

INNOVATIVE POLICIES
AND INSTITUTIONS
TO SUPPORT
AGRO-INDUSTRIES
DEVELOPMENT



Contents

INNOVATIVE POLICIES AND INSTITUTIONS TO SUPPORT AGRO-INDUSTRIES DEVELOPMENT

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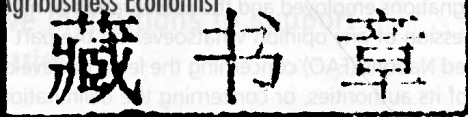
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FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
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Preface

As part of its mandate to lead international efforts in achieving food security for the world's growing population, the Food and Agriculture Organization of the United Nations (FAO) promotes the development of agro-industries through its technical programmes, including activities in the areas of policy advice, capacity building, advocacy, awareness raising, investment promotion, and resource mobilization. This work is spearheaded by FAO's Rural Infrastructure and Agro-Industries Division (AGS), which is engaged in field and normative activities in many developing countries worldwide.

Since 2008, in collaboration with the United Nations Industrial Development Organization (UNIDO) and the International Fund for Agricultural Development (IFAD), FAO has organized a number of global and regional events focusing on promoting the development of agro-industries, the first of these being the *Global Agro-Industries Forum*, held in New Delhi, India, in April 2008. Subsequent events took place in China, Peru and Nigeria, focusing respectively on Asia, Latin America and Africa. These fora aimed to build up a shared vision about the drivers critical to the future development of agro-industries, the key factors affecting their competitiveness, and potential areas for priority action. Appropriate policies and institutions, as key elements of a business environment conducive to investments in agro-industries, emerged as priority action areas in the expert discussions held in these events.

Against this backdrop, FAO–AGS, in collaboration with the International Association of Agricultural Economists (IAAE), convened a workshop on 'Innovative Policies and Institutions to Support Agro-Industries Development', as part of the technical programme of IAAE's 2009 Triennial Conference in Beijing, China. The workshop

gathered researchers, government officials, private sector representatives and development practitioners together, to discuss proven, innovative approaches to promote the development of competitive, equitable, and inclusive agro-industries.

This publication presents the papers commissioned by FAO from qualified researchers and development practitioners through a competitive process held internationally. Comprising 12 chapters and preceded by an editorial overview, the papers cover a wide range of country and regional experiences on the design, implementation and evaluation of policies and institution strengthening programmes and projects. It is hoped that collectively they can represent an important contribution to policy-makers and other professionals interested in promoting the development of agro-industries.

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CARLOS A. DA SILVA AND NOMATHEMBA MHLANGA

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CHAPTER 1

Introduction: Innovative policies and institutions to support agro-industries development

CARLOS A. DA SILVA AND NOMATHEMBA MHLANGA

Defined as a component of the manufacturing sector where value is added to agricultural raw materials through processing and handling operations, agro-industries are an important source of employment and income generation worldwide (da Silva *et al.*, 2009). Indeed, in most developing countries agro-industries are dominant in terms of their contribution to value-added in manufacturing. In agriculture-based countries, this contribution is as high as 66 percent, whereas in transforming and urbanized countries it reaches 38 percent and 37 percent respectively (Wilkinson and Rocha, 2009).

Investments in agro-industries are known to have significant multiplier effects through both their backward and forward linkages along the value chains. Agro-processing enterprises generate demand for agricultural raw materials; this in turn creates work opportunities at the farm level and contributes to increased demand for agricultural inputs such as fertilizers, feeds and veterinary products, to name a few. The demand for ancillary agro-processing inputs, such as packaging items and product ingredients, tends also to rise with new investments in agro-industries. By the same token, economic activity is generated in the downstream areas of logistics, distribution and service provision.

Many types of agro-processing and handling enterprises can be operated feasibly at the small- and medium-scale level, using low cost, labour intensive technologies. As such, small- and medium-scale enterprises, most of which are labour intensive, predominate in much of the agro-industrial sectors of the developing world. With a tendency to be located close to their sources of raw materials, agro-processing enterprises favour the attraction of investment to the rural space and thus are an important driver in the creation of non-farm rural employment. High levels of female

labour are another characteristic of employment generated by agro-industries, with women in the workforce amounting to as much as 90 percent in some specific agro-industrial segments of developing countries (Wilkinson and Rocha, 2009).

Increases in *per capita* incomes, higher urbanization, and growing numbers of women in the workforce have led to greater demand for processed foods, further propelling the importance of agro-industries development. Globally, total processed foods sales per year are estimated at well over US\$3 trillion, or about three-quarters of the total food sales internationally (Rabobank, 2008).

The recognized benefits of agro-industries development have led governments and other players in international development promotion to pay increasing attention to the experiences and approaches that have been conducive to investments in this sector. What lessons can be learned in agro-industrial development promotion worldwide, that can be valuable to the design of policies and strategies to favour investments, improve efficiency, and foster competitiveness and inclusiveness in this economic sector? To help address this question, the Rural Infrastructure and Agro-industries Division (AGS) of FAO launched a competitive process to seek the contributions of scholars, researchers and development practitioners: these parties were invited to an agro-industrial development workshop held in Beijing, China, August 2009, as part of the technical programme of the Triennial Conference of the International Association of Agricultural Economists.

The chapters in this book were presented and discussed at the Beijing workshop, and can be classified broadly into three central themes that form the structure of the book:

- ▷ models and approaches to agro-industrial development;
- ▷ agro-industrial development experiences in Africa, Latin America and Asia;
- ▷ international experiences in commodity and technology development.

The first four chapters discuss alternative business models and approaches to agro-industrial development. In Chapter 2, Edward Mabaya explores the use of business networks as an innovative institution to support the development of agro-industries. Business networks are contrasted with other innovative institutions such as business clusters and technology parks. Unlike the latter, business networks are not bound by geography, and therefore do not necessarily involve direct face-to-face meetings or direct transacting among members. However, they are similar to business clusters in that business networks can either be vertical networks, horizontal networks, or cross-sectoral networks. After analysing business networks in the context of both the micro and macro environments facing agro-industries, Mabaya outlines the essential conditions for successful business networks. Using the empirical case study of the Seeds of Development Program – a network of 30 emerging seed companies in nine African countries – the author illustrates how such business networks can impact industry structure, participants' conduct, and overall economic performance. Mabaya identifies 10 lessons critical to establishing