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Final Review

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Agribusiness Strategy

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Agribusiness Strategy

Executive Summary

The ENE Bureau will focus attention on the transformation of agribusiness from the stage of a Low-Income Agricultural Economy, where the agribusiness sector is about 6% of the economy, to a Middle-Income Industrializing Economy, where the sector is 16% of the economy and exceeds the contribution to Gross Domestic Product from agricultural production. The agribusiness strategy supports government policies for privatization and private-sector investments within the framework of the ENE Food Systems Strategy and the Administrators Initiative on the Partnership with the Private Sector.

Mobilization of development assistance for the agribusiness sector is a multi-step process. The first step is a sector assessment which describes the development potentials and constraints for the sector. Working from the sector assessment the Country Development Strategy Statement will be revised to include agribusiness sector objectives and place development assistance for the agribusiness sector in appropriate relationship to other development interventions.

Agribusiness sector assistance creates a partnership with the private sector in planning and execution of development. The trade, professional and business associations can play a major role in the transfer of technology, the formulation of the policy agenda, the training of technical staff, market research and a number of other development functions. Technology transfer may be supported by pilot projects, seminars, studies, etc through public sector offices, universities and consultant organizations in addition to the trade associations. Support for market research is recommended for the agribusiness program because of the strong demand-driven characteristics of commercial food systems. Training of operating and management personnel for the food systems may be provided through revisions of the educational institutions, special programs of trade associations or through industry and enterprise specific support. Infrastructure and financial service needs of the agribusiness sector may require that some missions create new types of projects for these two areas of assistance following the new initiatives of the Administrator. The array of potential interventions is broad and exceeds the funding and management resources of Mission programs, consequently a targeted program on a specific set of sector developments will be required.

Growth and improvements in the agribusiness sector are expected to expand and stabilize the markets for farmers, expand the commercial opportunities for agriculture by developing new markets and new products, and progressively improve the nutrition and convenience of the food supply.

Agribusiness Strategy

OUTLINE

Executive Summary

- I. Background and Introduction
 - A. The Food Systems Strategy for the 1990s
 - B. The Partnership with the Private Sector
 - C. Agribusiness Sector Definition
 - D. Economic Growth and the Agribusiness Sector Transformation
- II. The Development Context
 - A. Agricultural Production Capacity and Potential
 - B. Food and Fiber Demand
 - C. The Capability of the Agribusiness Sector
 - 1. Consumer Driven Marketing
 - 2. Integration and Alliances
- III. The Agribusiness Dialogue
 - A. With one firms in the ENE Countries
 - B. With the U.S. agribusiness sector
- IV. The Prospects for Growth of the Agribusiness Sector
 - A. Government Policy and Official Programs
 - B. Resources for Development
 - C. The Plans of the Private Sector
 - D. Development Assistance
- V. The Strategic Concepts
 - A. The Sector Assessment
 - B. Refinement of the CDSS and the portfolio
 - 1. Policy Reform Agenda
 - 2. Official Services
 - 3. The Physical and Social infrastructure
 - 4. Special Concerns; Natural Resource Management, Environment, Women in Development, etc
 - 5. Additional Development Resources; CIP, SUSTAIN, IESC, TDP, MTAP, AMIS, ASAC, etc
- VI. Agribusiness Interventions
 - A. Agribusiness Sector Goal and Purpose Statement
 - B. Policy Reform, including sector data and analysis
 - C. Trade, Professional and Business Associations
 - D. Investment Opportunities and Deal Making

b'

- E. Technology Transfer Activities
- F. Market Research and Development, including export trade
- G. Operating and Management Technology and Training
- H. Micro and Small Enterprise Development
- I. Infrastructure Support and Services
- J. Financial Services

VII. Summary

List of Figures --

1. Economic Growth and Sector Transformations
 - a. Low-Income Agricultural Economy
 - b. Middle-Income Transitional Economy
 - c. Middle-Income Industrializing Economy
2. Agribusiness Sector Schematic
3. Development Status and Per Capita Food Expenditure
4. World Production of Agricultural Food Crops, 1981-87
Source: FAO, "Production Yearbook" 1988

List of Annexes --

- A -- Agribusiness Interventions
- B -- List of Agribusiness Firms Attending Working Groups and Roundtables
- C -- Doing Business With the Private Sector
- D -- The Bumpers-Lautenberg Consideration

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Agribusiness Strategy

I. Background and Introduction

As a country progresses through the early stages of economic development, the agribusiness sector grows rapidly and is a major contributor to employment and income generation. At the stage of Low-Income, Agricultural Economy such as Yemen in the absence of repatriated earnings, the agribusiness sector is only about 6% of economic activity of the country. As the country develops and achieves the stage of a Middle-Income Transitional Economy such as Morocco or Philippines, the agribusiness sector is 11% of the economy, which itself has realized a doubling of per capita domestic product in comparison with the Low-Income, Agricultural Stage. Continued development into the Middle-Income, Industrializing stage such as Tunisia or Jordan before the Gulf Crisis, may result in a further tripling of the total economy with the agribusiness sector expanding to about 16% of total activity. (See Figures 1a thru 1c) Much of this agribusiness growth is provided in rural based enterprises with modest skill and capital requirements making it high-quality activity from the point of view of development policy.

An appreciation for the dynamic forces which drive growth of the agribusiness sector is gained from noting the expansion of urban food demand associated with continued growth in national population of 3%, combined with rural to urban migration rate of 10%, and compounded by economic growth at the rate of 4% which results in a projection of 10-15% growth in urban demand for food and fiber products. This rate of growth for the agribusiness sector is beyond the resources available from reinvestment of earnings and has not been achieved in the ENE countries. Thus, consideration has been given to ways and means of agribusiness development assistance so that future consumer demand for agricultural products is furnished with an adequate supply.

A. The Food Systems Strategy for the 1990s

The ENE Food Systems Strategy presents a program for continued economic growth by expanding the scope of development assistance to include the agribusinesses, as well as by refinement of the objectives for assistance directed to agricultural production. This strategy is expected to improve the quality and quantity of the food available to consumers, improve the stability in the market outlets for farmers and increase national employment and incomes by the expansion of the agribusiness sector.

The Food Systems Strategy was the product of about two years staff work within the former Bureau for Asia and the Near East involving bureau and mission staff supported by consultants. The progress in development of the agricultural sector of the ANE countries was thoroughly reviewed as the starting point.

Within this experience were a number of projects that provided production inputs and market services as part of agricultural production activities. Based upon the lessons learned, and with the goal of realizing further improvement of the food supply and consumer well being, the Food Systems Strategy was formulated with the following themes;

- Agricultural Technology Development and Management
- Agribusiness Development
- Trade and Market Development
- Agricultural Planning and Analysis
- Infrastructure Management
- Natural Resource Management
- Human and Institutional Development

There is recognition that factors such as effective consumer demand, regulatory environment, investment and trade factors are important externalities in the implementation of the Food Systems Strategy.

B. The Partnership with the Private Sector

The Administrator's Initiative for The Business and Development Partnership, published in December 1990, provides guidance for involvement of the private sector in agribusiness development assistance. The Initiative states that, "The strengthening of the ties to the private sector is one of several supporting strategies and mechanisms to maximize the delivery of American ideas, technology, funds and know-how in the 1990s." "Partnership is a meaningful term. It connotes alliances... cooperation ... mutual interests. It is an appropriate term for almost every endeavor AID undertakes." "By proposing a partnership with the private sector, AID is primarily recognizing the important role this sector can and should play." "...as an economic agency of the U.S. government we have a fundamental interest in building the import capacity of these countries and in ensuring that qualified and efficient American firms successfully compete for the supply of goods and services that complement and support sustainable growth in these economies." "AID proposes to overcome investment constraints by creating a high-quality, one-stop business service to match U.S. and developing country entrepreneurs in ventures that are profitable to both, as well as to the consuming public."

C. Agribusiness Sector Definition

Agribusiness is used in describing all, or a portion, of the numerous lines of flow for goods and services which link the farmer producer, production inputs and services, and food or fiber marketing, processing, storage and distribution systems which supply the final consumer. (See Figure 2) As the agribusiness sector develops, one observes progressive improvement in the quality and convenience of the food supply available at the points of consumption. A dynamic agribusiness sector can develop new products and open new markets, including export markets, and through expansion of volume and value-added processing and services increase the returns to agriculture and total economic benefits to the country.

The agribusiness sector is, typically, a composite of micro, small, medium, large and multinational companies. In certain agribusiness sub-systems, for example the seed supply sub-system, commercial agreements will exist linking a network of seed farms operated by one company with an array of private, small, seed dealers servicing their local communities. In the case of fruit and vegetable marketing and processing sub-systems, one often finds individual farmers or cooperatives producing under contract to, and with technical support from, large-scale processing plants which deliver branded and unbranded products to multiple marketing organizations. In the more traditional economies and remote regions of countries at an intermediate stage of development, the agribusiness sector is dominated by micro-scale trading activities, often by roadside women. Throughout the course of the earlier stage of development, the number of large-scale and multinational organizations increases with only modest displacement of traditional businesses. The agribusiness sector can be represented by a pyramid structure of activity with a comparatively large base of small-scale enterprise linked commercially with specialized medium-scale enterprises which are in turn linked with a few large-scale highly specialized firms, which may be multinational or joint venture in ownership and operation. U.S. agribusiness firms have distinguished themselves in the organization of these very complex business systems and alliances which link small-scale local retailing; medium-scale distribution services; and large-scale processing plants into highly efficient food systems.

Certain government services can be crucial to effective performance of commercial business, and many public services require major development if they are to support an accelerated rate of growth of private enterprise in the agribusiness sector. Weights and measures, money and banking regulations, transport and communications services, health standards, environmental regulations, etc are just a few public services that need attention in facilitating dynamic agribusiness. Agribusiness enterprises will also depend upon other private enterprises for such services as shipping, trucking, banking, industrial equipment servicing, fuel, etc. In targeting on the agribusiness sector it is necessary to understand the linkages and dependencies in planning effective development assistance.

D. Economic Growth and the Agribusiness Sector Transformation

Development assistance has focused heavily on agricultural production technology in the initial stages of economic development (1950 through 1990) and tentatively broadened the program to include value-added processing and diversified economic growth in the course of recent development programs and projects. For those countries in the Low-Income Agricultural Stage of economic development, the agribusiness sector is dominated by farm input supply, local flour milling, and roadside marketing of seasonal harvests. Much of the agribusiness activity at this stage is in small, rural, part-time work which is often referred to as the informal sector and is largely undocumented. At this stage employment in agribusinesses is about one tenth of employment in the agriculture production sector and value-added by agribusinesses is proportionately small. Development assistance and economic diversification introduces urban industrial enterprises and creates a transitional economic

structure. In the transitional stage of development, the agribusiness sector expands to include bulk importing and local packaging of production inputs, some simple farm product processing and convenience packaging for the urban consumer market, and a few installations for export production and branded product processing for the world market. With continued industrial development there is an acceleration of agribusiness sector growth and complexity of enterprises and services provided by the sector. As the stage of development evolves to a condition that can be classified as Middle-Income Industrializing Economy, the agribusiness sector is equal to or larger than the agricultural production sector in terms of contribution to Gross Domestic Product and in terms of employment.

In the course of agribusiness sector development, the enterprises become more responsive to demand-driving factors. At the Low-Income Agricultural Stage the agriculture production is predominantly cereals or starches and consumers may spend up to 60% of their disposable income for purchase of unprocessed foods, often in small quantities. As purchasing power increases there is a only modest, if any, increase in per capita cereals consumption, but the demand grows for processed items such as flour and bakery goods. The increased purchasing power also supports a demand for fruits, vegetables and livestock products to improve the quality of the diet. The Middle-Income Industrializing Economy will have about 50% of the population in urban areas expecting regular delivery of a wide range of fresh and processed food items, and with the purchasing power to realize these expectations. The following table illustrates the transformation that occurs in retail expenditures for food.

Figure 3 -- Development Status and Per Capita Food Expenditure

Development Status	Per Capita Income(1)	Food Expenditure (%)	Food Expenditure (\$)
Agricultural	161	60	97
Transitional	321	50	160
Industrial	971	40	389

(1) Data from the Food Systems Strategy for Growth in the 1990s, ANE Strategic Planning Series I, ENE/TR/ARD, March 1990

The Food Systems Strategy has briefly characterized the development assistance for each stage as;

- Low-Income Agricultural Economies
 - Agricultural Production Technologies
 - Input supply, irrigation and transport services
 - Policy analysis and supporting services
- Middle-Income Transitional Economies
 - Private sector, marketing and processing for agriculture
 - Liberalized trade
 - Improved watershed management

Improvements in agricultural research
 Human resources and institutional capital
 Middle-Income Industrializing Economies
 Institutional links with national and international centers for
 research, investment promotion, marketing, environmental
 protection and trade.
 Gap-filling and up-grading of technologies in the private and public
 sector to strengthen the performance of the private sector.

II. The Development Context

Agricultural production has changed dramatically as a result of the Green Revolution and associated investments in agricultural production of the last 25 years. Authorities differ in their projection of the production potentials for the future, but the majority anticipate continued increase in farm production of food and fiber. (See Figure 4) Consumer demand projections are also increasing due to factors such as continued urbanization of populations, increasing diversification of food supply offered in the marketplace and steady increases of consumer purchasing power.

A. Agricultural Production Capacity and Potential

The workshop on International Agricultural Trade Development in the 1990s, organized by the Center for Agricultural and Rural Development of Iowa State University and held in Arlington VA December 1990, considered papers which projected significant future growth in agricultural production and world trade, if political and economic reforms affecting private commercial activity, including GATT, are resolved in favor of expanded national and multinational trade.

Potential agricultural production for the ENE countries is, in general, optimistic with some reserves and with interesting variations from country to country. For example, the Jordan River Valley and the countries of North Africa have potential as specialized horticulture crop producing countries for the rapidly growing European market. The countries of Eastern Europe have a strong natural resource base for grain production and livestock raising again for the European market. Philippines has a variety of options in fruits and vegetables, as well as livestock products, and has a good range of market opportunities in the Pacific Rim countries. Infrastructure, legal, financing and other problems must be resolved if the ENE countries are to realize this agricultural potential. In spite of the recognized problems, there are agribusiness executives in the ENE countries, and in the U.S., who are optimistic in their projections of the future and are making modest investment in ENE agribusiness based upon that optimistic evaluation of potentials.

B. Food and Fiber Demand

Continued growth in the ENE economies, and in the economies of the adjoining countries, provides strong signs of growth in effective demand with some authorities projecting growth in demand in the 5 to 15% range for fruits, vegetables and livestock products. The food markets in U.S., Europe and Japan are continually expanding their reach for a widening array of food items where ENE countries may have comparative production advantage. The dynamic growth of economies of the Pacific Rim, emerging economies of Eastern Europe, and poles of urban industrial growth in many developing countries all contribute to a projection of significant growth of effective demand for food items.

C. The Capability of the Agribusiness Sector

At present, the capability of the agribusiness sector in the ENE countries is ill-defined. Official government reports include fragmentary information on the sector, with some of the reporting in the documents of the agriculture, commerce and/or industries departments or ministries. ENE agribusiness sector assessments describe numerous potentials and problems for the sector

Recent political speeches and official policy statements about privatization, expansion of export trade and encouragement of joint ventures are stimulating the consideration of new ventures in the agribusiness sector by ENE and U.S. entrepreneurs. U.S. expertise in agribusiness management and technology is a valued resource when combined with private and development agency financial resources. Officials and entrepreneurs are seeking to involve U.S. firms in rehabilitation of state enterprises, revival of parastatal operations or new private enterprise. Vertical integration of the farm production operations with processing and marketing operations is a common concept for organizing small, traditional farm producer with new processing and marketing enterprises and enabling agricultural modernization with a minimum of social stress.

1. *Consumer-Driven Marketing*

The food and fiber market is becoming a world market and is also becoming increasingly demand-driven as consumers expect particular food items and preparations, packaging, health or safety standards, etc. The consumer-driven market forces are rather tentative in the Low-Income Agricultural Economy, but they are evident, particularly for the upper income levels of that society. Consumer-driven demand rapidly gains strength in the course of economic development. Any enterprise intending to supply the export market must be concerned about market preferences irrespective of the countries in which the production and processing is located. The world food market is very dynamic with some super market organizations offering 175,000 items on a year around basis, included fresh items, generic or house brands, specialty brands and imported or exotic lines. Market research is a major operating cost in selecting items, selling/promoting the items, writing specifications for processing and packaging, and in locating stores or determining store inventory.

The organization and management of demand-driven food system for the world market, or a selected segment of that market, calls for solid market research and a complex management structure and communication system. There are situations where the variety of crop or livestock being grown must be carefully managed in order to obtain the particular final quality of product preferred by the consumer. There are critical requirements for timing of planting and harvesting in order to maintain the required schedule in supply of fresh produce to the markets and in realizing competitive levels of operating efficiency in food processing operations. There are also opportunities to sell certain grades in high-end markets in coordination with other grades in mid-range markets within a marketing strategy designed for maximum returns. Demand-driven management is rapidly becoming vital for agribusiness success.

2. *Vertical-Integration and Alliances*

The mode of food system management today is not readily described by a particular legal relationship, such as a production contract or joint-venture corporate structure; but, as operating alliances between firms which make up the food systems. Farm production under contract is gaining in popularity, with a variety of associated provisions for supply of inputs, technical advise, production and harvest scheduling and quality premiums in the pricing of products. Multi-national organizations are aggressively establishing strategically-placed production areas and processing plants around the world to reduce weather, pest and political risks as well as improve supply flexibility. Large grocery organizations are entering into supply contracts for house-brand items with the low bidder for specified food items at the same time they are making agreements for special promotion of brand products. And brand-label items are being modified according to taste, flavor, texture, package size and other preferences of consumers in new market areas. The large cooperatives, or cooperative federations, are now multi-nationals, purchasing fertilizer or petroleum inputs from the world market, and entering into delivery contracts with foreign marketing houses for items such as beans, vegetable oils, cattle feed, etc. In general, the alliances are established to improve the quality control of the product in terms of consumer demand and to better manage inventory and financial assets of each participant in the alliance.

The plan for a new unit in the food system needs as much attention to the linking alliances for marketing of outputs as to the arrangements for supply of raw materials and production inputs. There are no simple patterns or prototypes for these alliances. The joint venture participation of a multi-national marketing organization may establish a fully sufficient, marketing arrangement for the new enterprise. The completely independent agribusiness is expected to involve business risks and uncertainties which make it a questionable partner in development assistance.

III. The Agribusiness Dialogue

By definition the private sector makes investment and management decisions based upon independently determined corporate objectives and business practices in assuming risk and realization of returns from its investments. In light of this fact, it is essential to understand the plans and needs of the private

sector in the earliest stage of planning for development assistance in the agribusiness sector. AID is pursuing a dialogue with agribusiness via two channels. One channel is within the ENE countries by the Mission staff in the course of program planning, project implementation and social contacts. The second channel is a series of seminars and roundtables with U.S. agribusiness leadership in order to jointly define a development partnership for agribusiness enterprises in the ENE countries. This is a continuing dialogue which is progressively contributing to refinement of the concepts for agribusiness growth and development assistance. An outcome of this dialogue will be the "one-stop business service" for the agribusiness sector.

A. With Firms in the ENE Countries

Agribusiness entrepreneurs of the ENE countries seek U.S. technology for their investments and expansion. Interestingly, the question of investment financing is often secondary to aspects of product and marketing know-how, management skills and process technology. Open attitudes exist about joint venture partnerships, management contracts, technology licensing, etc., reflecting new policies on privatization and stimulation of private-sector investment in order to expand economic growth. In other words, the U.S. firm is sought as a business partner who can contribute technical know-how, including management skills, in a venture that responds to the growing market for food and other agricultural produce.

The LDC point of view and interests has been expressed in the context of seminars on trade development, directly to business executives on U.S. trade and development missions, to sector analysis teams, to project design teams and to mission staff in the informal context of social exchanges. It is common for the entrepreneur to take advantage of these contacts to promote ideas with which he has already done some research, including some foreign travel. It is also typical to find that the idea is very sketchy, with limited technical or marketing feasibility analysis. Many entrepreneurs have some physical assets and financing that can be placed in the new venture, have access to additional financing, and have connections that can handle official paperwork. They seek technology, including trademarks and marketing connections, that can reduce risks or increase the productive potential of the proposed investments. It has also been observed that many entrepreneurs are thinking along the lines of medium-scale enterprises, large enough to have some capability of export, but small enough to be feasible with local resources.

Development assistance projects that have improved the quality of agricultural produce, supported technology transfer in pilot processing operations, removed policy constraints, facilitated agribusiness financing, supported pilot marketing operations, etc have a mixed record in establishing growth in the agribusiness sector. Many of these projects have contributed useful experience with aspects of the agribusiness sector, but factors beyond the scope of the project have been critical constraints on growth and have limited the financial viability of the enterprise. The lessons gained from this experience have led mission staff to recommend the agribusiness sector approach in future development in order to address an adequate range of the constraining

factors and thereby establish adequate breadth in the base for viable sector growth.

B. With the U.S. agribusiness sector

With the completion of the Food Systems Strategy, the ENE staff began a dialogue with the U.S. agribusiness sector. Some 200 companies have responded to invitations for one-day meetings held in Washington D.C., Chicago and Pomona, California. In general, the companies represented had experience with the ENE countries and were giving thought to expansion or new investments. Agribusiness representatives were enlightened managers with some knowledge of AID and all participants had an optimistic, world market driven, growth scenario for their business. The company representatives complemented AID for the new strategy of collaboration with the private sector and were forthcoming in suggestions for activities of mutual interest.

As might be expected, the comments of the agribusiness representatives contributed a wide range of ideas, points of view, suggestions and critical evaluations of past linkages. Four factors were commonly included in the recommendations for future AID activities that would have high benefits for private sector agribusinesses;

- information on market demand,
- information on product or raw material supply and costs,
- information on potential business partners, and
- information on laws, regulations and business procedures.

It is interesting to note that U.S. companies did not generally recommend assistance with pilot trials of their technology, nor did financial assistance have a high place on the list of recommendations for the attention of AID projects and programs. It is also interesting to note that many of the representatives endorsed current activities such as policy reform, university building, and agricultural research as contributors to the agribusiness sector, although often with suggestions about amendment of these projects to better serve the growth of commercial activities.

The more far-sighted agribusiness executives described promising opportunities for world food systems characterized by an integrated structure of supply, processing and marketing operations. They explained that various permutations and combinations of supply, processing and marketing points are feasible for a multinational network that can provide a reliable, low-cost supply of quality food items. Expanding international markets and modern crop production and processing technologies allow international food firms to take full advantage of the facilities of modern transport and communications systems to supply a wide variety of affordable foods to consumers. The developing countries, particularly the ENE countries, figure prominently in this corporate strategy because of their natural resource assets for agricultural production and processing, abundant labor force, proximity to strong markets and the growth potential in their domestic markets.

IV. The Prospects for Growth of the Agribusiness Sector

While the agribusiness sector in ENE countries has been largely neglected in government and development assistance programs it has grown and there is evidence of continued growth. This growth does not appear to be orderly or efficient, and the traditional rate of growth based upon reinvestment does not show promise for meeting the economic growth targets. The challenge is to prepare an agribusiness sector development plan that would take full advantage of private sector reinvestment, mobilize new investments including development resources, introduce official incentives where required to achieve desired growth rates and provide the complementary technical assistance to accelerate the growth trend for the sector and enable it to play a role of increasing significance in the national economies of ENE countries.

A. Government Policy and Official Programs

The increased interest in the private sector and the advocacy of privatization of agribusiness enterprises that appears in political speeches and official policy statements is opening a new horizon for development of the agribusiness sector in ENE countries. The translation of the new policies into action programs has been rather tentative, consequently it is difficult to determine where the economic growth horizon might be drawn. A number of countries have asked for technical assistance in revising the administrative and legal framework for accelerating investments of the private sector, and in that role AID can assist in the reforms.

Several governments (Pakistan and Indonesia) have set up interministerial committees for defining the agribusiness policy and government action plans. In Pakistan the Minister of Agriculture has an interministerial advisory group for agribusiness which is considering the operations of the Ministry as well as the position of the Ministry in the cabinet on issues that affect the agribusiness sector. In Indonesia a joint committee of the Ministry of Agriculture and the Ministry of Industry has been charged with the stimulation of decentralized, medium and small scale industry. The committee has interpreted their charge to apply to the agribusiness sector and have begun a dialogue with local government and business leaders to define the policy matters and development needs. The bottom line at this time is that new, but only partially defined, opportunities are being opened for growth of a private, agribusiness sector.

B. Resources for Development

There are numerous resources from which to draw in organizing new agribusiness investments and opportunities for creative financing seem to be expanding. Entrepreneurs from developing countries have access to significant resources which they are willing to invest in agribusiness enterprises and can furnish a viable base for the financing package of new ventures. The U.S. private sector tends to be cash short when LDC investments are under consideration, but is often willing to assign personnel and technology to new ventures that expand the scope of corporate operations and that create lines for future expansion. Partnerships, management contracts, product brand franchises, licensing agreements and joint ventures between U.S. firms and local

agribusinesses are beneficial to both sides. A U.S. partner is a highly regarded asset when seeking financing for agribusiness investment and expansion. Participation of the U.S. partner in specification of technology, technical operations and marketing operations increases the likelihood of obtaining commercial or development bank financing for the new ventures.

Commercial banks in several ENE countries have been very conservative in their activities in the agribusiness sector. In order to increase the flow of resources into the establishment and operations of the agribusiness sector, it may be important to provide some technical assistance for rural banking windows in the commercial banks.

C. The Plans of the Private Sector

The U.S. agribusiness community has shown interest in trade and investment missions to collect more information about production and marketing in the ENE countries. Unfortunately, the available market information on many investment opportunities is comparatively soft, which translates into high risk for any investments made on the basis of the existing data. Thus, anything that AID might do to firm up the numbers can result in reduction of risk and may bring the investment into the acceptable "ball park".

A few companies have a corporate strategy that includes the possibility of investment, partnerships, licensing or franchise in the ENE countries, but at a modest level in order to test their evaluation of risk and the performance of their operational plans. These companies see involvement and experience as the best way of resolving the unknowns, and are controlling risk in the short-term by limiting the size of their pilot operations. Smaller companies, with limited expert staff, tend to choose this route of trial and error investment and expansion. Unfortunately, those who are eager to see rapid agribusiness growth are disappointed with these tentative investments, and others discount the simplicity of the trial and error approach. Full cooperation with pilot operations however can shorten this first, or learning, phase, and can often yield important policy and other insights that can have sector-wide impact when built into subsequent growth phases for sector expansion.

D. Development Assistance

In the paper "Agribusiness Development in Asia and the Near East: Strategic Issues and a Plan of Action," Dr Mark Newman states that the "Critical factors required to encourage agribusiness include;

- Markets for potential products
- A regulatory and policy climate conducive to investment
- Adequate infrastructure and maintenance conducive to competitive agribusiness development
- Availability of technology appropriate to the scale of agribusiness operations
- Appropriate labor and management skills and the means to upgrade and maintain them;
- Adequate financing; and

- Timely availability of required raw materials."
- The Plan of Action recommended by Newman "includes;
- Rapid appraisal of agribusiness capabilities, constraints and opportunities including existing capacity, competitive position, comparative advantage and market opportunities;
 - Use of AID's interest, influence and experience in policy reform to contribute to an investment climate that will facilitate agribusiness development;
 - Contributions to infrastructure development and maintenance of infrastructure;
 - Support for technology development and transfer;
 - Development of labor force and management skills and other aspects of human capital formation;
 - Contributions to required financing for agribusiness development, directly and indirectly; and
 - Activities to contribute to availability of reliable supplies of agricultural products and inputs for processing, packaging and marketing."

The Newman presentation illustrates that agribusiness development is a multi-faceted program and that strategic planning for AID's entry in this sector will be complex.

By proposing to assist in the agribusiness sector, and enter into a partnership with the private sector, including U.S. agribusiness firms, changes are implied for the way AID development assistance program will be planned and implemented. Of course, refinements of policy analysis, institution building, agricultural research, agricultural university and other projects can improve the benefits of these traditional activities for the agribusiness sector. There are also possibilities for redesign of several, previously common activities such as the intermediate financial institution and small-scale industries activities to contribute to the development of the agribusiness sector. But none of these activities will completely fill the needs mentioned by ENE staff and U.S. agribusiness executives for increasing investments and improving the performance of investments in the agribusiness sector.

V. The Strategic Concept

The Food Systems Strategy directs the attention of AID Missions to the agribusiness sector as an important area of development assistance. Under the Food Systems Strategy, and in line with the Administrator's Initiative for a Partnership with the Private Sector, an agribusiness sector assessment becomes the basic document for identification of the development intervention(s) and furnishes supporting information for preparation of the Country Development Strategy Statement (CDSS). The agribusiness sector assessment states potentials, constraints and options for development assistance. From the sector assessment, the Mission may modify existing projects and programs and/or add an agribusiness project/program to the portfolio in order to support the desired development of the agribusiness sector. In many cases, the desired agribusiness sector development objectives will be most effectively addressed by shrewd combination of the policy dialogue, program and project resources of the Mission program.

Program design is obviously a country, and time, specific task meaning that the sector assessment must be a dynamic process which responds to changes in the economic environment, technological introductions and continuing analytical work. Development assistance may be provided to expand the scope of the agricultural and industrial statistics with subsequent analysis work in sector monitoring and analysis of the social and economic performance of the agribusiness sector. The integration of university staff in the sector analysis would further strengthen the resource base for continuing sector assessment and periodic up-grading. At an early stage the sector assessment process should include the participation of the business leaders to ensure that the practical as well as the theoretical base of the assessment is solid and the resulting treatment of policy issues and operating constraints is comprehensive and fully supported.

The agribusiness sector assessment will most likely identify modifications in the country portfolio that will improve the active projects in terms of their benefits for the agribusiness sector, and such amendments can be factored into the CDSS as well as into project implementation plans. In addition to fine-tuning of active programs and projects, the Food Systems Strategy anticipates project/program activity(s) targeted for collaboration with private enterprise in expansion of the agribusiness sector.

A. The Sector Assessment

Sector assessment has become a widely used technique in development assistance planning, with adaptations of the data collection and analysis methodology according to the applicable AID policy determinations for the sectors targeted for development assistance. Agribusiness sector assessment has the advantage of an extensive base of agricultural statistics and economic analysis work in many countries, much of which was created with AID assistance and can be readily adapted for the agribusiness sector. However, information on agricultural businesses is not available in similar detail to that now available for farming and the agribusiness sector assessment must explore a variety of sources in compiling a data base. Much of the agribusiness sector consists of small-scale rural enterprises and is commonly unrecognized in official statistics. Data from the parastatal sector is often in disarray. Multinationals tend to guard information on their operations because of concern about protection of trade information, suspicion about official uses of their performance information, and in some cases disappointment with the performance of their operations.

The agribusiness sector assessment, by combining existing agriculture and industrial sector data to the extent possible with original survey and analysis where necessary, and using assumptions for gap filling, can develop the major linkage and constraint features of the sector. Sector assessment in most countries will be an iterative process which builds from the agricultural sector analysis work for the economy and progressively incorporates the industry and business activities that link with production and marketing operations for the food and fiber products of farming. The sector analysis describes the economic activity and potentials; identifies the policy, technology, infrastructure and other constraints; considers costs and benefits of alternative interventions that

are believed to facilitate growth in the sector; and recommends a consolidated strategy for AID assistance.

B. Refinement of the CDSS and the Portfolio

Senior Mission management determines the assistance plan for the agribusiness sector by reliance upon the sector assessment, dialogue with the host country, dialogue arising from the partnership with the private sector, consultation with other donors and other strategic considerations. From this background work the resulting sector strategy and objectives are defined and recorded in the CDSS. The country program interventions in the agribusiness sector can be multiple such as policy dialogue, a component of the macro-economic policy reform program, sector reform programs and development assistance projects. The CDSS also defines the relationships of assistance to agribusiness to interventions in other sectors of importance in the country strategy. It is assumed that fine-tuning of some activities in the existing assistance portfolio will improve the benefits of those activities to the agribusiness sector, but that fine-tuning alone will not fully address the critical problems identified in the sector assessment. Targeting on the agribusiness sector will require major adjustments in the CDSS and a redeployment of assistance resources. The CDSS provides the "big picture" description of the country program and the benefits that are anticipated.

1. *Policy Reform Agenda*

As the Mission staff define the concepts for agribusiness sector development assistance, a number of policy reform issues are expected to gain importance and require attention within the policy reform agenda. The agenda may contain macro-level reforms such as foreign exchange rates, multi-sector level reforms such as the price of transport services, and/or sector level targets such as industrial wages. The Mission has several choices of instrument for policy reform; such as, the inclusion of agribusiness policies when the reform agenda is negotiated under the existing programs, the preparation of a new policy reform instruments which include elements targeted on the agribusiness sector and/or the preparation of an agribusiness sector intervention combining reforms with development assistance.

In many situations the most effective avenue for policy reforms of benefit to the agribusiness sector is within the Mission Policy Dialogue and the corresponding macro and structural adjustments programs supported by the country program. There may be cases, such as is the Philippines, where a policy reform of primary importance to the agribusiness sector is addressed through a sector reform program which includes technical assistance and other sector development resources.

Experience in policy reform indicates care should be taken not only in definition of the policy reform agenda but also in establishing a monitoring system to ensure that reforms are having the desired effect. For example, the announcement of a new policy by the relevant Minister encouraging agribusiness investment may need to be followed by new administrative procedures within several offices of government, and perhaps increased services by banks, commercial service agencies, the port authority, etc. If contrary to reform

agreements and working assumptions, necessary actions are not being taken which will respond to the needs of the agribusiness sector under the reformed policy environment, this situation should be detected early and corrective action taken to realize the target growth track. In some cases support of the policy reform agenda will require technical assistance to modify sector data compilation and evaluation systems to ensure that timely information is available on the status of the agribusiness sector. As the agribusiness program develops it should establish a means for private sector input in the policy dialogue, the determination of policy issues and the reporting of progress in policy reform.

2. *Official Services*

AID is encouraging the private sector to enter new agribusinesses, and also encouraging the government to divest itself of parastatal agribusinesses, none the less, there is an important role for the public sector in providing vital services for the agribusiness sector. For example, standards of weight and measure, public information on market conditions, skill and technical training for the more common agribusiness technology and other public services have a role in growth of the agribusiness sector. Technical assistance projects can be amended in many countries to improve official services to the agribusiness sector; such as, the agricultural statistics services can compile and report information on the rural marketing enterprises, a ministry may be assisted in setting up an office of weights and measures, or the university may be assisted with establishment of a program in agribusiness management. The CDSS can describe the reorientation of the institution building activities to improve their impact on the agribusiness sector. Subsequent project level amendments will be necessary to implement the revised strategy.

3. *The Physical and Social Infrastructure*

Constraints such as limited road network, problems with telephones, inadequacy of the legal code and cumbersome administrative regulations intended to control rather than stimulate private-sector growth are expected to appear in most sector assessments. Interventions in these areas have not been a prominent part of AID programs either because of the magnitude of resources required (roads), the interests of other donors (communications), the political sensitivity of the issues (legal reforms), and/or other reasons. The policy reform agenda is giving attention to reforms of social infrastructure. Other donor resources are giving more attention to the physical infrastructure. The agribusiness sector strategy will define the Mission interest in the donor coordination agenda for infrastructure development.

4. *Special Concerns: Natural Resource Management, Environment, Women in Development, etc*

Each of these concerns is important within the development assistance activities for the agribusiness sector. These concerns are already a part of the Mission strategy and experience that has been compiled in country will determine the means in which such concerns are addressed within the proposed agribusiness intervention. Interventions in the agribusiness sector will not be benign in relation to these issue. The CDSS will set out the particular modalities to be followed in addressing the concerns in the course of the plan and execution of sector assistance for agribusinesses.

5. *Additional Development Resources:* Trade Development and Promotion Program, Market and Technology Access Project, Agricultural Marketing Information and Systems Project, American Society of Agricultural Consultants Grant, and other Washington funded resources.

There are a number of on-line resources that the Mission can draw upon for components of agribusiness sector assistance. Many of these projects have a special methodology such as trade development, marketing information, or enterprise profiling. These resources are helpful in the planning phase, and often can provide a quick response to problems and new interests of government officials and in that way can contribute interesting benefits to the sector assistance strategy of the country program.

VI. Agribusiness Development

In a few words, the sector assessment will determine what might be done to increase the growth of the agribusiness sector and realize the goals of the Food Systems Strategy. The CDSS and portfolio review will consider to what extent the specified sector interventions can be provided by amendment of the existing program resources. It is anticipated that something more than program adjustments will be needed to effectively implement the Food Systems Strategy. Design of an appropriate agribusiness intervention under the program and/or the project assistance mode will engage the Mission in a pioneer undertaking. The following guidelines have been compiled from the Bureau's experience to support necessary Mission staff work in analysis and planning of the agribusiness activity. A summary of experience with various agribusiness interventions is contained in Annex A -- Agribusiness Interventions.

A. Agribusiness Sector Goal and Purpose Statement

The goal and purpose statements for agribusiness interventions will be formulated within the CDSS and as an outcome of the sector assessment. At the goal level the dominant theme will be the economic growth contributions of increased employment and incomes from the agribusiness sector or sub-sector development assistance. At the purpose level, the project/program statement will be derived from the particular business expansions to be supported or facilitated by the assistance activity(s); for example, an expansion of the fruit and vegetable sector by 30%, or more specifically, the expansion of export marketings at some level. Other possible purpose level statement might be program/project objectives in policy reforms, technology transfer, creation of new ventures, technical training, etc depending upon the focus of the intervention.

B. Policy Reform; including sector data and analysis

Policy constraints can be critical limitations for an accelerated rate of growth in the agribusiness sector, and, if so, the policy reform agenda will have the first claim on available resources either at the macro-economic level or the sector level as appropriate. At the same time, policy reforms are not expected

to have an exclusive claim on development resources because technical, financial or human resource weaknesses in the implementing agencies, including the fledgling agribusiness enterprises, may limit the rate of sector growth that may be possible subsequent to the relaxation of policy constraints. A mix of program and policy resources is expected to be required in initiating a new growth trend for the agribusiness sector. Missions may prefer a sector policy reform program with reform and development assistance combined in an agribusiness sector program document.

C. Trade, Professional and Business Associations

An important part of the U.S. agribusiness sector is the associated network of business organizations representing companies, various trade associations and professional organizations. These institutions, inherently democratic in character, support the private sector through such actions as advocacy of important technical and policy positions on such things as health and safety regulations, training needs, product labeling, standards for environmental protection and many other features of an open market. One of the main functions of trade organizations is to collectively lobby with the legislative and administrative offices of government on behalf of the joint interests of the membership they represent.

Member education and technical or trade information exchange are also prominent parts of the activity of the trade, professional and business organizations. Trade publications, seminars and technology fairs organized by these associations serve a vital role in transfer of technology, improvement of quality standards, introduction of new markets, and general public service of the trade organization. Although the agribusiness sector in the ENE countries is young, it already has recognized some of these needs and is creating similar organizations to provide such services. Several Missions have recognized the possibilities for strengthening these organizations as a vehicle for improving the spread effect of development assistance.

The trade, professional and business associations offer promise as intermediate organizations for formulating the agribusiness sector issues for the policy reform agenda, channeling technical assistance, training operating and management personnel, collecting and publishing market information and providing other development services to the agribusiness enterprises. To fully develop the effectiveness of the trade organizations, it is necessary that any existing official ties be severed, or phased out. At the same time, membership services, and dues paid for those services, will need to be raised to make the organizations sustainable; which may require AID support in a transitional period of institution building. Such institution building may be most effective by drawing upon the experience of the U.S. organization representing a similar segment of the agribusiness sector; i.e., technical assistance from the California Date Growers Associations to a sister organization in Morocco. Some of the U.S. trade organizations have expressed their interest in collaboration for exploring market outlets or new venture possibilities for their membership.

Activities that could be supported by AID in assistance to trade associations include organization of information tours, trade fairs, introduction

of new technology, generic market research, conferences on policy questions and the conduct of management and technical training for agribusinesses. Some of the new program and project descriptions currently being designed by Missions are proposing interventions of this type.

D. Investment Opportunities and Deal Making

Growth of the agribusiness sector will require new enterprises and expansion of existing enterprises. Entrepreneurs, both ENE and U.S. businessmen and women, have their eyes and ears open to spot new opportunities and welcome any source that may contribute to collection of information about business opportunities. Services such as trade and promotion missions, inspection tours, industry fairs and exhibits, trade associations and others have provided entrepreneurs with information about products, partners and investment opportunities. Business representatives generally ask for more services of this type in their recommendations for things that AID should consider. Investment information services can be comparatively low cost, and can be organized for good spread effect of the benefits to firms and individuals. Information alone, however is not usually sufficient for investments involving new products, new technology or new markets in the ENE countries.

An essential feature of an investment information service is a provision for tracking of deals is an indicator of sector activity. Of course there is attrition at each stage of deal making. For example, out of ten business representatives that participate in a trade mission there may be only two or three that enter into some business negotiation. And perhaps only one or two of the negotiations will result in an agreement. In most countries there is a requirement for a business license and this may be the most convenient point to monitor the contributions to deal making. Another possible monitoring point would be the annual reports of development banks and the listing of loan clients for new or expanded ventures in the agribusiness sector.

E. Technology Transfer Activities

There are many problems which can be addressed by technical assistance and technology transfer activities such as statistical and economic surveys, pilot marketing, pilot processing, market research, processing or marketing troubleshooting, expert studies, etc. U.S. agribusiness managers and executives have most commonly asked for information on the emerging markets, the availability of production inputs, the legal and administrative requirements for new ventures, and background information on potential business partners. The needs of the ENE business partners are similar, but they are also interested in information about technology, including pilot performance data for agricultural product processing or marketing technology. Mission response to these needs currently includes a wide range of approved or planned activities which will provide technical assistance, technology transfer, pilot or field trials and financial support for prototype industries. Joint venture participation of U.S. business actually has the potential to offer even more technology transfer than development assistance and will become the dominant means for transfer of agribusiness technology, particularly in those countries which facilitate foreign investments and joint

ventures. If one can draw on previous, similar experience in rural enterprise and small-scale industry development, there are positive benefits from the technology transfer activities, but they are generally targeted too sharply and such constraints as marketing systems or infrastructure limitations prevent activities which furnish only technology transfer from contributing accelerated sector growth.

AJD provision of technical assistance can reduce investment costs and risks for new ventures and may thereby shift a marginal investment into a profit making category and to that extent stimulate growth. Technical assistance and pilot projects are effective interventions for establishing prototype enterprises to be replicated by the private sector. Missions are planning some interesting approaches to enhance the fairness and spread effect of there technical assistance such as technical assistance and training services to be furnished to a group of similar enterprises through their trade organizations. At this early stage of agribusiness development, an active and creative dialogue with the private sector is encouraged to identify critical technical constraints and identify low-cost high-impact means of providing needed technical transfer.

F. Market Research and Development, including export trade

Market research and readily available market information can be a powerful business incentive. Increased attention has been given to the characteristics of world markets in development and trade literature, but much of this information has a short useful life as economies and markets are very dynamic. Product specific market research is relatively new technology which is just beginning to stimulate investments and expansion of agribusinesses. Market research is generally believed to be costly, and few small companies believe that they can afford this kind of investment in foreign markets. It is also noted that the necessary market research skills are perhaps even rarer than other technical skills in the ENE countries, because they were not needed under the previous regimes of planned economic development. Several USAID programs will support some interesting new approaches to assistance in market analysis; such as, new market information summaries from Europe, some trial vegetable marketing from the Middle East to European markets, the integration of North African production units into multi-national marketing organizations and others. Further investment in market research and information services is recommended as a priority area for USAID support, with attention given to the basic or generic items from which the new enterprises can follow-up with targeted evaluations of their brand products.

G. Operating and Management Training

The growth of the agribusiness sector will create many employment opportunities for skilled technical and management staff. Unfortunately, local educational institutions often graduate a limited supply of personnel with basic qualifications for technical operations and business management positions in the agribusiness sector. Thus, establishment costs of a new enterprise must included human resource development costs, which has obvious implications for the "bottom line". There are numerous options for relieving some of these costs at the

sector level, such as sponsorship of new business management and food processing training programs in the existing education system, partial support of technical training in collaboration with the interested industry, creation of new training services in trade organizations, etc. There may be less known about technical training problems and the utility of various options for addressing these problems than any other aspect of agribusiness development.

In the short-term, new companies can probably hire the needed individuals from the underemployed pool of university trained individuals, and with special training or on-the-job learning, satisfy their skill requirements for the initial phase of operations. In the medium term, joint action by the industry groups, perhaps with development assistance, may be appropriate to fill the needs for enterprise expansion. In the longer term, these partial solutions will not be sufficient to provide the large numbers of business specialists that will be needed for agribusiness development and new or revised programs will be needed in the educational institutions. It is none too early to begin the initial stages of planning of human resource development programs for the medium-term time horizon of the agribusiness sector.

H. Micro and Small Enterprise Development

The agribusiness sector relies heavily upon micro and small enterprises, both for farmer services and for the retail levels of food marketing. The farm suppliers of seed or fertilizer are often part-time farmers or village merchants who employ a few seasonal workers while selling to the farmers of their community and providing some product information. Dealers in branded products often receive some technical training, management services and backup support from the company whose product they handle, but they are technically and legally independent business enterprises. The value added in the services at this level are on the order of 5 - 10% of the retail cost of the product. U.S. agribusiness executives have recommended that technical training for this type of enterprise could be provided by AID.

A second category of micro and small enterprise active in the food system is the local market agents, often women, who provide collection and transport services and may do some grading, processing and packaging of agricultural products. Traditionally these enterprises have been primitive and often only trading services. In the course of economic development, opportunities are created to provide value-added processing, transportation and storage services, but traditional practitioners have had difficulty getting technology and financing to grow in response to such commercial opportunities. Urban middle-men are able to move into these new commercial services and the resulting competition has been the source of tension and anguish. Enlightened entrepreneurs recognize possibilities of integrating the traditional marketing agents into a vertically-integrated food system which provides improved quality to the urban market. A number of non-government organizations have set-up service centers to supply financial and technical services to traditional market women or local groups and with this assistance the beneficiaries have been able to build quality businesses.

The third category is at the other end of the food system, the vendors and stalls offering street and convenience foods. The entrepreneurs in this group are very dynamic in responding to the opportunities created by urbanization, but often with questionable practices in respect to the dietary benefits and health risks. These are typically a part-time family business where one of the women of the household is capitalizing on a particular recipe or service location. There appear to be many possibilities for wholesale and support businesses that could improve the quality of the street foods as well as improve the convenience and returns from this type of activity. Design of such assistance would involve collaboration of nutrition specialists, medium or large-scale food processing companies and small-scale financial services. The program support for expansion and improvement of small-scale or part-time convenience food businesses might be expanded by technical training on sanitation, modest financial assistance for upgrading equipment and improved supply of bulk ingredients.

I. Infrastructure Support and Services

Physical and social infrastructure development has been mainly outside the range of AID assistance activities during recent years, but the needs of the agribusiness sector call for a review of this modus operandi. The Administrator's Initiatives on the Partnership with the Private Sector recognizes that there may be situations which require more direct assistance to infrastructure. Agribusinesses are dependent upon the existence of infrastructure and social services for commercial success and these deficiencies could be critical constraints on sector growth. It is recognized that AID's funding is generally inadequate to support the needed infrastructure development. However, within the donor coordination relationship with the multi-lateral development banks and other donors, AID can contribute to selected infrastructure needs of the agribusiness sector, such as construction of rural and market roads, communications services and other infrastructure facilities.

J. Financial Services

It will also be necessary to bring the financial service firms into the coordination dialogue to ensure that the banking system has the staff, office facilities and financial resources to serve the investment and operating capital needs of a growing agribusiness sector. The question that arises is the extent to which the donor coordination dialogue can influence the multinational banks and other resources to direct their infrastructure support more to the needs of the agribusiness sector. There may be technical assistance needs in the banking sector, such as training of agribusiness loan officers, that can be provided through an agribusiness sector training program. U.S. agribusiness executives have suggested that credit programs for farm service centers should be a high priority component of agribusiness development, and they have further volunteered their staff resources for design and establishment of such financial services. There is limited analytical work from which to design a financial services activity, but there is significant evidence that continuing sector analysis work should give attention to this aspect of the agribusiness sector in terms of ensuring that the financial services do not become a growth constraint in an accelerated pace of sector development.

VII. Summary

During the early stages of economic development, the agribusiness sector grows rapidly and is a major contributor to employment and income generation. Under the Food Systems Strategy, the ENE Bureau will focus attention on the transformation of agribusiness from the stage of a Low-Income Agricultural Economy, where the agribusiness sector is about 6% of the economy, to a Middle-Income Industrializing Economy, where the sector is 16% of the economy and exceeds the contribution to Gross Domestic Product from agricultural production. Through this phase of economic development the food systems become the commercial backbone of the national economy as per capita food consumption increases from \$97 to \$389 and the urban population becomes about 50% of the total population.

ENE governments have been placing emphasis on agricultural development and privatization of commercial activities. U.S. agribusiness executives and ENE entrepreneurs are exploring the business opportunities and making modest, pilot investments. The agribusiness strategy supports the official policies and private investments in private-sector agribusiness within the framework of the ENE Food Systems Strategy and the Administrators Initiative on the Partnership with the Private Sector.

The mobilization of development assistance for the agribusiness sector is a multi-step process. The first step is a sector assessment which describes the development potentials and constraints for the sector. The sector assessment provides Mission management with the basic information for revision of the Country Development Strategy Statement to include agribusiness sector objectives and for placing development assistance for the agribusiness sector in appropriate relationship to other development interventions. The sector assessment will also provide the basis for revision of the policy reform agenda to include attention to issues critical to the agribusiness sector and for revision of the Mission portfolio where modifications of authorized projects and programs can improve the impacts on the agribusiness sector. It is expected however that modifications of the various activities within the country program will not adequately address the critical constraints of the agribusinesses and that improvement of the agribusiness sector will require targeted resources such as program or project assistance, or a combination of these two forms.

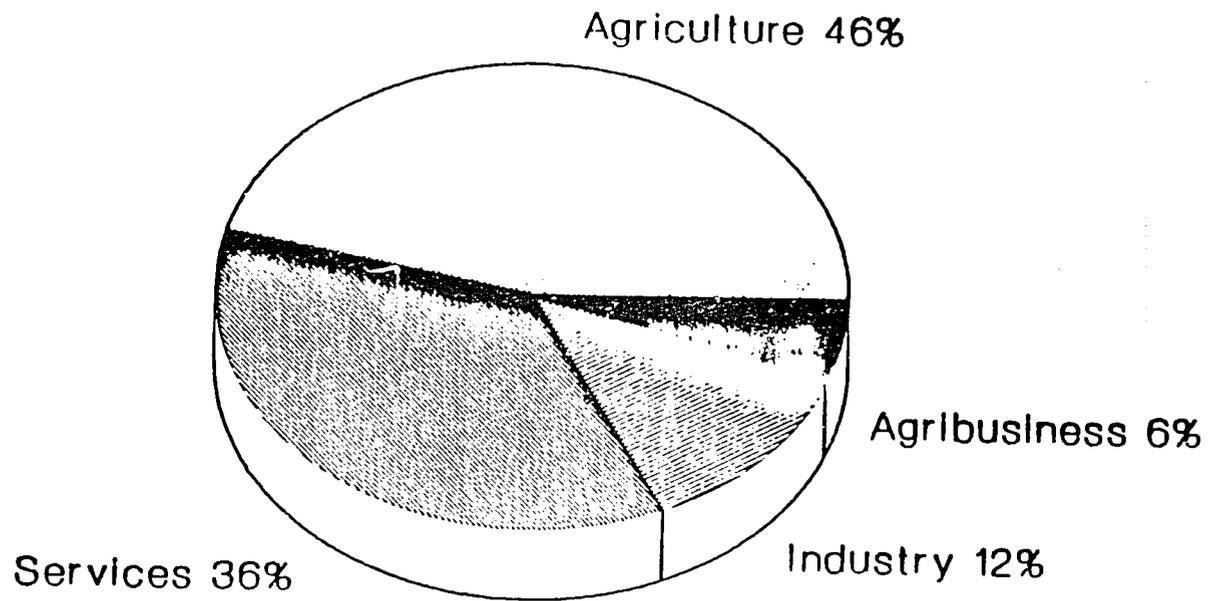
The goal of development assistance for the agribusiness sector will be an accelerated rate of growth of employment and incomes in private-sector agribusinesses and on farms. At the purpose level the statement will reflect the particular features of the planned interventions such as an increase in the marketing of fruits and vegetables by 30%, an increase in export earning from agricultural products, an improved marketing and food processing system, or a stable supply of nutritious foods. The sector assistance program may include provisions for policy reforms under the Missions reform agenda, particularly when close coordination is required between policy reforms and development assistance in the application of those reforms.

Agribusiness sector assistance provides a new structure for directing assistance resources to create a partnership with the private sector. The trade, professional and business associations can play a major role in the transfer of technology, the formulation of the policy agenda, the training of technical staff, market research and a number of other development functions engaging AID and the agribusinesses in joint action. Trade and investment promotion activities can be continued and expanded at the country level with a wider set of services and linked to the target subsectors of the development assistance program. Technology transfer may be supported by pilot projects, seminars, studies, etc through public sector offices, universities and consultant organizations in addition to the trade associations. Support for market research is recommended for the agribusiness program because of the strong demand-driven characteristics of commercial food systems. Training for operating and management personnel for the food systems may be provided through revisions of the educational institutions, special programs of trade associations or through industry and enterprise specific support. In order to provide farmers and consumers with effective grass-roots services, the agribusiness program will strengthen micro and small enterprises of the food systems through special credit and technical support facilities. Infrastructure and financial service needs of the agribusiness sector may require that some missions create new types of projects for these two areas of assistance following the new initiatives of the Administrator. The array of potential interventions is broad and exceeds the funding and management resources of Mission programs, consequently a targeted program on a specific set of sector developments will be required.

The agribusiness sector is a dynamic feature in any national economy and a dynamic capability for sector monitoring and analysis will be required to ensure that development assistance is targeted and re-targeted for effectiveness in the course of economic growth. Development assistance in agricultural statistics and analysis provides a precedent that can be adapted to fill the needs of the agribusiness sector. The private sector must also be engaged in sector analysis, policy dialogue and development planning to improve the effectiveness of feedback and management for the sector.

Growth and improvements in the agribusiness sector are expected to expand and stabilize the markets for farmers, expand the commercial opportunities for agriculture by developing new markets and new products, and progressively improve the nutrition and convenience of the food supply. As a result of these developments there will be an increase in sector employment and incomes as well as spread effect benefits to the national economy.

Low-income Agricultural Economies

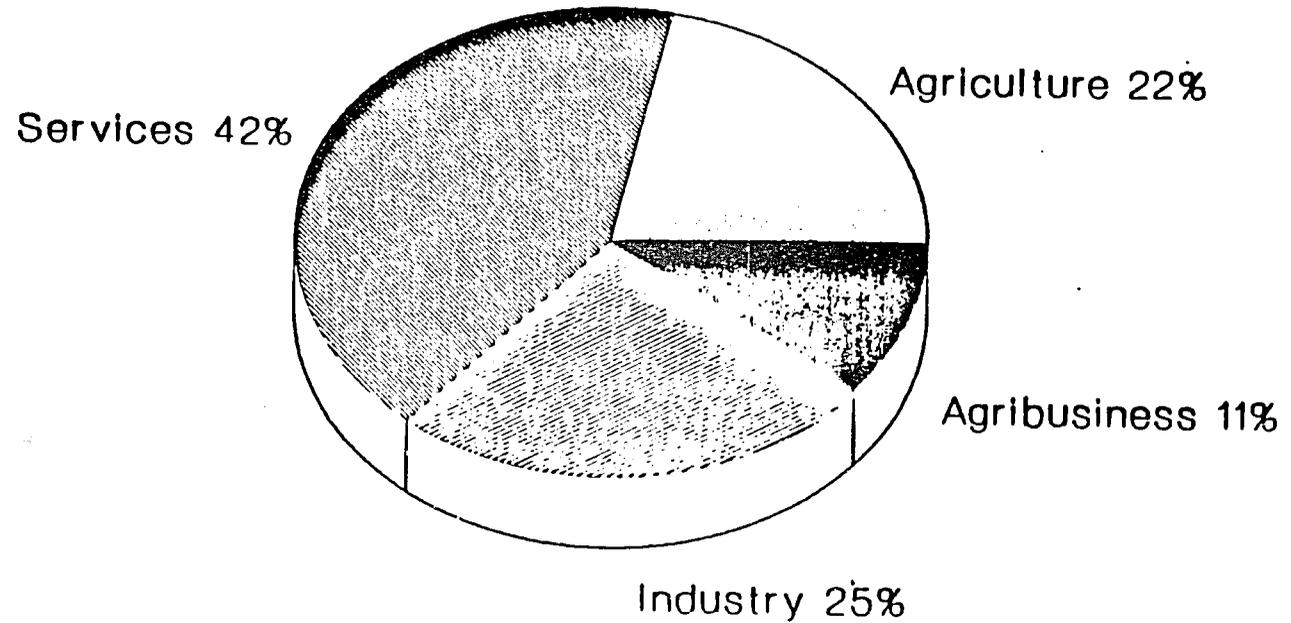


Per Capita Income \$161

FIGURE 1A --- ECONOMIC GROWTH AND SECTOR TRANSFORMATION --- LOW-INCOME AGRICULTURAL ECONOMY

24

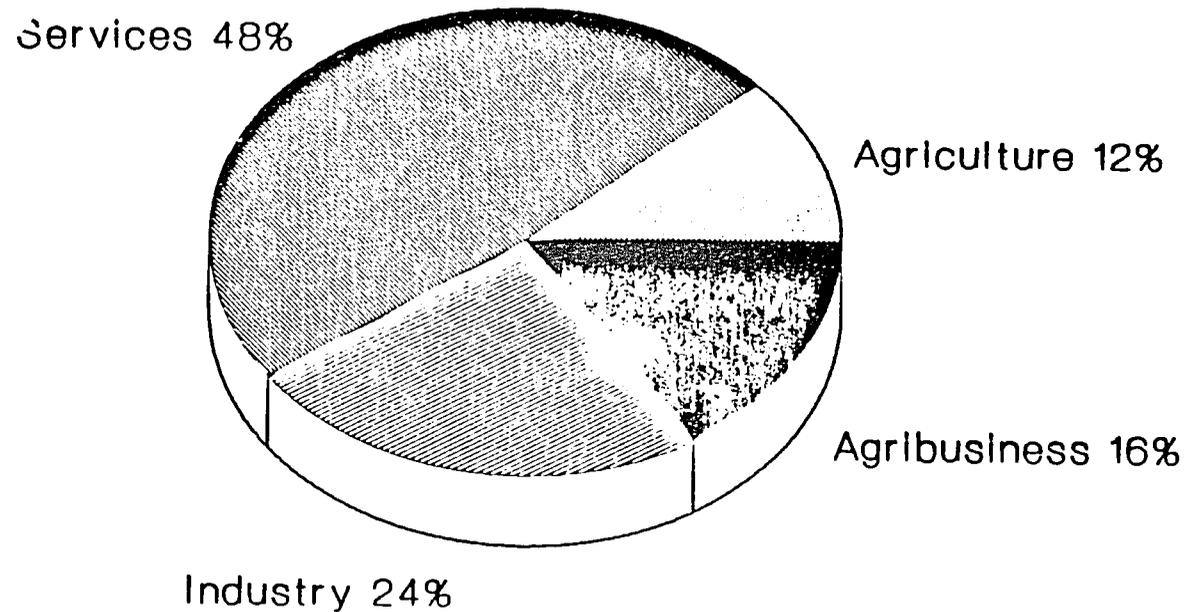
Middle-income Transitional Economies



Per Capita Income \$321

FIGURE 1B -- ECONOMIC GROWTH AND SECTOR TRANSFORMATION -- MIDDLE-INCOME TRANSITIONAL ECONOMY

Middle-income Industrializing Economies



Per Capita Income \$971

FIGURE 1C -- ECONOMIC GROWTH AND SECTOR TRANSFORMATION -- MIDDLE-INCOME INDUSTRIALIZING ECONOMY

ANE'S FOOD SYSTEM FOCUS

PRESENT

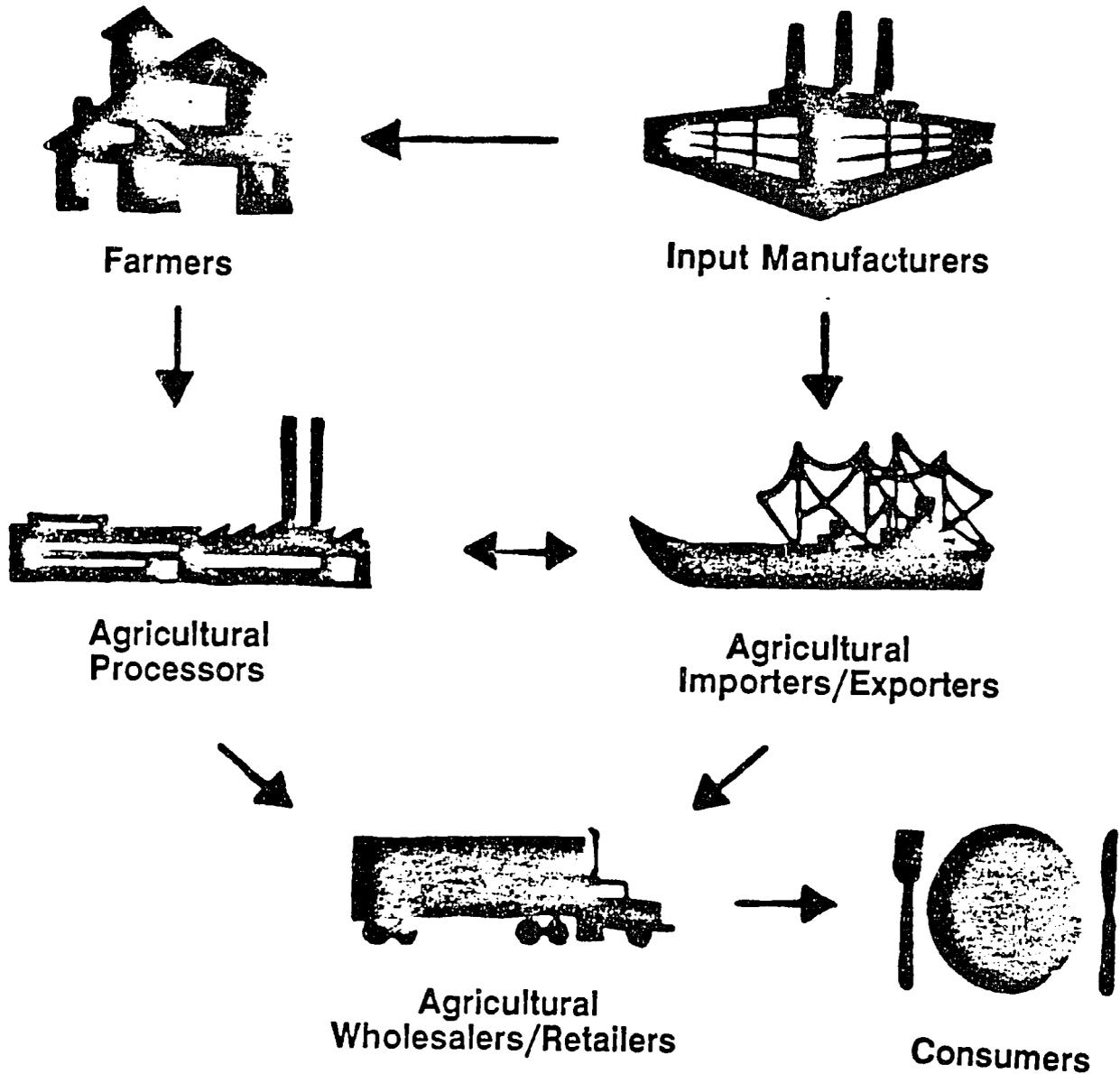
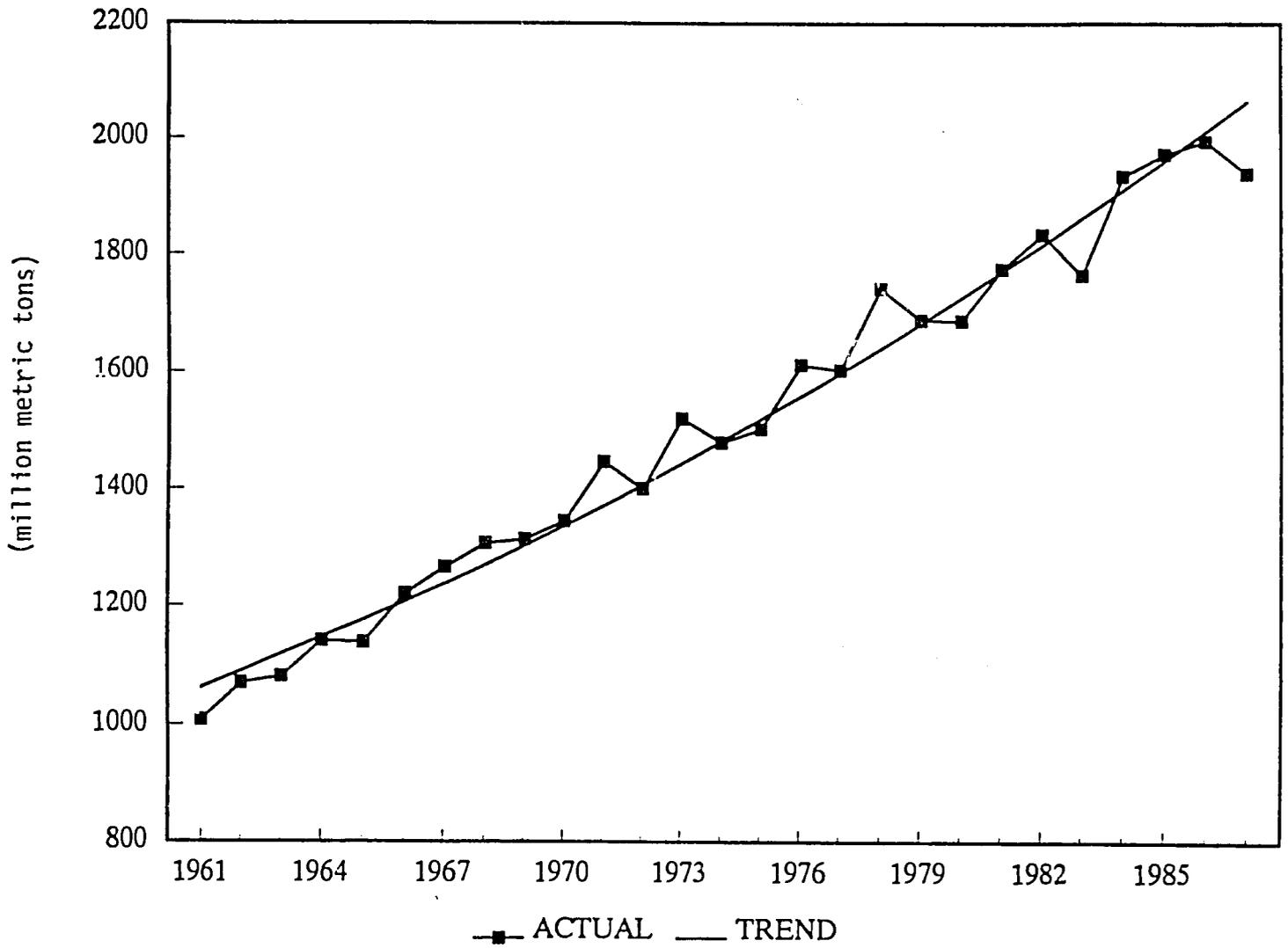


FIGURE 2 — AGRIBUSINESS SECTOR SCHEMATIC

Figure 1. World production of major food crops, 1981-87



Source of basic data: FAO, "Production Yearbook Tape, 1988."

Agribusiness Strategy

Annex A -- Agribusiness Interventions

Introduction

Activities in the agribusiness sector that are either in process or under design in ENE and other AID countries form a resource pool of experience which has considerable value in development of the agribusiness strategy. Some of the activities are supporting elements of agriculture production projects and are largely directed at one or more of the necessary production inputs. A few activities are the follow-on result of agricultural economics analysis and policy planning work which has given attention to critical constraints in the agribusiness sector. Lessons have also been drawn from activities in industrial development and in trade promotion. The following notes briefly summarize the approach, experience and recommendations regarding various types of agribusiness interventions that may be appropriate components of agribusiness assistance in the country development strategy.

I. Sector Level, Program Type Interventions

Recognition of the agribusiness sector as a target for development assistance is relatively recent, consequently the experience is limited and fragmentary. Sources for the following review were sector level elements of activities that were focused on agriculture production, selected activities in rural enterprise and small-scale industry assistance, activities in export promotion and some of the macro-policy reform programs. The lessons are framed in terms of their future application to program-type interventions. Technical assistance or project-type interventions are discussed in the next section.

A. *Policy Reform*

The agribusiness sector will realize more benefits than the agriculture production sector by policy dialogue and reforms which move to the opening of markets and relaxation of constraints to trade. Input price policies have been the first objectives in policy reform, and a common objective has been fertilizer prices. The more successful programs have been incremental reforms that were based upon thorough analytical work and linked with institutional reforms such as privatization of fertilizer production and marketing. Reduction of subsidy and transfer of distribution operations from the state to the private sector have yielded positive economic benefits, although with greater difficulty than was expected in the program planning stage. Agricultural sector analysis work has compiled a sizeable list of policy constraints of significance to agribusiness, some having broad macro-economic implications such as exchange rates and import/export controls. The most effective policy dialogue has often been at the macro-economic level with the agenda formed by consolidation of sector issues.

19

Privatization policies, particularly those with reform objectives for the parastatal agricultural services and cooperatives, have major significance for agribusiness. While a number of governments have articulated parastatal reform objectives at the highest levels, the movement has been sluggish at best in setting procedures for reforms and transfer of ownership.

In Pakistan the Minister of Agriculture has convened an agribusiness committee with advisory responsibility for both privatization and strengthening the agribusiness sector. In Indonesia the government has formed a Joint Working Group of the Ministries of Industry and Agriculture with a similar charge of responsibilities. It is noted that the dialogue in regard to administrative reforms includes improvement of services which oversee commodity grades and standards, weights and measures, food and health standards, market price information and market supply situations and other public services.

B. *Financing and Credit Services*

The history of financing and credit services for agricultural production is extensive. LAC has, perhaps, the most extensive experience with intermediate financing institutions serving rural enterprise and export industries, and with a wide variation in results. Experience demonstrates that financing and credit services, when well managed, can benefit the agriculture sector, but that the economic benefits in pilot projects have not stimulated growth by the attraction of investment resources beyond those of the initial development assistance. The challenge is to realize an even greater return from effective operation of rural banking windows; i.e., training of staff, decentralization of authority, revision of operating procedures to better balance accountability considerations with the timely delivery of financial services, etc. Some creative work with credit unions provides evidence of significant rural financial resources and potential for improvement of rural banking services.

Macro economic and exchange rate policies, unfavorable terms of trade for the rural sector, and urban operational bias in banking institutions often function to the detriment of the rural sector. The weight of development banking experience, plus the leverage of the policy reform dialogue, has to date had a limited impact on rural financing. The agribusiness sector program will require more attention to this factor, particularly if the availability of financing for the small-scale, rural dealerships and services components of the food systems is to be increased so that the rate of growth for the sector can be accelerated.

C. *Legal and Regulatory Support*

Sector assessments, and the body of experience with industrialization, identify legal and regulatory provisions of most countries as serious constraints for new and expanding enterprises. Some policy reform programs have called for reforms of specific legal and regulatory provisions such as import controls and requirements for establishment of industrial facilities. The recent swing of political philosophy from state enterprises to private sector development has introduced an environment for bolder dialogue on the subject of business laws and regulations. Careful direction of the legal and regulatory agenda to areas of critical constraint is essential to establish a sufficiently strong track record that will be convincing support for bolder action by the politicians. Well documented program monitoring will also be vital in preparing

the case for continued progress in this type of reform.

D. Marketing Information and Infrastructure

Unavailability of market information and limitations of marketing infrastructure are also well recognized weaknesses of the ENE countries. Agricultural statistics and household survey data is creating a data base for domestic market studies of several ENE countries, but the political objectives of a controlled economy has not provide much room for analysis of the market place until quite recently in most countries. The development of marketing programs will be hampered by the limited market information that is available for organizational planning and goal setting by the new private enterprises.

Weaknesses in physical infrastructure further complicate business planning and expansion. The poor quality of roads, storage and other services effectively raises the costs of doing business and thus reduces effective demand by increasing market prices. Unfortunately, improvement of rural infrastructure will require heavy expenditure and so far these improvements have been secondary to other investments in most national development plans. A coordinated approach among donors may be required to direct a more effective flow of development to infrastructure in coordination with the expansion of the commercial activities.

E. Education and Training

Few countries have provided adequate investment in the technical and management skills training programs. Under-employed university graduates are also not seen as meeting the requirements of technical operating and management staff for new and expanding business ventures. Development agencies have supported a number of pilot technical training centers with interesting success, but not with the impact that would lead to reforms in national education policy and programs. The agribusiness sector shares this problem with the industries sector and collective articulation of the problem is needed to define the agenda for the reform of education and training policy. Morocco is currently planning university-level training in agribusiness at Hassan II. The programs in Tunisia, Philippines and Pakistan have proposed training in operations and management through short course programs with industry groups.

F. Trade Fairs and Promotion Services

Trade fairs and business promotion activities have been a part of trade and investment promotion activities, and many government offices have been set up with responsibility for this type of development service. The record of these activities in stimulating expanded markets and new enterprises is rather weak and few activities of this type have performed anywhere near expectations. In spite of the mediocre record, interest persists in trade promotion services as a component of enterprise development, including agribusiness. The explanation for continuing interest in trade promotion services is that they do stimulate entrepreneurial interest, but legal, infrastructure or other factors have constrained investment or business activity. Trade promotion service is perhaps most effective as a component of a sector reform program addressing both the technical information and the policy level constraints.

B. The Industry and Firm Level -- Technical Assistance and projects

The ENE Food Systems Strategy recognizes that growth is taking place in the agribusiness sector, but that growth can be accelerated with significant social benefits by judicious complementary development assistance. Experience in firm and industrial level assistance offers a number of suggestions for future technical assistance in the Food Systems Strategy.

A. *Technology and Production Assistance*

U.S. technology in the food industries is highly regarded, largely because it has a competitive advantage in responding to consumer demand within the growth segments of the food markets. There are serious reservations about the sophistication, investment costs and operating skills requirements of U.S. technology so that development planning calls for technology adaptation and a pilot phase of operations for new enterprises in the developing countries. The adaptations may involve any and all stages of the food systems, including raw material production and handling sub-systems, industrial equipment designs and operations, and layout of marketing systems. Joint venture and pilot projects have demonstrated the efficacy of technology transfer, but experience also demonstrates that technical assistance is not a sufficient input for initiating the desired growth rate for the agribusiness sector.

B. *Operating and Management Training*

Operating and management skills training has proven to be a serious problem for new agribusiness enterprises which has usually been solved by on-the-job training under the direction of expatriate positions in the start-up period for new ventures. U.S. companies have not had language skills or culturally-flexible accommodations to undertake the training in or near their headquarters until quite recently in a few companies, most notably under the Entrepreneurs International project. Some modest vocational training programs have been reasonably successful with some skill categories such as refrigeration or air conditioning, vehicle mechanics, accounting, etc. It is proposed above that agribusiness training might be a sector level program, but in the absence of that approach the problem must be solved at the firm and industry level. In the U.S. this level of training program is conducted in the vocational training schools, by industry trade associations and by firms. U.S. firms interested in new ventures in ENE countries have recommended that AID give more attention to human resource development and some new projects have interesting pilot proposals in this area.

C. *Marketing Research and Market Development*

The shift to market economies, and open competition in the market place, requires a marketing department in business operations and management. The state of marketing technology is primitive or non-existent in comparison with production and manufacturing technology, and it will be no small task to bring marketing up to speed with the competition in the world market place. There has been a tendency to observe the highly competitive, local, open markets for traditional agricultural products and conclude that technical and management skills exist for development of more elaborate marketing systems. Unfortunately, pilot production and processing projects have demonstrated the difficulty in developing marketing systems that matched new production capacity. Marketing in many countries has been a process of distributing scarce items, often with the

32

political importance of the consumer in mind while considering price, packaging and quality of minor significance.

The competitive market place requires organization of a market research department to determine consumer preference in terms of quality, packaging and price. Some of the market research and development will be possible for generic products and at the industry level, which will furnish some economies of scale in sector level marketing research assistance projects. Trade associations have been used for multiple firm, production or processing technology up-grades and this route has potential in the case of marketing technology. At present there are few prototypes for marketing assistance and Missions will be dependent on their individual creative resources in design of the marketing research and market development assistance.

D. *An Agricultural Research Agenda that supports Commercial Growth*

The agricultural research agenda of the last thirty years has been directed toward yield enhancing technology. In the 1990s and beyond, the research agenda will be tempered by considerations of sustainability, nutrition qualities, consumer demand preferences, processing or storage qualities and an ever widening array technology factors. This broad point of view in research agenda setting is usually realized by the placement of public leaders, agribusiness executives and consumer representatives on the boards of directors or advisory committees providing oversight for government research centers and programs. At present there is poor representation of agribusiness at this level in the developing countries. Some progressive research managers have gone directly to agribusiness firms for financial support, but these selective inputs of agribusiness in the research program in ENE are inadequate to coordinate the research agenda with the technology needed for agribusiness growth. Increased business input requires attention as the next phases of research development are planned in order to improve the effectiveness of the research program in delivery of commercially viable technology.

E. *Investment Services*

There are numerous sources of investment finance for new and expanded agribusiness enterprise and it has been stated that, in general, financing is not a critical constraint. Unfortunately, preparation of the investment package and obtaining its approval can be difficult and time consuming, largely because the agribusiness sector is not well known in commercial and development banks and loan processing is handled on an ad hoc, low priority, case by case basis. The association of U.S. agribusiness firms with new ventures as business partners, under management contract, partnership or other agreement, has generally improved the bankability of new ventures. However, the establishment of a food processing plant, or a fertilizer production facility for example, is only a part of the food system and the network of rural agencies and distribution organizations are often inadequately established for new agribusiness with constraining effects on the performance of the manufacturing or processing links in the food system. Rural banking windows are needed with competent staff to meet the needs of the small-scale or village entrepreneur interested in investing in the retail or local marketing levels of the food systems.

AID history includes some interesting projects in intermediate

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financial institutions and cooperative service centers which can serve as references in the design of future projects. Unfortunately, the record leaves serious gaps in the understanding of efficient agribusiness operations in the context of the ENE countries. Further pilot work with rural investment services can play a role in development of the Food Systems Strategy.

F. *Joint Venture and Business Investment Services*

Progressive business leaders are continuously on the lookout for information on new and promising business opportunities. They often generously invest the time of senior management staff and considerable company resources in exploring new opportunities in order to effectively reduce the risk of new ventures. Companies have different practices about the budget for such research, and documentation needed for an adequate analysis of risk. In practically all discussions with agribusiness executives about the possibilities for AID to stimulate or facilitate agribusiness sector development, the executives have recommended improvement in investment information and services. Trade development and promotion missions have been endorsed as a useful element in such a program. Social and economic data is also suggested as an important service that is being compiled by active AID projects and could be presented in more useful format. Cost of production and availabilities of agricultural products as agribusiness inputs is also mentioned for improvement. And, information about potential business partners and relevant regulations and laws is recommended for attention. This is not to expect an agency such as AID to do the full pre-investment analysis for each company, but to recommend that the ready availability of the basic information would reduce the company's investment and at least hasten the decision process as well as reduce the risk of many investment opportunities.

These executives are rather critical of existing investment services as providing mainly social and economic data at a macro level, rather than data from which to determine industry performance and competition situation for the options which a company may have under consideration. These executives add that the medium or small U.S. firm, which has comparatively little information and experience in multinational operations, is currently ill-prepared for consideration of foreign ventures, and the size of their operations will limit their capacity to prepare an adequate decision package in the absence of more investment services. Private sector consulting firms and trade associations could contribute investment services. The selection of a particular institution for AID support in the area of investment services will depend upon the country situation. Several ENE agribusiness sector assessments and new project/program proposals are giving attention to this aspect of sector development with some interesting variations of approach among the countries.

ENE/DR/ARD
2/27/91

Agribusiness Strategy

Annex B -- List of Agribusiness Firms and Trade Organizations that have Participated in the Working Groups and Roundtables.

Organization/Company	Washington	Chicago	Pomona
Abt Associates	X	X	X
Alliance Foods	X		
American Society of Agricultural Consultants	X	X	
American Soybean Association	X		
Deere and Company	X	X	
Int'l Development Management Center	X	X	
International Minerals & Chemicals Corporation	X	X	
Mid-Atlantic Committee	X	X	
North American Export Grain Association	X		
Packaging Machinery Management Institute	X		
Triple "F" Seeds	X		
Agri Marketing		X	
Agro Systems Corp		X	
American Farm Bureau		X	
American Maize Products		X	
Baker and McKenzie		X	
Booz Allen & Hamilton		X	
Bradley Agri Consulting		X	
Br. Swiss Cattle Breeders		X	

Organization/Company	Washington	Chicago	Pomona
Cargill Int'l Seed		X	
Chicago-Worldwide Exports		X	
Credite Agricole		X	
Dean Foods Company		X	
Doane Agr. Service		X	
EMI Corporation		X	
FMC		X	
Farmland Industries		X	
First National Bank Chicago		X	
Food Flavors Inc		X	
Fulton Lamb Processors		X	
GT Inc		X	
Garst Seed Co		X	
Int'l Trade Institute		X	
J. I. Case		X	
Jetro Chicago		X	
Land O'Lakes		X	
Fiat/Hesston		X	
MKI Industries		X	
Mathews Company		X	
Mid-European Trade & Investment Company		X	
Milk Specialities		X	
Minataur International		X	
National Association of State Ag. Depts		X	
Neill and Company		X	
Newlyweds Foods Inc		X	
Nu-World Amaranth Inc		X	

Organization/Company	Washington	Chicago	Pomona
Oxo Hereford Ranch		X	
Refco Inc		X	
Pioneer Hi-Bred Int'l		X	
Pitman - Moore, Inc		X	
RBH Enterprises		X	
Seedburo Equipment Co		X	
Sandoz Crop Protection Co		X	
State of Illinois		X	
State of Iowa		X	
State of Wisconsin		X	
Surflower Manufacturing		X	
TCK Services		X	
The Agribusiness Council		X	
Trade Resources Ltd		X	
United Agri Seeds		X	
White and Associates		X	
A. LoBue Farm			X
Agland Investment Services			X
Agwest			X
Bank of America			X
Cal Flavor			X
Calavo Foods			X
Chevron Chemical Co			X
Coast Grain Co			X

31

Organization/Company	Washington	Chicago	Pomona
Dawn Enterprises			X
Dexan Industries			X
EMAC/EDCO			X
First Chicago International			X
Fresh Produce Council			X
Frieda's Finest Produce			X
Harvest Time Produce			X
Henningan Farms			X
IESC Trade & Investment			X
International Tropical Fruit Promotions			X
Ketama Inc			X
Key Farm			X
Limoneira Association			X
Marketing Tours International			X
Neuman Seed Co			X
Nutrivet			X
PPI - Del Monte			X
Pacific Shores Ind. Corp			X
Porter/Novelli			X
Quiet Return			X
Sequoia Enterprises			X
Shamrock Seed Co			X
Solar Aquafasmo			X
Sunkist Grower's Inc			X

Agribusiness Strategy

Annex C -- Doing Business With the Private Sector

I. Background

ENE's objective is to promote agribusiness development as a means to increasing income and employment generating opportunities and accelerating the pace of economic growth in the region. U.S. agribusiness participation is a key element in meeting this objective. The partnership between the AID program and the private, for-profit agribusiness firm is a new approach. An ENE staff group, including senior staff, the contracts office, the legal staff and staff of the technical office has reviewed the constraints and problems which AID must resolve in defining the terms of the new partnership for agribusiness. The consensus of the group is strongly supportive of the business partnership, and recommends the following working principles and guidelines in forming the partnership at the country and project level.

II. Issues and Conclusions

The underlying principle of the agribusiness partnership is that a small amount of AID funds can leverage a significantly larger investment in expansion and growth of the economy. By using the AID funds to essentially defray the cost of preliminary business investment studies and related activities, the private sector risk is reduced and brought within the acceptable range for new ventures or expansion.

Funding Mechanism Profiles, feasibility studies, market studies and pilot or prototype trials can be funded through a grant element of an agribusiness project or program. Funds could be obligated in a ProAg with the country or another direct arrangement. The project/program description would define the criteria for grant application and approval.

Competition and Quick Turnaround With the desired sector(s), sub-sector(s), and investment activities laid out and grantee selection criteria clearly delineated (in the Project Paper or the Program Assistance Approval Document), and widely publicized (in the Commerce Business Daily, at the minimum), proposals can be reviewed and funded quickly, on a first-come, first serve basis, without AID engaging in a rank ordering exercise. This fast track management decision system would both match the expectations of business executives and also accommodate the need for grant competition by advance publication of the opportunity to propose.

Cost Sharing and Repayment In most cases a 50-50 cost-share arrangement would be desired, although circumstances may justify an alternative share ratio. A 20% business share would probably be the minimum required to indicate honest intentions. The Mission should exercise judgement in the planning stage to establish reasonable terms, i.e., consistent with the risks and potential returns

involved. Repayment may or may not be required, depending on particular circumstances.

Reasonableness of Business Costs AID must make a judgement as to the reasonableness of the cost structure of the work proposed as a basis for the cost sharing. At issue are per diem rates, salaries, conditions of travel, hotel accommodations, etc., where industry practice may be more liberal than current AID practice. The cost share construction could permit the business share to apply its normal rules, while the AID grant share would follow normal AID rules.

Principals v.s. Consultants It is preferable to deal with the principals of a prospective investment. The officers should have credible industry experience and likely to be directly involved in the contemplated investment as well as the preliminary shared-cost activity. Grant proposals should include evidence of the consistency of the proposal with the corporate strategic interests, as well as the background and preliminary analysis in support of the proposal. The intent is to minimize the involvement in highly speculative ventures.

Confidentiality Proposal review and grant selection should be done in-house to insure a responsible and objective process and to protect proprietary information. (With appropriate safeguards, contract personnel could provide staff support)

Contribution to a Firm's Profitability Since a firm's costs are fungible, AID's contribution will help raise a firm's "bottom line". The issue is not the possible contribution to profits, but the effective stimulation of new investment.

ENE/DR/ARD JB
STG3 2/26/91

Agribusiness Strategy

Annex D -- The Bumpers-Lautenberg Consideration

I. Background

The Bumpers and Lautenberg amendments to the Foreign Aid legislation restricts development assistance in situations where there is the prospect of direct competition with the U.S. by the developing country in the markets for the products to be benefitted by the assistance. The amendments call for consideration of the issue at the program/project design stage. The legislation is neither detailed or explicit in the analysis or criteria for evaluating competition.

II. Discussion

Throughout the literature on foreign aid there is a theme of concern about the negative implications for U.S. agriculture that might arise from success in the development of other agriculture zones. The seriousness of the concern and the substance of the issue has evolved over time as a result of improved understanding of the developing economies, and in light of the perceptions of competitive strength of U.S. agriculture and trends in world market trading in agriculture products. The interests of various commodity groups in this concern has waxed and waned according to the prospects of the particular commodity market, although some organizations such as cotton have been distinguished by a consistent concern over the years.

The U.S. farm sector problems of the late 70's resulted in a coalition of concerns leading to the Bumpers and Lautenberg amendments. The legislative history does not target a particular agriculture competitor(s), or related development program. Essentially, the amendments put into legislation the matter of concern as recognized by the development community.

An interesting result of the amendments was a stimulation of the academic and research communities to consider in some depth the questions of the competition between U.S. and developing agriculture. From about 1985 there is a rich literature on the subject, including the analysis by staff of the World Bank, the USDA and many economists and others from U.S. universities.

Paarlberg states,

"Agriculturally successful developing countries...have tended to import more farm products from abroad than agriculturally unsuccessful developing countries."

"U.S. agriculture did give away market share to its competitors throughout the first half of the 1980's, but largely because both dollar exchange rates and U.S. domestic commodity loan rates were momentarily working against export growth."

"Internal food consumption fluctuations, brought on by surges and sags in third world income growth, explain most of the dramatic farm trade pattern fluctuations noted between the 1970's and the 1980's."

"Two small and agriculturally successful East Asian developing countries, South Korea and Taiwan, import more wheat and coarse grains every year than all of the much larger and "hungrier" nations of Sub-Saharan Africa combined."

"...we must go on to concede that the paradoxical relationship between farm success in poor countries and more farm exports by the U.S. is a fragile one, which does not form automatically."
(U.S. Agriculture and the Developing World, Robert L. Paarlberg, August 1987)

Vollrath, in two recent papers from the USDA Economic Research Service, reports, "Agriculture is the only one of these three sectors in which the United States is increasing its relative competitive edge in the long run." (The sectors of interest were agriculture, finished capital and high technology) Using three different measures of competitiveness; i.e., Market share, relative export advantage or revealed competitiveness, "...the record shows that the United States is indeed competitive..."
(The Links Between Development and Trade, Thomas L. Vollrath, Technical Bulletin 1774, USDA/ERS, February 1990)
(Competitiveness and Protection in World Agriculture, Thomas L. Vollrath, Agriculture Information Bulletin Number 567, USDA/ERS, July 1989)

Program and project planning for agribusiness is increasingly market driven and in that respect is seeking market niches where little or no competition exists. This is apparent by the interest in the fruits and vegetables, particularly the exotic tropicals, and the absence of attention to the coarse grains and a number of other crops where the U.S. market position is well established. There is high regard for the competitive advantages of the U.S. agriculture sector and full recognition that a developing enterprise is not well advised in entering a market of U.S. agribusiness. We find, however that U.S. agribusiness, in the course of diversification of their sources of supply are investigating the potential of production and processing operations in the ENE countries. These particular proposals require a case by case analysis to ensure that project outcomes will not conflict with the stipulations of Bumpers and/or Lautenberg.

III. Conclusions

As a result of this review of the mentioned and other documents the following conclusions and issues have been drawn up;

The prohibition against agriculture and agribusiness development assistance activities with potential for direct competition in the markets for U.S. agriculture reinforces the modus operandi of AID and does not force a revision of strategic objectives.

Agriculture development has been a powerful engine of economic growth and has impressively contributed to the expansion of markets for U.S. agriculture.

The Bumpers-Lautenberg Amendments require analysis of the effects of planned assistance on the export markets for U.S. agriculture. If development assistance has the possibility of significantly displacing U.S. exports, the assistance would not be permissible.

ENE/DR/ARD JB
STG4 3/19/91