

BUILDING RESPONSIBLE
GLOBAL VALUE CHAINS
FOR SUSTAINABLE TROPICAL FRUITS

Ideas for incentives to promote sustainable investment in the avocado and pineapple sectors

A paper for discussion purposes

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Table of contents

Ackı	Acknowledgements	
1.	The Responsible Fruits Project	4
2.	Investment can contribute to sustainable avocado and pineapple value chains	4
3.	The potential of incentives for encouraging investment in agriculture	5
4.	Government incentives should contribute to responsible investment	5
5.	Types of investment incentives	6
6.	Initial ideas for incentives that may encourage sustainable investment in the avocado and pineapple sectors	
7.	Examples of processes and mechanisms for designing and implementing incentives	
8.	Key messages and conclusion	.13
Refe	erences	.14

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1. The Responsible Fruits Project

The tropical fruits sector has grown rapidly in recent decades. As production and exports have ramped up, the sector has provided producing countries with many types of benefits, including income opportunities, employment creation and generation of export revenue. Tropical fruits are also part of a healthy diet for millions of people. However, in some cases, tropical fruit production can contribute to negative impacts on the environment and on peoples' livelihoods and wellbeing. The sector is also highly exposed to external shocks such as climate change effects, increased input and transport prices and economic downturns.

To ensure the continued success of the avocado and pineapple sectors, the FAO-led project "Building responsible global value chains for the sustainable production and trade of tropical fruits" (hereafter the Responsible Fruits Project) supports value chain stakeholders to ensure that tropical fruit industries become more sustainable and resilient to shocks. The project mainly works with companies, associations and producers involved in the avocado and pineapple sectors. At the same time, governments have a crucial role to play in creating an enabling environment for responsible and resilient avocado and pineapple value chains. This paper explores ideas for concrete government incentives that can encourage responsible investment in the avocado and pineapple sectors. As such, it is particularly relevant to governmental actors and policy makers, as well as to civil society, advocacy groups and others who seek to improve investments.

The ideas presented here aim to stimulate discussion and provide inspiration. They should not be seen as prescriptive recommendations, but rather a starting point for considering how incentives may support the goal of promoting sustainable investment in the global avocado and pineapple industries.

2. Investment can contribute to sustainable avocado and pineapple value chains

Investment is the commitment of capital to something with the expectation of accumulating return in the future. From society's point of view, return on agricultural investment may include financial return for investors but also the generation of decent jobs, food security, sustainable use of natural resources and many other economic, social and environmental benefits.

Private investment in export-oriented tropical fruit value chains has often focused on increased production and productivity and increased financial returns. In some cases, such investment has had unintended negative social and environmental impacts that affect long-term business sustainability. Looking forward, to be sustainable and ensure long-term continuity, investment must achieve a balance between profit and productivity on the one hand, and social and environmental sustainability on the other hand.

While the private sector accounts for most of the investment in production, public investment in general public goods and services, including investment in rural education, extension services, health, infrastructure, and research and development, are essential to foster private investment in agriculture and food systems. In addition, policies and laws, and their effective implementation and enforcement are important in creating the enabling environment necessary for private sector actors to commit to long-term investment in agriculture.

3. The potential of incentives for encouraging investment in agriculture

In 2021, FAO and the Columbia Center on Sustainable Investment (CCSI) published the <u>Guide on incentives</u> for responsible investment in agriculture and food systems (Bulman et al., 2021). The guide defines investment incentives as "... targeted measures provided by a government to or for the benefit of an investor (including small-scale producers) for a new or expanded investment with the goal of influencing the size, location, impact, behaviour, sector, or other character of such investment." (Bulman et al., 2021, p. vii). Investment incentives are specific benefits to investors as opposed to general government measures that may influence the quantity and quality of investment.

It is important to note that investment incentives are one of many tools that governments can use to promote investment. However, the broader enabling environment is more important for promoting and directing investments than individual investment incentives, and governments should consider the enabling environment and various tools at their disposal when deciding if and how investment incentives should be used.

In addition to incentives as defined in this paper as targeted support from governments to investors, nonstate actors including banks and certification bodies can also influence investment behaviour through provision of support, benefits or business interactions, and by attaching conditions on support, benefits and business interactions. The paper recognizes the important roles that non-state actors can play in incentivizing more and better investment but focuses on the role of governments.

4. Government incentives should contribute to responsible investment

Investment incentives have often been given to encourage the establishment or growth of a specific sector to create jobs and generate export revenues. Many times, less consideration has been given to the potential social and environmental sustainability impacts of these incentives.

Today, there is a broad understanding that private investment may contribute to, or potentially jeopardize, sustainability objectives. Governments are putting a greater emphasis on the possible impacts of investment incentives in terms of both the quantity of investment stimulated by the incentives and their environmental, economic, governance, health and social impacts.

To increase the likelihood of positive sustainability outcomes and minimize the risks of negative impacts, governments can use the *Principles for Responsible Investment in Agriculture and Food Systems* of the Committee on World Food Security (CFS-RAI in short) (CFS, 2014) when designing investment incentives and broader investment strategies (see Box 1). The CFS-RAI reflect a global consensus of what responsible agricultural investment means. They were developed by governments and representatives of civil society and the private sector and have been endorsed by international institutions, incorporated in national laws and used by many agribusinesses.

Responsible investment in agriculture and food systems can be understood as investments that (1) contribute to sustainable development, (2) improve food security and nutrition, and (3) respect human rights, while (4) ensuring a return on investment for the investor. A responsible investment hence generates a triple "P" performance in terms of profits (for the investor), people (positive socio-economic impact), and planet (protects and uses natural resources in a sustainable way).

Box 1: The Principles for Responsible Investment in Agriculture and Food Systems of the Committee on World Food Security (CFS-RAI)

The CFS-RAI consist of 10 principles, which set out the roles and responsibilities of key stakeholders in increasing responsible investment:

- 1. Contributes to food security and nutrition.
- 2. Contributes to sustainable and inclusive economic development and the eradication of poverty.
- 3. Fosters gender equality and women's empowerment.
- 4. Engages and empowers youth.
- 5. Respects tenure of land, fisheries, and forests, and access to water.
- 6. Conserves and sustainably manages natural resources, increases resilience, and reduces disaster risks.
- 7. Respects cultural heritage and traditional knowledge, and supports diversity and innovation.
- 8. Promotes safe and healthy agriculture and food systems.
- 9. Incorporates inclusive and transparent governance structures, processes, and grievance mechanisms.
- 10. Assesses and addresses impacts and promotes accountability.

5. Types of investment incentives

Investment incentives in the agricultural sector include the following broad categories.

• Financial incentives

- Direct financial transfers or subsidies of, for example, fertilizers, machinery, and training.
- Loans or credit provided on favourable terms.
- Loans or credit provided at market rates in contexts in which banks do not lend to the agricultural sector at all.
- A promise by the government to assume the debt obligation of a farmer or agribusiness in the event of default.
- Market price support to guarantee minimum prices to producers.
- Subsidized insurance, including insurance against specific risks (such as negative climate change impacts) and insurance to encourage behavioural change (such as coverage for possible losses resulting from the adoption of sustainable production methods).

Technical incentives and in-kind provision of inputs or equipment

- Provision of specific seeds (e.g., climate-resilient seeds), machinery and equipment and other inputs, often in combination with training.
- Research on sustainable agricultural practices and other technologies, and dissemination of those practices through, for example, extension services.
- Facilitation services such as helping investors to understand and comply with regulations and obtaining permits and licenses.
- Business incubation and acceleration services.

• Fiscal incentives or tax incentives

- Reduced tax rates on dividends and interest paid abroad.
- o Complete exemption from paying tax for a certain period, or permanently.
- Reduced corporate income taxes for companies producing and investing in sustainable options.
- o Exemptions from paying value added tax.
- o Investment tax credits that allow for deduction of certain expenditures.
- o Zero or reduced tariffs.
- Loss carryforward provisions allowing investors to move a tax loss forward or backward to offset taxable profit. It enables investors to move a tax loss to future years to reduce future tax payments.
- Export tax exemption.

Regulatory incentives

- Exemptions from domestic laws and regulations. For example, offering investors exemption from environmental or labour laws on a case-by-case basis or within designated economic zones.
- Special land tenure protections for large-scale investors, regardless of legitimate tenure right claims by local populations.

• Direct public investment

• Rural infrastructure projects such as roads, electricity, storage or irrigation that benefit specific investors.

• Public procurement

 Purchase of food from small-scale producers or producers with documented sustainable practices for distribution to public institutions such as hospitals, schools and food aid.

• Provision of public endorsements

- Government supported national sustainability standards and/or geographical indicators (GIs).
- Financial and technical support to encourage uptake of existing international voluntary sustainability standards.

(Adapted from Bulman et al., 2021)

These categories and non-exhaustive examples can help develop an understanding of commonly used investment incentives, even though there is not always a clear distinction between different types of incentives. However, it is important to point out that while some of these examples may help to boost investment in general, they may not be conducive to sustainable investment. Some incentives may even

encourage investments that undermine sustainability. For example, according to Bulman *et al.*, (2021) and other sources, fiscal or tax incentives and regulatory incentives are risky and have limited or no positive impacts on sustainability outcomes. Therefore, this paper does not include ideas on fiscal and regulatory incentives.

The line between incentives and other government measures may also be blurred. Direct public investment in rural infrastructure such as irrigation may target specific sub-sectors or groups of investors or may also benefit a geographical area in general. Public procurement of locally produced food may aim to create a reliable market for small-scale farmers. However, public procurement may also aim to secure provision of healthy food for social programmes, while the benefits to small-scale producers may be a secondary objective.

A mix of different incentives has a higher likelihood of success than standalone incentives, especially for small-scale producers. For example, technical support to smallholders such as training in sustainable production methods can be coupled with provision of loans or grants to support investment in more sustainable machinery and inputs such as drip irrigation equipment that use water resources efficiently and climate resilient seeds. Moreover, incentives may be given as complements to other government measures such as the enforcement of laws.

The next section presents some ideas on combinations of financial incentives, technical incentives and provision of public endorsement, direct investment and public procurement that may stimulate sustainable investment. According to Bulman *et al.*, (2021), such incentives may have positive sustainability outcomes.

6. Initial ideas for incentives that may encourage sustainable investment in the avocado and pineapple sectors

The ideas presented here aim to stimulate discussion and provide inspiration. These ideas are not prescriptive or specific recommendations, which would require contextualization. They include a mix of different types of incentives.

Support to increase the capacity of small producers and businesses to comply with environmental and social regulations

Incentives may be provided as complements to regulatory measures. Compliance with new laws on environmental and social sustainability often comes with costs for investors, especially for small-scale producers and micro, small and medium enterprises. To increase the capacity of small-scale producers or small agribusinesses to comply with new laws, the government can provide subsidies that at least cover the initial costs of upgrading the production system to be able to comply with new regulation. Training can also be provided in areas covered by new laws.

Support for compliance with voluntary sustainability standards that are aligned with government priorities

Governments can provide financial and technical incentives while endorsing certifications that are aligned with government priorities. Governments can cover the costs of obtaining certification for less affluent investors such as smallholder farmers. Financial support could be complemented with training on, for example, sustainable production practices and occupational health and safety measures, and methods to measure compliance with requirements such as traceability systems. Both the financial and technical

incentives can be time-bound. It is important for governments to aim to ensure that stakeholders can maintain certification without ongoing support. The design and implementation of these incentives could draw on experiences from FAO projects that have assisted smallholders to comply with voluntary standards.

Larger investors may already have the capacity to obtain certification and may not need targeted incentives for this purpose. However, they may be incentivized to provide capacity development to small-scale producers to achieve certification, particularly in cases where they rely on smallholders to supplement their own production.

Financial and technical support to first movers in anticipation of new regulations on sustainability

It can be financially risky in the short and medium term to invest in sustainable technologies and practices such as environmentally friendly production practices or advanced occupational health and safety protocols. To create sustainable and resilient value chains, producers and companies likely need to make investment in changes or upgrades of production or processing systems and may need to pay fees for certification. They may also have to allocate time and energy to keep up to date with new sustainability requirements. It can furthermore be expensive to develop internal risk management systems to identify and address sustainability risks. While stronger regulations on, for example, sustainable production practices and due diligence can be anticipated in the future, early adopters may be given incentives, such as financial support, provision of inputs, training and insurance against, for example, crop failure.

Public investment in research and development (R&D) in sustainable avocado and pineapple value chains

Underinvestment in R&D-R&D that is needed to drive sustainable agricultural production practices – is an important constraint to encouraging sustainable private agricultural investment.

Public investment in R&D for sustainable production and trade, in combination with private investment, can help 1) support the development of new sustainable technologies until they become proven, 2) mitigate excessive risk and make investments more commercially viable, and 3) address private investment deficiencies via co-investment (Leitheiser *et al.*, 2022).

Crop diversification is one example where private and public investment could be combined. The use of more varieties could increase the resilience of the avocado and pineapple sectors to negative impacts of climate change and other challenges. As seen in the banana sector, reliance on one variety also creates vulnerability to plant pests and diseases. Crop diversification is a major endeavour that would most likely be driven by private sector actors if they see it as commercially viable. Governments could support this by facilitating partnerships between the private sector and publicly funded research institutions.

Public support to R&D in other sustainable technologies and practices (including agroecology, pesticide-free production, drip irrigation and plant-breeding) could also help avocado and pineapple value chains become more sustainable and resilient.

Individual companies often carry out research or collect data on other topics related to sustainability, such as climate and soil properties. However, the capacity of companies to process and analyse data and findings from research vary. Governments could support both research institutions and companies in cooperating on R&D.

To ensure that small-scale producers benefit from R&D, they can be involved in the R&D initiatives either by contributing to pilot studies and field application of research or by receiving information and training on results of research. However, there would be a need to ensure that the potential risks of these initiatives to the livelihoods of participating producers (such as crop failures, displacing indigenous or local populations) are avoided or adequately insured against.

Encourage private financial institutions to attach sustainability conditions to provision of loans to tropical fruit industry actors

While this paper focuses entirely on government incentives, it must be recognized that private financial institutions contribute to shaping investment behaviour by the conditionalities they attach to the provision of financial services. Private financial institutions may attach conditions related to sustainability, including proof that borrowers' operations do not contribute to negative impacts such as deforestation or abuse of workers. Financial institutions may use such conditionalities to reduce their own financial risks. Due diligence legislation may also make it mandatory for financial institutions to attach sustainability requirements on loans in order to prove that they identify and address sustainability risks of their own operations and those of their borrowers. At the same time, governments can increase the capacity of borrowers in the tropical fruit sector to comply with loan requirements related to sustainability through training, technical assistance or other forms of support.

Direct public investment

Direct public investment can play an important role in creating a favourable enabling environment for agricultural investment. However, there is a need to carefully assess, monitor and evaluate the sustainability outcomes of public investment. On the one hand, public investment in, for example, the development of large-scale irrigation projects or recycling and use of plant residues for renewable energy, can have a positive impact on investment in the tropical fruit sector (Leitheiser *et al.*, 2022). However, unforeseen negative environmental impacts and possible uneven sharing of benefits and risks between small-scale producers and large companies of such public endeavours must be considered. Whether direct public investment should be considered as an investment incentive or a contribution to rural development in general, it is a tool that can encourage sustainable agricultural investment if carefully designed and implemented.

Public procurement

It can be difficult to specify whether public procurement should be considered as an investment incentive or an activity that aims to meet several public objectives including provision of food to public institutions. Nevertheless, public procurement can create both a reliable market and source of income for producers, and thereby increase their ability to make sustainable investments. There are many examples of public procurement of other food products including fruits from smallholders that are distributed to schools, public hospitals, jails and food-aid programmes. Given the nutritional value of some tropical fruits, including them in public procurement initiatives can meet several development objectives, such as encouraging investment and meeting food security and nutrition objectives. To ensure that public procurement contributes specifically to sustainable investment, social and environmental criteria can be used for procurement. For example, governments may prioritize procurement from small-scale producers that use environmentally sustainable production methods (FAO, Alliance of Bioversity International and CIAT, Editora da UFRGS, 2021).

Disseminating information about positive cases of responsible investors

Governments may help to disseminate information about investors that adhere to responsible investment principles and pro-actively manage sustainability risks and contribute to sustainable and resilient tropical fruit sectors. This may inspire others about such opportunities and give positive publicity to responsible industry stakeholders. However, advertisement of investors must be conducted carefully and according to strict sustainability criteria to avoid favouritism and conflict of interest.

Fruits with geographical indications

Governments can support the development and uptake of national sustainability standards by, for example, providing financial support, developing guidance material and training for geographical indications that include requirements for sustainable production. A geographical indication (GI) is a certification that identifies a product as originating in a particular territory where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin. In addition to supporting stakeholders to use GIs, governments can help protect GIs by issuing certification labels, approval processes and laws (WIPO, 2023).

GIs can encourage producers to meet consumer demand for authentic products and produce higher quality products (Réquillart, 2007). GI certification is not a sustainability certification but can be subject to social and environmental requirements and thereby encourage sustainable practices. If GIs increase the demand for certified products, they can contribute to producers' sales and thereby their ability to reinvest in their operations. As GIs can be subject to sustainability requirements, they can also encourage sustainable investment. GIs can also support the preservation of native and local genetic resources and traditional practices contributing to environmental and social sustainability.

FAO has worked with producers and associations in Colombia to increase their capacity and ensure that they participate in defining criteria for GIs (Vandecandelaere *et al.*, 2021). Examples of GIs in the tropical fruit sector include pineapples from Benin, Kerala in India and Novo Remanso in Brazil. Though it is not a GI per se, FAO is also supporting the production and trade of indigenous pineapple varieties in Suriname (FAO, 2022).

Home country measures by governments in importing countries

Home country measures refer to regulatory and policy actions taken by a country to promote foreign direct investment (FDI) by investors that are registered in their territory or jurisdiction. For example, tropical fruit importing countries may have large companies that invest in the tropical fruit sector in producing countries. To contribute to sustainability, these measures should aim to ensure that the investments adhere to ethical and sustainable practices. Home country measures may include incentives for investors that contribute to responsible investment as well as regulations including sanctions against investments with potentially negative impacts (Fiedler and Karlsson, 2016).

7. Examples of processes and mechanisms for designing and implementing incentives

In addition to considering which types of investment incentives can be suitable for meeting sustainability objectives, the process for designing and implementing incentives is equally important. This section provides a few examples on how investment incentives can be designed and implemented. For more detailed guidance, see the *Guide on incentives for responsible investment in agriculture and food systems* (Bulman *et al.*, 2021).

As mentioned previously, the goal of a government incentive to a private investor is to influence the size, location, impact, sector, or other character of investment. Before providing incentives, governments should analyse why investments do not materialize in the desired size, location or sector, or do not generate the expected impact. Subsequently, governments need to consider whether a change in the existing policy and legal framework would be appropriate and/or whether investment incentives are a useful option. The government may then consider the best mix of incentives in combination with other measures.

Incentives must be aligned with government priorities, which may include strengthening access to export markets to increase export revenues and create jobs, as well as achieving different sustainability objectives such as reducing greenhouse gas emissions, increasing the use of clean energy, preventing deforestation and respecting human and labour rights.

The geographic, political, social and economic conditions for avocado and pineapple value chains vary across countries and regions. Different value chain actors also need different types of support. Incentives must therefore be adapted to the context in which they are provided and for the specific target group. As stated earlier, investment incentives must be considered in the context of a broader enabling environment.

Incentives are one of many tools that governments can use to encourage sustainable investment and discourage unsustainable investment. Incentives may not be the most suitable tool for ensuring that investments do not result in abuses of human rights or labour rights or comply with environmental legislation. Instead, enforcement of national laws should be used to prevent breaches of international and national legal obligations.

The design and implementation of investment incentives should involve different governmental and non-governmental stakeholders. Technical incentives that involve R&D and training may, for example, involve research institutions, extension officers and others. Public procurement for school-feeding programmes may involve several government entities including the ministries of education, agriculture, and social policy. The ministry of finance would also be involved, and the various government entities concerned would need to agree on a joint financial and implementation plan. In general, non-governmental stakeholders including those that would potentially benefit from or be negatively affected by the incentive and their possible impact on investment should also be involved. Inclusion of the target groups of incentives (such as farmers, companies, etc.) and representatives of communities and workers can increase the likelihood of desired outcomes. Even if well intended, incentives that are carried out without sufficient consultation can have suboptimal impacts.

One way in which design and implementation of value chain specific incentives have been successfully coordinated in the tropical fruit sector is by using public-private partnerships (PPPs). PPPs between fruit companies, producers and trade associations and producing country governments are not incentives in themselves but can be used to effectively disseminate incentives to appropriate recipients. PPPs can help strengthen the enabling environment by facilitating coordination of particular sectors, achieve economies of scale in procurement of produce and provision of inputs and capacity development. They have been important drivers of growth of the avocado and pineapple sectors in some of the biggest producer countries.

In the avocado sector in particular, PPPs have sometimes focused on ensuring that producers, packers and other value chain stakeholders can comply with the sanitary and phytosanitary (SPS) requirements of

countries that import the fruit. These PPPs have helped to channel support to cover the costs of complying with SPS requirements as well as training of producers and workers. Lessons learned from such PPPs could be used to achieve sustainability objectives. Existing PPPs operating in avocado and pineapple producing regions that use financial and technical incentives may also consider options for ensuring that those incentives are linked to the sustainability priorities of the national government. Given the development of stricter sustainability requirements in countries that import tropical fruits, incentives may also be tailored to help investors to comply with such sustainability requirements.

8. Key messages and conclusion

More and better investment is needed to strengthen the sustainability and resilience of avocado and pineapple value chains. Targeted governmental incentives to investors can influence the quantity and quality of investment.

This paper presented some ideas on combinations of financial incentives, technical incentives and provision of public endorsement, direct investment and public procurement that can encourage investment in sustainable production and trade. The ideas aim to stimulate discussion and provide inspiration. They should not be seen as prescriptive recommendations, but rather a starting point for considering how incentives may support the goal of promoting sustainable investment in the global avocado and pineapple industries.

Incentives are one tool among many that governments can use to promote investment. They should not be seen as standalone solutions but rather as part of a comprehensive strategy that incorporates regulations, general investment in public goods and services, and other complementary tools to achieve government objectives.

When designing investment incentives, governments must consider the potential impacts on environmental, economic, governance, health, and social aspects to ensure positive sustainability outcomes and minimize risks. The Principles for Responsible Investment in Agriculture and Food Systems (CFS, 2014) provide guidance for the design of investment incentives and broader investment strategies to achieve sustainability objectives. The FAO and CCSI *Guide on incentives for responsible investment in agriculture and food systems* (Bulman *et al.*, 2021) provides valuable recommendations to ensure that the process of designing and implementing incentives is carried out in a way that increases the likelihood of positive impacts and decreases the likelihood of negative impacts. The process of designing and implementing incentives is equally important as selecting the appropriate types of incentives. Stakeholder engagement throughout the process is crucial for achieving sustainability and resilience objectives. By considering a mix of incentives as part of a holistic package including laws, policies and institutions, governments can encourage responsible and sustainable investment in the avocado and pineapple sectors.

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