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. Encyclopædia 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” (Encyclopædia 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).
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

![Hierarchy of enabling needs for agro-industrial competitiveness](source: Christy et al., 2009.)
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/research.details?p_phase_id=69&p_lang=en&p_phase_type_id=1
General assessments

The World Bank Group’s Ease of Doing Business Index\(^5\) 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-

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\(^5\) 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 Investment 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

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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) 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 Strategies\(^8\) 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-

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\(^8\) www.saideas.com
Enabling environments for agribusiness and agro-industries development

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
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.