

Chapter 22:

Sector Guidelines for Countries Proposing Agriculture



REDUCING POVERTY THROUGH GROWTH

Sector Guidance for Countries Proposing Agriculture

MCC Due Diligence Requirements for Proposed Agriculture and Rural Economy Components

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This document is intended to provide an overview of the way MCC conducts due diligence on a variety of possible agriculture and rural economy components.

Within the Corporation's Guidelines for overall assessment of each proposal, projects in Agriculture and Rural Economy (ARE) areas will be assessed for technical, commercial, financial, economic, institutional, social and environmental feasibility. This document provides an overview of the principal assessments to be made. In addition to the steps outlined below, all ARE projects will be reviewed for compliance with other guidelines concerning the environment, gender policy and economic analysis.

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, ARE Due Diligence can begin once the following information is received:

- *Project justification, including a well-defined national development context (or sector strategy) and clearly defined targets for poverty reduction.*
- *Project description* with sufficient detail regarding exact project site, the geographic areas to be served, the preliminary identification of targeted beneficiaries, intended outcomes, the products or services to be delivered, and the methods of delivery.
- *Project costs, including detailed estimates.*
- *Preliminary environmental and social review, including gender analysis.*

- *Institutional arrangement* for project implementation (refer to Fiscal Accountability for guidance).
- *Preliminary economic and financial analysis* (refer to Guidelines for Economic and Beneficiary Analysis for more information).

The ARE Due Diligence focuses heavily on value-chain analysis that addresses the participants, the relationships and the conditions in each of the three interdependent sub-systems of an agricultural activity: the market, the value-added processes and the raw material supply. Surrounding this chain, which extends back from merchandising activities to processing, storage, handling, and on-farm production, there are horizontal relationships that provide inputs and services in support of each sub-system. Supporting the entire structure is the policy and regulatory environment that affect costs, returns and investment of participants throughout the sector.

In addition to the consideration of project impacts throughout the value-chain, the DD analysis is based on three other principles:

- Transformation is considered sustainable only if it is market-driven;
- Behavioral change of project participants can be expected to occur only when there are strong market incentives;
- Change must fully reflect international best practices, adapted as required for local use.

The ARE Due Diligence process requires attention to each of the following:

1. Development Approach

- What are the critical constraints or development opportunities that the project is going to address?
- How will the proposed activities address these constraints or opportunities? Does the project build on the strengths of the rural economy?
- Confirm that the identified sub-sectors offer the best potential for income generation and job creation, including multiplier effects, and are inclusive of the economically viable poor.

- What are the demographics of the rural economy, both nationally and in the project region, including age, gender, geographic location, education and employment? What are the characteristics of the rural poor, especially those that indicate that the poor will benefit from the proposed activities?
- Are proposed arrangements to deliver technical and financial services consistent with international best practices, particularly with respect to market orientation, responding to beneficiary needs, securing beneficiary commitment, and being cost-effective?

2. Project Beneficiaries

- Who are the targeted participants of the intervention? Are the development approach and timeframe appropriate to reach these participants? Has the full range of beneficiaries been considered (e.g. women, youth, disadvantaged groups, ethnic minorities)?
- What are the anticipated benefits of the project for the target beneficiaries? What would be their expected situation without the project? [Refer to Guidelines for Economic Analysis and the Gender Policy for more details on conducting gender analysis on project beneficiaries]

3. Markets and Marketing

- What are the market prospects for the key products that will be produced by the proposed investment, and what are the key drivers of growth in each?
- What are the critical factors in assuring access to these markets and how does the project propose to address these factors?

4. Post-Harvest Activities

- Does the post-harvest activity provide a sufficient return to enterprise owners, employees and agricultural suppliers to attract and retain interest in the activity? [Refer to Guidelines to Perform Economic Analysis for more details.]
- Do the proposed post-harvest activities reduce losses, add value or enhance market access for the subject agricultural products?

5. 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?
- Do the proposed innovations represent a reasonable jump for beneficiaries in terms of changes in technology and management?
- 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?

6. Raw Material Supply

- Does the proposed agricultural activity have access to (i) the improved inputs (seed, breeding stock, nursery stock, agro-chemicals, water), (ii) the technical support for their effective use and (iii) credit necessary to obtain them, to produce an output that responds to processing and market specifications?
- 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?
- Are risks considered reasonable and have mitigating measures such as technical support, sequential production over geographic areas, contract farming, post-harvest services and mitigation of environmental impacts been introduced as required?
- Is the delivered cost of these inputs and technical services in line with the additional benefits they are expected to generate?
- Does sustained production of the target products require applied research, field trial or varietal changes over the life of the project and if so, how will these be undertaken?

- Will increased utilization of inputs (timber, water, agro-chemicals, etc.) result in significant environmental impacts?
- 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)?

7. Supporting Facilities and Services

- 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?

8. Policy and Regulatory Environment

- Are there policy or regulatory issues, whether in terms of content or administrative procedure, 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?

9. Financial Viability for Beneficiaries

- Are financial benefits to the proposed activity sufficiently positive to attract and maintain beneficiary interest?
- Will the proposed solution require cost sharing from participants? If so, do the targeted participants have the capacity to pay?

10. Sustainability

- Does the intervention build on the private sector capacity to implement commercially viable solutions to identified production and market constraints?
- Are subsidy programs limited and justified as a necessary public intervention? Do they lead to market solutions and how will these subsidies be phased out?
- What factors promote institutional sustainability (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?
- Does the project establish an environment attractive to private investment that ensures continued economic growth and flow of new revenues for target beneficiaries well beyond compact duration?
- What factors promote social sustainability, including the participation and commitment of women and other underrepresented groups?
- Are there internationally recognized certification processes in use to ensure environmentally sustainable practices?

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?
- 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. [Refer to Guidelines to Perform Economic Analysis for more details.]

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 capacity of implementation entities?
- What is the overall timetable for the project (including time necessary to carry out procurement processes)?
- What are the mechanisms to monitor and evaluate project results and incorporate lessons learned into ongoing operations?
- 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?
- What are the functional linkages of the ARE project with other projects proposed for MCA funding? How will the appropriate level of coordination be assured during implementation?

13. Monitoring and Evaluation

- What are the quantifiable indicators of output (e.g. number of farmers trained) and outcome (e.g. hectares cultivated with high value added crops) that the project expects?
- What are the baseline values and annual targets for these indicators?
- What are the data sources available to monitor the project?
- Beyond currently available and future data sources, do additional surveys need to be developed?

Refer to the Monitoring and Evaluation Guidelines and the Guidelines for Economic Analysis document for more details on required information and methodology.

14. Risks

- What are the principal risks inherent in the proposed project as well as risks to successful implementation of the project? Clearly state risk mitigation mechanisms and how they have been built into the project design. (Risks may include sensitive timing, conflict, policy and regulatory framework, trade agreements and international relations, local customs, fragmentation of farming operations, gender inequalities and issues of governance and transparency.)

15. Donor Coordination

- What are 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 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?
- How would other donor programs positively or negatively impact the MCA program? How could either be changed to maximize the positive complementarities?