

Public-Private Dialogue for Specific Sectors: Agribusiness



Public-private dialogue (PPD) is a structured engagement mechanism that aims to bring together all relevant stakeholders, in a balanced and inclusive manner, to assess, prioritize, and achieve sustainable results. Sector-specific PPD can provide an integrated response to factors constraining sector growth and improve the pace of sector reform. It can be particularly helpful in improving competitiveness and provide a highly valued platform for collaboration along the supply chain and across governments, businesses, and communities. Sector-specific PPD can also be implemented at a subnational or regional level.

of new agribusinesses and expansion of existing ones by:

- Providing well-trained extension services.
- Having food safety regulations in line with global best practices and standards.
- Financing research oriented toward industry needs.
- Offering facilities to increase access to finance to small and medium enterprises (SMEs).
- Setting up policies that facilitate the adoption of product standards.
- Ensuring a legal environment favorable to input and output markets.

The role of agribusiness in development

The World Bank Group aims to support the private sector in addressing rising global food demand in an environmentally sustainable and socially inclusive way so that agribusiness can significantly contribute in reducing poverty over time. In many developing economies, agriculture and agribusiness¹ are an important source of jobs, incomes, and investments, while contributing to food security. The weight of agriculture often accounts for more than half of the gross domestic product and employs an even larger share of their populations. Agriculture and agribusiness in Sub-Saharan Africa amounted to \$313 billion in 2010, a figure expected to rise to \$1 trillion by 2030.² Long-term demand for food products will be fueled by a worldwide

population expected to reach 9 billion people by 2050, with a substantial increase in animal protein consumption due to rising incomes and higher demand for biofuel products.

Access to markets and meeting requirements

Demand in both developed and emerging countries for higher-value agricultural products is expected to rise in the coming years. Yet serving this new class of consumers with discretionary income for food products requires substantial private investments along the value chains, research and development efforts, good agricultural and post-harvest practices, productivity, traceability, adapted storage and logistical capacities, and managerial and marketing skills. At the same time, the public sector should ensure that the environment enables the development

Securing inputs

Improving access to quality and competitive inputs is key to increasing productivity and meeting market-end requirements. In developing countries, supplying seeds, fertilizers, pesticides, irrigation equipment, and machinery to the agricultural sector is often constrained by outdated and burdensome legal and regulatory issues, as well as monopolies. As a result, very few farmers are able to offer agricultural products that meet the quality, quantity, and price requirements set by local or international markets, food processors, and retailers. At the post-harvest level, the issue of sourcing quality agricultural products in specific quantities poses a real threat to processors and exporters,

and difficulties in purchasing input material such as packaging and food additives often challenge the sector's viability.

Infrastructures and investments

Access to physical infrastructures such as ports, warehouses, laboratories, and communication technologies plays a crucial role in connecting farmers, processors, traders, and market ends, lowering the cost of doing business, and sending positive signals to domestic and foreign investors. Logistical and storage infrastructures such as primary, rural, and secondary roads, as well as railways, warehouses, and cold storage, are crucial for moving goods and maintaining their quality, while information and communication technologies provide farmers and SMEs a vast array of essential information. Though it is commonly agreed that governments should build and maintain such essential public infrastructure, budgetary constraints and gaps with industry needs often limit the appetite of private sector investors.

Meeting the financial needs of agribusiness stakeholders

Finance is an important catalyst for the development of agribusiness. Access to capital affects the ability of operators along the value chain to source the necessary inputs (such as seeds, agro-chemicals, and farming machinery) to build a competitive production base, undertake the required investments (such as acquiring processing equipment or transportation materials, and building storage space), and capitalize on the growing demand for food products. Banks and other financial institutions in developing countries often perceive too much risk and are reluctant to extend credit to the agribusiness sector, and this lack of a strong lending history penalizes private sector growth and discourages operators from adopting sustainable and inclusive actions. When credit is available, it is at a steep cost, hindering the overall competitiveness of producers and agro-processors.

The banks' perceptions of high risk are due to various factors, such as:

- The sector's idiosyncrasies (weather and price risks, production patterns, and public interventions).
- Absence of a suitable legal and regulatory environment promoting agribusiness financing.
- Issues associated with poor production and post-harvest practices that affect product quality and availability.
- Sufficient collateral or transparent record-keeping by farmers.
- Uncertainty over return on investment.
- Lack of SME owners' business skills.
- Challenges associated with property rights.

Key Issues for Investments in Agribusiness

Despite the bright commercial outlook for food products, a number of underlying factors will continue to put pressure on the agribusiness industry:

- Availability of land and water for cultivation.
- Volatility in food prices.
- Rising energy and agri-inputs costs.
- Stringent food safety, social, and environmental standards, and certification requirements.
- Impact of climate change on weather patterns.

At the same time, agri-food companies in developing economies face a wide range of operational, structural, and policy challenges that have an adverse effect on the investment climate and local economic development. Adopting a strategy that catalyzes agribusiness will address the development of post-harvest as well as production-level activities, the need to shift to commercial agriculture, and the need to incorporate SMEs into local and international value chains.

Other key agribusiness issues that could be tackled by PPD mechanisms include access to markets, production and processing inputs, addressing infrastructure bottlenecks, and financial needs of value chain operators.

Key principles for effective PPD engagement in agribusiness

A cookie-cutter approach to PPD does not work. There is no one ideal format that works for all types of dynamics, stakeholders, and issues to be addressed. Being adaptive and flexible while following key principles to a particular sector is necessary. The following principles should be considered as PPD mechanisms are developed to support reforms that address gaps in the agribusiness value chain. PPD can help in linking agricultural production to food processing and distribution activities along the value chain (see Figure 1).

1. **Prioritize issues.** PPD in agribusiness mobilizes small to large operators as well as policymakers and stakeholders directly involved in agri-food sectors, such as cereals, cattle, and horticultural products. Each PPD platform fosters dialogue to not only get consensus on a common sectoral vision, but also foster agreement on key constraints penalizing private sector operators and how they will be lifted through policy reforms and interventions. The dialogue should initially focus on a few cross-cutting issues,

preferably on value chains that present strong competitive advantages and market growth potential. Tackling all the issues and products at once can jeopardize the achievement of any complex reforms or those addressing specific bottlenecks. Dealing with the most pressing challenges will allow for optimal use of available technical and financial support, showcasing the positive impacts of successful implementation and generating momentum for further reform.

Using the value chain approach, a key framework for understanding how a product moves from a producer to a customer or consumer, is critical to understand the governance and performance of the agribusiness sector. Such an approach is useful in understanding the existing or potential business-to-business relationships, the mechanism for increasing efficiency, and ways to enable business to

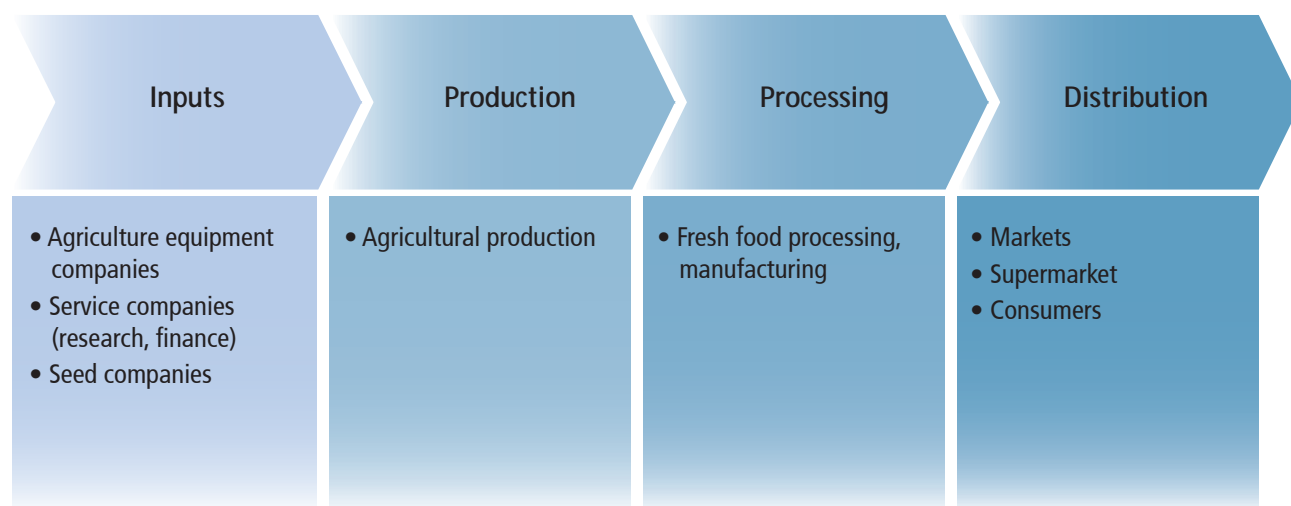
estimated 35,000 farmers have benefited from a wider range of fertilizers and crop protection products (400 new products registered in the past year) and lower prices of some chemicals (by as much as 9 percent).

Case example: The cashew industry in Côte d'Ivoire

The country's cashew sector faces many issues, which have been identified and classified according to their impact and the main objectives of the project. This exercise yielded the project's top priorities, including:

- Increasing volume of raw cashew processed in the country from 5 to 20 percent and attracting new processor companies.
- Establishing a formal warehouse receipt system supported by legislation and a dedicated regulator by end of 2015.

FIGURE 1: AGRIBUSINESS VALUE CHAIN



The PPD platform will help address these issues.

increase and add value. A PPD platform would offer such opportunities.

Case example: Agricultural inputs in Honduras

In Honduras, agribusiness accounts for about 13 percent to gross domestic product and produces more than two-thirds of all exports. However, key agriculture inputs such as pesticides and fertilizers cost more than in neighboring countries, and variety and quality are limited, affecting the sector's international competitiveness, profitability, and productivity. Past regulations intended to ensure the safe use of fertilizers and pesticides have benefited certain suppliers, and cumbersome registration procedures have delayed commercialization of potentially better products. With World Bank Group support, the Honduran Secretary of Agriculture and Livestock is introducing reforms that increase competition in the agricultural inputs market. An

2. **Analyze the governance and performance of the sector.** Governance will help identify the types of relationships among the actors of the value chain and verify if relevant and timely information is being shared among them.³ An analysis of the sector's governance will help shape how PPD is organized. In agribusiness, government tends to share responsibility with the private sector counterparts in managing the sector. In many countries, the private sector actors of agribusiness value chains are organized as an inter-professional association, which is composed of representatives of professional organizations in production, processing, and trading, and officially recognized by the law.

Case example: The peanut industry in Senegal

The country's peanut industry is mainly managed by an inter-professional association. The association has a

Who are the Relevant Agribusiness Sector Stakeholders?

PPD intervention can foster dialogue, collaboration, and communication within and between the following stakeholders in the agribusiness ecosystem. This will help overcome the key issues identified, promote investment, and provide further reform.

Government. The government has a role to play in organizing the sector by defining its policies, setting standards, and ensuring inspection and control. It also has to make sure that its agribusiness policy profits the country, adds jobs and employment, alleviates poverty, and attracts investors. The government has the responsibility of regulating the sector, which can be done in the following ways:

- The agribusiness sector can be regulated through an inter-professional association, entirely composed of private sector stakeholders (in the case of the peanut industry in Senegal).
- It can be regulated through a board with public and private sector representatives. For example, in Kenya, the coffee industry is regulated by the coffee board and the coffee act, which stipulates coffee be sold through weekly auctions and requires that companies in each area of activity be licensed.

PPD offers the government a systematic approach to better coordinate its actions concerning the agribusiness sector, which can involve numerous government entities such as the ministries of agriculture, trade, and industry.

Donors. Donors play a key role in agribusiness in supporting countries going through the reform process, building roads and infrastructures, providing equipment to producers, and building capacities. However, donors may be perceived as having an agenda to impose their views in the sector and defend their own country interests. A PPD platform is crucial to ensure that the sector is managed by involving all stakeholders.

Producers. Producers make the product or commodity in its raw stage. They can be organized in cooperatives or other forms to strengthen their business in contract farming or joint ventures with international firms (for example, in Ghana, Olam International is in the cashew sector; Unilever is in the palm nut sector). Ideally, producers are provided with inputs (such as good quality seed) and training, and they have guarantees for selling their products (such as in the many contract farming examples in African countries). Producers are critical in the value chain as productivity of the sector is dependent on the quality of their inputs and their equipment. A PPD platform is important in urging them to be better organized and play a key role in the sector.

Traders. Traders can be buyers of small quantities which they sell to exporters, or they can be wholesalers working with raw product exporters. Traders also sell to processors at a national or international level. Traders may work informally in some countries. When they sell abroad, they are mainly concerned about the international markets' requirements in terms of quality and traceability. They also act as retailers or wholesalers of processed food products.

Processers and distributors. They can be national SMEs or international firms with partners in the host country. Most African countries face the challenge of processing the product in-country. Once the product is processed, distributors, retailers, or wholesalers bring the products to market. In some cases, linkages and partnerships between processors, distributors, and retailers are used to meet the requirements of the value chain and external markets.

Consumers. They are important actors because they create demand and thus, determine market size. Producers, processors, and exporters customize their offerings and delivery to satisfy consumers' purchasing power, tastes, and demands. Consumers in developed countries are increasingly concerned about the origin of their foodstuffs, the way the commodity has been produced, whether the product is certified, and whether the seller is respectful of human rights in bringing the product to market.

Nongovernmental and civil society organizations. They are key players typically organizing farmers and building individual farm capacities. They can be vocal in opposing agribusiness policies, and as such, should be actively involved as stakeholders when agribusiness policies and projects are introduced.

Media. The media can be supportive in facilitating communication between stakeholders and raising the profile of agribusiness. But the media can also fuel negative perceptions about the sector. It is crucial that the media be actively involved in the dialogue, so key press organizations can understand the issues and accurately report on the sector and its role in the government's plan for growth and development.

mandate to defend the common interests of its members, fix the peanut price based on indicators and the world market prices to ensure productivity improvement, and facilitate negotiation among its members. The government has responsibility for defining, controlling, and monitoring policies and regulations.

Case example: Rwanda's structure for the governance of horticulture

In an effort to increase export diversification, horticulture has been declared one of the top government priorities in Rwanda. Although the industry offers considerable opportunities in terms of export, it was not reaching its full potential. Significant intervention and coordination on the part of both the private and public sectors was required to unlock this potential. The government constituted a horticulture task force to formulate the legal framework which established the Rwanda Horticulture Development Authority and to draft its business plan. The Rwanda Horticultural Development Authority was merged with other authorities into the National Agricultural Export Development Board, which supervises, facilitates, and trains private operators and cooperatives involved in agricultural and livestock production for export. In addition, the Rwanda Horticulture Interprofessional Organization, a private independent organization, serves as an instrument to mobilize all public and private efforts in developing the horticulture sector.

3. **Create linkages.** The value chain in agribusiness works well when its stakeholders cooperate for the greater good. However, this can be a challenge in sectors exhibiting a lack of leadership, information, or scale. PPD mechanisms can help stakeholders, even competing product and service providers, build trust and enhance collaboration in working for larger industry-specific goals that benefit all players. Creating linkages and building alliances, such as producers' associations, are crucial "for drawing up and adopting commitments and for facilitating the required collaboration to access resources, foster the creation of mutual capacities between the parties, and lay the foundations for innovative solutions to achieve results that would be hard to achieve in isolation."⁴ Linkages can be dictated by food safety and quality control requirements to access some markets. PPD can help facilitate alliances in which international and local companies work with the farmers, cooperative, or those at the cultivation level to control the commodity production process. In these cases, companies may sign contracts with farmers in delivering their foodstuffs to market.

Case example: The mango trade in Malawi

Malawi Mangoes is a start-up that aims to become the country's first large-scale fruit processing facility by capitalizing on a worldwide gap in supply of fruit pulp. A banana plantation will provide raw banana supply, but the

entire supply of mangoes will come from the firm's contract farming arrangements with local farmers. Supply volumes are critical and this system, with all necessary skills and support, will ensure supply. Malawi Mangoes is expected to begin the country's formal trade of mangoes, providing farmers with top grafting technology, training, field officers, and necessary transportation arrangements.⁵

4. **Develop good communications.** Some civil society organizations and citizens have negative views of agribusiness because they associate the sector with land grabbing. Protests against agribusiness investors in some countries have accused the government of taking and selling community lands and other policies the protestors believe hurt local farmers. In Brazil, conservation nongovernmental organizations accused the sector of non-environmentally sustainable practices in the Amazon agribusiness that have resulted in loss of the forest's biodiversity. These organizations have also characterized agribusiness in the rainforests of Brazil and South East Asia as activities carried out against the rights of indigenous people. Transparent and strategic communication is necessary to dispel such misconceptions.

Conclusion

PPD offers stakeholders the opportunity to identify problems and suggest solutions in a safe and structured environment, and it helps address and overcome issues of good governance and communication between public and private actors. It is a tool as well as a process that enhances transparency, accountability, and sustainability around reforms and other outcomes that will ultimately improve the investment climate, foster growth, and create jobs.

Proposed reforms, supported by a follow-up mechanism, aim not only to reduce the costs and risks of doing business in the agribusiness sector, but also to harness private investments into upstream, downstream, and cross-sectoral value chain components. This ensures that environmental and social sustainability aspects are taken into account in any intervention. PPD also plays a unique role as an innovation and learning platform, where new ideas and win-win opportunities are shared by all stakeholders.

Analysis and note prepared by Birima Fall, David Ivanovic, and Steve Utterwulghe (Investment Climate Department, World Bank Group).

The findings and views published are those of the authors and should not be attributed to IFC, the World Bank, the Multilateral Investment Guarantee Agency (MIGA), or any other affiliated organizations. Nor do any of the conclusions represent official policy of the World Bank or of its Executive Directors or the countries they represent.

The Investment Climate Department of the World Bank Group helps governments implement reforms to improve their business environments and encourage and retain investment, thus fostering competitive markets, growth, and job creation. Funding is provided by the World Bank Group (IFC, the World Bank, and MIGA) and over 15 donor partners working through the multidonor FIAS platform.

Notes

- ¹ In this note, agribusiness refers to commercial activities related to input delivery, production, post-harvest and processing, and marketing and distribution.
- ² World Bank, *Growing Africa: Unlocking the Potential of Agribusiness* (2013).
- ³ Extracted from J. E. Austin Associates, *Using Value Chain approaches in Agribusiness and Agriculture in Sub-Saharan Africa* (2007), prepared for the World Bank.
- ⁴ Course on agribusiness management for producers' association: Module 2 – Organization principles for producers' associations, FAO (2009).
- ⁵ Extracted from the Practitioner Hub for Business Innovation Facility, *Inside Inclusive Business Issue No. 6*, June 2013. The Practitioner Hub has been developed by the Business Innovation Facility and Innovations against Poverty to provide a space for practitioners to connect, share experiences, and gain new insights to help their inclusive business ventures grow.

Contact

Steve Utterwulghe | Global Lead, Public-Private Dialogue | Investment Climate

Email: sutterwulghe@ifc.org

TEL: 1-202-473-3203

www.wbginvestmentclimate.org