Feed the Future Enabling Environment for Food Security Project

Private Sector Voices: Building an Enabling Environment for Investment

September 2018

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ACRONYM LIST

AGEXPORT	Guatemalan Exporters Association
EAGC	East African Grain Council
FTF-EEFS	Feed the Future Enabling Environment for Food Security project
IT	information technology
NGOs	nongovernmental organizations
SWFF	Securing Water for Food
USAID	United States Agency for International Development
VAT	value-added tax

1. INTRODUCTION

The enabling environment — i.e., the policies, laws, regulations, and norms that govern behavior in a market system — can have a substantial impact on the viability, scale, and speed of growth of businesses, with ramifications not just for the affected businesses but also for the smallholder farmers and consumers they serve.[1] Burdensome or unstable policies and regulations can derail even the best business plans, causing losses and setbacks, the scaling back of investment, or even bankruptcy. What makes the environment a truly *enabling* one, one that attracts the types of investment needed to connect smallholder farmers to markets and pull them out of poverty?

In this study, the Feed the Future Enabling Environment for Food Security project (FTF-EEFS) seeks to understand what works well for integrating smallholder farmers into market systems through the private sector and to better understand how the enabling environment impacts business decisions — positively or negatively — as they seek to serve or scale up engagement with smallholder farmers. In addition, the study provides a sounding board for private sector opinions on how USAID and other development partners can best support private sector investment and help to address the policy constraints that threaten to derail these crucial investments.

2. METHODOLOGY

In August 2018, FTF-EEFS conducted interviews with 25 private sector companies currently investing in Bangladesh, Guatemala, Kenya, Uganda, and Nigeria. The team chose to focus on five Feed the Future focus countries to allow for geographic diversity while still ensuring that the interviews would cumulatively shed some light on the experiences across and within different country contexts.

The companies were selected from a list of potential interviewees compiled from the partner lists of Feed the Future Partnering for Innovation, the Feed the Future Innovation Labs, Securing Water for Food, and FTF-EEFS as well as companies identified through the literature review.[2] The study focused on small to medium-sized businesses in recognition of the fact that the enabling environment experienced by a well-connected, well-resourced multinational company and the remedies available to that investor are quite different than those encountered by a smaller foreign or domestic company.

Additional criteria for selection included:

- For-profit enterprises and social enterprises with a triple bottom line.
- Recent market entrants or companies that have tried to scale operations in the past 5-7 years.
- Balanced representation of foreign and domestic companies.
- Balanced representation of each investor type within and across countries (e.g., input suppliers, technology providers, processors, traders).

The final list of interviewees included companies that provide innovative technological solutions or high-quality inputs, market linkage facilitators employing information technology (IT) solutions, and commodity

[1] See page 15 of Sustainable Development Initiative, *Driving Innovations in Smallholder Engagement: Insights in Service Delivery and Finance* (December 2017): "[D]espite knowledge gains, it was not clear why certain models had larger impacts at farm level, or lower levels of risk, lower costs, or higher values generated for investors. It was later discovered that the enabling environment as well as the innovative use of technology has a big role in the success of service supply." Full report available at:
https://www.idhsustainabletrade.com/uploaded/2017/12/Smallholder_Engagement_Report_2017.pdf

[2] Other potential sources, such as the partner lists of AgResults, Powering Agriculture, and the USAID Investment Support Programme, were also considered but were either unavailable or did not align with the focus countries selected for this study.

processors and buyers. Table 1 provides a breakdown of the types of businesses interviewed. Annex I lists all companies and interviewees.

Each interview followed a standard interview guide[3] designed to determine the motivations behind initial investments and expansion to new markets, common policy enablers and constraints to the investment, the types of platforms or approaches employed to tackle policy concerns, and the investor's views on the role of USAID and other development partners in facilitating similar investments.

Table 1. Breakdown of Interviewees by Location of Investment, Business Model, and Domicile*

Country	Type of Business				Headquarters	
	Inputs	*Technology*	*IT*	*Trading*	*Domestic*	*Foreign*
Bangladesh	2	2	1	0	3	2
Guatemala	1	1	0	2	3	1
Nigeria	1	0	1	2	3	1
Kenya	1	5	0	2	6	2
Uganda	0	0	1	3	4	0

**For companies active in multiple countries, the company has been counted for the country where it has the most significant operations.*

3. HOW THE ENABLING ENVIRONMENT IMPACTS INVESTMENT AND GROWTH

The investors were asked to describe what motivated their initial investments and how the enabling environment factored into that decision. According to the businesses interviewed, initial investment decisions centered almost exclusively on the desire to seize a market opportunity. Given that many of the businesses interviewed are social enterprises, a majority also referenced the triple bottom line: their desire to make a profit while respecting the environment and improving the lives of those at the bottom of the pyramid. While investors integrated known regulatory costs into their initial calculations, government policies, regulations, and the perceived ease of doing business rarely stood out as a motivator or inhibitor of the initial investment. Due diligence questions centered around the feasibility of the business model or technology and whether it made economic sense for a for-profit business and the intended client (e.g., smallholder farmers). Whether it concerned a new technology to boost productivity, a more efficient way to connect farmers to markets, or an unmet demand for high-value products in international markets, these investors each spotted a market gap and identified an innovative approach to meet that need.

> *"We wanted an office with a permanent employee and our own service team, but we got legal advice not to bother — it would take a year to register the business, and then we would be subject to lots of laws regarding import and the repatriation of profits. We use an agent instead, but the level of service is not the same."*
>
> \- Foreign investor in Bangladesh

Although the ease of doing business was not usually a strong factor in whether or not to invest, the regulatory environment quite often shaped the form of the investment, particularly for foreign investors. In countries with high taxes, restrictive work permit policies, or lengthy and cumbersome registration procedures, foreign investors tend to operate through a local partner or distributor. This approach allows the investor to shift the risk of regulatory compliance on to the local partner. Small companies cited the duplicative costs associated with managing tax and regulatory compliance, payroll, and bank accounts across multiple jurisdictions as reasons for avoiding establishing a local footprint. This approach decreases time, cost, and hassle but can also impact quality control and efficiency of the business.

[3] A copy of the interview guide can be found in Annex II of this report.

The regulatory burden of registering and operating a company also undermines the regional competitiveness of the country. One investor noted that it takes 2-3 days to register a business in Rwanda, whereas a similar registration in Nigeria could require six months and multiple applications:[4] *"It was clear that Rwanda, with its clear process and tax implications, needed to be the headquarters."* For domestic businesses, these costs are unavoidable and must be built into the cost structure for the business or covered by start-up capital. According to an investor in Uganda, starting the business required paying a very expensive fee to a local law firm to manage the high number of forms and processes required to register.

> *"Kenya has a Hire Purchase law that we use to deploy the asset finance, which allows us to provide longer payment terms while still maintaining security over the asset. In Guatemala, however, there is less clarity around the particular regulatory framework for hire purchase, and it is therefore less transparent for us and for the client."*
>
> - Asset-backed finance

The ease of doing business has a much bigger impact on decisions regarding scaling operations or expanding to new countries. Investors look for markets with similar operating environments, including market structure and language, but also cost factors such as transport and whether the legal environment supports their business model. For example, a company with a business model that relies on clear contracts between the farmer and company may be hesitant to invest in a country with opaque and complex contract laws requiring expensive legal fees. Investors also shy away from countries with a high degree of corruption, as the uncertainty of the operating environment makes it impossible to sufficiently anticipate costs.

The enabling environment is frequently a chief factor in the decision to exit a market or cut an existing business line, particularly if the business is contracting. For example, repeated losses due to policy changes or procedural delays impact the overall demand and the hassle and cost of operations and thus the profit potential. If the investor perceives growth potential in another market where doing business is easier, the company is far more likely to refocus energy and capital on that market. One East African business noted that the perceived unfriendliness of the Tanzanian government — particularly to foreign businesses — as experienced through licensing and other repeated hassles to doing business has caused the business to question remaining in the Tanzanian market. Another company felt that the prevalence of donor programs in Guatemala has resulted in farmers' reluctance to invest their own money into their livelihoods, preferring to wait for the next donor-funded program to provide inputs or new technologies for free or at reduced cost. These well-intended interventions have crowded out the market have causing the company to cut its operations in favor of more receptive markets. In extreme cases, overall rule of law has become enough of a concern to limit further investment or cause the scaling back of existing operations to protect staff and assets from harm and expropriation (see Box 1).

[4] The relative World Bank Doing Business Index scores for these two economies are similar, although less stark: Doing Business finds that starting a business in Rwanda requires four days and in Nigeria 18 days. See: http://www.doingbusiness.org/en/doingbusiness.

Box 1: Security and Rule of Law

In Nigeria, high levels of corruption and insecurity in certain areas have impeded investment in the smallholder market. In their own words, investors describe how these conditions have dissuaded investment, caused the loss of property, and motivated the withdrawal from certain areas:

- *"Given the level of corruption, at this stage we aren't even looking at Nigeria as a potential market, despite its huge potential. We won't even explore it as an option. With funding, maybe, but you go through a lot of money before you get an efficient settled process in place."*
- *"The police came in at gunpoint and confiscated our products for what they said was an ongoing investigation. One week later the products were already sold in the market. What can you do? At some point, you cut the cost. The police are guilty, but who do you go to? Even if we got an injunction, the police enforce it."*
- *"We are closing a small farm due to challenges with logistics and security. We are not willing to leave our staff there and would rather focus on safe areas with better roads."*

In Guatemala, one investor raised concerns regarding instances of land confiscation and perceived corruption in the courts that prevents aggrieved landowners from receiving due process:

- *"I've considered leaving, but I have loans and work with a huge number of colleagues and small farmers. But I won't invest a penny more and am planning to expand in other countries more and more."*

4. COMMON CONSTRAINTS

The enabling environment challenges cited by the businesses interviewed revealed no clear distinctions based on country of investment, domicile, or type of business. Nonetheless, certain common constraints emerged.[5]

4.1 ACCESS TO FINANCE

Access to finance was the number one issue cited by the businesses interviewed. Stable, long-term access to affordable sources of capital are essential to new investments and bringing those investments to scale. In many developing countries, interest rates as high as 25-30 percent preclude businesses from accessing commercial bank financing. This environment leaves many businesses forced to give up equity in the business, chase subsidized finance or grants, or simply rely on savings.

In countries with volatile monetary policies such as Nigeria, the need to compete for concessionary loans from the government regularly influences investment plans. With bank interest rates upwards of 24 percent per annum (or 2 percent per month), the only realistic domestic sources of finance for most businesses are concessionary loans from the government. These loans are often tied to specific policy initiatives, leading businesses to pivot to new business lines in order to access capital. To remain competitive for concessionary loans, one company stated that it maintains 15-20 different business plans

[5] Land acquisition, which is commonly raised as a key impediment to investment, was rarely mentioned and never as one of the main challenges for the business. This result may reflect the sample of businesses interviewed. For example, most interviewees who owned land were domestic businesses who generally face fewer obstacles to obtaining land, whereas many of the foreign businesses supply technologies or services that do not require the acquisition of property.

for various areas of government funding. *"Every three months there's a new trend. First it's self-sufficiency in rice; three months later, it's agricultural production. Eventually every topic comes around again.*"

> *"All business pivots in the course of our operations have been policy-related, whether due to import bans sheltering domestic industry or the need to chase the latest trend for agricultural sector financing through the government… After a certain size, all Nigerian businesses must be highly diversified to survive: they do import and export to have their own forex; they try to be active in agriculture to access subsidized funding and manufacturing where the margins are higher.*"
>
> \- Nigerian agribusiness

Fluctuating currency values can devalue funding sources overnight. One business received funding to establish a vegetable oil and animal feed factory. By the time the funds were received, the value of the Nigerian naira against the U.S. dollar had sunk by more than 50 percent, forcing the business to shelve the project and focus on primary production.

Government subsidized loans are often too short-term, competitive, or small to act as long-term sources for growing a business. In Uganda, the Agricultural Credit Facility provides small loans to agricultural businesses, but investors report that the need outpaces demand. In addition, the size of the loans (at a maximum of USD $250,000) make them suitable for small businesses and entrepreneurs but not for businesses trying to invest at scale. In Nigeria, farming businesses recently found themselves outcompeted for concessionary loans by importers who request loan terms of only 1-2 months rather than a year. The need to resort to commercial loans can triple business costs overnight and render a business insolvent.

Even at concessionary rates, the cost of capital impacts the competitiveness of the business, particularly for domestic investors, who often face competition from outside investors with much cheaper sources of finance and access to tax holidays and other investment incentives not open to domestic businesses. According to one Ugandan business, "*Many businesses don't survive their second birthday*."

In the absence of long-term sources of affordable finance, investors must amass savings slowly over time to reinvest in the business, a process that limits their ability to bring the investment to scale. Unsurprisingly, the businesses that had achieved the highest level of success were those that had managed to string together a variety of funding sources, almost always including at least one grant from a business incubator, impact investor, or development organization.

4.2 UNSTABLE MARKET POLICIES

Market protections, such as import bans that shelter domestic industries, can generate a temporary market advantage that sparks investment but can be risky for the investor in a volatile political environment if policies later change. In Nigeria, for example, recent administrations have introduced import bans or tariffs on products ranging from maize to fish, causing a flood of investment in local production. Last year, without warning, the government reversed its policy and approved the import of maize at harvest time, leading to a market glut and the collapse of maize prices. In a country with little storage infrastructure, farmers and upstream buyers suffered huge losses.

These dramatic shifts upend projections and disrupt supply contracts. Investors often find they need to pivot quickly or leave the market altogether as the cost structure of the business suddenly collapses. In Nigeria, most entrepreneurs recognize the volatility of these policies and hedge their exposure through diversified business portfolios. Those hurt most by these policies are the farmers and consumers, as investors quickly shift from one business line to another or pass on higher costs to the consumer.

4.3 IMPORT AND EXPORT: UNPREDICTABLE DUTIES AND REGULATORY PROCEDURES AT THE BORDER

Moving goods across borders was one of the chief sources of cost, hassle, loss, and disruption cited by investors. Uncertainty in the application of import duties and applicable customs clearance procedures is a significant ongoing concern for most businesses with cross-border operations.

Out of 25 of the companies interviewed, 10 have introduced new products or technologies that do not fall under established customs duty categories. Uncertainty regarding the applicable rates on the part of customs officials can lead to widely varying duties on a shipment-by-shipment basis. To manage this uncertainty, businesses use a shipping method where the duties are paid by the recipient, thereby passing the risk on to the consumer. Nonetheless, businesses find it difficult to give accurate price quotes, and some customers are unwilling to take on the risk, which can be significant. One business cited an example where the cost of the product had increased by USD $10,000 while en route to the client due to changes in the applicable duties. Another company stated that due to import duties and delays, it sells its products at double the cost in Rwanda than what it charges in Kenya.

By contrast, losses due to procedural challenges and delays in customs clearance tend to fall on the business. Sudden changes in required paperwork, pre-inspection requirements, or general port congestion can cause a shipment to languish in the port, incurring significant added cost in demurrage and the loss of perishable goods. For example, a strike at the port in Guatemala forced one company to resort to shipment via air, with losses upwards of USD $100,000. These costs can be amortized over time, but repeated losses of this type can lead the company to contemplate abandoning the market, particularly if the profit margins are already thin. Faced with repeated disruptions and losses due to abrupt changes in Kenyan customs procedures, one company now questions continuing to serve that market:

> "*If I look at how many times things have changed, it makes me doubt how much we would like to stay in the market. Being an entrepreneur, we need to go after business that makes sense. We are increasing our impact in other countries where it's easier to get products in. The situation in Kenya creates uncertainty and puts a damper on what is already a price-sensitive market that is difficult and expensive to serve.*"

4.4 BURDENSOME AND UNPREDICTABLE TAX POLICIES AND PROCEDURES

A number of companies cited challenges related to unpredictable tax policies or overly burdensome tax administration. While none of these issues reached the level of threatening the business, they do create added cost to the products and services being offered. For example, agricultural businesses are frequently exempt from value-added tax (VAT), but the implementation of that exemption can be difficult in practice, either for the company or its customers. One company had to hire a full-time employee tasked with obtaining VAT exemption letters for each shipment. Another company, which exports to small businesses in Kenya, stated that although its customers are exempt from the VAT, obtaining exemption letters is so time-consuming and subject to bribery requests that most of them simply pay the tax.

If poorly conceived, taxes can have a distortive impact on economic behavior. For example, one company noted that stamp duties on mortgages and debentures in Uganda raise the cost of investing capital in the country — money that could otherwise be spent hiring additional employees. In Kenya, under a new policy that allows county governments to tax fresh produce, many counties have instituted a tax based on the number of crates instead of by weight due to the lack of sufficient infrastructure to weigh the products. This policy creates incentives for companies to use larger containers and packing methods that cause unnecessary post-harvest losses.

4.5 LACK OF A CLEAR REGULATORY FRAMEWORK FOR NEW TECHNOLOGIES

When a company introduces a new technology, industrial process, or business model, it can find itself in a regulatory gap. A number of companies expressed greater concern regarding the lack of regulations specific to their industry than for existing policies and procedures. Companies have encountered the need for new protocols regarding quality standards, biosecurity, and processing methods as well as greater protections for intellectual property. At the regional level, businesses are confronting the need for regulations to enable mobile money payments across borders and greater data sharing.

Establishing these regulations and protocols can take years. For one business, working with the government to establish clear guidance on the ripening process for fresh produce took two years of joint experimentation and negotiation:

> "*Getting the authorities involved to build a proper regulatory environment has taken two years. Boards, regulators don't actually speak to each other very well and had no framework for that kind of process. It was hard to get them to negotiate with each other.*"

Often there is no clear process for addressing these challenges, and businesses must take it on themselves to assemble the relevant policymakers. These delays add costs to product development, impede the introduction of new technologies into the market, and slow the growth of new industries.

5. POLICY ENABLERS

5.1 BUSINESS INCUBATORS, IMPACT INVESTORS, AND GRANT PROGRAMS

All market disruptors need sufficient capital to get through the innovation and failure stages. The research and development process is long, sometimes requiring more than a decade of experimentation before turning a profit, and businesses must take risks and accept inevitable failures and losses along the way. Donor grant programs, challenge funds, business plan competitions, impact investors, and business incubators all play a critical role in helping businesses overcome these challenges and push past the final hurdles of entering new or difficult markets. Four of the interviewees explicitly stated that they would never have made it to the stage of being profitable without such support. One investor, who had received support from a variety of governmental and donor organizations over the years of development, remarked, "*I was not alone. I was helped by USAID and various government agencies. Without this support, it was impossible. I don't take credit myself — everyone contributed.*"

These programs can be particularly important in encouraging investors to cater their business models to appeal to smallholder farmers, a market that generally presents greater challenges and smaller margins. In these cases, the additional capital helps to derisk the investment. One company stated that a grant from Securing Water for Food (SWFF) had opened their eyes to the potential of selling their products to smallholder farmers and enabled the company to take a risk on tailoring their products for this new market. Previously focused solely on selling to large-scale commercial farming operations, the company now earns more revenue from sales of household-size units to smallholder farmers, a business pivot they would never have contemplated prior to working with SWFF.

Although potentially powerful, all of this funding is short-term. A vibrant investment climate requires sequential, graduated funding options to help businesses transition from the incubation stage to formal bank finance. Various interviewees pointed to Kenya as an example of a healthy investment environment and applauded the role this environment plays in bringing businesses to scale. Entrepreneurs can access a vital network of business incubators, grant funding sources, and high-risk impact investors, all of which help to grow the business until it can attract more mainstream impact investors and commercial bank finance.

5.2 GOVERNMENT-FUNDED INVESTMENT PROMOTION PROGRAMS

Several of the businesses interviewed had received direct support from the government through investment deals that gave them access to government researchers, assets, or direct financial support for the investment. Unlike large-scale market policies, these partnerships target specific companies, much like grant programs. These partnerships often form where the government sees an opportunity to leverage private sector innovation and capital in support of broader policy goals.

For example, in 2013, the former Nigerian Minister of Agriculture and Rural Development, now the President of the African Development Bank, traveled to Rwanda and saw the potential of the model used by the East Africa Exchange to improve the availability of storage, credit, and market linkages for smallholder farmers in Nigeria. In 2014, policymakers in Nigeria signed a memorandum of understanding with the newly established Nigeria-based sister company, AFEX Commodity Exchange Limited, that granted the company the use of government-owned warehouses. This support enabled the business to start operations more rapidly than if it had had to raise the capital, acquire land, and build new structures from scratch.

In Guatemala, the government has partnered with the private sector to develop the cacao industry. For example, in 2014, Uncommon Cacao, a U.S. company that works with smallholder farmers to produce high-quality cacao for specialty chocolate makers in the United States, expanded its operations from Belize to Guatemala. The Guatemalan government supported the investment by committing USD $2 million from the budget of the Ministry of Agriculture to fund nurseries, technical assistance programs, and other strategies to support the growth of the Guatemalan cacao industry. In subsequent years, the government has conducted trainings for their extension staff and invested a further USD $200,000 in the development of the industry.

Through financial support, tax breaks, joint investment in research and development, or investing in training for their own staff to ease the process of doing business, government initiatives can have a substantial impact on the viability and growth of private sector investments.

5.3 PROACTIVE DEVELOPMENT OF THE REGULATORY FRAMEWORK

In addition to financial support, proactive development of the legal and regulatory framework for new industries can pave the way for business innovation and investment. In Kenya, policymakers passed new regulations governing the registration of live organisms for pest control use in 2006, as the market for biological pest control products was just beginning to shift away from traditional pesticides. The country now has four active biocontrol manufacturers with exports throughout East Africa as well as South Africa and Europe. In Bangladesh, policymakers recognized the need for disease-free shrimp stock to revitalize the aquaculture industry in the delta and funded a study tour for policymakers to learn from scientists in India, Thailand, Vietnam, and Hawaii, eventually overhauling biosecurity protocols to allow private sector investment in adapting imported breedstock to the conditions in the delta.

Figure 1. Key Enabling Environment Constraints and Enablers of Private Sector Investment in the Smallholder Market

Common Constraints	Policy Enablers
• Lack of sustainable and affordable access to finance • Unstable market policies • Unpredictable duties and import procedures • Burdensome and unpredictable tax policies and procedures • Lack of a clear regulatory framework for new technologies and business approaches	• Availability of start-up funding sources: business incubators, grant programs, and impact investors • Government policies and programs supporting market entry • Proactive development of the regulatory framework for new industries

6. PRIVATE SECTOR APPROACHES TO ENABLING ENVIRONMENT REFORM

6.1 PRIVATE SECTOR PERSPECTIVES ON POLICY PLATFORMS AND DIALOGUE MECHANISMS

Nineteen of the 25 businesses interviewed participate in some form of industry associations, high-level summit groups, or public-private dialogue mechanisms that address policy concerns. Young companies were more likely to take a "wait and see" approach, recognizing the need to understand the political economy before getting involved. Foreign companies, particularly those who invest via a local partner or distributor, are also much less likely to get involved in domestic policy discussions.

The platforms used by the businesses interviewed typically exist on the national level and are funded by the private sector or government.[6] Only two businesses mentioned working with donor-led platforms engaging on policy issues, both of which exist at the regional or international level: one had recently participated in a regional dialogue hosted by the West Africa Food Markets Programme, an initiative funded by UK aid; another had received support from Scaling Up Nutrition to raise public awareness and work with policymakers on standards around food fortification.[7]

The platforms that received the highest praise included the Nigeria Economic Summit Group, East African Grain Council (EAGC), and the Guatemalan Exporters Association (AGEXPORT). Each of these platforms was viewed as professional, responsive, comprehensive in its scope, and providing good services to the private sector. The Nigeria Economic Summit Group, which receives funding from the Alliance for a Green Revolution in Africa, has a secretariat to respond to queries from the private sector and holds regular high-level dialogues between businesses and relevant government officials. The EAGC organizes private sector participation in negotiating committees for trade deals and is perceived as effective in bringing policymakers to the table. In Guatemala, in addition to direct engagement on policy issues, interviewees spoke highly of AGEXPORT for providing trainings and information to members to facilitate trade relations and regulatory compliance, such as a recent training on U.S. and EU food safety regulations. The latter two platforms are structured as nonprofit institutions. The EAGC receives funding through membership fees and institutional partners, including a variety of donor organizations.[8] AGEXPORT works with a variety of private-sector institutional sponsors but has received capacity-building support through donor-funded programs in the past.[9]

In general, cross-sectoral or value-chain inclusive platforms were viewed as more effective. Organizations representing all stakeholders within a value chain, such as the Kenya Flower Council or the Fresh Produce Exporters Association of Kenya, or cross-sectoral associations for exporters or manufacturers tended to hold more weight and had a greater ability to influence key policymakers.

By contrast, interviewees felt that lobbying organizations representing narrower constituencies, such as an association specific to fertilizer dealers or rice millers, often become myopic in their understanding of policy issues and unable to effectively collaborate for larger reforms. For example, one entrepreneur who

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[6] This finding is supported in other research. See Business Call to Action, *Inclusive Business in Kenya* (2017), available at https://www.businesscalltoaction.org/sites/default/files/resources/BCtA_InclusiveBus_Kenya_FINAL.pdf.

[7] The West Africa Food Markets Programme combines grant funding to promising small agribusinesses with direct engagement in relevant policy dialogue at the national and regional level. See http://www.westafricafoodmarkets.org/. Scaling Up Nutrition is a multi-donor initiative with a secretariat based at the United Nations in Geneva that aims to reduce malnutrition worldwide through a mutli-sectoral and multi-stakeholder approach. See http://scalingupnutrition.org/.

[8] See http://eagc.org/.

[9] See http://export.com.gt/agexport/acerca-de/.

works to connect smallholder farmers to markets expressed frustration that the fertilizer dealer's association was unable to see the connection between output market challenges that farmers faced and lower fertilizer sales. More cynical investors felt these organizations often become a mere tool for promoting the interests of the chairperson's business.

> *"Agriculture policymakers understand the issues very well, but commerce and customs deals with so many issues, our small industry is not of interest… There is no association or way to coordinate with them. It's not easy, we just approach them individually, at workshops when government representatives participate."*
>
> \- Investor in Bangladesh

A common problem occurs when an issue spans multiple agencies who lack structures for cross-ministerial collaboration. For example, a company engaged in import or export facing challenges with border clearance processes may find it necessary to arrange discussions with several different institutions and may receive different guidance from each:

> "*We find it's very scattered… the Kenya Bureau of Standards is separate from customs which is separate from the inspection agencies and clearance agencies. For now, we have to go to each in turn and it's a run around, all different answers. The person negatively affected is us and the end consumer who isn't getting the product.*"

Businesses often find while the staff of the Ministry of Agriculture understand the issues very well, they have no ongoing dialogue with their colleagues at customs or commerce, which can lead to conflicting guidance and application of the rules. In these cases, there is frequently no existing platform or procedure for coordinating between them.

Figure 2. Private Sector Perspectives on Policy Platforms and Dialogue Mechanisms

Common Weaknesses	Characteristics of Effective Platforms
• Lack of platforms for cross-ministerial engagement, particularly involving customs • Lack of high-level government participation • Broad-scope conferences and seminars that lack concrete action on specific issues	• Availability of a full-time secretariat • Provides relevant trainings • Capacity to produce evidence • Cross-sectoral or whole-of-value-chain representation

6.2 ENABLING ENVIRONMENT REFORM IN PRACTICE

Companies also leverage donor support where donor policy initiatives overlap with issues they would like to see addressed. In the words of one entrepreneur, donors have "*a bigger microphone and are able to drive policy*." For example, one company has been working with a number of donor organizations to establish an enabling framework for crop insurance. The company representative felt that with the support of donors, the company's ability to influence policy was much greater.

7. RECOMMENDATIONS ON THE ROLE OF USAID IN SUPPORTING PRIVATE SECTOR INVESTMENT IN THE SMALLHOLDER MARKET

Businesses shared their views on the role of USAID and other development organizations in helping to promote and sustain investments like theirs in the smallholder market. In addition to partnership programs providing financial and technical assistance in bringing their businesses to scale, the interviewees see USAID and other donor organizations as important partners in addressing policy-related issues.

7.1 EFFECTIVE ENGAGEMENT ON ENABLING ENVIRONMENT REFORMS

Research and publish data analyses, articles, and policy papers to build the evidence base and provide baseline data for policy dialogue around specific pressing issues identified by the public or private sectors.

Interviewees' primary view of USAID's role in policy reform was one of bringing evidence to the table. In their opinion, domestic policy discussions often falter for lack of an understanding of the issues, insufficient data, or the inability of public and private sector stakeholders to even agree on baseline data for the discussion. In these situations, USAID can help by collecting data and providing analysis on the impact of existing or proposed policies. Data and analysis published by USAID is often viewed a more objective and reliable.

> *"Most of our participation is a personalized approach, not in forums. They don't exist the way we'd like them to. I've been invited to a number and don't find them productive — no targeted discussions and decision-makers aren't present, or they are but only to tell you what you are going to do. You have to backchannel outside of these events to be effective."*
>
> - Agroprocessor operating in East Africa

Companies also praised USAID's ability to access a strong network of experts able to analyze different models from across the world to find those similar to the country in question and facilitate discussion around those learnings. Interviewees felt that USAID involvement increases transparency in the dialogue and decision-making process. In some instances, USAID's input on policy issues can help businesses have a voice when speaking out directly could lead to negative repercussions for the business, in the form of security risks, loss of financing, or administrative hassling.

USAID should work with public and private sector partners to identify key evidence gaps impeding productive policy dialogue and address those gaps through expert analysis. This support could entail formal analyses by outside experts or more informal mechanisms, such as monthly or quarterly meetings to discuss pressing issues of the day and share knowledge from other country contexts.

When organizing seminars, conferences, or dialogue forums, make sure the subject matter is narrow, relevant to private sector interests, and that key decision-makers will be present.

For all businesses interviewed, their level of participation in policy platforms is directly correlated to the perceived effectiveness of the forum. If the entity does not have the ear of senior policymakers and the ability to get things done, businesses will not waste their time. The adage "time is money" holds true in this instance. In the words of one entrepreneur, *"It is fine from a dialogue perspective, but government policies don't change overnight. Best to forge ahead with your business and keep dialogue going on the side."*

> *"A lot of policy discussions go in circles because everyone disagrees on the starting point. There are many examples of where dialogue has been given a huge push once baseline data was established. For example, accurately measuring the number of people with access to a bank account for financial inclusion initiatives. Data from USAID is more readily believed than from domestic players."*
>
> \- African agro-inputs firm

Quite a few businesses have declined to participate in any structured policy advocacy or dialogue mechanisms. Their reasons varied from those who felt the work of these entities was not pertinent to their businesses to others who felt the government was not sincere in its engagement, either due to a known lack of funds to follow through on any promises made or because government participation far too often takes the form of prescriptive statements rather than true dialogue. Those working in more volatile policy environments felt that the policy reforms achieved through these dialogue processes were often short-lived, further undermining their interest in participating.

Businesses felt that a more effective approach to these events would be to make the scope very narrow to allow all relevant stakeholders and policymakers to speak concretely about the issues and achieve a clear roadmap for moving forward, including joint commitments to take affirmative actions as a result of the meeting. Yet businesses were quick to emphasize the danger in going beyond convening and venturing into the actual decision-making process. As one investor stated, *"It is important not to get involved too much in the actual decision-making process. People are sensitive to this and think there's a hidden agenda."*

Where cross-ministerial collaboration processes are lacking, use USAID's convening power to bring together key decision-makers from disparate agencies to tackle regulatory conflicts.

A common problem occurs when an issue spans multiple agencies who lack structures for cross-ministerial collaboration. For example, a company engaged in import- or export-facing challenges with border clearance processes may find it necessary to arrange discussions with several different institutions and may receive different guidance from each: "*We find it's very scattered… the Kenya Bureau of Standards is separate from customs, which is separate from the inspection agencies and clearance agencies. For now, we have to go to each in turn and it's a run around, all different answers. The person negatively affected is us and the end consumer who isn't getting the product.*" Businesses often find that while the staff of the Ministry of Agriculture understand the issues very well, they have no ongoing dialogue with their colleagues at customs or commerce, which can lead to conflicting guidance and application of the rules. In these cases, there is frequently no existing platform or procedure for coordinating between them.

> *"Too much is put together, for example an agricultural forum including horticulture and livestock. Horticulture on its own is very complicated. Two hours on agriculture broadly isn't productive. You are only waiting for the opportunity at coffee breaks to talk to the person you want to talk to."*
>
> \- Kenyan investor

USAID can play an important role to build capacity in local associations to identify cross-ministry issues and petition the necessary parties to resolve institutional conflicts that impede private sector investment. Beyond offering expertise and evidence to inform domestic policies, most interviewees felt that USAID plays a strong role in facilitating productive dialogue by opening spaces for meaningful discussion with key policymakers. USAID is perceived as having direct connections with government and the ability to bring issues to the attention of key decision-makers faster than businesses can. One entrepreneur put it quite simply, *"When USAID requests a seminar, more people come."*

Work with the government and early market entrants to proactively build out a clear policy and regulatory environment for new industries and strengthen the capacity of government officials for its effective implementation.

Many businesses perceived a gap in the areas of awareness building and capacity development for government officials, particularly for new industries. New market entrants often face misunderstanding or outright suspicion from rank-and-file government officials. By evaluating likely new trajectories and innovations in the market, such as cross-border mobile money, biosecurity, and IT and data sharing issues, USAID can support proactive development of an enabling regulatory framework for new industries. For example, USAID is well-placed to share data from U.S. institutions, such as the U.S. Department of Agriculture or the U.S. Environmental Protection Agency, on the safety of new technologies and products that have already been released in the U.S. market or to conduct an in-depth review of the technology and its status in the country to help stakeholders chart a way forward.

USAID technical assistance can also help the government agencies involved establish clear procedures and ensure that those responsible for their implementation can successfully apply them. For example, conducting trainings for inspectors, drafting training manuals, or publishing frequently asked questions sheets can aid mid-level officials on the front lines of regulatory implementation to better understand and execute their responsibilities.

7.2 PROMOTING SUSTAINABLE AND SCALABLE PRIVATE SECTOR INVESTMENT

Continue to fund programs that target private sector partnership as the pathway to sustainable, scalable market development.

Many businesses detected a welcome shift in USAID's approach in recent years from working with government and nongovernmental organizations (NGOs) to direct partnership with the private sector in market development. Multiple interviewees spoke highly of the importance of this support to the success of their businesses and viewed this as a more sustainable approach to market development.[10]

Several interviewees cited previous USAID projects with NGOs or government agencies that failed to bring lasting change. For example, one program in Guatemala funded by another donor organization reached the end of its funding cycle before achieving critical policy reforms. The partner organization was unable to consolidate the gains achieved under the program, as it lacked the budgetary support to continue on its own. By contrast, interviewees pointed to their own businesses as examples of the success of partnering with the private sector to achieve sustainable impact. As one investor put it, "*The reason I'm there is that it was a business opportunity, and I'm not ending operations when the grant money ends. I invested my own money into this project and will continue growing and doing more.*"

Nevertheless, the sustainability of market development can only be determined once assistance ends. Encouraging new market entry through milestone-based payments can buy down risks sufficiently to recoup the investments to expand into new markets.

Establish a pathway for graduated financing by working with incubators, impact investors, and other donor organizations active in the country to establish a clearinghouse for funding sources.

A vibrant investment climate requires sequential, graduated funding options to help businesses transition from the incubation stage to formal bank finance. Business incubators, impact investors, and grant programs can assist entrepreneurs in bringing new products and services to market. Although potentially powerful, all of this funding is short-term, leading investors to continually seek new sources of potential

[10] We must note here the clear potential for bias among the interviewees, nearly all of whom had received some form of funding through USAID or another development-focused institution.

finance, each with different terms and requirements. Some investors found it difficult to identify the programs available and whether their business qualifies. Often, businesses were led to new funding programs through outreach from the program itself, either via direct email communication after the funder learned of the company or through presentations at local churches or other community gatherings.

Creating a central clearinghouse for funding sources, including clear descriptions of the targeted businesses and application requirements would streamline the process for entrepreneurs and allow more small businesses to access these crucial resources. In addition, several Feed the Future Partnering for Innovation partners spoke highly of the clear structure of the financing under that project. They felt that the milestone-based model in which funding is conditioned on specific achievables for both parties created a straightforward pathway for implementation, clear expectations on both sides, and greater impact than programs with more high-level objectives.

Work with other U.S. Government agencies to connect investors with U.S. expertise, commercial partnerships, and information on regulatory compliance for the U.S. market.

Despite the focus of the interviews on the policy and regulatory environment of the host country, many businesses stated that their more pressing concern was gaining assistance with regulatory compliance for exporting to the U.S. and EU markets. In particular, companies cited the need for technical assistance to meet certification standards and training on phytosanitary requirements.

Companies also saw a role for USAID or other U.S. Government entities to play in promoting trade relations between the U.S. and investors in their country, such as brokering commercial partnerships, business-to-business mentoring relationships, and technology transfer agreements. In particular, some investors felt that U.S. know-how, including superior capacity in areas such as genetic research, could be pioneering for developing country industries if facilitated through knowledge-sharing between U.S. experts and domestic start-up companies.

8. CONCLUSION

Achieving Feed the Future's goal of lifting smallholder farmers out of poverty will require effective, proactive engagement in addressing the policy, legal, and regulatory challenges that prevent private sector investment in the products, services, and technologies that connect smallholder farmers to markets.

Challenges within the enabling environment increase the cost and risk of doing business, particularly in markets catering to smallholder farmers where costs are high and profit margins thin. As the businesses interviewed demonstrate, investors typically find a way to adapt to harsh conditions: they cut service lines, pass costs on to the consumer, pivot in new directions, or table expansion plans. These adaptations keep the business viable, but they restrict the speed and scope of business growth, thus limiting the availability of these technologies and services for large numbers of smallholder farmers.

Investment promotion initiatives, including business incubators, grant programs, and government-funded investment programs can facilitate new investment in transformative technologies and new approaches to doing business with smallholder farmers. Yet this transactional approach can only extend to a small number of firms and cannot alone lead to the lasting change necessary to end the need for assistance. Achieving lasting change to local systems requires establishing a policy, legal, and regulatory environment conducive to private sector investment. Interviewees pointed to common areas of concern, including the need for proactive regulation of new industries, stable market policies, clear import and taxation procedures, and affordable access to finance for agricultural sector businesses.

USAID can play an important role in assessing gaps in the regulatory framework, facilitating targeted dialogue, and bringing to bear evidence from other countries as well as building the capacity of private sector associations to petition government institutions to implement new policies and procedures. Programs such as the FTF-EEFS project and the USAID Investment Support Programme can provide tailored analysis and technical assistance to USAID Missions in addressing these systemic challenges within the enabling environment.

The **Feed the Future Enabling Environment for Food Security** project is a global support mechanism for Feed the Future focused and aligned Missions and Washington-based USAID offices to address policies, as well as legal, institutional, and regulatory factors that function as market constraints affecting food security.

Launched in September 2015, the project enables the rapid procurement of technical analysis, advisory services, and strategic knowledge management. For more information, contact Lourdes Martinez Romero (COR) at lmartinezromero@usaid.gov or Nate Kline (Project Director) at nkline@fintrac.com.

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ANNEX I: LIST OF INTERVIEWEES

Name	Title	Company
Jofi Joseph	Vice President of Sales and Operations	Promethean Power Systems
Sadid Jamil	Managing Director	The Metal
Kolawole Oye	Managing Director	Infinera Agribusiness Limited
Ayodeji Balogun	Country Manager	AFEX Commodity Exchange
Dr. Peter Chege Gichuku	CEO and Founder	Hydroponics Africa Limited
Orisa Raphael Jawino	CEO	Divine Masters Ltd
Michael Wambugu	Director Business Development	Nu Bree Dairy Ltd
Temitope Jebutu	General Manager	AACE Foods
Suvankar Mishra	Executive Director	eKutir
Bruce Robertson	Chairman	GADC
Main Uddin Ahmad	Owner	MKA Hatchery
Tim Chambers	Managing Director	Inspira Farms
Kikonde Mwatela	Chief Operating Officer	Twiga Foods
Fernandez Mendez	General Manager	Servicios de Post-Cosecha
Johannes Flosbach	General Manager	Chi Farms
Dr. Henry Wainwright	General Manager	The Real IPM Co.
Francisco Vetri	General Manager	Popoyan
Martin Koinange	Biofix Manager	MEA Fertilizers
Emily Stone	CEO	Uncommon Cacao
Benjamin Prinz	Managing Partner	Agilis Partners
Paul Nyende	Managing Director	AgriNet Uganda Ltd
Samir Ibrahim	CEO	SunCulture
Faisal Ahmed	Acting Head of International Business and Projects	Lal Teer Seed
Heinrich Hanekom	Managing Director	Surehatch
Claudia Granados De Ketele	Fair Fruit Sales Agent	Fair Fruit
José Maldonado	Fair Fruit Project Manager	Fair Fruit

ANNEX II: INTERVIEW GUIDE

Interviews lasting approximately 30 minutes were conducted by phone using a semi-structured interview guide covering the following key areas of inquiry. For each, the interviewer began with the listed key question and followed up with additional questions as needed to obtain the desired information.

1) Please tell me about your business (five minutes). The introductory question was designed to a) obtain background and key dates regarding the company's origin, vision, operations, and any investment partners and b) clarify that the interviewee was the person with the right information to answer the rest of the questions and thus allow an early redirect to a colleague if necessary. Follow-up questions:

- When was the company founded?
- What is your role in the company?
- What has been your involvement in the [COUNTRY] investment?

2) Why did you choose to invest in [COUNTRY] (10 minutes)? This section of the interview sought to understand the investor's decision-making process, including what due diligence research was conducted prior to investment and the factors that weighed for/against investment in the country. The objective was to obtain information regarding enabling environment enablers and constraints to the investment, including those considered prior to investment and those that have arisen on the ground.

- What due diligence did you do before investing?
- When investing, what factors do you consider?
- What negative factors/challenges are considered surmountable, and which create too much risk to warrant investment?
- What challenges did you anticipate in [COUNTRY]? Specifically, what enabling environment (i.e., policy, legal, or regulatory) challenges did you anticipate?
- How have the challenges you've faced been different?

3) How has the enabling environment impacted your investment, positively or negatively (10 minutes)? The interviewer narrowed in on the enabling environment in the country as experienced by this particular business and sought to understand which aspects have facilitated the investment and which have hindered it.

- What enabling environment issues have arisen, and how have they impacted your business?
- Were there any enabling environment factors that supported your decision to invest or that have made your operations easier?

4) Before or since investing, have you participated in or used any private sector platforms to help you address enabling environment challenges (five minutes)? The interviewer sought to identify the motivations for participation in specific platforms used and the characteristics of effective and ineffective platforms.

- Which platform(s) have you participated in, and what has been your experience with them?
- How useful has this resource been in helping you to overcome your enabling environment challenges?
- In terms of enabling environment reform/support, how could it be more useful?
- If you are aware of these resources and have not engaged with them, why not?