

The Practice of Responsible Investment Principles in Larger Scale Agricultural Investments

A joint World Bank-UNCTAD study

Presented by:

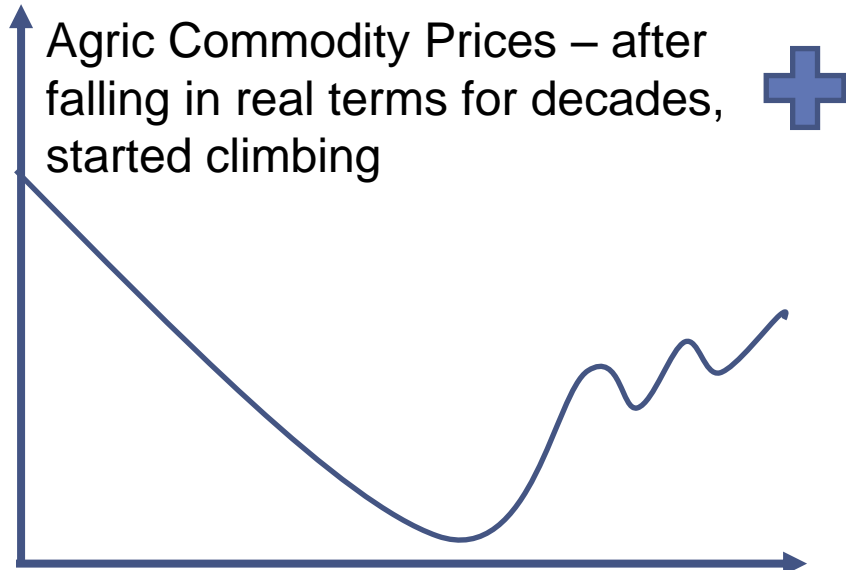
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Everything changed in 2008



Share prices collapsed, by agriculture investment held value



Significant increase in interest investment in Agriculture, globally

It's a Land Grab !!!

No its not!!!

Yes it is!!!

50 year time line, + 179 agribusiness investment made by the Commonwealth Development Corporation (CDC) of which 122 were in Sub Saharan Africa and 57 in East Asia

Development Impact: sustainable livelihoods, achieve development goal

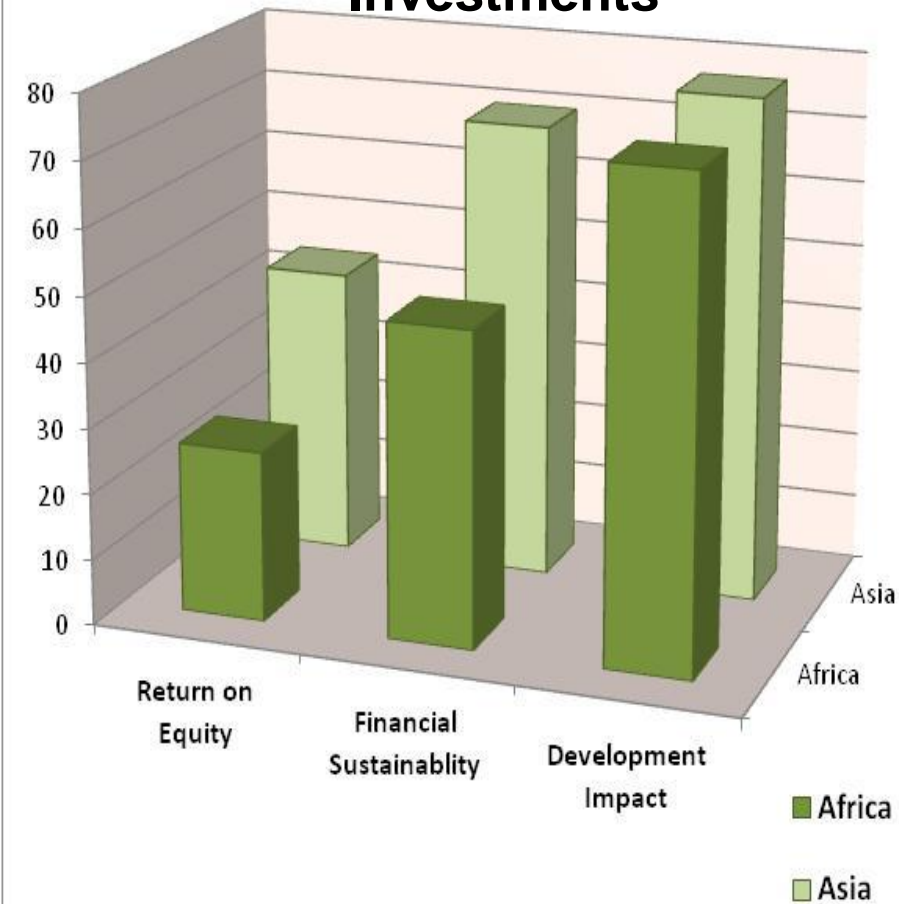
Equity Returns: dividends & capital gain to shareholders

Financial Viability: creation of financially self-sustaining enterprises

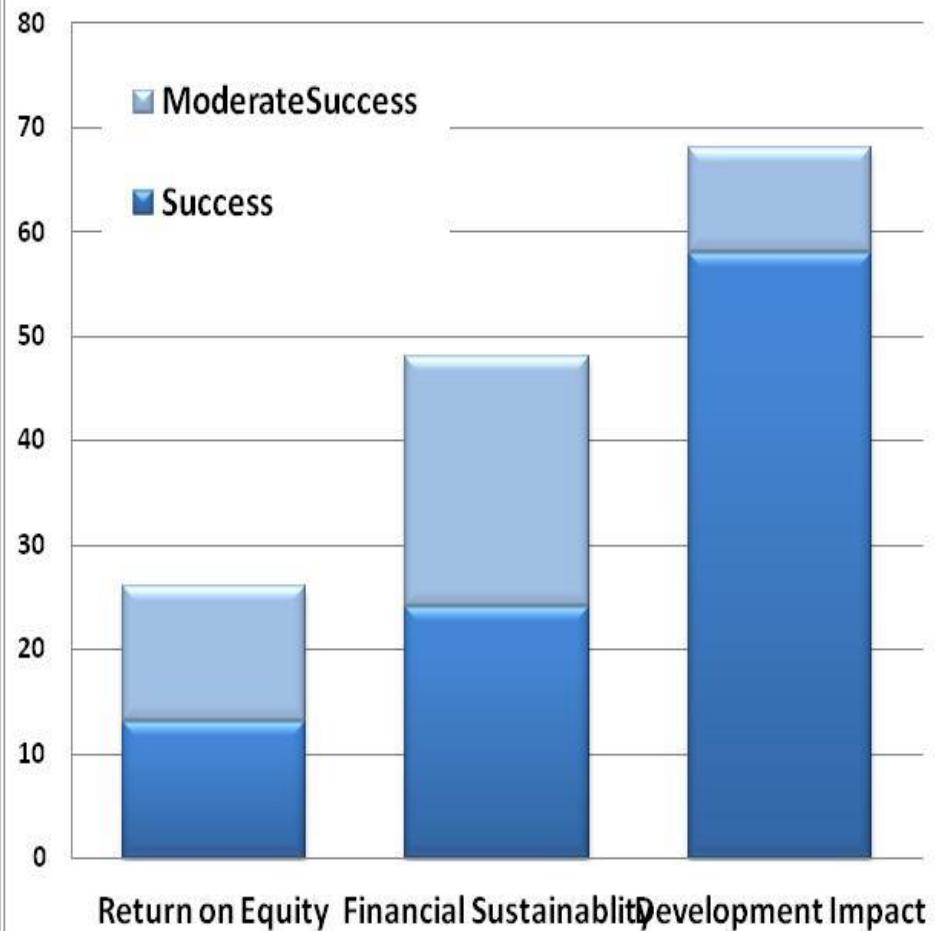
- **Fail:** total or substantial project collapse during implementation or shortly after completion
- **Moderate Fail:** some positive achievements, but far fewer than planned
- **Moderate Success:** substantial on-going benefits although fewer than planned
- **Success:** main objectives achieved or exceeded

Although African projects were slightly less successful than in Asia – the most significant difference was between generating sensible equity returns (only 15% success, and 15% moderately successful), and the fact that ultimately most of the investments (70%) finally delivered a long term economic benefits

African vs. Asian Investments

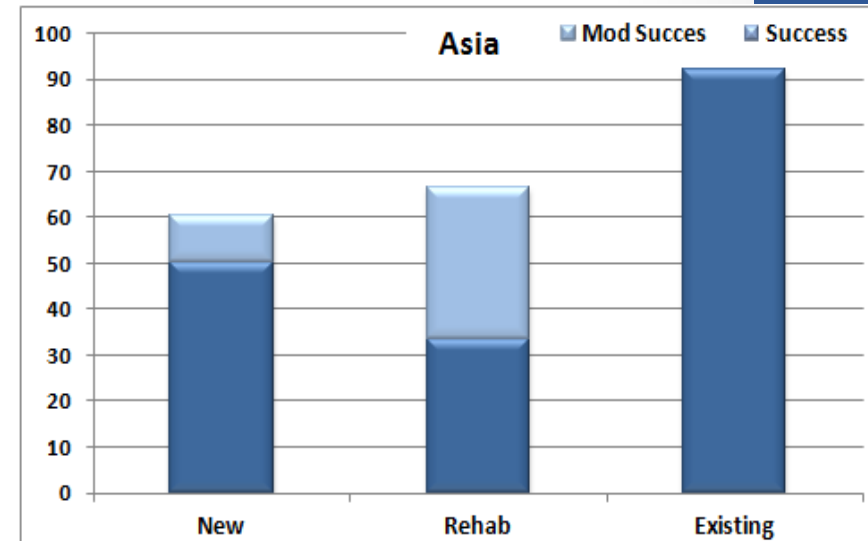
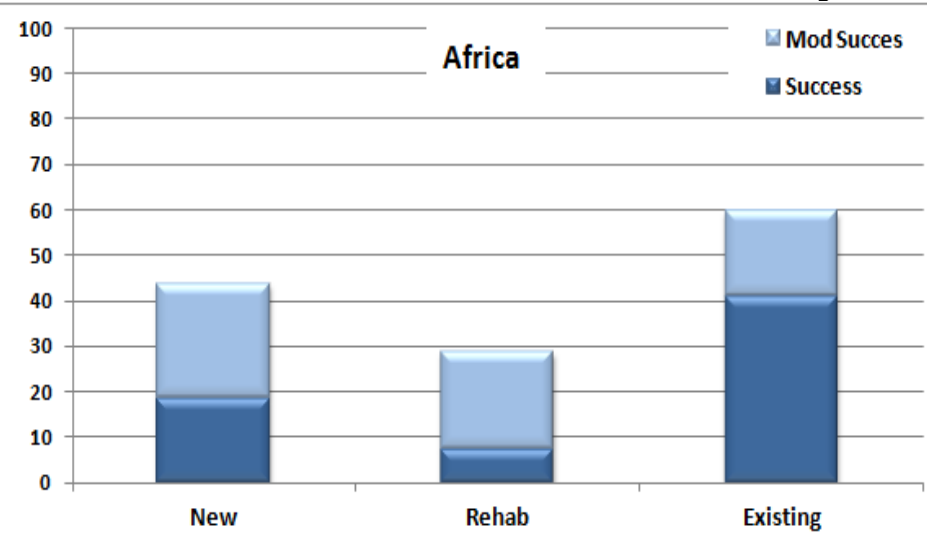


African Investments

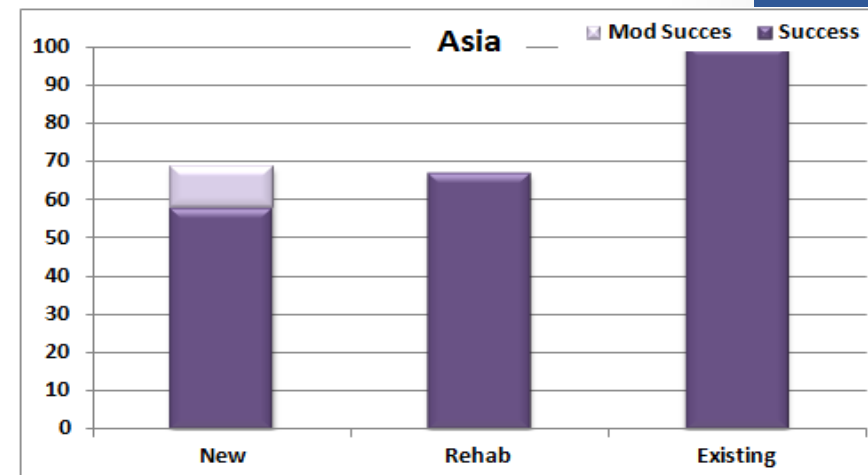
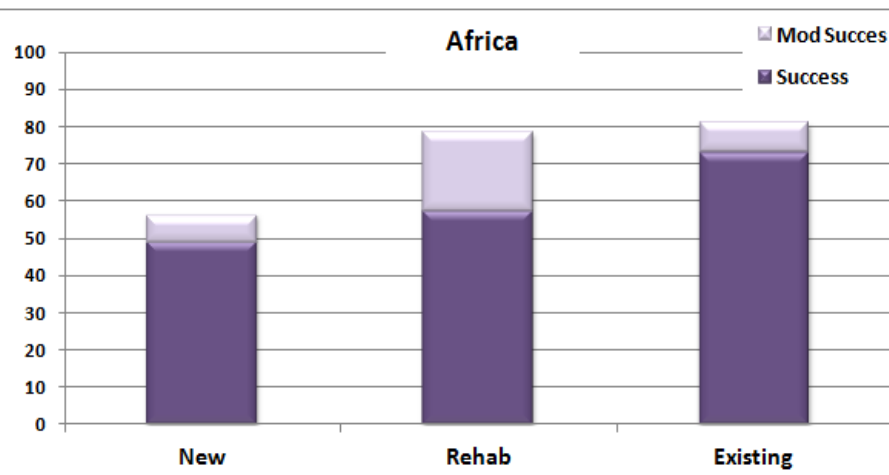


New start ups are significantly more risky than when investments are being made into existing agribusinesses. 'Turn arounds' might ultimately result in a sustainable business generating economic benefits, but financially the risks are high.

% Financial Viability : Success & Modest

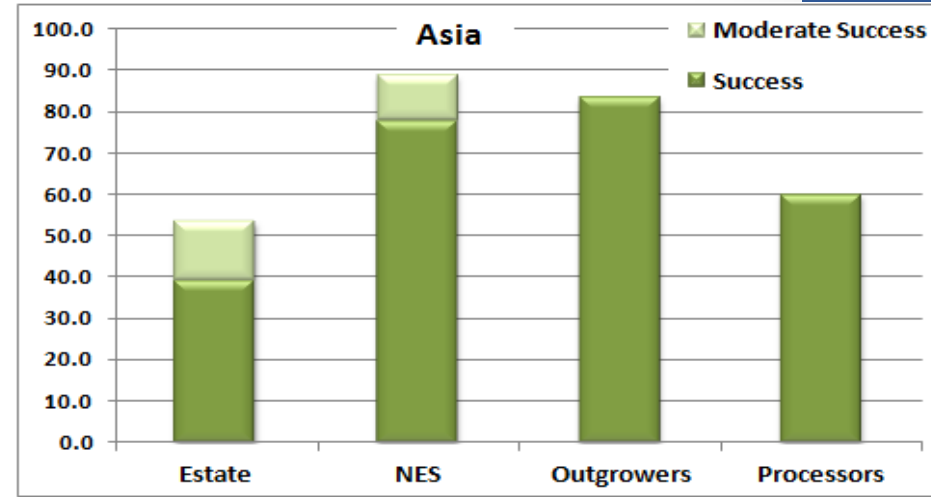
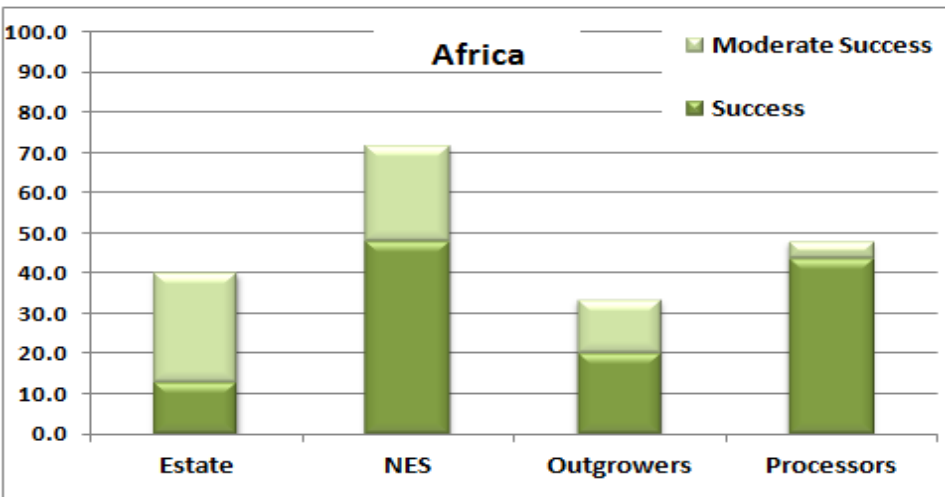


% Development Impact : Success & Modest Success

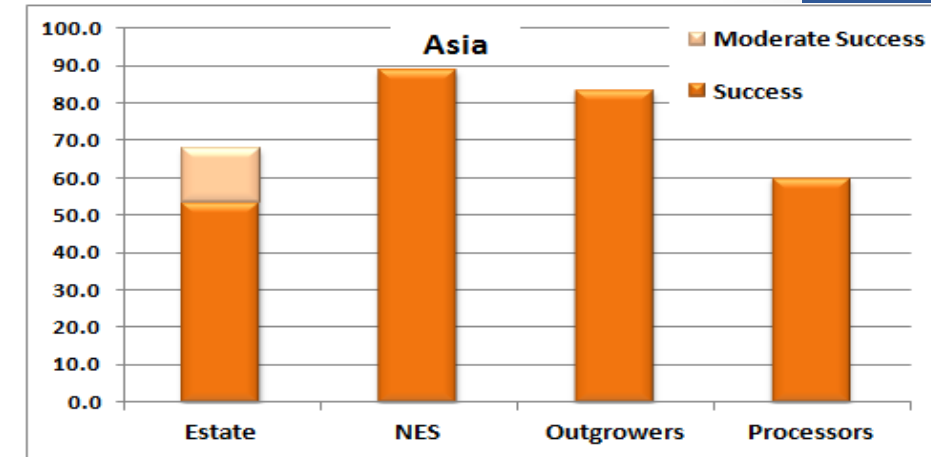
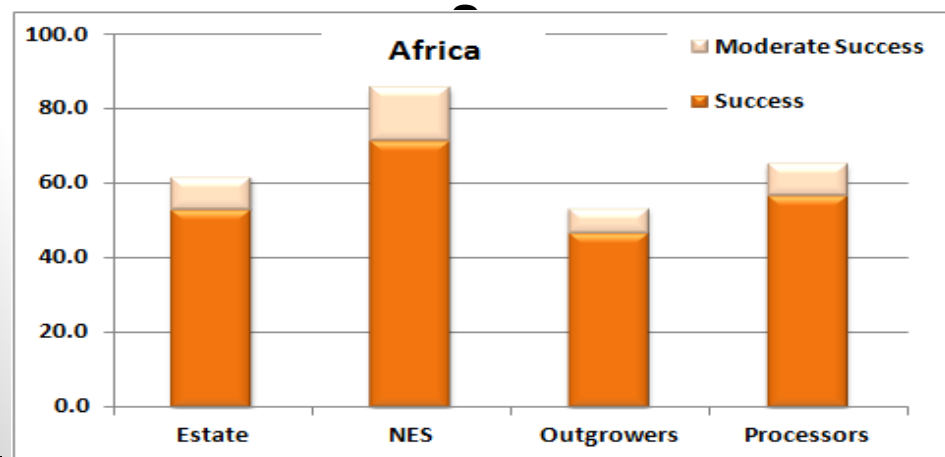


Nucleus estates (NES) with out growers provided the most successful business model – but for a limited range of industrial crops (oil palm, sugar, tea, rubber), followed by processing. Pure out grower schemes were broadly about as successful as estate farming operations. Asian out grower schemes worked particularly well.

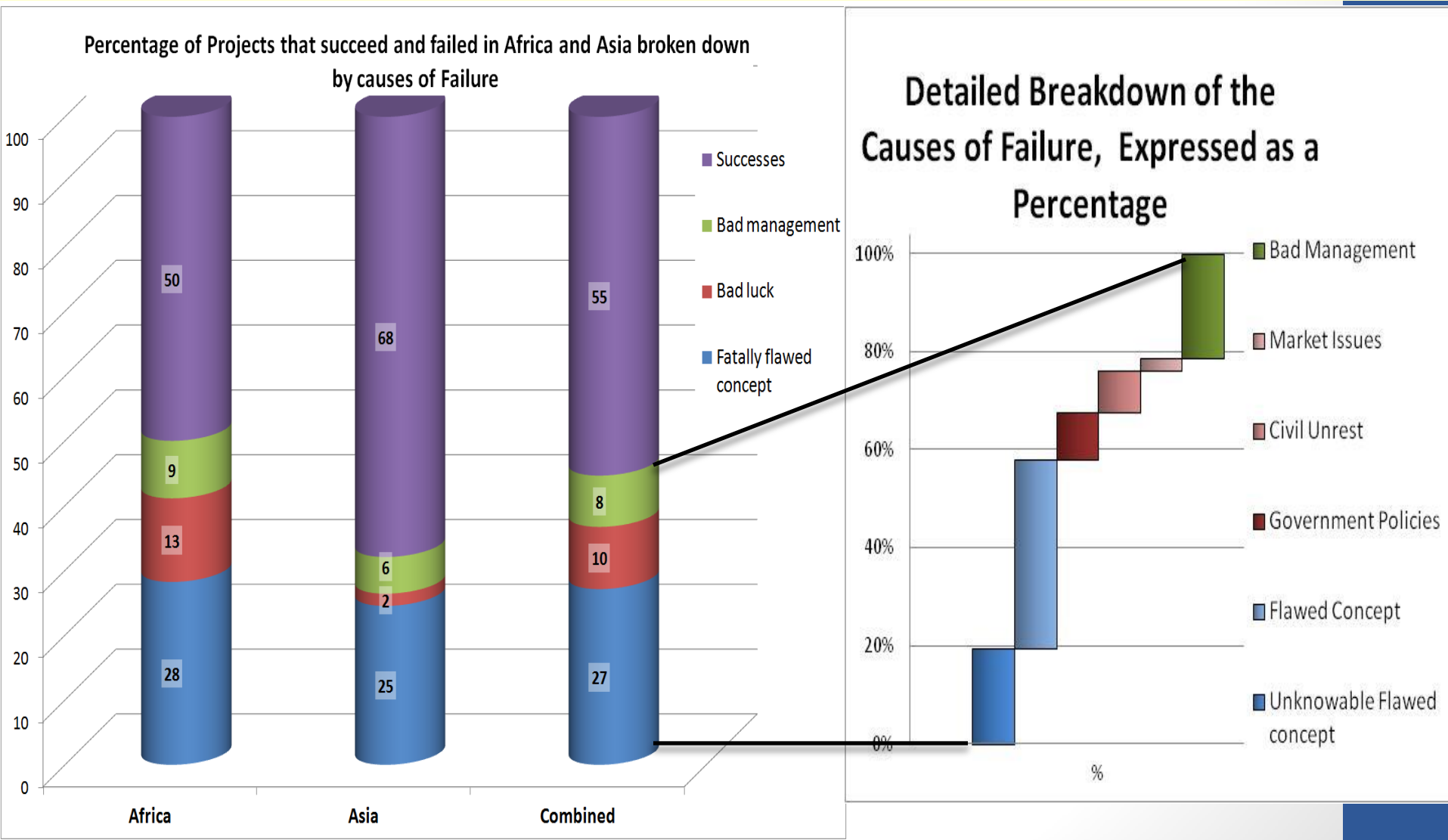
% Financial Viability : Success and Modest



% Development Impact : Success and Modest



The causes of failure in projects in Africa and Asia was broadly the same level in both 'Flawed Concept' and 'Bad Management'. The major difference being in the higher level of 'Bad Luck' in Africa. In particular in Government Policies and Civil unrest.



Key Take Always from the CDC retrospective study

- High degree of risk in agricultural investing, esp. Start ups particularly so.
- Most investments (+70%) ultimately delivered the planned development impact, but often after 2-3 failed investors & an aggregate investments that couldn't be justified financially.
- Nucleus estates where the least risky, but a self selected sample. Expanded to outgrowers after the large farm biz model proven
- Key message, it is irresponsible to expose to smallholder to high initial risks. Shouldering initial risk is a key role of the private sector
- Every so often private investments changes everything, and has a spillover effect on the overall economy far beyond the investment itself.

Advice For Policy Makers: Agribusiness Investments

Do

- Know what development you want,
- Be more choosy about the investor, Business model, enterprise,
- Set up process, review investments systematically
- Encourage alternatives to large scale land investments,
- Support 1st movers, but not at scale,
- Have a plan B for failure,

Don't

- Offer more incentives to foreign investors than local.
- Do mega land deals,
- Make multiple gambles on same new business model,
- Allow people to have land without making productive investments
- Short cut existing land regulations

Retrofitting Principle :Aims of the Survey

Assessing:

- 39 mature agribusinesses, across Africa and South East Asia
- What investors are doing to promote economic, social and environmental gains and sustainability.
- How communities and other stakeholders living around the investment perceive and are affected by it.

Detailed primary data – 3-5 days at each Investment.

Key aims:

- Understand what the main issues are on the ground.
- Provide evidence the ongoing discussions.

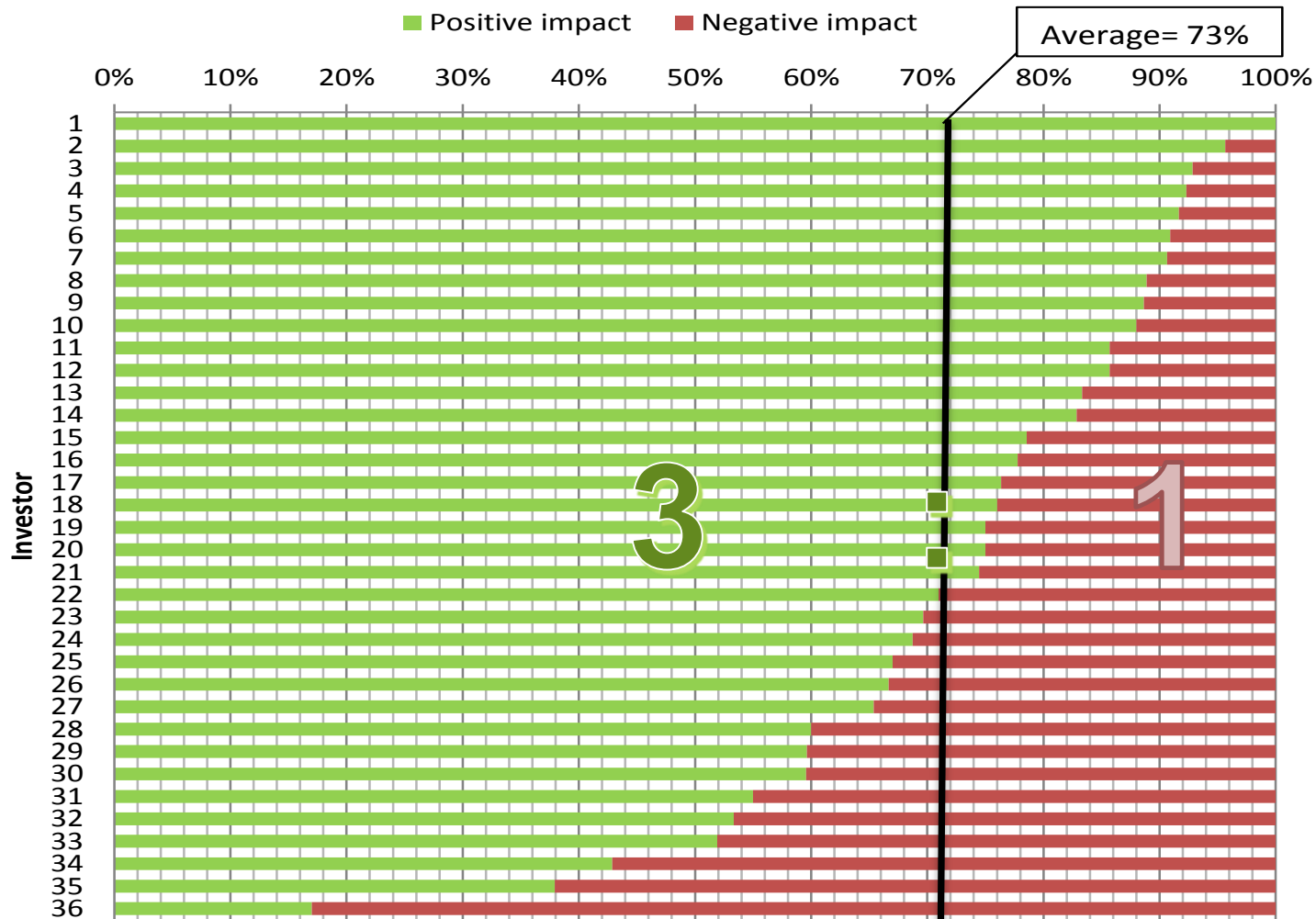
Sample – quick facts and figures

- 39 investment projects in 13 countries.
- 10 domestic investors; 29 foreign from 14 countries.
- 19 different principal crops.
- Land areas range from 100 to 250,000ha. Median: 8,000ha.
- Average age of operation: 15. Range: 1 to 55 years.
- 17 pure estates; 13 estate and outgrowers; 8 processing plants.

Summary findings

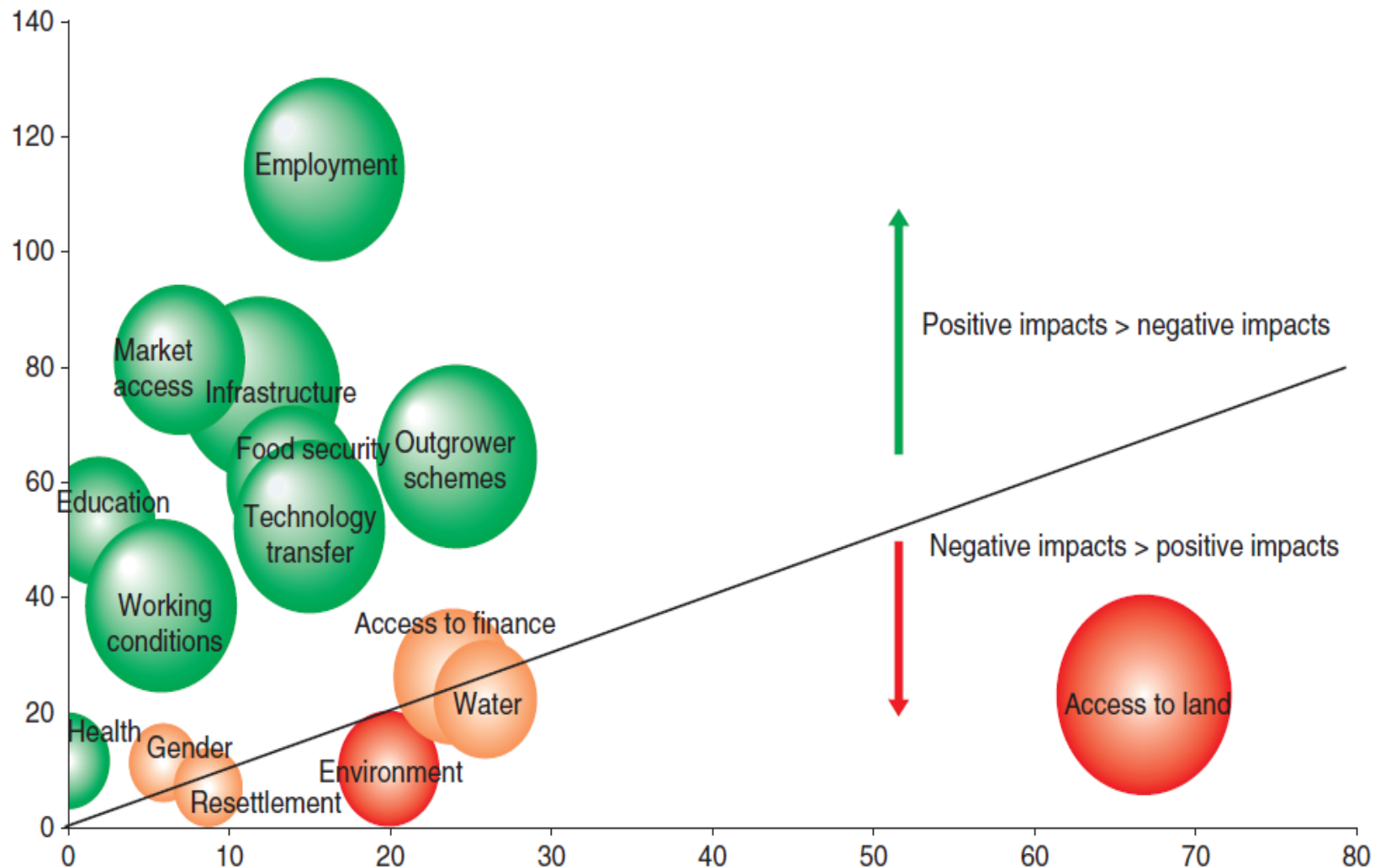
- Extraordinarily wide **range of outcomes** :
 - Socio-economic impact on local communities;
 - Broader impact on host countries; and
 - Financial and operational success of investments.
- Significant **interaction** between these three aspects
Financial & Operational success \approx Satisfied Surrounding Communities
- **On balance, the investments studied have generated positive socio-economic benefits for surrounding communities and host countries.**
- But many negative impacts and room for improvement.
- Hence, **lessons** for how to maximise the benefits and minimise the risks of agricultural investment.

Share of positive / negative socio-economic impacts, by investor



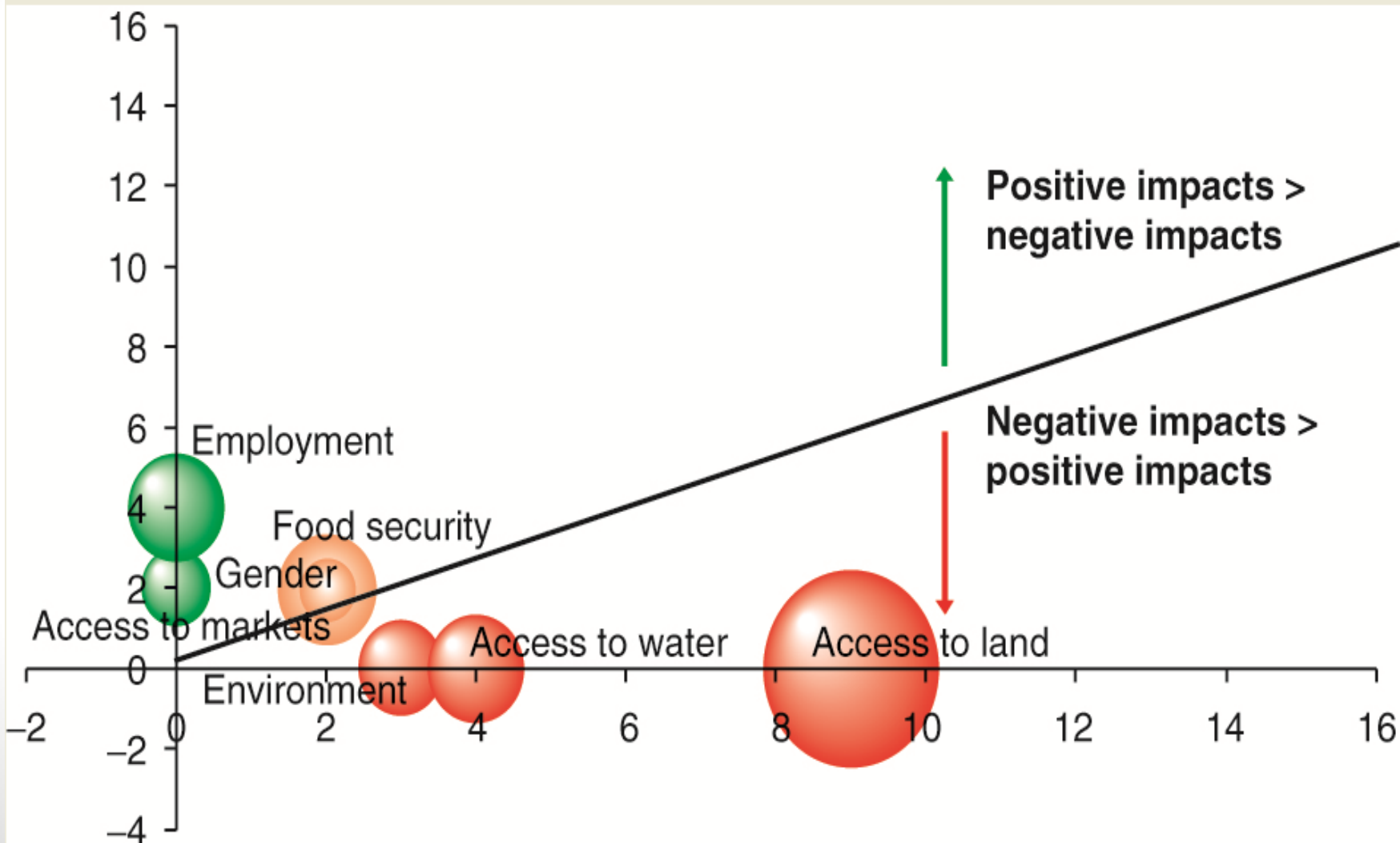
Stakeholder perceptions, by issue

FIGURE E.8: Stakeholder Perceptions of Positive and Negative Impacts of Investments, Classified by Issue^(a)



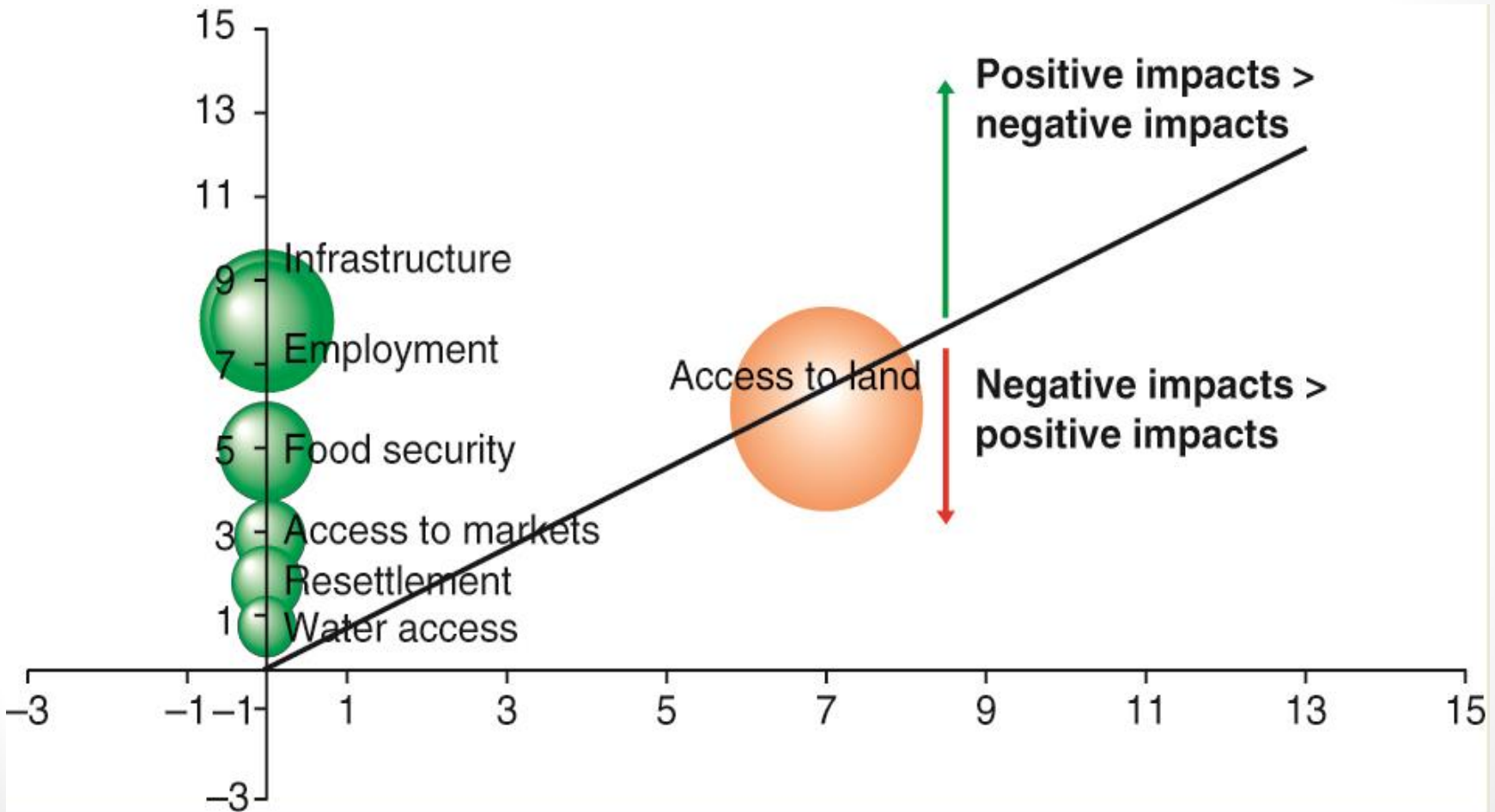
Comparison of investors

Investor 1: Negative impacts (land, water, environment) outweigh benefits (employment, market access)

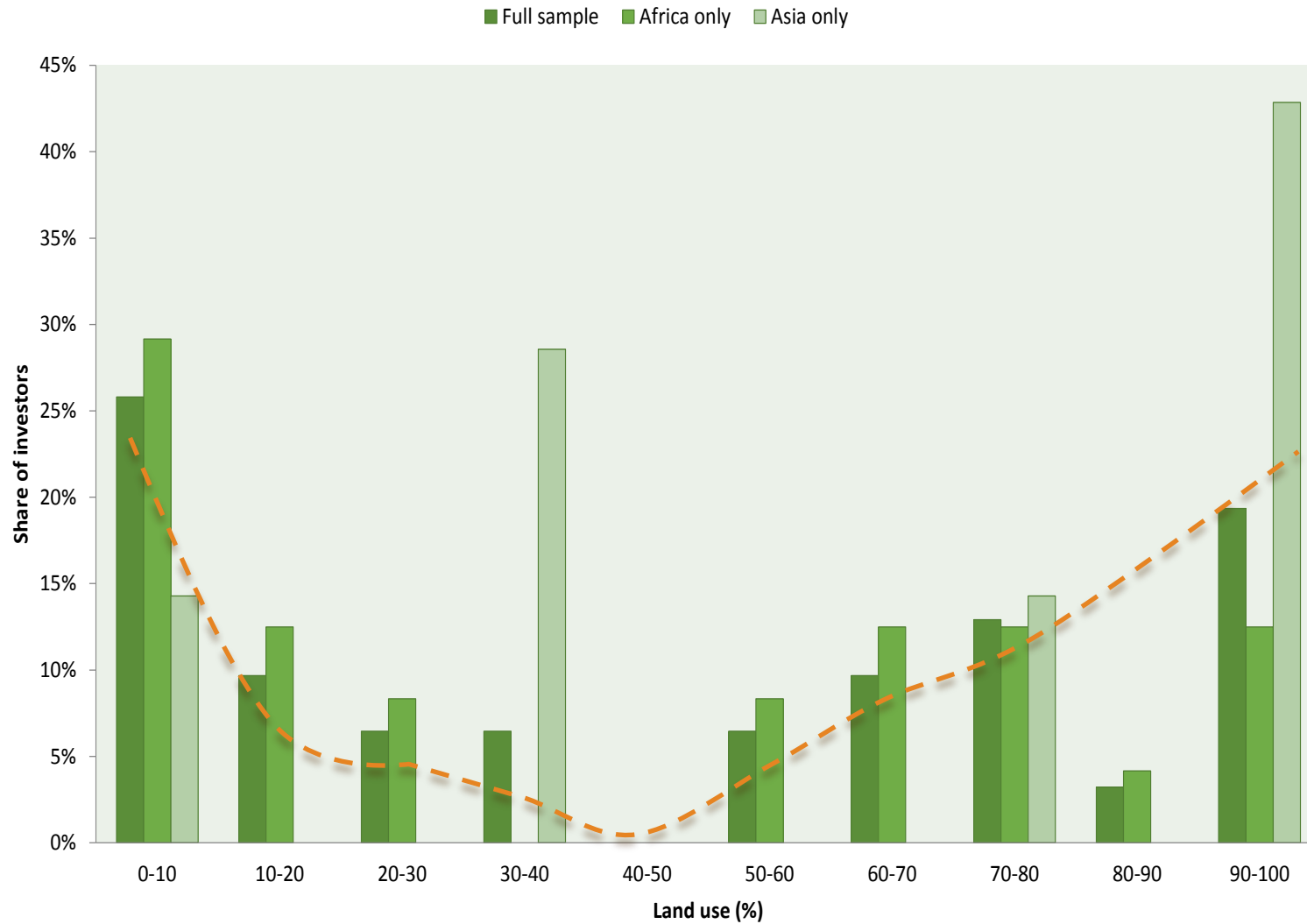


Comparison of investors

Investor 2: Wide ranging benefits, no purely negative impacts, land a prominent issue with mixed opinions.



Land Use



Direct employment creation

	Sum of all investments	Average	Maximum	Hectares/job
Total formal employment	38,810	979	5,278	20
Permanent	19,832	509	3,086	39
Temporary/Casual/Seasonal	18,348	470	3,700	41

Outgrowers

	Total	Mean	Median	Maximum	Minimum
Outgrowers	149,638	13,603	1,534	120,000	60

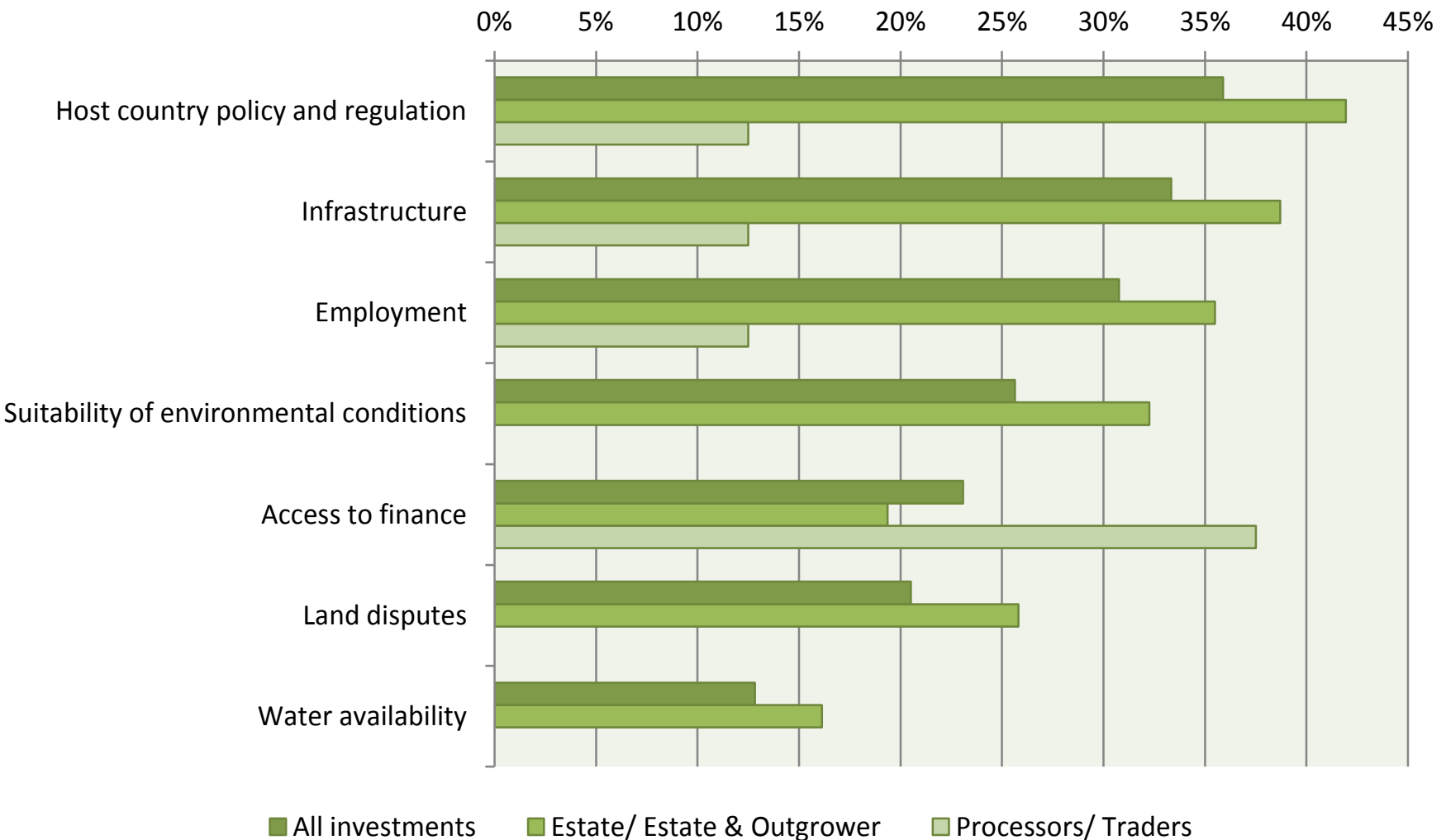
Financial and operation success of investors

- A significant number of investors are struggling operationally and financially.

Type of investment	Share that are profitable	Share behind schedule or below capacity
New processing	71%	29%
New cultivation	18%	64%

Size of investment (ha)	Share that are profitable	Share behind schedule or operating below capacity
< 1,000	70%	10%
> 50,000	33%	67%

Percentage of investors mentioning constraints



KEY POSITIVES TO ENHANCE AND NEGATIVES TO REDUCE


KEY POSITIVE IMPACTS	KEY NEGATIVE IMPACTS
EMPLOYMENT	LAND DISPUTES
ACCESS TO MARKETS FOR OUTGROWERS	UNCLEAR TERMS OF LAND DEAL
SOCIAL DEVELOPMENT PROGRAMMES	RESETTLEMENT
FINANCIALLY INCLUSIVE MODELS	FAILURE TO USE LAND
FOOD SECURITY	LACK OF CONSULTATION
TECHNOLOGY / INNOVATION	FINANCIAL FAILURE OF INVESTORS
	LACK OF DISPUTE MECHANISMS
	ENVIRONMENTAL IMPACT, INC. WATER

	Preparing for contract negotiations	Drafting the contract	Monitoring and enforcement
Employment creation	<ul style="list-style-type: none"> ➤ Prioritize job creation. ➤ Composition of employees, plans for training, employee benefits. 	<ul style="list-style-type: none"> ➤ targets for employment ➤ Domestic labour, health and safety laws. ➤ training programs for staff. ➤ commitments for employee benefits 	<ul style="list-style-type: none"> ➤ Monitor adherence to domestic labour, health and safety laws. ➤ Monitor jobs, training, & employee benefit ➤ Require annual reports
Integration of local farmers	<ul style="list-style-type: none"> ➤ Priority to outgrower schemes. ➤ business model is resolved b4 outgrowers ➤ Treat innovation with caution, 	<ul style="list-style-type: none"> ➤ Include outgrower schemes ➤ Set requirements for support ➤ a fair, transparent pricing mechanism. 	<ul style="list-style-type: none"> ➤ Monitor outgrower scheme ➤ Require annual ➤ Monitor price-setting mechanisms
Expansion of market opportunities	<ul style="list-style-type: none"> • priority to local processing facilities, • Inputs imported inputs or purchased locally. 	<ul style="list-style-type: none"> • commitments to processing facility. • Give preference to local suppliers • investor to create local business development plans. 	<ul style="list-style-type: none"> • Monitor business development plan. • Monitor processing facility. • Annual reporting on business dev. plan & processing facility
Establishment of community development programs	<ul style="list-style-type: none"> • Plans for community development programs. • Priority to financially-inclusive business models. • Consultation, & information for local community. 	<ul style="list-style-type: none"> • Community development agreements annexed to the contract. • Establish terms of and process for community development agreements or financially-inclusive business models. 	<ul style="list-style-type: none"> • Monitor community dev agreements & inclusive business models. • Failure to comply is material breach of the contract • Require annual reporting
Increased income improved food security	<ul style="list-style-type: none"> • Consider all food security implications • Priority to investors supporting food security strategies. 	<ul style="list-style-type: none"> • Provision on local community food programs. • certain %e of food sold in the national market, 	<ul style="list-style-type: none"> • Monitor local community food • Monitor impact on local food security.

	Preparing for contract negotiations	Drafting the contract	Monitoring and enforcement
Loss of land and poor resettlement plans	<ul style="list-style-type: none"> ➤ Map & identify all existing users. ➤ Consider plans (i) resettlement , (ii) working with existing users. ➤ 	<ul style="list-style-type: none"> ➤ Define rights of investor to use project site. ➤ Annex map with geographical boundaries ➤ Prepare resettlement plan, if needed, 	<ul style="list-style-type: none"> ➤ Monitor that investor remains within allocated land ➤ Create mechanism for local community to raise grievances ➤ Investor to report on land disputes
Lack of openness and engagement with local communities	<ul style="list-style-type: none"> ➤ Full & transparent consultations with communities ➤ Transparency about the process 	<ul style="list-style-type: none"> ➤ Engage with communities during project design & drafting contract. ➤ Disclosure provision which documents will be made public. 	<ul style="list-style-type: none"> ➤ Contracts & documents public, ➤ Ensure commitments upheld.
Weak assessment of commercial viability	<ul style="list-style-type: none"> ➤ Screen investors on technical and financial capabilities. ➤ Priority to models which are likely to be a financial and operational success. ➤ Conduct business feasibility ➤ Feasibility studies & plans approved by government & independent third party. 	<ul style="list-style-type: none"> ➤ Specify elements in the feasibility study ➤ Milestones in business plan. ➤ material changes to be reported. ➤ Assignment & termination clauses to address potential failure ➤ 	<ul style="list-style-type: none"> ➤ Failure to prepare feasibility studies/ plans is a material breach of the contract ➤ Monitor financial and operational performance ➤ Report changes to the business plan. ➤ Design contingency plans for cases in which investors fail,
Poor management of environmental & social impacts	<ul style="list-style-type: none"> ➤ Conduct social and environmental impact assessment ➤ Incorporate findings into business plan. ➤ Ensure plans are approved by government and verified by t third party. 	<ul style="list-style-type: none"> ➤ Supplement domestic legislation with specific guidance for elements to be included in assessments and plans. ➤ Incorporate findings of impact assessments and management plans. ➤ Include social and environmental impact assessments as binding obligations. 	<ul style="list-style-type: none"> ➤ Failure to conduct IA's + management plans amounts to a material breach of the ➤ Annual reporting on implementation. ➤ Monitor water quantity and quality,
Insufficient	<ul style="list-style-type: none"> ➤ Design grievance and 	<ul style="list-style-type: none"> ➤ Provision for establishment of 	<ul style="list-style-type: none"> ➤ Report annually on

LESSONS TO REDUCE NEGATIVE AND ENHANCE POSITIVE IMPACTS

- **Explicit agreements for socially or financially inclusive business models, including job and training commitments.**
- **Fairly designed outgrower schemes.**
- **Assessment of all food security implications.**
- **Early and full engagement with local communities and land users, especially if resettlement is proposed.**
- **Publicise information on terms and process of land acquisition.**
- **Pre-screening, selection and monitoring of investor, including preparing for failure.**
- **Staging of the investment; encouraging innovation but not at scale.**
- **Proper conduct of social and environmental impact assessments.**
- **Establish grievance and redress mechanisms.**



And if you have been . . .

Thanks, for listening