



THE FUTURE OF FOOD SAFETY



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Leveraging private sector investment for safe food value chains

Introduction

Although the developments in food systems have yielded many positive results over the past three decades in developing countries, they have also resulted in significant challenges, including increased outbreaks of transboundary animal and plant diseases and foodborne illnesses. A substantial infusion of investment and working capital will be required if small and medium agro-enterprises are to fully exploit the business opportunities that food systems transformations are generating. The high risks of doing business in the sector in developing countries often deter private actors from investing, which might have negative consequences on the safety of products reaching consumers when investments are not made in critical infrastructure, training, technologies and food control and management systems. The recognized benefits of food systems development (e.g., job creation, more affordable or convenient food products, youth entrepreneurship opportunities) have led governments and other players in international development to pay increasing attention to the experiences and approaches that have been conducive to investments in this sector.

Enabling Factors

The public sector needs to put in place a set of policies and provide public goods that create an enabling environment to foster sustainable investment along the food chain by private sector actors, be they smallholders, small and medium agro-enterprises, large national and international agribusiness companies, or financial institutions. Christy *et al* (2009) identify a number of “essential” enabling factors that the public sector must provide that include the general legal and regulatory frameworks, public sector governance, overall macro-economic conditions, infrastructure, land tenure and trade policy. These factors are not only a precondition for sustainable private sector investment, but also directly influence other factors that determine the safety and quality of food products reaching consumers. Clarity of property rights over resources such as land and water and the availability of infrastructure such as transport and power, for example, determine processing plant location and installation, processing operations such as washing and waste disposal, and the use of storage and cooling facilities. In addition to the essential enabling factors, Christy *et al* (2009) identify other enabling factors that promote a conducive business environment to foster private sector investment. Notable among these are food safety and quality standards and the associated food control infrastructure, institutions and support services that ensure that these standards are not only set but also enforced in order to ensure transparency, consistency and compliance.

It is generally recognized that small-scale producers and SMEs face greater constraints and pay a proportionally higher cost for a poor business environment compared to large firms. For

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example, larger firms are better equipped to absorb costs associated with regulatory compliance, while if not well designed these regulations can become unmanageable for smaller firms. SMEs might not be able to obtain the needed product certifications or standards compliance due to the lack of public testing laboratories which larger companies are more able to establish in-house. It is therefore important that the policies, institutional and regulatory framework be adequately designed to take the needs of small actors into consideration. Approaches that can be applied to this end include a simplified tax regime, differential labour regulations for SMEs, subsidies and services aimed at supporting SMEs in different aspects of their activities, or capacity building exercises to make regulatory compliance more manageable.

Access to Finance

Private sector investment along the value chain is motivated by expected returns relative to perceived risk and uncertainty. The agriculture and agro-food industry sector of developing countries is characterised by high risks, which include low returns on investment, limited access to productive and quality inputs, high transaction costs and production risk associated with dealing with numerous small-scale producers. In view of these risks, a key determinant of private sector investment in agribusiness in this context is the availability of adequate and well-tailored financial services, which allow the private sector to manage and cope with risks and fund investments, including those required for ensuring food safety along the value chain.

While access to credit and finance is shown to be one of the most salient determinants of success for entrepreneurial enterprises including those involved in the agri-food value chain, evidence shows that small and medium sized producers and agro-enterprises are, in particular, at a disadvantage when accessing finance compared to larger companies. Research also shows that an absence of reliable streams of affordable and flexible finance impedes the development of technological innovations required by the private sector to supply the market competitively with safe and nutritious food. World Bank enterprise surveys cite access to finance as the top constraint facing small and medium enterprises (SMEs) in the food and beverage sector in emerging economies.

Examples of financial services and risk mitigation mechanisms that can be used to foster private sector investment include loan guarantees, investment funds, value chain financing (e.g., as part of contract farming arrangements), insurance and warehouse receipt systems. Innovative approaches are increasingly being used and, among these, blended finance appears to be one of the most effective ones, where public funds are used to catalyze investment by the private sector.

Chain Coordination Mechanisms and Capacity Building

Investment flows into value chains in which smallholder producers and processors are involved (e.g. as raw material suppliers) can be stimulated by improving coordination in the chain employing a variety of mechanisms. These include: promotion and facilitation of contracts to govern supply chain transactions; structures and platforms that foster stakeholder dialogue, such as agribusiness chambers and professional associations; and creation or strengthening of organizations that bring these actors together to achieve larger-scale economies and diffuse costs related to skills training, research and knowledge dissemination, certification and quality standards processes. At the same time, investing in improving the financial literacy and building the technical and managerial capacity of value chain actors is critically important. It improves chain actors' understanding of the business case for improved food safety and quality, and their ability to apply relevant preventative practices and control measures for ensuring safety along the value chain and comply with market requirements.

Public-Private Partnerships (PPPs)

Against a background of limited government resources, innovative Public-Private Partnerships (PPPs) that bring together business, government, smallholder farmers and civil society actors are increasingly being promoted as a mechanism for stimulating private sector investments in the agri-food sector. These PPPs offer a number of potential benefits deriving from the combination of the operational and economic efficiency typical of the private sector with the public sector's role as the creator of an enabling environment and regulator to ensure that broader social and environmental interests are considered. The importance of transparency in the PPP setup cannot be over-emphasized, and where PPPs involve civil society organisations (CSO) the latter play a crucial role in maintaining public confidence in the integrity and value of such partnerships. PPPs can be a useful mechanism for risk sharing through which the barriers to entry for the private sector can be lowered and investments in the value chain promoted. A combination of market incentives and institutional mechanisms can be incorporated into PPP projects to provide greater certainty for investors and to help overcome the lack of an enabling regulatory environment. PPPs exist in many different models and can be designed for specific ends that also facilitate ensuring food safety: building, installation and operation of infrastructure such as market trading centres, commodity storage facilities or logistics systems and agrifood parks; facilitating research, innovation and technology transfer; facilitating value chain development; and delivery of business development services (BDS) that build competencies of value chain actors.

Territorial approaches

A particular approach that the public sector can employ to encourage private sector investment in the agri-food sector is to attract and support the clustering of agribusinesses/agro-industrial investments (including Foreign Direct Investment – FDI) within specific geographic areas with assured infrastructure (transportation, energy, etc.) and access to output and input markets. Examples of these territorial development models include: economic corridors, clusters, special economic zones (SEZs), industrial parks, technology parks and incubators. Overall, they lead to improved access to technologies and coordination which facilitate the chain-based approaches needed to assure a safe food product is delivered to consumers in the end-market.

Conclusions

The transformation of food systems presents immense opportunities for private sector investments in the food value chain. In order to unleash these investments, public investments are crucial to provide the policy framework and enabling environment that attracts private sector investors and provides conditions that make their investments profitable. Well-tailored financial services to incentivise actors and minimize the risk of investments, innovative partnerships that bring together business, government, smallholder farmers and CSOs, territorial development models, and fostering of coordination along the value chain are among the tested and proven approaches to foster the private sector investments in the value chain. Investing in strengthening of the technical and managerial capacity of chain actors is a critical factor for ensuring that they can apply the practices and control measures for ensuring safety along the value chain and comply with market requirements.

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