

Objectives of this primer

- How to identify and address barriers that limit specific investment opportunities
- What are deal-breakers for investment opportunities
- How USAID Missions can help implement policy

Related documentation / tools

- USAID – [Private Sector Partnerships in Agriculture Value Chains Building Effective Relationships to Sustain Results](#)
- USAID – [Private Sector Engagement Policy](#)

Introduction

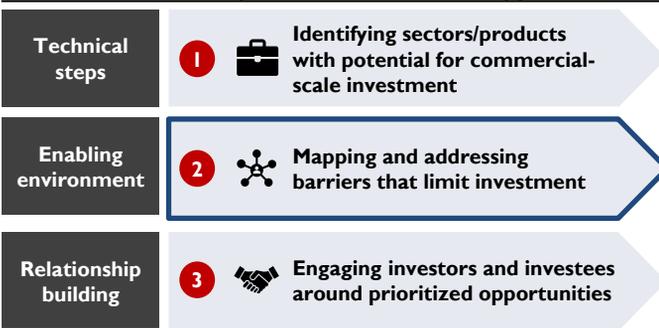
As USAID increasingly focuses on private sector engagement (PSE) to further its development objectives, it is important to share lessons and experiences from USAID Missions. The Investment Support Program (ISP) is a Bureau for Food Security (BFS)-led program that identifies investment opportunities, mobilizes private capital, and deepens private and financial sector engagement. Under ISP, Missions have undertaken investment support activities ranging from value chain assessments and sales market analyses to sector mapping and other activities.

This is the second in a series of three primers. Each primer uses different ISP engagements to illustrate particular steps in the investment support process. Primer 1 discusses how to generate a long list of products with potential for commercial-scale investment and how to refine the list to land on high potential investment opportunities. **Primer 2** discusses how to understand and solve for barriers in the enabling ecosystem that hold back investment. **Primer 3** details how to bring investors and investees together to facilitate transactions that drive development impact.

Approach to improving the enabling environment

There are three broad components to investment support. Primer 2 focuses on the enabling environment around the specific investment opportunities identified. Sub-steps of the primer are detailed below and on subsequent pages.

Factors required for investment support



Supporting the investment filtering process



Unearthing investment opportunities for private sector actors adds value to the investment ecosystem and, when accompanied by tangible improvements to the enabling environment around specific value chains or business models, can lead to reduced delays and roadblocks during and post-investment. Typical reasons for delays and roadblocks are:

- A general understanding of the wider policy landscape—but not in-depth around nuances of the specific investment opportunity
- Differences in culture between investor, investee, facilitator and the public sector, which results in low engagement

However, strengthening specific aspects of the enabling environment, even if they are not binding constraints blocking an opportunity, may substantially accelerate/support opportunities:

- Providing help to markets to function effectively through strong regulating bodies; providing support to domestic industries through the tactical use of regulation, such as tariffs
- Providing smart investment support, such as selective use of temporary tax breaks to nurture and support new entrants

It should be noted that intervention in markets needs to be well considered as potential exists for market distortion through price ceilings and floors, export and import bans, or overly tight constraints on labor, trade and forex that can have adverse effects.

2.1 Scan the policy landscape around the opportunity

Banking services assessment for refugees in India

The USAID/India Mission wanted to assess the feasibility of and requirements for establishing banking facilities in India for use by refugees. The team appraised the current state of financial access in India both for Indians and for refugees, and found evidence that establishing banking facilities for refugees in India is feasible.

The team analyzed policies around the types of financial entities in India and determined that large loans given by non-bank financial institutions (NBFIs) would best serve refugee needs. This is due to their low-risk models and ability to address credit needs using flexible collateral, among others.



Policy Initiatives

Financial inclusion in India is being driven through:

- Introduction of new financial institutions, i.e., small finance banks and payment banks targeted at the unbanked and underbanked
- Facilitation of zero balance accounts
- Simplification of “Know Your Customer” procedures¹



Benefits for refugees

Refugees can access:

- **Bank Accounts:** Sample survey indicates that 97% of households own bank accounts
- **Aadhaar² cards:** Certain refugees can own Aadhaar cards, with high enrollment in some settlements
- **Mobile phones:** Almost all refugees own them

¹ “Know Your Customer” are legally required processes by which banks obtain information about the identity and address of the customers

² Aadhaar Card – an Indian identification document that includes a unique 12-digit number and biometric and demographic data

Summary of technical steps

Appraising current policies within the target product/value chain and government’s willingness to make policy changes to achieve sector goals involves some of the following actions:

- **Understanding the current enabling environment context** for priority value chains, specifically in terms of national prioritization and general momentum within the sector, including actions and contributions being made by other development actors and donors
- **Understanding the degree of clarity and predictability** within the current regulatory framework, and how/whether a new administration or related change may affect it
- **Understanding the ways in which this framework affects investors.** Consider where and how policies impact domestic and international actors, and who benefits or is impacted by current approaches

Enablers of success

- ✓ *Frequent and fluid interaction with other development actors and donors, as well as private sector players, gives a complete picture of the state of the enabling environment*
- ✓ *Openness by public sector authorities in sharing policy requirements, plans and strategic direction at the subsector level*

2.2 Identify key binding constraints

Support to private sector development in Ethiopia

The USAID/Ethiopia Mission worked jointly with Ethiopia’s Private Sector Development Task Force to identify the next wave of critical policy issue areas that have the potential to unleash effective private sector participation in the agricultural sector. A major binding constraint identified was the inability to repatriate profits from Ethiopia, which makes the country fundamentally unattractive to foreign investors.

Sector prioritization in Armenia

The ISP Armenia team conducted a survey of 16 private manufacturing companies to inform a constraints analysis, which revealed that talent and recruitment is the single largest binding constraint for high skill manufacturing product clusters.

Summary of technical steps

Binding constraints are elements around identified business models that would stop investors from investing. Typically they are organically identified through desk research and stakeholder engagement. Possible categories of constraints are:

- **Policy barriers**, e.g., specific tariffs or subsidies, or export/import or exchange control regulations
- **Social barriers.** Any widespread practices that may constrain commercial uptake of a business model
- **Technological barriers**, e.g., lack of connectivity impeding roll-out of a model reliant on data flows such as mobile money

Enablers of success

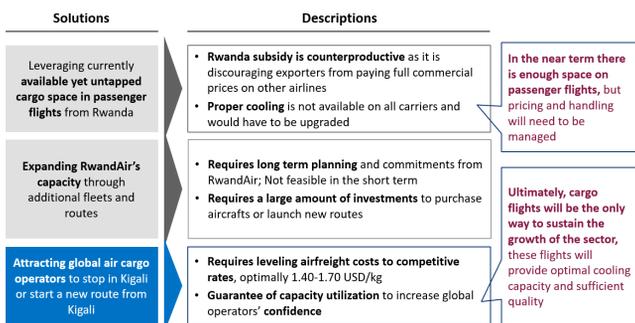
- ✓ *Early engagement with investors and investees can offer complementary perspectives on what constrains them*

2.3 Set recommendations to enhance investments

Investment in agricultural products in Rwanda

The USAID/Rwanda Mission found that an airfreight capacity issue was holding back expansion of high potential horticulture subsectors. An assessment found that the existing subsidy discouraged exporters from paying full commercial prices on other airlines, and thus supported uncompetitive products.

A fact-based analysis with a recommendation to removed the airfreight subsidy was presented to the government, which was subsequently enacted.



Approaches to change

Several levers can be targeted to create meaningful change in the enabling environment, helping to stimulate and speed up investment. They can be broken down into several categories:

- Partnerships.** Investors may need partners to provide essential services for success, such as banks to provide financing for productive technology
- Skills gap support.** Creation of “how-to” guides, or more tactical ad-hoc support, that enable investors to navigate the bureaucratic processes of starting a new company, obtaining relevant permits or gaining import/export licenses
- Policies.** Taxes, subsidies, tariffs or other regulation can help enhance the enabling environment for the targeted investment

Enablers of success

Proposing recommendations that align with the direction of political will (with respect to the targeted product/value chain) can help them materialize

2.4 Help policy implementation

Investment in edible oils in Tanzania

Tanzania has a large and growing sunflower oil industry, yet it only currently fulfills ~30% of national demand.

After identifying an under-supply of key inputs and the potential in new investments in solvent extraction, the USAID team analyzed top barriers for investment then proposed tariff and VAT exemption policy solutions.

To build support, the team frequently engaged with key sector association, the private sector and government actors. It specifically worked with the Agriculture Non State Actors Forum to lead on engaging with the government on tariff and tax reform. Key initiatives included creating policy briefs built by a consultative process, with input from stakeholders along the sunflower value chain, input suppliers, financiers, farmers, crushers, refineries and adjacent industries.

Critically, for their analysis the team consulted with stakeholders from a range of public entities, including ministries of finance, agriculture, and industry and trade, as well as public development finance institutions and tax authorities.

Support implementing enabling environment recommendations

Support can be provided in at least two distinct categories:

- Convening of relevant forums to socialize recommendations,** e.g., a “Private Sector Desk” where different stakeholders share pain points, propose solutions to them and lobby for change
- Preparation of specific tools and presentation of supporting evidence for the recommendations,** e.g., a mapping of licenses that would be required for a specific investment opportunity to materialize, including a timetable to help illustrate feasibility of changes

Enablers of success

Involving public sector stakeholders (such as investment promotion agencies and investment support centers) in the research and preparation process of policy materials improves their accuracy and eventual uptake

CASE STUDY: ISP Tanzania



Investment in Aquaculture in Tanzania

Opportunity—What the Mission needed

In phases I and II, the USAID/Tanzania Mission’s review suggested that freshwater tilapia farming had the highest commercial and social potential. However, for investments to materialize, some enabling environment improvements needed to happen.

The Mission identified three needs to improve investor confidence: i) a strong legal foundation for commercial aquaculture operations, ii) clarity on specific investment opportunities (by zoning lakes, parceling sites in lakes and inland, and putting in place authorization systems), and iii) streamlined processes for environmental approval and obtaining third-party consents.

Interventions

The ISP team carried out the following activities to map and address barriers limiting investment:

- **Scanned the policy landscape** through document review (but mainly through stakeholder consultations), as lack of specific aquaculture regulation undermined the legal basis for investment.
- **Identified key binding constraints.** Three clear challenges were identified: i) lake zoning is still under development and limited to Lake Victoria, ignoring other lakes and potential inland sites, ii) there is no clear direction on authorization systems and necessary procurement procedures are yet to be established, and iii) investors are put off by long, costly environmental approval processes and lack of clear guidelines to navigate them.
- **Set recommendations to enhance investments.** The team brainstormed and validated a set of recommendations to address barriers and socialized them with the public sector.
- **Helped policy implementation.** The team supported the public sector in getting policy recommendations to take off, with measures including producing insightful analyses that illustrated bottlenecks and convening the right players in the right forums.

Results—What was achieved

The ISP team managed to get public authorities to roll out zoning on lakes and in peri-urban areas, complete front-end environmental assessments, begin to clarify procurement/ authorization strategy and better coordinate all third-party approvals.

The Tanzania Fisheries Act (2003) is currently being revised, with detailed provisions for medium- and large-scale aquaculture operations. An Aquaculture Roundtable was also created, allowing public/private stakeholders to address challenges and opportunities in the sector.

Lessons learned

- **Recommendations should follow from the investment filtering exercise.** Anchoring policy recommendations on specific challenges targeted to a particular subsector that impact specific stakeholders in concrete ways allowed public sector authorities to see the real-life impact of current regulation.
- **Potential benefits from the investment should be made tangible for all.** An analysis of tangible benefits for both public and private sector stakeholders increases potential uptake of recommendations.

GUIDING PRINCIPLES

- **Do not try to be comprehensive in the problems you seek to solve.** The best approach is to focus on “fixing the one broken thing” that may be holding a deal back, rather than addressing broad and far-reaching challenges.
- **Leverage local and national strategies, and use an investment opportunity as an avenue to drive progress.** If the sector has been prioritized by the government, there may be political will to streamline processes and facilitate intervention.
- **Be specific about the solution you aim to deliver.** Generic reforms often fail to account for investor perspectives in specific ecosystem interventions and thus do not tackle critical ecosystem barriers blocking investment.
- **A highly tactical approach may be needed.** Support may require the creation of “how-to” guides that enable investors to navigate the more bureaucratic processes such as starting a new company, obtaining relevant permits, and gaining import/export licenses. However, these will need to be regularly reviewed as they can quickly become outdated as policy shifts and new regulatory frameworks are introduced
- **Facilitate early, close and dedicated stakeholder engagement.** Engage stakeholders early to test and refine your understanding of their objectives. Direct feedback on early ideas can generate important insights. It is valuable to engage stakeholders across sectors, including government and other development actors (in addition to private sector actors). In the case of edible oils in Tanzania, investors needed enabling environment improvements to even partake in initial conversations.
- **Understand the context before designing the intervention.** USAID is well positioned to deploy a range of tools to drive forward investment, but determining the appropriate tool(s) requires a deep understanding of context, which can vary significantly by country.

Relevant USAID ISP work

This primer draws on various ISP experiences. For further detail, please see the following:

- Appraising the policy landscape around banking solutions specific to refugees in India ([link](#))
- Identifying binding constraints around foreign private investment in Ethiopia ([link](#))
- Identifying binding constraints within prioritized subsectors in Armenia ([link](#))
- Setting enabling environment recommendations to enhance investments in agricultural products in Rwanda ([link](#))
- Help policies like VAT exemptions take off in Tanzania’s edible oils sector ([link](#))
- Enabling private sector engagement in Tanzania’s aquaculture sector ([link](#))