Rapid Desk Based Study:

Evidence and gaps in evidence on the principle political economy constraints and opportunities to successful investment in inclusive agribusiness in Asia

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January 2016

This report has been produced for Evidence on Demand with the assistance of the UK Department for International Development (DFID) contracted through the Climate, Environment, Infrastructure and Livelihoods Professional Evidence and Applied Knowledge Services (CEIL PEAKS) programme, jointly managed by DAI (which incorporates HTSPE Limited) and IMC Worldwide Limited.

DOI: http://dx.doi.org/10.12774/eod_hd.january2016.kyddjg

First published January 2016

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SECTION 1

Background to the Terms of Reference

1. The report should have particular reference to Afghanistan, Bangladesh, Kyrgyz Republic, Myanmar, Nepal, Pakistan and Tajikistan.

2. The purpose is to inform a more detailed call down piece of work (as per the TOR shared) to scope the potential establishment of one or more investment platforms through which it would deploy investment capital in order to catalyse private investment in south and central Asia. It's been proposed that the platform(s) should focus on clean energy, inclusive agribusiness and financial services.

3. The aim is that the key political economy contexts/blockages are understood and the risks can be addressed in the design and pointers given as to where the most feasible investments may be made.

4. DFID are not looking for a comprehensive breakdown of risks and incentives from each country listed, but would like to cover the broader issues, with particular reference to country examples (of those listed) where possible so that responses/tools/ can be designed for the platform to mitigate the risks/capitalise on the opportunities.

5. The countries listed are heterogeneous: DFID may make investments in each country, or have more than one investment in one country – depending on the investment opportunities found.

6. Alongside DFID investment, it is hoped other investors will join. There will also be a TA component for the platform – to support particular investments/ regional trade possibilities.

7. Helpdesk report recommendations should be included to support DFID in the completion of the design, and also to help guide implementation (TA support may be drawn on to support certain issues during implementation).

8. DFID are looking at transformational investments, but also need to be pragmatic (in terms of programme timeframe, and 7-10 investments in total across the programme period 4-5 years).

SECTION 2

Report Findings

(i) The seven countries listed are a very heterogeneous group: Pakistan and Bangladesh have very large populations (192mn and 160 mn), currently ranked 6th and 8th in the world. Bangladesh is well known for its exceptionally high population density, generally good soils and water availability, but vulnerability to devastating flooding. Myanmar has a substantial population (54mn), Nepal's is 28mn, Afghanistan's 27mn while Tajikistan's is 8mn and Kyrgyzstan's 6mn.

(ii) The latter four countries are landlocked, this limits opportunities for large scale trade in bulky foodstuffs beyond neighbouring countries, although there is scope for specialist high value exports (e.g., pomegranate from Afghanistan). Pakistan and Bangladesh do export agricultural products to the world market (mainly high value fruits, spices, specialist rice and seafood and aquaculture products) but their massive population size implies that systemic impacts from the growth of inclusive agribusiness will be realised through expansion of supply to and modernisation of domestic markets. This point applies to some extent to Myanmar, but Myanmar also has the opportunity and major challenge to regain its historically dominant position in the global rice market.

(iii) From the perspective of stimulating agribusiness development, other important dimensions of variation among this group of countries is in the distribution of land holdings, the history of institutions for organising agricultural production, and government control and regulation of the sector.

(iv) Additionally, Bangladesh and Pakistan have reasonably good domestic policy analysis capacity, i.e., problems are analysed on the basis of evidence. In other words, often there is fairly well-grounded understanding of what can and should be done to move forward, but deep political constraints continue to frustrate implementation (e.g., areas of rural Pakistan remain semi-feudal; what donors often term "weak government capacity" may be partly explained by clientelist politics in the civil service). In contrast Myanmar has only recently emerged from a very long period during which policy analysis was hampered by limited evidence and strong discouragement of challenge to the official policy line. Tajikistan and Kyrgyzstan have experienced a longer period of economic and political liberalisation than Myanmar, but the legacy of Soviet Union lingers. This legacy has mixed effects: on the positive side there are more opportunities for access to land, but on the negative side there is a predisposition towards state management of the agricultural sector, rather than predictable regulation of private enterprise.

(v) An implication of the foregoing points is that technical assistance on policy/political economy analysis is perhaps most needed in Tajikistan, Kyrgyzstan and Myanmar, to create a minimally acceptable "business climate". (A Kyrgyz example of an investment climate project is appended to this Report). On the other hand, optimal returns to support for agribusiness in Bangladesh and Pakistan will perhaps be gained through focusing on business development (creation of new businesses and the improvement and expansion of existing businesses). Nepal is likely to be intermediate between these two categories. (Perhaps a counter-example to this implication is the ADB support to the Kazakhstan: RG Brands Agribusiness Project, documented at the end of this Report, which bypasses government to invest directly in the expansion of an already large business. Maybe this makes sense as Kazakhstan is a larger economy, at a later stage of development of institutions for managing the market economy?)

(vi) When thinking about deploying development assistance funds and TA to stimulate the growth of inclusive agri-business, it is essential to:

a. understand current patterns of structural change in the agricultural and food sectors of the seven focus countries, and also of reference countries which are sufficiently similar to provide lessons (e.g., India and China).

b. accept that it is probable that these developments will be much influenced by national and sub-national government policies. These patterns of development in the agricultural and food sectors can be thought of as "autonomous" in the sense that they are mainly driven by businesses following commercial logic in the face of historically shaped structures for production and processing, but also possibilities created by new technologies (e.g., ICT and cold storage), urbanisation, evolution of consumer tastes, foreign trade liberalisation and (often hesitant and obscure) changes in government policy towards modern retail.

c. take a view as to whether these developments are wholly or in part inclusive (meaning beneficial to poorer producers and poorer consumers, with a particular concern for female producers). It is far from being a given that "autonomous developments" will have powerful inclusive aspects, and the Chapple and Bozovic desk study (Oct 2015) cites evidence tending to pessimism on this point. However, in the literature there is some evidence of at least partly and/or arguably pro-poor and pro-female "autonomous" developments. (This is documented in the literature, which has a bias to India, an even larger country with a strong research infrastructure.[1]) Where there is

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[1] Examples include:

(a) a number of authors have documented the structural shift underway in India from wheat and rice, produced mainly under irrigation with "Green Revolution" packages of seed, fertiliser, pesticides and usually irrigation, towards HVA (higher value products, normally perishable fruits, tubers and vegetables). Some studies argue that this change is, in places, pro-poor and pro-female because it allows for shorter growing seasons and multiple cropping (providing modest but more frequent cash) and requires less or even no cash or loan-financed outlay for inputs. Produce is more likely to be sold by women and it is they who receive the cash.

(b) the Reardon et.al. work brought together in the "Quiet Revolution" book which traces major autonomous developments underway in the agri-food sectors of Bangladesh, China and India. Findings include: the importance of the expansion of cold-storage, a development kick-started by governments (with some development assistance?) but soon taken over and rapidly expanded by private business. Cold storage has enabled a huge expansion of potato production, and potatoes are in strong demand by urban lower as well as middle income groups. Equally important, has been "disintermediation" (the elimination of middle-men) which has been facilitated by but is not wholly attributable to cold storage and is also connected to the growth of "modern retail" (supermarkets). Investment in cold-storage facilities has reduced costs in the supply chain and improved quality through better handling, with the resulting benefits realised by producers and retailers. As a result, Indian supermarkets are frequented by the urban poor as well as the middle class, and prices for basic foodstuffs in supermarkets are broadly equivalent to those in more traditional urban markets (standardised by quality).

(c) a fascinating theme running through Reardon's book is the **unreliability of expert informants and the literature they cite**. Most "experts" consulted by Reardon's team had little understanding of the extent of change in product mix, supporting institutional arrangements, marketing channels, and the implications, and tended to articulate an outdated policy agenda. For example, informants were very concerned about "tied loans" while Reardon's fieldwork showed these to be a form of transaction generally in rapid decline.

(d) livestock production can be modernised for mass urban markets through purely commercial profit-driven arrangements which include poorer-to middle income farmers. A very large example is VENKY'S (Venkateshwara Hatcheries) based in Pune, Maharashtra State, India's evidence of developments in agri-business which are at least partially inclusive, then there is scope for thinking about how these might be stimulated in places where they have not yet occurred, perhaps through private investment, government investment or technical assistance. An example is discussed in footnote 1, para (a), where some research findings from India suggest that a gradual and hesitant shift in policy emphasis from the Green Revolution packages to produce grain towards fruits and vegetables may be pro-poor and pro-women. If this finding is found to be applicable in some of the countries which are the focus of this report, then there would be an obvious case for considering how to intervene to support fruit and vegetable production by poorer producers.

(vii) Turning to political economy considerations, there is a massive literature relevant to the selected countries, seeking to explain the distribution of and access to land, water, finance, electricity, channels for obtaining inputs and selling outputs. There is a connected literature advocating approaches to reducing inequality in access to these resources, and evaluating attempts to reduce inequality (e.g., land redistribution, land tenure reform, water policy reforms, assistance to farmer organisations, finance facilities for poorer farmers). This literature covers matters of fundamental importance. However, the political economy factors explaining the evolution of and maintenance of inequalities are deeply embedded. Given this, a possible DFID-supported investment platform may have to accept these inequalities as a starting point, and seek to improve peoples' livelihoods pragmatically by building on the resources people have at present, rather than assuming, for example, that major land reform is politically feasible. Therefore, the political economy issues examined in this desk-report are not necessarily the most fundamental (e.g., why is land access so unequal), but rather "what political economy factors need to be considered because they may hold back or completely frustrate these pragmatic measures"?

(viii) In certain circumstances exceptions may present themselves for tackling what appear to be deeply embedded constraints. For example, in places where there is land availability it may be possible to develop settlement schemes organised around say two or three key crops (e.g. a food crop – say rice or wheat – and cash crops – say fruits and vegetables) where poor people are able to work with resources of land, water, inputs, finance and downstream marketing which would otherwise be unavailable to them. This is an area in which the IFC has worked and is discussed further below.

(ix) There will be occasions in which agribusiness models can be designed which ameliorate these fundamental inequalities, but these opportunities may be relatively scarce. For example, the IFC cites schemes where people are settled on land and provided with services in the form of roads, water and processing plants.

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largest producer of poultry. The birds are owned by VENKY'S throughout their production: day old chicks are supplied to small farmers who have to construct bird housing according to company specifications; feed the birds with company supplied food; clean and water. The farms must have access to water and electric power (24 hour lighting keeps the birds feeding). In the case of disease there is rapid intervention by VENKY'S technical staff. On completion of the growth cycle the birds are collected by VENKY'S and are then sold raw (i.e., live) throughout India through labour-intensive small-scale retailing (shops which sell, kill and "dress" about 100 – 200 birds/day). Standing back from the detail, key features are that the farmers are able to participate in what is in some aspects a very "modern" input-intensive system (in terms of animal genetics, feed-mix, disease monitoring and control), yet the risks to farmers are mitigated: if there is disease outbreak then VENKY'S suffers most of the loss. For as long as Indian consumers strongly prefer to buy raw poultry, the expansion of VENKY's and its competitors has sustained and created employment in retail.

(x) "Pragmatic" political economy consideration which may act against the kinds of investments and TA support which might be envisaged can be organised into clusters. These are identified below, and comments are offered about the political economy factors which may explain some of the possible resistance which may be encountered to necessary change:

d. *Control of marketing and processing chains downstream from the farm, inhibiting innovation and protecting inefficiencies*:
   i. for example, these may require produce to be marketed through specific channels, such as cooperatives or state marketing organisations, thereby creating bottlenecks and scope for bribery; or require that produce must be sold in specific places;
   ii. often associated with this, monopolistic or oligopolistic downstream processing. For example milk producers may suffer if there is strong government support for inefficient incumbent processors if government places restrictions on new dairy processing companies;
   iii. continued state ownership of marketing organisations and agricultural processing;
   iv. connected to the previous point, restrictions on private investments in agro processing and businesses supporting farmers in other ways;
   v. official resistance to, or more likely uncertainty about how to manage and regulate, the development of modern retail, with its large scale logistics for procurement and distribution, including large storage facilities.

e. International trade and investment policies
   i. restrictions on exports, e.g., through licensing or through exposition of export taxes;
   ii. similar restrictions on imports of machinery, agricultural chemicals, veterinary drugs etc.
   iii. restrictions on foreign investment in the agri-food sector (presently strong in the case of modern retail in India), with measures ranging from outright bans to requirements for local control.
   iv. the familiar foreign investment issues: transparent and evenly enforced tax arrangements, the possibility or repatriating dividends and then capital from eventual sale of businesses; commitment not to "change the rules" once a lumpy immoveable investment has been made (e.g. a processing plant).

f. Upstream supply to farmers of seeds, chemicals, veterinary drugs, machinery (i.e. technology packages).
   i. it is essential that technologies should be evaluated and licensed bearing in mind the health of producers and consumers and environmental effects. But there can be a fine line between appropriate regulation and economically inefficient protection of incumbent suppliers;
   ii. there are always tough issues around the core challenge how farmers will pay for inputs. Technology suppliers and/or processors may advance inputs on credit against delivery of product by farmers. Such arrangements are often known as "contract farming". Contract farming arrangements are normally subject to tension and challenge (e.g., farmers cannot pay due to poor harvest or low prices; farmers can "side-sell" through other outlets and falsely claim harvest failure; companies can cheat farmers in various ways). So contract farming is

often controversial, messy and subject to criticism from different political standpoints, but quite often still the best way of getting inputs to farmers on a sustainable basis (alternatives tend to require unsustainable subsidies) Governments can help regulate contract farming, but can be tempted to intervene in a populist manner in which the medium-term economics has not been thought through, undermining the industry. (The key text on "how to do" contract farming is by M.Will – see references).

iii. Another possibility is that input supply will be supported by agricultural banks and possibly micro-finance organisations. This lending can have high transactions costs and high risks, creating the dilemma that commercially sustainable lending may require high interest rates. Governments may intervene to regulate interest rates (inhibiting private banks) or instead may subsidise agricultural lending, which can lead to loan rationing and associated bribery.

g. *Gender-based discrimination where participation by women in agribusiness is limited by cultural/religious norms which prevent them accessing resources such as land, finance, machinery, and/or prescribe seclusion in the home.*

i. A summary by FAO of research findings as these relate to contract farming is provided in an appendix to this Report. The overall finding is that the extent to which women are disadvantaged in farming and downstream supply chains varies very considerably across cultures, countries, and crops.

ii. The countries which are the focus of this report reflect this variation, with examples of farming and linked supply chains where women are not disadvantaged but, undoubtedly, many cases where discrimination against women is severe and deeply embedded. There will also be cases where interventions to support women in farming and associated supply chains can be successful, able to cope with and over-ride resistance. The IFC has supported projects for women farmers in Bangladesh – see the mention of women producers of seed in the example of the IFC in Bangladesh in the appendix to this Report.

h. Behind these four clusters of possible inhibitors or investment lie a mixture of good intentions, vested interests by incumbent operators and those who benefit along the chain from restrictions. To mention some of the "good intention" points:

i. there are often ideological frames of mind which come from experience of being members of the former Soviet Union, or the socialist system of Myanmar. Private sector activity is regarded with considerable suspicion, and there is limited understanding of how to regulate the sector. People holding these views may be beneficiaries of heavy government control and regulation, but this will not always be the case and some people simply believe in the importance of government micro-management. So the challenge of engaging here is at the level of ideas as well as vested interests.

ii. producer organisations are often essential to allow small farmers to access markets at acceptable prices, but they can also become fora for corrupt management and governance, especially when these organisations are mandated as the only permissible route to market;

iii. regulation of agricultural technology is essential, for reasons mentioned earlier, but delays in accessing modern technology can act as brakes on agri-business development and it is often hard to distinguish the roles of weak regulatory capacity from the protection of vested interests.

iv. it is often the case that major agricultural processing and distributing organisations (e.g., sugar mills, mills for grains and pulses; dairies; abattoirs) are controlled by politically powerful interests, opposed to additional competition.

v. as mentioned earlier, presently many governments are muddled in their policies towards modern retail. Typically, they are lobbied by organisations representing existing retailers and some NGOs to restrict modern retail. As food retailing is often small scale and very labour-intensive, governments have grounds for concern. But rarely is a clear policy set out, based on good evidence: instead there is a cocktail of ideology and vested interests, the two being hard to distinguish.

(xi) Having identified some of the major political economy considerations around agribusiness development in the seven focus countries, it is useful to look at the operational approach in these environment of the international development agencies which have been most active in agribusiness in these geographies. These are the World Bank Group, specifically the IFC, and the ADB, and are considered in more detail below.

Relevant extracts from World Bank Group Agriculture Action Plan: 2013-15

WHAT WE WILL HELP OUR CLIENTS DO (extracts from a longer list)		
Thematic Areas	**Key WBG Actions on Areas of More Emphasis**	**Indicators of progress**
Link farmers to markets and strengthen value chains	**More emphasis on private sector response** Strengthen value chains, and increase small holder supplier networks serving agribusiness processors, traders, agri-commodity supply chain integrators, and food retailers, including by women smallholders.	Share of IFC's agribusiness investment in total WBG support for agriculture. *[Volume of IFC agribusiness investment projected to increase by about 65 percent from $2.7 billion in FY2010–12 to between $4 billion and $5 billion in FY2013–15, reaching 1.5 million farmers].*
Increase rural non-farm income	**More emphasis on private sector response** Develop and implement 'Doing Agribusiness Surveys', together with more focused multiple country analysis on specific topics.	Number of countries covered in annual Doing Agribusiness Surveys.
	More emphasis on risk management Increase the number of country level agricultural sector risk assessments	Number of country-level agriculture sector risk assessments undertaken.
	Expand the number of crop related insurance offerings	Number of IBRD-IFC crop- related insurance projects.
	Expand financial instruments for agricultural price risk management and trade facilitation.	Number of clients accessing the IFC Agricultural Price Risk Mechanism. Number of clients accessing IFC's Critical Commodity Finance Program.
	More emphasis on governance More analytical work to better understand the nature of political and institutional constraints to sustainably improving agricultural productivity and resilience, and more use of land governance assessment frameworks at country level.	Number of AAA that address political economy issues.
	Dissemination; technical cooperation; financial assistance; institutional capacity development; knowledge sharing, including through South-South cooperation; and assistance in developing national tenure policies and transfer of technology in accordance with the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGs).	Share of projects addressing the governance of tenure of land, fisheries, and forests that support voluntary efforts by client country government to implement these VGs.
	Strengthen linkages between public and private investments through the Global Agriculture and Food Security Program (GAFSP).	

Table 1 Summary of key actions on areas of more emphasis and indicators of progress (relevant sections selected from a longer list)

BOX 2: Scaling Up IFC Interventions in the Agribusiness Value Chain

IFC is scaling up its support across the agribusiness value chain to improve the investment climate, expand infrastructure, improve access to agricultural inputs, facilitate trade, strengthen agribusiness-smallholder linkages, expand risk management options, and provide advisory and ecosystem services.

Areas of support		
Investment climate	Land tenure, regulation for provision of security, warehouse receipt finance, and streamlining customs procedures	Scale up in areas with largest impact
Infrastructure	Concessions for storage, irrigation, and transport	
Input producers and distributors	Farm equipment, micro irrigation, fertilizer, and agrochemicals	
Traders, distributors, and retailers	Backward linkage to smallholders through provision of finance, extension services, and ecosystem services	
Financial intermediaries	Expand agribusiness financing with risk sharing, warehouse receipt financing, risk management products, trade finance, and environmental and social standards	
Advisory and ecosystem services	Farmer, small- and medium-scale enterprise training, environmental and social standards, resource efficiency, corporate governance, strategic community investments	

Table 2 Scaling Up IFC Interventions in the Agribusiness Value Chain

(xii) Taking the World Bank / IFC first, some of the highlights of the two tables above are:

i. a large increase in financial allocations to support agri-business is underway

ii. there is a strong focus on strengthening value chains, and networks serving agribusiness processors, with an emphasis on inclusion of women smallholders

iii. risk management is a strong focus (crop insurance)

iv. "governance" requires more emphasis: the call is for more "*analytical work to better understand the nature of political and institutional constraints to sustainably improving agricultural productivity and resilience, and more use of land governance assessment frameworks at country level*." This probably implies sponsoring work by a mix of local researchers and external expertise to understand the political economy constraints, and possible entry-points where: (a) it is possible to expand agribusiness despite these constraints and (b) how evidence-based recommendations may be able to shift conceptual/ideological preconceptions.

v. the central issue of land tenure: a particular case requiring political economy analysis.

vi. these documents imply that the World Bank / IFC approach to agribusiness development will be a mix of various forms of "policy research, advisory and advocacy" and also investments in productive enterprises. But there is little guidance on how to balance these or of what instruments may be appropriate for investments in agribusinesses.

(xiii) Turning now to the ADB, useful insights can be learned from an admirably candid evaluation of an unsuccessful agribusiness project in Pakistan, detailed below. The eight "lessons" start with remarks which attribute the disappointing outcome to lack of political economy analysis: “a thorough analysis of institutional capacity is required during the design process. The state of inter-institutional linkages and the possible effect on project implementation of weaknesses and difficulties with these linkages also needs to be considered”.

(xiv) The evaluation then makes the important point*: “policy-related work - which in this project involved preparation of a national agribusiness policy and provincial and special areas horticultural policies—will almost invariably take longer than expected and consume a disproportionate share of management resources during implementation.”*

(xv) Two further political economy lessons can be drawn out, both of which highlight the continuing dominant roles of government and the challenges of persuading government to allow space for private sector development:

a. “developing a private sector-driven market information system in a country where government is the dominant or possibly the sole existing provider of such information is likely to be a complex, time-consuming process and one that may require some form of income guarantee for the private provider or providers.”

b. Agreement should be obtained from the borrower during loan negotiations on the use of project funds to provide equipment and services to wholly private sector firms.

The ADB in Pakistan: Lessons from an unsuccessful agribusiness project

ADB ASIAN DEVELOPMENT BANK

Extracts from: ***Completion Report, Project Number: 33364, Loan Number: 2171-PAK (SF)*** *Sept 2012*

Pakistan: Agribusiness Development Project

I. PROJECT DESCRIPTION

In 2005, when the Asian Development Bank (ADB) approved the Agribusiness Development Project, commercial agriculture and agribusiness development in Pakistan was constrained by poor energy, transport, and storage infrastructure, as well as weak sector institutions, policies, and governance practices. Access to modern technology and to financial and business development services was inadequate. The project was designed to address constraints to development of the sector and to exploit domestic and export market opportunities for agribusiness to increase economic growth and rural employment. The project was to help realize these opportunities by:

(i) improving the managerial, production, and processing skill levels of entrepreneurs and farmers to ensure the production of good quality raw material and uniform, high standard products;

(ii) support increased agribusiness lending by participating financial institutions (PFIs), which would allow stakeholders to exploit the market opportunities;

(iii) reorienting government institutions to facilitate agribusiness development through public–private partnerships;

(iv) making the policy, regulatory, and financial environment more responsive to private sector needs, thus encouraging producers and entrepreneurs to invest in agribusiness;

(v) and establishing the framework and standards necessary for the country's agribusinesses to comply with increasingly stringent international standards. While the project was to focus primarily on horticulture and horticultural business, it also included interventions to improve the institutional framework and support for selected enterprises in the livestock and dairy subsector.

II. OVERALL ASSESEMENT

The project is rated *unsuccessful*. The design was complex, lacked focus, was overambitious in many ways, and involved too many agencies. These shortcomings contributed to a failure to produce the envisaged outcome.

Implementation management and coordination was weak and arrangements were not based on a sound assessment of institutional capability.

A key target output—the development of agribusiness-specific lending programs—was not delivered.

Training outputs, in general, fell short of expectations.

Institutional strengthening and policy work was compromised by delays, government failure to ratify the results or put them into effect and a potential loss of benefits due to government reorganization after project closure.

Doubts remain over the sustainability of many project initiatives.

III. LESSONS

i. A thorough analysis of institutional capacity is required during the design process. The state of inter-institutional linkages and the possible effect on project implementation of weaknesses and difficulties with these linkages also needs to be considered.

ii. Policy-related work—which in this project involved preparation of a national agribusiness policy and provincial and special areas horticultural policies—will almost invariably take longer than expected and consume a disproportionate share of management resources during implementation.

iii. Consultancy output for policy work needs to be very specifically defined. For example, should the output be a policy framework or a complete, agreed and adopted policy? If the latter, it must be made clear and agreed with the borrower who is to sign off on the policy document.

iv. Attempting to work along the whole value chain from farm production to market (either domestic or export), as this project attempted to do, will almost certainly be more difficult than concentrating on a few key links.

v. It is essential that the objectives in the RRP be adequately reflected in operational plans. There is little evidence, for example, that vertical integration in the value chain was facilitated by the project.

vi. Developing a private sector-driven market information system in a country where government is the dominant or possibly the sole existing provider of such information is likely to be a complex, time-consuming process and one that may require some form of income guarantee for the private provider or providers.

vii. Agreement should be obtained from the borrower during loan negotiations on the use of project funds to provide equipment and services to wholly private sector firms.

viii. A clear strategy to exit from support for agencies or offices established under projects needs to be defined at the outset by firmly establishing whether the entity is expected to have a continuing role post-project and, if so, how its operations are going to be financed.

SECTION 3

Possible actionable recommendations for political economy work

It may be useful to think of three broad categories of donor support for inclusive agribusiness: (i) market development; (ii) on-going market support & shaping; (iii) investment in productive capacity.

Market development can be thought of as the creation of the basics of a better functioning market: i.e., regulation which is adequately predictable, transparent and impartial; moves towards greater competition and flexibility so that existing categories of market intermediary are not given undue protection; and quality and human, animal and plant health issues are handled better. Market development will also require the evolution of supportive agricultural, industrial and trade policies. Excessive subsidy of agriculture raises questions about sustainability and disruption if support is cut back, while excessive taxation of agriculture (which can be explicit and implicit) depresses incentives to invest. Finally, the more market information that is available the better: this lets producers, intermediaries and retailers work efficiently, but will hurt some vested interests.

Distinguishing on-going market support and shaping from market development provides a reminder that in established market economies, markets are always evolving. For example, market power may become more or less concentrated depending on factors such as technological change, firms' and investors' strategic responses to current and projected future profitability; and changes in government priorities (e.g., in relation to promotion of growth; consumer and/or environmental protection).

Obviously market development and market support and shaping are closely related and overlapping activities. For the purposes of thinking about donor interventions, market development is a kind of "big push" to get the basics in place. There will be focus on work with government, and much explanation and advocacy of what needs to be done. Buy-in by influential sections of the political leadership and civil service is a key, absolutely necessary, aim. Sometimes "managed experiments" may be tried, perhaps focused on a few districts, for example to allow sceptical leaders to observe the consequence of market liberalisation (this preceded the major agricultural reforms in China). In contrast to market development, ongoing market support and shaping is likely to be a less high profile activity, based on industry lobbying, political interests and ideologies, the strength and ambition of government planning and the need to respond to technological change.

Finally, investment in productive capacity by donor agencies is mainly implemented through the private sector support agencies of multilateral and bilateral agencies. Briefly, the rationale is that investment by agencies known to have the resources to undertake extensive due diligence and experience in conducting careful discussions with government signals to others that the sector is "investible". Perceptions of risk fall, and with this the implicit cost of investment capital for agribusiness, while there is an increase in the willingness of existing agribusiness firms to extend their operations by investing in the country concerned. A range of instruments may be used by private sector support agencies, including: joint lending facilities with local banks; special facilities with micro-finance institutions (e.g. for agricultural machinery); direct equity investment into firms; investment via specialised agribusiness funds and/or private equity; joint investment with successful agribusiness firms based outside the country with models which are transferable (e.g. Indian investment into smaller South/East Asian countries).

A table is set out below which summarises thinking about possible political economy work associated with different activities, prioritised by country. Inevitably this is speculative, and further country-level investigation will lead to a much fuller understanding of issues. It is provided as an initial framework for thinking.

Political economy work-streams in support of the development of an *Agri-business Component of an investment platform* Possible priority rating by country: scale of 1 (low) to 5 (high)							
ACTIVITY & ASSOCIATED POLITICAL ECONOMY WORK	**Afghanistan**	**Bangladesh**	**Kyrgyz Republic**	**Myanmar**	**Nepal**	**Pakistan**	**Tajikistan**
Country literature reviews based on government, industry-association, donor, local think-tank, civil society/NGO literature, and existing agri-business enterprises, supplemented by in-country interviews to: 1. characterise the "investment climate" and possible growth opportunities, with a focus on inclusive growth 2. if there are serious barriers to growth of inclusive agribusiness, gain a sense of the importance of political economy constraints relative to factors such as poor infrastructure, limited domestic market, lack of capital, weak financial intermediation	5	3	5	5	3	3	5
Analysis of policies affecting structure and profitability of selected agribusiness chains	5	3	4	5	2	2	5
Studies of government and industry architecture to identify entry points for locally-rooted analysis and advocacy	5	2	4	5	3	3	5
Market development work: a "big push" spread across relevant ministries and agencies with essential buy-in from finance and leadership	4	2	4	5	2	2	5
Market support and shaping: on going work to raise the capacity of relevant line ministries, specialised government agencies; regulators and industry associations	2	5	2	3	5	5	2
Investment in productive capacity: in DFID's case dialog with CDC, ADB, World Bank etc. A key question: what can DFID do by way of market development and support work to improve the investment climate and lower perceived risks?	3	5	4	5	4	5	4
Ensure all agri-business support work has a political economy component: regularly probing the extent to which entrenched interests are impeding progress, and searching for compromises which can be negotiated and advocated.	5	5	5	5	5	5	5

Table 3 Summary Possible Political Economy Work, Prioritised by Country

SECTION 4

Conclusions

This desk based study reveals abundant evidence for the importance of political economy considerations in the design of interventions to support agri-business. Indeed failure to understand political economy constraints was cited above as the leading explanatory factor in the failure of a large ADB agribusiness project in Pakistan.

A key tension which presents itself in designing a possible investment platform is between the obvious and valid requirement for more political economy analysis and the desire to start moving and create impact. The latter will involve the actions mentioned above and elaborated on in the examples shown at the end of this Report: e.g., provision of finance for upscaling processing and for season inputs to farmers; training in use of technologies, in group formation; and training in market regulation; investment in processing infrastructure; market information and links to markets (especially local “modern retail” and export); consumer and producer safety etc. A way to address this tension in practice might be to emphasise learning by doing during implementation --- i.e. building in good monitoring (with an emphasis on the political economy dimensions) and feedback loops to management decisions

A particularly valuable outcome would be a successful investment in a local private sector provider (e.g. of processing or finance, maybe also of contract farming services). Such investments can foster a dynamism which changes facts on the ground and shifts ideological preconceptions.

In summary, there is a consensus in the literature that longer term policy analysis / political economy studies are essential, ideally based on local and external research partnerships. A further step to be considered would be to explicitly take a longer-term approach (alongside programme implementation) to building up local analytical capacity and to have the latter as an explicit project output. This Report has given a wide variety of issues which this work could focus on, to which no doubt others could be added. But this author would advise making investments alongside such longer-term analytical work, and building in close interaction between the two workstreams. This will add to the useful “learning from doing” which the ADB’s admirably frank admission of failure in Pakistan is a key example. Equally important, by probing the frontiers of what is possible, it may suggest areas of work where constraints to progress can be overcome, and the economic landscape for agribusiness may be changed for the better by the kind autonomous developments discussed at the beginning of this Report.

SECTION 5:

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SECTION 6:

Additional project examples and research summaries

Examples of IFC Programmes incorporating Agribusiness Policy Components

(source: extracted from document on IFC website)

A. IFC Investment Climate Advisory Services Project in the Kyrgyz Republic *2009-present* www.ifc.org/beekg

Supported with funds from the government of Switzerland and the United Kingdom's Department for International Development (DFID).

The Challenge
The Kyrgyz Republic is working to attract investment, grow and diversify its economy, and create sustainable jobs. But political instability and weak investment laws slow investment in all sectors. Today the Kyrgyz Republic is among the least competitive economies in the region, with one of the lowest investment-to-GDP ratios among CIS countries. Favourable conditions for agribusiness are receding due to poor food safety controls and the loss of major export markets.

The IFC Approach
IFC has been helping the Kyrgyz Republic enhance its policy framework and strengthen its investment climate. This project supports the Kyrgyz government's inspections reform efforts, which are centred on improved governance, greater sustainability, and risk-based planning, with a focus on achieving better implementation.

Its agri-business component is designed to help develop a food safety framework and harmonise agribusiness regulations with WTO standards with the aim of enhancing the export potential of the country's agricultural products. The Project works with food regulatory bodies to build capacity to implement modern food safety control.

To improve the investment policy framework, the project helps the Kyrgyz Government review investment laws, develop regulations, and ensure adherence to international best practices.

IFC's key achievements include:
- adoption of new legislation on inspections, introducing a risk-based approach, which significantly decreased the burden on entrepreneurs.
- simplifying VAT reporting, saving the private sector an estimated $2.3 million every year.
- developed and launched advanced online inspection planning tools for the government.
- to increase awareness and regulations compliance capacity, the project conducted 90 workshops and information campaigns for SMEs and government officials.

- via an SME survey, the project found the main policy gaps and laid the groundwork for informed policymaking. The government views the survey findings as a significant contribution to better policy formulation.

B. IFC promoting climate-smart agricultural practices in Bangladesh

Working with both the private and the public sectors to build greater efficiencies in the use of their resources. More specifically, IFC works with:

- Some of Bangladesh's largest private seed companies (e.g., Supreme Seed Ltd., ACI Ltd., and Lal Teer Ltd.) to demonstrate the business case for stress-tolerant and high yielding seed varieties, provide extension services to farmers on seed production and on-farm management practices, and encourage more investment in the business.
- Farmers to increase their awareness of climate-smart agricultural practices that can improve their yield and revenue
- Women farmers to formalise their role in post-harvest activities in specific communities and train them on seed production, micro-entrepreneurship and market-linkages.
- Dealers and retailers to expose them to new seed varieties, understand their applications in specific cropping seasons and environmental conditions
- The Bangladesh government to bring together public and private sector representatives to a constructive dialogue and collaboration in promoting stress-tolerant seeds and other adaptive inputs.

IFC's objective is to support farmers in adapting to climate change as well as strengthening food security and social inclusion by:

- increasing the production, distribution, and adoption of stress-tolerant and promoting them to farmers who can benefit from them but are not aware of their availability or the respective farming practices.
- promoting high-yielding seed varieties, which boost agricultural output.
- including rural women in seed production in remote areas and linking them to formal seed supply chains.

C. IFC Support to Poultry in Nepal

The poultry sector in Nepal is estimated at $240 million and employs over 70,000 people. However, the industry loses up to $32 million in profits. This loss is primarily due to the fact that local SMEs lack formal training on farm management and struggle to stay profitable. More specifically, Nepalese poultry producers face multiple challenges like inefficient feeding practices and low quality of chicks—the two key inputs that together represent up to 90 percent of their costs.

Another issue is bio-security and disease management, which are critical to the sustainability of the industry. Local specialists lack adequate training and the Nepalese poultry sector needs to build capacity in these areas.

> *"We value IFC's integrated approach to improve efficiencies through technical assistance and to pave the way for investment. IFC helped us improve the productivity and the loyalty of our broiler farmers through an innovative fee-based extension services model which is led by the private sector. IFC has also started helping us with farmer capacity building in the maize sector."* — Anand Bagaria, Managing Director, Probiotech Industries, Nepal

To achieve the most impact, IFC is focused on the following interventions:

- Assessing poultry feed process quality and advising on how to improve nutrition practices.
- Developing a Standard Operating Practice—a good practice guide for the poultry sector aimed at increasing overall production efficiency.
- Analysing bio-security and diseases in parent and grower farms, and providing industry-wide recommendations for improvement.
- Training small and medium poultry farms' staff and build local veterinarian capacity by training the trainers.

Women farmers in modern contract farming

Extract from: *The role of women in agriculture*, ESA Working Paper No. 11-02 , 2011, The Food and Agriculture Organisation of the United Nations (www.fao.org/economic/esa).

The emergence of modern supply chains is profoundly changing the way food and high-value agricultural products are produced and traded in developing countries, with important effects for rural women. While export-oriented value chains offer important employment opportunities for women, female farmers are largely excluded from contracting with agro-industrial firms for the delivery of high-value produce.

Women comprise less than 10 percent of the farmers involved in smallholder contract-farming schemes in the Kenyan fresh fruit and vegetable export sector (Dolan, 2001). Eaton and Shepherd (2001) find that in large contract-farming schemes involving many thousands of farmers in China, contracts were exclusively with men. In the French bean export sector in Senegal, only 1 out of the 59 contracted farmers is a woman. The exporting companies confirm that they strongly prefer contracting with men because women lack secure access to productive resources and so cannot guarantee delivery of a reliable flow of produce. For example, women lack statutory rights over land and have less authority over family labour compared to their husband and male siblings.

High-value contract-farming has direct implications for the allocation of productive resources within the household. It has been argued that contract-farming with the modern agroindustry – and the exclusion of women from contracts – could give rise to intra-household conflicts over the allocation of land and labour resources between contract requirements and women's priorities with regard to food production (Sing, 2003). High-value contract-farming might result in decreased access to resources for female farmers concerned with subsistence food production, and ultimately lead to the deterioration of the food security situation of rural women and children (Bravo-Baumann, 2000).

Convincing quantitative evidence on this issue is lacking. What is available from descriptive studies is mixed and yields no consensus. Several authors point to the fact that – while men control the contracts as contracting party – the majority of the farm work done on contracted plots is performed by women as family labourers and necessarily reduces labour for food production. For example, Porter and Philips-Horward (1997) observe that in 70 percent of the cases of sugar contract-farming in South Africa the principal farmer working all year round on the sugar cane plots is a woman. Sing (2002) reports that women work longer hours than men in vegetable contract-farming schemes controlled by male farmers in the Indian Punjab. Eaton and Shepherd (2001) observe that in a large contract-farming scheme involving thousands of farmers in China women – while being completely excluded from signing contracts themselves – perform the bulk of the work related to contract farming. Qualitative studies also report cases were contracted tobacco production in East Africa conflicts with the cultivation of millet and sorghum, basic food crops, by female farmers. Dolan (2001) argues that specifically the growth of high-value horticulture supply chains has been detrimental for rural women in Kenya because land and labour resources that were traditionally used by women to cultivate vegetables for home consumption and sale in local markets have been appropriated by men for export vegetable production under contract.

Other studies do not find conflicts over productive resources between high value contract production controlled by men and basic food production by women, or that this reallocation of resources – especially female labour – leads to adverse food security effects and deteriorated child nutrition. On the contrary, Minten, Randrianarison and Swinnen (2009), although not explicitly addressing gender issues, find that high-value vegetable contract-farming in Madagascar leads to improved productivity for food (rice) production through technology spillovers, thereby improving the availability of food in the household and shortening the lean period or "hunger season".

Analysis of the French bean export sector in Senegal also suggests that gender conflict over land and labour resources is quite limited. Beans are exported from Senegal to the EU only during the off-season (from November till April) and households only allocate part of their land and labour resources to contracted bean production and only during a confined period which does not coincide with the main "rainy" agricultural season when staple food crops and other subsistence crops cultivated.

Source: Maertens and Swinnen (2009) summarised in *The role of women in agriculture*, prepared by the SOFA Team and Cheryl Doss ESA Working Paper No. 11-02 , March 2011, The Food and Agriculture Organisation of the United Nations www.fao.org/economic/esa

IFC Agribusiness Themes

THEMES THAT DRIVE OUR AGENDA

WATER

Agriculture uses 70 percent of the earth's freshwater. IFC works to optimize water use through efficient irrigation technologies and by broadening access to advanced inputs like seeds.

LAND

Land availability and tenure are increasingly issues as best lands have been developed. We work with companies and stakeholders to promote responsible land investment.

ANIMAL PROTEIN

Rising demand for meat and dairy come with income growth and growing middle classes. IFC seeks to mitigate the impacts of this demand across the full value chain and promote feed efficiency.

SMALL FARMERS

We help build more inclusive supply chains and partner with the donor-funded Global Agriculture and Food Security Program (GAFSP) to promote inclusive investments.

URBANIZATION

As populations move to cities, consumers demand safe and affordable food via efficient supply chains. IFC investments contribute to improved food logistics and reduced food losses.

NUTRITION & INNOVATION

Quality of food is gaining more attention in emerging markets. IFC finances companies which improve food ingredients and develop fortified foods and drinks.

The ADB in Kazakhstan: An example of a live Agribusiness Project

ADB ASIAN DEVELOPMENT BANK

Kazakhstan: RG Brands Agribusiness Project
RG Brands Agribusiness Project ADB will provide a 7 year corporate loan of up to $40.2 million to RG Brands, a leading food and beverage company in Kazakhstan. The company holds leading market shares in all its key products, particularly ultra-high temperature (UHT) milk, fruit juice, and tea. It plans to increase its revenues from $245 million in 2012 to $600 million in 2017. ADB will support this growth by providing long- tenor financing, which is not readily available for private sector companies in Kazakhstan since the 2008 2009 financial crisis. The project consists of:

(i) the expansion of RG Brands' UHT milk and fruit juice production facilities ($14.9 million),
(ii) investments to boost efficiency in production and distribution ($15.3 million),
(iii) the refinancing of debt maturing in the short term ($10.0 million). To better meet the needs of the company, ADB will provide $28.9 million in Kazakhstani tenge (through cross currency swaps) and $11.3 million in US dollar.

RG Brands' growth will have a multiplier effect on local agriculture. Milk farmers and juice concentrate suppliers will expand their business in response to the company's growth. This will support an increase in agriculture GDP and employment. RG Brands' growth in neighbouring markets will also contribute to higher export revenues for the country. Overall the intervention supports the diversification of the Kazakhstani economy outside the oil and gas sector.

The project is fully consistent with ADB's Strategy 2020, the Operational Plan for Sustainable Food Security (2009), and the country partnership strategy for Kazakhstan (2012 2016), which call for increased private sector investments in agriculture and agribusiness to better connect local agriculture with urban and export markets.