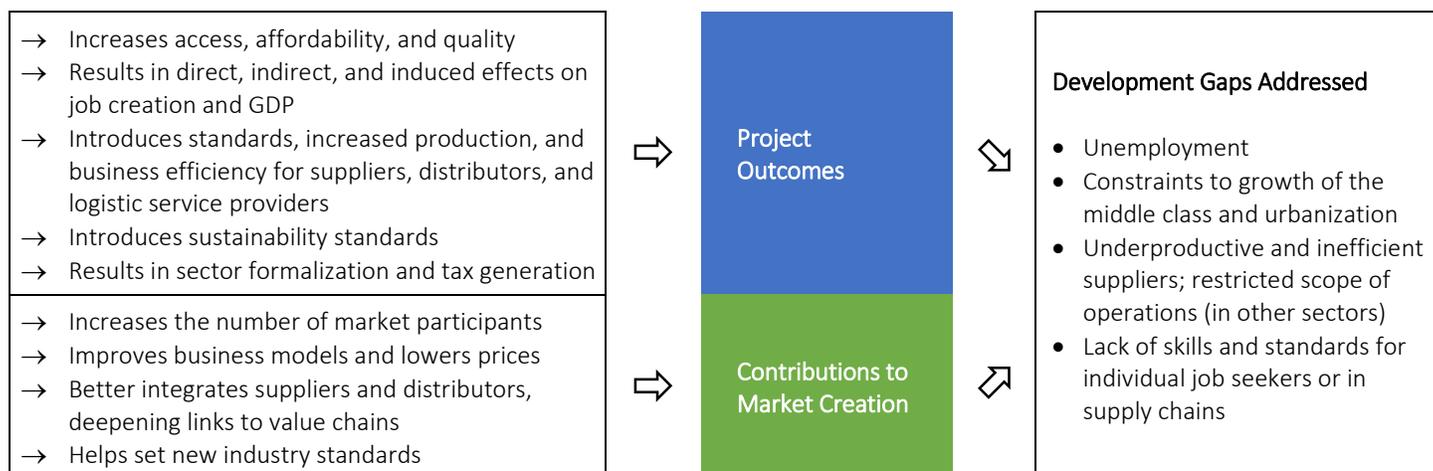


Development Impact Thesis – IFC has supported the development of modern retail in emerging markets on the rationale that the formalization of the sector drives positive economic change and delivers significant benefits to those economies. The penetration of modern retail grows in parallel with increased urbanization and the growth of the middle class in emerging markets. IFC provides financing and advisory services in the retail sector which:



Rating Construct – All AIMM sector frameworks include detailed guidance notes that help define project outcomes and contributions to market creation, aggregating to an overall assessment of development impact.

- For project outcomes, stakeholders, economy-wide, and environmental effects are the key components for which industry-specific benchmarks define the context in which an IFC operation seeks to drive changes. This gap analysis is combined with a separate set of impact intensity estimates that specify the expected results using predefined indicators.
- For contributions to market creation, industry-specific market typologies define stages of development for five market attributes (or objectives): competitiveness, resilience, integration, inclusiveness, and sustainability. These market typologies, when combined with estimates of how much an intervention affects the development of a market attribute, provide the foundation for IFC’s assessment of an intervention’s market-level potential for delivering systemic changes.

PROJECT OUTCOME INDICATORS		CONTRIBUTION TO MARKET CREATION INDICATORS	
Stakeholders	<u>Effects on consumers</u> <ul style="list-style-type: none"> • Access: greater availability of retail options – sales volume (\$M), number of stores (#), space (sqm) • Affordability: lower prices – average basket price (\$), consumer monetary support • Quality: higher quality of goods offered – number of SKUs, private label, adoption of new standards (Y/N), 	Competitiveness	<ul style="list-style-type: none"> • Improvements in business models, processes, and efficiencies • Changes in market structure • Innovation
	<u>Effects on suppliers</u> <ul style="list-style-type: none"> • Training – suppliers acquire new technology (Y/N), suppliers acquire new quality certifications (Y/N), training outlays (\$) • Introduction of standards, increased demand for production, improved efficiency – purchases from domestic suppliers (farmers/SMEs) (\$M), number of suppliers (farmers/SMEs) (#) 	Resilience	<ul style="list-style-type: none"> • Share of modern retailers in the market • Increased resilience in retail infrastructure for shocks (e.g. climate, or other localized shocks)
		Integration	<ul style="list-style-type: none"> • Changes to special integration that affects domestic linkages • Contributions to creation of distribution platforms and/or elements that strengthen links between retail players
Economy-wide	<ul style="list-style-type: none"> • Value-added multiplier • Direct jobs created • Employment multiplier • Export sales (or FX savings) 	Inclusiveness	<ul style="list-style-type: none"> • Market-wide changes in availability and access to quality goods for under-served groups • Adoption of business models and practices or enhanced skills that improve productivity of underserved groups • Adoption of practices that reduce male/female wage differentials
Environmental / Social	<ul style="list-style-type: none"> • Water savings / conservation • Energy savings and remissions reductions 	Sustainability	<ul style="list-style-type: none"> • Adoption of sustainability practices (ESG, climate) relevant to retail industry • Changes in strength of legal and regulatory framework related to relevant sustainability issues • Sufficient skills and local service providers to support firms

IFC’s Environmental and Social Performance Standards define IFC clients’ responsibilities for managing their environmental and social risks. While for most IFC investments, meeting Performance Standards reflects improved environmental and social performance,

effects from implementation of the standards are only claimed in the AIMM framework where a clear counterfactual can be established and where the investment intent is to improve environmental or social outcomes.

Sector Specific Principles or Issues – The following principles will be applied for projects rated under this framework:

Principle or Issue	Treatment Under Framework
Net effects	As modern retail grows, traditional retailers and small suppliers can struggle to keep up with the pace of large modern retailers. Intermediaries can also be negatively affected as logistic networks become more efficient. IFC has examined the question of the overall net effect of modern retail to assess whether those potentially negative effects are offset by the benefits of modern retail in a study carried out with Euromonitor in 2017. The study found that although some negative effects can be felt on those groups, the net effect of the rise of modern retail on the retail ecosystem is positive.
Traditional retail	As modern retailers penetrate or grow into a market, traditional formats can be affected in different ways: (i) they do not manage to adapt and have to scale back their operations or shut down (the employment effect generated by modern retailers tends to outweigh the potentially negative employment effects triggered by the closure of traditional retailers); or (ii) they adapt their strategies in order to compete, for example, by switching to self-service formats, expanding total retail space, improving product selection, or attempting to negotiate better prices with suppliers. These outcomes may have a positive effect on the evolution of market structure. Finally, these effects are only seen in urban centers or cities with sufficiently dense populations for a modern retailer to open; traditional retailers tend to remain the main players in rural areas and smaller cities in developing markets.
Suppliers, manufacturers, and distributors	Those stakeholders can also be affected by the rise of modern retail in multiple ways. Like traditional retailers, they will either (i) scale back their operations and shut down, because they do not have the capacity, quality and scale to supply modern players, or (ii) adapt and adjust their businesses sometimes with the help of retailers, leading to higher standards in quality, more efficient processes, and modern business models.
Logistics networks	Modern retailers improve efficiencies in their supply chains, reducing reliance on intermediaries. The study carried out with Euromonitor in 2017 finds that the potential losses incurred from the diminished role held by intermediaries in modern retailers' supply chains in terms of job creation are offset by added jobs created by large modern stores and in logistics and warehousing services. Introducing more efficient supply chains and logistics networks also has positive effects on consumers, as it allows for retailers to offer lower prices.

Project Outcomes – The AIMM system considers the extent of the development gap and uses a gap analysis to classify project contexts according to the size of the deficit/gap being addressed. For each indicator, the size of the gap is measured in relation to development goals associated with the sector. Contexts are classified into very large, large, medium or low gap, for each performance dimension. Development gaps are defined using a combination of qualitative and quantitative benchmarks, which leaves room to consider context-specific attributes that drive investments in the sector.

COUNTRY CONTEXT	Low Gap	Medium Gap	Large Gap	Very Large Gap
Access and Quality • Share of modern retail	– Modern retail is highly developed	– Modern retail is moderately developed	– Modern retail is not well developed, and the sector relies on traditional retail	– There are very few modern retailers, sector entirely relies on traditional retail
Affordability • Low-price goods and consumer support • Country income class	– Consumers have access to low-price offerings and consumer support in modern retail stores – High-income	– Consumers have access to low-price offerings but no consumer support in modern retail stores – Upper middle-income	– Consumers have limited access to low-price offerings and consumer support in retail stores – Lower middle-income	– Consumers do not have access to low-price offerings or consumer support in retail stores – Low-income
Suppliers • Share of domestic intermediate goods • Competitors in catchment area	– Most intermediate goods are domestically produced – Modern retail has a high penetration in catchment area	– A significant amount of intermediate goods are domestically produced – Modern retail has a moderate penetration in catchment area	– Some intermediate goods are domestically produced – Modern retail has a low penetration in catchment area	– Few intermediate goods are domestically produced – Sector relies heavily on imports – Modern retail absent/barely present in catchment area
Employees • Country income class • Unemployment rate • Informal employment	– High-income – Share of informal employment is low	– Upper middle-income – Share of informal employment is moderate	– Lower middle-income – Share of informal employment is high	– Low-income – Share of informal employment is very high

“Core outcomes” are defined as the main and most typical outcomes seen in projects within a sector. Core outcomes are expected to be seen in most projects within the sector and are central to the theory of change. For the retail sector, core outcomes consist of stakeholder effects on consumers and suppliers, and economy-wide effects from direct employment. Non-core outcomes are not expected to materialize across all projects but could be significant and affect the AIMM rating where they do. Non-core outcomes include improvements in employment quality, increased gender parity, incremental revenues to government, the financing of beneficial, community activities that are unrelated to the retailer’s operations, and other economy-wide effects, including indirect and induced effects on employment and GDP. An IFC operation’s project-level impact is assessed based on the magnitude of its impacts in relative terms i.e. using a normalization rule that provides an indication of the intensity of impact (e.g. impact per dollar invested).

PROJECT INTENSITY	Below Average	Average	Above Average	Significantly Above Average
Access • Sales volume (\$)	– The anticipated increase in sales volume is below average for the sector	– The anticipated increase in sales volume is average for the sector	– The anticipated increase in sales volume is above average for the sector	– The anticipated increase in sales volume is significantly above average for the sector
Affordability • Average prices • Consumer support	– Prices above current market prices – Consumer support (Y/N)	– Prices at current market prices – Consumer support (Y/N)	– Prices slightly below current market prices – Consumer support (Y/N)	– Prices set significantly below market prices – Consumer support (Y/N)
Quality • Qualitative assessments	– Will the project improve product quality due to adoption of various international standards (Y/N)?	– Will the project improve product quality due to adoption of various international standards (Y/N)?	– Will the project improve product quality due to adoption of various international standards (Y/N)?	– Will the project improve product quality due to adoption of various international standards (Y/N)?
Suppliers • Purchases from domestic suppliers • Purchase from SMEs • Training outlays	– Domestic purchases are below average – Almost none of the suppliers are SMEs – Training outlays minimal	– Domestic purchases are average – Some suppliers are SMEs Training outlays average, no plans, or same plan as offered elsewhere	– Domestic purchases are above average – About half of the suppliers are SMEs – Training outlays average, specific plan that is better than offered elsewhere	– Domestic purchases are significantly above average – More than half of the suppliers are SMEs – Training outlays substantial, specific plan that is better than offered elsewhere, IFC advisory involved
Employees • Value-add multiplier • Direct jobs • Emp. multiplier	– Annual value-added is below investment amount – No of Jobs created / 100sqm is below average	– Annual value-added is around investment amount – No of Jobs created 100sqm is average	– Annual value-added is above investment amount – No of Jobs created / 100sqm is above average	– Annual value-added is significantly above investment amount – No of Jobs created / 100sqm is significantly above average

The AIMM methodology considers the uncertainty around the realization of the potential development impact being claimed, making a distinction between the potential outcomes that a project could deliver and what could be realistically achievable in the project’s development context. Table below presents the key types of risks factors for mining sector operations.

PROJECT LIKELIHOOD	Operational Factors	Sector Factors
Assessment Considerations	<ul style="list-style-type: none"> • Track record of, experience of, and capacity to delivery outcomes by executing entity • Financial strength of executing entity • Coordination risk due to separate performance requirements • Use of unproven processes, technologies 	<ul style="list-style-type: none"> • Uncertain macroeconomic environment • High regulatory risks • Supportive government policies and/or programs

Contribution to Market Creation – For contribution to market creation, the AIMM assessment establishes attribution by identifying a clear channel linking the project to the anticipated effect and identifying measurable indicators of market creation effects that can be monitored. Retail market typologies provide the building blocks in the AIMM system to construct a narrative for how much an IFC intervention is advancing a market objective. These typologies provide a description of the market gap based on various stages of development for a given sector from least developed to most advanced and enable the location of the market before and after IFC’s intervention. The table below summarizes the characterizations of the retail market for two market attributes (competitiveness and integration).

MARKET TYPOLOGY	Highly Developed	Moderately Developed	Underdeveloped	Highly Underdeveloped
Competitiveness	<ul style="list-style-type: none"> – Modern retailers offer substantial number of goods w/discounted prices – Top 3/5 firms occupy a small share of market among medium/large firms – Share of modern retail high – Majority of firms are using improved technologies 	<ul style="list-style-type: none"> – Modern retailers offer many goods w/discounted prices – Top 3/5 firms occupy moderate share of market among medium/large firms – Share mod. retail moderate – Nearly half of firms using improved technologies 	<ul style="list-style-type: none"> – Modern retailers offer few goods w/ discounted prices – Top 3/5 firms occupy between an important share of market among medium and large firms – Share modern retail low – Few firms using improved technologies 	<ul style="list-style-type: none"> – Modern retailers do not offer goods w/ discounted prices – Top3/5 firms occupy a large share of market among medium and large firms – No modern retailer – All firms use outdated technologies
Integration	<ul style="list-style-type: none"> – Most suppliers are well integrated in domestic supply chains; they have other retailers or firms to supply or have the appropriate standard or size to supply other retailers or firms – Modern retail developed along with infrastructure 	<ul style="list-style-type: none"> – Some suppliers are not well integrated in domestic supply chains; they do not have other retailers or firms to supply, or do not have appropriate standard or size to supply other firms – Modern retail moderately developed; some needed infrastructure in place 	<ul style="list-style-type: none"> – Suppliers are not integrated in domestic supply chains; they do not have other retailers or firms to supply, or do not have appropriate standard or size to supply other retailers or firms. – Modern retail starting to develop; infrastructure for development not available 	<ul style="list-style-type: none"> – Suppliers are not integrated in domestic supply chains; they do not have other retailers or firms to supply, or do not have appropriate standards or size to supply other retailers or firms – Modern retail not developed; infrastructure not available

In general, most individual projects are not expected to make a significant and immediate systemic market change, unless the project is a pioneer in a non-existent or nascent market. Instead, most projects are expected to have incremental effects on the market. In other words, it takes more than one intervention to move a market to the next stage. This means that integrated and concerted efforts are often needed to generate substantial market effects. For example, cumulative World Bank Group efforts over time will have a stronger effect on markets than non-integrated and non-concerted interventions. Where a project is explicitly part of a programmatic approach, the expected movement induced by the program should be the basis for the assessment where timebound movements, market effects, and indicators are available. The rating for market level impact of a project is designed to capture both the market typology and the degree to which the project contributes to market creation.

MARKET MOVEMENT	Marginal	Meaningful	Significant	Highly Significant
Competitiveness	A competitive market for retail would be described as one with low market concentration, where prices to consumers (and/or suppliers) might be described as competitive, and where consumers are faced with a variety of options to choose from. A project will improve competitiveness in this sector when it leads to changes in market structure through (i) new players that enter the market; (ii) other retailers up their game in order to compete. A project may then result in the supply of goods at a lower price than the current market average, or the availability of a greater variety of goods, and an improved quality. The reaction of the market might entail consolidation of small retailers resulting in economies of scale, reduction in costs for those firms that remain viable, formalization of shops, and replication of a business model. The latter could be the case when the project is a first mover in terms of the retailer format (hypermarket, discount stores). Outcomes will likely depend on replication and demonstration effects.			
Integration	A retail project can support greater integration mostly through capacity building of its suppliers. Effects of a retailer's training, or introduction of standards to its suppliers will go beyond the project if the retailer allows suppliers to integrate domestic or international value chains, reach new markets, and work with other players. If suppliers are part of a vulnerable segment of the population, there could also be room for inclusiveness.			

This likelihood adjustment follows the principles for the likelihood adjustment for project outcome potential. The main factors for the market likelihood assessment for mining projects will be relating to sector and regulatory policy risks. It will also include risk associated with the performance of a public partner (such as a state-owned enterprise) involved directly or indirectly in the project.

MARKET LIKELIHOOD	Sector Factors	Political / Regulatory / Policy Factors
Assessment Considerations	<ul style="list-style-type: none"> • Overall functioning, stability and history of the retail sector 	<ul style="list-style-type: none"> • Overall economic and political stability • Presence or absence of appropriate national policies, legislation, or regulations