Enabling environment for integration of small farms into agri-food chains in Eastern Europe and Central Asia
Outline

• Context
• Agribusiness development in EECA
• S&M processors as drivers of integration
• Some important policy and institutional constraints affecting farmers and agribusiness
• Agri-food chain environment and competitiveness
• How do enabling environments enhance agri-food chain development?
• Enabling environments, competitiveness and assessment frameworks
• Factors affecting the state of enabling environments for agribusiness in EECA
• Focus on priorities
Changing consumer requirements and purchasing habits

• Growing demand for exotics, organic products, off-season fruits and vegetables
• Increased percentage of food expenditures on away-from-home food
• Rise in importance in home consumption of ready to eat, frozen and convenience foods
• Increased concern with health and food safety; rising demand for high quality and safe foods
Changing patterns in agricultural trade

• Phasing out of special programmes and non-tariff measures designed to protect trade
• Price squeeze on producers of bulk or anonymous quality commodities
• Widening spreads around prices; increasing distinctions (price and rules of game) between bulk and speciality markets
• Product differentiation, particularly through branding, has become key competitiveness factor
Agri-food sector restructuring in EECA

• Significant changes occurred in the agrifood chains and related market relations throughout EECA during the last two decades

• Different transition patterns and political, demographic, climatic and geographical conditions

• Farmers are faced with the pressures from the downstream sector and are increasingly integrated in the food supply chains

• Agro-industries are challenged by global competition and the need to comply with the European Union and the World Trade Organization regulations, in order to access broader and more diversified markets
Restructuring of agro-industry in EECA

Number of enterprises

Number of employees

European CIS
Central Eastern Europe
South Eastern Europe
Central Asia
Caucasus
Share of value added in agro-industry output

- Caucasus
- Central Asia
- South Eastern Europe
- Central Eastern Europe
- European CIS
Output and value added per employee

Output

Value added per employee

Output and value added per employee
S&M processors as drivers of integration

• Increase of the market power of modern retail chains
  – Development is in favor of large processors

• Increasing competition by imports
  - low price segment
  - luxury products
  - > Cost leadership is no option;
  – > Differentiation strategies in niches

• Customer orientation
  - in almost all countries S&M processors are not customer orientated
  - > Customer orientation was ‘imported’ via their business relations
S&M processors as drivers of integration

• Production of uniform, standardized quality reflecting in their raw inputs
  - large corporate farmers prefer to deal with large producers
  - small farmers and households sometimes opportunistic
  - > SME processors face stiff challenges on the supply side

• Collaborative linkages with their SME suppliers
  - initiated by the processors
  - long term and trustful relationships
  - > Creation of cooperation with their suppliers
S&M processors as drivers of integration

• Close relationships are of advantage for both sides
  - Processors: security regarding the quality and the volume of their raw input supply
  - Small farmers and households: reliable and secure opportunity to sell their products (more important than fair prices)

• Obstacles to start vertical coordination
  - social capital is low and trust is missing
  - law enforcement problematic
  - > Provision of some kind of collateral in order to convince the small holders of the reliability of the intention

• Means to overcome the obstacles
  - provision of training opportunities and extension services
  - financing inputs and helping farmers in financially difficult situations
  - establishment of informal groups
  - > Business relationships can turn into trustful ones as long as both sides fulfil their duties over a longer period
Constraints and challenges for SMEs participation in AFC

‘any chain is successful, if a chain is pulled from the front instead of pushing it from the behind’

• Lack of reliable information about markets and finance for doing business activity;
• Small volumes of production and non-harmonized technologies for formation of wholesale lots of products;
• Inability of small producers to satisfy requirements for quality, delivery terms and volumes;
• Increase of transaction costs;
• Low level of economic efficiency of cooperation with SMEs in value chain;
• Need for extra capital investments;
Constraints affecting producers

- Limited market information on prices and alternative buyers
- Lack of access to financial services; high cost of financial services
- Insufficient farm business support services
- Limited availability of inputs; high cost of inputs
- Inadequate access to production and post-harvest technology
Constraints affecting agribusiness

- Insufficient market information
- Lack of public institutions and infrastructure for monitoring compliance with standards
- Lack of access to finance; high cost of finance
- Lack of transportation and communication infrastructure
- Inconsistent and not transparent business regulations – business, customs, trade, labour
- Contract enforcement procedures and costs
- Tax rates and administration
Critical gaps

• Policy makers still in many cases have insufficient understanding and appreciation of the impacts of global market trends and crises to respond effectively

• Agro-enterprise managers and other value chain stakeholders need to be informed of developments on international markets and have the capacity to exploit market opportunities

• In a majority of countries in the region there is still a critical gap in establishing effective linkages between producers and other value chain actors
Agri-food chain environment and competitiveness

Natural environment and social sustainability

Macro business environment

Production

Raw materials

Processing

Packing/Distribution

More foods

Nutrients

Safety & Quality

Preservation

Structuring Ingredients

Delivering safe foods

Micro business environment

Commercial competitiveness
Enabling environment

• Encompasses government policies that focus on creating and maintaining an overall macroeconomic environment that brings together suppliers and consumers in an inter-firm cooperation manner

• In the context of agri-food sector development enabling environment constitutes of sets of policies, institutions and support services that are needed for efficient and sustainable improvement of competitive performance in specific agri-food chain
Enabling environments and competitive agro-industries

• The development of competitive agribusinesses and agro-industries has been recognised as crucial for enhancing the demand for farm products

• The need to improve competitiveness of the food value chain has become an imperative for policy makers and agrifood chain stakeholders, particularly farmers and small and medium-sized enterprises
Overview of the business environment as perceived by firms

- Economic policy uncertainty
- Tax rates
- Macroeconomic instability
- Tax administration
- Cost of financing
- Access to financing
- Anti-competitive practices
- Contract violation
- Corruption
- Business licensing and permits
- Fuctioning of the judiciary
- Skills and education of available workers
- Customs and trade regulations
- Electricity
- Transportation
- Telecommunication
- Access to land
- Title or leasing land
- Labour regulations
- Business licensing and permits
- Customs and trade regulations
- Functioning of the judiciary
- Skills and education of available workers
- Corruption
- Contract violation
- Anti-competitive practices
- Access to financing
- Cost of financing
- Tax administration
- Macroeconomic instability
- Tax rates
- Economic policy uncertainty

[Graph showing percentage of firms per obstacle level]
Major challenges for the agri-food chain

• Outdated processing technologies and limited ranges of marketable products
• Gap between market demand for high and diversified products and marketed products
• Remoteness and access to major market partners (Caucasian and Central Asian countries)
• Environmental issues such as disposal of wastes, water treatment and efficient energy use
• Major disruptions in the agri-food chain: long payments delays or non-payment
• Lack of public or private institutions necessary to support market-based transactions: enforcing property rights, providing ad-hoc financial means, and effective and efficient regulation and standards regulatory bodies
Accelerating smallholders market inclusion

1. Identify factors, opportunities and constraints for specific conditions of individual countries & regions

2. Assess (managerial & resources) capability of farmers and other private agents to carry integration through market (price & quality competition), private (long-term or interlinked contracts), or collective (marketing or processing cooperative) modes

3. Evaluate efficiency of specific institutional environment (systems of property rights & enforcement, public regulations & support) to correct (market & private) failures, and specify needs for new public intervention

4. Identify likely cases of public failures (impossibility to undertake economic reforms & support, lack of administrative capability & resources), and formulate needs for international assistance
How do enabling environments enhance agribusiness development?

• Favorable market and business conditions help agribusiness and agro-industry to develop a sustainable way to meet the target market demand.

• Good enabling environments seem to be a key driver in attracting FDI and domestic investments.

• An enabling environment should create opportunities and incentives for firms and entrepreneurs of all types—from farmers and micro enterprises to local manufacturing concerns and multinationals.

• Good enabling environments improve agribusiness competitiveness. Governments and businesses are to determine together the best combination of elements that enable agribusiness to operate and prosper the same time.
Enabling environments, competitiveness and assessment frameworks

• The development of competitive agribusinesses and agro-industries has been recognised as crucial for enhancing the demand for farm products

• The need to improve **competitiveness of the food value chain** has become an imperative for policy makers and agrifood chain stakeholders, particularly farmers and small and medium-sized enterprises
Features of Business Enabling Environments

- Good public governance
- Stable macroeconomic climate
- Enforceable commercial law
- Appropriate financial services
- Protection of property rights
- Adequate infrastructure
Economy Rankings

Economies are ranked on their ease of doing business, from 1–189. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2014.

= Subnational Doing Business ranking data available.

Ranking Methodology
Explanation of how the ease of doing business rankings and the distance to frontier measure are calculated (PDF).

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of Doing Business Rank ▲</th>
<th>Filtered Rank</th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Minority Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Resolving Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>15</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>10</td>
<td>7</td>
<td>3</td>
<td>6</td>
<td>22</td>
</tr>
<tr>
<td>Latvia</td>
<td>23</td>
<td>2</td>
<td>9</td>
<td>4</td>
<td>8</td>
<td>10</td>
<td>6</td>
<td>12</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Lithuania</td>
<td>24</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>10</td>
<td>5</td>
<td>6</td>
<td>19</td>
<td>9</td>
<td>1</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>Macedonia, FYR</td>
<td>30</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>7</td>
<td>19</td>
<td>11</td>
<td>5</td>
<td>1</td>
<td>10</td>
<td>19</td>
<td>3</td>
</tr>
<tr>
<td>Montenegro</td>
<td>36</td>
<td>5</td>
<td>18</td>
<td>14</td>
<td>5</td>
<td>20</td>
<td>1</td>
<td>10</td>
<td>19</td>
<td>5</td>
<td>25</td>
<td>1</td>
</tr>
</tbody>
</table>

SUBNATIONAL = Subnational Doing Business ranking data available.
Simplicity and cost of licensing procedures

A high number of procedures to get a license in the whole region
Business Competitiveness Index

\[ y = 1549.9x^2 + 8603.4x + 11188 \]

\[ R^2 = 0.8064 \]

Current prosperity **above** sustainable level

Current prosperity **below** sustainable level
Competitiveness and investment climate assessment frameworks

1979: World Economic Forum’s Global Competitiveness Report

2001: UNCTAD’s Investment Compass

2004: World Economic Forum’s Global Competitiveness Index

1995: World Bank’s Investment Climate Surveys

2003: World Bank’s Ease of Doing Business

2006: OECD’s Policy Framework for Investments
## Competitiveness assessment frameworks and their limitations

<table>
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<th>Index</th>
<th>Coverage</th>
<th>Objective</th>
<th>Some Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNCTAD Inward FDI Performance Index</td>
<td>141 country</td>
<td>Measure how well economies perform in attracting foreign investment</td>
<td>- Does not inform policy at industry or sectoral level&lt;br&gt;- Neglects domestic investment, hence key components of agro-industries</td>
</tr>
<tr>
<td>UNCTAD Investment compass</td>
<td>55</td>
<td>Benchmarking tool for developing countries to analyze the main economic and policy factors affecting the investment environment</td>
<td>- Not at industry or sectoral level&lt;br&gt;- Fails to capture value chain components</td>
</tr>
<tr>
<td>World Bank, Investment Climate Surveys</td>
<td>50</td>
<td>Generate formal information for formal investment climate assessment</td>
<td>- Small sample sizes limit global comparisons&lt;br&gt;- Places emphasis on foreign investment</td>
</tr>
<tr>
<td>World Bank, Ease of Doing Business</td>
<td>178</td>
<td>Measure and compare how well the business climate facilitates efficiency at 10 stages of business life</td>
<td>- Does not consider macro-economic, policies and institutional arrangements&lt;br&gt;- Considers only formal enterprises&lt;br&gt;- Not sector specific</td>
</tr>
<tr>
<td>World Economic Forum, Business Competitiveness Index</td>
<td>121</td>
<td>Rank countries by their micro-economic competitiveness</td>
<td>- Intensive data requirements limit coverage&lt;br&gt;- Not industry or sector specific</td>
</tr>
<tr>
<td>World Economic Forum, Global Competitiveness Index</td>
<td>131</td>
<td>Provides an overview of critical drivers of productivity and competitiveness</td>
<td>- Does not inform policy at industry or sectoral level&lt;br&gt;- Fails to capture value chain components</td>
</tr>
<tr>
<td>OECD, Policy Framework for Investment</td>
<td></td>
<td>Guides policy reforms in critical areas of a country economic environment to mobilize private investment that supports economic growth.</td>
<td>- Not an assessment tool&lt;br&gt;- Focuses on foreign investment&lt;br&gt;- Not sector specific</td>
</tr>
</tbody>
</table>
Desired goals required for long term successful functioning of agribusiness entities in an advanced and diversified economy.

Secondary needs factors that further improve an economy and enable market players to reach higher performance. States can and often play an important role.

Basic conditions political, regulatory conditions to function and to advance towards competitive open markets.

Useful Enablers

Important Enablers

Essential Enablers

EECA specific elements for assessment of enabling environments for agribusiness development.
Enablers

Essential enablers

– Economic, political, regulatory environment towards competitive open markets
– Finance, Investments (foreign and domestic), Infrastructure and Public Private Partnerships (PPP)

Important enablers

– Risk management strategies
– Food safety and quality standards, food security, trade promotion services

Useful enablers

– Value chain coordination, including pro-small scale producers
– Research and development, extension services, good governance
Economic, political, regulatory environment towards competitive open markets

1. Economy centrally-governed, direct state-controlled of prices and markets. Large scale state owned farms and processing industry dominate.

2. Ventures start functioning with limited state control, deregulation with indicative prices, and price control, significant foreign net trade balance.

3. Start of negotiations with international organizations to gain membership, markets constrained by the absence of competition. Advanced state of land privatization/large scale farms 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 competition.

5. Stable, free, competitive market, fair trade, membership in international organizations. Legislative and institutional reforms completed. Fully functioning land market.
Assessed level of enabling environments for agribusiness development in EECA

- Average
- Economic/political
- Finance/investment
- Risk management
- Food S&Q
- VC coordination
- R&D

Countries included:
- SEE Croatia
- SEE Turkey
- EU CIS Russia
- EU CIS Ukraine
- EU CIS Belarus
- CAU Georgia
- CAU Armenia
- CAU Azerbaijan
- CAU Tajikistan
- CAU Ukraine
- SEE Serbia
- SEE Bosnia & Herzegovina
- SEE Montenegro
- SEE Macedonia
- SEE Albania
- SEE Kazakhstan
- SEE Macedonia
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Comparison of rankings

Agribusiness enabling environment indicator

WB Ease of doing business indicator
Factors affecting the state of enabling environments for agribusiness in EECA

• Access to finance
  – Attract and protect investment
  – Promote investment in and for rural infrastructure
  – Improve investment support services

• Business models that encourage inclusion of smallholders in value chains
  – Strengthen agro-industrial associations, producer and supplier associations
  – Improve coordination of supply, production, processing and transport chains
  – Promote national/local product branding traditional, ethnic food and certification to competitive strategy

• Risk management strategies
  – Technical or financial skills in risk management and risk assessment
  – Increased cooperation and contracts between private agents, producers, processors, and retailers to improve risk management
  – Availability of reliable data at all levels to facilitate risk prediction and information to insurance companies to diminish their risk
Factors affecting the state of enabling environments for agribusiness in EECA

• Food safety and quality standards and management systems
  – Adoption of internationally recognized food quality and safety standards and, in particular, strengthening of institutions to enforce food safety regulations
  – Need for innovation in production technologies and for adapting to new trends such as traceability, conservation dates, and increased health and hygiene standards
  – Where small local producers and large commercial producers operate in the same environment, it is essential that all stakeholders abide to bio-security and disease control measures throughout the supply chain

• Value Chain Coordination
  – Enhance competition among all food retailers by supporting smaller, local retailers
  – Promote the concentration and cooperation among suppliers in order to increase their competitiveness, efficiency, and bargaining power
Factors affecting the state of enabling environments for agribusiness in EECA

• Research, development and technology transfer
  – Involvement of private business, producer organizations, and public organizations
  – If private market research does not exist, governments need to help small retailers obtain market information to study and analyze consumer needs and market specificities
  – Support to local companies to introduce and promote new products to new foreign and local markets and segments

• Public–Private Partnership and cooperation
  – Good governance and accountability measures incorporated into institutional and governance systems to guarantee efficient public expenditure
  – Jointly formulated sector policies, effective resource, fund, and investment management.

• Open market policies that enhance food security and pro-poor approach
  – Integration into international markets can be achieved through open market policies and improved access to information
State of enabling environment, AVA and GDP

- ABEEI
- AVA per worker
- GDP per capita
Enabling environment and competitiveness

- Global Competitiveness Index
- Ag export value index (2005-09)
- Ag export quantity index (2005-09)
Focus on priorities

• Evaluation framework intended to help policy makers and other stakeholders in making better informed decisions.

• Evaluation framework can help policy and decision makers to identify priorities for policy interventions needed to create supportive framework for national rural enterprise and agribusiness development.

• Evaluation framework provides insight into the priority areas of FAO support to agribusiness and agro-industry development
Enabling environment and enablers in EECA countries

- Average
- Economic/political
- Finance/investment

- Risk management
- Food S&Q
- VC coordination
- R&D

Tajikistan, Uzbekistan, Albania, Azerbaijan, Kyrgyzstan, Montenegro, Bosnia & Herzegovina, Belarus, Armenia, Georgia, Macedonia, Moldova, Serbia, Kazakhstan, Ukraine, Russia, Turkey, Croatia.
Priority areas for improvement of enabling environment

- Economic/political
- Finance/investment
- Risk management
- Food S&Q
- VC coordination
- R&D
Implications and challenges

• There is a need for technical support and programmes to reinforce capacity for the effective analysis, design, and implementation and monitoring of the effects of policies related to value chain and agro-industries development.

• Attention is needed to strategies and practical actions reinforcing information access, and institutional capacity for business and enterprise management training.

• Enhancing organizational capacity for coordinating and strengthening linkages among producers, processors and retailers.

• None of the changes can take place without effective dialogue between the public sector, private enterprises, farmer organizations and civil society organizations.
Thank you!