Theory of Change for Agribusiness and Manufacturing

Background note

Last updated: 2024

Contents

1. Introduction

Norfund's investments focus on four key areas, including scalable enterprises in agribusiness and manufacturing. Within this sector, all investments are located in Africa.

More than half of Sub-Saharan Africa's population works in agriculture, yet the continent struggles with food insecurity due to inefficient value chains and reliance on imports. Norfund's investments in the agribusiness value chain aim to boost productivity, retain more value locally, connect smallholder farmers to markets, and promote job creation, local processing, and industrialization, contributing to food security and economic growth.

In manufacturing, Norfund invests in companies producing goods like clothing and cement, aiming to scale businesses and foster the growth of larger companies to drive job creation and retain more production within Africa.

This document outlines our Theory of Change for agribusiness and manufacturing, explaining the rationale behind these investments, relevant literature, and the assumptions and impact risks considered.

2. The Theory of Change framework

Box 1: Theory of change concept

A theory of change is a framework that outlines how and why a desired change is expected to happen in a particular context.

The theory starts with a clear problem statement, identifying the specific issue or challenge that needs to be addressed. Inputs are then detailed, which include the resources, activities, and interventions necessary to tackle the problem, that Norfund is providing. These inputs might consist of funding, staff, partnerships, and specific actions or programs designed to drive change.

The theory of change then maps out the logical sequence leading from inputs to outputs, outcomes in the short and longer term, and finally, the desired impact. Outputs are the direct results of the activities and inputs, such as the increase in staff or payment of taxes and fees.

Outcomes refer to the short- and medium-term changes that result from these outputs, such as expansion of firms or establishment of new firms and increased household consumption and resilience. Finally, the impact is the long-term, sustained change that the theory aims to achieve, such as job creation, economic growth and improved living standards.

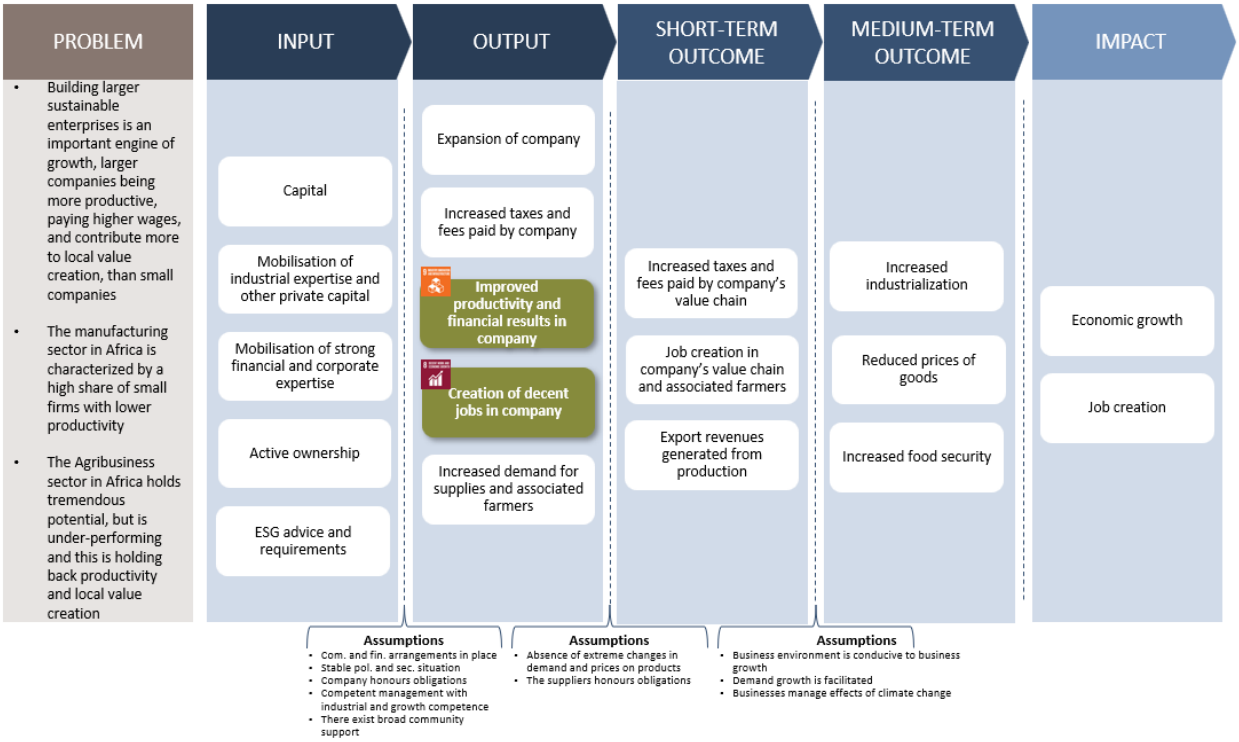
This pathway is mapped out in a theory of change, and helps organizations and stakeholders understand the process of change, measure progress, and refine strategies to ensure the desired impact is achieved.

Based on literature and current knowledge of agribusiness and manufacturing Norfund has developed a Theory of Change (ToC) for how change happens through our investments. The ToC consists of a framework of input, output, short- and medium-term outcomes and impact goals, as described in box 1.

The input is what Norfund provides as an investor, while the output is generally monitored during annual reporting. The outcomes are generally measured through case studies and other in-depth analysis on a case-to-case basis. The expected long-term outcomes and impacts are demonstrated through literature.

The elements visualized in the ToC are the key aspects of change, based on literature and knowledge of the sector. However, we do not state that these happen in all cases. Central to being able to move from input and through the steps, all the way to the final impact goals are the assumptions we have outlined in section 6 of this document. If these assumptions do not hold, some, or all, of the steps in the ToC might not be realized.

The theory of change for Agribusiness and Manufacturing



3. The hypothesis of change

This part of the document explains how our investments and associated input in agribusiness and manufacturing translate through to outputs, outcomes and in the end the desired impacts.

3.1 Input

Norfund provides capital (equity, debt or funds) to existing enterprises. This helps to finance investment requirements associated with growth strategies. We also wish to mobilize private capital into the businesses. Norfund often takes an active ownership approach to ensure value creation and to assist scale up of the companies and support the company on various aspects of its growth strategy. This is also done through the offer of strong financial and corporate expertise when we are active owners. In addition, we offer tailored business support programs, to assist the business if gaps are identified. Such programs could include upskilling of employees or testing of new types of products in the market. In this way we assist the businesses to identify both risks and identify and explore opportunities for further growth. Finally, Norfund provides advice and requirements to ensure environmental and social risks are properly identified and mitigated.

3.2 Output

After the investment agreement is reached, the capital is used to expand the company – either through natural growth or M&A strategy. Requirements from Norfund ensure that improved systems are in place,

and we actively seek to strengthen investees' performance related to environmental, social and governance structures and avoid adverse environmental and social impacts[1].

This, together with the investment itself, should lead to improved productivity and efficiency, resulting in improved financial results and facilitating formal job creation in the company. Through compliance with IFC performance standards and Norfund's environmental and social sustainability policy we aim to create decent work opportunities and responsible production practices[2].

Several of the businesses we invest in within the agribusiness and manufacturing segments are businesses that rely heavily on manual labor. In some cases, our investment is used by the company to purchase or upgrade machinery, making production more efficient. In this case, employment might decrease in the short term because of our investment. Considering development in the long run, this is a desired development, as it increases the productivity of the firm, allowing them to pay higher wages and benefits to its remaining employees. When this development occurs, it means that we contribute also to creating quality employment opportunities[3].

As the company can expand operations, other direct effects include increased demand for supplies, and increased payment of taxes and fees to the government, as a result of increased profitability. For businesses in the agribusiness value chain, we expect to see an increase in the number of associated farmers supported.

3.3 Short- and medium-term outcomes

In the short term, as companies in the manufacturing and agribusiness value chains grow, their demand for supplies increases. This expansion increases production across the value chain, leading to higher tax and fee payments from these firms. As the businesses scale up, they also require more labour, contributing to job creation within the sector.

A positive spillover effect has also been observed: the development of a skilled workforce in one company benefits others, as employees transfer expertise and best practices across firms, strengthening the overall industry.

Investments in modern farming technologies further enhance efficiency and agricultural yields, increasing the supply of food to local markets and improving competitiveness in export markets.

In the medium term, improvements in manufacturing capacity and product quality drive industrialization, resulting in a greater supply of high-quality goods at lower prices. Within the agribusiness value chain, the expansion of companies and their production capacity increases the availability of food products, contributing to greater food security.

Additionally, investments in agribusiness and manufacturing can help slow rural-urban migration by creating more economic opportunities in rural areas.

[1] Read more about this work in our Policy for Environmental and Social Sustainability

[2] This refers to the compliance with human rights, ILO declaration on Fundamental Principles and Rights at Work and consideration of working conditions, such as terms of employment (including wages), and employee access to grievance mechanisms.

3 There are several definitions of "quality employment". Considering the OECD framework for quality jobs, there are three dimensions to the quality of employment that should be assessed. These include the earnings quality, labor market security and the quality of the working environment (OECD, 2015).

3.4 Impact

In the long run the increased productivity, industrialisation and formal job creation affects the rest of the economy, leading to reduced poverty levels, economic growth and further job creation.

The mentioned effects in this document are not an exhaustive list of potential effects from increasing investments in agribusiness and manufacturing in Africa.

4. Rationale for investment

This part of the document provides an outline of why investments in agribusiness and manufacturing are needed. Investments in this sector are critical to support growth, job creation and to reduce poverty.

4.1 Agribusiness value chain

Economic importance and potential

Agriculture is the backbone of many African economies, contributing approximately 25% of the continent's GDP and employing more than 70% of its population (Kotsuji, 2021). With 60% of the world's arable land, abundant water resources, and diverse climates, Africa has large potential to become a global agricultural powerhouse (Hodder & Migwalla, 2023). The African Development Bank projects that Africa's food and agriculture market could grow from US$280 billion annually in 2023 to US$1 trillion by 2030, highlighting the sector's immense potential.

The challenge

Despite the potential, the agribusiness sector in many parts of Africa remains underdeveloped, struggling to meet local demands for produce and leverage export opportunities. The majority of farmers in Africa live and work on plots that are smaller than two hectares (Rapsomanikis, 2015) which often results in inefficient operations. About 25 % of food production in Africa is wasted and almost half of this is due to limitations of handling and storage of food (BII, 2020). The agribusiness sector is further particularly vulnerable to the effects of extreme weather, diseases, and changes in global demand for goods. The continent still imports a substantial amount of its food, beverages, and similar processed items.

A major challenge in many countries is that young people are leaving rural areas and farming to seek better opportunities in cities, often discouraged by the hardships they see their parents facing. A more technology-driven agricultural sector is seen as a way to attract and retain younger people, offering the potential for more efficient and profitable farming operations. However, the limited size of many local markets makes it difficult to achieve the scale required for efficient production. Additionally, exporting goods often involves complex processes and barriers, leaving local companies operating below optimal capacity and struggling to compete with imports from large global firms. The success of the African Continental Free Trade Area (AfCFTA) is therefore crucial for improving the business environment and enabling local businesses to thrive.

These challenges in the agribusiness sector greatly affects households, as food spending is by far the largest component of household budgets n many of the markets where we operate (USDA, 2023). Fluctuations in food prices therefore affect the households greatly, and low-income households are particularly vulnerable to price changes.

The need for capital

Compared with more developed regions, primary agriculture takes up a large share of the value chain in Africa, and therefore, investments in other parts of the value chain are especially needed (Hodder & Migwalla, 2023). This reliance on imports further underscores the critical need for investments in the agribusiness value chain to increase local production and reduce dependency on external markets. However, many commercial investors are discouraged by the risks associated with the sector and the volume of foreign direct investments in this sector continues to be low in many regions in Africa, making the need for investment acute.

Norfund's approach

By investing in the agribusiness value chain, including processing, storage and transportation of crops, there is an opportunity to increase productivity and efficiency. Assuming that the farmers are paid fairly and according to the productivity increase, this increases the farmers' incomes, while providing an increase in available and affordable food. These effects all contribute to reducing poverty and slow down rural-urban migration patterns.

Some of Norfund's investments in this sector are further aimed at creating ripple effects so that the smallholder farmers linked to the companies can increase their efficiency in the longer run, e.g. by supporting firms that ensure adequate technologies and infrastructure to transport and store food and creating off-taker opportunities for the farmers to sell their products.

4.2 Manufacturing

Economic importance and potential

The manufacturing sector presents significant opportunities for driving economic growth and transformation. Historically, a robust manufacturing sector has been fundamental to the economic development of most countries (United nations Industrial Development Organization, 2016).

In Africa, nations where manufacturing contributes substantially to the gross domestic product generally exhibit higher developmental stages (Attiah, 2019). However, the continent's manufacturing industry remains relatively undeveloped compared with other regions, marked by a predominance of small-scale firms. These small-scale firms often suffer from lower productivity and wages due to their limited ability to benefit from economies of scale.

The challenge

The lack of large enterprises in Africa on average means there are less companies that can power growth and job creation (McKinsey, 2016). Encouraging the growth of larger manufacturing enterprises could also have a ripple effect across the economy, benefiting the upstream suppliers and downstream distributors, thus enhancing the value created in the entire value chain. Furthermore, estimates show that Africa's population will double within 2050, meaning that the economy needs many new jobs to avoid an unemployment crisis and to sustain the increase in extra demand for goods. Building a more robust manufacturing sector can be part of the solution if provided with the tools and funding to scale existing and potential businesses.

The need for capital to create formal job- and export opportunities

The need for formal job creation in Africa is large. In 2018, the international labor organization (ILO) reported that 8 out of 10 workers in Africa are in informal employment arrangements. There are several possible ways of characterizing informal labor. ILO, however, considers informal employment arrangements to be those that do not have secure employment contracts, workers benefits, social protection and workers representation[4]. Investments in private sector businesses, which often increase formal labor opportunities, are therefore important for employees to have secure working conditions.

Another element describing the need for investments into the manufacturing sector is the export landscape. In several regions in Africa, the export landscape is dominated by primary products (raw materials). Shifting away from exports of primary products presents and untapped potential within the African manufacturing sector, which could substantially enhance economic development (Brookings, 2018; McKinsey, 2016; AfDB, 2019).

Norfund´s approach

Norfund invests in the manufacturing sector to catalyze industrialization and contribute to local processing, that could reduce reliance on imported goods. This is done by supporting companies that can be scaled to be the needed engines of growth, creating formal jobs and revenue growth, spilling over to other parts of the economy, catalyzing broader economic growth.

5. Literature review

This section outlines some of the literature describing why investments in the agribusiness value chain and manufacturing are important enablers for job creation and economic growth in Africa.

The subchapters will focus on different avenues of change that can be realized as a result of the investment, that eventually is expected to lead to job creation and economic growth, ultimately reducing poverty.

5.1 Effects of investments in the agribusiness value chain

Investments in agribusiness as an accelerator of economic growth and poverty reduction

The agribusiness sector is relatively labor intensive and relies heavily on supply from local producers. Growth in this sector is found to contribute to a range of outcomes, including increases in productivity, better market access for smallholder farmers, import-replacement of processed foods, greater local value creation, higher tax generation, and higher export incomes (FAO, 2017). This makes the sector important for economic growth and job creation.

A World Bank study found that the food and agriculture sector is two to four times more effective in increasing the incomes of the poor[5] than growth in other sectors are (Townsend, 2015). This, they argue, is due to the majority of the world's poor living in rural areas and depending on agriculture for their

[4] Further the definition states: all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise
[5] Defined in the report as living on less than $1.25 per day

livelihoods, meaning that improvements in this sector target a large share of the population and on average the ones most in need.

Growth in agricultural productivity therefore directly benefits these individuals by increasing food production, providing employment, and raising incomes. Additionally, they argue that agricultural growth often has stronger multiplier effects in rural economies, stimulating demand for local goods and services, which further boosts income levels for the poor (Townsend, 2015).

An article by Krupa and Walczak (2014) explores the impact of investments in the agribusiness value chain on smallholder farmers, job creation, and the broader economy. It highlights the need to diversify investments beyond solely targeting smallholder farmers. The authors argue that increasing the share of services and the manufacturing sector, which indirectly supports smallholder farmers, can boost job creation in both agricultural and non-agricultural sectors in rural areas, ultimately fostering overall economic growth. The article also emphasizes the importance of reducing the primary agriculture sector's GDP share by enhancing the value chain, thereby creating a more productive sector with broader economic benefits. Strategic value chain investments, according to the article, are key to driving growth and development, particularly in developing countries (Krupa & Walczak, 2014).

The effect of investments in agribusiness on prices and food security

Another desired effect of investing in the agribusiness value chain is to ensure improved food security. Improvements in the agribusiness value chain, resulting in increased produced volumes contribute to increased food security (Scott, 2011).

This is corroborated by a study considering the role of agriculture in ensuring food security in developing countries performed in 2020. This found that strategic investments in agribusiness infrastructure, such as irrigation and technology are essential for boosting agricultural productivity and ensuring sustainable food security (Pawlak & Kolodziejczak, 2020).

Interventions that increase productivity in the agribusiness value chain or directly increase production of food will increase availability and thereby reduce prices of such goods, given that the products are supplied to the same market and all else is equal (Stiglitz & Walsh, 2006). This effect will free up funds for other purposes, such as investments in education, home improvements, electricity and transportation.

Long term vs short term labor effects

Considering the employment effects of investments in agriculture, a study conducted by ODI in 2013 concluded that investments in primary agriculture and food processing supports employment in the short run, but that these investments may not contribute as much to long-term structural economic transformation compared with other sectors of the economy (ODI, 2013).

5.2 Effects of investing in manufacturing

The role of manufacturing in economic development

The manufacturing sector has been widely recognized as a critical driver of economic development. Several studies highlight its role in accelerating industrialization, fostering structural transformation, and promoting sustained economic growth (Szirmai, 2012 & Haraguchi, Cheng, & Smeets, 2017). The proposition that manufacturing has a stronger effect on economic growth than other sectors is known as the "engine of growth hypothesis".

However, the expected positive relationship between increase in the manufacturing sector and economic growth of a country is perhaps not as straightforward as it was thought to be previously. In 2015, Szirmai and coauthors re-examined the role of manufacturing as a driver of growth, using data from 88 countries between 1950 and 2005 (Szirmai & Verspagen, 2015). They find a moderate positive impact of manufacturing on growth. In line with expectations, they find that especially countries with low levels of development and higher levels of education, will show a positive effect of manufacturing on growth.

Their extensive data, from both developing and developed countries, over such a long time period allows for investigation of effects over time. Their findings point to manufacturing being a more difficult route to growth than it was before 1990. They argue that higher levels of education are now needed to capitalize on the expansion of manufacturing.

Several researchers now argue that the services sectors such as software, business processing, finance or tourism may act as leading sectors in development and that the role of manufacturing is declining (Dasgupta & Singh, 2005). However, Szirmai (2015) finds no evidence to support this hypothesis.

A more recent study using data from 80 countries in the period 1980 to 2010 also investigates the engine of growth hypothesis, namely the role of manufacturing in economic growth (Cantore, Clara, Lavopa, & Soare, 2017). Contrary to the findings by Szirmai, this study finds that the manufacturing sector is still crucial to enhance economic growth. However, this study highlights the importance of how the manufacturing is set up, to facilitate growth. They find that countries that focused on strengthened productivity and structural transformation increased their GDP more than countries that focused primarily on employment growth within the sector. The study therefore argues that focus should be on productivity gains and technological advancements, rather than simply expanding the employment.

The role of larger companies in fueling economic growth

The development and growth of a country is largely influenced by the success of large businesses. In Africa there is scarcity of large companies, especially in the poorer countries. Larger companies are vital for a country's economic development as they typically exhibit higher productivity and offer better wages compared to their smaller counterparts. According to McKinsey, this productivity effect is even more pronounced in Africa than in other developing regions and is particularly strong in manufacturing companies (McKinsey, 2016).

Furthermore, wages in the manufacturing sector tend to be higher than those in the service sector (McKinsey, 2018). Large companies enable economies of scale, allowing for cost reduction, increased

efficiency, and enhanced global competitiveness. Thus, investing in companies with the potential to scale up can significantly contribute to job creation and boost productivity. Unlike smaller companies, larger firms often possess more resources and have a greater capacity for innovation, which leads to increased operational efficiency and market competitiveness (McKinsey, 2018). This growth translates into more job opportunities, supporting broader economic development. Moreover, larger companies are more likely to adopt advanced technologies and management practices, enhancing productivity and creating high-quality jobs. The existence of such companies also has a ripple effect on the economy, indirectly stimulating the growth and productivity of small and medium-sized businesses within their value chains.

A 2021 study in the United States revealed that during the COVID pandemic, almost one third of new jobs were created by just 2 % of companies (Wakefield Research, 2021), further underscoring the immense potential of large companies, which, with sufficient capital and competencies, can employ many people.

While small firms may demonstrate high rates of gross job creation, several studies note that this is often offset by equally high rates of job destruction (Bertanzetti, Mondal, Nasir, & Teachout, 2024). However, the relationship between size of firm and net job creation has been extensively studied and is disputed. Some argue that net job creation is determined by the age of a firm, rather than the size of the firm (Lawless, 2014 & OECD, 2013). Often, these two indicators move together, and thus it is difficult to distinguish between their respective effects.

However, large firms often offer more stable and high-quality employment, coupled with the potential for large-scale job creation. These characteristics underline the essential role that large firms play in economic development. While the majority of jobs are held in small businesses, the stability and growth potential in larger firms are crucial for long-term economic prosperity (Bertanzetti, Mondal, Nasir, & Teachout, 2024 & McKinsey, 2018).

6. Assumptions

Investing in agribusiness and manufacturing is important to facilitate job growth and economic development, but for our inputs to translate to outputs, further to outcomes and in the end the desired impact there are many elements that should be in place. This section outlines some of the assumptions we have underpinning our theory of change. The assumptions speak both to the micro, individual level, such as the composition of the company's board, and to macro level circumstances, such as political stability and currency fluctuations.

Not all assumptions must hold for the desired outcomes to be realized, as several of the outlined assumptions are difficult to achieve in the markets Norfund operates in. However, if the desired outcomes and impacts are not realized because of the investment the lack of one or several of the elements mapped out might be part of the reason.

6.1 From inputs to outputs

The key assumptions to be able to transition from our inputs to our desired outputs include:

- The company honors obligations
- Management is competent and industrial and growth expertise is in place
- Robust commercial and financial arrangements are in place
- Broad community support
- Stable political and security situation

When a company consistently meets its **obligations**, with partners in the value chain and customers, it builds trust with its investors, partners, and customers. This trust is built through honoring contracts, debt repayments, and other legal and financial commitments. A track record of fulfilled obligations is indicative of a company's reliability and integrity, which can attract further investment and partnerships. In emerging markets, where legal enforcement might be less predictable, the self-enforcement of obligations by a company can be a positive sign of its governance standards.

That management is competent and has the needed growth and industrial **expertise** in the field is imperative in facilitating successful upscaling of businesses. Without competent management, that can take the company in the right direction, resolve disputes and grow the company the desired objectives will not be realized. Having competent management also means being able to tap into local knowledge of the markets and consumer habits. Building on this element of competency in the company, it is also important that the company mitigates issues related to **key person risks**, meaning that they are not overly reliant on the competency of a single or a few of its employees.

Having robust **commercial and financial agreements** in place is important for the desired outputs to be realized. In the context of developing countries, this often involves navigating complex legal frameworks, managing currency risks, and ensuring that the financial mechanisms are resilient to local economic fluctuations and shocks. Robust agreements contribute to ensuring that there is a clear understanding of the market dynamics, pricing structures, and the financial models that will drive profitability. Proper arrangements mean that investments are backed by sound financial planning and a solid commercial strategy, which are necessary for the long-term sustainability of the business.

Gaining acceptance and support from the **local communities** is vital in assuring the success of the investee. To obtain broad community support one must understand and show respect to local cultures, traditions, and needs. Ensuring broad community support can mean the difference between the success and failure of an investment, as local communities play a key role in the operations and sustainability of the projects.

Lastly, but not exhaustively, **political and security risks** are present in any investment. A stable political environment ensures the continuity of policies and regulations, which is essential for the viability of long-term projects. Additionally, a secure environment is crucial for the safety of the investment, the workers, and the project's assets. Political instability or security issues can lead to project delays, increased costs, or even failure of the project.

6.2 From outputs to short-term outcomes

For the outputs to result in the desired short-term outcomes there are two key assumptions that should hold:

- Suppliers must honor their obligations to the companies
- There should be no extreme changes in demand or prices of products

The first assumption focuses on the reliability of suppliers in fulfilling their **obligations** to our investees. This is an essential factor in the operation of any business, but it can become even more important in the context of agribusiness and manufacturing industries. These sectors often rely on a complex supply chain which involves multiple stakeholders. When suppliers honor their commitments, it ensures a steady flow of the necessary input, thereby reducing the risk of production delays or other issues in production. This reliability is vital for maintaining product quality and being able to meet delivery deadlines. However, related to this it is also assumed that the companies we invest in are not over reliant one a few or a single supplier.

The second assumption concerns the stability in **demand and prices** of products. If this holds, there will be no extreme fluctuations in market demands or the prices of goods. This stability is crucial because dramatic changes in either demand or price of products, for instance due to currency fluctuations, can significantly impact the profitability and sustainability of the businesses we invest in. For agribusiness and manufacturing sectors, where the production process can be resource-intensive and time-consuming, stable demand ensures better consistency in revenue streams, and predictable prices allow for more accurate budgeting and financial planning. This assumption is particularly important in some of the markets where we invest, as prices and demand can fluctuate due to various factors such as political instability, climatic changes or economic uncertainties brought on by elements such as currency fluctuations and high or unstable inflation. This also means that we assume that there are no drastic changes in the landscape of competitors, and thus the same market conditions are upheld.

6.3 From short-term outcomes to medium-term outcomes

For the short-term outcomes to be transitioned to medium term outcomes the following should hold:

- The business environment should be conducive to growth
- The demand growth is facilitated
- The businesses manage the effects of climate change

The assumption that the **business environment** is conducive to growth is imperative for any investment. It implies that the region has a stable political climate, a legal system that protects investment and enforces contracts, and a regulatory framework that enables rather than hinders business operations. Furthermore, the presence of adequate infrastructure, such as roads and electricity, is important.

That there is facilitation of **demand growth** is another key assumption. It presumes an increasing consumer base and rising purchasing power in the communities where the produce is being sold. For agribusiness and manufacturing, this would mean a greater market for agricultural produce and manufactured goods, and that this growth meets an unmet demand from consumers. Such a growth in

demand could encourage further businesses to invest in scaling up their production, enhance their product offerings, and improve quality to meet the needs of a larger market. In this way our investments can have an impact also beyond the direct effects created in the company where we invest.

The ability of businesses to manage the effects of **climate change** is an assumption that speaks to the resilience and adaptability of enterprises. In the context of many of the regions in Africa, where climate change poses significant risks to agriculture and manufacturing, this assumption suggests that businesses are expected to adopt practices that allow them to mitigate the adverse effects that come with changing climates, such as floodings and/or droughts. This could mean investing in adaptive technologies and further developing strategies to mitigate environmental risks to crops and produce. Successful management of adverse climate impacts is becoming increasingly important for the success of any business in these regions. Thus, this assumption should hold both for the desired effects in Norfund´s portfolio companies and for the effects to be realized in the companies' suppliers.

7. Impact risks

The expansion of agribusiness and manufacturing in Africa holds tremendous potential for economic growth and development. However, there are risks to any such investment that must be acknowledged. Assessing the impact risks means assessing the likelihood that impact will be different than expected. The impact can be different than expected due to the elements elaborated on in this chapter, but importantly also if any of the mentioned assumptions above do not hold.

Job displacement: Modernization and automation of agricultural and manufacturing processes could reduce the demand for traditional labor-intensive practices and increase the demand for highly skilled labor. In regions where large portions of the population rely on small-scale farming and manual labor for livelihoods, this could lead to social and economic challenges, including increased unemployment and thereby social unrest. The projects must therefore consider this possible impact and how to mitigate any such effects on local communities.

Skill mismatch: The manufacturing and technological agribusiness sectors often require technical skills that may not be found in the existing workforce. Without proper training and education programs, there can be a significant gap between job requirements and available talent, hindering the growth of these sectors. When investing it therefore is important to consider the potential need for training programs for existing and new employees to mitigate the effects of skill mismatch.

Capital cost: Initial capital cost for agriculture businesses and setting up or scaling up manufacturing companies can be high. This can potentially raise the cost of goods and create barriers to entry for smaller, local businesses. This can have the unintended and unwanted effect of hindering local entrepreneurship and innovation.

Supply chain disruptions: Both agribusiness and manufacturing rely on a stable supply of raw materials, which can be affected by climate change, political instability, or macroeconomic volatility, such as inflation and interest rate shocks. The reliance on imported materials or technology can introduce vulnerabilities for the companies, particularly in regions with few supply alternatives.

Environmental degradation: The intensification of agriculture can lead to soil depletion, water scarcity, and loss of biodiversity. Considering Africa's large share of arable land, one should ensure projects are placed where they minimize these negative aspects on the environment. The manufacturing businesses can introduce pollution and waste management issues if not managed with sustainable practices that fit with those available in their local communities. These potential environmental risks can undermine the long-term viability of investments and lead to conflicts with local communities if not managed well.

Technological obsolescence: Today's technologies can quickly become outdated in rapidly evolving sectors like manufacturing, requiring further investment and adaptation. This is especially important considering the effects of climate change, which might make the need for new and adapted technologies even more important.

Distribution of benefits: Investment in agribusiness and manufacturing should ideally lead to development for all segments of the population, e.g. through spending of wages and redistribution of taxes, but there is always a risk that benefits may be unevenly distributed, potentially exacerbating existing inequalities in the communities. The creation of quality jobs, fair wages, and a focus on inclusive growth are essential to prevent new forms of economic disparities. When providing equity and acting as an active owner we set standards related to E&S and have an active role on the boards of companies to ensure inclusive and just growth, as well as good working standards in line with IFC performance standards.

In conclusion, while investment in agribusiness and manufacturing can be an enabler of job creation and economic growth, it necessitates careful strategic planning and comprehensive risk management to ensure that the foreseen impact is realized and growth is sustainable, inclusive, and equitable. Unforeseen negative impacts can occur in any project, so planning for and mitigating potential risks is essential.

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