# Part 4

# International Investments & Role of Governments

# Chapter 61

# Building a Strategy for International Investments in Food and Agribusiness*

I have four objectives in dealing with international investments: (1) raise the "good and bad" points, (2) address the need for a country/regional strategy, (3) address the need for companies to globalize and search the world for opportunities and (4) elucidate the role of government.

There is still a debate as to whether receiving international investments is good or not for a particular country or region. We should not advocate for one side or the other, but obtain all points of view and then perform an analysis. International investments do have their advantages, as discussed in the previous chapters, if they promote development, by bringing access to international markets and expanding the export capacity of the country, creating jobs and generating taxes for governments, bringing knowledge to a country, bringing credit and instilling confidence, among other things, to a country. If a country receives international investments from a world class company, it is an endorsement for development and other investors.

The major objections that I received from opponents of international investments were linked to expatriation of resources from countries, exploitation of these resources until their depletion and exclusion of the possibility of future generations of that country using them in the future, taking profits away from local economies and bringing cultural shocks and changes to local communities. Others fear the damage to competition in a country, due to the global capacity of a multinational company that can even promote dumping on local markets, compensated by good results in other countries, in order to destroy local competition. This may bring exclusion of local companies in the long term. There are also some nationalist feelings, that

* First published in *China Daily* (May 6, 2010).

only products produced in the country, by a local company, are good for the local society. These points should be considered.

In my view, with a good strategy and a good regulation system, a country can try to avoid these pitfalls, maximizing the benefits of these investments. The first criterion for any country and government would be a good strategy, a strategic plan for the country, looking 10 to 20 years ahead, which I see as a not-so-common thinking of governments. Only with a good strategy, it is possible to attract a country or a region, companies that are linked to the potentialities of the region, with expertise, with guaranteed demand (international contracts), clean production systems, high technology (biotech/nanotech), and also assurances that units of research and development and part of the headquarters of these companies would be based in the country that is receiving this investment.

Let me at this point give you the example of Brazil, a country that is experiencing huge inflows of international investment, major economic growth and income distribution, putting pressure on infrastructure, and booming internal markets. Brazil will also host two major events that companies could be taking advantage of: World Soccer Cup in 2014 and the Olympic Games in 2016. A good strategy would be to attract investments from international companies that would immediately fit in with conditions of the country and its opportunities. There would be Spanish, American, Asian and other chains (like Melia, Hilton, Sheraton, Shangri-La) introducing and expanding their networks of hotels (business); investments in entertainment (arenas, parks, museums); companies wanting to produce energy and infrastructure logistics (roads, trains, airports and duties); airline companies (now allowed to make up 49% of local companies' shares since it is one of the fastest growing markets), construction investors to build second homes for the retired Europeans visiting the year-round sunny northeast beaches of Brazil (a six-hour flight from Europe), and in universities, a booming sector due to demand in education. There is also room for investments in food, like New Zealand milk farmers wanting to expand globally, Belgian chocolate companies, Australian/Uruguayan sheep farmers and slaughterhouses. These are just a few examples to point out some areas where a strategy would fit.

But all countries and respective governments, when going to international markets to attract investments, should do their homework or the basics of the basics. These basic criteria should include: stable economy (growth, low inflation, interest rates, internal demand); good human resources and talents; reasonable and competitive infrastructure, security for people, reasonable tax and financial systems, good governance with austerity or simplicity to facilitate better management (get rid of bureaucracy, which is mostly associated with corruption). A country also has to offer basic resources (energy, land, sun, water), capable suppliers and distributors, and institutions (judiciary system) that are trustworthy and able to speedily resolve problems and disputes. This homework, together with a capable strategy, strong regulation systems and simplicity will create the right environment for international investments to come in and promote sustainable development.

**Table 61.1**

**A Strategy for International Investments.**

| OBJECTIVES | STRATEGIES |
|---|---|
| 1. Raise these "good and bad" points | |
| 2. Address the need of a country/region strategy | |
| 3. The need of companies to seek the world for opportunities | |
| 4. The role of Government | |

*Source*: Author.

## Discussion question

What are your views towards international investments? List opportunities that could arise for your company.

# Chapter 62

# How to Promote and Regulate International Investments in Food and Agribusiness?*

There is plenty of knowledge available about the possible benefits of international investments to an economy. In this chapter, I will deliberate the issue of building an institutional arrangement in a country that is desirous of seeking international investments, since they may have both positive and negative impacts. Considering this, certain regulations are important to avoid negative impacts from transnational companies' investments, and to enhance the positive effects of these foreign direct investments.

There are eight major topics that should be studied and covered by public policies. The objective here is to facilitate local, state or even federal governments and agencies in setting up a framework where international investments can be attracted to promote development and avoid possible negative externalities.

The first one relates to the governance structure of the investments. Here, we may consider the wide range of possible investments (joint-ventures, vertical integration, franchisees), money entrance conditions, promotion policies to receive these investments, safeguards for risk protection (invasion, expropriation, fees, etc.) and other considerations. Some questions would need to be deliberated: How will direct investment take place? What types of assets ownership (land, industry and others) must be considered and planned? How will the stimulus package for these investments (like energy supply, logistics and other related to infrastructure) be built? and finally, How to remove the existing obstacles to attract investments?

The second topic relates to environmental protection, focusing on policies of water usage, agricultural practices (soil conservation, harvesting, among others), policies on pollution control, sanitary measures, international standards and certifications that will be required and, finally policies regarding conservation and rights over the country's

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* First published in *China Daily* (March 10, 2010).

biodiversity. Some companies are accused of not having the same environmental practices they have at home, and this should be avoided by means of suitable policies.

The third topic deals with the regulation of human resources. These regulations may include salaries, labor and wages, benefits, working conditions, corporate social responsibility, ethics and codes of conduct and community relations. This is one of the most important topics, since most problems with international investments that occurred in the past were due to mismanagement of human resources.

Taxation policies (taxes) is the fourth topic that must be defined for transnational investments. Questions regarding the structure of taxes and tax policies, export tax policies, purchase and compensation taxes and possible temporary government tax incentives for the investment to be made, or to be stimulated, are the focus of our analysis here.

As the fifth topic, we have research and development policies. At this point, the most relevant would be a kind of stimulus to improve development of local knowledge and R&D. Property rights, licensing contracts and royalties must be discussed. Stimulus for linkages with local research organizations and institutions can be an important incentive to integrate and promote development.

The sixth topic is related to investments in agricultural or agribusiness, and deals with joint actions for farmers and industry. It is important to have policies stimulating the linkage of international investments to local organizations, an incentive for the formation and sustainability of cooperatives and associations, induction for farmers, co-ops and organizations to build sustainable relationships with the international investors, and incentives for building sustainable supply contracts. It could be important also to establish a framework for resolving disputes and even private arbitration.

The seventh topic relates to financing and credit involving discussions and implementation of policies that allow international investors to access public sources of financing, state banks and public credit lines. Such credit offers may be linked to the technology of the international investor and ensures possibility of growth.

Finally, the last topic relates to policies regarding market access. In each of these policies, there are suggestions of incentives for international investments. These may include government purchase of products generated by the investment and facilitating local access to investors, international agreements for market access to improve export channels of this new entrant and general competition policies. In food investments, it is also important to evaluate and promote food safety policies to facilitate international market access.

The relevance of studies in international investments for food production is of fundamental importance. It is well known that food production needs to be enhanced and in order to accomplish these needs, international investments are of fundamental importance. At a time when countries are establishing policies regarding food security, with governmental and private funds being allocated to buy land abroad and secure food supply, the role of these investments increase in importance. This chapter provides governments, agencies and companies involved with international investments with a list of eight major topics (see Table 62.1) that must be considered for regulation of these investments in order to bring as much sustainable economic development as possible.

**Table 62.1**

Suggestions for public policies regarding foreign investments in agribusiness

| 8 major topics | Suggestions for Public Policies and Incentives to International Investments in Agribusiness |
|---|---|
| Governance Structure | → How direct investment will take place and sorts of assets ownership (land, industry and others);<br>→ Entrance conditions of resources (money flows);<br>→ What the promotion policies for FDI will be;<br>→ What the safeguards for the protection against risks (invasion, expropriation, fees, etc) will be;<br>→ What the stimulus package for investments (energy, logistics and other related to infrastructure) will be and how to remove obstacles to attract investments. |
| Environmental Protection | → Policies on water use;<br>→ Policies on agricultural practices (soil conservation, harvesting, among others);<br>→ International standards and certifications that will be<br>→ required;<br>→ Policies on pollution control;<br>Sanitary policies;<br>→ Policies on conservation and rights over biodiversity. |
| Human Resources (people and labor) | → Rural labor and wages;<br>→ Working conditions;<br>→ Benefits;<br>→ Community relations;<br>→ Child labor;<br>→ Corporate social responsibility;<br>→ Ethics and codes of conduct;<br>→ International labor. |
| Taxation | → Structure and tax policies;<br>→ Export and tax policies;<br>→ Purchase and compensation taxes;<br>→ Temporary tax incentives. |
| R&D (Science and Technology) | → Development of local knowledge and incentives for local development of R&D;<br>→ Property rights and other protection forms, licensing contracts and royalties;<br>→ Linkages with local organizations/institutions as an incentive. |
| Joint Actions for Farmers and Suppliers under Contract (Commitment) | → Linkages to local organizations;<br>→ Incentives for co-ops/associations formation and sustainability;<br>→ Prepare farmers/co-ops/organizations for the relationships;<br>→ Sustainable supply contracts;<br>→ Dispute mechanisms and private arbitration. |
| Financing and Public Resources | → Access to public sources of financing;<br>→ Access to state banks and credit lines. |
| Policies on Market Access | → Government purchasing policies and access to investors;<br>→ International agreements for market access;<br>→ General competition policies;<br>→ Food safety policies for market access. |

*Source: Author*

**Discussion question**

Which are the most relevant regulations in the list and how would they affect your company?

Chapter 63

# How to Evaluate International Investments' Capacity to Promote Economic Development?*

In this chapter, I want to talk about the importance of receiving international investments for all nations, but mostly for developing nations, and try to point out a gap in the usual analysis. What gap?

Local or federal governments and other institutions sometimes have difficulties in evaluating the capacity of an international investment in promoting economic development. This can also make it difficult for governments to define a specific benefit or support to be derived from this international investor company, or to convince the local community of those benefits for developing the region, moving the economy forward, generating jobs and exports, and other benefits.

When a transnational company (TNC) comes to a country, it normally comes with several types of resources, not only financial. We will analyze these resources. I want to categorize these resources on a list of six points in order to assist governments in evaluating international investments in a country. The better the investor can perform on this list of resources, the better these investments will be. This is based on several discussions I had in 2009 at Geneva, on a UNCTAD/ONU project. This list is different, however, since it looks also at the local supply chain of a company. If a company can build a strong integrated supply chain, there is a greater possibility for more economic development. The six topics, with their own sub-topics, are given below. It will help the reader in understanding the concepts — you may imagine an international food industry investing in a new country.

**1. Financial Investments and Expertise** — Here, we may consider the amount of money that will be invested, and in relation to the investments, whether

* First published in *China Daily* (February 21, 2010).

the company can provide capital, open credit lines giving the needed guarantees for suppliers (for instance, local farmers), gain access to government official credit, has knowledge of credit operations and bureaucracy, has access to international credit and generates a good reputation for the region and the country. We should also look at the capacity for generating the benefits of foreign currency through increased exports and finally, the amount of employment generation.

**2. Capacity to Provide Technical Assistance** — Normally, a TNC has a "how to do package" for its suppliers, helping with farm support, support of sustainability policies and sustainable practices, participate in activities of research and development, support to achieve standards (ISO, etc.) and transferring of skills that will promote economic development.

**3. Sourcing of Input Supplies to Farmers** — TNC food companies can help farmers by providing them with uptodate seeds, machinery, genetics, fertilizers and chemicals, helping them to produce with the most recent technology.

**4. Management Assistance and Service Provisions** — This refers to evaluating the capacity of TNCs to deploy economical/financial controls to assist farmers and suppliers through training and farming management, transportation and storage, communication skills and certification. TNCs could also render support the demands for public investments in logistics and infrastructure in that country or region.

**5. Capacity to Provide Market Access** — This is one of the most important concepts. A TNC could arrange international sales contracts, providing access to marketing channels, access to niche markets — organic/fair trade/others, providing information on market trends, helping farmers decide what to grow, and enabling reduction on price volatility through long term contracts.

**6. Farmers' and Suppliers' Organizations** — This is the last concept, one not usually considered or evaluated. I think a TNC should also be evaluated by its capacity to help farmers or suppliers in building what is called "countervailing power", to reduce power imbalances in modern food production chains, although this may sound impractical. This can be achieved by stimulating the establishment of local organizations, stimulating the arrangement of cooperatives, building networks of local producers and incentives for cooperation. It is not easy, but I consider "inclusion" to be one of the most important words for the next 10 years!

Finally, the relevance of studies on TNCs involvement in food, agri-business and agriculture is of fundamental importance. Food production needs to be enhanced in order to accomplish these needs. At a time when countries are establishing policies regarding food security, with government and private funds allocated to buy land abroad and secure food supply, the role of TNCs increases in importance. There are several lessons to be learned by developing nations trying to attract international

**Table 63.1**

Impact of TNCs on local community

| Resources of TNCs | Impacts on Local Community |
|---|---|
| Financial Investments and Expertise | ➔ Providing investments (capital);<br>➔ Opening credit lines giving the needed guarantees for farmers;<br>➔ Access to government official credit;<br>➔ Knowledge of credit operations and bureaucracy;<br>➔ Access to international credit;<br>➔ Inward investments contribute to a good reputation for the region and the country;<br>➔ Foreign currency generation through the increase of exports;<br>➔ Employment generation. |
| Input Supply to Farmers | ➔ Seeds;<br>➔ Machinery;<br>➔ Genetics;<br>➔ Fertilizers and chemicals. |
| Technical Assistance | ➔ "How to do package";<br>➔ On farm support;<br>➔ Support on sustainability policies and sustainable practices;<br>➔ Execution of research and development;<br>➔ Support on standards (ISO, etc.)<br>➔ Transferring of skills;<br>➔ Supply of higher standard products within the internal market. |
| Management Assistance and Service Provisions | ➔ Assistance on economical/financial controls;<br>➔ Training and farming management;<br>➔ Transportation and storage;<br>➔ Communication;<br>➔ Certification;<br>➔ Results/profit of the farm;<br>➔ Support to demands on public investments in logistics and infrastructure. |
| Market Access | ➔ Arranging sale contracts;<br>➔ Providing access to marketing channels;<br>➔ Access to niche markets – organic/fair trade/others;<br>➔ Providing information on market trends, helping farmers decide what to grow, and enabling reduction on price volatility. |
| Farmers' Organizations | ➔ Establishment of local organizations;<br>➔ Stimulating the arrangement of cooperatives;<br>➔ Networks of local producers;<br>➔ Incentives to cooperation. |

*Source*: Author.

investments, in agriculture, industry or other fields. Table 63.1 summarizes the potential impact of TNCs on local communities.

**Discussion question**

Which are the most important impacts brought by international investments?

Chapter 64

# Land for Free… Is This Possible for Food Companies? The CODEVASF Case*

We all know about the need to increase food production, to face the incredible development of emerging markets and new consumers, and the scarcity of land and natural resources available in the world to face this challenge.

In this chapter, I want to comment on one of the most impressive ideas for regional development, discussed at one of the renowned Harvard Seminars. This is the case of Codevasf, a company owned by Brazilian government, and dedicated to the development of the semi-arid Sao Francisco and Parnaiba River Valleys, in the northeast of Brazil. This company has come up with a different concept of land occupation and regional development.

First, let me introduce the reader to these two valleys. They have around 960,000 km2, with an irrigated land potential of 360,000 ha, in the Sao Francisco Valley alone. In 2010, 120,000 ha were implemented by Codevasf, with 50% being used by 100 companies, mostly for fruit production and some processing (dried fruit, juices and wine). This area is responsible for US$ 300 million exports per year (40% of total Brazilian fresh fruit exports, and 100% of Brazilian mango and grapes export). It has around 2,800 hours of sunshine, which allows year-round crop production, with enough fresh water for irrigation, and good transportation and connections. The average temperature is 25–30°C, with a well-defined rainfall. These specific conditions allow producers to take advantage of market windows for fruit exports.

Over the past 40 years, Codevasf has built 28 irrigation projects. In the past, Codevasf purchased nonimproved land, built infrastructure (roads, energy,

* Harvard Business Shool (2010). First published in *China Daily* (February 11, 2010).

administration) and irrigation systems (canals and pumps), divided the land in areas from 5 to 200 ha lots for investors, attracted farmers, made water and energy available. Codevasf also charged fees based on the lot size, to cover operations and maintenance and the producer paid energy fees to the energy supplier. After the land was occupied and the project was ready, Codevasf transferred responsibility for operations and maintenance to an association of producers, named District.

So why did this old model fail, resulting in more than 50% of the land standing idle? Mostly because it was production-driven, and not market-oriented or demand-driven. Some factors that caused failure include: lack of marketing, excess production, low prices, lack of coordination, lack of innovation, products only directed for local consumption, subsistence farming by some producers, opportunistic intermediaries paying low prices to farmers, lack of scale, bad selection of producers and complicated proprietary issues. As a consequence, the yield from taxes was nil, there was no economic development and no return for all the investment made in the region by government.

In 2010, after five years of working together with the World Bank and the University of São Paulo, Codevasf has proposed a new concept. This concept already has an approved invitation to bid, and the auction is expected to be held in 2010. (For more information, see www.pontal.org.)

The Brazilian government wants a consortium company (this can be an engineering company plus a food processor) to occupy the area. This consortium will receive the land for free, and within six years, it has to finish constructing the common irrigation infrastructure (US$50 million, which will be reimbursed by government), and establish agricultural operations in all 8,000 ha. It will be responsible for the Pontal water supply and its operation and management (estimated costs of US$3.8 million/year, also reimbursed), and install one or more anchor companies (food producers), and other new concepts: this anchor food company should have a minimum of 25% of the land (2,000 ha) occupied by local farmers (suppliers), selected among 1,500 farmers listed by Codevasf, with a maximum area of 20 ha each.

This food anchor company should be demand-driven and have coordination capacity. The government expects it provide training to the farmers and have financial capacity. The company should also be able to face market risks, have capacity to deal with a diversity of fruits and processed foods.

The Pontal project has 30,000 ha of total area, 8,000 ha being irrigable. It will have a huge impact since it will be the first PPP of the Lula government and will set the framework for another 500,000 hectares. The objective is sustainable agricultural production, facilitating regional economic development. The land will be granted for 25 years, plus preference for a further 25 years. The greater the number of integrated farmers (suppliers) offered by the consortium and the anchor company, the greater is the chance to win the bid and get this 8,000 ha irrigated land for free.

This is a new concept, where government is paying for land occupation in a modern and integrated way. It represents an outstanding opportunity for food companies wanting to expand production outside their traditional borders, to complement and diversify their offer, without having to buy this land. This new concept of integrating small holders into modern food chains impressed the more than 200 executives who discussed this opportunity at Harvard, and is a possibility also for the governments in developing countries to develop some areas economically, with inclusion, which in my view, is one of the most important word for the new decade.

## Discussion question

Which are the strong points and risks involved in this alternative form of investment?

# Chapter 65

# The Benefits and Risks of Governments Supporting Local Companies to Internationalize*

In the last couple of years, public development banks in some emerging countries provided strong support to local (national) companies to make acquisitions outside, expanding their operations to other countries. To build the so-called "national champions," billions of dollars were invested and these investments gave different returns to local societies that financed it.

In the specific case of Brazil, some large corporations processing animal proteins, among other sectors, received support, which meant financing at lower interest rates than the ones available with private banks. This strategy built up global leaders in the beef and other meat producing chains, benefiting from the strong value of the local currency, the Real, in these acquisitions.

Some beef companies diversified their product lines and became animal protein processing companies (acquiring poultry and pork production lines, products and brands) and further expand their strategies to broader food companies with a complete product line, from meats to milk, from ready to eat meals to pizzas and desserts. It is the emergence of new competitors for the traditional multinational food companies. In the opposite direction, the market has seen poultry companies diversifying to beef, milk and other products.

The objective of this story is to list what could be: (a) possible benefits for local governments and as a consequence, to local societies to build these "world champions," and (b) the major risks involved in such operations. The possible benefits are that these outside acquisitions could justify investments by helping to promote exports coming from the original country. This could be possible with more market access, one of the most important assets that come with an outside acquisition. For

* First published in *China Daily* (October 26, 2011).

instance, when a Brazilian company acquires a company in Italy, or in China, it acquires access to these markets. This access includes a local sales team, access to supermarkets and other marketing channels and knowledge of communications. It also includes the acquisition of local brands that may have tradition and connection/intimacy with consumers, instead of exporting with a national brand and building a new brand from zero, a very expensive and challenging activity in a different market.

A second bundle of possible benefits is related to business expertise, such as how to finance activities in this new country, the knowledge of institutional environment (laws/lawyers) and other benefits linked to the intangible assets of employees that come with the acquired company.

The international investor acquires knowledge of the local supply chain and suppliers' base (original suppliers of the acquired company). Another strategy is to introduce original management style and practices in the newly acquired company along with possible value capture achieved with effective management and cost reduction.

By considering the original country as a major new supplier to the acquired company and expanding the product portfolio from one source of protein to others and then to milk and food products, they (original country company) will become exporter of several other products that are components (pizza, pasta, tomatoes, etc.) which originally were not exported to that market. This also involves packaging in the case of ready to eat foods, design and other supporting functions, that would be done in the original country and sold internationally.

Another possible benefit for the society would be to bring earnings and profits conquered from international sales to local shareholders, like the traditional flows of multinational companies repatriating money. Finally, when a company operates in several countries, it can be matching different supply sources and international channels using specific products and brands coming from supplier countries to fit consumers needs — in essence, capturing value with global trade.

Although there are several possible benefits, some risks are present within these international investments sponsored by local banks and societies.

One debate is related to which companies will receive the support, or will be preferred by government's official development banks. Criteria should be well defined since these investments require public money. Another risk comes with the complexity of managing processes of different companies, running businesses in different countries, different cultures and different environments. Sometimes the local company is not prepared for this rapid growth. Which business to buy should be considered, from mature industries with low margins or promising new ventures be purchased? Where to buy requires consideration of all the risks — in mature markets with compressed margins and powerful retailers or in emerging countries, that occasionally experience growth of 15% per year in some food markets?

The moment (when) of the purchasing operation also requires careful consideration, since an overpriced asset acquisition makes it difficult to recover. Exchange rates fluctuation is also a possible risk, since debts are in US dollars, and devaluation of the local currency, used for this purchase, may happen transforming it into an expensive acquisition. Finally, there are the learning costs of facing unions, syndicates, suppliers' associations, governmental regulation and other barriers for new players coming from outside.

It is little bit premature to evaluate these investments and the conclusions cannot be generalized to all businesses. This chapter highlighted some contributions to the debate on the benefits and risks involved.

## Discussion question

What are your views about the opportunities and risks of receiving governamental support to promote development?

Chapter 66

# Colombia: An Example of the Role of Governments*

In the last years, we started receiving good news from several sources about the turnaround that the country and major cities went through. I heard about the wonderful geography and had a taste of the enthusiasm of the Colombian people, interacting and teaching to exchange students from EAFIT University of Medellin studying at University of São Paulo, in Brazil.

Colombia just came out of an eight-year recovery process initiated by the government to give back the country to the organized society after decades of difficulties. The major efforts were related to security, with a strong battle against illegality. In parallel with these efforts, efficient government management, organizing and building strong institutions, attraction of international investments, promotion of business associations, discussion forums and efforts to improve exports via building bilateral agreements with important markets. From a country that people had fear to go, it has now been transformed to a country that attracts tourists.

A planning process was carried out to discover the competences of each region, resulting in differentiated regional policies and agencies for development, with attention to the articulation of the agents. This was done to promote competitiveness based on the traditional clusters approach (bundle of integrated companies with a regional delimitation). The government also worked with investments in education and efforts to attract back the Colombian talents to the country. The Colombian Coffee is one of the most successful examples, with farmers' coordination, investments in promotion, in marketing channels and others.

Based on presentations from government, a second wave of development is now needed. How to innovate? According to their 2032 plan, Colombia is focused on building world class businesses, with regional commissions of competitiveness. The

* First published in *China Daily* (July 5, 2010).

new government, elected with almost 70% of the votes, promised to continue with strong and dynamic economic development, with social policies that would allow generation of opportunities and inclusion, as there is a lot to be done with millions of people still in poverty, exclusion, violence and drugs. It is a permanent battle.

It is a pleasure to talk to Colombians. Medellin is a happy city, a city with hope. We can sense this happiness in taxi drivers, who are always a wonderful repository of information and have terrible stories from the past to tell. One exciting visit in Medellin is the Metro system.

There is a "metro culture" that makes this public facility really an institution, admired, respected and protected by the community. You can find music, the streets are clean, libraries are functioning well along with other sources of entertainment. It is not common to see this in less developed nations.

There is one metro line that runs north to south, since the city is a valley surrounded by high mountains in the east and west sides. In some parts of this line, there is the "Metrocable," a system of cable cars that links the metro line toward the top of the mountains, full of slums (called "comunas"), integrating these forgotten regions to the city. Places where a person would take one hour walking up the mountain after working all day, now takes 10 to 15 minutes in the cable car. There are some stations during the journey, where people can get in and out. Libraries, cultural centers, leisure/sport facilities, playgrounds for kids were built in these poor communities and these public investments have enriched the lives of its people. Quality of housing has been improved along with the surroundings, citizenships have been provided and inclusion of all ranks of society has been achieved. It is a place to be visited, one of the most beautiful inclusion initiatives that I have seen.

Governments have an important role in promoting economic growth, income generation and distribution, geographical equilibrium and access to opportunities. Promoting a favorable environment for development of clusters is one possibility, other strategies would include enhancing coordination, improving innovations and technological transfer, reducing lack of trust among agents and promoting exports and access to markets. To visit Medellin and Colombia is an injection of hope that we can change, even in the most difficult situations.

**Discussion question**

What are the lessons to learn from the turnaround of Colombia?

# Chapter 67

# Incorporating Small Holders into Modern Food Chains*

Earlier in this book, I referred to the importance of including small holders and small companies in modern integrated food chains to promote development and income distribution. In this chapter, I want to discuss four dimensions that are important for reaching this objective of inclusion, based on my experiences in Brazil.

The first dimension is that of project management. All projects must have strict criteria in terms of viability and attractiveness. A rigorous analysis has to be done first by gauging the technical feasibility of the activities one intends to attract to a specific region. For instance, food processing requires different models for estimating agricultural and industrial investments and costs. It is also extremely important to analyze the market conditions of the product to be produced. It is clearly a mistake to insist on producing and industrializing products with many competitors when you have no clear regional competitive advantage. It is important to understand demand behavior, quantitatively and qualitatively. All investments today must have a very strong, world-class project analysis, and even more so if they are supported by federal or local governments.

The second dimension that affects sustainable regional development is integration. In fact, this is the most relevant factor. Many investments fail because they lack a holistic view that considers chain coordination and integration. A firm must buy competitively from suppliers and sell to distributors and end consumers. The way the firm manages relationships with these agents is fundamental to its development. These relationships may range from vertical integration to contractual arrangements or spot market agreements. This is the basic thesis of the 2009 Economics Nobel Prize winner Oliver Williamson's discussion on the boundaries of the firm. In regional development, governments may think of attracting an anchor firm that leads production, with control and knowledge of demand information. Take as an

*This chapter has Luciano Thomé e Castro as a contributor. First published in *China Daily* (October 13, 2009).

example a juice industry as an anchor company coordinating all regional fruit growers. The challenge will be to coordinate supply transactions with small holders.

Different governance modes, when seen from a social perspective, have different consequences. Vertical integration (where the anchor industrial company owns farms) creates jobs, salaries, taxes, exports and might transfer knowledge from the firm to the employees by means of training programmers, and where, in fact, employees may become entrepreneurs later on. Buying from large growers based in the region also generates the benefits listed above, except for a quicker technological transfer due to the fact that there are some independent producers and more employees linked to them.

Buying from small holders and cooperatives may be even better in terms of wealth distribution and development, when there are a large number of rural families involved in production activities.

Attraction of anchor companies helps increase the growers' capabilities with private knowledge transfer and credit facilitation, since one of the biggest challenges for small holders is access to credit for financing investments and production. A possible form and a key research agenda is public incentives and advantages for projects that involve a large number of small producers.

The third important dimension is that of business. It has to be clear that all the agents have to generate profits above their capital costs. In the case of small holders, the income must be high enough to keep them motivated and committed to the activity.

This is the basis for long-term orientation of the producing chain and for economic sustainability. It is important to mention the need for innovation and quality improvements that any chain should possess, and this could be done by linkages with local research centers, universities and technical consultants. All parts of the integrated chain must have a long-term perspective.

The fourth and last important dimension for regional sustainable development is the sustainable dimension. Sustainability comprises three different components: environment, economic development and equal wealth distribution for the participants. It is important to motivate national and international environmental certification processes, because they help prepare the firm and the region to attend to environmental criteria and later on to open markets. Companies should invest in market segments like organics, fair trade, and promote social inclusion of poor communities.

Sustainable inclusion is the main agenda for private and public sectors for the next 10 years. This chapter has presented the four dimensions that should be taken into consideration by governments and private companies when thinking in terms of new development projects to promote inclusion that is sustainable, profitable and contributes to growth of the economy, income distribution and wealth (see Figure 67.1). Table 67.1 summarizes the different dimensions.

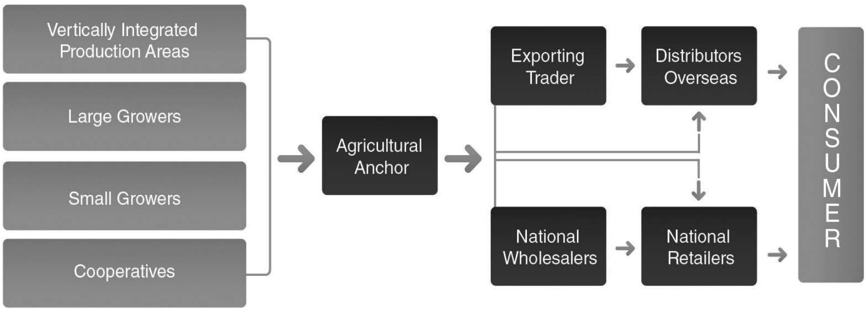


**Figure 67.1** The integrated and sustainable agribusiness framework.
*Source*: Author.

**Table 67.1**

Different dimensions to integrate smallholders into modern food chains.

| INTEGRATED | SUSTAINABLE | BUSINESS | PROJECT |
|---|---|---|---|
| → Inter-organizational<br>→ Chain and Network<br>→ Perspective<br>→ Technological Transfer and requested specificities<br>→ Cooperatives<br>→ Associations<br>→ Government participation<br>→ Coordinated system<br>→ Public banks' participation | → Environmental Friendly<br>→ Fair trade<br>→ Organic<br>→ Job creation<br>→ Social development<br>→ Regional development<br>→ Working conditions | → It is made for profit attainment<br>→ Cost control<br>→ Innovation<br>→ Continuous search for competitiveness<br>→ Quality refinement | → Rigorous analysis<br>→ Rigorous marketing analysis<br>→ Organization, scheduling, implementation |

*Source: Author*

## Discussion question

What are your views of the concept of an anchor company to promote development?

# Chapter 68

# Social Inclusion in Modern Food Chains

This chapter discusses an important point in food and agribusiness — the point of inclusion.

Figure 68.1 shows a schematic representation of the balance in supply chains, and how to reach economic sustainability.

In the first box (left), events that contribute to profit falls or losses in the agribusiness chain are listed. They are: concentration of processing industry in search of scale, specialization and higher margins (e.g., there are 10 different suppliers of inputs in one production chain, for 10,000 farmers, for just four processing industries); concentration of suppliers inputs (as well as the processing industry seeking margins, expertise and scale, offering a complete package of solutions to the customer); increase in the transaction costs; vertical integration, where the industry itself becomes an agricultural producer (e.g., sugar, orange); huge projects in large properties, such as the investment funds that are buying land; lack of a successor in the lifecycle of family, whether for lack of vocation for the land, whether by family conflicts; administrative incapacity because of poor education, or productive inefficiency; failure in communications, where important information does not reach the producer; lack of technology; lack of confidence on the part of farmers toward the government; and other investment opportunities that have emerged over time.

All these factors, as already mentioned, may generate losses and result in brutal reduction and consequent exclusion of farmers, causing social problems and concentration of wealth, thereby reducing the rate of development. In order to combat this, there are some actions that aim to redirect the portion excluded, whether public or private actions.

Social policies are needed, especially in areas that are not competitive and not linked to agriculture, and this is role of the government and not of the agriculture chain.

In the private sphere, there are certain actions that prevent the exclusion of the producer of land, such as cooperatives, associations, by providing necessary and relevant information; their representation; their relationship; their support; trade unions, among others. Industry itself can take some actions that benefit the producer by providing technical assistance, or initial investments for agricultural production.

Moreover, there are some government incentives that can benefit this part of rural producers, generating more profit for them. They are: reduction of taxes; funding opportunities; training organizations; existence of specialized research and development, flexibilities in legal provisions (contract, labor, etc.); buying for institutional market (school feeding, hospitals); regulation, among others.

Thus, the industry also benefits, through either image and marketing, or the guarantee of supply and increased stability; reduced risks, lower transaction costs and loyalty of suppliers.

### Discussion question

What are your views about inclusion? How could this model help in understanding the problems and in proposing solutions?

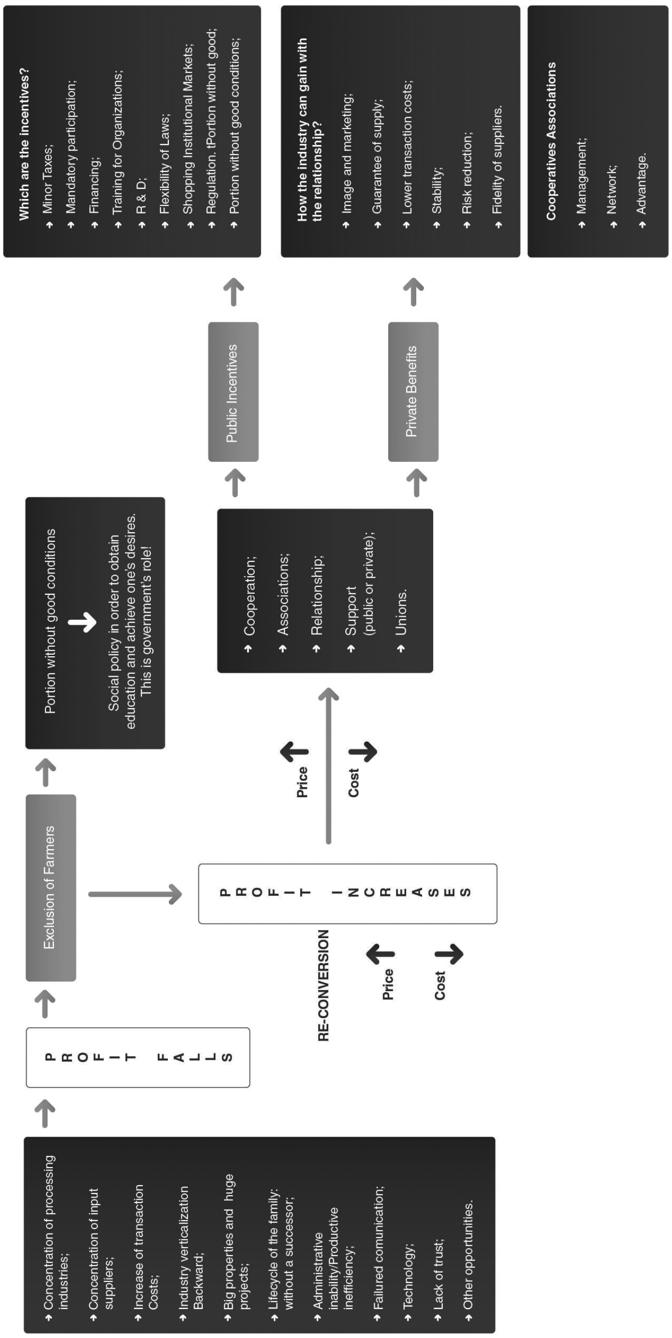


**Figure 68.1:** Inclusion in modern Food Chains.

*Source*: Author.

# About the Author

Marcos Fava Neves obtained his Bachelor's degree in Agronomic Engineering from Escola Superior de Agricultura Luiz de Queiroz, University of São Paulo, in 1991. He then obtained his Master of Science (1995) and PhD (1999) degrees in Business Management from FEA/ University of São Paulo (his theses were titled "Planning of International Distribution Channels" and "Demand-Driven Planning and Management," respectively). He completed his post-graduate study in European Agribusiness & Marketing in France (1995), and in Marketing Channels and Networks in the Netherlands (1998–1999). He is specialized in developing strategic planning processes for companies and food production chains. He is currently working as Professor at the School of Business, University of São Paulo.

Professor Fava Neves has extensively worked on both public and private projects and has been a member of PENSA Agribusiness Program since 1992. In 2004, he created the Markestrat Think Tank Group, working on projects in strategic planning and management. During these years, he worked on strategic planning and management for the beef chain (2012), cotton chain (2012), milk chain (2007), orange juice chain (2007), sugarcane chain (2007), wheat chain (2004), and implemented 10 productive chains in the Sao Francisco Valley during 2007–2008. Professor Fava Neves also worked on strategic projects for a number of private companies such as Syngenta, Cargill, SantelisaVale, Renk Zanini, Branco Peres Sugar Group; Zilo Lorenzetti, BASF, Holland Genetics, Netafim, Wolf Seeds/Naterra, Monsanto, Tigre, Orsa Packaging Company, Crystalsev, Vallée (veterinarian products), Supermercados Big/Real (retail), Arby's (food service), Sanavita (functional foods), Boehringer (veterinarian products), Illycafé (coffee — Italian multinational), Fri-Ribe (animal food), Nestlé and Elanco (animal health). He was CEO of Inova Biofuels Holding Company in 2008–2009.

One of the most invited Brazilians to speak about marketing and strategy, Professor Fava Neves has delivered over 450 speeches in Brazil and spends around one week per month outside Brazil delivering more than 120 international lectures/speeches in 20 countries. He was the coordinator of MBA courses in Marketing and Agribusiness, since 2000 (classified by the *Você S/A* Magazine as the best in Brazil in 2003) and participated as Coordinator of Mercosur in the Global Food Network Project, to establish transnational chains with Mercosul/European Union, from European Union (2002–2005). He was appointed the Best Evaluated Professor by students of MBA and undergraduates during 2001–2005 and 2007. He was also appointed as Distinguished International Professor of the University of Buenos Aires (Argentina) since 2006, and wrote/presented two case studies at Harvard Agribusiness Seminar, in Boston, in 2009 and 2010. He has been International Adjunct Professor at Purdue University (USA) since 2013.

His writings focus on supplying methods for business. He has 60 articles published in international journals such as *Marketing Intelligence and Planning, Direct Marketing and International Journal, International Food and Agribusiness Management Review, Problems and Perspectives on Management, Journal of Business and Industrial Marketing, Journal of Chain and Network Science, Business Perspectives, Italian Food & Beverage Technology, Flussiges Obst* (German Fruit Processing Journal) and *Marketeer* (Portuguese Journal of Marketing) as well as in several international conference proceedings. He is the author/co-author and organizer of 35 books by 10 different publishers in Brazil, Argentina, USA, Uruguay, China, South Africa, Singapore, the Netherlands and the United Kingdom.

Professor Fava Neves was a member of the International Board of the World Agribusiness Association from 2003 to 2012. He is also a member of the Editorial Board of four journals and was a member of the Board of Holland Genetics, Coplana Cooperative, Renk Zanini, Information Service of Meat (SIC), Lactea Brasil and Embrapa. He served as Vice President of the Biofuels Group of International Food and Agribusiness Management Association (IAMA), Texas, from 2007 to 2010 and has participated in 100 international congresses and 80 congresses in Brazil.

His areas of interest in research, work and teaching are market-driven strategic planning of productive chains (he created the ChainPlan Method, which is recognized internationally); demand-driven strategic planning for company networks for companies; and agribusiness and case studies.

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# People Who Make It Happen*

At the beginning of the academic year in 2011, I coordinated a workshop at the University of São Paulo, with five executives from different industries (food, housing development, franchisee, retail and bank) that had histories of success in the last years.

The objectives of this workshop were: (a) to raise important topics to be developed by researchers; (b) to seek feedback about their market perceptions; (c) to give insights about what they need and value in terms of characteristics of managers that "make it happen."

This last discussion gave important messages to our business administration students. The objective of this chapter is to bring my summary and personal opinion of the 10 most relevant points (topics) for professional development.

1. **Be Tuned**: Managers need to be linked to what is happening globally in terms of the macro-environment (politics, economics, socio-cultural and technology). They must read newspapers, watch media programs, pay attention and listen, travel and have a global view, with cultural sensitivity. Dennis McKnight, a friend from Canada, always tells me: "stay home, stay stupid."
2. **Be Simple**: Managers should learn to simplify things, be practical, search for basic and faster solutions and solve the problems given. They should work to permanently reduce the costs. It is said that costs are like nails: we should cut very day!
3. **Be Adaptive**: Consumers change, competitors change, solutions change. The capacity to adapt in a fast-changing environment is one of the most important characteristic of a human resource.
4. **Be Innovative**: Several students and managers will innovate and create their own businesses, solutions, differentiate and get away from the basic, finding their "blue ocean." To search for what is new; to create is a definitive point for leaving the common sense.

* First published on *China Daily* (March 29, 2011).

5. **Be an Investor**: We are facing a process of global competition, so we should never stop studying, progressing and learning. Accommodation is one of the worst characteristics of a human resource. It is our responsibility to invest and build a competent professional.
6. **Be Relatable**: A very important characteristic is the capacity to relate with others, to build teams, work in groups and share knowledge and solutions. Managers must respect the differences of each individual's characteristics, since they allow a broader view. Allocate people at their best positions. At the same time that we should motivate, be competitive, try to include and give value to people, improving their confidence.
7. **Be Broad**: Be prepared to give opinions, to respect different opinions, to have good arguments and to deliberate also why the opinions are different. A good training is to read editorials, opinion articles and learn always to see the facts with different lens, balancing the points and arguments and having control.
8. **Be a Dreamer**: Keep dreaming that the targets, results and wishes will be possible to achieve. Search for more, for excellence, wish more. People that do not dream tend also to accommodate.
9. **Be Disciplined and Result Driven**: A manager has to deliver results. Personal discipline is important, managing head, health and happiness. Develop a passion for planning and measurement of results. Be available whenever the company needs you.
10. **Be Communicative**: Managers should communicate well. Not in excess, trying to sell yourself, but not silent to what is being achieved. Equilibrium and elegance to share with the team the major achievements also helps.

In conclusion, the most undesirable characteristics for young managers listed by these CEOs were arrogance, boring style and personality, accommodative behavior and lack of ethics and character. Excessive selfishness and insincerity were also listed as characteristics to be avoided when hiring.

The message for those of us involved with education is that our universities must give a very dense theory based on business methods and models, but at the same time be strongly linked to markets, to "what is happening." Besides good technicians, we must also develop good personal traits in our students, such as the ones pointed here, in order to build a global citizen, who is attuned to social and environmental causes.

We must realize that we compete in a global arena, and business students from all parts of the world are competing for global jobs requiring a global positioning of our universities and courses.

This chapter can be used by students and professionals as a tool for individual planning. One idea is to ask yourself, or get opinions from your boss, your friends about how to improve in each of the 10 topics listed. Which actions (strategic projects) do I need to take in each of these 10 points? Then, "make it happen".

— Marcos Fava Neves —

# BRICS and "The Future of Food Business"

While we tend to think in terms of hundreds of millions of deprived and stunted lives, the reality is that each starving child, each malnourished expectant mother, each person who does not have the energy to develop, learn or contribute is a horrible tragedy, and together these individual tragedies add up to an unacceptable loss to the human commonwealth. Simply stated hunger and undernutrition are among the most severe and least addressed challenges facing humanity today. Not only are they preventable, but success in addressing hunger and undernutrition is essential to meeting all the Millennium Development Goals.

There is scant evidence that traditional approaches to development and agriculture have been successful or are leading to the disruptive changes needed to address this challenge. On the contrary, in 2010, the President of the World Bank stated: "for the first time in history more than a billion people go to bed hungry each night".

In this context, through the implementation of reality relevant strategies supported by strong policies and powerful partnerships engaging governments, civil societies, science and businesses taken as whole, Brazil, Russia, India, China and South Africa have achieved dramatic results and offer new models to effectively address hunger and undernutrition focusing on qualitative and quantitative improvements in agriculture productivity and reduction in field to table loss while respecting the diverse realities, capabilities and needs of agri-business and the smallholder.

Building on success, Brazil, Russia, India, China and South Africa have set five commanding goals to guide and support their joint efforts for further improvements not only for the BRICS but for developing world: to create a basic information exchange system, to develop strategies to ensure access to food for the most vulnerable, to effectively address the impact of climate change on agriculture, to enhance technical cooperation and innovation and to promote investment and trade.

"*The Future of Food Business*" offers a systematic, pragmatic and exciting framework woven from state-of-the-art theory to help the reader grasp and build on the experience and the vision of the BRICS in order to encourage and support the development of new, powerful and revolutionary strategies that effectively, urgently and harmoniously meet the imperative needs of global society and its diverse communities.

### Dr. Fred Dubbee

Professor Frederick Dubee teaches at the post-graduate lavel at the World Peace Academy, University of Basel, the University of Sydney and in China at Shanghai University, Anhui Sanliang University and is Professor at BGI (formerly Beijing Genomics Institute). He is a Fellow of the World Academy of Arts and Science and a Member of the Club of Rome and has authored numerous academic papers. He is the co-author of the book *Peace Business* and co-editor of *China the Way Forward*. He is Chairman of Cosmos International (Beijing)

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