

Expert meeting on international investment in the agricultural sector of developing countries  
FAO HQ, Rome 22-23 November 2011

## FAO/IFAD/IIED case studies



## Research overview

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## Outline

- Research design
- Zambia
- Mali
- Malaysia
- Concluding remarks

Separate presentations on  
South Africa and Ghana

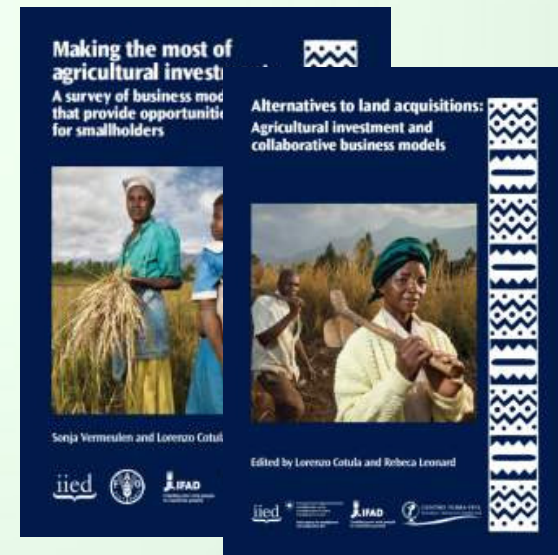


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## Background

- Renewed interest in agricultural investments, “land grab” and “feeding the world” debates
- What models increase value for both investors and local producers/communities?
- Generate evidence to catalyse informed policy debate
- Literature review, international lesson-sharing workshop (2010)





## Case studies

Ghana	FAO	<ul style="list-style-type: none"> <li>Nucleus estate + outgrowers + packaging facility (mango) (ITFC)</li> <li>Set of plantations (jatropha) (Solar Harvest Ltd)</li> </ul>	John Bugri
Mali	FAO	<ul style="list-style-type: none"> <li>Processign plant, contract farming, farmer coop equity participation (jatropha) (MBSA)</li> <li>Farmers coop (Nieta)</li> <li>Two interlocked JVs with govt for plantation and processing (sugarcane) (SoSuMar)</li> </ul>	Moussa Djiré
Malaysia	IFAD	<ul style="list-style-type: none"> <li>Govt-landholders partnerships (SALCRA, SLDB) (palm oil)</li> <li>Company-govt-landholders JV (palm oil) (BPK)</li> <li>Outgrower scheme supported by existing plantation (palm oil) (KSGS)</li> </ul>	Fadzilah Majid Cooke, Su Mei Toh & Justine Vaz
South Africa	IFAD	<ul style="list-style-type: none"> <li>JVs with local communities post land restitution</li> </ul>	Edward Lahiff, Nerhene Davis & Tshililo Manenzhe
Zambia	FAO	<ul style="list-style-type: none"> <li>Privatised venture, plantation + outgrowers, farmer groups equity participation (sugarcane) (Kascol)</li> <li>Privatised plantation (various crops + ranching) (MDC)</li> </ul>	Fison Mujenja

## Huge diversity between and within “models”

- Joint ventures / equity participation
  - Investment in biodiesel processing, contract farming for jatropha, farmer coop holds 20% of project company (MBSA, Mali)
  - Farmer coop (small) equity stake in privatised farm through market-based purchase (Kascol, Zambia)
  - “New concept” model for palm oil: company-govt-landholders, JV as mechanism to acquire land, farm run as plantation (BPK, Malaysia)
  - “Strategic partnerships” as part of land reform programme, JV as mechanism to enable continued operation of existing plantation (South Africa)
  - Sugarcane plantation & processing: 2 JVs with govt for processing and plantation; 40% land for outgrowers; int’l soc/env standards (SoSuMar, Mali)

- Contract farming / outgrower schemes
  - Contract farming (eg MBSA, Mali) vs nucleus estate/outgrowers (ITFC, Ghana; Kascol, Zambia)
  - Farming own land (eg MBSA, Mali) or subleased plantation land (Kascol, Zambia)
- Plantation
  - Longstanding privatised scheme (MDC, Zambia) vs new plantations (Solar, Ghana)
  - Outgrowers: with (SoSuMar, Mali; Kascol, Zambia) or without (Solar, Ghana)

## Key parameters

- Focus
  - Country context affecting agricultural investment: policy and trends
  - Analysis of business models
  - Socioeconomic outcomes
  - Lessons learned
  
- Methods
  - Literature and available corporate documentation
  - Interviews with company / govt officials
  - Fieldwork in project sites
  - To varying degrees, building on earlier research



## Analysis of business models

Ownership	<ul style="list-style-type: none"> <li>• Ownership of business</li> <li>• Control over key project assets (land, processing facilities, etc)</li> </ul>
Voice	<ul style="list-style-type: none"> <li>• In project design</li> <li>• In business decision-making: who decides, who participates, what information access, grievance mechanisms</li> </ul>
Risk	<ul style="list-style-type: none"> <li>• Distribution of production, marketing and other risks</li> </ul>
Reward	<ul style="list-style-type: none"> <li>• Sharing of costs and benefits</li> </ul>

## Socioeconomic outcomes

Direct livelihood contributions	Jobs (direct + indirect) Supply chain relations and business links Training, technical assistance, inputs, ag productivity
Public revenues & infrastructure	Total net government take – since inception, over last 12 months, projected over project duration Public infrastructure
Social (and environmental) risks	Impact assessment / management plan & operating standards Land, water and resource access Social infrastructure

## Key parameters (cont'd)

- Timeframes
  - Malaysia and South Africa: started July 2010, drafts being prepared for publication
  - Ghana, Mali and Zambia: started Feb 2011, fieldwork from May 2011, drafts for comment - Mali behind due to country researcher's personal circumstances
- Limitations
  - Micro only - macro impacts not covered
  - Very difficult to access data - varying levels of detail in the case studies
  - Some investments are very recent
  - Tight timeframe, esp for Mali, Ghana and Zambia



## Outline

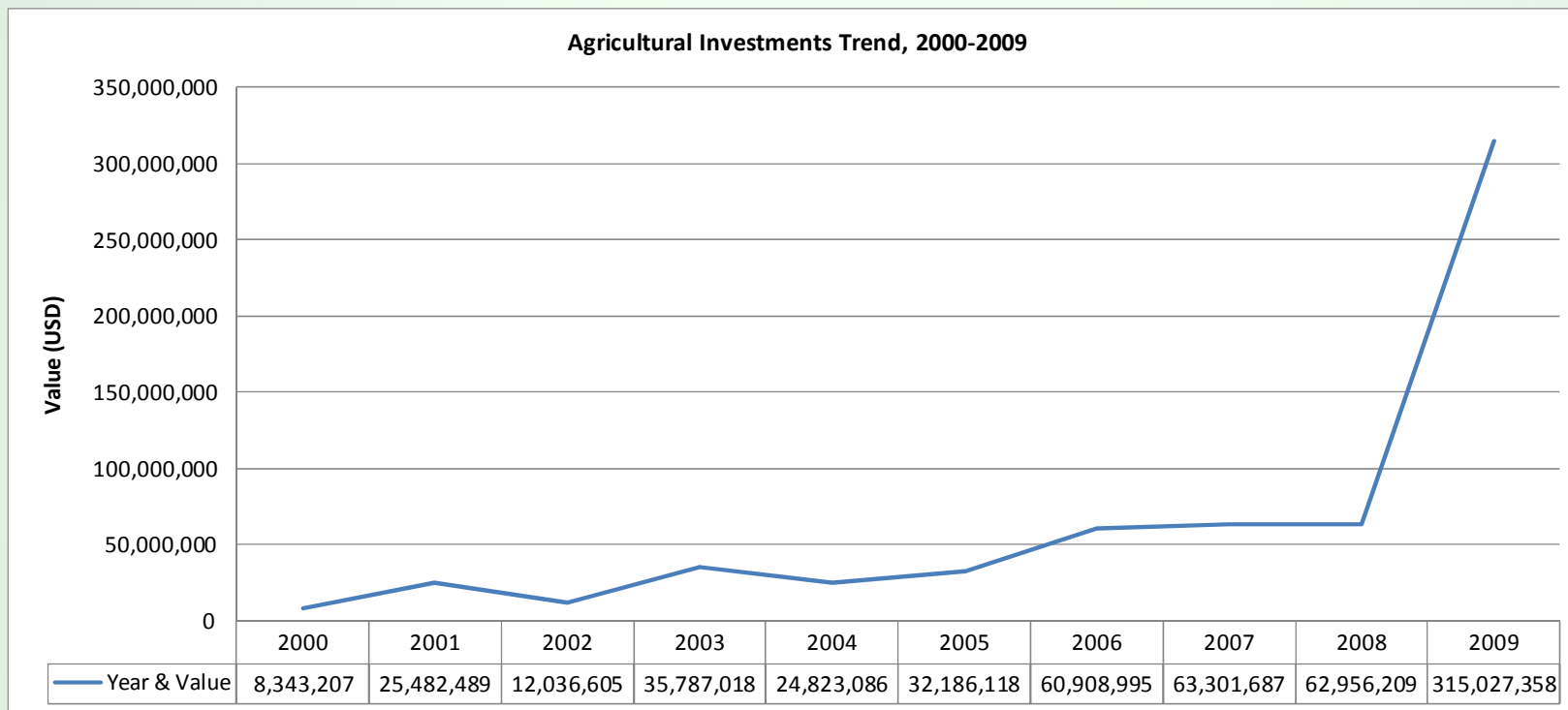
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## Country context

- After independence, central role of govt in the economy; liberalisation and privatisation in the 1990s
  - Reflected in case study trajectories
- All land vested with the president; customary and lease holdings, conversion procedures; key role of chiefs
- Investment promotion policy: eg facilitated land access, tax breaks, investment protection



## Upward trend in agricultural investments 2000-09



Source: Zambia Development Agency

Zimbabwe, UK, South Africa, Zambia,  
China, India and US top investor  
countries by project number

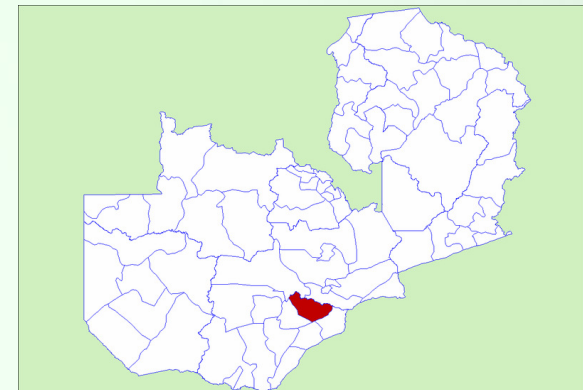
## Mpongwe Development Company (MDC)

- Then ETC BioEnergy now Zambeef
- Started 1976 as GOZ-CDC JV, subsequent expansions – later privatised
- 3 farm blocks, total about 45K ha on 99-year leases; about 10K developed, 3K irrigated
- Various crops (wheat, maize, soy, rice, jatropha...) and ranching



## Kaleya Smallholders Company (Kascol)

- Started 1980 as JV between GOZ, CDC and another party – later privatised
- Sugar cane, all produce sold to Zambia Sugar Company for processing
- About 4.3K ha on long-term lease, about 1/4 for outgrowers
- Outgrowers own 13% of company; 25% owned by district cane grower association



## Kascol

## MDC

<b>Ownership</b>	<ul style="list-style-type: none"> <li>Business co-ownership: outgrowers have 13% company; 25% with district cane growers association</li> <li>Land lease + outgrowers (on subleased land). Lease acquired in 1980 from farmers with titles</li> </ul>	<ul style="list-style-type: none"> <li>Business ownership with company</li> <li>99-year land lease, acquired through negotiation with local landholders (1976) and subsequent takeover of land from commercial establishment</li> </ul>
<b>Voice</b>	<ul style="list-style-type: none"> <li>Low-income groups participate in the business as shareholders, suppliers and employees</li> <li>Outgrowers represented in company board, liaison officer</li> </ul>	<ul style="list-style-type: none"> <li>Business decisions with company</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>Farmers bear: <ul style="list-style-type: none"> <li>Business risk related to shareholding</li> <li>Production risk as outgrowers (but crop insurance)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Business risk with company</li> </ul>
<b>Reward</b>	<ul style="list-style-type: none"> <li>Wages, cane sales, dividends, share value</li> <li>Dividends so far used to repay loan to acquire equity stake</li> <li>Downward pressures on wages – reduction in wages since 2005</li> <li>Outgrowers have higher incomes, wealth and self-satisfaction than labourers</li> </ul>	<ul style="list-style-type: none"> <li>Wages only</li> <li>Downward pressures on wages – reduction in wages since 2005</li> </ul>



## Kascol

## MDC

## Comments

### Direct livelihood contributions

- 78 permanent staff (down from over 300 in the 80s) and 250-300 seasonal workers (cane cutters)
- Outgrower scheme (160 outgrowers)
- Dividends from equity participation – so far used to repay bank loan for share purchase
- Trainings for outgrowers

- 520 permanent staff and 1200 seasonal workers as of July 2011
- Training for workers – evidence points to increased productivity on labourers' own farms

- Large employers by Zambian standards – but relatively few jobs in relation to local rural workforce
- Locals concentrated in unskilled positions, hiring of migrants
- Downward pressures on wages
- Kascol outgrowers fare better than labourers
- Trainings limited to workers/outgrowers, but positive spillovers possible



## Kascol

## MDC

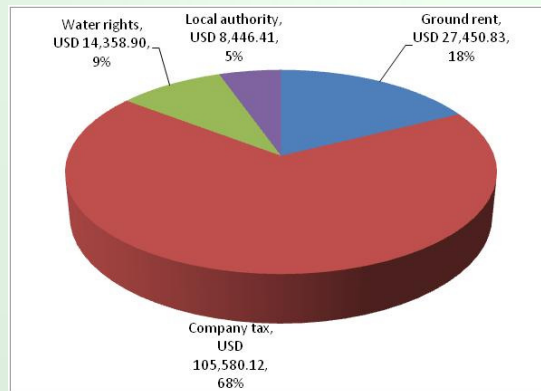
## Comments

### Public revenues & infrastructure

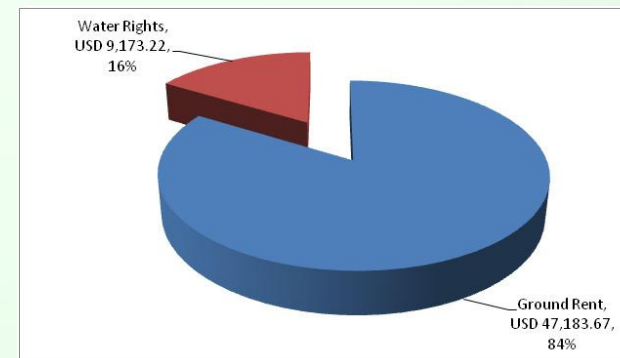
- Company tax (68% of total govt take), ground rent, water rights, local authority fees
- Total about \$155K in 2010(?)
- Infrastructure for operations and employees – housing, clinic, school, boreholes, roads, irrigation

- Tax holiday, ground rent 84% of total govt take, water rights
- Total about \$57K in 2010(?)
- Infrastructure for operations and employees – 5 clinics, school, housing, amenities

- Different revenue structures and contributions (vs different project sizes)
- Infrastructure for project operations and participants
- Number of MDC schools and clinics have decreased since privatisation



Kascol



MDC

## Kascol & MDC

### **Social (and environmental) risks**

- Impossible for study to assess impacts at project inception (1970s & 80s)
- No ESIA was required/undertaken at project inception – land acquired through negotiation or takeover of existing leaseholds
- Growing land scarcity in project catchment areas – increasingly difficult to access land, esp for youths
- Particularly in Mpongwe, where driven by demographic growth and growing ag investments; perceived abuse by chiefs
- Much leased land not used –about ¼ MDC plantation land utilised
- Local resentment and tensions – squatting on MDC land, litigation, sabotage....
- Possible solutions being contemplated – incl outgrower scheme



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- **Mali - Country study by Moussa Djiré**
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## Country context

- Private land ownership allowed but much land state owned - customary systems applied
- Family farming backbone of agriculture, vocal farmer organisations
- Modernisation of agriculture key policy goal (LOA)
  - Financing challenge: 63,713 ha irrigated in OdN 1934-2009
- Legislative reforms since 1990s to attract investment (eg Investment Code 1991 and 2005; OdN Decree) and, to a certain extent, secure local rights (CDF 2000-02; LOA; OdN Decree; ESIA Decree)
- Implementation challenges (eg ESIA), uncoordinated govt institutions

## Upward trend in agricultural investments 2000-09

- Long-term growing interest in land, esp by urban elites in peri-urban areas
- Acceleration and diversification since 2005 - nationals, FDI, PPP, regional organisations, donor projects. Concentration in OdN
- Deals for 871,267ha in OdN since 2004 - 60% Lol (many supposedly expired), 5.8% actual leases
- Nationals: 90% of projects but <50% land area; mostly <50ha, 50% of land area by top 10 acquirers
- International: South Africa, Libya, China...



## SoSuMar

- About 14K ha plantation, incl outgrower scheme, processing plant – sugar cane
- Govt promoted, PPP, AfDB involvement
- 2007 contract, expected fully operational 2017
- Targets: 190K tons sugar (mainly for national market), 15mn litres ethanol, 30MW electricity



## MBSA

## SoSuMar

<b>Ownership</b>	<ul style="list-style-type: none"> <li>Following restructuring, farmers coop has 29.5% of Mali subsidiary</li> <li>Land with local farmers (2020ha in 2010)</li> <li>Processing facility owned by company on 2ha</li> </ul>	<ul style="list-style-type: none"> <li>PPP: processing company controlled by investor, plantation company controlled by govt</li> <li>Land lease for plantation (about 14K ha), land ownership for processing plant (857ha)</li> <li>Outgrower scheme planned – on leased land</li> </ul>
<b>Voice</b>	<ul style="list-style-type: none"> <li>Board representation by farmer coop</li> <li>Communication issues btw company and coop, and btw coop reps and members</li> </ul>	<ul style="list-style-type: none"> <li>Equity stake by govt – but not farmers</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>Risk of side-selling currently mitigated by lack of competing processors</li> </ul>	<ul style="list-style-type: none"> <li>State-of-the-art ESIA and RAP linked to AfDB involvement</li> </ul>
<b>Reward</b>	<ul style="list-style-type: none"> <li>Wages (55 jobs)</li> <li>Proceeds from jatropha nut sales, price agreed btw company and coop – but jatropha nut price 1/6 that of sesame</li> <li>Dividends (not yet) and possible share value increases</li> </ul>	<ul style="list-style-type: none"> <li>Jobs: estimated 8000 direct and 32000 indirect</li> <li>Expected to drive down sugar price =&gt; positive impacts via consumption</li> </ul>

## Socioeconomic outcomes - MBSA

Too early to assess - some considerations point to promising model and some practical challenges

Direct livelihood contributions	<p>55 jobs</p> <p>2500 contract farmers organised in coop; price agreed btw company and coop – but jatropha nut price 1/6 that of sesame</p> <p>Dividends (not paid yet) and possible increases in share value</p> <p>Training &amp; technical assistance (collaboration w extension services), inputs (seed quality issues)</p> <p>Pests threat to productivity (white termite)</p> <p>Carbon credits =&gt; foundation =&gt; community projects and equipment</p>
Social (and environmental) risks	<p>No land acquisition (except 2ha for processing)</p> <p>Intercropping with food crops</p>



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- Mali
- Malaysia - Country study by Fadzilah Majid Cooke, Su Mei Toh and Justine Vaz
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## Overview

- Focus on oil palm expansion in Sabah and Sarawak, Eastern Malaysia
- Policies to open up customary lands
- Range of models involving govt (through parastatals), private sector and/or landholders
  - State-led schemes - SALCRA (Sarawak) and SLDB (Sabah)
  - Tripartite govt-company-landholders model (“New Concept”, Sarawak)
  - Outgrower scheme established by existing plantation (Sarawak)
- Impossible to discuss here, detailed report available. Brief look at “New Concept” JV and outgrower scheme

## “New Concept” JVs

1990s policy to facilitate private large-scale development of oil palm on customary land

Ownership	<ul style="list-style-type: none"> <li>• Land for equity. Joint ownership of business company-govt-customary landowners (60-30-10). Govt holds landowner shares in trust</li> <li>• JVC runs farm as plantation through 60-year land lease</li> </ul>
Voice	<ul style="list-style-type: none"> <li>• What local voice at project design stage? No FPIC</li> <li>• Board composition: 3 for company, 2 for govt (which has power of attorney for landowners)</li> <li>• Unclear channels for grievances, no exit clause</li> </ul>
Reward	<ul style="list-style-type: none"> <li>• Disappointing dividend payments due to profitability challenges – “advanced dividends” after protests (challenge: immediate land loss vs differed dividend payments)</li> <li>• Wage labour</li> <li>• Income streams as contractors</li> <li>• Improved roads, treated water and power supply</li> <li>• Lawsuits in several New Concept schemes</li> </ul>

## Keresia smallholder scheme

- Outgrower scheme by existing locally owned oil palm plantation; RSPO certification
- Free seedlings (2003) subsequent expansion. Credit, technical assistance
- Existing mill makes scheme possible
- Low yield (9.72 t/ha) but high margins (average \$1280 ha/yr) bc low operating costs
- Returns seen to offset downsides (opportunity costs, exposure to fluctuating world markets)
- Farmers value having control of farming



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- Extreme diversity of models and combinations thereof, including diverse, evolving emphasis on commercial vs development objectives
- No silver bullet: eg mixed evidence on JVs / equity participation
- Nature of players key - eg role of CDC in MDC and Kascol (expertise, political risk mitigation); dynamic entrepreneur in MBSA, local entrepreneur in Keresha (commitment to local context and working with farmers)
- Job creation seen as key development benefit - but relatively few jobs in operational ventures, downward pressures on wages (eg Zambia)
- Maximising positive linkages with local economy key - supply chain relations, equity participations....
- Not just money issue - farmers value having control (Zambia, Malaysia)



- Context and crop matter: eg crop perishability, need for processing, transport costs and/or lack of competing processors reduce sideselling risk - contract farming for sugarcane (Mali, Zambia) and jatropha (Mali); existing mill (Malaysia)
- Policy matters - land restitution in South Africa, joint venture policy in Malaysia
- Addressing transaction costs linked to large farmer numbers - coops (MBSA, Kascol), DFI financing, possible role of intermediaries (also quality/reliability assurance)
- Whatever the model, proper community engagement, incl grievance mechanisms, and realistic expectations key