



Enabling environments for agribusiness and agro-industries development

*Regional and country
perspectives*



Enabling environments
for agribusiness
and agro-industries
development

*Regional and country
perspectives*

by
Gabor Konig
Carlos A. da Silva
and
Nomathemba Mhlanga

Recommended citation

FAO. 2013. *Enabling environments for agribusiness and agro-industries development – Regional and country perspectives*. Rome.

Cover photograph

©FAO/Alberto Conti

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned.

The views expressed in this information product are those of the author(s) and do not necessarily reflect the views of FAO.

ISBN 978-92-5-107410-7

All rights reserved. FAO encourages reproduction and dissemination of material in this information product. Non-commercial uses will be authorized free of charge, upon request. Reproduction for resale or other commercial purposes, including educational purposes, may incur fees. Applications for permission to reproduce or disseminate FAO copyright materials, and all queries concerning rights and licences, should be addressed by e-mail to copyright@fao.org or to the Chief, Publishing Policy and Support Branch, Office of Knowledge Exchange, Research and Extension, FAO, Viale delle Terme di Caracalla, 00153 Rome, Italy.

© FAO 2013

Contents

EXECUTIVE SUMMARY	v
ACKNOWLEDGEMENTS	vii
ACRONYMS	viii
CHAPTER 1	
Introduction	1
CHAPTER 2	
Conceptual framework	5
Definitions of key concepts and issues	5
Enabling environments: conceptual issues	6
Assessments of enabling environments	9
Key stakeholders in the establishment of enabling environments	14
CHAPTER 3	
Cross-cutting findings from FAO's regional workshops	17
Agribusiness finance: availability, access and conditions	17
Food safety, quality standards and the associated infrastructure	18
Legal and regulatory frameworks with direct impacts on agribusiness and agro-industry	19
Clear roles in agribusiness development for the public and private sectors	20
Chain coordination mechanisms	21
CHAPTER 4	
Key findings – Region-specific issues	23
Africa	23
Eastern Europe and Central Asia	27
Asia	30
Latin America	31
CHAPTER 5	
Reforming enabling environments	35
General challenges of reform processes	35
Challenges of reforming enabling environments for agribusiness and agro-industries	36
Dimensions of reform	37

CHAPTER 6	
Towards an agenda for improved enabling environments for agribusiness and agro-industries in developing countries	39
Identification, evaluation and dissemination of experiences in enabling environment assessment and reform	39
Is there a need for agribusiness/agro-industry-specific cross-country indicators?	40
CHAPTER 7	
Conclusions	43
REFERENCES	45
ANNEXES	
1. Competitiveness assessment frameworks	47
2. Synopsis of the workshops, by region, country, main factors and main needs to improve enabling environments	49
FIGURES	
1. The business-enabling environment: neoclassical and neo-structuralist approaches	7
2. Hierarchy of enabling needs for agro-industrial competitiveness	8
3. Spectrum of possible relationships between public and private environmental service providers	15
TABLES	
1. An illustrative framework for the assessment of enabling environments for agribusiness and agro-industry	42
BOXES	
1. Agricultural risk management in Ukraine	28
2. Country examples of agricultural risk management as a tool for improving the agribusiness environment	29
3. Context-specificity of enabling environments – issues from Latin America	32

Executive summary

The agribusiness sector, which comprises the business activities performed from farm to fork, is a major generator of employment and income worldwide. In recent years, the importance of the agribusiness sector has grown significantly, as agricultural development strategies shifted from a pure production-oriented approach to a broader systems perspective that emphasizes agrifood chain coordination, value creation and the institutional setting under which chains operate. Seen as an engine for growth, agribusiness and its related industries are receiving increased attention in policies and strategies that aim to promote investments in agro-enterprises and agro-based value chain development. This has prompted a need for deeper understanding of the elements that form a conducive business climate, or enabling environment, for the development of agribusinesses, agro-industries and agrifood value chains.

This document is intended as a contribution to advancing knowledge on enabling environments for the development of agrifood value chains. It draws primarily from workshops organized by FAO in collaboration with other United Nations agencies and development partners between 2006 and 2008. FAO workshops on enabling environments for agribusiness and agro-industrial development were held in four regions – Africa, Asia, Latin America, and Eastern Europe and Central Asia – with in-depth studies of 20 countries. The document also benefits from work undertaken by FAO and partners as part of the technical preparation for a series of global and regional agro-industry fora, held in India, China, Peru, Nigeria and Lebanon between 2008 and 2011. In all of these events, business climates were highlighted as an area of strong relevance for promoting investment and developing agro-enterprises.

Although the study of enabling environments is not new, significant peculiarities of agribusinesses and agro-industries warrant a fresh and comprehensive examination of the factors that are unique to these economic sectors. Agribusiness and agro-industries are characterized by raw materials that are usually perishable, variable in quality, and not regularly available throughout the year. These characteristics represent non-negligible and often uncontrollable sources of risk for most agro-based investments. The sectors are also subject to stringent public sector regulations, not only because of concerns about food product safety and quality, but also in view of their significance for food security and political stability.

While examining the elements that constitute a conducive business climate for agribusiness and agro-industries, this study recognizes that the components of enabling environments considered by traditional assessment frameworks are relevant and necessary, but not sufficient to cover the specificities of these sectors. The background materials and cross-country cases discussed at the workshops and fora provided insights into country and regional differences that help put into perspective factors that are relevant for specific stages of agribusiness development and/or country and regional contexts.

The general finding from the research is that enabling environments are forged by the traditional, broader macro-level forces (political, social and economic) that are relevant to other sectors of an economy. However, specific additional factors were also identified as essential for driving further development of the agribusiness and agro-industries sectors: efficient land markets and tenure systems; access to appropriate rural and agricultural finance and risk management products; specific regulatory provisions, consistent trade policies and access to global markets; availability of skilled human resources, improved technologies and adequate infrastructural facilities and utilities (particularly rural roads and storage facilities); and capacity for complying with food quality and safety standards. The priority ranking of these factors differs from region to region – reflecting each region’s level of development and the critical bottlenecks facing its strategic commodities. To some extent, priorities also differ among countries in each region, emphasizing the relevance of the country context in creating an enabling environment.

This study also considers the roles of the public sector and international organizations in promoting business climate reforms, and discusses the possibility of developing specific country-level indicators for agribusiness and agro-industries enabling environments. It concludes by calling attention to the fact that although business climates that are conducive to investments in agribusiness and agro-industries are important, they cannot by themselves guarantee that such investments will be forthcoming. In addition to efforts to improve business climates, there is also need to ensure that returns on investments are sufficient to compensate for any perceived constraints on enabling environments that increase risks and add to the costs of doing business. In other words, policies and strategies that aim to increase agro-based investments must go beyond a pure emphasis on business climates, considering as well elements that affect profitability and, in consequence, investors’ perceptions of risk/return ratios.

Acknowledgements

This report benefited from the contributions of several individuals. First and foremost, we are grateful to Doyle Baker and the management team of FAO's Rural Infrastructure and Agro-industries Division (AGS) for their support. We also wish to acknowledge the contributions made by the FAO consultant Sylvie Dideron, who prepared an early draft of parts of this publication. The editors of the FAO regional workshop reports on "Enabling Environments for Agribusiness and Agro-industries Development", as well as the authors of the papers presented in these events, are sincerely thanked for their inputs. Gratitude is also expressed to participants of the regional workshops, who kindly shared their experiences in business climate issues and their role on agribusiness and agro-industrial development. Thanks are extended to Andrew Shepherd, David Neven, Emilio Hernandez and Stjepan Tanic, the AGS colleagues who contributed as peer reviewers of this document.

Finally, we wish to thank Larissa D'Aquilio for coordinating the publication production process, Simone Morini for the templates and cover design, Jane Shaw for the copy editing and Falcinelli & Co. (Riccardo Falcinelli, Livia Massaccesi, Stefano Vittori) for the layout.

Gabor Konig
Carlos A. da Silva
and
Nomathemba Mhlanga

Acronyms

AgCLIR	Agriculture-Commercial Legal and Institutional Reform
AGS	Rural Infrastructure and Agro-industries Division (FAO)
AGSF	Agricultural Management, Marketing and Finance Services (FAO)
DCED	Donor Committee for Enterprise Development
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GDP	gross domestic product
GTZ	German Agency for Technical Cooperation (now GIZ – German Agency for International Cooperation)
IFAD	International Fund for Agricultural Development
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
PPP	public-private partnership
R&D	research and development
SPS	sanitary and phyto-sanitary
TNC	transnational corporation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VAT	value-added tax
WTO	World Trade Organization

Chapter 1

Introduction

The agribusiness sector, which comprises the collective business activities performed from farm to fork, is an important generator of employment and income worldwide. Agribusinesses and agro-industries are a principal source of value addition for primary agricultural products, a catalyst for the development of efficient value chains, a contributor to improved product quality and safety, and a provider of services that allow food to flow from production to consumption. Modernization of food systems and globalization of their downstream segments, including processing and retailing, has led to substantial changes in the organization and performance of agrifood chains, particularly in the developing world. As observed by Vorley *et al.* (2007), such changes affect smallholder agriculture and rural livelihoods globally, challenging farmers and policy-makers to adapt to the new demands that food processors and retailers are making on their supply chains. In recent years, the importance of the agribusiness sector has grown significantly, as agricultural development strategies shift their focus from a production-oriented approach to a broader systems view that emphasizes agrifood chain coordination, value creation and the institutional setting under which chains operate. Seen as an engine for growth, agribusiness and its related industries are receiving increased attention in policies and strategies that aim to promote investments in agro-enterprises and develop agro-based value chains. This has prompted a need for deeper understanding of the elements that constitute a conducive business climate, or enabling environment, for the development of agribusinesses, agro-industries and agrifood value chains.

This document contributes to advancing the knowledge on what constitutes an enabling environment for the development of agribusiness, agro-industries and agrifood value chains. It draws heavily from multi-stakeholder workshops organized by FAO in collaboration with other United Nations (UN) agencies and development partners between 2006 and 2008. These workshops on enabling environments for agribusiness and agro-industrial development were undertaken in four regions – Africa, Asia, Latin America, and Eastern Europe and Central Asia – with in-depth studies from 20 countries.¹ The objectives of the assessments were to identify, characterize and appraise the set of policies, institutions, and support services that form the agro-based business climate in each of the selected countries; and to identify lessons learned and best practices from changes in policies, institutions and support services that have led to increased investments and improved competitive performance in specific agribusiness and agro-industry sub-sectors. The document

¹ The Gambia, Ghana, Kenya, Mozambique and the United Republic of Tanzania in Africa; India, Indonesia, Nepal, the Philippines and Thailand in Asia; Argentina, Chile, Costa Rica, El Salvador and Peru in Latin America; and Armenia, Croatia, Hungary, Serbia and Ukraine in Eastern Europe and Central Asia.

benefits from work undertaken by FAO and partners as part of the technical preparations for a series of global and regional agro-industry fora, held in India, China, Peru, Nigeria and Lebanon between 2008 and 2011. In all of these events, business climates were highlighted as an area of strong relevance for promoting investment and developing agro-enterprises.

This work is part of FAO's Agribusiness Development Programme, which addresses issues central to agribusiness development in developing countries, and advises on policies and strategies for improving agribusiness competitiveness, including fostering better coordination and linkages among business partners.

Proper understanding of the business climate is considered a fundamental step towards the design of policies and strategies that can reduce the costs of doing business, and thus increase the investment attractiveness and competitiveness of a particular economy. Although the study of enabling environments is not new, most work in this area has taken a broad, economy-wide view of factors that affect the costs of doing business and thus inhibit or facilitate entrepreneurship, investment attraction and economic growth.

However, an argument can be made for the need to consider business climates from a sector-based perspective, as the conditions that favour or hamper the investment attractiveness of a particular economic sector – such as telecommunications or financial services – in a given economy may not be similar to those that are important for other sectors, such as tourism or civil construction. Some factors and conditions are cross-cutting and thus relevant for any economic sector, but others are relevant to only one or a few specific sectors, and should not be neglected when enabling environments are being considered from a sector-based perspective. This argument is particularly strong in the case of the agribusiness and agro-industries, which have particular characteristics that warrant a fresh and comprehensive examination of what constitutes an enabling environment in their regard.

Agribusinesses and agro-industries are characterized by biological raw materials that are usually perishable, variable in quality, and not regularly available throughout the year. Mostly because of its biological nature, agricultural production is inherently risky. The biological process of agriculture and the seasonality of production impose strict schedules for all activities along agricultural value chains, implying the need for effective coordination among all agents. In addition, the agricultural production process depends on climatic factors over which there is little control. These two aspects are key to understanding investment climates for agribusinesses, as investors' success depends on the effective functioning of other agents in the chain (e.g., producer groups, intermediaries, service providers) over which they may have no control. Success also depends on investors' ability to cope with climatic shocks, as no matter where along the value chain the investor is participating, he/she can be affected by shocks in production (with coping strategies that include diversifying the sources of raw material, relying on commodity markets with efficient storage systems, and using insurance and futures/options products). These aspects also represent business entry barriers, especially for smallholders and micro-businesses that cannot offer what agents need, or cope with all the risks involved.

Because agriculture has a direct link to food security, it tends to be regarded as strategically important for countries. Thus, motivations other than purely economic ones often influence policies governing the sector and its related industries.

In addition, factors affecting the competitiveness of agribusinesses and agro-industries differ at different stages of the value chain, and among sub-sectors and commodities. In most developing countries, the breadth of the sector implies that it cuts across the mandate of more than one ministry, thus requiring coordination among different ministries, particularly those of agriculture, trade and industry.

This report discusses enabling environments from the specific perspective of agribusiness and agro-industries. It is organized in seven chapters. Following these introductory remarks, chapter 2 presents the conceptual framework and scope of the study, briefly analyses different approaches to assessing business climates, discusses their relevance for appraising agribusiness and agro-industries sectors, and identifies major stakeholders and their possible roles in and/or contributions to the creation of enabling environments for agribusiness development. Chapters 3 and 4 summarize key findings from the country studies and the multi-stakeholder regional workshops, identifying similarities and differences among them to generate a list of necessary but not sufficient factors for agribusiness development. These chapters also highlight best practices that have led to increased investment and greater competitiveness in specific agro-industrial sub-sectors, and lessons learned from these. Chapter 5 discusses enabling environment reforms, and chapter 6 proposes an agenda for improving enabling environments for agribusiness and agro-industries. Finally, chapter 7 sums up the key findings and presents recommendations for future action.

Chapter 2

Conceptual framework

DEFINITIONS OF KEY CONCEPTS AND ISSUES

Following Christy *et al.* (2009), “enabling business environments” are defined here as sets of policies, institutions, support services and other conditions that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive. The environment shapes the costs and risks of doing business, hence the competitiveness of an enterprise and its value creation abilities. The concept of a conducive enabling environment is thus associated with a situation in which domestic and foreign firms can operate and grow as a result of the presence, interaction and capacity of different institutions, policies and services.² Such an environment boosts the competitiveness of a business within its market. An enabling environment where enterprises can thrive is therefore an essential prerequisite for economic development.

Countries that create conducive business climates employ sound policies, institutions and services to promote investment, attract capital and engender economic growth. The term “enabling environments”, although often imprecisely defined, is increasingly used by a number of institutions in reference to an array of factors external to an enterprise. For instance, the Organisation for Economic Co-operation and Development (OECD) refers to an enabling environment as one of the main incentives for foreign direct investment (FDI) (see, for example, OECD, 2003). The United States Department of Agriculture’s (USDA) Economic Research Service and the World Bank Group also widely use the term “enabling environment” in their literature, but do not define it precisely (Landes, 2008; World Bank, 2004).

Several definitions of the term “agribusiness” exist in the literature. *Encyclopaedia Britannica* defines agribusiness broadly as “agriculture operated by business; specifically, a part of a modern economy devoted to the production, processing and distribution of food, fibre products and by-products including the financial institutions that fund these activities” (Encyclopaedia Britannica Inc., 2011) A simplistic definition states that agribusiness refers to any business related to agriculture, including farming, processing, exporting, input suppliers, trading and retailing (USAID, 2008). The term *agribusiness* is often used to convey an aggregate view of agriculture and business-related activities, covering the multiple functions and processes involved in modern food production and distribution. For the purposes of this study, agribusiness denotes the collective business activities that are performed from farm to table. It covers agricultural input suppliers, producers, agroprocessors, distributors, traders, exporters, retailers and consumers.

² The term “enabling environment” is used interchangeably with the term “conducive/favourable business climate”.

Agro-industry refers to the establishment of linkages between enterprises and supply chains for developing, transforming and distributing specific inputs and products in the agriculture sector. Consequently, agro-industries are a subset of the agribusiness sector. Agribusiness and agro-industry both involve commercialization and value addition of agricultural and post-production enterprises, and the building of linkages among agricultural enterprises (FAO, 2007b). The terms agribusiness and agro-industries are often associated with large-scale farming enterprises or enterprises involved in large-scale food production, processing, distribution and quality control of agricultural products. Smaller agriculture-related entities (farms, processors, etc.) are less often thought of as agribusinesses or agro-industries, but strictly they should also be part of the definition, as considered in this report.

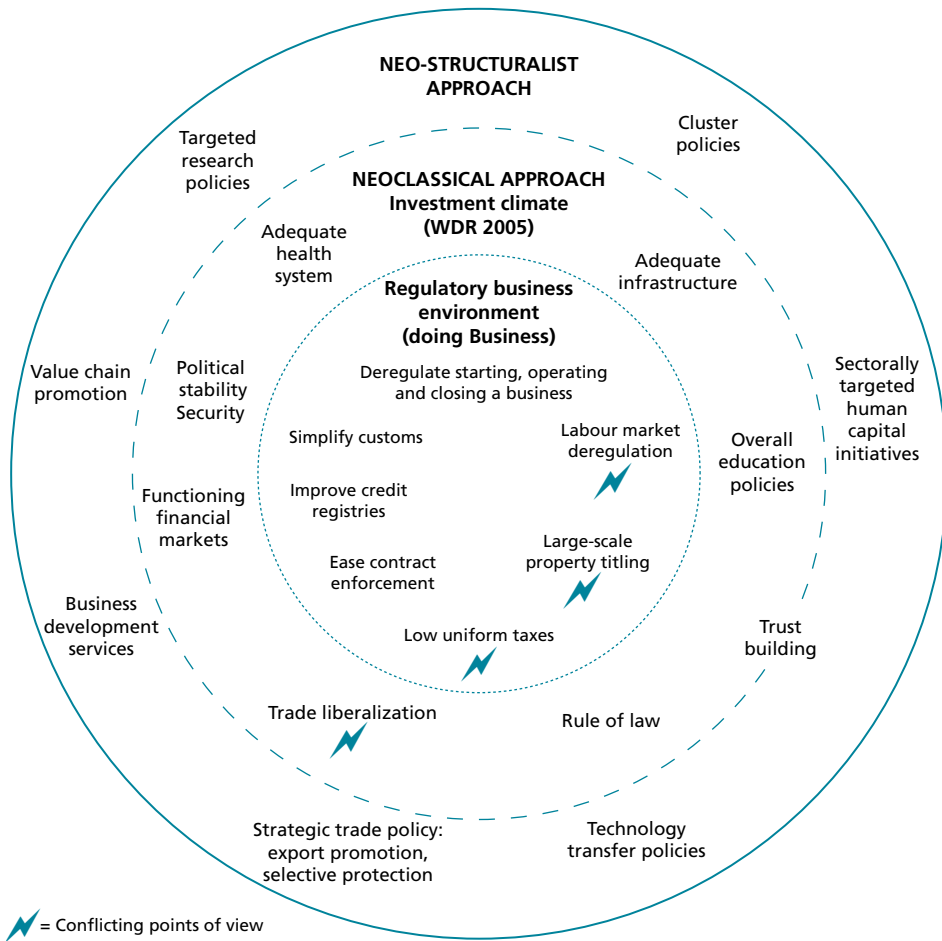
ENABLING ENVIRONMENTS: CONCEPTUAL ISSUES

The concept of an enabling environment is closely associated with private sector development and generally refers to the business-friendly conditions that must be in place to propel private sector dynamism. A joint study by the United Nations Industrial Development Organization (UNIDO) and the German Agency for Technical Cooperation (GTZ)³ distinguishes two approaches to understanding the concept of a business-enabling environment: the neoclassical and the neo-structuralist approaches (UNIDO, GTZ and German Federal Ministry for Economic Cooperation and Development, 2008). As depicted in Figure 1, the neoclassical approach is embedded within the neo-structuralist approach, which addresses a wider spectrum of elements. According to this typology, the regulatory business environment is a subset of both approaches and forms the inner circle of Figure 1.

Among the assumptions of the neoclassical framework, markets are considered to be well functioning if conditions such as the observation of property rights and the guarantee of competition exist. The neo-structuralist approach in turn emphasizes market failure and the need for corrective policies and an active role of government. Essentially, the neoclassical approach is equivalent to the concept of the investment climate advanced by the World Bank (2004). In addition to the business regulatory environment, the investment climate includes “...the quality of infrastructure, the health system, the overall level of education, the rule of law, political stability and security, functioning financial markets, trade liberalization and international rules and standards” (World Bank, 2004). Sound investment climates are expected to be beneficial to society as a whole and not to businesses only. Through conducive enabling environments, opportunities and incentives are expected to exist for firms and entrepreneurs to invest and thus contribute to employment generation and income growth. Competition is considered as playing a central role to foster innovation, efficiency and productivity. It also contributes to ensure sharing of benefits of productivity improvements with society as a whole. Policies should focus on creating the conditions for competitiveness. The policies and behaviours that governments adopt and implement play critical roles in shaping the investment climates of societies and inducing changes.

³ Now the German Agency for International Cooperation (GIZ).

FIGURE 1

The business-enabling environment: neoclassical and neo-structuralist approaches

WDR = World Development Report

Source: UNIDO, GTZ and German Federal Ministry for Economic Cooperation and Development, 2008.

The same report (UNIDO, GTZ and German Federal Ministry for Economic Cooperation and Development, 2008) contends that “...most of the elements of the inner circles in Figure 1 are generally recognized as important elements of the business-enabling environment.”. Yet, the document calls attention to the fact that “...there is no consensus regarding the need for government engagement in the outer circle and in the design of some policies within the inner circle, such as regulation of land markets, labour laws and tax systems”.

Kuyvenhoven (2004) studied policy conditions that foster the development of less-favoured areas. He grouped different interventions into three broad categories:

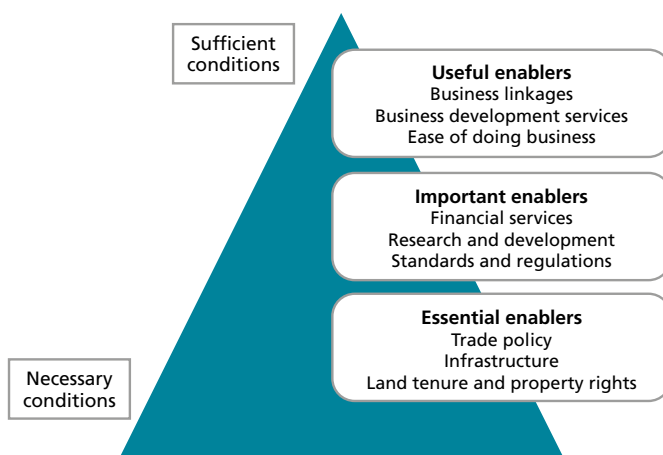
1. price and market policies: trade and domestic policy reforms, output pricing and input delivery, market structure and channels, market failures, and environmental services;

2. public services and investment: public investment, agricultural research, policy interaction, and diversification;
3. institutions and governance: including risk mitigation and safety nets.

Focusing on agribusinesses and agro-industries, Christy *et al.* (2009) called the ingredients of enabling environments the “enabling needs” (Figure 2). The nine enablers identified by these authors were derived from the proceedings of FAO’s regional workshops on enabling environments for agribusiness and agro-industrial development. At the base of the pyramid, the State must provide “essential enablers” that make possible the functioning of markets and enterprises. So-called “important enablers” are second-order activities that the State can and often does provide, such as finance, transportation and information. “Useful enablers” are defined as sufficient but not necessary conditions, including grades and standards, linking small farmers to formal markets, and business development services.

According to the World Bank, creating enabling environments is a key driver in attracting FDI and domestic investments (World Bank, 2004), while stimulation of investment is vital in reinforcing enabling environments. Investment brings structural changes to enabling environments, helps agribusinesses and agro-industries meet international market demands more effectively, and helps enabling environments transform into competitive markets. An enabling environment generally refers to creating conditions that attract investment, sometimes specifically FDI – creating a good investment climate. The investment climate reflects the array of local factors and conditions that create opportunities and incentives for businesses to invest and thrive. A large part of economic development policy is based on the principle that investment in general is a market-based solution, and on how specific firms’ strategies contribute to domestic economic growth. Economic development policy has therefore often centred on creating favourable conditions for attracting

FIGURE 2
Hierarchy of enabling needs for agro-industrial competitiveness



investors. Establishing an enabling environment means creating the conditions for firms and industries to gain a competitive advantage in global markets as well.

Starting in the 1990s, developing countries have been advised to focus on structural adjustment programmes to attract foreign capital, first to make their domestic industries more competitive and then to prepare them to export. In developing and transition countries, agro-industries and agribusinesses depend heavily on FDI. In agro-industries and agribusiness, FDI commonly flows into food retailing, where the anticipated profit is comparatively high, rather than food production and processing (Konig, 2009). FDI brings needed capital and growth and it can lead to an increased number of market players, which favours competition, enhances efficiency and lowers consumer prices, benefiting consumers and the general economy.

Enabling environments' contributions to growth and poverty reduction have led development organizations such as the World Bank to work globally towards the improvement of investment climates. This work follows the assumption that a good investment climate provides opportunities for people to better themselves; the 2005 *World Development Report* emphasizes that “the goal should be to create an investment climate – enabling environment – that is better for everyone in two dimensions: the investment climate should benefit society as a whole not only firms” (World Bank, 2004). An enabling environment should create opportunities and incentives for firms and entrepreneurs of all types.

ASSESSMENTS OF ENABLING ENVIRONMENTS

There is a rich body of literature on business climates and their importance in promoting economic growth and development. This literature supports the main message of this section, which holds that there is sufficient theoretical basis and empirical evidence to conclude that the role of institutions, policies and support services should be considered in any effort to promote economic development in general, and sector development in particular.

Since the 1970s, several international organizations and research institutions have developed methods and approaches for measuring, monitoring and assessing countries' business climates. These approaches include indices and frameworks developed by the World Bank, the World Economic Forum, the United Nations Conference on Trade and Development (UNCTAD), the Economist Intelligence Unit and OECD, among others. Most assessment frameworks are general, cutting across various sectors of the economy and undertaken in support of private sector development. This section presents a brief overview of investment climate assessment frameworks that are widely monitored and applied, including recent attempts to appraise enabling environments for the agriculture/agribusiness sector.⁴

⁴ See Christy *et al.* (2009) for a detailed review and critique of the measures' suitability for appraising agribusiness-enabling environments. For an exhaustive list of business environment diagnostics, visit www.businessenvironment.org/dyn/be/besearch.details?p_phase_id=69&p_lang=en&p_phase_type_id=1

General assessments

The World Bank Group's Ease of Doing Business Index⁵ is a relative index covering 11 areas of business regulations: start-up, dealing with construction permits, registering property, getting credit, getting electricity, protecting investors, paying taxes, trading across borders, enforcing contracts, employing workers and resolving insolvency. These areas are assessed mainly in terms of their associated procedures, time and costs. Using comprehensive survey data, the Doing Business Index compares business regulation environments across economies and over time, thereby encouraging countries to compete towards the achievement of more efficient regulation. It highlights the most binding constraints, which reforms are the most effective, and how these issues are shaped by the country context. A major limitation of the Doing Business Index is that it covers only those regulations directly linked to business operations while saying little about the effect of other policies and institutional arrangements. No direct assessment is made of the quality of downstream or upstream market environments. The index takes into account only formal industries and does not reflect informal sector activities. It also refers mainly to specific types of business in large cities, with less discussion of regional or rural activities. The World Bank Group's report on the evaluation of its own Doing Business Index in 2008 recommended that Doing Business "...be clearer about what is and is not measured, disclose changes to published data, recruit more informants, and simplify the paying taxes indicator" (World Bank, 2008).

In addition, the World Bank generates statistical information for formal investment climate assessments. Between 1992 and 1995, the World Bank carried out surveys in several countries under the Regional Programme on Enterprise Development. Since 1995, it has established Investment Climate Surveys, which are carried out in several countries and concentrate on cross-sectional data.

The World Economic Forum produces several indices related to enabling environments, such as the Growth Competitiveness Index, the Current Competitiveness Index and the Business Competitiveness Index. The World Economic Forum has been performing global competitiveness assessments since 1979, when the *Global Competitiveness Report* assessed and ranked economic competitiveness for 16 European and North American countries (World Economic Forum, 2004). The method and indices have evolved to adapt to the changing international context. The Global Competitiveness Index, developed in 2004, attempts to incorporate many of the factors that drive productivity into a broader measure of competitiveness. It provides an overview of critical drivers of productivity and competitiveness, which it presents as nine pillars in three categories: basic requirements, efficient enhancers, and innovation and sophistication. This index highlights the differences in policy priorities among economies at different levels of economic progress by assigning greater weight to the pillars that characterize a particular national economy. Its main advantage is in illustrating national competitiveness as a set of factors, policies and institutions that determine the level of productivity in the country. Its major limita-

⁵ www.doingbusiness.org

tions are that it: i) focuses on macroeconomic features without offering industry or sector-specific appraisal of operating environments; ii) does not capture the critical value chain components that could help highlight the performances of specific industries; and iii) does not address the issue of firms' geographical location and proximity to markets.

UNCTAD develops indices that include the Investment Compass and the Inward FDI Performance Index. The Investment Compass is a benchmarking tool for developing countries to use in analysing the main economic and policy determinants that affect the investment environment. The Investment Compass comprises six core areas thought to influence the investment environment: resource assets, infrastructure, operating costs, economic performance and governance, taxation and incentives, and the regulatory framework. The Inward FDI Performance Index looks at characteristics that make a country attractive to foreign investors. It is the ratio of a country's share in global FDI inflows to its share in global gross domestic product (GDP); a value greater than 1 implies that the country receives more FDI than its relative economic size. The index thus captures the influence on FDI of all factors other than market size: business climate, economic and political stability, presence of natural resources, etc. UNCTAD has published inward FDI performance indices in the *World Investment Report* since 2001, together with other indices such as the inward FDI Potential Index and equivalent outward FDI indices. These indices are general and do not specifically target enabling environments for agribusinesses and agro-industries.

UNCTAD's annual *World Investment Report* focuses on trends in FDI worldwide and at different levels of aggregation. Each year, the report has an in-depth analysis of a selected topic related to FDI. The 2009 report (UNCTAD, 2009) examined the role of transnational corporations (TNCs) in the commercialization and modernization of agriculture in many developing countries. The report noted that through a variety of arrangements such as direct investment and contract farming, TNCs' participation in the agriculture sector has in some instances yielded important benefits such as provision of inputs and transfer of skills to small-scale farmers. TNCs have also contributed to the easing of financial and technological constraints affecting farmers, by linking them to global markets and providing them with more predictable incomes. The report identified the institutional environment of the host country as having a bearing on whether the development impacts of foreign investment would be largely positive or negative. However, the report does not apply any agribusiness- or agro-industry-specific index. Instead, it uses the relative importance of agriculture as an indicator.

OECD's Policy Framework for Investment⁶ was developed as a non-prescriptive checklist of issues for consideration by governments engaged in domestic reform, regional cooperation or international policy dialogue aimed at creating an environment that attracts domestic and foreign investors and enhances the benefits

⁶ The most recent issue was released in 2006.

of investment to society. The framework was established after wide international consultation, and ten major elements were selected: i) investment policy, incorporating the principles of transparency, non-discrimination and property protection; ii) promotion and facilitation of investment, aimed at correcting market failures and emphasizing the points required for a strong enabling environment; iii) trade policy, such as expediting measures to facilitate trade, trade agreements, customs and regulatory costs, and preferential arrangements; iv) competition policy – regulation of competition laws and enforcement institutions; v) tax policy – the effect of taxes on costs and investment returns, and taxation administration; vi) corporate governance, taking into account transparency, accountability and stakeholder rights; vii) policies for the promotion of responsible business conduct, taking into account human rights, labour rights, environmental protection and financial accountability; viii) human resource development at all levels, including labour regulation issues; ix) infrastructural and financial sector development – investment policies and processes based on identifying the needs and capacities of different sectors, including finance; and x) public governance – promotion of the regulatory quality and integrity of the public sector.

The Donor Committee for Enterprise Development (DCED)⁷ promotes private sector development in developing countries through inter-agency information exchange. DCED focuses on business environment reform. Its relevant publication (DCED, 2008) advises development agencies on improving “...their support for business environment reforms in developing and transition countries, which aim at economic growth, job creation, poverty reduction and gender equality. It provides generally applicable, practical guidance for development staff in the design, implementation and monitoring of their programmes” (DCED, 2008). This guidance points out the importance of aligning concerns about social and environmental costs and benefits with business incentives and sustainable development objectives. An implied principle is that “...sustainable enterprises need sustainable societies, and that business tends to thrive where societies thrive, and vice versa”. The guidance describes controversial issues. As listed by the DCED report, they are: i) How can business environment reform’s contribution to economic growth and poverty reduction be measured? ii) Should business environment reform focus on small and medium enterprises that are owned and managed by poor people? iii) Should development agencies simply respond to demand for reform, or should they also contribute to creating that demand? iv) Should development agencies support individuals or institutions? v) Does support for the private sector interfere with political processes? and vi) What role should government play in enterprise development? The result is an interesting assessment of the factors that enhance development and business in general, but it does not address sectoral concerns or challenges.

⁷ DCED’s two main publications are *Small and micro-enterprise finance: Guiding principles for selecting and supporting intermediaries*, published in 1995 and known as the “Pink Book”, and *Business development services for small enterprises: guiding principles for donor intervention*, published in 2001 and known as the “Blue Book”. www.enterprise-development.org/

Southern African Initiatives for the Development of Enterprising Action and Strategies⁸ supports economic and enterprise development in Africa. It provides advice and support in economic, enterprise and employment promotion and in better business environments and private sector development. It builds on DCED's publication *Supporting business environment reforms* (DCED, 2008), taking a general approach to doing business in Africa that focuses on regional environments rather than sectoral challenges and concerns.

Each of the assessment frameworks outlined in this section has the specific objectives of highlighting and ranking particular aspects of global or regional business environments, such as regulation, infrastructure, freedom, governance/corruption. Each has its own strengths and limitations, which are worth analysing and evaluating in order to identify appropriate contexts and circumstances for their application. The characteristics of the main assessments are summarized in Annex 1. Some of the institutions mentioned have generated sets of general business climate (or environment) assessment indices, but there is a growing demand for new methods and approaches to solve sector-specific problems, attract sector-specific investment, and produce and update indices for measuring competitiveness. As a result, institutions have recently sought to identify specific factors for an agribusiness and agro-industry-enabling environment.

Assessment of the agriculture/agribusiness sector

The United States Agency for International Development (USAID) Agriculture-Commercial Legal and Institutional Reform (AgCLIR) (USAID, 2008) provides a toolkit for analysing agribusiness-enabling environments by examining constraints to profitability in the starting and running of agribusinesses, including farming, processing, exporting and other agriculture-related businesses. It focuses on systemic limitations that inhibit productivity improvement and constrain profitability, such as export delays, non-competitive input markets, excessive regulation and inadequate taxation. AgCLIR was first piloted in 2008 in Ghana as part of USAID's Business Climate, Legal and Institutional Reform project, which is based on the World Bank Group's Doing Business initiative. AgCLIR's assessment framework "...expands upon the traditional Doing Business methodology in two ways: 1) By providing a comprehensive method to diagnose in greater depth the root causes and inefficiencies of an underperforming agricultural sector; and 2) By taking a sectoral approach that focuses specifically on the how the ten key Doing Business areas relate to agribusiness" (USAID, 2008). AgCLIR "...highlights the specific issues that must be addressed in local legal, regulatory and institutional environments if agribusiness is to be economically productive, contribute to environmental sustainability, and ensure a safe and reliable food supply" (USAID, 2008). For each of the ten Doing Business indicators, the AgCLIR toolkit provides a comprehensive checklist of elements associated with four dimensions: the legal framework, implementing institutions, supporting institutions, and social dynamics. For each dimen-

⁸ www.saideas.com

sion, the indicators are quantified by scores that range from 1 (strongly negative) to 5 (strongly positive). AgCLIR has been applied to assess the agribusiness-enabling environment in countries including Ghana, Nigeria, Senegal, Uganda, the United Republic of Tanzania and Kosovo. Although AgCLIR represents a step forward in bringing a sector perspective to the analysis of enabling environments, its adherence to the ten indicators of the Doing Business framework could be seen as a limitation of this approach. In fact, the economy-wide elements of the Doing Business assessments can be seen as an important input to a sector-based assessment approach, which could complement these ten basic indicators with additional ones that are specific to the sector of interest. In this respect, the AgCLIR checklists can be a useful reference source for the composition of specific indicators.

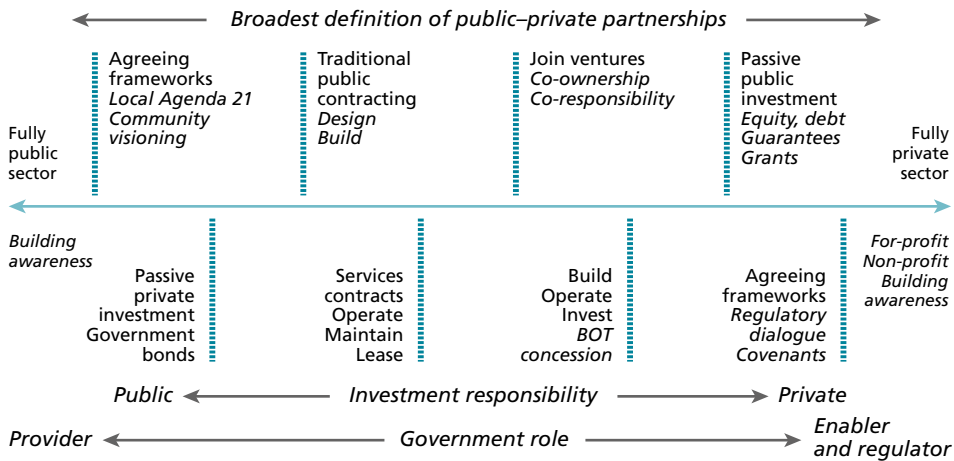
The assessment frameworks reviewed offer general information on business-enabling environments but, with the exception of AgCLIR, they lack sector-specific insights. In general, business climate assessments hinge on national-level characterizations of competitiveness and do not track the effect of local variables, particularly in the rural space. However, the local environment is vital to agribusiness and agro-industry stakeholders, because this is where they generally operate. This situation provides an additional argument in favour of sector-specific assessment frameworks.

KEY STAKEHOLDERS IN THE ESTABLISHMENT OF ENABLING ENVIRONMENTS

Stakeholders from both the public and private sectors have roles in the establishment and maintenance of a business climate that is conducive to investment and enterprise development. These stakeholders include government agencies, financial institutions, civil society representatives, and private sector entities and organizations. Christy *et al.* (2009) contend that “the concept of competitive advantage lies in the efforts of many organizations to provide measures of an enabling economic environment to foster competitiveness”. The roles of both the private and public sectors are therefore crucial in the development of an enabling environment. A commonly accepted view is that the State should create an enabling environment, while the private sector follows with investments and enterprise development. In practice however, the public sector is not necessarily an initiator of enabling environment development. Under the linear, traditional approach, the government risks misdirecting its efforts, and may not meet private sector needs. Communication and flexibility between public and private stakeholders are therefore essential to building an enabling environment. In the advent of globalization, communication becomes even more important, because private sector agents often do not wait for the State to create an enabling environment; depending on evaluations of the trade-offs between risk and returns, investments might be forthcoming even if the business climate is not fully conducive. The private sector increasingly serves as a driving force in the areas that need to be developed, with governments supporting the private sector by creating an enabling environment that has adequate policies, institutions and services.

Market players in agribusinesses help create competitive, sustainable agribusiness environments by partnering with governments and pursuing market opportunities. Agribusiness-enabling environments are very important, and the return on investment is high in emerging markets when governments invest in basic infrastructure and business services. Carefully constructed public–private partnerships (PPPs) can accelerate

FIGURE 3
Spectrum of possible relationships between public and private environmental service providers



BOT = build-operate-transfer.
Source: Gentry, 2008.

the expansion of agro-industries in rural areas by fostering the development of small and medium enterprises and linking them to markets (FAO, UNIDO and IFAD, 2008).

The agribusiness/agro-industry private sector is increasingly playing roles that traditionally belonged to the State in areas such as agricultural extension (dissemination of technical information), market information services and rural infrastructure, particularly in association with large-scale agro-based investments. This can also be done by means of alternative PPP models, as summarized in Figure 3.

In recent years, the promotion of business climate improvements has become an increasingly relevant means of fostering investments and engendering economic growth and development. Some of the assessment frameworks that have been proposed have proved very successful in triggering regulatory reforms aimed at reducing the costs of doing business and thus improving the business-enabling environment. In this respect, the private and public sectors have roles in advocating for and implementing the types of reforms that lead to the establishment and sustainability of an enabling environment. However, although there is experience of these processes in economy-wide assessment and reforms, less is known about sector-specific approaches, particularly with respect to agribusiness and agro-industries. The series of workshops and forum discussions conducted by FAO, considered in the next chapter, examined these particular aspects.

Chapter 3

Cross-cutting findings from FAO's regional workshops

The FAO workshops and fora generated rich sets of country- and regional-level information on business climates for agro-based investment and enterprise development.⁹ They also allowed discussion and exchange of experiences and views on the elements, or building blocks, that constitute an enabling environment for agribusiness and agro-industries development. While many of these elements were considered to be regional or country-specific, some were seen as being globally cross-cutting, as discussed in the following section.

AGRIBUSINESS FINANCE: AVAILABILITY, ACCESS AND CONDITIONS

The country-level appraisals shared the view that unlike in other economic sectors, there is widespread lack of adequate financing for the particular characteristics of agro-industry and agribusiness investments. Financial constraints are more pervasive in agricultural production, which forms the basis for agribusinesses and agro-industries. Lack of financing is due to an array of structural factors that include the absence of banking facilities in the rural areas where agricultural production takes place as well as the lack of financial products tailored to the specific risks and cash flow patterns of agricultural enterprises. Moreover, agricultural production tends to take place in dispersed geographical areas; there are high transaction costs for providing traditional financial services in small amounts to such areas, where the transportation and communications infrastructure is typically poor (Nathan Associates, 2004). The issue of financing therefore deserves special consideration in the assessments of enabling environments for agribusinesses and agro-industries.

The country appraisals also highlighted the lack of availability of long-term finance for productive development, and financial information. Where finance is available, access is often hampered by high interest rates and/or stringent collateral requirements. Hence, facilitating access to finance was raised as a priority in enabling environment reforms.

The action areas identified for improving enabling environments through enhanced access to finance include:

1. developing financial and risk management systems that evaluate the particular characteristics of agriculture and agro-enterprises;
2. increasing the outreach of financial institutions and agricultural financial service delivery in rural areas where agribusinesses are located;

⁹ A summary presenting details of the country papers is presented in Annex 2.

3. considering the use of matching grants to offset agro-industrial risks;
4. broadening the range and scope of services offered by formal financial institutions;
5. expanding microcredit programmes and rural community banking;
6. deepening rural and agricultural finance by supporting financial institutions to be more innovative in managing risk.

Recently, agricultural finance has undergone some positive developments through the proliferation of agricultural investment funds, remittances to the sector, mobile banking, and other improvements.

FOOD SAFETY, QUALITY STANDARDS AND THE ASSOCIATED INFRASTRUCTURE

Economic development and income growth induce changes in consumption patterns and consumers' attitudes towards healthy and quality products. New preferences are emerging in food consumption, increasing the importance of features such as product differentiation, added value and consumer confidence in healthy and safe products. New consumer demands have led to the introduction of new quality and safety standards, required by both public and private organizations, including in developing countries. These developments have led to improved coordination in supply chains between producers and traders to facilitate compliance with consumers' demands. To support producers in facing the challenges these new demands generate, policies should be introduced to encourage the production of healthy food, and rules and standards need to be applied to production processes and final products. At the same time, States must support the dissemination of knowledge on health, safety and quality. The extent to which institutions and support services are available to promote safety and quality, and enact and enforce standards was highlighted in the FAO workshops as an essential element of agribusiness/agro-industry-specific enabling environments.

Participants considered that policy-makers implementing reforms to improve enabling environments should address not only food safety and quality concerns in agrifood supply chains, but also issues such as biosecurity and plant and animal disease control. The links between agricultural production and downstream activities along agrifood chains make it necessary that enabling environment reforms consider the agribusiness and agro-industry sectors comprehensively. Reforms that improve agriculture should also develop and sustain agribusiness and agro-industry supply chains. Where small local and large commercial producers operate in the same business environment, it is vital that all stakeholders abide by biosecurity and disease control measures throughout the supply chain. A breakdown in plant, or the endangerment of animal health in either a large- or a small-scale production unit, for instance, might greatly affect national and international market access. For example, episodes of avian influenza in Southeast Asia, or foot-and-mouth disease and bovine spongiform encephalopathy in Europe caused production and export losses throughout the regions concerned. Response to these threats to the sustainability of affected supply chains depended on the capacity of the particular country's institutions and support services to implement preventive and corrective measures when facing animal health emergencies.

Another factor relevant to agrifood quality and safety as an element of enabling environments is the emergence of private standards and their roles in market access, particularly for export food products. Agribusinesses and agro-industries are increasingly required to adhere to private standards set by large-scale buyers such as

supermarkets and specialized traders. Compliance requires not only expert guidance regarding production processes and safeguards, but also the types of hard and soft infrastructure that allow proper certification of adherence. The role of public and private institutions and support services is of fundamental importance in this respect.

Participants at the FAO workshops and fora expressed widespread support for the adoption and implementation of internationally recognized food safety and quality standards. Participants in Asia identified the harmonization of safety standards as a main challenge to be addressed; in line with this, addressing food quality and safety issues was among the top five regional priorities selected for that region. Addressing food quality and safety issues was also a top priority in Africa, where there is need to work towards regional integration of quality standards. Main challenges for further development and sustainability in Eastern Europe and Central Asia are the capacity of agribusiness actors to comply with international and private food quality and safety standards, develop their own quality assurance schemes, and make better use of brands for traditional foods. Lack of quality assurance and new technology development presents a major obstacle to agro-industrial development. Obstacles for Armenia, Georgia and Kyrgyzstan are the adoption of internationally recognized food quality and safety standards, and – particularly – the strengthening of institutions to enforce food safety regulations. In Latin America, promotion of safety and food quality emerged as a top-ranking element of an enabling environment for agro-industrial development. New food consumption preferences in both export and local markets increase the importance of characteristics such as product differentiation, value addition and consumer confidence. This has led to the imposition of new quality and safety standards by both the public and private sectors, and has driven supply chains to improve coordination between producers and traders to facilitate compliance with consumers’ demands. To support producers facing the challenges that these new demands create, it is necessary to generate policies that encourage the production of safe food, implementing rules and standards for production processes and final products. To complement this, it was considered that the State should provide support through the dissemination of knowledge about health, safety and quality.

LEGAL AND REGULATORY FRAMEWORKS WITH DIRECT IMPACTS ON AGRIBUSINESS AND AGRO-INDUSTRY

Stable legal frameworks are important in reducing uncertainties regarding investments in general, and investments in agribusiness and agro-industries in particular. Given the political sensitivities associated with food and agriculture, this aspect is of crucial importance when considering enabling environments for agribusinesses and agro-industries. Cases of export bans, forced nationalization of assets and imposition of price controls during the soaring food prices crisis of 2008 illustrate the types of sudden change in the “rules of the game” that agro-enterprises might face. Legal and regulatory frameworks that are secure and that guarantee a stable business climate are considered necessary to attract investment, in general and in the agrifood sector in particular.

As perceived by participants at the FAO workshops, elements that need attention when promoting legal and regulatory frameworks conducive to agribusiness and agro-industry include ensuring property rights (assets and intellectual property), equal treatment of local and foreign investors, enforceability of contracts and – above all – a stable set of rules.

In most of the countries participating in the FAO workshops and fora, there is a strong perception of the need to reform government institutions and legislation. Participants stressed the need to provide uniform and coordinated government activities that help agro-industries and agribusinesses compete in world and regional markets.

One issue considered controversial is the role of regulatory frameworks in promoting FDI in the agriculture sector. Some workshop participants thought that assessment frameworks such as OECD's place too much emphasis on opening country markets to foreign investment and on the direct benefits that FDI can bring. Many participants considered that a host country should decide the extent to which it will open its borders, after assessing the costs and benefits associated with such policies. FDI was viewed as very important, but a number of participants raised doubts about the benefits of its stimulation for host countries. The OECD assessment framework implies advantages for host countries through the opening of markets, which also benefits donor countries. However, participants perceived that the framework does not acknowledge the potential disadvantages of foreign investment on host countries' economies.

While recognizing the importance of investment promotion, innovation and competitiveness, some participants advocated for countries' protection of their national interests and setting of limits on the degree of economic liberalism adopted to create enabling environments. Under these views, countries should shape and refine FDI attraction proposals that promote their own economic interests and protect small farmers and emerging small sectors that have the potential to grow and achieve a competitive advantage in local, national and international markets. The vision was that policy-makers should also encourage foreign investment policies that are better aligned to domestic policy and agribusiness/agro-industry interests. There is need for "...appropriate phasing of policy and market reforms to give people time to adjust, and for the establishment of effective safety nets to cushion the loss of livelihood options" (Kuyvenhoven, 2004). Recent large-scale land acquisitions by foreign investors have raised international concern; the perceived risks are such that FAO, UNCTAD, the International Fund for Agricultural Development (IFAD) and the World Bank have recently launched an international voluntarily code of conduct for responsible agricultural investment (FAO *et al.*, 2010).

CLEAR ROLES IN AGRIBUSINESS DEVELOPMENT FOR THE PUBLIC AND PRIVATE SECTORS

Most participants agreed that the creation of agribusiness and agro-industry-enabling environments depends on the will and ability of national governments, and there is need for public investment in strengthening relevant government institutions and ensuring appropriate infrastructure, in addition to providing other traditional public goods. The creation of stable and sustainable enabling environments requires good governance and the incorporation of accountability mechanisms in the institutional and governance systems, to guarantee efficiency in public expenditure.

Private and public sector roles are often not clear, although clear roles are considered crucial to the development of enabling environments. In many countries, the public sector takes over activities that in principle would better be carried out by private sector entrepreneurs. Many workshop and forum participants agreed that the public sector should have more of a facilitator role, refraining from direct

involvement in the production, processing and marketing activities that are crucial for competitive agro-enterprises. It was agreed that governments should not compete and interfere with businesses; this was deemed particularly important when considering business climates for agribusiness and agro-industries. There was also agreement that the private sector must play a role in advancing the agribusiness development agenda, particularly through advocacy.

The vital importance of PPPs must be emphasized and clarified in country and regional contexts. Stakeholders involved in the development of enabling environments must be aware of the value and mutual benefits of their collaboration and cooperation with each other. Governments can take the lead and work with the private and non-governmental organization (NGO) sectors to ensure that needs and capacities are met and parties reach mutually beneficial results.

CHAIN COORDINATION MECHANISMS

Efficient coordination is considered an essential driver of agrifood chain competitiveness. Coordination among producers, processors, distributors and other stakeholders in supply chains is necessary to meet consumers’ demands, ensuring that requirements regarding quality, quantity and timing of delivery are efficiently met. The country papers prepared for the regional workshops presented examples of coordination’s role in ensuring the competitiveness of agro-enterprises. In India, for example, one constraint to the development of food processing is the fragmentation of value chains, which makes it difficult to convey consumer preferences and associated price incentives to upstream producers in traditional marketing channels. In Eastern Europe, value chains have been increasingly consolidated since the transition to a market economy. According to some participants, this phenomenon has changed the roles of market players and created opportunities for non-competitive behaviour, thus having negative effects on coordination.

The policies, institutions and support services that constitute an enabling environment certainly have a role in promoting chain coordination. For instance, the use of contracts to govern supply chain transactions can be promoted and facilitated. Regulations that promote competition and ensure market transparency can be enacted. Mechanisms that foster stakeholder dialogue, such as agribusiness chambers and professional associations, can be established. Other areas of intervention highlighted in the workshops are the promotion of collective action through strengthened farmers’ organizations, capacity building to create advocacy groups, and the promotion of appropriate links among production, processing and consumption by developing efficient collaborative instruments, such as partnership mechanisms and/or agreements that take into account the different negotiating skills of individual links in the production chain.

Chapter 4

Key findings – Region-specific issues

In addition to the cross-cutting themes highlighted in the previous chapter, some enabling environment issues emerged as particularly relevant to specific regions. These issues emphasize an aspect that appears to be unique to discussion of sector-specific business climates – the importance of the geographical context and its effects on elements of an enabling environment. The following sections present elements that were considered peculiar or of especial concern to the regions covered in the FAO workshops.

AFRICA

Despite recent positive trends in economic growth, Africa still faces many development challenges. Workshop participants observed that Africa continues to trail most developing regions in conventional indicators of business climates, such as those for starting a business, registering property, trading across borders and obtaining access to credit. Other fundamental obstacles to private sector development include the weaker market institutions, lower technical capacity of firms, lower skills of management and workers, and size of markets. Agro-industries and agribusinesses have an important role in meeting these challenges and promoting inclusive and equitable economic growth in Africa, where countries have predominantly agricultural-based economies. In addition to the cross-cutting issues for agribusiness and agro-industries development discussed in chapter 3, the following aspects were identified as being of pertinence to Africa at the FAO workshop.

Governance

Governance remains an issue of concern in several African countries, and is seen to be a barrier to both domestic and foreign investments, particularly in sectors where risks are perceived to be inherently high, such as agribusiness and agro-industries. As remarked in one of the country papers presented at the African workshop, there is convincing empirical evidence pointing to the importance of political stability and good governance for growth and poverty reduction. Bad governance leads to bad policies that create a disabling environment for savings, investment, risk taking and employment creation, and are often associated with political instability that can hamper investments (Abdula, 2008).

Governance entails a political dimension, which recognizes the importance of multi-party democratic systems, political accountability, and adherence to the rule of law and due process. It also entails economic and corporate dimensions that consider issues such as the integrity of monetary and financial systems, the prevention of bribery, the observation of shareholders' rights, and the promotion of corporate disclosure, transparency and accountability.

Although participants recognized governments' efforts to improve governance in the region, this theme was ranked high in the prioritization of elements to

be considered in assessing enabling environments to guide reforms that address agribusiness and agro-industry. Particularly in these sectors, governance shortcomings translate into added costs of doing business and increased risks, thus reducing return-to-risk ratios and the attractiveness of investments.

Land tenure

Access to land and land rights in general came out as a high-ranking issue in discussions during the FAO workshop in Africa. In this respect, the UN's Economic Commission for Africa (UNECA, 2004) observes that the state of land tenure and land-use conflicts in Africa create conditions that undermine the productive and sustainable use of land resources. UNECA argues that given the growing demand for land and the net effect of land and natural resource conflicts, there is need for effective management of resources through sound institutional arrangements and alignment of the diverse legal frameworks for the management of land use and tenure, to safeguard the eventual destabilization of food production systems.

Landownership rights that are enforceable, stable and transparent are essential in conferring security to agricultural investments, not only those for setting up crop and livestock operations, but also those that promote productivity improvements. In Africa, land rights are often unclear because of the existence of a dual system for tenure and land management, with coexisting statutory and customary frameworks for land rights. Some countries are making efforts to align these dual systems: the example of Ghana was discussed at the workshop. Ghana proposes integrating its customary land laws and practices into existing statutory laws. This is a principal step towards building a system that will avoid the multiple, overlapping claims that characterize land conflicts in the country.

Clear landownership rights are also important for establishing land markets and allowing the use of land as collateral in credit and other financial transactions. Land markets facilitate the achievement of economies of scale and the development of rural entrepreneurship, and acceptance of land as collateral increases access to finance, which was considered to be a restraining factor for the development of conducive business climates for agribusinesses and agro-industries.

While access to land was seen as instrumental in engendering investments in agribusinesses and agro-industries, there was concern about the impacts of such investments on local communities of smallholder farmers and pastoralists, who might be displaced if proper safeguards to their rights are not present. These concerns were triggered by the new global trends that are putting unprecedented pressures on land resources and creating new tensions in land tenure systems, potentially leading to what has been labelled "the last global land grab". Recent increases in commercial demand for land have, in some instances, exacerbated the tenure insecurity of poor land users, whose rights to land and natural resources may not be legally recognized. Implicit to concerns about land access reforms that make business climates more conducive to agribusiness and agro-industries is the need to ensure that the rights of local populations are preserved.

Infrastructure

Infrastructure deficiencies remain a constraining feature of agribusiness and agro-industry business climates throughout Africa. All of the country papers prepared for this region's workshop pointed out the limiting effect of poor infrastructure

facilities – roads, ports, telecommunications, irrigation, storage, cold chains, energy generation, and distribution, among others – on agrifood chain competitiveness.

In Ghana, the state of infrastructure in general, and for agriculture in particular, led to the highlighting of this issue in most discussions of agricultural transformation and the creation of enabling environments for private sector participation in agribusiness and agro-industries development. This is reflected in the discussions leading to formulation and implementation of the Millennium Development Compact and the country's medium-term development programme. Fundamental to this issue is the importance of infrastructure in enabling the linkage of rural production centres to the various intermediaries in the farm product supply chain, with consequences on cost and timely response to market demand and production trends. In the Gambia, electricity was identified as the most important constraining factor facing firms in the industrial sector. Power supplies are reportedly erratic and scarce, especially in rural areas, and agrifood processing is difficult to develop in these conditions, which are exacerbated by the poor state of roads in the interior. Up-country storage facilities were also considered inadequate. In Mozambique, the poverty reduction strategy and country action plan identify infrastructure development as a high priority, especially for irrigation and improved sanitary and phyto-sanitary (SPS) equipment. In Kenya, the maintenance and monitoring of a reliable energy supply and other infrastructure, including cold chains, was an area of concern. The road and railway infrastructure is insufficient to meet the demands of trade. In Liberia, institutional strengthening, infrastructure improvement and upgrading of support services are needed, all of which require funding that the country has not yet been able to mobilize.

Taxes and tax management

There was widespread agreement that a fair tax system should collect proportionately more from those with higher incomes and provide relatively uniform and non-discriminatory treatment of taxpayers with similar economic circumstances and abilities to pay. The tax system must generate revenue growth to support investments in infrastructure, market-supporting institutions and human capital. A fair tax system minimizes the tax burden on the poor, and avoids excessive tax rates and arbitrary impositions all round. Appropriate tax levels, tax systems and administration can boost development of the economy.

Tax incentives grant new investors a strong advantage over competing producers. Moreover, by reducing the tax yield from new investments, incentives necessitate higher taxes on other entities, thereby accentuating the disadvantage faced by domestic competitors. Tax incentives for new entrants also create strong encouragement for companies to shut down existing capital stock in favour of new investment, even if this is wasteful in terms of efficiency (Nathan Associates, 2004). Incentive programmes often encourage transient investments that cease once the incentives end, and investments of low productivity that are only viable because of the tax break.

A positive example of tax management presented at the African workshop is Ghana, where incentives have been restored for agricultural exports and allied businesses, such as through the foreign exchange policy regime and an import and export tax regime that favours the phenomenal emergence of non-traditional agricultural exports. Liberalized import and export regimes have minimized price

distortions created by trade taxes on agricultural products, while providing more room for the entry of agricultural commodity and input imports. Evidence from stakeholders in the agribusiness sub-sector suggests that these developments have contributed to the collapsing of cartels and have induced competition across the broad sections of agrifood marketing and distribution in the country. The previous policy environment generally distorted the income incentives for agricultural production, as a high tax regime targeted agricultural exports in particular. The Gambia has implemented important legal reforms by establishing free zones and changing the competition policy and income and sales taxes. The country offers numerous incentives under the Special Investment Certificate scheme, which – among other things – allows capital equipment and production inputs to be imported free of duty and sales tax. In addition, there are provisions for a five-year tax holiday on the turnover tax and for accelerated depreciation. The Gambia has a narrow tax base and is highly dependent on import taxes. The main domestic taxes that apply to imports are the sales tax and the excise tax. The latter applies varying rates to selected goods, and was implemented to compensate for revenue shortfalls arising from tariff reform. The sales tax applies to virtually all goods and services, typically at a rate of 15 percent from December 2005. In principle, exports are supposed to be subject to a 10 percent tax, but in practice, almost all are exempt, particularly agricultural and fisheries products. This exemption is considered vital for export promotion. The United Republic of Tanzania has an Export Processing Zone where companies enjoy corporate tax exemption for the first ten years of operation, plus exemptions from withholding tax on loan interest and dividends, exemptions from all local government levies, and access to basic infrastructure. Recent concessions on agricultural taxation make land-clearing costs tax-deductible. Agricultural inputs and implements are subject to zero import duty rates. Measures to promote large-scale farming include the introduction of 100-percent first-year capital allowance for plant and machinery, while small-scale agriculture remains tax-exempt. Raw materials from agriculture and fisheries destined for further processing are also tax-exempt. Taxes with low revenue yield and high collection costs have been abolished. Taxes, levies or mechanisms for collecting taxes have been abolished over the last eight years, making the tax more taxpayer-friendly. Some tax laws, regulations and procedures have been amended, with the same objective of improving the tax structure.

In Mozambique, a prerequisite for agribusiness development is considered to be a tax system with moderate taxes that apply evenly to a broad tax base. Restructuring of the tax system and the gradual removal of export tax are helping the development of enabling environments, but tax administration is still a constant complaint of the private sector. The business community is also highly critical about the degree of discretion exercised by tax officials in determining assessments and penalties, leading to unpredictable tax bills, arbitrary fines and unlawful practices.

It was agreed that the starting point for using tax policy to stimulate private sector development should be establishing an attractive overall tax system with moderate tax rates that apply even-handedly to a broad tax base (Nathan Associates, 2004). Equally important, the tax system must generate revenue growth to support investments in infrastructure, market-supporting institutions and human capital. Tax incentive programmes must therefore be designed carefully to ensure that the

benefits outweigh the costs. Many businesses incur substantial financing costs from delays in refunding value-added tax (VAT). Especially for exporters, the added cost undermines the advantage of the VAT system, which was designed to improve competitiveness by removing domestic indirect taxes on export sales. Eliminating such delays would enable many enterprises to make additional investments.

EASTERN EUROPE AND CENTRAL ASIA

In the last two decades, countries in Eastern Europe and Central Asia have undergone significant changes in their business climates. Countries in this region transitioning from centrally planned to market economies have made several changes in institutions, governance mechanisms and the associated legislation. These reforms were necessary to meet not only the export markets' regulatory requirements, but also the countries' own market needs in the changing national business environments. The transition brought about significant structural changes, as countries targeted new markets other than those in the former Soviet Union. In the post-Soviet Union era, as demand for agricultural products declined, large State-owned/-operated trading firms disappeared. The transition countries and their main markets altered the profile of their supply and demand conditions. As a result, agricultural production declined and agroprocessing units operated under capacity. With the transition and accession, or forthcoming accession, to the European Union (EU), several Eastern European countries needed or will need to bring standards and regulations into line with those of the EU to achieve competitiveness for their agricultural production in the EU market. Against this backdrop, discussion of enabling environments in Eastern Europe and Central Asia singled out elements of special relevance, which are discussed in the following sections.

Risk management

In the region, lack of technical skills in management and assessment of production and market risks were seen as main challenges to be overcome to promote conducive business climates for agribusiness and agro-industries.

Newly accessed EU members have been compelled to alter product risk management practices, including production and quality control processes, to meet EU market access regulations and demands. This has required the development and improvement of quality control and traceability systems, and the improvement of national services and institutions for meeting such needs. Producers and processors have been led to form associations to ensure that improved standards are consistently adhered to; extension services have also needed to be improved. The EU's White Paper on Food Safety (Commission of the European Communities, 2000) determined the components of risk analysis (risk assessment, risk management and risk communication) that provide the basis or guidance for food laws, some of which have been enacted in Eastern European countries. This adaptation process has evidenced the need to develop technical skills in assessing and managing risks.

The transition to a market economy also prompted the emergence of new forms of vertical coordination, filling the vacuum left by the collapse of the previous economic system. Technical and trade barriers to agrifood commerce were reduced, and this introduced new sources of risk into food chains as well as stricter requirements regarding safety and quality. The establishment of agrifood quality standards and assurance of compliance with these standards called for technology and process

innovations and demanded investments in the adaptation to newer, stricter requirements. For small and medium-enterprises the costs of quality control procedures have become particularly high and are hardly affordable. As such, new mechanisms for managing risks have been introduced, including cooperation and contracts between private agents, producers, processors and retailers.

For risk mitigation, the wide range of tools that can be promoted include financial, market and weather-related risk insurance, many of which are not yet fully disseminated in Eastern Europe and Central Asia. Weather-based index insurance instruments have gained particular popularity recently, because of the difficulties and high costs associated with the traditional insurance approach that establishes payouts for individual farmers affected by adverse climate conditions. Under weather-based insurance contracts, for example, if rainfall levels are below a previously agreed threshold in a given region, the insurance company pays out to farmers in that region without having to assess individual farmers' losses. Clearly, this system reduces the transaction costs for insurance companies and also increases the credit-worthiness of participating farmers. Much work is being directed to

BOX 1

Agricultural risk management in Ukraine

In Ukraine, the lack of appropriate risk management systems was considered a serious problem; an urgent need for risk reduction was perceived. As such risks create inefficiencies in markets, effective risk management tools and strategies were considered necessary to improve efficiency in farming and in downstream activities along agri-food chains. While government supports and participates in agricultural risk management, it was thought that there is a need for the public sector to promote the involvement of private agents as well.

Priorities relating to risk management for promoting enabling environments for agribusiness and agro-industries development in the country include:

1. more transparency in government market interventions;
2. development of contracts and insurance systems;
3. improvements in agribusiness linkages, vertical integration and the development of cooperatives;
4. better analyses of the agribusiness sector as a tool for identifying key partners and users of insurance systems.

Tools for addressing risk management challenges are:

1. improved risk management strategies, promoting and establishing a public/private sector-led risk management system;
2. subsidies for crop insurance;
3. the public sector's initiation of agriculture risk management services (data collection, appropriate regulatory environment, stakeholder education, an effective financial system).

BOX 2**Country examples of agricultural risk management as a tool for improving the agribusiness environment**

In Uzbekistan, commercial banks have taken a conservative approach to lending to agriculture and often lack the in-house expertise for assessing risks associated with lending to the sector. Agricultural land is not generally accepted as collateral for loans, as no active land market operates in the region.

Some governments have taken initiatives in risk management. For example, primary agricultural producers in Croatia receive subsidies on crop insurance premiums for their harvests. Another successful step towards the development of risk management mechanisms has occurred in Poland, where a price management scheme allows traders to buy grain at slowly increasing target prices, with a refund system in case of price decreases. Government programmes involving support grants have also been implemented with success, benefiting businesses seeking to establish quality standard compliance programmes. In Serbia, risk management is constrained by several factors, including banks' failure to adopt standard practices for risk management or for reporting on legal and financial due diligence. Agribusiness managers and small farmers do not possess adequate practical skills in formal bank loan application processes. Problems have arisen when farmers have submitted unreliable business plans to local banks, resulting in arrears or bad loans.

improving the design of weather-based insurance products and increasing their applicability. Currently, few of these products have been sustainably adopted by financial institutions – public or private.

Contract farming is another important risk mitigation tool, under which the buyers and sellers of agrifood products establish production and sales conditions in advance. This mechanism has proved very effective in supply chain coordination, reducing the risks of excessive or underproduction. However, its promotion requires that appropriate legal frameworks are in place, as discussed earlier. Contractual enforcement mechanisms are considered to be weak in some countries in the region, which prevents contractual tools from more effectively contributing to improved risk mitigation.

In sum, in Eastern European and Central Asian markets the major risk management issues and constraints affecting the business climates for agribusiness and agro-industry were considered to be the lack of well-developed price risk management institutions (futures markets, commodity exchanges, etc.), the lack of contractual enforcement mechanisms, and the limited availability of crop insurance alternatives.

Investment support services

Well-functioning investment support services – including promotion agencies, one-stop shops, and other means of providing guidance, assisting investors and facilitating access to investment opportunities – are part of the toolkit used by governments to attract capital and promote business ventures. Workshop participants

considered that lack of such services represents a constraint to enabling environments for agro-based investments in Eastern Europe and Central Asia. They also considered that there is need to improve the range of investment incentives on offer. In addition to the traditional tools (trade fairs, fora, exhibitions, etc.), participants suggested that investment promotion and support services in the region should include financial incentives, particularly for investments in processing equipment, support for professional associations that can play a role in attracting investments, and improvement of consulting and information support services.

It was also noted that investment promotion should not be seen as an isolated action, but instead be associated with efforts to develop infrastructure and financial services, which are both as essential as the legal and regulatory systems, as previously observed.

Public–private partnerships for research and development

Workshop participants identified public–private cooperation in research and development (R&D) as a priority in efforts to improve enabling environments for agro-industries and agribusiness in Eastern Europe and Central Asia. Under the former socialist system, the region relied heavily on public investments in R&D, which was based mainly on centralized research and advisory institutions linked to related ministries. This system still predominates in most countries, with limited roles for professional associations or private R&D and technology dissemination services. However, demands for improved products and more efficient processes arising from the new market opportunities brought by EU accession call for increased investments in upgrading technologies and processes. Product innovation and differentiation that respond to consumer demands are particularly well-placed to benefit from partnerships between public institutions and private sector entities, as is dissemination of new technologies and processes throughout the different segments of agrifood value chains. There is need for revamped institutional settings and incentives that are conducive to the formation and sustainability of PPPs.

ASIA

The Asian region continues to experience fast growth, with countries such as China, India and Viet Nam – among others – boasting GDP growth rates that are in or near double-digit figures. As a whole, Asian economies attracted an astounding US\$233 billion of FDI in 2009, up from US\$21 billion in 1990. Asian countries drove 32 percent of the world's international trade flows in 2010, and are increasingly playing a leading role in the world's capital markets. Asia produces 90 percent of the world's rice and more than 40 percent of its wheat, along with more than 50 percent of its rubber, spices, vegetables, tobacco, eggs, fibres, nuts and vegetable oils, including palm-oil. However, the Asian region still faces many development challenges. Although poverty has diminished, recent estimates by the Asian Development Bank indicate that nearly 1.9 billion Asians still live on just US\$2 a day or less, with about one-third of this group subsisting on less than US\$1 a day. The majority of the Asian poor live in rural areas. The challenge is therefore to promote economic growth that is inclusive and equitable; facilitating the development of agro-industries and agribusiness through more conducive business climates has an important role in overcoming this challenge.

Workshop participants in Asia acknowledged all of the cross-cutting issues discussed in the previous chapter. They also acknowledged the World Bank's Doing

Business indicators as ensuring necessary, but not sufficient, conditions for establishing agribusiness and agro-industry-enabling environments, and called attention to two additional issues that were not prioritized in other regions: intraregional trade issues, and capacity for implementing enabling environment reforms.

Given the size of the Asian markets and the growing importance of large emerging economies such as India and China, it is not surprising that intraregional trade stood out as a priority theme in the region. Although some countries have retained trade restrictions on agricultural products such as rice, most Asian countries support free trade in the multilateral arena, including by advancing the Association of Southeast Asian Nations free-trade area, and promoting regional trade and investment. However, there was a perception that more needs to be done to achieve better trade integration, including harmonization of standards and strengthening capacities to enforce compliance. By addressing these issues, investments in the Asian agrifood sector are likely to become more attractive.

Regarding the capacity for implementing enabling environment reforms, it was observed that efforts to improve business climates in the region typically concentrate on identifying constraints and bottlenecks and proposing corrective actions and policies for addressing them. Less attention has been given to countries' capacity to put in place the recommended reforms. Challenges to implementing reforms are discussed in chapter 5.

LATIN AMERICA

Although Latin America has recently experienced relatively high economic growth rates, with 56 million of its population rising out of poverty between 2002 and 2008, the region still faces problems of inequality and overdependence on natural resource-intensive sectors, which account for 60 percent of manufacturing value added (OECD, 2011). Economic diversification and enhanced competitiveness are considered key policy goals for the achievement of further growth and social development.

Participants at the FAO events recognized the need for regulatory reforms and continued macroeconomic adjustments. Improvements in the business environment for agro-based investments were considered particularly important, especially through policies to promote responsible business conduct, and human resource development.

Policies to promote responsible business conduct

Studies presented at the Latin America workshop addressed general aspects such as investment policies, investment promotion and facilitation, and responsible business conduct promotion. Responsible business conduct is directly linked to sustainable socio-economic development – one of the elements necessary to the development of enabling environments for agribusiness and agro-industries in Latin American countries. Particularly on international markets, there is growing demand for foods produced in responsible ways, taking into account such issues as environmental sustainability, animal welfare and fair working conditions, among others. Generating and enforcing national legislation and international social and environmental commitments can enhance agro-enterprises' response to these market demands. There is need to implement policies that promote responsible business conduct, addressing challenges such as the deterioration of natural resources and the environment, and encouraging respect for local populations' culture and customs.

BOX 3**Context-specificity of enabling environments – issues from Latin America**

In Latin American countries, large percentages of the population are dependent on agriculture, and relatively high percentages of GDP and export earnings are derived from agribusiness and agro-industry sources.

Latin America has long been affected by episodes of political and/or financial instability. Countries such as Brazil, Argentina and El Salvador faced economic hardships in the last decade of the twentieth century and are still recovering or have only recently recovered. In some cases, these adverse conditions have provided good opportunities for countries to promote sustainable and effective enabling environments, incorporating lessons learned and applying reforms. Since emerging from its economic challenges in 2002, Argentina has introduced the necessary reform processes in institutions and fiscal elements to provide a sector-specific enabling environment that benefits the agribusiness and agro-industry sectors. El Salvador began to overcome its economic problems in 2006, and is expected to develop an enabling environment for the coffee industry. Support and investment funds such as the Business Development Fund and the Agricultural Reconversion Fund have been instrumental in stimulating the modernization of El Salvador's agribusiness sector and stimulating competitiveness.

Costa Rica has developed a more general enabling environment that encourages national economic growth. Costa Rica's Ministry of Agriculture has created a national system of partnerships for technical innovation, to promote intensive, high-value agricultural production to meet the demands of international markets. This initiative is succeeding.

For many years Latin America has fostered subregional common markets, starting with the Tratado de Cartagena in the late 1960s, the Andean Pact, which started in the 1970s with Ecuador, Colombia, Peru, Chile and the Plurinational State of Bolivia, and the Southern Common Market, which was created in 1995, includes Argentina, Brazil, Paraguay, Uruguay and Venezuela, and is a significant trading partner of the EU. Trade agreements act as a component of enabling environments by stimulating trade among member countries, within the region and beyond. For example, for several decades, Chile has exported agricultural produce – including animal and vegetable fibres, coffee, wine and fruit – to both Latin American and non-Latin American countries. Such successful trade links have been instrumental in attracting outside investment and encouraging the development of quality and SPS controls that comply with international regulations of the EU, the World Trade Organization (WTO) and USDA. Chile and Argentina are also good examples of successful environments where the governments have promoted the development of sector- and sub-sector specific enabling environments for agribusiness and agro-industries. Policy-makers in both countries have introduced institutional and fiscal reforms and developed capacity to identify and target export markets in the milk, meat and wine sectors. Chile agribusiness has expanded rapidly, making Chile's one of the most promising economies in the region. Social considerations have facilitated this process through the development of policies, institutions and support services that favour environment-friendly tools.

BOX 3 (continued)

In Brazil, incentives for smallholder agriculture include favourable financing conditions, development of institutional markets such as school lunch programmes that procure from family farms, and programmes to stimulate small-scale agro-industries. All of these have contributed to the inclusion of smallholders in agrifood supply chains.

Increasing and expanding production for international markets leads to economies of scale, satisfaction of international market demand, and improved quality standards, all of which help to increase investors' returns on investment. Integration into international markets can be achieved through open market policies and improved access to information. This is especially important for small countries whose domestic markets do not allow economies of scale. Open market policies are usually part of enabling environment reforms and encourage producers to enter international markets. As the populations of developing countries, including in Latin America, are predominantly small-scale producers who depend on agriculture for their livelihood and live on or below the poverty line, market access policies should promote business models that encourage smallholders' inclusion in value chains. Such policies should be considered as part of efforts to promote business climates that are socially responsible.

Human resource development

Latin American workshop participants expressed consensus about the importance of developing human resource capacities for agribusiness and agro-industry through formal education, technical training and extension. They considered that the shortage of trained workers in most countries in the region was an obstacle to agro-enterprise development and improved agribusiness/agro-industry competitiveness. Qualified workers and managers would enable a country to achieve greater competitiveness, thus creating a favourable investment environment. Participants noted that there was a need to implement policies that promote capacity building, particularly in association with research and technological development for agrifood production, processing and distribution. Brazil's successful experience of creating world-class agricultural research institutions, supported by investments in human resource development through agricultural university programmes, provides evidence of the importance of this theme in enabling environment discussions. In Chile, strengthened capacity building and agricultural R&D were seen as key to the observed success and its maintenance in years to come.

Chapter 5

Reforming enabling environments

Assessments of enabling environments and the publication of international cross-comparisons that rank countries according to their business climates have triggered reforms leading to reduced costs of doing business. The World Bank Group's Doing Business surveys regularly highlight the "lead reforming" countries, where regulations that past surveys identified as deterrents to a conducive business climate have been simplified and/or eliminated.

Governments are the primary drivers of reforms, but their capacity to promote change is not unconstrained. While cases of successful reforms were evidenced at the FAO events, the difficulties associated with reform processes were also shown and should not be underestimated. As discussed next, not only the assessment of business climates for the agrifood sector requires the consideration of its particularities, but also the design and implementation of reforms.

GENERAL CHALLENGES OF REFORM PROCESSES

Economic reform has been described as the process by which economies move from State-driven to market-driven principles to advance economic prosperity. In such cases the government is the primary mover of the reform process, which typically includes measures such as privatization, tax reform, fiscal reform, liberalization of trade regulations, deregularization of economic activities, liberalization of price structures, removal of controls on exchange and interest rates, and cessation of State subsidies.

Reforms of institutions, governance and legislation are central to the improvement of business climates. Almost all the country papers in the FAO workshops stated a perceived need for improvement of the government institutions that are stakeholders in the development of an enabling environment. They also identified the need for improved governance, enhanced infrastructure, and legislation that not only ensures compliance with the regulatory requirements for access to international markets, but also guarantees the enforceability of contracts. In addition, in many countries – particularly in Africa and southern Asia – there is need to clarify and establish uniform and effective tenancy and landownership regulations and legislation. Reforms in any of these aspects of enabling environments will have different impacts on public and private sector stakeholders. Vested interests might be affected, resources for public sector investments might not be available, and institutional changes might require protracted negotiations and slow legislative processes. There are also challenges arising from local culture and traditions, which might create restraints to policies for improving business climates.

Reform of enabling environments is also constrained by the need to tackle sensitive issues. Calling attention to this particularity, some of the workshop papers highlighted the problem of unlawful behaviour from public agents, which is sometimes manifested in the form of illicit fees for establishing, licensing, financing and obtaining the necessary permits for a business. The levels of opportunistic behaviour

encountered in some public sector agencies either reduce the willingness of investors and donors to do business or lead to a requirement for high and rapid returns on capital to recover the extra charges that are characteristic of dysfunctional public sector agencies. The solution to such problems lies in stable and effective governments that are committed to curbing wrong-doing in the practices of public agents and that promote adherence to international standards of fairness, lawfulness and transparency in business practices.

In some countries, the reform process is triggered by political events that call for change, such as the transition of the East European and Central Asian countries from a command to a market economy. As discussed at one of the workshops, not only did the legal, institutional and regulatory mechanisms of the countries in this region needed modifications to meet the regulatory requirements of the countries and markets to which products were to be exported, but also the laws and regulations regarding finance required reform to make international and national funding available to the farming, agribusiness and agro-industry sectors. Infrastructure also required modification and reform to enable the transition from large, State-owned farms and agribusinesses to smaller units; in many cases, including Hungary, both foreign investment and foreign management became part of the reform of the agribusiness and agro-industry system.

CHALLENGES OF REFORMING ENABLING ENVIRONMENTS FOR AGRIBUSINESS AND AGRO-INDUSTRIES

One of the main challenges facing reforms to create agribusiness and agro-industries-enabling environments and promote investments is the need to balance national food security goals with promotion of an export market for agrifood products. In many – if not all – of the countries participating in the workshops, large percentages of the population depend on agriculture for their livelihoods and many of these people live close to or below the poverty line. In such circumstances, national, local and family food security becomes especially relevant.

Improving the income, livelihood and, thus, the food security of the poorer sector of the agricultural community depends on poorer farmers' ability to improve their livelihoods through improved/increased production, post-harvest technology, marketing and diversification. To achieve these aims a wide range of improvements are required, many of which are instrumental to the establishment of an effective enabling environment. These improvements involve improving landownership and tenure systems, providing extension advice not only on crop and animal production and health, storage and marketing, but also on the formation of village/producer/consumer groups/associations/cooperatives to ensure constant improvements in management, finance (credit and microcredit, credit unions, etc.) and input procurement for farmers.

Workshop participants often remarked that one role of enabling environments is to ensure the development of agribusiness and agro-industries without incurring negative impacts on poor and vulnerable farmers. A recurrent view was that the general policies proposed to facilitate and promote investment typically have a business bias aimed at generating wealth and developing business activity. Another entry point should be considered in which the core elements for agribusiness and agro-industrial development are more oriented towards poverty reduction. Workshop participants from many countries wondered how agro-industry can be a develop-

ment tool when the agriculture sector is under great pressure from globalization: What role can agro-industry play, and how can it help stakeholders face the changes brought by globalization, particularly the implications on food security?

Food security for all families, communities and countries is a basic necessity, and it should be remembered that food security can be promoted not only through the increased availability of foods, but also through improved access to them. National goals that might be conflicting in principle can be reconciled if reforms take into consideration the potential of agribusiness and agro-industries to generate income and promote access to food.

Another challenge specific to reforms focusing on enabling environments for agribusiness and agro-industry is related to the multiple ministerial levels involved in the reform processes. At the government level, the creation and management of enabling environments can be a long process, especially as there are usually several ministries involved in the policies, institutions and support services that are subject to reform. Ministries of agriculture, industry, trade, finance, foreign affairs, health and labour are among those likely to be involved.

The political agendas of different ministries may not be harmonized, leading to divergent priorities, with changes in one ministry upsetting vested interests in others. Communication and agreement among ministries and departments may not be efficient, and this can cause delays in reform processes. For example, in the Lao People's Democratic Republic, legislation relating to the SPS and animal health regulations required to comply with WTO and World Organisation for Animal Health regulations for cross-border trade took nine years to develop from initiation of the process to final enactment in 2008.

Although creation of the necessary laws and regulations is usually seen to be beneficial and necessary, their enactment is frequently a complex and protracted process because of the many stakeholders involved and their possible conflicts of interests. To deal with this challenge, proposals have been made to empower special, supra-ministerial authorities to conduct and implement reforms. Where politically feasible, this can be a workable approach to ensure that multiple government interests do not hinder improvements to enabling environments for agro-industries and agribusiness. Given the challenges of implementing such institutional arrangements, it is important that government leaders within ministries focus on designing tailored strategies that consider political and economic constraints, to facilitate the creation of effective laws and regulations. Results will vary considerably from context to context, so universal policy prescriptions should be avoided, and an endogenous reform process should be encouraged by both national and international government bodies.

DIMENSIONS OF REFORM

Effective resourcing, funding and investment management are crucial for policy implementation. Experience shows that problems in the channelling of resources arise when programmes have not been assessed in accordance with pre-established technical guidelines during their design and implementation phases, and so do not generate the desired results. Many failures are due to poorly planned projects (with oversized plants, poor locations, lacking supplies, etc.). Developing capacity for project management and risk management techniques can be very useful, and the sharing of lessons learned and successful examples favours stakeholders with less experience.

Development policies are often mixed with social assistance policies. Another concern about agribusiness and agro-industry sector policies is that interventions can foster a culture of dependency. Governments often contribute most to this sort of intervention, in the hope of winning elections and retaining popular support. Among the lessons learned is the need to distinguish enterprise development initiatives that can benefit from enabling environment reform from social assistance programmes. Enabling environment creation or modification can imply inclusiveness, as all participants in the agribusiness and agro-industry sectors – producers, donors, investors and governments – are stakeholders. The involvement of small producers requires the development of associations, cooperatives or clusters that make it easier for small producers to articulate, lobby for their interests and reach common views with processors and consumers.

The inclusion of small producers, the provision of credit and the improvement of regulation of landownership and land tenure systems through donor-driven projects, can give a strong pro-poor orientation to the development of agribusiness and agro-industries. Small-scale tea and coffee production prove this point. In Kenya, for example, cooperatives for small-scale producers have led to increased small farmers' incomes and customer bases.

The equity issue was a common concern voiced by participants of the FAO events in Latin America and Eastern Europe and Central Asia. It was also highlighted in the presentations from Kenya and the United Republic of Tanzania at the Africa workshop. The main question concerned whether the promotion of enabling environments and the attraction of FDI could have negative impacts on small and medium enterprises and small farmers. When addressing this issue, it is necessary to remember that the equity dimension depends on many local circumstances. Where stakeholders cooperate and there is transparency in access to credit and markets, especially when international donors and NGOs are stakeholders, the negative effects of reforms tend to be mitigated.

The heterogeneity of the actors involved is another concern, and means that some policies have to be case-specific. Asymmetric access to information prevents some market actors from making reliable and relevant decisions, leading to tensions among market actors with horizontal or vertical relations. Similar inequality arises when there is an open market policy; while international companies can take advantage of new opportunities, small producers – who are tied to particular areas and less flexible – might have no access to those opportunities, and are forced into a follower/dependant position. Asymmetric access to resources leads to failures in competition, with some producers unable to compete at all.

Chapter 6

Towards an agenda for improved enabling environments for agribusiness and agro-industries in developing countries

The promotion of improved business climates, or enabling environments, for agribusiness and agro-industry in developing countries requires not only proactive roles for all stakeholders at the national level, but also roles for donors and international organizations in activities such as advocacy, funding and provision of technical assistance in enabling environment assessment and reform planning and implementation. Although governments must be the prime movers in perceiving a need for and initiating the process of developing an enabling environment, donors and international organizations can provide the expertise and funds that are instrumental in these endeavours' success.

While calling attention to the need for international support to the definition of an agenda for improving agribusiness and agro-industry-enabling environments, workshop participants identified roles that organizations with expertise in food and agriculture, such as FAO, are well positioned to assume.

One of these roles is awareness raising and advocacy, which FAO has been providing through activities such as organization of the workshops and fora mentioned throughout this report. The following sections outline other suggested roles.

IDENTIFICATION, EVALUATION AND DISSEMINATION OF EXPERIENCES IN ENABLING ENVIRONMENT ASSESSMENT AND REFORM

Participants proposed that FAO monitors and evaluates the results of government interventions in the creation of enabling environments for agro-industrial and agribusiness development. Initiatives such as the “agreements on chain competitiveness” that are being increasingly adopted in Latin America, and the reforms addressing land rights issues that were discussed in the African country cases provide examples of enabling measures that can be documented and disseminated. FAO can benefit from its recognized position as a neutral forum and honest broker to promote the creation of discussion and negotiation spaces for different stakeholders in enabling environment reforms.

Sub-sector planning assistance

It has been recognized that the specificity of enabling environments for agribusiness and agro-industries can also exist at the sub-sector level. An example discussed at the FAO events was the need for specific regulations and supporting institutions that are peculiar to sub-sectors such as livestock, where animal health issues demand

well-functioning veterinary services and norms regulating slaughter, vaccination and animal movement across borders, among others. In such cases, enabling environment reforms can benefit from proper sub-sector diagnosis and strategic planning. It was suggested that FAO has roles in providing the necessary technical support to these activities.

Provision of statistical data

One of the main global public goods provided by FAO is the organization and dissemination of international statistics on agricultural and livestock production and trade. Participants suggested that this role be expanded, given the limited availability of important statistics on agribusiness/agro-industries, including on agro-industrial activities. FAO's role could include collecting and publishing statistics on agro-industrial activities and providing governments with technical assistance in developing statistical systems that fill these data gaps.

Capacity building

It was suggested that FAO assumes two main roles in this area: generating training packages on themes relevant to enabling environment assessment and reform; and coordinating existing regional knowledge and expertise to provide training in all aspects of enabling environments – from assessment to policy, programme and project design – while supporting and participating in the design of formal academic programmes addressing agribusiness and agro-industry development.

Support to the design and implementation of standards

At the FAO events, agrifood standards were a recurring issue in discussions of the main enablers for improving business climates. Participants suggested that FAO continues to undertake actions that support countries in setting standards and strengthen governments' capacity in enforcing them.

Methodologies for assessment of agrifood chain competitiveness and of agribusiness/agroindustries enabling environments

It was suggested that FAO provide guidance on methodologies for assessing the competitiveness of agrifood chains. Participants felt that the many existing approaches to analysis of agrifood chains should be harmonized into a simple and workable assessment framework. In particular, they highlighted the need to consider aspects of enabling environments in such assessments. They also suggested that FAO joins other international organizations in efforts to develop and apply country-level indicators for agribusiness-enabling environments. This suggestion is considered in greater detail in the following section.

IS THERE A NEED FOR AGRIBUSINESS/AGRO-INDUSTRY-SPECIFIC CROSS-COUNTRY INDICATORS?

The discussion of existing frameworks for the assessment of business climates, as well as the analysis of practical experiences, the country cases from workshops and the evaluation of the challenges for enabling environment reforms led participants to conclude that there is need in principle for specific indicators of enabling environments that address the particular characteristics of the agribusiness and agro-industries sec-

tors. Elements for consideration in designing such indicators are discussed in chapters 3 and 4 of this report. However, the recommendation that FAO engages in developing and applying country-level indicators for enabling environments led to questions regarding the conceptual and practical implications of embarking on such an exercise.

The most widely accepted indicators for business climates are those in the World Bank's Doing Business surveys. OECD's Policy Framework for Investment also provides a sound conceptual basis for enabling environment assessments and reform. Although the World Bank's Doing Business surveys have been very successful in spearheading reforms and supporting investment decisions globally, their operationalization requires the commitment of significant human and financial resources. In order to maintain a structure that permits the collection of data and the construction of indices across a broad range of countries worldwide, resources are needed in a magnitude that cannot be matched by specialized institutions dedicated to food and agriculture issues unless extra-budgetary funds are secured for those specific purposes. In addition, complex methodological issues arise from the need to harmonize indicators and data collection procedures among a very heterogeneous set of business environments. As the argument for developing agribusiness and agro-industry indicators is based on the specificity of these sectors, attempts to standardize indicators across countries risks defeating the purpose of the exercise. As discussed at one of the FAO events, a country might be an excellent prospect for investments in livestock activities while offering a totally non-conducive business climate for alternative agribusiness/agro-industrial investments, such as in the horticulture or floriculture sub-sectors. Recognition of this methodological difficulty led to suggestions for providing indicators for specific sub-sectors, but this would add complexity and expenses to an already costly endeavour.

In view of the practical difficulties in establishing specific indicators in a cost-effective and methodologically sound way, an argument is hereby developed in favour of an approach that follows the rationale and structure exemplified in the OECD Policy Framework for Investment. Building on the conceptualization proposed by Christy *et al.* (2009) in their work developed for the Global Agro-industries Forum organized by FAO and partners, a general guidance framework for the assessment of agribusiness and agro-industries-enabling environments and the prioritization of core areas for intervention in reform processes is proposed. This would entail selecting a hierarchy of "essential enablers", "important enablers" and "useful enablers", taking into account the specific elements discussed in chapters 3 and 4 of this report. As proposed by Christy *et al.* (2009), the World Bank's Doing Business Index could be used as a measure of the general ease of doing business and be one of the "useful enablers" in this hierarchy. Elements of the OECD Policy Framework for Investment could also be included. Table 1 summarizes this proposal.

The broad elements included in Table 1 could be detailed in the form of checklists of the issues to be assessed, which would depend on the specific regional and/or sub-sector context. These checklists could be used to facilitate in-depth assessments of agribusiness/agro-industries-enabling environments through traditional appraisal methods that combine stakeholder interviews with analysis of secondary data and reviews of available information. Results of the analysis could be validated at stakeholder workshops. The hierarchy of enablers could be used as a basis for prioritizing reform interventions.

TABLE 1

An illustrative framework for the assessment of enabling environments for agribusiness and agro-industry

Category	Examples of agribusiness/agro-industries-enabling environment elements to be assessed*
Essential enablers	General legal and regulatory frameworks with impacts on agribusinesses and agro-industries
	Governance
	Infrastructure
	Land tenure
Important enablers	Trade policy
	Agribusiness finance: availability, access and conditions
	Risk management
	Taxes and tax management
	Food safety and quality standards and associated infrastructure
Useful enablers	Research and development
	Agrifood chain coordination mechanisms
	Investment support services
	Human resource development
	Policies for promoting responsible business conduct
	Ease of doing business

* For details on the elements, see chapters 3 and 4 of this report; Christy *et al.*, 2009; and OECD, 2006.

In brief, an agenda for the promotion of enabling environments for agribusiness and agro-industries in developing countries would encompass several roles for technical cooperation, including guidance in assessments and reforms. Towards this end, the general framework presented in Table 1 is seen as a more workable alternative than efforts to create quantitative indicators of doing business for agribusiness and agro-industry, as it has often been suggested.

Chapter 7

Conclusions

Recent years have seen increased efforts by countries and development agencies to promote the improvement of business climates as a way to foster private sector investments and engender economic growth. Growing numbers of institutions and international organizations have been engaged in these efforts, including by developing indices that seek to quantify the ease of doing business in different environments and rank countries according to these criteria.

Efforts to assess and measure the ease of doing business have proved successful, primarily in pointing out areas where reforms are needed to reduce costs, and – through comparative country rankings – in triggering business climate reforms. One of the major strengths of this approach is that poor rankings tend to prompt pressure for reform from private and public sector stakeholders, and the reforms engendered contribute to increasing the flow of domestic and international investments into countries, as they become more business-friendly.

This report has presented the argument that while the traditional ease of doing business assessments provide useful benchmarks for guiding investors and promoting reforms that create business-friendly environments, they do not take into account specific business climate elements that can be essential when investments in specific economic sectors are under consideration. It is argued that sector-specificity is particularly important in the case of agribusiness and agro-industry investments. In fact, the examination of country rankings for ease of doing business shows that some top-ranking countries can hardly be considered as good prospects for agribusiness and agro-industrial investments, while other economies that do not rank well are choice destinations for investments in these sectors.

Participants at the series of workshops and fora conducted by FAO shared the view that the particular characteristics of agribusiness and agro-industries call for an adaptive approach to assessing enabling environments and promoting their reform. This view has also led to recent efforts by international development organizations to examine the “ease of doing agribusiness” by conducting country assessments and, eventually, country rankings. While acknowledging the usefulness of quantitative measures and rankings of enabling environments, this report has argued in favour of a more flexible guidance framework for country assessments, in which the elements considered to be cornerstones of enabling environments for agribusiness and agro-industries are appraised and ranked as essential, useful or important enablers. Institutions such as FAO can use such a flexible framework in technical cooperation activities that support countries in assessing their business climates for agro-based investments and promote reforms to facilitate agro-entrepreneurship and foster economic development.

In conclusion, it should be noted that although business climates that are conducive to investments in agribusiness and agro-industries are important, they cannot by themselves guarantee that such investments will be forthcoming. In addition to efforts

to improve business climates, there is also need to ensure that returns on investments are attractive enough to compensate for perceptions of constraints on enabling environments that increase risks and add to the costs of doing business. In other words, policies and strategies that aim to increase agro-based investments must not only emphasize business climates, but also consider the elements that affect investment profitability and, in consequence, investors' perceptions of risk-to-return ratios.

References

- Abdula, D.** 2008. Mozambique country paper. In FAO. *Enabling environments for agribusiness and agro-industry development in Africa: Proceedings of an FAO Workshop*, pp. 106–117. Rome. www.fao.org/fileadmin/user_upload/ags/publications/eea_light.pdf
- Christy, R., Mabaya, E., Wilson, N., Mutambatsere, E. & Mhlanga, N.** 2009. Enabling environments for competitive agro-industries. In C. Da Silva, D. Baker, A.W. Shepherd, C. Jenane and S. Miranda da Cruz. *Agro-industries for development*, pp. 136–185. Wallingford, UK, CABI, with FAO and UNIDO. www.fao.org/docrep/013/i0157e/i0157e00.pdf
- Commission of the European Communities.** 2000. *White Paper on Food Safety*. http://ec.europa.eu/dgs/health_consumer/library/pub/pub06_en.pdf
- DCED.** 2008. *Supporting business environment reforms – practical guidance for development agencies*. Cambridge, UK. www.enterprise-development.org/page/ber
- Encyclopaedia Britannica Inc.** 2011. *Encyclopaedia Britannica*. Chicago, Illinois, USA.
- FAO.** 2007a. *América Latina y el Caribe: entornos favorables para el desarrollo del sector agro-industrial*. Santiago, Chile. www.fao.org/fileadmin/user_upload/ags/publications/ee_latina%20america.pdf
- FAO.** 2007b. *Committee on Agriculture, Twentieth Session, 25–28 April, Rome. Challenges of agribusiness and agro-industries development. Item 5 of the Provisional Agenda*. <ftp://ftp.fao.org/docrep/fao/meeting/011/j9176e.pdf>
- FAO.** 2007c. *Enabling environments for agribusiness and agro-industry development in Eastern Europe and Central Asia. Proceedings of a FAO Workshop*, edited by S. Tanic. Rome. www.fao.org/fileadmin/user_upload/europe/documents/publications/wsea_en.pdf
- FAO.** 2008. *Enabling environments for agribusiness and agro-industry development in Africa. Proceedings of a FAO workshop*, edited by A. Röttger and C. Da Silva. Rome. www.fao.org/fileadmin/user_upload/ags/publications/eea_light.pdf
- FAO, UNIDO & IFAD.** 2008. *Report of the Global Agro-Industries Forum*. Rome. www.gaif08.org/
- FAO, IFAD, UNCTAD & the World Bank Group.** 2010. *Principles for responsible agricultural investment that respects rights, livelihoods and resources*. A discussion note prepared by FAO, IFAD, UNCTAD and the World Bank Group, January 25, 2010. http://siteresources.worldbank.org/intard/214574-1111138388661/22453321/principles_extended.pdf
- Gentry, B.** 2008. *Yale-UNDP Program on Public-Private Partnerships for the Urban Environment Program*. New Haven, Connecticut, USA, Yale Center for Environmental Law and Policy. (mimeo)
- Konig, G.** 2009. *The impact of investment and concentration among food suppliers and retailers. Session 2.2 – Promoting responsible international investment in agriculture*. OECD conference document. <http://www.oecd.org/dataoecd/30/40/44231819.pdf>

- Kuyvenhoven, A.** 2004. Creating an enabling environment: policy conditions for less-favored areas. *Food Policy*, 29(4): 407–429.
- Landes, M.** 2008. *The environment for agricultural and agribusiness investment in India*. Economic Information Bulletin No. 37. Washington, DC, USDA.
- Manalili, N.** 2007. Comparative appraisal of enabling environments for agribusiness and agro industry development. Prepared for FAO–AGS. (unpublished)
- Nathan Associates.** 2004. *Tax reform and the business environment in Mozambique. A review of private-sector concerns*. Prepared for USAID. www.fiscalreform.net/library/pdfs/mozambique_tax_reform_and_business_environment.pdf
- OECD.** 2003. *Checklist for foreign direct investment incentive policies*. Paris. www.oecd.org/daf/internationalinvestment/investmentpolicy/2506900.pdf
- OECD.** 2006. *Policy framework for investment*. Paris.
- OECD.** 2011. *Latin American economic outlook 2012: transforming the state for development*. Paris.
- Punjabi, M.** 2007. Emerging environment for agribusiness and agro-industry Development in India: key issues in the way forward. Prepared for FAO–AGS. (unpublished)
- UNCTAD.** 2009. *World Investment Report 2009*. New York and Geneva. http://unctad.org/en/docs/wir2009_en.pdf
- UNECA.** 2004. *Land tenure systems and their impacts on food security and sustainable development in Africa*. Addis Ababa, United Nations Economic Commission for Africa.
- UNIDO, GTZ & German Federal Ministry for Economic Cooperation and Development.** 2008. *Creating an enabling environment for private sector development in sub-Saharan Africa*. Vienna, UNIDO. www.unido.org/fileadmin/user_media/publications/documents/creating_an_enabling_environment_for_private_sector_development_in_subsaharan_africa_01.pdf
- USAID.** 2008. *Doing agribusiness*. USAID Business Climate Legal and Institutional Reform. <http://bizclir.com/galleries/publications/agclir%20slick%20sheet.pdf>
- Vorley B., Fearn A. & Ray D.** 2007; *Regoverning markets: a place for small-scale producers in modern agri-food chains?* Gower Publishing, UK.
- World Bank.** 2004. *World Development Report 2005. A better investment climate for everyone*. Washington, DC. http://siteresources.worldbank.org/intwdr2005/resources/complete_report.pdf
- World Bank.** 2008. *Doing business, an independent evaluation: taking the measure of the World Bank-IFC doing business indicators*. Washington, DC, World Bank, Independent Evaluation Group.
- World Economic Forum.** 2004. *The global competitiveness report 2004–2005*. New York.

Annex 1

Competitiveness assessment frameworks

	Index	Source	Coverage (countries)	Objective	Advantages	Limitations
1988	Inward FDI Performance Index	UNCTAD	141	Measure how well economies perform in attracting foreign investment	<ul style="list-style-type: none"> Uses three-year period to offset annual fluctuation of data Captures influence of all factors other than market size 	<ul style="list-style-type: none"> Does not inform policy at the industry or sectoral level Neglects domestic investment, hence key components of agro-industries
1995	Investment Climate Surveys	World Bank	50	Generate formal information for formal investment climate assessment	<ul style="list-style-type: none"> Adapted to country context and sector priorities Data cover business perceptions 	<ul style="list-style-type: none"> Small sample sizes limit global comparisons Emphasizes foreign investment
2001	Investment Compass	UNCTAD	55 developing countries	Benchmarking tool for developing countries to analyse the main economic and policy factors affecting the investment environment	<ul style="list-style-type: none"> Considers natural resource assets Addresses land tenure Considers trade agreements Focuses on infrastructure (quality and availability) Considers objectives of investors and policy-makers Allows inter- and intra-country comparisons 	<ul style="list-style-type: none"> Does not the industry or sectoral level Fails to capture value chain components

(continued)

	Index	Source	Coverage (countries)	Objective	Advantages	Limitations
2003	Ease of Doing Business	World Bank	178	Measure and compare how well the business climate facilitates efficiency at 10 stages of business life For investors	Covers major business considerations and decisions Provides an excellent assessment of the regulatory framework Allows inter-country comparisons	Does not consider broader environment, such as macroeconomics, policies and institutional arrangements Considers only formal enterprises Not sector-specific
2004	Business Competitive Index	World Economic Forum	121	Rank countries by their microeconomic competitiveness	Examines efficiency at the firm level	Intensive data requirements limit coverage Not industry- or sector-specific
2004	Global Competitiveness Index	World Economic Forum	131	Provides an overview of critical drivers of productivity and competitiveness For investors	Considers policies, factor endowments and institutions Adjusted to each country's level of development Allows inter-country comparisons	Does not inform policy at the industry or sectoral level Fails to capture value chain components
2006	Policy Framework for Investment	OECD		Guides policy reforms in critical areas of a country's economic environment to mobilize private investment that supports economic growth For policy-makers	Provides a criterion for policy evaluation Highlights key areas for private sector-led growth, enabling proactive policies	Not an assessment tool Focuses on foreign investment Not sector-specific

Source: Adapted from Christy et al., 2009.

Annex 2

Synopsis of the workshops, by region, country, main factors and main needs to improve enabling environments

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Eastern Europe and Central Asia	<p>Governance</p> <p>Institutions</p> <p>Equity (including smallholder farmers in competitive agro-industries)</p>	<ol style="list-style-type: none"> 1. Transition from a command to a market economy: shift from large, State-controlled enterprises to smaller private enterprises 2. Agribusinesses' lack of capacity to comply with international and private food quality and safety standards, develop quality assurance schemes and make use of branding for traditional foods 3. Lack of skills in management, risk assessment, planning, production, processing, quality assurance and new technology development 4. Inadequate institutional support through industry associations and other services 5. Inadequate support mechanisms for farmers and agribusinesses 6. Inadequate market infrastructure, particularly technology infrastructure, considered to be major constraints to market access, and knowledge and information exchange at all stakeholder levels 7. Lack of capital 	<ol style="list-style-type: none"> 1. Access to finance; attraction and protection of investment 2. Improvement of risk management strategies and quality management systems 3. R&D policies for the agrifood sector, technology transfer 4. Legal and regulatory frameworks 5. Rural infrastructure 6. Roles for public and private sector in agribusiness development 7. Human resource capacity development, technical assistance 8. Addressing food quality and safety, and standards 9. Promoting product branding for traditional, ethnic food, and certification as a competitive strategy 10. Support to innovation and product development 11. Strengthening of the consumer lobby, given retailer concentration, strengthening chain coordination mechanisms 12. Strengthening agro-industrial associations <p>Other issues</p> <ol style="list-style-type: none"> 1. Reducing the vulnerability of agricultural systems through diversification, particularly in the context of climate change 2. Promoting business models that encourage the inclusion of smallholders in value chains 3. Providing information on the requirements for EU accession

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Latin America	<p>Governance</p> <p>Institutions</p> <p>Equity</p> <ul style="list-style-type: none"> ▪ Legal framework ▪ Macroeconomic stability ▪ Human resource development ▪ Promotion of food safety and quality ▪ Social and environmental concerns ▪ Export market orientation ▪ R&D ▪ Infrastructure development ▪ Financial system development 	<ol style="list-style-type: none"> 1. Political and financial instability 2. Scarcity of arable land 3. Small domestic market and economics strongly dependent on agricultural exports: history of preferential trade agreements; importance of trade among countries in the region 4. Need to develop a more competitive and productive agro-industrial sector in the context of globalized trade 5. Endemic food security problems 6. Need to preserve environmental resources 7. Vulnerability to soaring international food prices and climate change, requiring major changes in policies for developing agro-industries 8. Private sector building strategic links with public sector 9. Liaison among production, processing and consumption; coordination of chains 10. Monitoring and feedback 11. Lack of transparent and predictable legal and regulatory framework 12. Favourable investment environment for both domestic and foreign investors 	<ol style="list-style-type: none"> 1. Introducing sector policies to promote responsible conduct in businesses and access to markets 2. Improving human resource development; reorienting the education system 3. Improving clarity and stability in macroeconomic policies 4. Developing partnerships between public and private sectors 5. Improving and harmonizing policies and regulations related to agro-industries 6. Allowing more investments in infrastructure 7. Addressing food quality and safety, and standards 8. R&D 9. Promoting small and medium enterprises and supply chains in rural areas, via special economic zones 10. Developing finance and insurance systems for agro-industries 11. Integrating regional trade 12. Strengthening national agrifood chains, in coordination with partners 13. Roles for public and private sector in agribusiness development 14. Regional cooperation, and harmonizing regional regulations and policies <p>Other issues</p> <ol style="list-style-type: none"> 1. Biofuels, climate change and the environment 2. Methodologies for enabling environment assessments 3. Incentives to the formation of productive alliances 4. Importance of farmer organization for market access 5. Introducing policies to promote clarity and stability in the economy and responsible conduct in business

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Asia	<p>Infrastructure</p> <p>Institutions</p> <p>Supply chain management</p> <p>Equity</p>	<ol style="list-style-type: none"> Limited market infrastructure, weak institutions Poor supply chain management Lack of sector-promoting tax structure, post-harvest management, infrastructure, organized value chains and innovative marketing methods Poorly developed production and markets Economic instability Government improving the enabling environment through institutional changes and encouraging more private sector involvement and investment Decentralization policy frameworks creating confusion in enforcement of food safety/animal health legislation, taxation policies, certifications, etc. Creating distortions in investment incentives and differential development. Problematic for all sectors, especially agriculture 	<ol style="list-style-type: none"> Improving logistics and supply chain management Developing agro-industrial infrastructure; promoting investments in physical, social, and market infrastructure; shifting public investment away from subsidies towards funding for R&D, extension and infrastructure for marketing networks Financing of agro-industries and agro-enterprises Addressing food quality and safety issues; harmonizing safety standards and strengthen institutional and legal frameworks governing certification and dispute resolution; simultaneously developing alternative business models that are attractive to all actors and that encourage the informal sector to participate in the formal economy Developing human resource capacity Focusing on smallholders as significant stakeholders in the chain by sharing information and success stories, developing national and sub-national supply chains, using pilot cases of entrepreneurship to identify barriers to business, and encouraging customized competitiveness, as opposed to price-competitiveness, among chain actors <p>Other issues</p> <ol style="list-style-type: none"> Biofuels, climate change and the environment Developing trade Mitigating risks for farmers

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Africa	<p>Governance</p> <p>Infrastructure</p> <p>Institutions</p> <ul style="list-style-type: none"> ▪ Ensuring political and macroeconomic stability ▪ Capacity building for pressure (advocacy) groups ▪ Incentive schemes to attract highly qualified labour ▪ Improving farmers' organizations ▪ Providing one-stop shops for investors ▪ Working towards regional integration of quality standards ▪ Creating tax incentives for start-ups ▪ Establishing land banks (databases) for better access to natural resources ▪ Efficient land markets and tenure systems ▪ Consistent open trade policies ▪ Well-functioning PPPs ▪ Good governance, ▪ Availability of improved technologies 	<ol style="list-style-type: none"> 1. Lack of government reform towards economic liberalization and market access; need for better governance 2. Need for better laws and regulations; slow legal and regulatory framework for implementing legislation; outdated laws; weak law enforcement, monitoring and evaluation: excess of regulations in some countries creating bottlenecks for businesses growth 3. Poor supplies of raw material of acceptable quality and quantity for processors 4. Poor infrastructure, especially roads and power 5. Limited access to appropriate technology; lack of skills 6. Adverse and unstable macroeconomies 7. Hostile business environment 8. Lack of access to finance 9. Insufficient capacity for human resource development 10. Need for stable foreign exchange rate policies, and competition policies 11. Multiplicity of taxes; corruption 	<ol style="list-style-type: none"> 1. Fostering enabling environments, particularly governance, regulations, policies, business development services, tariffs and taxes, tax management, and trade policies that support private sector initiatives; promoting public-private cooperation 2. Financing of agribusinesses and agro-industries – making domestic and external funding accessible to small and medium enterprises; access to credit; investment; FDI matching grants to offset agro-industrial risks; support 3. Developing rural agro-industrial infrastructure (logistics, energy), aligned with the needs of supply chains 4. Addressing food quality and safety issues, compliance with standards 5. Building capacity on technical and managerial skills; encouraging technology transfers to tap into experiences of other emerging countries and enhance post-harvest technologies that prevent losses; designing R&D programmes in line with needs of small and medium enterprises 6. Ensuring supply of inputs such as fertilizers and irrigation for increased production <p>Other issues</p> <ol style="list-style-type: none"> 1. Biofuels, climate change and the environment 2. Land tenure reform 3. Developing trade; protecting national products against imports 4. Halting the decline in human resources, particular resulting from HIV <p>Policy action areas</p> <ol style="list-style-type: none"> 1. Improving storage facilities and logistics, including cold chains 2. Improving contract enforcement 3. Streamlining land access procedures and increasing transparency 4. Establishing protection policies for start-up industries 5. Licensing, quality standards, institutions, raw material supply management

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Ukraine	<p>Macroeconomic stability</p> <p>Stable economic policy</p> <p>Tax system</p> <p>Risk management</p>	<ul style="list-style-type: none"> ▪ Lack of appropriate risk management; need for risk reduction ▪ Risks creating inefficiencies in markets; importance of effective risk management tools in improving the efficiency of farming ▪ Government supporting and participating in agricultural risk management; need for government promotion of private involvement in risk management ▪ Need for investments and PPPs 	<ul style="list-style-type: none"> ▪ Improving risk management strategies; promoting and establishing a public/private sector-led risk management system ▪ Subsidies for crop insurance ▪ Public sector initiates in agricultural risk management services ▪ Creating a favourable regulatory environment ▪ Developing information sources ▪ Developing effective financial systems ▪ Educating stakeholders
Hungary	<p>Macroeconomic stability</p> <p>Stable economic policy</p> <p>Tax system</p> <p>Food safety, quality and standardization</p>	<ul style="list-style-type: none"> ▪ Need for compliance with and standardization of food quality and safety standards ▪ Need for production of sufficient quality and quantity to enable market access ▪ Need for adaptation to the EU market 	<ul style="list-style-type: none"> ▪ Improving compliance with quality standards ▪ Monitoring national food policy after EU accession ▪ Advocating for national sectoral stakeholders' interests at the EU level ▪ Improving policies, institutions and support services
Croatia	<p>Macroeconomic stability</p> <p>Stable economic policy</p>	<ul style="list-style-type: none"> ▪ Need for education and extension services ▪ Need for improved managerial skills ▪ Inefficiencies in the education system: low proportion of students, low percentage of students completing higher education, national education system making insufficient contribution to entrepreneurial environment 	<ul style="list-style-type: none"> ▪ Reforming higher education ▪ Developing knowledge and management expertise ▪ Institutional support for agribusiness ▪ Completing the privatization process and activities related to EU integration, to open new market possibilities ▪ Enhancing education and knowledge, including through private investments in intellectual capital

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Armenia	<p>Macroeconomic stability</p> <p>Stable economic policy</p>	<ul style="list-style-type: none"> ▪ Need for adoption of internationally recognized food quality and safety standards ▪ Need for strengthening of institutions to enforce food safety regulations ▪ Registration, legislation, licences ▪ Long-term contracts with smallholder farms ▪ Licences granted by simple or complex procedures ▪ Small and medium enterprises a development priority for the government ▪ Investment policy as an important means of economic development ▪ Main principles of investment policy: application of liberal principles, maintenance of an attractive investment climate, stable legislation, regulation of investments, establishing a modern insurance system to protect investors from potential risk 	<ul style="list-style-type: none"> ▪ Strengthening institutions to enforce food safety regulations ▪ Legislative and institutional reforms to harmonize existing legislation and standards to WTO and EU standards
Serbia	<p>Macroeconomic stability</p> <p>Stable economic policy</p> <p>Tax system</p>	<ul style="list-style-type: none"> ▪ Investments as a tool for restructuring the vertical food chains to fulfil regulatory and market operational requirements and standards for EU accession ▪ Need for more government support, and government budget ▪ Lack of efficient rural and small and medium enterprise financing ▪ Weak regulatory institutions ▪ Need for broadening the range of financial institutions 	<ul style="list-style-type: none"> ▪ Creating, proposing, adopting and implementing new investment policy ▪ Improving effectiveness to facilitate investments ▪ Proposing measures to stimulate investment ▪ Developing responsible public government ▪ Establishing laws to improve corporate governance ▪ Developing human resources ▪ Policies to improve the ways in which business is conducted ▪ Reforming the exchange rate policy ▪ Improving the taxation policy ▪ Creating policies for improving competitiveness

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Argentina	Governance Institutions Equity	<ul style="list-style-type: none"> ▪ Successful regional trade links instrumental in attracting FDI ▪ Creation of sector-specific enabling environments ▪ Introduction of institutional and fiscal reforms to remove structural boundaries ▪ Non-discrimination policy and investment protection policy ▪ Investment promotion, such as antitrust and trade policy ▪ Successful in the wine sector and milk industry 	<ul style="list-style-type: none"> ▪ Encouraging integration of national agro-industrial policies ▪ Enhancing the development of regional trade
Chile	Governance Institutions Equity	<ul style="list-style-type: none"> ▪ Successful exports, and export promotion tools and institutions ▪ Creation of sector-specific enabling environments ▪ Policies, institutions and support services ▪ Trade regime, open market strategy, trade agreements ▪ Development of expertise ▪ Political stability, a strong economy ▪ Stable regulations for private property protection ▪ Openness to foreign investment ▪ Commitments to international trade ▪ Good infrastructure and sound policies that promote competition helping to create a favourable environment for investment 	<ul style="list-style-type: none"> ▪ Improving human resource development ▪ Strengthening ties between farmers and agribusinesses, ▪ Improving industrial R&D ▪ Simplifying procedures for starting a business
Costa Rica	Governance Institutions Equity	<ul style="list-style-type: none"> ▪ National economic growth encouraged ▪ Agribusiness sector not a priority in public policies ▪ Micro-, small and medium enterprises accounting for more than half of companies in the sector ▪ Some foreign investment in industry 	<ul style="list-style-type: none"> ▪ Emphasizing agribusiness promotion
El Salvador	Governance Institutions Equity	<ul style="list-style-type: none"> ▪ Highly dependent on coffee production: economy hit by low international coffee prices ▪ State export promotion increasing competitiveness ▪ Training, education 	<ul style="list-style-type: none"> ▪ Increasing heterogeneity of production beyond coffee

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Peru	Governance Institutions Equity	<ul style="list-style-type: none"> ▪ Macroeconomic and fiscal sustainability and stability ▪ Open economy competing in global markets ▪ Well-designed policies and rules for investment, trade, labour issues, taxes, fees and exchange rates ▪ Increased demand for support services for production, trade and infrastructure ▪ Policies to promote the development of agriculture, agribusiness and rural trade ▪ Quality management ▪ Traceability and education ▪ Rural agro-industry very important for thousands of families 	<ul style="list-style-type: none"> ▪ Improving planning, monitoring and evaluation of sectors ▪ Eliminating the black market
Thailand	Governance Stability	<ul style="list-style-type: none"> ▪ Agro-industry a top priority sector ▪ Tax incentives and import duty exemptions for machinery and raw material ▪ Investments boosted by creation of an enabling environment for agriculture ▪ Risk of domestic price support through public purchases above market prices interfering with real market prices ▪ Risk of inadequate market information and feasibility studies prior to government's investment promotion policy encouraging oversupply and reducing prices for some processed products 	<ul style="list-style-type: none"> ▪ Improving the targeting of enabling environment policies
India	Governance Stability	<ul style="list-style-type: none"> ▪ Underdevelopment of food processing because of consumers' perception of processed food as not fresh ▪ Lack of post-harvest management/ infrastructure ▪ Fragmented value chains ▪ Traditional marketing channels for food distribution and retailing ▪ Fiscal disincentives: high taxation on processed foods ▪ Government's liberalized policy regime, with incentives for high-priority food processing sector, providing an enabling environment for investments and exports 	

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Indonesia	<ul style="list-style-type: none"> Governance Political stability 	<ul style="list-style-type: none"> Average land ownership of 0.2–1.25 ha: most farmers small farmer category Problems with access to credit from formal financial institutions Revision of tax regulations that do not support the investment climate Simplified processes for licensing and registering businesses Support to small business development Development of a small business information system 	<ul style="list-style-type: none"> Enhancing market-oriented production structures; consolidating the production structure
Nepal	<ul style="list-style-type: none"> Political stability and improved governance Coordination among agencies and stakeholders Reform of labour policies Investments in infrastructure 	<ul style="list-style-type: none"> Potential for agriculture to contribute significantly to economic growth of the country Instable political environment, small landholdings Limited access to technology and credit Inadequate investments in infrastructure; underdeveloped markets Niche markets for many commodities, need for streamlined production and marketing Promising “one village, one product” 	<ul style="list-style-type: none"> Taking advantage of location in proximity to the growing economies of India and China Formulating policies and practices to overcome instable political environment, small landholdings, limited access to technology and credit, inadequate investments in infrastructure, underdeveloped markets Important role for civil society organizations Developing sustainable organic farming and ecotourism Providing credit, extension, technical, business development services for farmers
Philippines	<ul style="list-style-type: none"> Political stability Governance 	<ul style="list-style-type: none"> Macroeconomic instability Inconsistent/weak-implementation of policies and regulations Poor-quality infrastructure Weak governance and corruption restricting agricultural growth and affecting investments from the private sector Small farm size, limited availability of and access to credit and improved technology, low investment levels, and poorly developed markets limiting the enabling environment 	<ul style="list-style-type: none"> Providing a sound investment environment through initiatives in policy, the regulatory framework, market access and governance; phased into short-, medium- and long-term plans Strategy for enhancing sub-sector performance viewing the sector overall as a chain from production to consumption, with a well-planned roadmap

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Ghana	Stable environment Government policies Strategy	<ul style="list-style-type: none"> ▪ Government reforms in liberalized economic setting leading to economic liberalization and market access; export-led development strategy and consistent, comprehensive and increasingly competitive open trade policy favouring the emergence of non-traditional agricultural exports ▪ Macroeconomic stability and growing confidence in the business environment increasing international competitiveness and encouraging domestic investments and FDI: resilient growth of agro-industry and increasing investments to export free zones ▪ Restored incentives for agricultural exports and allied businesses: foreign exchange policy regime, import and export tax regime, growing stability in price and wage movements (monetary and fiscal management) ▪ Well-functioning financing system available to rural communities; expanded operations in microcredit programmes and rural community banking ▪ High importance of advocacy for enabling environment reforms ▪ Dominance of subsistence production, and rudimentary agricultural production ▪ Very low value addition: domestic agri-market dominated by trade in raw produce ▪ Low technology base for main activities; predominance of small and medium industries for export market with very few large industries ▪ No formal organizational structure for domestic food marketing and distribution; predominance of women workers and small-scale agribusinesses; little integration across markets; need for enhanced infrastructure – roads, energy, communication and market support – to link rural production centres to supply chain intermediaries, managing cost and market response strategies 	<ul style="list-style-type: none"> ▪ Need for tenure systems that strengthen and complement customary land tenure arrangements ▪ Aligning with global trade and mapping the potential for new and larger markets for trade and finance ▪ Policy measures focused on nurturing the country's competitive advantage in agriculture and allied businesses for mutually beneficial trade ▪ Macroeconomic and international trade policies that ensure stability and increase incentives for private sector participation in agricultural value chains ▪ An economic basis that allows the translation of price and non-price factors into improved farm incomes ▪ Growing long-term strategic importance for agribusiness and agro-industry development ▪ Developing formal arrangements for coordinating the development initiatives and policy agendas of government ministries, departments and agencies with those of non-State actors ▪ Consistent focus on export-led development strategies based on enhanced international competitiveness ▪ Deepening of rural and agricultural finance by supporting financial institutions in be more innovative in managing risk; ▪ Developing rural infrastructure in a more structured way, to develop stronger links between agriculture and industry

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
Mozambique	<p>Political stability and good governance</p> <p>Financial services</p> <p>Investment in research, irrigation and other infrastructure</p> <p>Skilled labour</p> <p>Land tenure</p>	<ul style="list-style-type: none"> ▪ Need for good governance at the corporate and public sector levels ▪ Need to comply with regional and international trade agreements for market access ▪ Some positive experiences with support programmes for small and medium enterprises 	<ul style="list-style-type: none"> ▪ Stakeholders addressing governance issues in the corporate and private sectors ▪ Policy reform to improve the enabling environment ▪ Developing irrigation infrastructure and improving SPS equipment ▪ Large investments in R&D, irrigation and other infrastructure
Kenya	<p>Export promotion policies</p> <p>Infrastructure facilities</p> <p>Large markets</p> <p>Stable political environment</p> <p>Avoidance of market intervention</p> <p>Human resources</p> <p>Reliable markets</p>	<ul style="list-style-type: none"> ▪ Large proportion of micro-, small and medium-sized farms: low productivity because of limited economies of scale ▪ Inadequate and seasonal raw material supplies ▪ Low levels of technology ▪ High production and raw material costs ▪ Poor distribution and marketing ▪ High cost of credit ▪ Prevalence of corruption ▪ High company taxes; multiplicity of taxes <p>Elements recently introduced</p> <ul style="list-style-type: none"> ▪ Trade policies, including export promotion, incentive schemes for FDI, and concessionary import duties on machinery, raw materials and intermediate inputs ▪ Structural adjustment policies: trade liberalization, price controls, privatization ▪ National export strategy to stimulate exports ▪ Regional economic integration policy and its legal and regulatory framework, including improved customs procedures, food safety and standards, labelling and certification ▪ Economic, financial and regulatory policies supporting micro- and small enterprises ▪ Development of infrastructure, providing and improving water, electric power, sewerage and sanitation, telecommunication facilities and roads ▪ Refocus of research activities towards industry needs, as opposed to pure academic research programmes 	<ul style="list-style-type: none"> ▪ Speedier implementation of accountability policies ▪ Greater focus on maintaining and monitoring a reliable energy supply, especially electricity, and other infrastructure ▪ Greater government commitment to crime prevention

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
The Gambia	<p>R&D</p> <p>Investment climate</p> <p>Finance and infrastructure: availability of long-term finance for productive development and improved infrastructure</p>	<ul style="list-style-type: none"> ▪ Social and political stability and a laissez-faire tradition ▪ Legal reforms establishing free zones, changing the competition policy, income and sales taxes and the legal framework for telecommunications ▪ Improved basic infrastructure: investments in roads, telecommunications, electricity and water; infrastructure and financing still critical bottlenecks for increased investments; poor overall infrastructure ▪ Lack of electricity, a developed financial sector, long-term loans for agriculture and financial capacity; high interest and default rates; small and medium enterprises served by non-financial institutions with little financial capacity ▪ Low R&D, food safety and quality levels 	<ul style="list-style-type: none"> ▪ Establishing appropriate agricultural investment financing facilities to ensure a policy mix of import substitution for food security and export promotion ▪ Improving rural infrastructure and rural access to finance
United Republic of Tanzania	<ul style="list-style-type: none"> ▪ Macroeconomic and political stability, consistent open trade policies, policy reforms for investment promotion, liberal exchange rate policies, and competition policy ▪ Public governance, corporate governance laws and regulations ▪ Human resource development and availability ▪ Capacity building and producer empowerment, introduction of contract farming, improved access to credit, building PPPs, enhanced dialogue among stakeholders, sustainability, good governance (e.g. strict accounting, monitoring and quality control), enhanced competition, and improved technology ▪ Increased agricultural productivity, employment opportunities, improved market efficiency and competitiveness, market linkages, and strengthened regulatory systems (quality and standards) 	<ul style="list-style-type: none"> ▪ Need to establish financial services, including saving and credit unions ▪ PPS ▪ Technology upgrading and competition ▪ Despite socio-economic importance and high growth rates of some sub-sectors, sector performing below potential ▪ Little protection for domestic producers: extension services allocated to local governments and not functioning properly ▪ General policy initiatives project-based and not long-term ▪ Shortage of agricultural development programmes, lack of funding for them and failure to focus on commercialization and diversification 	<ul style="list-style-type: none"> ▪ Determining means of informing the industry, sector and public of findings ▪ Sustaining innovative success factors ▪ Tapping, sustaining and retaining spill-over benefits ▪ Enhancing industry growth ▪ Enhancing new policy and institutional innovations: reducing public financial contribution to the agrifood sector, increasing pressure from external markets and forces, and increasing shift towards more knowledge-intensive and information-based industries ▪ Building partnerships and making them more effective ▪ Developing networks, as powerful tools and mechanisms for improved dialogue and synergies through linking competitors and collaborators, sharing financial and physical resources and linking human capacity across sectors and organizations

(continued)

	Main influencing/success factors for enabling environments, in general	Present state, challenges and success factors	Priority action areas
United Republic of Tanzania	<ul style="list-style-type: none"> ▪ Rural and agricultural financial services ▪ Efficient land markets and tenure systems 		<ul style="list-style-type: none"> ▪ Public and private sector players adopting milder attitudes: e.g., the public sector's frequent perception of private companies as profit maximizers, and the private sector's criticism of bureaucracy and inefficiency in the public sector. Need for the industry and public institutions to work together
Overall	<p>Governance</p> <p>Institutions</p> <p>Equity</p>	<ul style="list-style-type: none"> ▪ Need for education, R&D, improved infrastructure logistics, better policies for enabling environments 	<ol style="list-style-type: none"> 1. Transferring R&D and technology among emerging and developing economies, and developing human resource capacity through formal education, technical training and targeted extension 2. Facilitating access to finance, and investing more in agro-industrial infrastructure 3. Adopting and implementing internationally recognized food safety and quality standards 4. Designing policies and strategies to meet small enterprises' needs 5. Creating legal and regulatory frameworks 6. Decentralizing decision-making: importance of all stakeholders buy-in and of PPPs 7. Chain coordination mechanisms

Source: Authors' evaluation based on workshop reports. FAO, 2007a; 2007c; 2008; Manalili, 2007; Punjabi, 2007.

Enabling environments for agribusiness and agro-industries development

*Regional and country
perspectives*

The existence of a conducive business climate, or enabling environment, is considered essential to engender economic growth and development. However, what “an enabling environment” should encompass in practical terms remains elusive to many scholars and policy makers, particularly when discussed at the sub-sector level. This publication by FAO’s Rural Infrastructure and Agro-Industries Division (AGS) examines issues associated with enabling environments with a focus on agribusiness and agro-industrial sectors, which have not had their peculiar characteristics sufficiently examined in traditional appraisals of business climates. Based on a series of workshops and consultations organized by AGS in Africa, Asia, Eastern Europe and Latin America, the report reviews existing frameworks for general enabling environment assessments and discusses their relevance to agribusiness and agro-industries. It also discusses the challenges of enabling environment reforms and identifies a number of essential, important and useful enablers that are particularly relevant to agrifood business climate appraisals and upgrading.

Rural Infrastructure and Agro-Industries Division (AGS)
Food and Agriculture Organization of the United Nations (FAO)

Viale delle Terme di Caracalla, 00153 Rome, Italy
www.fao.org/ag/ags | AG-Registry@fao.org | fax: +39 06 57053057

ISBN 978-92-5-107410-7 ISSN 2304-5191



9 7 8 9 2 5 1 0 7 4 1 0 7

I3121E/1/11.12