

FAST TRACK BRIEF

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*The IEG report “Growth and Productivity in Agriculture and Agribusiness,” was discussed by
CODE on September 22, 2010*

Growth and Productivity in Agriculture and Agribusiness

- ◆ Agricultural growth remains central to poverty reduction, particularly in the poorest countries where a large share of the population relies on agriculture as their main livelihood. Between 1998 and 2008, the World Bank Group (WBG) provided \$23.7 billion in financing for agriculture and agribusiness in 108 countries (roughly 8 percent of total WBG financing). Still, the decade was a time of declining focus on agricultural growth and productivity, and growth in agricultural productivity has slowed.
- ◆ The recent food and financial crises have added momentum to an emerging renewal of attention and stepped-up financing to agriculture and agribusiness at the World Bank, IFC, and other multilateral and bilateral agencies. World Bank financing rose two and a half times from 2008 to 2009, though that increase in lending seems to have been accompanied by a decline in analytical work, which this review finds valuable for results.
- ◆ While the WBG agricultural portfolio overall has performed on par with other sectors, performance has been equal to or above portfolio averages in East Asia, Latin America, and the transition economies in Europe. But performance of interventions in Sub-Saharan Africa has been well below average. Inconsistent client commitment and weak capacity have limited the effectiveness of WBG support in agriculture-based economies, particularly in Sub-Saharan Africa, and constraints on staffing and internal coordination within the WBG have also hurt outcomes.
- ◆ The WBG has a unique opportunity to match the increases in the financing for agriculture with sharper focus on improving agricultural growth and productivity in agriculture-based economies, most notably in Sub-Saharan Africa. Greater effort will be needed to connect sectoral interventions and achieve synergies from public and private sector interventions; to build capacity and knowledge exchange; to take stock of experience in rain-fed agriculture; to ensure attention to financial sustainability and to cross-cutting issues of gender, environmental and social impacts, and climate; and to better integrate WBG support at the global and regional levels with that at the country level.

One billion people around the world are still chronically poor and undernourished. These people are concentrated in rural areas, and the donor community recognizes that without improved agricultural growth and productivity it is unlikely that poverty will be reduced and the Millennium Development Goals will not be achieved. Moreover, increased agricultural production will be necessary to

meet the expected doubling of worldwide demand for food by 2050 as population, incomes, and consumption of animal products grow. However, any increase in production will have to be brought about in an environment where natural resources are scarce and promoting efficiency is critical.

This evaluation uses the typology of economies developed by the 2008 World Development Report, Agriculture for Development, as one classification in its analysis. In the agriculture-based category, which includes most of Sub-Saharan Africa, development of the agriculture sector is essential to growth and poverty reduction, yet productivity is low, constrained by limited access to modern inputs, irrigation, communication, and transport. WBG support focused on alleviating these constraints is important to help achieve poverty reduction. In the transforming category—mainly countries in South and East Asia and the Middle East and North Africa (MNA)—the sector’s contribution to economic growth is comparatively less important, and land and labor productivity are much higher, but poverty is still predominantly a rural phenomenon. In these economies WBG support for growth in agriculture is needed to reduce poverty and narrow the urban-rural divide. In the urbanized category—mainly countries in Latin America and Europe and Central Asia—poverty is no longer primarily rural and agriculture contributes relatively little to growth. Even in this latter category, WBG support in the sector can contribute to economic development and to the adoption of new technologies to sustainably increase productivity.

Growing demand for both animal products and biofuels provides increased opportunities for the private sector to invest profitably to grow grains for livestock feed and sugarcane and nonfood crops for biofuels. But water availability will be an increasing constraint, climate change is likely to make water sources more variable, and increased droughts and floods will further stress agricultural systems.

WORLD BANK GROUP FINANCING

Between 1998 and 2008, the WBG provided about \$23.7 billion in financing for agriculture and agribusiness activities in 108 countries. Seventy-six percent, \$18.1 billion, of this support came from the World Bank and 24 percent, \$5.6 billion, from IFC. An additional \$3.8 billion was committed by the World Bank and \$1.6 billion by IFC in 2009. Both the World Bank and IFC also provided nonlending services to their clients, and the World Bank supported several global and regional programs and partnerships in the agriculture sector.

Only a share of World Bank interventions that included support for agricultural activities focused on improving agricultural growth and productivity in poor agriculture-based economies. The Bank’s strategic focus shifted in the early 1990s from a narrower focus on agriculture to a broader focus on poverty and rural development; this led to Bank-supported projects focusing beyond agricultural production in the rural sector. Many rural projects, for example, adopted community-driven development (CDD) approaches in which agricultural development was one of many priorities. This trend was particularly pronounced in Sub-Saharan Africa, which had one of the smallest shares among Bank Regions of rural projects focused explicitly on improving agricultural growth and

productivity. IFC investments, although focused on agribusiness growth and development, were concentrated primarily in urbanized and transforming economies in Latin America (LCR) and Europe and Central Asia (ECA).

Project ratings against stated objectives in World Bank agriculture lending have been on par with lending in other sectors, with ECA being higher than the Bank-wide average and AFR notably lower. Not only is the environment for agricultural development less favorable in Sub-Saharan Africa’s agriculture-based economies—with poor road and market infrastructure, underdeveloped financial sectors, and higher weather-related and disease risks—but country capacity and governance is weaker as well. The relatively poor project performance, problems in governance, and limited counterpart interest in agriculture in many countries help to explain why the Bank has looked for alternative ways to engage these borrowers, among others through CDD interventions.

Similarly, IFC investments in agribusiness had above-average development outcome ratings in LCR and ECA but have been weak in AFR. In LCR and ECA successful outcomes resulted from effective support to the integrated trader-processor model, and some of its clients have become local and regional enterprises and south-south investors. Difficult business environments, a shortage of indigenous entrepreneurs, the small size of the potential investments, lack of access to markets, and the dismal experience of working directly with small-scale sponsors have constrained IFC engagement and performance in AFR and pushed it toward a focus on foreign sponsors and export-oriented or niche local or regional businesses, such as palm oil and rubber.

The evaluation assesses the Bank Group’s contribution in six areas—irrigation and drainage, research and extension, access to credit, access to land and formalization of land rights, roads and marketing infrastructure, and markets and agribusiness—with a goal of identifying lessons for the future.

Irrigation and drainage

WBG support for physical infrastructure has helped provide farmers with access to water and thus has contributed to increased agricultural productivity, but sustainability has been an issue due to the lack of reliable funding for operation and maintenance. The WBG needs to devote more attention and resources to helping governments design and implement politically and institutionally feasible mechanisms for cost recovery, to facilitate a larger role for the private sector by helping clients foster an environment in which public-private partnerships can succeed, and to monitor results more diligently. Greater attention to water use efficiency and its monitoring is also needed. The recent IEG evaluation on the Bank’s water-related activities also highlighted the above issues for greater focus. Further, the Bank needs to separately track its water management activities in rain-fed areas to allow

the institution to take stock of what works in addressing water management issues in these areas and contribute strategically to their development.

Research and Extension

Both the Bank and IFC have supported research and extension, the Bank through support to global programs (most notably the Consultative Group on International Agricultural Research, CGIAR), to public systems in client countries, and to partnership arrangements with other stakeholders, and IFC through financing and advisory services to agribusiness trader-processors who in turn assist their contract farmers. Previous reviews have noted that links between CGIAR centers and national programs are weak; research results from CGIAR institutions need to be mainstreamed consistently in country-level Bank projects. Sustainability has been an issue in the Bank's support for research and extension because of insufficient government funding and limited cost recovery, whereas IFC's trader-processors can recover costs through the prices paid for farmers' crops.

The WBG can also help governments create the conditions for nascent agribusiness technology companies to thrive, both on their own and in partnership with public research institutions. The outcomes of WBG interventions have been better when interventions combined investment and knowledge services and built on partnerships. Better monitoring and evaluation (M&E) is needed in projects, as there is limited evidence on the extent to which improved technologies have been created or adopted as a result of Bank interventions.

Access to Credit

Access to credit, whether for buying inputs in the short term or for investing in land improvements in the long term, is a major constraint to investments to improve agricultural productivity, and the Bank and IFC are both important for expanding credit supply and efficiency. In response to a disappointing experience with support to rural credit in the past, the Bank shifted from directed agricultural credit to a broader rural finance approach focused on strengthening the capacity of financial institutions to operate in rural areas. The broader approach appears to be benefiting the agriculture sector, though it is difficult to ascertain how much support has been provided specifically for agricultural credit. Sustainability beyond project duration remains a challenge, and greater synergy is needed between financial sector interventions and agriculture lending. Addressing risks related to weather and prices in the agriculture sector also requires synergies between agriculture, financial sector, and disaster and risk-management lending.

IFC has used investments in trader-processors, trade finance, private equity, wholesaling through banks, and index insurance products to promote access to credit. Some of these approaches have demonstrated effectiveness in improving the livelihood of small-scale farmers; for example, providing

small amounts to thousands of individual farmers through large trader-processors can make a big difference, sometimes involving commercial lenders and buy-back arrangements.

Access to land and formalization of land rights

Access to land and formalization of land rights are thought to contribute to both poverty reduction and improvements in agricultural production and productivity, and the Bank and IFC have been quite active in both—most notably land administration—in recent years. Evidence of the impacts of these efforts on agricultural productivity is sparse, however, particularly for land administration, because these projects do not typically have agricultural productivity as a core objective to be monitored. Greater emphasis is needed on measurement of these impacts to reflect the increasing focus on production and productivity in the Bank's agricultural portfolio. Given the multifaceted nature of agricultural development, in some settings it may be important to combine land administration with other support services to achieve productivity gains.

Roads and marketing Infrastructure

The Bank has been engaged extensively in building roads and marketing infrastructure, including rural roads, and both the Bank and IFC have invested in other market infrastructure and logistics, such as storage, ports, forwarders, and trading platforms. Available data point to high average success rates in these projects, though lower in Sub-Saharan Africa. Given the low rates of market access in Sub-Saharan Africa, the World Bank and IFC need to continue to seek innovative ways to support the development and maintenance of transport and market infrastructure in the region through both public and private investments.

Policies, Markets and Agribusiness

Finally, the WBG has provided extensive support to clients to improve the broader enabling environment, including through World Bank development policy lending, and access to input and output markets, including through the development of agribusiness linked to small-scale producers. Where the Bank has done so effectively, it has often used analytic and advisory activities as an entry point. Appropriate policies and a conducive business environment are critical to agricultural development, and though much progress has been made through liberalization and globalization in the past two to three decades, challenges remain. The complementary roles of the Bank and IFC should be recognized and coordinated much more going forward.

INSTITUTIONAL FACTORS

Institutional issues in countries—including commitment, capacity, and governance—strongly influence the level and effectiveness of WBG activities in agriculture. Commitment to

agricultural development has been strong for decades in some transforming and urbanized economies, such as China and India (which dramatically increased their investments in the agriculture sector from the 1950s to the 1980s) and rose rapidly with the economic transition in the early 1990s in some Central and Eastern European countries. However, it has been relatively weak until recently in many agriculture-based economies, in part due to a greater emphasis on industrialization and urbanization in postwar development thinking. In addition, serious capacity and governance constraints make it difficult for projects to achieve desired objectives in many settings.

Institutional limitations within the WBG have also inhibited its contribution to agricultural development, particularly in Sub-Saharan Africa and the agriculture-based economies. Until recently the Bank and IFC lacked a focused strategy that prioritized agricultural growth and productivity. Potential synergies among sectors such as transport, finance, and agriculture have sometimes been missed within the World Bank and IFC, and synergies between the complementary public-private sector roles of the World Bank and IFC have not yet been fully exploited. Though farming is essentially a private sector activity, a minimum level of public capacity is needed for the private sector to work effectively, and ideally the WBG entities can work synergistically to support both the public and private sectors.

Though data are incomplete, quantitative and qualitative evidence points to a decline in agriculture-related skills over the past decade (including skills in policy analysis and client dialogue) among World Bank staff, most notably in AFR. There is also a shortage of agribusiness specialists in IFC relative to need.

These factors may all have contributed to the recognized weaknesses in World Bank project outcomes and project quality at entry and supervision in AFR. They may also constrain implementation of the recent Agriculture Action Plan 2010-12 and a stronger IFC agribusiness presence in AFR going forward. Recent IFC decentralization efforts run the risk of exacerbating this situation by further stretching scarce industry expertise.

M&E continues to be weak in both investment and development policy lending, and the Bank's data and coding systems do not effectively track all agriculture activities. Reporting on outcomes and results—such as improvement in water-use efficiency, adoption of technologies, and agricultural productivity—is incomplete in both the Bank and IFC, and this constrains assessment of project effectiveness and inhibits institutional learning.

The WBG's analytic work has made important contributions and needs to be supported and linked to lending where possible, particularly in poorer countries. Analytic work is

critical in identifying issues and informing both policy advice and financing. The Bank's agriculture analytic and advisory activities (AAA) have generally been of sound quality, and the lending that was informed by it had better outcomes than lending that did not. However, in some of the poorer IDA countries, such as Ethiopia, Ghana, Guinea, and Nepal, little AAA was done in the agriculture sector over several years. IFC advisory services have been largely supply-driven and have lacked a focus on relevant agribusiness subsectors. Few advisory services leveraged outcomes by linking with investments.

Gender and environment are cross-cutting WBG priorities, and agriculture and agribusiness could make a strong contribution to gender empowerment and environmental sustainability. In the Bank, greater attention has been paid to gender issues during the design of projects than in their implementation, and both need to be stepped up going forward. In IFC, the tracking of gender in agribusiness is limited to the number of women employed, and a richer set of indicators is needed.

With regard to environment, Bank-supported projects appear to be generally in compliance with the Bank's environmental safeguards, but supervision and reporting related to safeguards and environmental outcomes are weak. In addition, Bank projects have the potential to improve the readiness of countries to deal with the effects of climate change, and focused analytical work can be important in helping clients identify the direct links between agricultural production and climate change, a rising priority across countries.

IFC's Performance Standards (PS) have been viewed as a key component of IFC's additionality in the sector, but their implementation needs a more robust approach for identifying and addressing environmental and social risks along the supply chain. Inadequate management of agribusiness supply-chain issues has been evident in four pre-PS and in two post-PS projects based on complaints submitted to the Compliance Advisor and Ombudsman (CAO) reflecting the concerns of individuals or communities affected by various IFC investments. Addressing the environmental impacts of agribusiness remains a crucial challenge, especially in light of today's heightened concerns about environmental destruction where regulations are weak.

Although IFC has been an early supporter, commodity roundtables have not yet developed internationally accepted standards for supply-chain certification, and more attention is needed in this area. Commodity roundtables need to develop rigorous certification systems to provide sustainability for food and agribusiness production along the entire supply chain. Once they are developed, IFC could then refer to roundtable certification in project-specific environmental and social requirements and promote their use as global standards.

RECOMMENDATIONS

The overarching recommendation of this review is:

To get the most from recent increases in financing for agriculture and agribusiness, the WBG needs to increase the effectiveness of its support for agricultural growth and productivity in agriculture-based economies, notably Sub-Saharan Africa.

The agriculture-based economies, particularly those of Sub-Saharan Africa, are where the needs are greatest and the success has been lowest. Other countries and regions also have important needs that the WBG should continue to support, given that the increased demand for global food production also has to be met. However, greater effectiveness in the poorest countries is the most critical challenge. The findings of this evaluation point to specific recommendations in three areas.

I. Synergies and complementarities. In the areas that drive productivity, such as irrigation and drainage, agricultural research and extension, access to credit, access to land, transport infrastructure, and the policy environment, complementarities and synergies are key drivers of effectiveness. To take better advantage of these complementarities:

1. Step up IFC's engagement in Sub-Saharan Africa including supporting public-private partnerships and adapting the integrated trader-processor model for more effective use with small-to-midsize indigenous companies in the agriculture-based economies.
2. Set up a knowledge network linking agriculture and agribusiness supply-chain specialists across the WBG to strengthen communication and collaboration among sector departments within the Bank and IFC, as well as across the WBG.
3. Work with partners to ensure that CGIAR research and other global and regional efforts are translated into benefits on the ground, and facilitate partnerships among countries to encourage south-south knowledge exchange.

II. Knowledge and capacity building. Experience points to the importance of capacity and how analytical work can highlight issues and raise awareness—particularly when capacity is weak:

1. Ensure sufficient quantity and quality of Bank AAA and IFC advisory services in agriculture-based economies, link them closely to lending, and use them to build counterpart commitment and to address constraints along the production chain.
2. Establish mechanisms to confirm ex ante if project M&E frameworks are adequate—with clear, relevant, and

realistic objectives, thorough cost-benefit analysis, appropriate indicators, and adequate baseline data.

3. Review the human resource base and skill gaps (also in light of the increased lending), and develop and implement a strategic plan to enhance the technical and policy skills of Bank and IFC staff working in the agriculture sector, particularly in agriculture-based economies.

III. Efficiency and sustainability. The impact of increased resource flows into agriculture will depend on the efficiency of resource use and the financial, social, and environmental sustainability of investments:

1. Increase WBG support to medium-term expenditure planning to help ensure the adequacy of funding for operations and maintenance, and work with clients to ensure sustainable financing—including cost recovery where appropriate—for irrigation, transport, and research and extension services.
2. Take stock of experience in water management and crop technologies in rain-fed areas to inform future WBG support.
3. Ensure that gender concerns are adequately mainstreamed and monitored in World Bank and IFC agriculture operations.
4. Expand the application of IFC Performance Standards to material biodiversity and other environmental and social aspects along the supply chain for primary suppliers (and for secondary suppliers to the extent the client has leverage), and enhance IFC support to the development and application of internationally accepted commodity certification systems.

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