

## Chapter 21: Agriculture

Within MCC's general guidelines for proposal assessment, projects in Agriculture areas will be assessed for technical, commercial, financial, economic, institutional, social and environmental suitability as outlined in detail below.

### *Proposal Readiness for Due Diligence*

MCC will initiate its due diligence process when it receives an applicant's proposal that is considered to contain sufficient verifiable information. If insufficient information is made available in a proposal, MCC will consult the applicant and provide specific guidance and options to consider to meet standards of completeness.

In general terms, Agriculture due diligence can begin once the following information is received:

Project justification, including a well-defined national development context (or sector strategy), how the proposed project fits into the sector strategy and clearly defined targets for poverty reduction.

Project description with sufficient detail regarding the purpose, activities and outputs of the project, the geographic areas to be served, the preliminary identification of targeted beneficiaries, the products or services to be delivered, the methods of delivery, intended outcomes and a sustainability plan or exit strategy.

Project costs, including detailed estimates by type of expenditure, distinguishing between local and foreign currency.

Preliminary environmental and social review, including gender analysis (refer to Guidelines for Gender and Social Integration and Assessment).

Institutional arrangement for project implementation and sustainability of project objectives (refer to Fiscal Accountability for guidance).

Preliminary economic and financial analysis (refer to Guidelines for Economic and Beneficiary Analysis for more information).

### *The Value Chain Approach*

Agriculture due diligence focuses heavily on value-chain analysis that assesses the structure, conduct and performance of each segment of the value chain: the market, the value-added processes and agricultural production. A value chain analysis will include a focus on *actors* (who handle the product as it moves through the value chain), *supporters* (who provide essential services) and *regulators* (who create the enabling environment). To ensure that the proposed activities are based on market opportunities, due diligence normally begins with an assessment of market conditions. Market requirements are then a fundamental factor in assessing proposals as due diligence progresses back up stream to value added activities (processing, packaging, handling and storage) and to agricultural production. Analyzing the policy and regulatory framework that affects costs, returns competitiveness and the pattern of investment throughout the value chain are also important aspects of Agriculture due diligence.

### *Underlying Principles*

In addition to the value-chain approach in assessing potential agriculture projects and investments, due diligence is based on three principles:

To be sustainable, investments should be market-driven and designed to include and/or attract private sector investment;

Behavioral change of project participants and beneficiaries can be expected to occur only if there are strong market incentives and functional value chains. Thus weak or dysfunctional value chains must first be improved before projects begin to focus on behavioral change;

Project design and proposed interventions should be based on international best practices, adapted as required

for local use and taking into consideration what has worked and what hasn't in the past, as well as resource constraints to production (e.g. water constraints).

### *The Principal Elements of Agriculture Due Diligence*

The core questions listed in each of the elements below convey the general issues and concerns in all agriculture proposals. However, the design and the context of each proposed project will give rise to additional questions that, together, will address the unique challenges and opportunities of each proposal.

#### 1. Development Approach

- ★ What are the development opportunities that the project is going to exploit? What are the critical constraints to taking advantage of these opportunities? How do they affect actors in the value chain? How will the proposed activities address these constraints or opportunities? Does the project build on lessons learned from previous agriculture or rural economic development projects and the strengths of the rural economy being targeted? If not provided by the project applicant, due diligence should include a comprehensive review of similar projects in the country implemented by other donors, a summary of the reasons for their success/failure, as well as an explanation of how the MCC-funded project is to leverage lessons learned from those other projects. In particular, due diligence needs to clearly address the question of why and how MCC plans to succeed where others have failed
- ★ Does the proposed agricultural project draw on the natural resources base? What resources are used in the production, processing, packaging and marketing? What efforts are proposed in the design to ensure on-going availability of the natural resources needed for the proposed activities? Does the project acknowledge and mitigate risks to the natural resources base that lie beyond the scope/control of the agricultural sector such as demographic pressure and climate change?
- ★ Do the sub-sectors identified for project investment offer the best potential for income generation and job creation, including multiplier effects, and to what degree are they inclusive of the poor?
- ★ What are the demographics of the rural economy, both nationally and in the project region, including age, gender, geographic location, migration trends, education and employment? What are the characteristics of the rural poor, especially those who will benefit from the proposed activities? Were the proposed targeted participants/beneficiaries consulted in the project development process? Is the project design suitable in light of these characteristics?
- ★ Are proposed arrangements to deliver technical and financial services consistent with international best practices, particularly with respect to market orientation, responding to beneficiary needs (farm management and organizational capacity building), securing beneficiary commitment, sustainability and cost-effectiveness?
- ★ Are there social inequalities (such as gender, ethnicity, religion, class or other socio-economic driver of status within a community or chiefdom) in access and control of productive resources relevant to the proposed project? If so, how will they be addressed?
- ★ Do the institutions supporting actors in the value chain have sufficient capacity to carry out their roles and responsibilities (i.e. producer organizations, water user associations, aggregators, industry associations)?
- ★ Do education levels and/or health status impact participation and/or productivity? If so, how will this be addressed?
- ★ Are the expected outputs realistic within the available time? Are conditions likely to support further outcomes after the compact period?

#### 2. Project Beneficiaries

- ★ Who are the targeted beneficiaries of the intervention? What is their capacity to effectively undertake project activities and engage fully in proposed value-chains? Are the development approach and timeframe appropriate to reach these beneficiaries? Has the full range of beneficiaries been considered (e.g. women, youth, and disadvantaged/underrepresented groups, ethnic or religious minorities)? What evidence exists that these beneficiaries have been consulted?
- ★ How does the proposed production and marketing approaches change current production and marketing arrangements? Are there distinct groups that stand to gain or lose by the proposed changes under this project? Does this change in production and marketing benefit or harm vulnerable groups?
- ★ What are the anticipated benefits of the project for the targeted beneficiaries? What would be their expected situation without the project? (Refer to Guidelines for Economic Analysis, Guidelines for Beneficiary Analysis,

and the Gender Policy for more details on conducting gender analysis on project activities and beneficiaries)

- ★ What potential impact can the project have on vulnerable groups, such as women, marginalized ethnic groups, migrants, etc. What are the selection criteria and decision-making mechanisms to identify project beneficiaries? Have appropriate checks and balances been identified? Have special measures been undertaken to identify and engage underrepresented groups, including women, as appropriate?

### 3. Markets and Marketing

- ★ Building on detailed market analysis and understanding of the current state of the market and market trends, what are the market prospects (local, national, regional and international) for the key products that will be produced by the proposed investment, and what are the key drivers of and constraints to growth in each? What is the nature of shocks that have historically had an impact on these markets/products? What are the risks that these shocks will recur, and how will they be mitigated?
- ★ What are the distribution channels in the country for market information (e.g. supply, demand and price information) and are they effective in getting information to producers, processors, wholesale and retail buyers? If there is a gap in the system, why does it exist and what needs to be done to ensure a timely flow of the requisite information?
- ★ What are the critical factors in assuring access to these markets and how does the project propose to address these factors?
- ★ Are there obstacles to market access (e.g. infrastructure, policy constraints, politically powerful groups, rent-seeking, literacy levels, etc.)? What is the nature of those obstacles and how does the proposed design address those obstacles? What constraints do traders, consolidators and processors face with respect to business efficiency and expansion? How does the project address these constraints?

### 4. Irrigation Activities

Proposed irrigation projects often come together to form an integrated irrigated agriculture project requiring both Infrastructure and Agriculture due diligence. Chapter 18 provides details on the analysis required for any proposed irrigation investment. In addition, refer to the lessons learned paper available on the MCC website that captures Principles into Practice: MCC's Experience with Irrigated Agriculture Projects.

### 5. Post-Harvest Activities

- ★ What are the current post-harvest activities occurring in the targeted value-chains? Could these be improved or scaled up in a cost-effective manner?
- ★ Do the proposed post-harvest activities provide a sufficient return to enterprise owners, employees and agricultural suppliers to attract and retain interest in the enterprise? Attention should also be paid to annual cash flow for the enterprises.
- ★ Do the proposed post-harvest activities reduce losses, add value or enhance market access for the target agricultural products? Do they adversely affect market access, range of markets or competitiveness?
- ★ Does storage of target products require additional research or special infrastructure over the life of the project and if so, how will these be undertaken and maintained – in the case of infrastructure - during and post-compact implementation?

### 6. Agricultural Production Activities

- ★ Is the current pattern of agricultural production in the target area conducive to the adoption of the proposed innovations, and will those changes generate significant sustainable benefits for the target beneficiaries? What is the timeline for generation of the significant sustainable benefits?
- ★ Are there synergies or adverse effects between proposed innovations and other activities that constitute the farm or rural enterprise?
- ★ What are the time and labor requirements evaluated by gender? Does the proposed activities increase or reduce time and labor burdens? How does this impact other economic activities undertaken by gender? (This is particularly important in smallholder operations.)
- ★ Are the proposed innovations appropriate for beneficiaries in terms of risk, technology, culture and farm/enterprise management? Can the innovations be sustained with locally accessible resources (i.e. parts available)? Are basic skill levels sufficient to enable proficiency and continued innovation? Are the infrastructure and support services in place to facilitate the proposed type and level of activity?

- ★ What are the most likely risks associated with introducing and sustaining the proposed activity? Are mitigation measures available and are the likely risks reasonable for the target participants?
- ★ How will the proposed innovation affect land and resource use? Will it produce an increase in demand for new land through forest clearing? Is there a tradition of land use planning and local land distribution? How will the proposed innovation affect or be affected by the land tenure situation in the country?
- ★ Does sustained production of the target products require applied research, soil analysis, field trial or varietal changes over the life of the project and if so, how will these be undertaken? Will the production depend on introduced varieties? Are those adapted to local conditions? Will it displace local landraces/varieties? Will it increase or decrease risks to stakeholders?
- ★ Will increased utilization of inputs (timber, water, agro-chemicals, etc.) result in adverse environmental impacts? If so, what mitigation and monitoring measures are planned? [Refer to Guidelines on Environment and Social Assessment]
- ★ Has the project considered potential climate risks and vulnerabilities, such as increased floods or droughts, changes in precipitation patterns and temperature, and impacts to water availability, among others? What steps are being taken to reduce vulnerability to climate change, or take advantage of potential opportunities posed by climate change (such as longer growing seasons)

## 7. Inputs and Supporting Services

Value chain supporters are the providers of inputs and services such as transportation, finance, consumables, capital goods, repair and maintenance and custom services in support of each sub-system.

- ★ Do project participants undertaking the proposed agricultural activity have access on a timely basis to (i) the improved inputs that are required to produce an output that responds to processing and market specifications (e.g.: seed, breeding stock, nursery stock, agro-chemicals, water), (ii) the technical support for their effective use, (iii) the supply and service of capital goods, and (iv) financial services including appropriate savings and credit instruments to obtain these inputs and services and to conduct transactions in an efficient, low risk manner? Are the financial institutions and instruments suited to the needs and skill levels of project beneficiaries?
- ★ Will these inputs be used in a safe and sustainable manner and will their use complement other activities on the farm? What are the potential “downstream” effects on households, communities and the environment of new or increased use of fertilizers and pesticides? What are potential preventive measures for negative impacts (such as community education, basic and/or vocational skills, pest management plans, etc.)?
- ★ As a key point for compact sustainability, will the activity contribute to the development of agricultural production, support services, and supply networks in the project area?
- ★ Do the agricultural inputs and services organizations have sufficient capacity to meet the demands of the project?
- ★ Based on the assessment of the sub-systems of the proposed project, what other critical support facilities and services (public and private) are required to achieve project objectives?
- ★ In cases of a deficiency, can the needs of the project be met through: changes in project design, addition of a component to strengthen the facility or service in question; coordination or cross-commitment with another development project?
- ★ Are there ways to integrate supporting facilities and services across compact Projects (e.g. land tenure/land use planning and commodity production projects)?

## 8. Policy and Regulatory Environment

- ★ Are there policy or regulatory issues, whether in terms of content or administration, that appear to limit the potential benefits of the proposed project and, if so, could these constraints be alleviated through: changes in the policy, regulation or procedure concerned, changes in project design, the addition of a project component to fund change or compensatory measures related to the issue in question, or coordination or cross-commitment with another development project?
- ★ Inherent in policy and regulatory change is the challenge of behavioral changes of government entities and producers alike. If policy or regulatory changes are needed, are sufficient funds programmed for policy development, awareness raising and capacity building for enforcement of the policies? Are these policy changes linked to implementation milestones as conditions precedent to disbursement?
- ★ Are their policy, legal, and/or socio-cultural constraints to women and men becoming full beneficiaries of the proposed project?

## 9. Financial Viability for Beneficiaries

- ★ Are financial benefits to the proposed activity sufficiently positive to attract and maintain beneficiary interest? Do the design and timing of the project respond to project participant limited capacity to absorb risk and current risk avoidance behavior. Do women and men have equal access to the financial benefits of the proposed activity?
- ★ Will the proposed activity require cost sharing from participants? If so, do the targeted participants have the capacity and willingness to pay? If not, what evidence is there that the project is valued by participants?

## 10. Sustainability

- ★ Does the intervention build on the private sector capacity to implement commercially viable solutions to identified production and market constraints?
- ★ Does the cost of public sector support and delivery activities under the project represent a reasonable share of public fiscal resources in relation to the budget and the stated development plans of the government?
- ★ Are subsidy programs limited and justified as a necessary public intervention? Will they foster the development of market solutions or are they likely to lead to producer/processor dependency? How will these subsidies be phased out?
- ★ What factors promote institutional sustainability and financial self-sufficiency (training, building capacity, support by NGOs, etc.)?
- ★ What factors promote financial sustainability and viability of the project's delivery agent beyond the life of the compact? If none, is there a clear exit strategy upon termination of funding that will preserve the project's benefit stream?
- ★ Does the project establish or contribute to an environment attractive to private investment to foster continued economic growth and the flow of new revenues for target beneficiaries well beyond compact duration? How will the project interact with private actors?
- ★ What provisions are in place for the project or existing institutions to attract additional private investment alongside of project activities?
- ★ What factors promote social sustainability, including the participation and commitment of women and other underrepresented groups? Do the proposed interventions favor some groups over others? How is that favoritism perceived? Can or will it lead to potential conflict at the local, regional or national level?
- ★ What measures are being taken to promote environmentally sustainable practices that help protect land, water, forests, fisheries, or other natural resources important to the long-term success of the project?

## 11. Project Costs

- ★ What are the costs of project implementation, including activity costs as well as management, procurement, financial control, monitoring and evaluation and technical audits? (Detailed annual budgets to be completed as well as quarterly budgets for Year 1. Costs must be segmented into local and foreign currencies as well as civil works, equipment, technical assistance, project management, and other significant categories of expenditure.)
- ★ What is the country's inflation rate and has this been reflected in project costs? Are there inflation considerations for implementation costs other than national inflation projections (e.g. security risks, regional instability, etc.)?
- ★ What is the cost of the project per beneficiary? (Household, farm and/or enterprise budgets are necessary to establish an economic baseline and to estimate the post-implementation ERR.)

## 12. Implementation Management

- ★ What are the proposed management and supervisory structures that will be utilized to implement and oversee the project? What is the technical and managerial capacity of these entities? Do these local institutions have the capacity to be full implementation partners and capacity to ensure project objectives after the life of the compact?
- ★ If there are capacity issues, is there a plan for capacity strengthening of these entities? Are there position descriptions (with clear roles, responsibilities and reporting requirements) for proposed MCA staff? Is there a results oriented personnel management plan for MCA-staff?
- ★ Does the (integrated) project design balance the trade-off between covering a wide range of activities deemed necessary to achieve poverty-reduction outcomes and the ability to achieve tangible results within limited time-frame? Is there sufficient project management capacity built into the project given the complexity of the project?

- ★ What is the overall timetable for the project (including time necessary to carry out procurement processes)?
- ★ What are the plans for and evidence of stakeholder consultation throughout the project?
- ★ What are the functional linkages of the agriculture project with other projects proposed for MCA funding? How will the appropriate level of coordination be assured during implementation?
- ★ What are the needs for MCC oversight of this project?

### 13. Monitoring and Evaluation

- ★ What are the quantifiable indicators of output (e.g. number of farmers trained, disaggregated by sex) and outcome (e.g. hectares cultivated with high value added crops) that the project expects?
- ★ Are baseline data available for these indicators? If so, what entity collects the data, is the information statistically sound and what are the baseline values and annual targets for these indicators?
- ★ Are the data available to monitor the project? What, if anything, is needed to strengthen the capacity or expand the scope of entities that will participate in monitoring and evaluation?
- ★ Beyond currently available and future data sources, do additional surveys need to be developed?
- ★ Do monitoring and evaluation plans include provisions to track impacts on specific beneficiary groups such as women and children, where practicable?
- ★ What are the mechanisms to monitor and evaluate project results and incorporate lessons learned into ongoing operations?

Refer to MCC's Monitoring and Evaluation Guidelines, Guidelines for Economic Analysis, and Gender Policy for more details on required information and methodology.

### 14. Risks

- ★ What are the principal risks inherent in the proposed project in terms of implementation as well as design? (Risks may include technology, adoption rates agro-climatic variations, sensitive timing, conflict, policy and regulatory framework, trade agreements and international relations, local customs, fragmentation of farming operations, gender inequalities, infrastructure and support services and issues of governance and transparency.)
- ★ Are the risks considered reasonable and have mitigating measures? Are these measures adequate?

### 15. Donor Coordination

- ★ Has the host country adopted a national sector plan or strategy? Is it well understood within the government and donor communities? Are donors supporting the strategy?
- ★ What are other donors doing or what do they plan to do in sectors of potential MCC activity? Describe the nature, size and status of these programs.
- ★ What are the functional linkages with other donors? How will MCA funds leverage, complement or reinforce other donor interventions? (I.e. are there established institutions that could be leveraged for implementation? Are there successful programs that could be scaled up?)
- ★ What are best practices/lessons learned from past donor interventions related to the areas identified in the MCC proposal, and how were they incorporated in the project? How would other donor programs positively or negatively impact the MCA program? How could either be changed to maximize the positive complementarities?