

Feed the Future Enabling Environment for Food Security Project

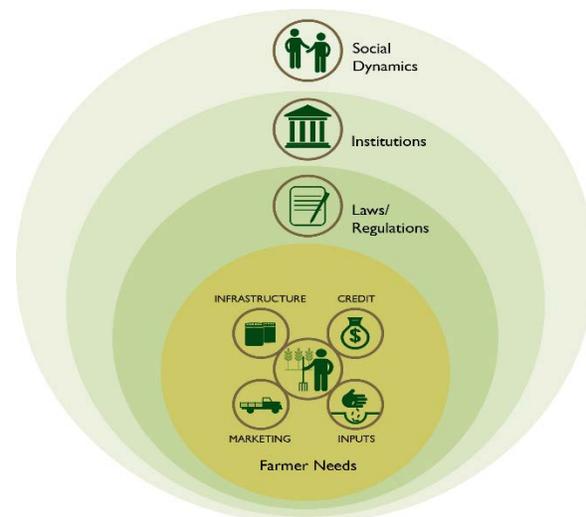
Enabling Environment in Market Systems Technical Note

The Role of the Enabling Environment in Agricultural Market Systems

A systems approach to agricultural market development expands focus from the farm level to include a broader perspective on all functions and relationships along a value chain, as well as the enabling environment that drives behavior and decisions within the system. The enabling environment, also looked at as the business climate, is considered to encompass both **formal rules** (policies, laws, regulations, and standards) and **informal rules** (societal norms and traditions). The enabling environment provides the boundaries for market actors to operate within, fostering certainty and influencing the transaction costs of doing business. Policies, laws, and regulations impact the costs and risks borne by agricultural market actors, and therefore influence investment incentives, as well as the efficiency, inclusiveness, and performance of the entire system. The agricultural business enabling environment is faced with elements unique to other business sectors in that there are added public policy concerns related to food safety, food security, and political stability.

Given the enabling environment's influence on all aspects of decision making and resource allocation within a market system, it presents important leverage points for poverty reduction, food security, economic growth, employment, ecological sustainability, and resilience. The lack of a clear and supportive enabling environment for agribusiness can have a disproportionate impact on vulnerable actors including smallholders, women, and micro, small, and medium sized enterprises (MSMEs). Reforming the enabling environment reduces barriers to entry and levels the playing field so that burdensome and inefficient rules do not impede inclusive agricultural growth. Furthermore, sound enabling environment interventions promote market adaptability, providing for greater food system resilience in the face of volatility and shocks.

Enabling Environment Impacts on Farmers



There are several examples of the practical impact the enabling environment has, particularly on more vulnerable actors, within agricultural market systems around the world.¹

In **Nepal**, importing hybrid seed takes an average of 56 days – longer than it takes to grow it – constraining smallholder access to improved seed and limiting their productivity potential. In **Papua New Guinea**, more than 97 percent of land is held in customary title, with no clear process to obtain formal title, resulting in frequent land disputes and limited investment in long term land management. In **Ghana**, unsafe conditions for female traders was found to effectively exclude women from regional export markets, and limited growth potential in the rice and maize sectors. In **Kenya**, business registration services are only available in Nairobi, placing the benefits of formal registration, such as access to credit and limited liability protections, out of reach for many small rural agribusinesses. In **India**, gender discrimination results in women waiting 37 percent longer than men to meet with a border official to engage in cross-border

¹ USAID Enabling Agricultural Trade Project, USAID-EAT Final Report, 2015.

agricultural trade – so if a man waits one hour, a woman waits one hour and 22 minutes on average. In **Mali**, low use of contracts leaves processors with little recourse in the event of breach, and limits supplier relationships to trust-based agreements within narrow social networks. In **Tanzania**, government export bans designed to reduce food prices for consumers lowered national food prices by less than 2.5 percent but reduced producer prices by up to 26 percent, illustrating the disproportionately net negative effect on smallholder producers.²

By targeting the underlying drivers of specific market behaviors that inhibit agricultural sector investment, enabling environment reform has the potential to generate sustainable and transformative economic growth. When informed by an understanding of the differential impact of laws and institutions on various economic actors, enabling environment reform can also ensure such growth is inclusive.

Tools and Best Practices for Enabling Environment Reforms

Evidence-based policy reform requires robust, systematic, and objective measurements of the effects the enabling environment has on economic decision making, and the possible outcomes of reform efforts. The Feed the Future Enabling Environment for Food Security project and its predecessor, the Enabling Agricultural Trade project, have developed and employed a range of analytical instruments to examine the influence of prevailing rules and institutions within agricultural market systems.

The Commercial, Legal, and Institutional Reform (CLIR) framework enables multi-sectoral analysis of the legal framework, implementing institutions, supporting institutions, and social dynamics within market systems. The **AgCLIR** methodology utilizes this framework to examine unique constraints facing agricultural firms and farms across an enterprise lifecycle. AgCLIR covers a range of issues affecting access to inputs, markets, infrastructure, as well as factors affecting competition within the agricultural sector. This analysis enables stakeholders to develop an agenda for actionable and prioritized reforms to spur agricultural sector growth. The **SeedCLIR** methodology dives deeper by specifically focusing on the conditions necessary for developing a vibrant, commercial seed industry. SeedCLIR introduces a maturity model that allows assessors to map the performance of the legal, regulatory, and institutional environment in relation to the seed industry and enables decision makers to prioritize areas for reform.

Benchmarking tools are additionally valuable to quantify key economic indicators and allow performance to be compared across countries and over time. The **Agribusiness Regulations and Institutions Index (AGRI)** was a unique benchmarking tool piloted by USAID to measure enabling environment indicators such as time, cost, and procedures required to comply with rules within agriculture market systems. The AGRI Index inspired USAID and the World Bank to support a new benchmarking tool - the **Enabling the Business of Agriculture (EBA)** Index, which introduces a comprehensive set of indicators to measure the effect of the enabling environment on agricultural sector performance.

In addition to these tools, the **Institutional Architecture** methodology specifically examines the elements of a country's institutional capacity to carry out evidence-based policy reform in the agriculture sector. This includes close examination of a country's guiding policy framework, their systems for policy development and cross-ministerial coordination, their commitment to inclusive stakeholder consultation, their capacity to undertake evidence-based analysis, their commitment to policy implementation, and mutual accountability within implementing institutions.

Further analytical methodologies that have proven useful in distilling lessons learned for enabling environment reform include **regional studies** examining the scope and opportunity for cross-border regulatory cooperation, **market and trade analyses** to identify sector-specific constraints and opportunities, and **gender analyses** to quantify the differential impact of policies, laws, and regulations on women's commercial activity.

² IFPRI, [Economy wide impact of maize export bans on agricultural growth and household welfare in Tanzania](#), 2013.

Stakeholder engagement is a key principle for building an evidence base, regardless of the analytical tool used. While the aforementioned analytical frameworks have been useful in generating quantitative and qualitative evidence of enabling environment constraints, the results alone are insufficient to stimulate buy-in from policy makers and other decision makers within a market system. For local stakeholders to embrace the findings, and undertake a continuous evidence-based reform process, the analysis must be carried out through a stakeholder based approach.

A **multi-stakeholder consultative process** requires that a wide range of actors from the public, private, and civil society sectors are engaged in analysis to reveal details of the local context, the underlying reasons for existing constraints in market systems, and the economic effects of the existing rules framework. More importantly, commitment to a stakeholder-based approach generates local actor buy-in to results, and stimulates discussion on how best to address the challenges uncovered.

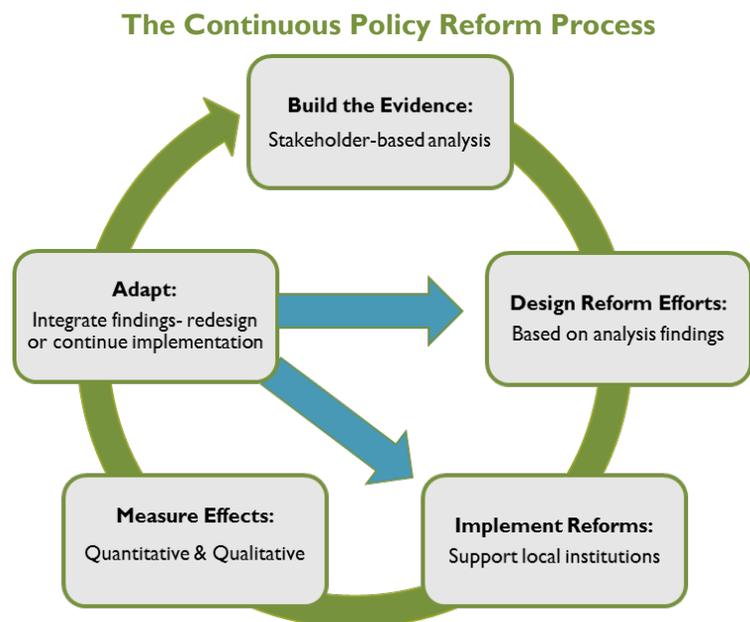
Proven methods for local stakeholder engagement in the analytical process include **key informant interviews**, convening **focus groups** for information gathering, and organizing **national level roundtables** to present initial findings. For instance, in Liberia, an AgCLIR assessment team interviewed more than 300 stakeholders and then organized an interactive roundtable seeking feedback on findings and soliciting a vote on reform priorities.

From Analysis to Action: Methods for Catalyzing and Facilitating Reforms

Policy reform should not be considered a linear process that ends when reform efforts are enacted. Instead, a **continuous cycle of evidence-based reform** starts with engaging in stakeholder based analysis, defining what successful reform looks like, supporting reform efforts, measuring the effects of the reforms enacted, and adapting reforms based on the evidence. In effect, this approach is akin to a cycle of continuous learning by national-level decision makers and development partners working collaboratively.

USAID and implementing partners have deployed a number of successful approaches to facilitate enabling environment reform efforts around the world. These approaches bring a unique focus to strengthening local institutions to embrace, engage in, and lead stages of the continuous reform lifecycle.³

- **Sector program assistance:** Using this method, resources for enabling environment reform are directed through the host country government rather than through the private sector, civil society, or implementing partners. This model was employed by USAID/Rwanda, and relies on strong, stable government institutions.
- **Integrated reform efforts through value chain projects:** This method offers the benefit of applying a holistic approach to addressing market system constraints, including at the input, production, market, financial



³ Feed the Future Enabling Environment for Food Security Project, [Review of Feed the Future Investments in Enabling Environment Reform](#), 2016 (on Agrilinks).

service, and policy levels. The long-term nature of enabling environment reform efforts can lead projects to de-prioritize reform efforts in favor of more rapid and easily quantifiable outputs, such as production yields.

- **Regional harmonization initiatives:** Where regional missions seek regulatory cooperation to facilitate enhanced cross-border flows of goods and services, a focus on harmonization can be important. USAID has implemented this approach in several regional economic communities including ASEAN. A challenge to the regional approach is aligning legislative agendas across countries with varied priorities, and addressing institutional capacity to implement regional arrangements in addition to domestic agendas.
- **Multi-donor initiatives:** USAID has invested in multi-donor initiatives to leverage resources and generate broad-based buy-in from additional development partners. In these cases, the support for reform initiatives is implemented by another donor or independent organization. Examples of this include the Alliance for a Green Revolution in Africa and the World Bank's Enabling the Business of Agriculture Index.
- **Public-private partnerships:** By mobilizing resources from governments, private sector, civil society, and donors there can be a strong impact on enabling environment reform. For instance, the New Alliance for Food Security and Nutrition brought together a range of public and private partners to support African governments to achieve their policy commitments aligned with their National Agriculture and Food Security Investment Plans, resulting in more than 200 policy reforms across 10 countries.
- **Embedded technical advisory services:** Here, USAID and implementing partners provide government ministries, regional institutions, or private advocacy groups with short- or long-term technical experts to provide hands-on support to the reform process. This may include reviewing existing laws, regulations, or standards; supporting the drafting of new laws and regulations; and providing operational support.
- **Institutional capacity building:** In addition to embedding technical support, USAID and implementing partners can deliver targeted support to public sector institutions or private sector advocacy groups. Such support may include training courses, study tours, or operational upgrades necessary for carrying out evidence-based reform.

Finally, through USAID's global, country-level, and regional enabling environment reform initiatives, several **lessons learned** have emerged:

- **Building trusted relationships** is paramount. Establishing relationships takes time, and coordinating with local stakeholders and decision makers upfront is critical.
- Government counterparts balance limited time and competing priorities, so **reform efforts must begin with stakeholder buy-in and align with government priorities.**
- Drafting or passing a reform is practically meaningless if it is not implemented. Where reform efforts are in contrast to **cultural norms**, the will to implement reforms is likely to be weak.
- Even where the institutional will for reform is evident, a lack of **resources and technical capacity** can continue to inhibit reform implementation efforts.

The [Feed the Future Enabling Environment for Food Security project](#) is a global support mechanism for Feed the Future Focused and aligned Missions to address policies, as well as legal, institutional, and regulatory factors that affect food security. To learn more, please contact Gloria Kessler (COR) at gkessler@usaid.gov or Nate Kline (Chief of Party) at nkline@fintrac.com.