Agribusiness

Development Impact Thesis

Agriculture and rural development are crucial for alleviating poverty and promoting inclusive growth in emerging markets and developing economies. In most of these countries, the majority of people living in rural areas derive their livelihoods from agriculture, forestry, or related activities. In addition, a significant share of the global population has limited access to affordable and nutritious foods.

Agriculture is intricately linked to extreme weather events, both as a cause of increasing pressures on the environment and as a victim of the resulting impacts. Several megatrends are shaping the agribusiness sector, including population growth, urbanization, increasing demand for food, and consumer awareness of food safety and nutrition. Country-specific factors such as business environments, policies, access to inputs, markets, expertise, and finance influence the development path for agriculture. These factors are compounded by changing dietary preferences, constrained resources, and extreme weather events.

The agribusiness sector framework ensures consistent AIMM assessments of IFC's investment projects in the agribusiness sector by articulating the development impact thesis, describing core development outcomes, and specifying relevant AIMM indicators.

Figure 1 summarizes the types of development challenges that IFC agribusiness investments aim to address, and the types of development outcomes that are expected from successful projects, including both direct project outcomes and their indirect impact on the respective markets.

Meeting the growing demand for affordable and nutritious food requires investments in competitive production where the underlying comparative advantage exists or can be achieved. This comparative advantage is shaped by countries' natural resource endowments, the level of innovation and skills, and the quality of institutions and policies, which determine how efficiently these resources are used. The private sector is well-positioned to drive innovation, competition, and productivity within the agribusiness sector, including through business models that integrate smallholder farmers into value chains and through approaches that help improve access to nutritious food among underserved consumers.

Figure 1

Development Gaps Addressed and Expected Outcomes

	Development gaps addressed	Expected development outcomes
Project outcomes	• Food insecurity • High unemployment and poverty rates • Lack of access to agricultural inputs and finance by farmers	• Food security due to higher productivity and expanded access to affordable, safe, and nutritious food • Increased incomes for farmers and improved employment opportunities outside farming • Improved access to agricultural inputs and finance
Market outcomes	• Limited innovative products and processes in the market • Highly fragmented value chains • Limited tax base and trade flows • Limited agricultural transformation and inclusive business models • Limited sustainability of agricultural production • Vulnerability to negative shocks	• Increased innovation of processes and products • Improved integration of the value chain • Larger tax base and trade flows • Increased opportunities for base of the pyramid through inclusive business models • Adoption of sustainability standards and practices • Greater economic diversification and complexity and improved resilience to shocks and stresses

Core Development Outcomes

The Anticipated Impact Measuring and Monitoring (AIMM) rating methodology assesses project and market outcomes. The core project outcomes of IFC's agribusiness projects vary depending on where in the value chain (such as primary production, primary processing, or secondary processing) the project is being undertaken, but are likely to primarily affect farmers, consumers, employees, and/or the environment. The core benefits for farmers are improved income opportunities, while core consumer impacts are improved access to nutritious food and fiber products. For employees, the core benefits are formal jobs, although labor intensity is likely to vary widely. Value-addition and strengthened economic activity generate economy-wide impacts in agribusiness projects. Alongside these core development outcomes, the project may also help reduce the environmental footprint in several areas.

The AIMM framework uses three market attributes to assess market outcomes—competitiveness, resilience, and sustainability. Agribusiness projects usually anticipate outcomes related to competitiveness if they have a specific focus on innovation in business models, production practices or technologies, and entry into new markets. Projects may contribute to resilience when they focus on diversification, mitigation of domestic supply volatility and shortages, and availability and access to products and services to withstand shocks/stresses. Finally, IFC projects may also enhance sustainability where they promote market-wide adoption of environmental and social governance (ESG) practices and standards by firms.

Key Inputs and Building Blocks of AIMM Assessments

Project Outcomes

When assessing potential project outcomes, AIMM begins by analyzing the development challenge that a project seeks to address in the sector or segment of interest—the development gap. The sector or segment-specific development gap is benchmarked against all emerging markets and developing economies using specific core development gap indicators and data collected by IFC from various public sources. The benchmarking methodology groups countries based on their gap levels per indicator: Small, Medium, Large, or Very Large. The project is placed in the appropriate band based on the data available for the country.

The next step is the assessment of the extent to which the project is expected to contribute to address the gap—the project intensity. The assessment of the project intensity is based on specific standard indicators, shown in Table 1, designed to collectively estimate the extent to which the project is effective in assessing the above-mentioned gaps. It is assessed along a four-bucket continuum: Below Average, Average, Above Average, or Significantly Above Average.

The core project outcomes of IFC's agribusiness projects may be in the form of stakeholder, economy-wide, and environmental effects.

- **Stakeholder effects:** IFC's investment projects can pursue different development objectives to directly affect target stakeholders. As mentioned earlier, while agribusiness projects benefit a wide range of stakeholders, the key beneficiaries tend to be farmers, consumers, and employees. Core gap indicators used for agribusiness projects include: (i) Product availability; (ii) share of bottom of the pyramid consumers; and (iii) the Global Food Security Index (source: Economist Impact). See Table 1 for a full list of development gap and intensity indicators.
- **Economy-wide effects:** Agribusiness projects may also generate direct and indirect impacts through value-addition and strengthening of economic activities. Table 1 details the core gap and intensity indicators used to assess such effects.
- **Environmental effects:** Alongside stakeholder and economy-wide outcomes, some agribusiness projects may help reduce the core environmental footprint in several areas, from primary production to processing operations, especially in projects that use innovative solutions for recycling agricultural waste. For environmental impacts, examples of core gap indicators include: (i) Sector share of country emissions and (ii) water stress.

The AIMM system combines the development gap and intensity assessment to arrive at the project outcomes rating (Marginal, Moderate, Strong, or Very Strong).

Table 1

Gap and Intensity Indicators for Core Project Outcomes in Agribusiness Projects

	Gap indicators	Intensity indicators
Stakeholder effects	**Customers** • Product availability, affordability, and/or quality • Share of base-of-pyramid consumers in the country • Global Food Security Index • Share of firms with internationally recognized certification in food processing industry • Food safety standards of food companies to improve their access to finance and markets **Farmers** • Farmer incomes and access to markets • Relative yield gap • Agricultural labor productivity	**Customers** • Total sales: underserved group • Number of people fed • Diet diversity/nutrition • Quality assurance compliance, qualitative • Compliance with relevant food safety/quality practices/requirements, qualitative • Food safety risk, qualitative • Product price, % **Farmers** • Number of additional farmers reached • Purchase volumes per farmer • Technical assistance to suppliers • Increases in labor productivity, %
Economy-wide effects	• Agricultural labor productivity • Unemployment rate • Share of informal employment	• Value-added multiplier per $1 million invested • Employment multiplier per $1 million
Environmental effects	**Mitigation** • Sector share of country emissions • Greenhouse gas (GHG) growth rate adjusted by emissions intensity • Food loss	**Mitigation** • Carbon intensity • Efficacy of GHG reduction • Food loss rate

Market Outcomes

To measure the project's contribution to market outcomes, AIMM assesses the stage of the market's development, and the type of market catalytic effects expected from the project.

The characterization of the stage of market development is based on elements specific to the sector. For agribusiness, Table 2 highlights aspects of competitiveness that characterize the market's stage of development. A similar approach has been developed for the other market attributes that IFC projects have the potential to affect, namely market resilience and sustainability.

Table 2

Characterization of Market Development Stage in the Agribusiness Framework for Competitiveness

Highly underdeveloped markets	Underdeveloped markets	Moderately developed markets	Highly developed markets
Market structure Missing markets, or markets where the stage of development of participants in the exchange, enabling institutions, and supportive functions is very limited. For example, markets characterized by only informal, small-scale, local players and high firm turnover.	**Market structure** Monopolistic or oligopolistic market structure characterized by excessive market concentration among a few players, with potentially high markups, evidence of market collusion, and/or state-owned enterprises creating large distortions.	**Market structure** Moderate concentration with several key players dominating the sector, scope for improvement through greater competition and innovation.	**Market structure** Sector is characterized by multiple private sector players. No clear market leader holding more than 10% market share. Strong competition with narrow margins/competitive pricing.
Products Nearly all domestic demand for the product is met through imports.	**Products** Domestic companies produce the product but on a small scale and imports dominate the market, or domestic production is supported by import protection.	**Products** Domestic companies produce the product and compete with imports.	**Products** Domestic companies are producing the product competitively, and country is exporting the product.
Production practices and technologies Low adoption of international standards and certifications (ISOs). Reliance on outdated and inefficient production practices. High post-harvest losses. Policy environment not conducive to sector development. No signs of becoming more developed with one or two leading firms.	**Production practices and technologies** Low adoption of ISOs. Reliance on outdated and/or inefficient production practices. High post-harvest losses. Policy environment not conducive to sector development. Signs of moving towards a better developed market with one or two leading firms.	**Production practices and technologies** Some firms adopt ISOs and advanced technology. Mixed use of advanced and outdated production practices in the rest of the sector. Average post-harvest losses.	**Production practices and technologies** A large share of production practices adopts ISOs. Techniques and technology are up to industry frontier. Modern infrastructure in place, upgraded regularly, and minimal losses and waste. Enabling policy environment and institutions in place and functioning well.
Trade diversification Bottom quartile of UNCTAD's Export Product Concentration Index (EPCI).	**Trade diversification** Third quartile of UNCTAD's EPCI.	**Trade diversification** Second quartile of UNCTAD's EPCI.	**Trade diversification** Top quartile of UNCTAD's EPCI.
Spatial integration: Hard and soft infrastructure Markets are not spatially integrated. Difference in product prices between markets is linked to transfer costs.	**Spatial integration: Hard and soft infrastructure** Markets are not spatially integrated and the difference in product prices between markets is not linked to transfer costs.	**Spatial integration: Hard and soft infrastructure** Markets have some degree of spatial integration and the difference in product prices between markets is somewhat close to the transfer costs.	**Spatial integration: hard and soft infrastructure** Markets are spatially integrated and the difference in product prices between markets is equal to the transfer costs. No major logistical bottlenecks.

The assessment of the catalytic effects that a project is expected to generate in this market context is anchored on the degree of innovation and scalability. It is ranked on a four-point scale (Modest, Sustaining, Deepening, or Transformational).

Innovation refers to the implementation of new or significantly improved products, practices, processes, and organizational methods compared to existing norms in the market. Scalability encompasses the visibility of the innovation in the market, and the ability for innovation to be scaled given the market conditions in which the project operates (such as policy environment, demand conditions, competitive dynamics, and the capacity of other market players). The degree of innovation may be assessed as Low, Medium, or High, and that of scalability as either Low or High. The type of market catalytic effect is determined by the combination of the degrees of innovation and scalability (Table 3).

Indicators that are often used in the agribusiness framework to assess market impacts include:

- Number of firms adopting or competing with innovations introduced by the project (novel products, business models, practices, or technologies)
- Volume of products produced in the market
- Volume exported by the country.[1]

The AIMM system combines the market stage and the type of catalytic effects to arrive at the market outcomes rating of the project (Marginal, Moderate, Strong, or Very Strong).

Table 3

Assessment of Market Catalytic Effects

		Degree of innovation		
		Low	**Medium**	**High**
Degree of scalability	**Low**	Modest	Sustaining	Deepening
	High	Sustaining	Deepening	Transforming

1 The data for these indicators is obtained from secondary sources of data or market intelligence.

Risk Assessment

AIMM incorporates risk assessments to account for uncertainties that may hinder a project's ability to realize its expected project and market outcomes. Projects facing material risks to achieving expected development outcomes receive a Qualified rating, while those with moderate risks—or where material risks have been adequately mitigated—receive an Unqualified rating. Table 4 presents some examples of risk factors often considered for IFC's agribusiness operations.

Table 4

Examples of Relevant Risk Factors for Agribusiness Projects

Risk factor	Example
Operational factors	• Operational capacity of client • Track record of executing entity • Financial strength of executing entity • Track record of technology or process used
Sector factors	• Coordination risk due to performance requirements from many different or separate entities (for example, supply risk from farmers) • Climate risks • Sector-specific risks, such as commodity-price fluctuations or the prevalence of disease
Macroeconomic factors	• Overall economic growth projections • Impact of the macroeconomy on the sector
Policy factors	• Enabling environment, such as supportive laws and other incentives • Specific regulatory risks

Scoring Adjustment

AIMM uses a scoring adjustment mechanism to explicitly recognize projects that make a material contribution to addressing negative climate and environmental effects through mitigation or adaptation efforts, and those that make a significant contribution to economic inclusion and expansion of economic opportunities to underserved groups. Projects that meet the eligibility criteria for the scoring adjustment (linked to the level of ambition embedded in their expected results) are awarded additional points to their overall AIMM score.