identified the potential of palm oil processing in the Kalangala island in Uganda
- The USD 130 mo. investment relied on the stable availability of palm oil at an industrial scale. This could not be achieved without smallholder participation
- BIDCO sought a partnership with the public sector in order to support local producer organizations. This is how the Kalangala Growers Trust was formed in 2006. Today it has 950 members



Institutional arrangements

Support to PO was provided in the following way:

- Government and donors financed the delivery of trainings on production techniques, quality standards, and management to achieve scale and timing in delivery
- BIDCO guided interventions towards market requirements and established an input and credit scheme for producers
- Government financed expansion of the roads and ferry network in Kalangala
- Contractual agreements between BIDCO and Kalangala were used by smallholders to leverage additional financial services



Key criteria for PPP

Subsidies to producer organizations directed mostly to capacity building. Subsidies for operations costs were minimum and finite

Public intervention focused on fostering inclusiveness of smallholders, avoiding investments that would have taken place anyways

Private collaboration ensures interventions are market oriented and sustainable



Limitations and pre-conditions

- Producer organizations with long-standing existence and strong cohesion are in place
- Members join organization seeking those services that would improve their income-generating activities, not those temporary donor subsidies
- Private partners that have strong incentives to support poorer households, such as processors, wholesalers and input suppliers



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Financial mechanisms for agribusiness

Agricultural Credit Guarantee Funds:

The Rural Development Foundation (RDF) in Estonia is state-owned. It was founded in 2001.

RDF is led by a board composed of representatives from ministries of finance, agricultural technical services providers and banks

Guarantees up to 75% of loans and charges a fee of 0.5-6% of the loan amount. In 2010, there were 302 guarantee agreements worth € 19.5 mo. These led to € 30.7 mo. in agricultural loans.



Potential of agricultural credit guarantees

Promote agribusiness development by leveraging finance for required investments

Can substitute for collateral when collateral markets are imperfect

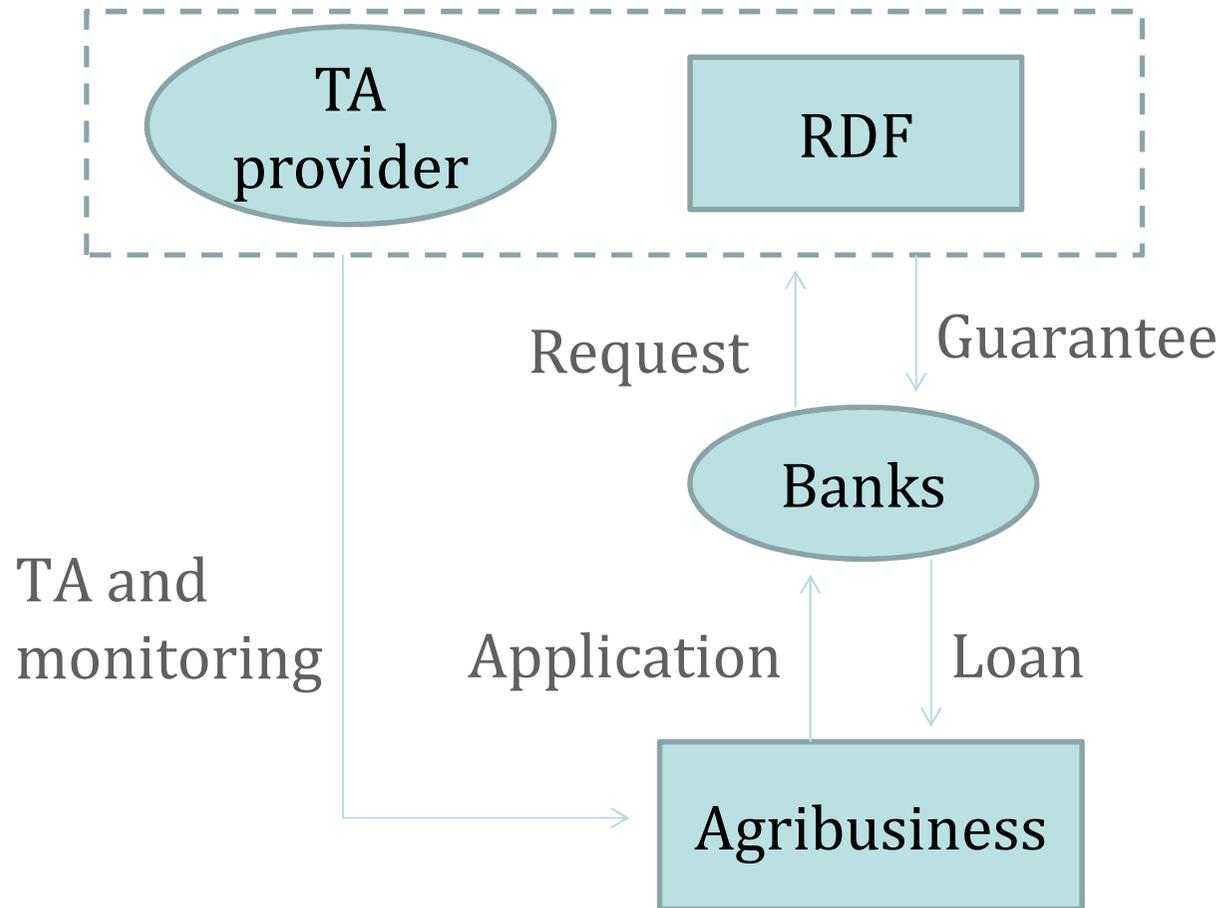
Facilitates learning from lenders on the characteristics of agribusinesses, resulting in longer term loans, flexible payment schedules and provision of other financial services

Investments in agribusiness generate additional employment



RDF guarantee scheme

Individual-selective model



Source: authors



Implementation method

Important criteria for success:

- Risk is shared between lender, guarantor and borrower. Repayment is sought by guarantor even if guarantee has been paid out.
- Screening of borrowers is done by lender, but guarantor investigates every loan application and selects which ones to guarantee
- TA services are key as they improve loan screening and monitoring. They foster greater lender knowledge on the sector
- Borrowers may receive not only credit, but TA on technical, financial and managerial aspects



Limitations and pre-condition

Guarantee schemes are seldom financially self-sufficient, so they should be considered a temporary and partial solution to informational problems affecting agricultural finance

High-quality and recognized TA services for the agribusiness sector need to be in place

Flexible interest rates and low and stable inflation are important preconditions for expansion of financial services into agriculture

Guarantee schemes need to be managed by autonomous institutions not subject to political influence



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Agro-clustering: Agro-food parks in India

Government policy began to focus on a more competitive agricultural sector:

Agricultural and processed food products export development authority act, 1986

Establishment of the Ministry of Food Processing Industry (MoFPI), 1988

MoFPIs sees agro-food parks having high potential for:

- Reducing transaction costs in agribusiness through increasing economies of scale and scope
- Public intervention is justified as feasible agro-parks require public goods



MoFPI work plan 20 years later

2008-2012 work plan: Focus on agro-food parks

Activities	Budget (USD million)	
Infrastructure development	642.6	(80%)
Agro-food parks -Packaging and irradiation centers -Abattoirs -Cold chain facilities -Processing equipment		
Food testing laboratory	50	(6%)
Technical and managerial support to producer organizations	13	(2%)
Technical training to public support service providers	65	(8%)
Quality standards for street food	35.6	(4%)
TOTAL	806.2	

Source: MoFPI, 2007



India's food park strategy

Institutional arrangements to ensure private sector participation in park operations:

- Food parks constituted as limited companies, privately managed, and having the public sector as a minority shareholder
- Park management team is an autonomous body employed by private enterprises operating in the park
- Public dividends from the park are used to maintain park-related public goods and interventions aimed at ensuring smallholder participation
- 5 year maximum tax allowance provided

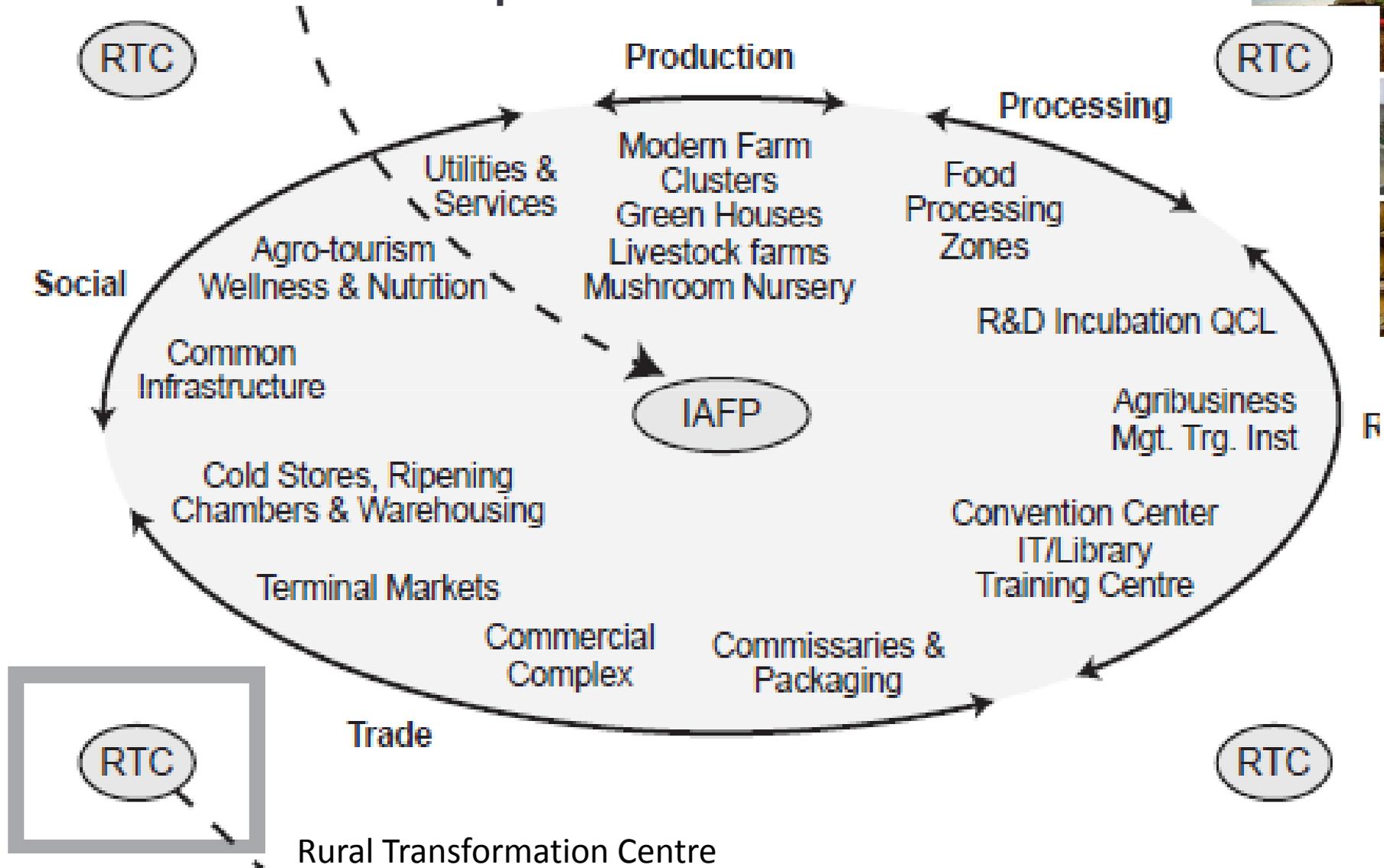


Implementation method

Implementation modality focused on reduction of transaction costs for agribusinesses

- Identification process decentralized to MoFIP state offices
- A survey of private investment plans was conducted with support of state chambers of agro-industry
- Geographic location of parks based on reducing costs for the provision of inputs specific to the industry
- Location set to improve connections to producer organization, input and service providers, ports, customs, and international highway systems
- Technology selected based on efficiency as main parameter



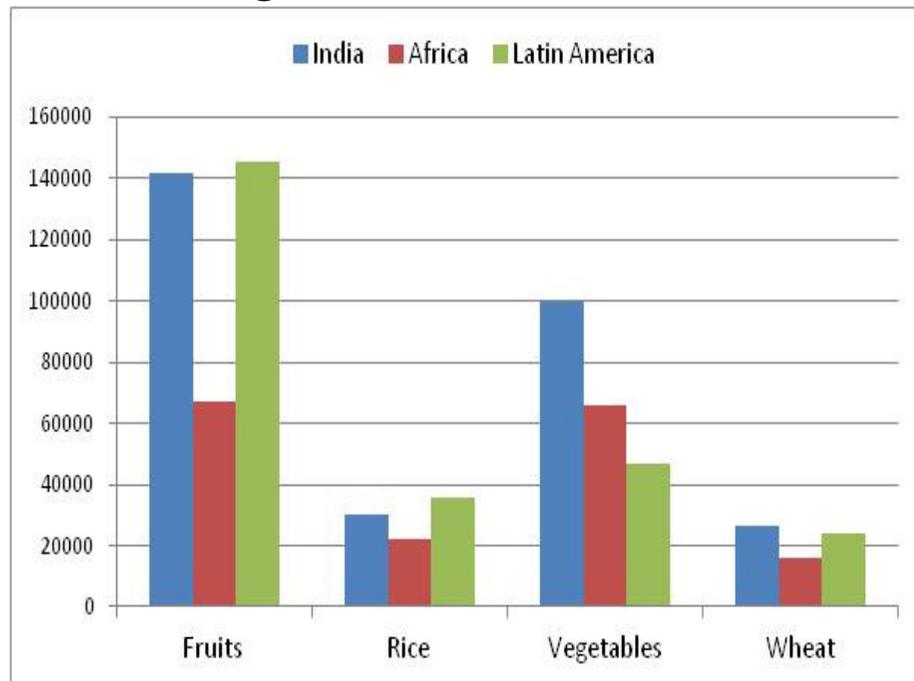


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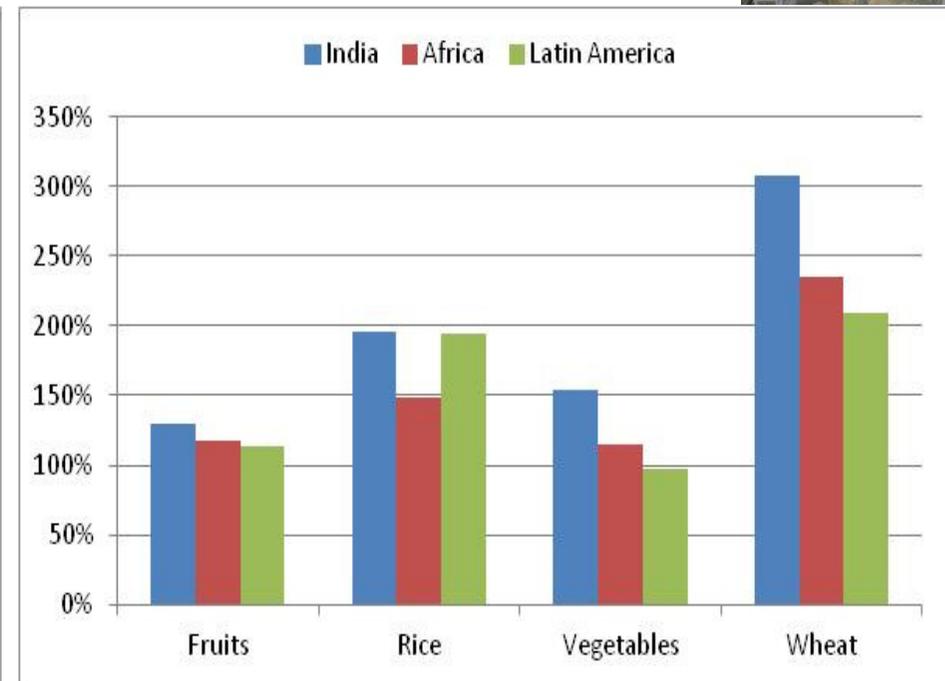
Limitations and pre-conditions



Approach feasible given significant productivity gains among smallholders



Avg. Yields in 2001 (Hg/Ha)



Yield growth rate 1961-2001

Source: <http://faostat.fao.org>

Farmer productivity gains in India have enabled economies of scale needed by agro-industries to be competitive



Limitations and pre-conditions



➤ Initiatives have had top-political support, fostering confidence that property rights will be respected

➤ Coordination of parallel public interventions regarding communication infrastructure, pro-agriculture macro-economic policies, and TA to producer organizations on managerial skills

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Conclusions: Drawing lessons

- Successful investment promotion entities need to recognize the most binding constraints for investment and tailor the approach to the context
- Based on the limitations and pre-conditions of existing approaches, governments can use some combination that fits their constraints and investors' needs
- Approaches should not be seen as an end, but only a tool to positively influence agribusiness investments and participation of poorer households



Useful Websites

» **FAO**

www.fao.org/ag/ags

» **Rural Finance Learning Centre**

www.ruralfinance.org

Thank You

