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联合国粮食及农业组织 Food and Agriculture Organization of the United Nations Organisation des Nations Unies pour l'alimentation et l'agriculture Продовольственная и сельскохозяйственная организация Объединенных Наций Organización de las Naciones Unidas para la Alimentación y la Agricultura منظمة الأغذية والزراعة للأمم المتحدة

# FAO REGIONAL CONFERENCE FOR AFRICA

## Thirty-first Session[1]

## New dates to be confirmed

## Enhancing Policy and Regulatory Environment to Stimulate Investments for Rural and Agricultural Transformation in Africa


**Executive Summary**

The Comprehensive Africa Agriculture Development Programme (CAADP) and other continental frameworks such as the Africa Union's Agenda 2063 and Malabo Declaration, identify agricultural development as a high priority, emphasizing the importance of a conducive policy and regulatory environment to attract private investments into agriculture and promote intra-African Trade in agricultural commodities and services. More recently, the African Continental Free Trade Area (AfCFTA), with an estimated combined GDP of about USD 3.4 trillion, aims to expand markets and boost regional trade, including intra-Africa agri-food trade.

There is strong political endorsement for these continental initiatives. Yet, achieving their objectives entails an enabling business environment and significantly large amounts of financing that far surpass the capability of public and international donor financing. Specifically, advancing agri-food trade and investments in rural and agricultural transformation trade requires sustained policy actions to improve the policy and regulatory environment to attract private investment and engage with the private sector to find innovative and collaborative solutions for the attainment of the Sustainable Development Goals (SDGs).

FAO has several initiatives for proactive engagements with the private sector, including the Hand-in-Hand Initiative's matchmaking to attract the private sector, engaging with governments and financial instruments to promote the deployment of blended finance instruments; Public-Private Partnerships (PPPs) for agribusiness development and design; and facilitation of multi-stakeholder dialogues between the domestic private and public sectors.


1 Rescheduled from 23-27 March 2020, Victoria Falls, Zimbabwe

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**Matters to be brought to the attention of the Regional Conference**

The Regional Conference is invited to:

- Acknowledge that eliminating hunger and poverty by 2030 requires a mix of public and private sector investments and encourages Members to put in place inclusive and robust enabling policies, as well as appropriate policy implementation tools to attract more private sector investment into agri-food trade and rural and agricultural transformation.
- Note the importance of strengthened partnerships, including with smallholder producers and multinational food companies, producers? and consumers, as also highlighted by the 46th Session of the Committee on World Food Security
- Recognize FAO's work to promote strategic engagement with the private sector, including through the Hand-in-Hand Initiative, identifying investment gaps and opportunities for the private sector through targeted matchmaking;.
- Support FAO's efforts to expand engagement with the private sector to find innovative and collaborative solutions for the attainment of the SDGs.
- Encourage collaborative solutions for the attainment of the SDGs.

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# I. Introduction

1. The African Union Heads of State and Government adopted the Comprehensive Africa Agriculture Development Programme (CAADP) through the Maputo Declaration in 2003 as a continental framework to eradicate persistent food insecurity and unleash agricultural performance in Africa. Although CAADP has contributed to placing agriculture back on the political and policy agenda at the continental level, implementation progress has been slower than anticipated. A critical lesson learned was that high-level policy decisions were not followed by concrete actions, nor were they sustained with adequate resource allocation and incentives to create a conducive policy environment that attracts significant private investment.

2. The Agenda 2063, "The Africa We Want," adopted in 2013, has a vision for an integrated, prosperous and peaceful Africa, driven by its own citizens. The Malabo Declaration on "Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods" was subsequently adopted in 2014. In line with the CAADP principles, it emphasizes identifying regulatory and policy reforms to remove barriers that impede the functioning of agricultural and agribusiness development, especially for smallholder agro-entrepreneurs and agribusinesses who are the important driving force for innovations, agro-industry and value-chain development and commercialization, and the smallholder farmers who are by far the largest private investors in agriculture and produce nearly 80 percent of staple food in Africa. Recently, the AfCFTA, launched in March 2018 with an estimated combined GDP of more than USD 3.4 trillion aims to expand markets and boost intra-Africa trade, including agri-food trade, in Africa and beyond its borders.[2]

3. Furthermore, member countries subscribed to aspirations for sustainable development through agricultural transformation and economic growth that are entrenched in the 2030 Agenda for Sustainable Development, adopted in September 2015. The 2030 Agenda specifically calls upon all member states to "enhance policy coherence for sustainable development", which is critical in order to capitalize on synergies among the goals and targets, between different sectoral policies and diverse actions at the local, national, regional and international levels.

4. While there is strong political endorsement of these global and continental initiatives, delivering on their objectives requires significant efforts to address several policy, implementation and dialogue issues relating to trade and investment. Achieving the 2030 Agenda for Sustainable Development will entail significantly large amounts of financing. FAO estimates that incremental resources of up to USD 265 billion a year are needed to eliminate poverty and hunger by 2030, far surpassing the capability of public and international donor budgets. The estimated annual funding gap to achieve the entirety of the SDGs for Africa is estimated to be between USD 500 billion and USD 1.2 trillion.[3] Thus to achieve the SDGs, innovative approaches to catalyse private capital will be required to address this large and diverse financing gap associated with sustainable development. The Addis Ababa Action Agenda provides a comprehensive set of policy actions to finance sustainable development, transform the global economy and achieve the goals. It puts forward specific public policies and regulatory frameworks to encourage private investments.

5. Partnerships with the private sector are essential to mobilize private economic actors and investors to scale up good practices and models. Productive partnerships with the private sector have been cited by United Nations SDG progress reports as essential to achieving the SDGs.

6. Eliminating poverty and hunger by 2030 requires a unique mix of public and private investments. Private sector engagement also includes mechanisms to attract and retain private capital to investment opportunities in agriculture. FAO is at the forefront of this changing landscape in development finance by providing countries with an array of investment support programmes and initiatives to help crowd in private capital. This paper focuses on priority areas of action to utilize

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[2] African Union, 2019. "African Continental Free Trade Area: Creating One African Market". https://au.int/en/cfta.

[3] Gaandhi, D and Jesse, G. 2019. "Figure of the Week: Progress on SDGs in Africa". Africa in Focus, Brookings Institution.

the levers of public policy to stimulate private investment and to foster fruitful partnerships with the private sector in the agricultural sector in Africa. Specifically it considers public policy actions to stimulate trade and investment in agri-food trade as well as the broader agricultural and rural transformation in two critical areas: (i) creating a policy and regulatory environment that makes the business environment attractive for private investors in ways that enable increased private investment and crowd in private financing along agricultural value chains; and (ii) fostering innovative partnerships with the private sector that focus on shared goals to eradicate poverty (SDG 1) and end hunger and all forms of malnutrition (SDG 2).

## II. Policy and Regulatory Environment for Trade and Investment in Agri-food Systems

7. There is broad consensus among development practitioners on the role of conducive policies and regulations in the functioning of agriculture and agribusiness. For example, a World Bank study[4] makes a strong analytical case for enhancing the policy and regulatory environment as critical to unlocking the potential for agriculture and agribusiness, to stimulate rural and agricultural transformation that will help reduce hunger, poverty, enhance sector competitiveness and create jobs in Africa. It stated that "Robust, effective and efficient regulatory systems are essential components of well-functioning agriculture and food markets and thriving agri-businesses". Good regulatory practices are necessary to improve farmers' access to key inputs and services that increase farm productivity as well as their access to market, link farming to upstream and downstream markets and services and other sectors of the economy through agro-processing and other value addition activities as well as financial, logistic and other support services. They also provide incentives, reduce transaction costs, improve market efficiencies, expand markets and enable private investment all along agricultural value chains.

8. The United Nations Economic Commission for Africa (UNECA)[5] calls for a robust and enabling policy framework to help remove existing constraints on agro-industrialization and encourage investments in Africa. Such a framework should include, but not be limited to, ensuring that the right combination of agricultural, industrial and trade policies is in place; recognizing and enforcing the rights to land and natural resources; pursuing new and alternative sources of funding such as sovereign funds and domestic resources; creating incentives for the private sector to make investments; and using PPPs to finance agribusiness or facilitate capacity building and development of technical and entrepreneurial skills.

9. According to FAO[6], ''a fundamental premise for delivering sustainable food and agriculture is the creation of an enabling policy environment and the need for sectoral ministries to change the way they work and coordinate policies across government''. Inter-institutional coordination and collaboration on policy development, legislation and implementation is required, from the national and ministerial to the district level, to create the enabling environment for sustainable agribusiness and food value chains. The transition to more sustainable agriculture and food systems requires actions that build political alliances and coalitions with actors beyond food and agriculture.

10. Policy-makers must recognize the need to manage trade-offs, and set out concrete measures for better aligning multiple objectives and incentive structures. They must encourage both legal

[4] Enabling the Business of Agriculture 2017, World Bank Group
[5] UNECA, 2014. "We need more agribusiness in Africa". Africa Renewal special edition on Agriculture.

[6] FAO, 2018. Transforming Food and Agriculture to Achieve the SDGs: 20 Interconnected Actions to Guide Decision-makers. Rome.

frameworks that recognize and secure rights of access for smallholders and local communities, and favourable policy measures to incentivize private sector engagement in sustainable market activities. Multistakeholder mechanisms and new forms of participatory governance structures will bolster policy ownership while helping to mobilize capacities, information, technologies and access to financial and productive resources.

11. A conducive policy and regulatory environment is critical for engaging entrepreneurs and tapping into the know-how, resources and innovative capacities and potentials of the private sector, including agricultural producer organizations, cooperatives, small and medium enterprises (SMEs) as well as large domestic and foreign investors. Appropriate policy measures to unlocking the potential of the private sector is fundamental to progress, not only for financing, but also for technology development and adoption, knowledge transfer and innovation, and job and revenue creation.

12. Beyond formulation of policies, policy coherence is essential to inform decision-making for managing potential trade-offs and inconsistencies among economic, social and environmental policy objectives, to consider transboundary and intergenerational impacts, and to take into account enabling or disabling factors, as well as the role of different actors. To make sure that policies support and do not undermine countries' development aspirations, it is necessary to set up institutional mechanisms and processes to translate policies into operational measures (policy tools) and to harmonize and manage often competing policy objectives and interests. These mechanisms may include, for example, policy coordination that can resolve conflicts or inconsistencies between intra- and cross-sectoral policies, as well as systems for monitoring, analysing, evaluating and reporting progresses and the impacts of policies to provide evidence to inform decision-making.[7]

13. FAO has identified a number of weaknesses in policy coordination at the country and continental level; for example, inadequate mechanisms for coordination and the misalignment of policies between agriculture and trade have been noted in many African countries. Agriculture policies and investment plans in Africa rarely address market and trade-related constraints to agricultural and rural transformation sufficiently. Although agriculture commercialization and value addition provide logical entry points for cross-sectoral collaboration, in general in Africa they are not consistently prioritized in policies or translated into specific interventions across sectors.

## III. Tools and Challenges for Implementation

14. Policy-makers have a suite of policy implementation tools that they can consider in their efforts to achieve agricultural transformation. These include consumer-oriented policies aimed at improving food security and nutrition outcomes; producer-oriented policies to support farmers, trade-oriented and macroeconomic policies aimed at supporting consumers as well as industry and business-oriented policies to promote value-chain development, agribusiness and agro-industry. More specifically, if the right policy framework with an appropriate compendium of policy measures is created, agriculture and agribusiness can have a strong multiplier effect on development.

[7] FAO, 2018. "Policy coherence for agricultural transformation in African least developed countries: Aligning agriculture and trade policymaking processes".

15. Enabling private sector investment along agricultural value chains is crucial to sustainably boost farm productivity. The public sector is also crucial to create an enabling framework for the private sector to function, by adjusting policy and making public investment. Partnerships between the public and private sectors foster cooperation between public and private entities, help align their agendas, and can facilitate the sharing of risks that are involved in investing in challenging environments, such as underdeveloped agrifood industries in Africa. True public-private cooperation involves including private sector in developing national priorities which, if done correctly, can sustainably promote industry growth. The menu of policy measures for CAADP under development by the African Union Development Agency (AUDA-NEPAD) with FAO support builds on global knowledge on such optional policy measures.

16. Governments can stimulate rural and agricultural transformation by choosing appropriate policies. However, the plethora of policy measures poses a daunting challenge to policy-makers in terms of design capacity, ensuring coherence, vertical and horizontal coordination, implementation, monitoring and assessing policy effectiveness and impacts. In addition, the vagueness of policies and strategy formulation, and the lack of focus on implementation instruments (policy measures) also pose major constraints for governments in the region.

17. Policy interventions are appropriate only when governments strike the right balance between correcting market failures and improving market efficiencies. This balance is essential for agricultural development, but it is also particularly challenging to achieve. Evidence from a World Bank assessment[8] suggests that too-stringent agricultural regulations can impose excessive compliance costs for value-chain actors and make them less incentivized and more prone to remaining or becoming informal. Therefore, reducing transaction costs and disincentives caused by policies or regulations is imperative to agricultural development. Regulations that can lower risk are crucial to enable farmers to operate in a context where the outcomes of their decisions are more predictable.

18. Stakeholders at a regional policy forum, organized by FAO in May 2019[9], also found that countries are not able to provide adequate public funding to finance their National Agriculture Investment Plans (NAIPs), which lead to huge gaps between planning and implementation. The main reasons are: (i) the discrepancy between policies and most country investment plans; (ii) the vagueness of the investment plans that do not specify which policy measures the public sector is committed to deploy; and (iii) the lack of integration of most investment plans within national budgets, due to generally limited political influence of agriculture ministries and their struggle to obtain increased allocation of public funds. At the same time, insights from the forum revealed that complementary investments in sectors other than agriculture were limited; and the very few initiatives aimed at attracting private capital in agriculture were fragmented. Weak monitoring and evaluation systems pose constraints to effectively tracking and measuring the progress and impact of public policies and investment in agriculture. In addition, limited country capacities to execute public policy decisions and investments add to the implementation challenges.

[8] Enabling the Business of Agriculture 2017, World Bank Group

[9] FAO. 2019. A new approach for mainstreaming Sustainable Food and Agriculture in the implementation of the Sustainable Development Goals.

## IV. Evidence Supports Positive Dividends from Improved Policy and Regulatory Framework

19. Despite these challenges, the conditions for transformation are beginning to materialize in a number of African countries, according to recent assessments by the World Bank.[10] Smaller-scale transformations are happening, such as in the horticulture and floriculture sectors in Kenya and Ethiopia, respectively, Rwanda's rapid and material reductions in the level of malnutrition, Nigeria's large-scale registration of farmers onto an electronic-wallet system to facilitate fertilizer subsidy payments, and transformation of the rice sector in Senegal.

20. These instances show that localized transformation in Africa is possible and point the way for larger-scale shifts in African agriculture. The main lesson learned is that successful transformations are business-led, and involve the creation of three simultaneous conditions: (i) a large-scale dissemination of productivity-increasing technology and inputs, plus input intensity and capital intensity; (ii) the development of input and output markets structures and incentives that allow the full realization of the value of increased production; and (iii) a well-functioning and vibrant private sector that can manage and allocate skill and capital to scale emergent success and drive long-term sustainable agribusiness growth.

21. Land reform in Ethiopia and Rwanda provided the required learning experiences for the rest of Africa. Certification and registration programmes have successfully raised the stock of individually owned registered land and enhanced land tenure security in both countries. In Rwanda, the short-term impact of the land registration programme led to increased investment and maintenance of soil conservation measures, particularly among female-headed households; improved access to land among legally married women; and prompted better gender-neutral recording of inheritance rights.

22. Improved laws and regulations have facilitated access to financial services for farmers and agribusinesses in nine African countries that reformed their electronic money (e-money) laws to create an enabling regulatory environment. The reforms ensured appropriate mechanisms are in place for payment and funds transfer. Other reforms include the adoption of a new law regulating warehouse receipts and new legal frameworks for agent banking. Successful regulatory reform has contributed to increased supply and lower prices in the fertilizer sector in Ethiopia and Kenya, and in the maize industry in Eastern and Southern Africa, among others.

23. Significant improvements in input markets, expansion of innovative agricultural finance, and crucial land policy reforms have helped some African countries to successfully improve key agricultural value chains. Examples of these country-specific success stories include Nigerian farmer registration and input distribution, floriculture growth in Ethiopia, horticulture development in Kenya, improved rice yields in Senegal and Mali, rapid and material malnutrition reduction in Rwanda, vertical integration and agro-processing in Morocco, and cotton production in Burkina Faso.

24. In Morocco, through the Green Morocco Plan, the Government has for over 30 years successfully developed a comprehensive institutional framework that enabled the public sector to deploy a compendium of innovative policy tools that resulted in increased productivity, food security, improved trade balance, and increased employment, through smallholder inclusive value chains. Among the key elements of the institutional framework are: (i) the operation of an agriculture development fund to promote smallholder farmers aggregation and improve value-chain organization and performance; the facilities of the fund enable farmers' access to mechanization and

[10] World Bank, 2017. Enabling the Business of Agriculture.

irrigation services, genetic materials, structured and market-oriented value chains; (ii) procedures on smallholder farmers aggregation; (iii) the setting up and operation of an agriculture development agency; (iv) the institutionalization of a commodity sector development plan agreement signed between government and sector industry associations, for each priority commodity, among others.

25. Reforms to address non-tariff barriers introduced in the tripartite free trade area of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC), including the "Mechanism for Reporting, Monitoring and Eliminating Non-Tariff Barriers" and subsequent upgrades, resulted in greater market access at lower cost especially for farmers and informal traders who rely on mobile phones for communication. Similarly, the partnerships between stakeholders, such as the East Africa Trade Hub and the Eastern Africa Grain Council (EAGC), have led to the adoption of harmonized standards for staple foods (including rice, beans, sorghum, millet and cassava) that have helped reduce technical barriers to trade and sanitary and phytosanitary measures as well as improve the business environment for cross-border agricultural trade.[11]

26. These success stories confirm that, despite the challenges in terms of diversity, complexity, limited capacities and resources, improving the policy and regulatory environment, with a focus on policy instruments and institutions, is indeed critical and possible for rural and agricultural transformation to achieve the SDGs and Malabo commitments.

## V. Engaging the Private Sector to Stimulate Agri-food Trade and Investment

27. FAO supports evidence based, country-led, country-owned solutions to eradicate poverty (SDG 1) and end hunger and all forms of malnutrition (SDG 2) by accelerating agricultural transformation and sustainable rural development. The Organization actively engages with the private sector to find innovative and collaborative solutions for the attainment of the SDGs. FAO's work in this area is grounded in the principle that all private sector engagements should contribute to the attainment of SDGs in ways that are consistent with FAO's mandate and programme of work, while respecting the values of FAO and the United Nations. In practice, this means promoting private sector investment in a responsible, SDG-compliant manner. FAO considers private sector partners to include enterprises, organizations, companies, or businesses, regardless of size, ownership, or structure; this would include entities such as SMEs, multinational corporations, private financial institutions, industry and trade associations, consortia representing private sector interests, and private philanthropic foundations.[12]

28. FAO has articulated its approach to collaborating with the private sector and available instruments for forging these partnerships in its recent private sector strategy. These instruments include (i) engaging with governments and financial institutions to promote the deployment of blended finance instruments that can facilitate investment throughout agricultural supply chains that actively contribute to the SDGs; (ii) providing policy support and technical assistance to governments to foster PPPs for agribusiness development, and to help enable governments in the identification of private companies that can partner and/or invest in response to the country's needs and priorities; and (iii) facilitation of multistakeholder dialogues between the domestic private and public sectors.

[11] http://www.paqi.org/wp-content/uploads/2014/09/PAQI_TBT_SPS_2017_english_web.pdf (Page 15)

[12] FAO, 2019. "Working Together through Innovative Partnerships: FAO Partnerships with the Private Sector for Food and Agriculture".

29. FAO's Hand-in-Hand Initiative promotes matchmaking with the private sector to attract private investments in agriculture. The initiative identifies investment gaps in areas where it is profitable for the private sector to operate and finds ways to reduce private investors' exposure to risk or mix interventions to stimulate the deployment of private capital. The initiative targets areas where there are both significant potential returns available to private investors, and where the tangible impacts on farmers' livelihoods and poverty reduction are clear, due to opportunities for increased income and off-farm job opportunities. FAO has also committed to sharing access to its Geographic Information System (GIS) data platform with other development partner institutions that already have expertise in using blended finance to attract private investment in target countries, such as IFC and IDB Invest.[13] In this way, FAO is playing a pivotal role in transforming development challenges into new business opportunities for local entrepreneurs through market-based solutions.

30. FAO also facilitates the design and implementation of PPPs in the agricultural sector (agri-PPPs). Implementing PPP initiatives can be a useful mechanism to promote private sector engagement, but successfully fostering and facilitating such initiatives can be challenging. While some of these initiatives are in place, they generally operate at limited scale. Within the private sector in agriculture in Africa, a lack of industry associations and aggregation among smallholders translates into limited access to markets and finance for producers, and constrained ability to lobby governments on behalf of small-scale producers and SMEs in agribusinesses. Large numbers SMEs operate in the informal economy and are not well integrated into the policy debate. Yet if their full potential is reached, these businesses could drive rural and agriculture transformation across the continent.

31. Governments across the continent have shown an increasing interest in attracting investment from the private sector through PPPs in the agricultural and agribusiness sectors. FAO, in partnership with the African Union, has recently developed a set of guidelines for the design and implementation of effective agri-PPPs. A series of studies were commissioned to gather more specific evidence on experiences from the African continent in the design and implementation of agri-PPPs, collecting data from across the continent. The study added value to the existing knowledge base around agri-PPPs by clearly defining the different types of agri-PPPs, modes of delivery, guidelines for commodity selection, and lessons learned around the design and implementation of such mechanisms.

32. FAO further supports private sector engagement through the facilitation of multistakeholder dialogues. One such example of this is that in preparation for the 31st session of the FAO Regional Conference for Africa, FAO organized a Regional Private Sector Dialogue, in Accra, Ghana in March 2020. This private sector dialogue brought together business leaders, financiers, and advocates in agriculture and agribusiness throughout the continent to discuss and identify action-oriented solutions to address key challenges and bottlenecks facing intra-Africa agri-food trade and investments in agriculture and rural transformation. Private sector actors provided their perspectives on the major investment priorities for rural and agricultural transformation in Africa, key elements of the policy reform agenda for promoting intra-regional agri-food trade, including implementation measures for AfCFTA, and specific measures that can be adopted to promote innovation in agri-food systems. These discussions culminated in the formulation of priority actions for different stakeholders around the following themes: promoting intra-regional agri-food trade, innovation by agriculture and agribusiness actors, and financing agriculture and trade investments.

[13] "The Hand-in-Hand Initiative". FAO. CL 163/6 – Information Note 1 – November 2019.

# VI. Key Messages

33. Policies and regulation reforms are effective if they are translated into an appropriate compendium of policy measures or tools. Evidence shows that such a compendium of policy measures can stimulate transformation and growth in agriculture and food markets, support functioning markets, and enable thriving agribusinesses along value chains, from smallholder farmers and SMEs to large-scale domestic and foreign investors.

34. Establishing coordination mechanisms for mainstreaming policy measures into the preparation of investment plans, action programmes and budgets, as well as increased harmonization, vertical and horizontal coordination along value chains and across actors cannot be underscored enough. It is also essential to implement de-risking measures to attract private funding; for example, greater public commitment via the allocation of dedicated funds to expand the scope of industry associations or cooperatives in agriculture. There is vast scope for innovation offered by technology, with its potential to establish innovative business models, create new linkages between actors in the value chain, reduce transaction costs and increase efficiency and transparency.

35. FAO is supporting the creation of an enabling environment for effective and sustainable investment in agriculture and food systems, especially at the county level. It recognizes that the private sector, including farmers, SMEs, large domestic and foreign investors, are the engines for economic development and, in view of this, supports more inclusive and robust enabling policies as well as dialogue to encourage greater private sector investment.

36. FAO's support to member countries for developing their NAIPs and encouraging these processes to be more inclusive of the private sector can help to catalyse private investment around national priorities and supplement limited public budgets with private sources of capital.