

Brief Guidelines for Assessing the state of Enabling Environments for Agribusiness Development

Background and approach

Enabling environment is the expression that encompasses government policies that focus on creating and maintaining an overall macroeconomic environment that brings together suppliers and consumers in an inter-firm co-operation manner (UNCTAD, 1998a. TD/B/COM.2/33). The enabling environments framework focuses on government actions, such as fair trade policies, removal of technical, legal and administrative barriers to economic development, sound economic policy, regulatory frameworks and transparency, all of which create an environment conducive to private and public sector development.

Providing an enabling environment for enterprises to be started and thrive is an essential pre-requisite for economic development. Indeed, the growing amount of evidence on cross country, comparative assessments of the enabling environment for business enterprise development reveals that through a set of proper policies, institutions and services, some countries have been very successful in promoting investments, attracting capital and engendering economic growth. While the essential elements that constitute an enabling environment are cross-cutting, non sector specific, there are particularities in certain economic sectors that make it desirable to differentiate their nature and extent through an inter-country appraisal. Agribusiness and agro-industrial sectors, in particular, have not had their peculiar characteristics sufficiently examined in traditional assessments of enabling environments.

In the context of agribusiness development enabling environment constitutes of sets of policies, institutions and support services that are needed for efficient and sustainable agribusiness and agro-industrial development in the countries in order to increase investments and improve competitive performance in specific agribusiness and agro-industry sub-sectors.

During 2006-07 Rural Infrastructure and Agro-industries Division of the Food and Agriculture Organization of the United Nations conducted a cross-country assessment of key factors that constitute enabling environments for agribusiness and agro-industry development. The appraisal consisted of over 20 country and cross-country studies from Latin America, Asia, Africa and Eastern Europe and Central Asia, which were presented and discussed at four regional multi-stakeholder workshops¹

In the course of preparations for the forthcoming consultation on “Enabling environment for producer-agribusinesses linkages in EECA”, FAO Regional Office for Europe and Central Asia has initiated the work on specific indicators of the state of enabling environment for agribusiness and agro-industry development in EECA. The purpose of this work is to provide insight into the priority areas of FAO support to agribusiness and agro-industry development as well as to help policy and decision makers to identify priorities for policy interventions needed to create supportive framework for national rural enterprise and agribusiness development. The findings and the approach to assessment of the enabling environment will be presented and discussed at the consultation. As a part of the validation process we are inviting national experts and policy makers to provide assessment of individual elements that constitute enabling environment for

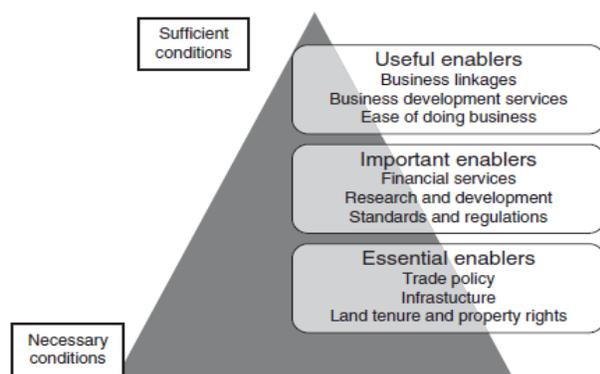
¹ Proceedings of two regional workshops on Enabling environments for agribusiness and agro-industry development in Africa and Eastern Europe and Central Asia (EECA) are available at http://www.fao.org/fileadmin/user_upload/ags/publications/EEA_light.pdf and http://www.fao.org/fileadmin/user_upload/ags/publications/EEE_light.pdf

agribusiness and agro-industry development in their countries. Their inputs will be consolidated and discussed at the consultation.

Assessment framework

Proposed assessment framework is based on Christy's² hierarchy of enabling needs that a government can consider in addressing its role in advancing economic progress. The nine enablers were derived from proceedings of two FAO regional workshops (Eastern Europe and Latin America) on 'Comparative Appraisals of Enabling Environments'. The proposed hierarchy divides state actions into three levels of activities that characterize and assess enabling environments for agro-industrial enterprises.

At the base of our pyramid, the state must provide essential enablers that will make possible the function of



markets and enterprises. In this category we place items such as rule of law (e.g. contract enforcement, property rights), provision of infrastructure and a conducive trade policy. So-called important enablers are second-order activities that the state can and often does provide, such as finance, transportation and information. Finally, we define useful enablers as sufficient but not necessary conditions to include grades and standards, linking small farmers to formal markets and business development services.

The new, sector and region specific, proposed approach is devised around the main challenges for agribusiness and agro-industry development in EECA, under three sections namely: Basic conditions, Secondary Needs, and Desired Goals. The names of the sections refer to their importance in the development of an Enabling Environment. At the top of the pyramid are the most advanced conditions (Desired Goals) that refer to a high level of development.

At the base of the pyramid, the **Basic Conditions** make possible the basic function of markets and enterprises:

1. Economic, political, regulatory environment towards competitive open markets
2. Access to Financing, Investments, Infrastructure, Public Private Partnerships

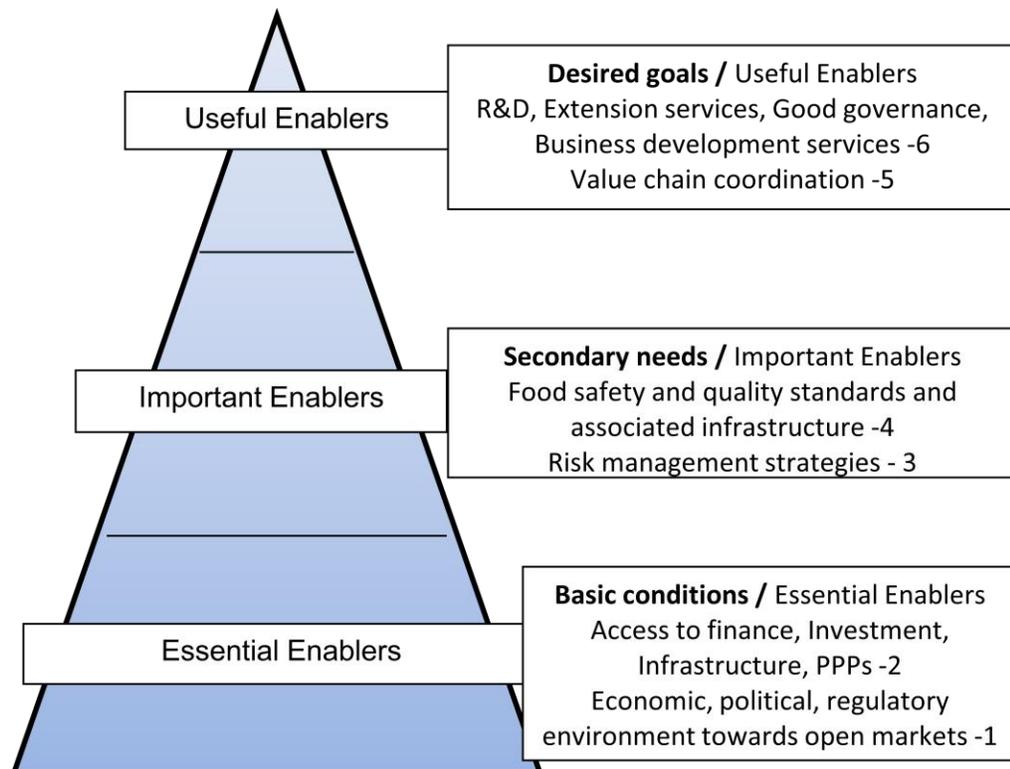
At the second level of the pyramid, the **Secondary Needs**, are the enablers that are necessary to further improve the shift toward a modern economy, and enables market players to reach higher performance, productivity, efficiency, specialization, than just a basic functioning. States can and often play an important role at this level.

On the top level of the pyramid, the **Desired Goals** are necessary conditions for the long term stable, competitive and diversified agribusiness and agro-industry sector development, these are:

3. Value chain coordination, including initiatives that are pro-small scale producers (involve their inclusion, internationalization and involvement in international businesses)

² Christy et al.: Enabling Environments for Competitive Agro-industries, Agro-industries for Development, <http://www.fao.org/docrep/013/i0157e/i0157e00.pdf>

4. Research and Development, extension services, good governance, accountability, (sector sustainability)



Applied approach

To transform the theoretical approach described above into an actionable tool, the assessor should assign scores for the main issues of the three level of the pyramid. The scores of 1 to 5 for each enabler on each level of the pyramid are determined based on the proposed description of the rank which to the largest extent reflects the actual situation. In case that there is no clear reference to only one description, the score is given as a decimal number with the fraction of +0.3 to the most appropriate neighboring description. An illustrative example of the scoring and proposed descriptions are given in the table on the following page. For the purpose of presentation and discussion at the consultation, please give your assessment in the following table and send it to Stjepan Tanic, Agribusiness and Enterprise Development Officer, FAO Regional Office for Europe and Central Asia, email: stjepan.tanic@fao.org

Enabler	Score
1. Economic, political, regulatory environment towards competitive open markets	
2. Finance, Investments (foreign and domestic), Infrastructure and Public Private Partnerships (PPP)	
3. Risk management strategies	
4. Food safety and quality standards, food security, trade promotion services	
5. Value chain coordination, including pro-small scale producers	
6. Research and development, extension services, good governance	

Assessment of the state of enabling environment for agribusiness development in <Country>

Enabler	Score 1 - 5
1. Economic, political, regulatory environment towards competitive open markets	3
1. Economy centrally-governed, direct state-controlled of prices and markets. Large scale state owned farms and processing industry dominate.	
2. Quasi-free elections, ventures start functioning with limited state control, deregulation with indicative prices, and price control, significant foreign net trade balance trade.	
3. Start of negotiations with international organizations to gain membership (WTO), mainly liberalized markets constrained by the absence of competition and some remaining controls over trade policy. Advanced state of land privatization but large scale farms are restructuring.	
4. All command- economic type interventions are removed. Market and trade policies are close to WTO, domestic market not fully developed to meet international market competition.	
5. Stable, free, competitive market, fair trade, membership in international organizations (WTO), modest protection. Legislative and institutional reforms are harmonized with existing legislation and upholding WTO and EU standards. Long-term contracts with small rural producers. Governments prioritize SMEs development. Most land is privatized and there is a fully functioning land market.	
2. Finance, Investments (foreign and domestic), Infrastructure and Public Private Partnerships	3
1. State as the sole financing channel, investments are state-controlled, Infrastructure development is without involvement of private sector, Inadequate support mechanism for farmers and agribusinesses.	
2. Domestic investment is starting to open to private sector, new banking regulations, mapping for infrastructural needs, lack of efficient rural and SME financing. Inadequate market infrastructure in general and information technology infrastructure in particular were considered to be major constraints to market access, as well as to knowledge and information exchange at all stakeholder levels.	
3. Commercial banking starting to play an important role, foreign investors able to come, serious infrastructural investments.	
4. Commercial banking starting to play an important role in agriculture, infrastructural investments also with foreign direct investment.	
5. Opening to investor friendly environment, infrastructure ready to serve businesses, financial system provide various option for agribusinesses. Investment policy is one of the most important means of economic development. Application of liberal principles, maintenance an attractive investment climate, stable legislation, regulating investments. Clear roles for public and private sector in agribusiness development in facilitation and in leadership.	
3. Risk management strategies	3
1. State determines, does not respond in a sustainable way to current risks.	
2. Risks creates inefficiencies in markets and the use of effective risk management tools and strategies are important for improving the efficiency of the farming.	
3. There is a need to improve quality control and traceability to comply with international standards, risk analysis (risk assessment, risk management and risk communication).	
4. There is a need for the government to promote private involvement in risk management.	
5. The government supports and participates in agricultural risk management, and establish a modern insurance system to protect investors from potential risk. Well developed contract farming.	

Enabler	Score 1 - 5
4. Food safety and quality standards, food security, trade promotion services	3.7
1. Standard still based on former soviet standards and defined by the state.	
2. Need for compliance with food quality, safety standardization.	
3. Need for adoption of internationally recognized food quality and safety standards.	
4. Need for strengthening of institutions to enforce food safety regulations.	
5. Promotion safety and quality standards and product branding for new and traditional, ethnic food.	
5. Value chain coordination, including pro-small scale producers	3
1. The supply chain is coordinated by the state. Foreign ownership is non-existent; all entities are owned by the state.	
2. There are problems in trade, shortages in the markets.	
3. Strengthening cross-agribusiness supply chain association's coordination is necessary	
4. Investments serve as a tool of restructuring the vertical food chains in order to fulfil the strict regulatory and market operational requirements and standards for the accession to the EU. Lack of capacity of agribusiness to make use of manufacturer brands for their traditional, national foods.	
5. Competition law and professional organization try to address differences in bargaining powers. Retail concentration and consolidation is the most advanced, where there is a high level of foreign ownership, and it is internationally competitive. Consolidation and harmonization processing, and foreign ownership is about 50 percent, and the production concentration and bargaining power is lagging behind.	
6. Research and development, extension services, good governance	2.7
1. State-controlled, does not respond to current market needs, Inefficiencies in the education system: low share of students, low percentage of students that succeed in completing higher education, insufficient contribution from the education system to an entrepreneurial environment.	
2. Lack of free market economy traditions; lack of business skills in management, production, processing, marketing, risk assessment, quality assurance, planning, and new technology development, innovation. Lack of resources has been found to be one of the greatest obstacles of the support services in many countries. The major impediment is the presence of old farms which are not willing to accept new knowledge and the use of extension services.	
3. Need to improve managerial skills. All the extension services network existent in the country is owned and managed by the government and focused on giving support only to the primary sector (producers).	
4. Lack of coordination between government agencies and other extension services providers.	
5. Agricultural and agribusiness academics and universities to transform themselves into a type of network of agricultural extension and development services.	