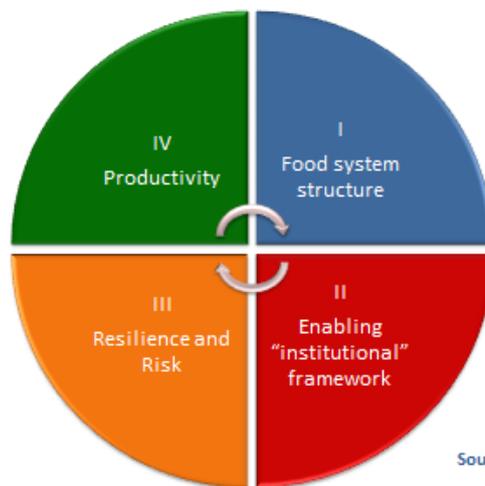


A Composite Indicator for Agriculture ^{1/}

1. The 2008, 2010 and 2012 food crises (or alerts) continue to flag the fundamental structural misalignments between demand and supply in the agricultural and food sectors. This creates space for speculation and market volatility ^{2/}, and generates risk aversion reflexes in investors in the real sector of agriculture. Incomplete and asymmetric price transmission and other remnants of anti-agricultural producer policy biases dampen the supply response. The resulting food insecurity is reflected in the number of hungry people, today. Furthermore, in the longer run, there is a need to produce 60% more food by 2050; and it is not clear who will produce it where and how. It is likely to be a combination of: (some of) the 500 million smallholders farmers ^{3/}, the commercial farmers and corporate farmers. That combination varies from one country to the other and will change over time. For relevant, efficient and effective policy choices, development strategies and investment programmes, this rural structural transformation in the agricultural sector and the global food system needs to be monitored and acted upon.
2. To this effect, the G8 has called for a composite indicator for agriculture and food security; and the USA Government with the Government of Denmark have taken the Copenhagen Initiative (June 2012). The call for an agricultural scorecard in the address of Bill Gates at IFAD's Governing Council (February 2012) has echoed into many initiatives, most prominently the FAO convened events on New Metrics for Agriculture (October and December 2012).

3. There are many visions, ideas and pilots for such composite indicators or scorecards; and the consensus on the need for such instruments does not extend yet to their components (related definitions and measurements), weights and computation. There are also different views on the purpose, the stakeholders and the process to conclude on this "barometer" of rural transformation. However, in the adjacent diagram an attempt is made to conceptualise and integrate some of the common denominators for such a composite indicator, as they appear to emerge implicitly.



Source: SSD, IFAD

4. A composite that meets above (para 1) outlined requirements would include:



- a. A set of indicators that relate to the current structure of farming and the structure of the food system (quadrant 1, upper right quadrant);

¹ Note prepared by Thomas Elhaut with Alessandra Garbero and Constanza Di Nucci. This note represents views of the authors and does not necessarily represent the position, views and policies of the IFAD where they currently work.

² Dealt with by AMIS focussed on market transparency to reduce excessive volatility

³ Reference: a) the moving in, hanging in, moving up, moving out strategies (WB, 2008); or b) agricultural push, industrial pull processes.

- b. A set of indicators that show “where it is good to be a farmer” ^{4/} given political, governance and socio-economic conditions - the enabling environment;
 - c. A set of indicators that reflect the level of resilience as well as risks in the farming business that would push “transforming” farmers back to lower levels of productivity and competitiveness; and
 - d. A set of indicators that reflect farm sector productivity; with the hypothesis that this causal chain (quadrants I through IV) would trigger transformation of the farm structure (back to quadrant I).
5. Because of its causality chain leading to rural transformation, one name considered is the “Agricultural Transformation Index” ^{5/}. Some consideration is also given to a more open, flexible system of indicators ^{6/} that can be customised by specific users, for their purposes, while using common data sets.
6. The previously referenced meetings brought together a number of institutions and experts who have been working on indices or other relevant instruments for some time; and some of these indices are very influential. There is therefore a long list of candidate indices for such composite indicator ^{7/}. It is also true that none of the existing indicators fully meets the coverage requirements for a global composite indicator on agricultural transformation. This work is ongoing for instance with the Copenhagen Process, the FAO initiatives, etc.
7. Some institutions (prominently FAO) are well placed to develop the structural and productivity sub-components (quadrants 1 and 4); and other institutions (prominently the World Bank and IFPRI) are active on the enabling environment and markets sub-components (quadrant 3). These institutions can work with other partners in developing further these potential sub-components as an input in a meeting that would focus on concluding on the vision, concept and structure of a composite indicator for agriculture.
8. IFAD would be willing to prepare inputs related to:
 - a. The rural policy and institutional environment, based on its PBAS ^{8/}; and
 - b. Ongoing work in the area of smallholder resilience and risk and differentiated country risk profiles.
9. The main challenge will, of course, be where to find the data for the sub-indicators (or proxies). The process would need to rely on national systems (which enhances ownership), duly supported by the Global Strategy to Improve Agricultural and Rural Statistics (FAO), as well as on other established, nationally representative, data collection systems (such as LSMS) . But there is a need for innovative approaches to data collection. The system used by the Doing Business Index of the WB, the Gallup poll initiative of FAO, the World Agricultural Watch (FAO/CIRAD) and the AMIS approach voluntary data disclosure by governments are interesting examples for such different approaches. The further process to develop the composite indicator should also address this issue.

⁴ Quoting the Danish Minister for Development Cooperation at the Copenhagen Consultation

⁵ Copenhagen Consultation report.

⁶ Or matrices

⁷ WB, Benchmarking Business in Agriculture; IFPRI, markets; several hunger, food security or resilience related indices (e.g. FAO, WFP, IFPRI; and work in IFAD); several empowerment related indices (WEIAI, LSMS); several governance and commitment indices (IDS, Mo Ibrahim); institutional and policy environment indices (IFAD/PBAS) etc....

⁸ The performance based allocation system for its lending programme commitments