

ANNEX:

Policy Framework for Investment in Agriculture

Adapted for use in Investment Advisory Initiative policy diagnostic in Senegal

The following document outlines the methodology curated by the Policy Accelerator team at UNCDF based on its own methodology and toolkit utilized for Digital Financial Services. It heavily references the OECD's Policy Framework for Investment in Agriculture and highlights the methodology and tools that will form a core component of the UNCDF LDC Investment Platform team's Investment Advisory Initiative (IAI) pilot. It must be noted that this document is currently a draft document.

OBJECTIVES OF THE IAI PILOT

The objective of this pilot is to improve the investment climate in the agricultural sector in Senegal with specific focus on increasing access to financing to women and youth empowering SMEs and MSMEs. By conducting an end-to-end diagnostic as part of the methodological process outlined below, the pilot aims to identify the pain points and barriers in the SMEs and MSMEs in Senegal. By consolidating the findings through this, as well as engaging with the relevant stakeholders including the SMEs and MSMEs as well as public sector representatives, the pilot seeks to identify inhibiting policies that hinder the growth of these SMEs and MSMEs in Senegal. Through this, one may seek to engage the government by entering the policy advocacy or policy influence phase.

HOW TO READ THIS DOCUMENT AND WHAT TO EXPECT

In this document the process of the methodology is outlined. The methodology is defined as the process that will be undertaken during the analysis conducted of the IAI pilot policy topic on driving growth in the investment of women and youth-empowering SMEs and MSMEs in Senegal. It is outlined to implement a rigorous and inclusive process to identify and communicate opportunities to improve the policy landscape to stimulate investments in these SMEs and MSMEs. It serves as an “Instructions Manual” for the IAI Investment Specialists and collaborators working in the implementation of the IAI policy diagnostic while highlighting to donors and relevant stakeholders how this process will be undertaken.

While the methodology outlines the necessary process that will be undertaken, the **tools** comprise the resources and additional documents that are necessary to complete each component of the methodology. Examples of tools that are required are documents such as checklists of policies that can be used as a policy anchor, checklists of policies that assess the investment regulatory landscape, comprehensive questionnaires developed that are necessary to conduct stakeholder engagements, processes outlined to convene a workshop, etc.

Each component of the methodology is underpinned by the principles of the OECD Policy Framework in Agriculture¹ outlined in the next section, and detailed in the Annex. The document walks through the steps that are necessary to undertake to analyze the enablers and inhibitors in each market’s investment landscape that will then be investigated during the latter half of the methodology through stakeholder engagements, advisory panels, working groups and workshops. While the methodology is comprehensive, it is certainly not exhaustive. It outlines the necessary policy considerations to be adhered to and can be adapted to a variety of countries as well as contexts.

¹ <https://www.oecd.org/daf/inv/investment-policy/PFIA-July-2014.pdf>

CROSS-CUTTING THEMES AND POLICY AREAS THAT UNDERPIN THE ENTIRE METHODOLOGY

The following 10 domains, as outlined by the OECD, account for the policy areas that are necessary to create a conducive Policy Framework for Investment in Agriculture. The OECD model has been selected as a reference, as well as the foundational building block of this methodology not only due to its successful application, but also its flexibility in being adapted to particular economic, social, legal and cultural circumstances and needs in economies at different stages of development. It can also serve as a basis for international co-operation on investment-related issues, including through regional and home-country policy initiatives.

The Framework is a tool, providing a checklist of key policy issues for consideration by any government interested in creating an enabling environment for all types of investment and in enhancing the development benefits of investment to society. In this way, the Framework also aims to advance the implementation of the Sustainable Development Goals and to help mobilise financing for development.

The Framework should be seen in the broad context of recent global efforts to strengthen the international and national environments in which economic activity is conducted. In common with those initiatives, it promotes transparency and appropriate roles and responsibilities for governments, business, civil society and others with a stake in promoting development and poverty reduction and builds on shared values of democratic society and respect for human rights. The core purpose of the Framework is to encourage policy makers to ask appropriate questions about their economy, their institutions and their policy settings in order to identify priorities, to develop an effective set of policies and to evaluate progress. It is not a volume of ready-made prescriptions, nor is it binding. Rather, it is a flexible tool with which to frame and evaluate the important policy challenges countries face in pursuit of development through investment.

The 10 policy areas as outlined by the OECD Policy Framework for Investment in Agriculture are stated below. For more information on them, please refer to the Annex.

1. Investment policy
2. Investment Promotion and Facilitation
3. Infrastructure Development
4. Trade Policy
5. Financial Sector Development
6. Human Resources, and Innovation
7. Tax Policy
8. Risk Management
9. Responsible Business Conduct
10. Sustainable use of natural resources and environmental management

METHODOLOGY

While the methodology outlines the process and provides for a comprehensive list of relevant

resources utilized, it is not an exhaustive, one-stop shop. It must be noted that this methodology is inspired by UNCDF's previous work the Policy Accelerator's toolkit on policy related to digital financial services (DFS), and as such, focusses largely on the process of implementation of each policy topic, rather than on sector-specific technical issues. The outputs from following this methodology and tools serve as a nudge to policy makers and implementing partners in the policy domains that are necessary to consider during implementation of any investment project in agriculture. However, it is under the purview of each IAI Investment Specialist, as well as local panel of experts and each policy diagnostic's respective steering committee, to adapt the tools and framework to the markets they work in. Doing so allows the process to develop based on the building blocks of policy advocacy, while allowing the technical experts to harness their domain of expertise.

The following steps of the methodology are constructed for an end-to-end diagnostic process, similar to policy work done by UNCDF in the DFS space.

- **The first step** of this process to identify the national and regional policy anchors for the promotion and facilitation of investment in agriculture and in women- and youth-empowering enterprises, which indicate the government's commitment towards mobilizing growth in this landscape. These policy anchors and related findings will frame the rest of the diagnostic process and can ultimately be used as leverage to advocate for policy influence.

A policy anchor is any document, presidential decree, or statement that is made by the government that expresses a government's concrete commitment towards creating an enabling and conducive environment for investment promotion or facilitation. This can manifest within various laws and regulations that the country has passed, such as the creation of an independent commission or through the passing of national investment policies.

In the course of desk review of the policy landscape in Senegal, a goal will be to try to identify which documents can be considered a "policy anchor." *Policy anchors are documents that are binding and express a concrete commitment towards investment promotion and facilitation.*

Policy declarations

A policy declaration can include a public speech by a high-level government official clearly stating that investment promotion and facilitation is a priority. These documents are important because they reflect a commitment, but usually they are non-binding. Therefore, policy declarations are an encouraging sign but are generally insufficient to serve as a policy anchor.

A public speech without subsequent actions may indicate that investment in the sector by this

demographic is not necessarily a priority or that resources have yet to be committed.

Policy declaration which includes an investment target

A public declaration coupled with a commitment to reach an investment target by a certain timeframe is a stronger anchor from which good policies can emerge. It would still require subsequent actions to be taken, but it is a step beyond a simple policy declaration to prioritize investment promotion and facilitation.

National Investment Policy (NIP)

Many countries publish their objectives for investment promotion and facilitation through the passing of a national investment policy. If such a policy exists, then this demonstrates a stronger anchor that shows a government's commitment towards creating an inclusive and enabling landscape to promote and facilitate investment. A good investment policy outlines the government's stance and directed efforts in the previously mentioned 10 policy domains of investment.

Investment Promotion Agency

In many countries, the government's creation of an Investment Promotion Agency (IPA) can be seen as a policy anchor that indicates the government's commitment towards creating an enabling environment to attracting investors. IPAs, or referred to as Investment Authorities, Investment Commissions, Board of Investments, or simply Investment Agencies in some countries, are usually independent bodies that can be public, private, or private-public partnership bodies that are created to advise government on investment policy and advocate for a competitive business environment in the country. Sometimes, in the absence of such a body, the government also seeks counsel from the country's Competition Authority on the competitive business environment to attract investors.

National Economic Development Plans

Many countries publish their objectives for economic development in strategies or that define target outcomes, some of which may contribute to investment promotion and facilitation goals. National Economic Development Plans are most often focused on policy objectives, rather than the details

of regulation or legal frameworks. These policy objectives are useful to determine the extent of high-level support regulators can expect from other branches of government.

Tax Policy

Sometimes, in the absence of a country's National Investment Policy, a Tax Policy could be a good resource to defer to as a policy anchor that identifies the government's priorities towards investment and promotion. It allows for a crucial difference to be noted, whether the government is committed towards investment promotion or investment facilitation, where investment facilitation is usually coupled with tax incentives embedded within a country's tax policy framework. Investment friendly tax policies that advocate for the host country to benefit from greater Foreign Direct Investment as well as Domestic Investment hinge on core tax reforms/incentives that the host country makes towards attracting investors.

New Public Private Partnership Regimes

Enacting a national Public-Private Partnership Act can demonstrate the government's commitment in creating an enabling environment for investment facilitation. It allows the government to establish a legal framework and to attract private investment in key areas such as public infrastructure, housing, and innovative technologies. Certain countries, such as Ukraine, have previously also amended their existing PPP law to increase the level of legal certainty and protection of investors in such arrangements.

Regional Bodies

For regional commitments made by countries, one can look towards the African Union's African Continental Free Trade Agreement to look for policy anchors that indicate the government's commitment towards regional agreements, many of which tend to allow foreign investors more favorable terms to invest in the country. Other bodies such as the World Trade Organization, the OECD, as well as its Investment Promotion Agency Network, the World Association of Investment Promotion Agencies (WAIPA) can be looked to for global industry standards.

APPLICATION IN PRACTICE

- Review national publications related to investment promotion and facilitation.
 - Review of regional publications related to investment promotion and facilitation.
 - Create a list of “policy anchors” as they are identified during research. “Policy anchors” are binding documents that express a concrete commitment towards financial inclusion. These anchors will be leveraged later when making policy recommendations.
 - Repeat the process for other countries to identify additional examples of inclusive policy objectives. Learning from other countries can provide insight into local context and identify potential next steps for creating an enabling investment landscape. This is one of the goals of the IAI policy pilot and subsequent iteration of policy diagnostics: to frame a regional analysis and knowledge sharing around these analytics that can be used to influence and improve the policy environment, leading to increased agricultural investment including in women- and youth-empowering enterprises.
 - Organize peer learning sessions for sharing knowledge and experiences among financial regulators, private-sector providers, civil society, and other relevant stakeholders is the most critical element of the IAI policy diagnostics. Well-planned and focused discussions can help surface valuable insights regarding the country’s commitment to investment promotion and facilitation. This feedback loop will be part of a virtual cycle of awareness raising, priority setting, coalescence around key findings, and ultimately action.
- **The second step** of the diagnostic process is assessing the market’s current regulatory landscape that relates to the promotion and facilitation of investment in agriculture, and in women- and youth-empowering enterprises. This entails first conducting desk-based research looking into the relevant domains of the 10 policy areas as outlined by the OECD Policy Framework for Investment in Agriculture, which is to be determined by a team of experts during this stage. The team of subject matter experts will be assembled by harnessing UNCDF’s internal and external experts, as well as those of the most relevant UN agencies, led by the IAI Investment Specialists. This will be informally organized into a panel of experts. The desk-based research entails researching the relevant policy areas and looking for the latest updates on the market’s investment landscape as it relates to agriculture, women, and youth. This can be conducted through a baseline inventory of policy anchors that are explicitly part of the UNDS cooperative frameworks and program documents of relevant UN programs, supplemented by a basic google search and referencing the relevant government bodies’ websites on the internet. Based on this information, further inquiries can be made to build a comprehensive set of stakeholders to target for key informant interviews and surveys. The relevant stakeholders may include SMEs and MSMEs, government bodies, civil society organizations, and other development actors. During this step of the process, the supplemental and key questions from each of the 10 policy areas of the PFIA may be consulted as a guiding tool to refer to matters of pertinence. The tools will be refined to match the priorities indicated by panel of experts in order to comprehensively identify stakeholders to be engaged in the research, as well as identifying and prioritizing the potential barriers in the policy domain that would then form the basis of the next part of the methodology, to Develop Lines of Inquiries (LOIs).
 - **The third step** of the process is to develop the relevant Lines of Inquiries. Lines of Inquiries are broad questions that interrogate specific themes emerging from our initial analysis. These are linked to the initial hypothesis about the state of play and will be applied uniformly across all stakeholder consultations. These will be two-tiered. The first tier would entail high-level cross-cutting Lines of Inquiry across all markets undertaken during every IAI policy topic, covering the following 5 areas:

1. *SDG Link*: Is there an explicit developmental outcome this is attached to? Are there actors promoting SDG linked services?
2. *Investment Promotion vs Facilitation*: Is there explicit alignment between national development objectives and investment objectives? To what degree are women and marginalized groups accounted for in the implementation of these objectives?
3. *Transparency*: Is there an element of transparency in the facilitation of the government's investment objectives?
4. *Alignment with Global Standards*: To what degree does enforcement of policy statutes align with global investment standards? If they don't align, is it due to transparency? If there's no transparency, how is the objective of investment facilitation achieved?
5. *Gender*: To what extent are relevant investment policies gender-intentional?

The second-tier of the Lines of Inquiry will be market, as well as IAI policy topic specific. In this case, the second-tier LOIs will be developed as a consequence of the desk-based research conducted in the promotion and facilitation of investment in agriculture in the local landscape, and the feedback from the panel of experts. While these will be broadly dictated by the research undertaken during the second step of the process filtered through the OECD's Policy Framework for Investment in Agriculture, they will be narrowed to the most relevant policy areas identified by the panel of experts.

- **The fourth step** of the process is consulting with stakeholders. Based on desk-research as well as the consequent lines of inquiries developed in the previous stages of the process, stakeholders will be engaged to further investigate and identify pain points. These stakeholders may include the identified SMEs and MSMEs that are women- and youth-empowering, as well as government representatives and other UN agencies in country to enhance UN-wide collaboration, and civil society organizations. This step of the process should be conducted in country, where the stakeholders are met with in person and a report is drafted by the end of the consultation process to discuss findings from this step.
- **The fifth step** of the process is to create an advisory panel or a technical working group, if needed to review the analysis of the consolidated results from the stakeholder consultation. This step allows the findings to be reviewed and interrogated by another layer of local subject matter experts to ensure the organization of the materials in a way that is informative and can stimulate dialogue and constructive debate in the final stages of the process. It allows the prioritized pain points to be put into perspective through a policy lens, as well as to discuss the way forward by focussing on key issues in the next, and last step of the process.
- **The sixth, and last step of the process** is to convene a workshop. This would include inviting all the engaged stakeholders in the previous process to discuss the findings of the stakeholder consultations as well as the key issues raised by the advisory panel or technical working group. Usually chaired the advisory panel, the workshop provides all stakeholders a platform to voice their opinions as well as discuss key issues with the other stakeholders in the process. It is an inclusive process that allows stakeholders to contribute to the policy making process. By the end of this step, a concise policy brief will be finalized and published, with a focus on highlight

actionable and prescriptive policy issues based on policy gap analysis of the investment in agriculture in women- and youth-empowering SMEs and MSMEs in the country, to conclude the entire process. The publicly available report will be promoted in social media for knowledge sharing and especially to nudge policy actors to advocate for policy change to further stimulate investment.

RELATED RESOURCES

- [Policy Framework for Investment, OECD](#)
- [Investment Policy Framework, UNCTAD](#)
- [Policy Framework for Investment in Agriculture, OECD](#)

ANNEX: OECD POLICY FRAMEWORK FOR INVESTMENT IN AGRICULTURE

The 10 policy areas of the OECD Policy Framework for Investment in Agriculture, as well as key questions, are the following:

1. Investment policy

The quality of investment policies directly influences the decisions of all investors. Transparency, policy coherence and non-discrimination can boost investor confidence. Secure access to land and water and effective mechanisms for enforcing contracts and compensating expropriation are also critical to attract further investment in agriculture.

Key questions:

- 1.1. Is there an agricultural investment strategy? Is it aligned with food security objectives? Are sectoral policies (e.g. agriculture, education, trade, infrastructure or finance) well aligned with this strategy? Does overall investment policy support it?
- 1.2. What measures has the government taken to ensure that laws, regulations and policies for agricultural investment and their implementation and enforcement are clear, accessible, transparent and predictable and do not impose unnecessary burdens to domestic and foreign agricultural investors? Has it taken specific measures to support investors operating in the informal sector, including women?
- 1.3. What public consultation mechanisms, involving interested parties, in particular investors, have been established to improve regulatory quality in the agricultural sector, thereby enhancing the investment environment?
- 1.4. Are there restrictions specific to foreign investment in agriculture? Does the government have mechanisms to periodically review their costs against their intended public purpose?
- 1.5. What steps have been taken to secure land tenure? How are land rights allocated, administered and protected at both the central and local levels? What proportion of agricultural land has been formally registered? What measures have been taken to facilitate land rights acquisition and to provide alternatives to large-scale land transfers?
- 1.6. What steps have been taken to secure access to water? How are water rights allocated, administered and protected at both the central and local levels?

- 1.7. Are there initiatives to improve government capacity to negotiate contracts and to help officials understand the legal provisions embedded in domestic law and the country's rights and obligations under international agreements?
- 1.8. Is the system of contract enforcement effective and widely accessible to all agricultural investors? What mechanisms for dispute settlement have been established to ensure the widest possible scope of investor protection at reasonable cost? Are there any dispute settlement mechanisms specific to the agricultural sector, particularly as regards land tenure?
- 1.9. Does the government maintain a policy of timely, adequate, and effective compensation for expropriation consistent with international law?

2. Investment promotion and facilitation

Investment promotion and facilitation can be powerful means to attract investment and maximise its contribution to development, but their success depends on the quality of investment-related policies and on the overall investment climate. Successful promotion requires a careful calculation of how to employ resources most effectively guided by evaluations of costs and benefits; badly designed investment promotion and facilitation strategies can be costly and ineffective. Also, investment promotion and facilitation depends by and large on the quality of investment-related policies.

Promoting and facilitating investment are two very different types of activities. One is about promoting a country or a region as an investment destination, while the other is about making it easy for investors to establish or expand their existing investments. Effective investment promotion leverages the strong points of a country's investment environment, highlights profitable investment opportunities and helps to identify local partners. In terms of facilitation, effective one-stop-shops with single-point authority can be a critical factor in investment decisions, especially if they cut down the investor's transaction costs: complex administrative burdens represent significant barriers to investment. Effective investment facilitation can also reduce corruption risks by decreasing the number of steps involved in the decision-making process. A core mandate of investment facilitation includes filling an information gap created by incoherent or inaccurate policies. Investment facilitation can thus provide investors with much needed clarity vis-à-vis public administration and policies. It is necessary to note that the type of activities undertaken to review a country's commitment to investment facilitation might not necessarily be the same review undertaken to look at its commitment towards investment promotion. Examples of these would include touching upon a broader set of regulations such as Know-Your-Customer (KYC) laws for foreign investors, immigration issues such as ease of traveling into the country, etc.

Governments can adopt a wide array of investment promotion and facilitation structures. If an investment promotion agency (IPA) is to be established, it can be created as part of a ministry or as an independent agency. It should have a clear mandate and its staff should have private sector experience. Its structure should be lean and efficient, and its board should consist of both public and private sector representatives.

By highlighting profitable investment opportunities and providing investment incentives, investment promotion and facilitation measures can be effective instruments to enhance agricultural investment provided they aim to correct market failures and leverage the comparative advantages of the country's agricultural potential.

Key questions:

- 2.1. What institution is in charge of investment promotion and facilitation? Has the government established an investment promotion agency (IPA)? Does it promote investment in agriculture and agro-processing and offer investment facilitation services at both central and local levels? Is it adequately funded and staffed to deliver its mandate and is its performance regularly monitored?
- 2.2. What measures are applied to promote and facilitate investment in agriculture, including by smallholders and informal entrepreneurs? In particular, are administrative procedures to establish a new investment streamlined and tailored to the capacity of various investors to reduce project costs? Do investment promotion and facilitation measures target specific types of investors and elements of agricultural value chains where investment is needed? Does the government undertake cost-benefit analyses to assess their impact?
- 2.3. Does the government intervene in input and output markets? Are these markets competitive?
- 2.4. What type of investor-state dialogue mechanism is in place? Does the IPA fulfil any policy advocacy role?

3. Infrastructure Development

Poor quality or inadequate economic infrastructure – electricity, water and sanitation, communication and transport network systems – raises costs for all firms and restricts the flow of goods, services, people and market information both within the economy and abroad, with implications for countries' integration into global value chains and broader economic development. By segregating markets, infrastructure weaknesses limit competition, thus dulling incentives to

innovate and to improve productivity. All firms, from rural micro-entrepreneurs to multinational enterprises, are affected, although infrastructure problems usually affect smaller firms the most.

Reliable and sustainable infrastructure enhances economic activity and contributes to poverty reduction by raising labour productivity, lowering production and transaction costs, as well as reducing social and environmental costs. In order to maximise the contribution of infrastructure to development goals, countries need to build comprehensive infrastructure strategies, support the involvement of low-income population and other user groups throughout the planning and implementation phases, emphasise the crucial role of maintenance and sustainability in delivering results, and support the diverse mix of financial instruments facilitating a broader involvement of all providers.

Well-developed rural infrastructure, including good irrigation networks and transportation and storage systems as well as a reliable access to energy and information and communication technologies, can effectively attract private investors in the agricultural sector and increase agricultural competitiveness.

Key questions:

- 3.1. Are infrastructure policies aligned with agricultural investment objectives? How are infrastructure investment priorities identified and implemented and how are relevant stakeholders involved in decision-making?
- 3.2. How are responsibilities for infrastructure project design, provision and maintenance shared between central government and sub-national authorities?
- 3.3. Does the government have clear guidelines and transparent procedures for the disbursement of public monies for agriculture-related infrastructure?
- 3.4. Does the government have a clear strategy defining the roles of public and private investment in the provision of agriculture related infrastructure? What steps have been taken to attract private investors to supply such infrastructure?
- 3.5. Does the government have a clear strategy for irrigation infrastructure development? How are responsibilities for the development, operations and maintenance of such infrastructure shared between government, water users and farmers?

- 3.6. How is the perishability of agricultural products, and thus the need for vertically integrated supply chains, considered in the development and maintenance of different modes of transport infrastructure, including roads, railways, ports, airports and storage facilities?
- 3.7. Has the government developed a strategy to ensure access to reliable and affordable energy supply in rural areas, including by promoting small-scale renewable energy production?
- 3.8. What measures has the government taken to enhance access to information and communication technologies by agricultural investors? Does it provide timely and accurate information on agricultural markets?

4. Trade policy

Trade policies influence the size of markets for the output of firms and hence can shape both foreign and domestic investment. Over time, the influence of trade policies on the investment climate is growing. Changes in technology, liberalisation of host country policies towards trade and investment and the growing importance of trade within global production chains have all served to make trade policy an important ingredient in encouraging both foreign and domestic investment and in maximising the contribution of that investment to development.

Trade liberalising measures, undertaken unilaterally or as part of binding multilateral and preferential trade and investment agreements, can improve allocative efficiency, provide access to larger markets, allow for greater scale economies and hence lower costs.

Governments sometimes use trade policy instruments, such as import tariffs (including tariff peaks and escalating tariffs) and other measures (such as local content requirements, exports restrictions), to promote investment in targeted industries. But the growing interdependence of economies, as well as the sectoral linkages within economies (for example the role of quality services to support a competitive manufacturing sector), requires a keener awareness on the part of policy-makers of the costs and benefits of using trade policy to achieve objectives that other, more efficient policy instruments may be suitably equipped to pursue in the areas of labour market, education, innovation and SME development policies.

Home country policies: Beyond offering reciprocal market access through trade agreements, the international community can contribute in other areas of trade policy to improving the quantity and

quality of investment in a given country. For least developed countries, preferential access to larger markets through eased access for their goods and services can foster their participation in global trade. Governments can also provide assistance to a given country, via aid for trade and other assistance, to help its firms comply with sanitary, phytosanitary and other standards, build capacity to negotiate and implement trade agreements, address other supply side constraints that affect the trading environment and market failures related to trade finance and credit insurance and guarantees. Markets that facilitate cross-border transactions, including those that hedge against risks attached to exchange rate movements and payment defaults as well as those for transit insurance and export finance, can all enhance both trade and investment.

Open, transparent and predictable agricultural trade policies both domestically and across borders can improve the efficiency of resource allocation, thus facilitating scale economies, reducing transaction costs and boosting productivity and rates of return on investment. They can also help reduce price volatility and improve the stability of food markets, thereby fostering food security.

Key questions:

- 4.1. Are there any administrative, fiscal or regulatory barriers to the trade of agricultural commodities across the country? Do they constitute a barrier to enter agricultural markets? Is their impact quantified? Are there any measures to support the development of domestic trade?
- 4.2. What recent efforts has the government undertaken to facilitate cross-border agricultural trade, in particular by reducing regulatory and administrative border procedures? What steps has it taken to increase trade policy predictability and does it consult investors on planned trade policy changes?
- 4.3. Are there specific trade measures to support agricultural investment, such as agricultural export promotion?
- 4.4. Do existing tariff and non-tariff barriers to trade contribute to hindering access to agricultural inputs and services or raising their costs?
- 4.5. Are there or have there recently been export restrictions related to agricultural or agri-food products?

- 4.6. Has the government entered into bilateral or regional trade agreements? How effective are they in increasing market size and access? Is agriculture excluded or does it have a special treatment in these agreements? How actively is the government increasing investment opportunities through the implementation of its World Trade Organisation (WTO) commitments?

5. Financial Sector Development

The financial system performs many functions necessary for broad-based economic activity. It allocates credit and resources efficiently, handles payments (both domestically and internationally via currency exchanges), collects and disseminates information (especially on asset prices), facilitates maturity transformation and manages liquidity, market and other forms of risks. Well-functioning financial systems are important for economic growth by providing funding for capital accumulation and by helping to allocate resources to their best uses. Increased capital accumulation can, in turn, have long-lasting effects on the rate of economic growth if it has spill-over effects to other factors of production or to productivity. Financial activities in turn require various transactions and information infrastructure to support the entire process, including an appropriate legal and regulatory system, as well as adequate supervision, tax laws, and societal and industry norms.

Efficient financial markets can allocate capital to innovative and high return investment projects of both large and small agricultural investors, thus increasing revenues and generating economic activities.

Key questions:

- 5.1. How does the regulatory framework contribute to a well-functioning financial market for both large and small agricultural investors? Do collateral requirements prevent some investors, including small-scale, low-capital, informal and women entrepreneurs, to access credit from formal financial institutions? If so, have any steps been taken to ease these requirements? Are there an efficient local cadastre system, a registration system for movable assets and a credit information system?
- 5.2. What is the state of competition in the formal financial sector, in particular in rural areas? What types of financial products are offered to small and large agricultural investors? Does access to credit vary by region or investor size?

- 5.3. How important is the role of the informal financial sector, including community savings, middlemen and retailers, in providing credit to farmers? How does the regulatory framework facilitate the provision of small-scale rural financial services? What is the role of microfinance and leasing?
- 5.4. Has the government taken any measures to facilitate access to credit by agricultural investors, such as by providing credit guarantees and loans on favourable terms, relaxing loan regulations or offering business development services?
- 5.5. Do national and regional capital markets play a role in raising capital for large and medium-size agricultural investors?

6. Human resources, research and innovation

Competitively skilled and flexible human resources are at the centre of a country's competitiveness to attract investment and sustain economic growth, as companies constantly restructure their global supply chains. Human resource development (HRD) thus features prominently among the various policies affecting a country's enabling environment for investment and economic development.

The quality and adaptability of the labour force are key drivers in creating a favourable environment for both domestic and foreign enterprises to grow through new investment and to adapt quickly to changing circumstances. Quality is largely determined by education, training programmes and the overall health of the population.

Strong human capital and dynamic agricultural innovation systems are critical to increase investment in agriculture. Policies should support high-quality education and well-functioning extension and advisory services to enhance human capital. They should promote partnerships between national and international research, better connect research with demand and effectively protect intellectual property rights to build effective innovation systems.

Key questions:

- 6.1. Has the government identified the needs of large and small agricultural investors, including women, and the implications of agricultural development strategies in terms of human resources and technical skills?
- 6.2. Do the education system and public extension services meet these needs, in particular by providing vocational trainings and business development services focusing on the farm as an agri-business unit rather than only on production, strengthening farmers' groups and

cooperatives, and training highly qualified staff? What efforts are made to improve access to, quality and effectiveness of extension services?

- 6.3. How are public research and development (R&D) priorities defined? Are agricultural R&D institutes adequately funded and staffed? Are there measures to encourage regional R&D collaboration to share research costs and facilitate technology transfer?
- 6.4. Has the government taken specific measures to promote linkages between agricultural extension and R&D and enhance farmer-to-farmer dissemination to facilitate the rapid adoption of new techniques, practices and technologies? Does it promote local innovation and adaptive capacity? Are there specific actors and initiatives that investors can access to broaden their knowledge and skills base?
- 6.5. Are investment linkages between large agri-business companies and small and medium enterprises (SMEs) adequately promoted to foster technology and knowledge transfer? Are there mechanisms to encourage investors to train their employees and agricultural workers?
- 6.6. Is private sector participation encouraged in conducting R&D? Are there effective public-private partnerships in this area? Does the level of intellectual property protection encourage innovation by domestic and foreign agricultural investors? What is the policy regarding access to and transfer of plant genetic resources and biotechnology?

7. Tax policy

A country's tax regime is a key policy instrument that may negatively or positively influence investment. Imposing a tax burden that is high relative to benefits realised from public programmes in support of business and high relative to tax burdens levied in other competing locations, may discourage investment, particularly where location-specific profit opportunities are limited or profit margins are thin. In addition, the host country tax burden is a function of not only statutory tax provisions but also of compliance costs. A poorly designed tax system (covering laws, regulations and administration) may discourage capital investment where the rules and their application are non-transparent, or overly-complex, or unpredictable, adding to project costs and uncertainty over net profitability. Systems that leave excessive administrative discretion in the hands of officials in assigning tax relief tend to invite corruption and undermine good governance objectives fundamental to securing an attractive investment environment. Policy makers are therefore encouraged to ensure that their tax system is one that imposes an acceptable tax burden that can be accurately determined, keeps tax compliance and tax administration costs in check and addresses rather than contributes to project risk.

Tax policy influences economic development through its influence over a number of economic

decisions, including employment decisions, decisions over how much to invest in skills (human capital), as well as scale and location decisions involving investment in plant, property and equipment. Taxation also influences the relative attractiveness of purchasing or leasing tangible business property. The tax treatment of research and development (R&D) in different countries, and of payments under licensing agreements, impacts decisions over whether to produce intangibles (and if so, where) or purchase them or license them from others, with special tax-planning considerations arising in the case of intra-group transactions.

Some of the key linkages between tax policy and development may be highlighted as follows:

- Employment. Tax policy affects labour supply and labour demand decisions. Labour supply is influenced by the personal income tax (PIT) system (marginal PIT rates, thresholds, non-wastable earned income tax credits), and the social security contribution (SSC) system (employee SSC rates, thresholds). Labour demand is influenced as well by the SSC system (employer SSC rates, thresholds) and by tax effects on investment.
- Investment in education and training (e.g. post-secondary education, skills upgrading). Tax factors in by influencing the benefits of (returns on) investment (with PIT and SSC contributions reducing, or augmenting with employment tax credits, wage income), and influencing the costs of investment incurred by firms (e.g. where firms are provided with special tax breaks to help defray the cost of training) and/or individuals (e.g. tax relief for education expenses).
- Investment by firms in tangible and intangible assets. Taxation alters the after-tax rate of return on investment by influencing after-tax revenues, net acquisition costs of assets and costs of equity and debt finance, leading to direct effects on investment.
- Access to intangible assets through purchase or license agreements. Rather than investing in R&D to develop intangible assets, influenced by the availability (or not) of special tax deductions and/or tax credits for R&D, a firm may purchase intangibles from others, or acquire the rights to use such assets. Taxation influences the optimal amount of intangible capital to hold, as well as the relative attraction and reliance on alternative means to acquire such capital (with possible implications for the scale of “spillover” effects on the domestic economy).

Sound tax policy enables central government and sub-national authorities to raise revenue while attracting further investment from both large and small investors.

Key questions:

- 7.1. Are the tax policy and administration in line with agricultural investment objectives? In particular, is the tax burden on agricultural investors appropriate to meet these objectives?
- 7.2. Is the tax system neutral in its treatment of foreign and domestic agricultural investors as well as large versus small investors? Does the government offer tax incentives to agricultural investors? Are these incentives regularly evaluated to assess their cost effectiveness?
- 7.3. Does the tax administration system have sufficient capacity to develop and implement tax policy in a transparent and efficient manner? Do tax officials support taxpayers, including small agricultural investors, in meeting tax requirements, thereby strengthening government accountability?
- 7.4. How is taxation administered and co-ordinated between the central government and sub-national authorities? Do the taxes paid by agricultural investors accrue to sub-national authorities so as to fund local public goods?

8. Risk Management

As the agricultural sector faces significant weather, disease and price-related risks, effective risk management instruments can help cope with these risks, thus ensuring agricultural investors a more stable income and creating a predictable environment favourable to investment.

Key questions:

- 8.1. What policies and strategies has the government put in place to prevent and reduce weather, disease and price-related risks?
- 8.2. Do private institutions or non-governmental organisations provide insurance in the agricultural sector? Does the government provide support for some types of insurance? How competitive is the insurance market in the sector?
- 8.3. What mechanisms allow for the effective enforcement of forward contracts? Has the government established measures to support the development of futures markets for agricultural commodity prices?
- 8.4. Do agricultural extension services provide advice on cooperative arrangements among agricultural producers to help implement collective risk management strategies?

8.5. How does the government encourage diversification, including diversification in production, practices, marketing and income sources, as a risk management instrument?

9. Responsible business conduct

Responsible business conduct (RBC) means that businesses a) should make a positive contribution to economic, environmental and social progress with a view to achieving sustainable development and b) should avoid and address adverse impacts through their own activities and prevent or mitigate adverse impacts directly linked to their operations, products or services by a business relationship. Risk-based due diligence is central to identifying, preventing and mitigating actual and potential adverse impacts, and thus is a key element of RBC. Enterprises must obey domestic laws and respect human rights wherever they operate even where such laws or obligations are poorly enforced. This is the first obligation of enterprises. The scope of RBC is broad and cross cutting as impacts to society, both positive and negative, cover a range of substantive areas (e.g. disclosure, human rights, employment and labour, environment, anti-corruption, consumer interests, science and technology, competition, and taxation). All enterprises should behave responsibly regardless of their legal nature, size, ownership structure, or the sector of the economy in which they operate. Thus expectations of RBC extend to enterprises that are private, state-owned, or mixed; multinational or domestic; large or small and medium sized enterprises (SMEs).

Governments can enable RBC in several ways:

- Regulating – establishing and enforcing an adequate legal framework that protects the public interest and underpins RBC, and monitoring business performance and compliance with regulatory frameworks;
- Facilitating – clearly communicating expectations on what constitutes RBC, providing guidance with respect to specific practices and enabling enterprises to meet those expectations;
- Co-operating – working with stakeholders in the business community, worker organisations, civil society, general public, across internal government structures, as well as other governments to create synergies and establish coherence with regard to RBC;
- Promoting – demonstrating support for best practices in RBC;
- Exemplifying – acting responsibly in the context of the government’s role as an economic actor.

Policies promoting recognised principles for responsible business conduct (RBC) help attract agricultural investments that are both environmentally and socially sustainable, thereby bringing both short-term and long-term economic and development benefits to investors and host countries.

Key questions:

- 9.1. What laws and regulations govern RBC in agriculture, in particular as regards labour standards, tenure rights over natural resources, the right to health and anti-corruption and integrity standards?
- 9.2. What mechanisms are in place to enforce RBC laws and regulations effectively and ensure that local communities, particularly marginalised groups such as women and pastoralists, can: access timely and accurate information on proposed large agricultural investments affecting them; negotiate with large investors, in particular on access to land and water; ensure equitable benefit-sharing arrangements, formalised in a signed contract; receive fair and timely compensation if required; and settle contract disputes with investors?
- 9.3. Through which channels does the government communicate expected RBC standards to agricultural investors? How does it ensure a clear distinction between its own responsibilities and those ascribed to businesses?
- 9.4. How does the government support investors' efforts to comply with RBC laws and regulations? Does it support mutually beneficial partnerships between smallholders and large investors? Does it actively encourage private voluntary initiatives promoting social and environmental sustainability in the agricultural sector?
- 9.5. Does the government participate in inter-governmental consultations to promote recognised RBC concepts and principles?

10. Sustainable use of natural resources and environmental management

Strong and well-enforced environmental policies contribute to both promoting responsible investment and ensuring a sustainable use of natural resources such as land, soil and water, thereby fostering long-term food security, protecting biodiversity and mitigating climate change, including by providing clean energy supply.

Key questions:

- 10.1. Do existing environmental policies, laws and regulations effectively ensure a sustainable use of natural resources, in particular by setting clear environmental standards, requiring independent environmental impact assessments and ensuring that the pricing of natural assets reflect their true scarcity value? Do they take into account the specificities of the agricultural sector?
- 10.2. What institutional mechanisms allow for the effective implementation, monitoring and enforcement of environmental policies, laws and regulations?

10.3. Do existing policies promote access to clean, energy-efficient and low input technologies and encourage their adoption by large and small agricultural investors? Do they encourage investment in technologies using agricultural waste as an energy feedstock?

MAPPING UNCDF DONOR OBJECTIVES TO POLICY ACCELERATOR'S METHODOLOGY

	UNCDF Grant Deliverables	Policy Accelerator's Methodology
1	<p>Offer advisory support to RCs, upon request at the country level, to help governments identify and respond to barriers to attracting</p> <ul style="list-style-type: none"> • long-term finance for the SDGs, including in relation to the so-called "missing middle," i.e. small and medium enterprises (SMEs), and • municipal finance 	<ul style="list-style-type: none"> • Diagnostic process • Lines of Inquiry
2	<p>Use demonstration effects to support governments in identifying and responding to barriers to attracting long-term finance and improving their overall enabling environments, especially where the UNCT's comparative advantages on governance and upstream policy support can move the needle e.g., corruption issues, regulatory and policy issues;</p>	<ul style="list-style-type: none"> • Diagnostic process • Lines of inquiry • Stakeholder engagement
3	<p>Curate development challenges where a lack of private finance is a barrier, and then help to devise effective solutions;</p>	<ul style="list-style-type: none"> • Diagnostic process • Lines of inquiry • Stakeholder engagement • Convening workshops
4	<p>Convene governments, business and the private sector around an actionable agenda for mobilizing more investments for the SDGs – and use such forums to help governments improve a country's business climate;</p>	<ul style="list-style-type: none"> • Convening workshops
5	<p>Engage with governments, development finance institutions (DFIs), and multinational development banks (MDBs) as required to design and implement reforms or financing vehicles or mechanisms that can catalyze private investment for the SDGs;</p>	<ul style="list-style-type: none"> • Consult with stakeholders • Create an advisory panel or a working group
6	<p>Capture and share lessons learned from the transactional side, including through producing an end-of-term flagship report, with a view to narrowing gaps between perceptions of risks and actual risks in LDC markets;</p>	<ul style="list-style-type: none"> • Convening workshops
7	<p>Support the development of national ecosystems and financing architectures that get finance flowing to where it is most needed.</p>	<ul style="list-style-type: none"> • Diagnostic process • Stakeholder engagement • Convening workshops

8 UNCDF investee technical assistance facility (TAF) will meet with policy makers based on learnings from TAF activities. The objective is to learn from the UNCDF investments and the TA deployed to help inform policymaking for furthering investments in the LDCs. This approach will involve developing free, practical resources and tools for policy makers and other stakeholders, organizing webinars, workshops, etc.	<ul style="list-style-type: none">• Diagnostic process and tools• Stakeholder engagement• Convening workshops
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