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Summary report¹

Technical workshop on principles guiding new investments in agriculture

Lilongwe, Malawi, 18-19 May 2016



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1. Introduction

A technical multi-stakeholder workshop on responsible investment in agriculture took place in Lilongwe, Malawi, on 18-19 May 2016. It was organized by the Inter-Agency Working Group (IAWG) comprising the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD) and the World Bank, in cooperation with the Ministry of Agriculture, Irrigation and Water Development of Malawi. Over 45 people, including representatives of government, private sector, civil society, development partners and international organizations participated in the workshop.

The workshop was conducted under the IAWG programme “Pilot use of principles guiding new investments in agriculture”. This programme aims to infuse principles into relatively new agribusiness operations in Malawi, Ghana, Mozambique, Nigeria, Senegal and Tanzania, and to ensure mutually beneficial interaction between these agribusiness operations, local communities and the economy as a whole. Practical guidance as well as recommendations and practices that can be used at the early stages of future investments are generated. The programme also encourages inclusive discussions at the national level on what responsible investment in agriculture means for different stakeholders in different contexts.

Participants in the workshop discussed experiences from Malawi as well as the IAWG’s findings of research on agricultural investment and existing international guidance instruments. Based on the discussions held during the workshop, participants generated a number of recommendations for decision makers.

2. More and better investment in Malawi’s agricultural sector

In her key note address, Ms. Florence Rolle, FAO Representative to Malawi, emphasized that agriculture is the mainstay of Malawi’s economy. Approximately 80% of the population depend on agriculture for their livelihoods. Over fifty percent of the population fall below the poverty line. A majority of the poor live in rural areas. Agricultural investment is essential for improving living conditions and accelerate socio-economic development in Malawi. In his opening remarks Dr. Ching’oma, the Director of Crops Development in the Ministry of

Agriculture, Irrigation and Water Development, highlighted that most agriculture in the country is carried out by smallholders. In order to shift from a subsistence orientation to commercial viability and the development of supply chains and added value, smallholders' efforts must be complemented by both foreign and domestic private corporate investment.

However, increasing agricultural investment is not enough on its own. The benefits of increased agricultural investment do not necessarily reach those most in need. Furthermore, irresponsible conduct can cause irreversible damage to local communities and the environment. Investors must respect national laws and international norms and guidelines that protect social and economic rights and the environment.

Both Dr Ching'oma and Ms Rolle emphasized the importance of cooperation among all stakeholders for the promotion of more and better investment. Concerted action by all stakeholders is needed to increase productivity in a sustainable way and to strengthen the country's nascent agribusiness and agro-industries.



3. Guidance instruments for responsible investment in agriculture

A number of guidance instruments have been developed during recent years to address concerns over the risks of agricultural investment. These instruments represent an emerging consensus on what broadly constitutes responsible agricultural investment. The CFS Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI) and the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forestry (VGGT) are among the most prominent guidance instruments at the global level. The former are based on international conventions as well as land and agricultural specific guidance including the VGGT and the Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (PRAI). They were endorsed by the Committee on World Food Security in 2014 after intensive multi-stakeholder negotiations and enjoy a high degree of social and political legitimacy. At the regional level, the African Union, the African Development Bank and the United Nations Commission for Africa work with governments and other partners in the Land Policy Initiative to promote inclusive investment. Respect of legitimate tenure rights, food security, good governance, consultation and participation, generation of shared benefits and environmental sustainability are common features of most guidance instruments.

Workshop participants were generally positive to instruments such as the CFS-RAI and discussed how they may be incorporated into existing national regulatory frameworks, business plans and daily operations of agribusinesses, and be used for the advocacy work of civil society. However, voluntary instruments on responsible agricultural investment do not provide country specific guidance and need to be interpreted in very different national and local settings. Workshop participants therefore pointed out the need for support and inclusive dialogue to enable application in the Malawian context.

A number of activities to operationalize guidance instruments are ongoing. FAO is also engaging key stakeholders in the development of an umbrella programme to turn the CFS-RAI principles into action in member countries. In Malawi, application of the CFS-RAI may build on already ongoing activities to implement the VGGT. In order to help agribusinesses apply international instruments, OECD and FAO developed Guidance for Responsible

Agricultural Supply Chains. The current IAWG pilot use programme can also contribute to the operationalisation of international guidance instruments by identifying good practices, developing practical recommendations and encouraging informed and inclusive dialogue.



4. An enabling policy environment for agricultural investment

Malawi was a net-food exporter in the 1970s and the country is endowed with large tracts of fertile land and immense opportunities for both rain fed and irrigated agriculture. However, due to underinvestment for many years the agricultural sector operates far below its capacity and the country now imports a large share of its food needs.

Good governance, transparency, inclusive dialogue and predictable policies were seen as essential for long-term investment decisions. The Malawian national Agricultural Sector Wide Approach (ASWAp) aims to improve the effectiveness of investment and strengthen the natural resource base in agricultural land. Some of the priorities of the ASWAp is to strengthen institutions, increase food security, agricultural growth and diversification and improve

infrastructure. The ASWAp is currently being reviewed and may incorporate provisions in the CFS-RAI to address challenges and opportunities for agricultural investment in the country.

A fair and robust land tenure system is a key component of an enabling environment. According to many participants, lack of tenure security is among the most important causes for underinvestment, low productivity and persisting poverty. Land ownership inequalities and lack of tenure security undermine opportunities for inclusive agricultural growth.



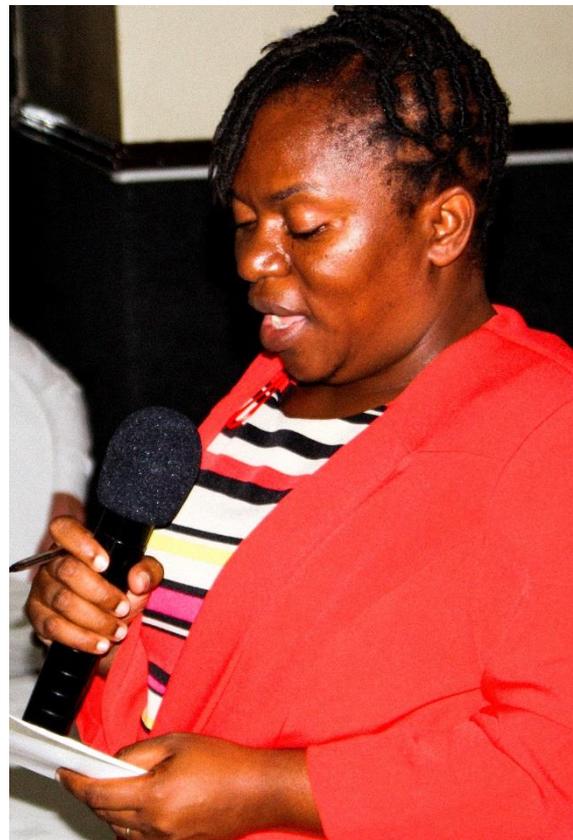
A new land bill that addresses some of these challenges will most likely be passed during 2016. To have substantial impact, it was suggested that the passing of the land bill should be accompanied with awareness raising activities targeting both influential groups such as customary leaders and government officials and marginalized groups such as women and landless people. There is also a need to strengthen the capacity of the government to enforce land regulations and protect legitimate tenure rights.

An enabling environment was seen as the most important incentive for investors. Some participants argued against the use of some types of more specific measures such as tax exemptions and provision of cheap land to attract investors, especially if they are provided in a non-transparent and unpredictable manner. Such incentives may encourage short-term land speculation and attract well connected actors that may not have the financial capacity to carry out productive investment.

The importance of investment screening and of disincentives to irresponsible business conduct was also discussed. Given the high costs of monitoring and evaluating investments, and terminating non-compliant, speculative and economically unsound projects, the best option is to prevent such projects from being approved in the first place. Strengthening the government's ability to screen investors and investment proposals could be a cost effective way to avoid undesirable projects.

5. Examples of investment practices in Malawi

While private investment is indispensable for agricultural growth, public investment in key public goods is also needed, not least to enable and motivate private sector actors to save and invest. The Government of Malawi and development partners, sometimes in cooperation with private sector actors, are engaged in a number of infrastructure projects. A project that is expected to provide irrigation to up to 42 000 hectares is an interesting example. In the context of negative climate change impacts, the exploitation of Lake Malawi's big irrigation potential may become increasingly important.



Synergy between different types of private investment must be strengthened. For example, large-scale agricultural investments with few linkages with the surrounding rural economy have a high failure rate and are unlikely to deliver positive development impacts. Conversely, business models that combine the strengths of both companies and farmers have a higher chance of generating durable shared value.

Concrete examples of inclusive business models were presented at the workshop. A fruit processor aims to generate jobs and develop the country's agribusiness sector and has received Rainforest Alliance certification for its banana and mango plantation. Many of the involved smallholders and workers are women. Another company works with both outgrowers that work on their own land and "in-growers" (or tenant farmers) on land that they have acquired. They believe that the generation of returns to shareholders goes hand in hand with the creation of employment and other opportunities for the rural poor. The company provides services, land and access to international markets for the tenant farmers and secures access to a steady supply of raw materials in return. Agricultural investment has a long gestation period. It can take much of time and efforts to build soil quality, develop knowledge and skills and develop strong investor-community relationships. Investors therefore need to take a long-term perspective and be patient. Public-private cooperation and patient capital can help inclusive business models to succeed.



To encourage responsible investment, development cooperation partners may support investment projects with a high development potential by covering initial risks. It was also agreed that the gradual implementation of new projects in stages is a good practice. Once initial risks are resolved a project may expand through for example involvement of surrounding smallholder communities in contract farming arrangements. Similarly, it was suggested that new technologies and crops or diversification strategies should be introduced with caution. Occasionally novelties can have significant development impacts. But up-scaling and replication should only be done when social, environmental and financial viability is proven.

Historically, failure of investments have often been caused by flaws that could have been detected before the initiation of the investment or during the initial stages. Representatives of companies participating in the workshop recommended prospective investors to learn from the experiences of others. Due diligence, not least related to “soft issues” such as consultation, consensus building and social and environmental impact assessment, should also be taken seriously. Several participants stated that informed and genuine dialogue between investors and affected communities had been key for long-term financial, social and environmental sustainability.

Strong and representative farmer organizations or civil society organizations can reduce the transaction costs of working with a big number of smallholders, including the marginalized, and ensure that their interests and needs are incorporated in the investment project. In one example presented at the workshop farmers were poorly organized when an investment was initiated. However, during the lifespan of the investment, their organizational capacity had improved. According to a representative of the company, this benefitted both the company and the involved farming communities.

There are opportunities in the production and processing of both food for local market and high value crops for external markets in Malawi. While traditional cash crops such as sugar and tobacco can be commercially viable, it was also stated that the production and marketing of high value niche and certified products and local crops can add value and increase the producers’ share of the profit.

6. Social dimensions of agricultural investment

Some investors are actively recruiting female workers and outgrowers as they are seen as reliable and hard working. Some investors also offer jobs for youth, including graduates who may become managers after some years of work experience. However, in many cases, marginalized and discriminated groups are left out from opportunities of investment. They are also often disproportionately affected by negative impacts such as displacement and loss of traditional livelihoods.



Deliberate efforts to ensure the protection and involvement of vulnerable groups in agriculture, agribusiness and agroindustry development are needed. The Ministry of Agriculture, Irrigation and Water Development carries out capacity development and awareness raising activities with marginalized groups including youth, women and people living with HIV/AIDS. The Ministry also works with private sector actors to increase marginalized people's access to micro-finance.

The National Association of Smallholder Farmers (NASFAM) gave examples on how their members, smallholders from the whole country, work to produce economic and social benefit for their communities. NASFAM promotes and empowers farmers to farm as a business and move up the value chain. More than half of their members are female. According to NASFAM, females operate in an unfriendly legal, political, economic and social environment. Female farmers invest more labour but benefit less from farming. NASFAM are therefore consciously working to strengthen female's position and encourages women to take leadership roles in their association.

Coffee is often considered to be a "male" crop in Malawi. After demands by women to be involved in coffee production, MZUZU Coffee Planters Limited began to advocate for the inclusion of wives and daughters of coffee producers in the business. Since then, the cooperative has marketed coffee exclusively produced by women, increased female membership, improved incomes of female members, worked on awareness raising at the community and household levels and involved women in decision making.

7. Conclusions and recommendations

One of the purposes of the workshop was to generate recommendations to decision makers. The key recommendations provided by workshop participants are summarized below. It was suggested that the IAWG and the Ministry of Agriculture, Irrigation and Water Development could initiate some of these recommendations.

A. Governance

- Harmonize conflicting sectoral policies and strengthen coordination and collaboration to ensure policy consistency.
- Strengthen the capacity of the Malawi Investment and Trade Centre (MITC) to promote more and better agricultural investment.
- Develop a guide for screening investors and investment proposals (jointly by the relevant government ministries and agencies, the IAWG and other actors in Malawi).
- Ensure that pricing policies are predictable and favourable to agricultural investment.
- Improve market information systems and market infrastructure.

- Integrate the CFS-RAI in the processes to domesticate the Sustainable Development Goals (SDGs), review the Malawi Growth and Development Strategy (MGDS) and the Agriculture Sector Wide Approach (ASWAp).
- Ensure that the land bill is passed and that the government's capacity to enforce it and protect legitimate tenure rights is strengthened.
- Finalize the process to map land for different purposes, including investment.
- Establish an independent body to allocate land that may ensure that all actors, including marginalized smallholders, can access land.
- Finalize strategies and regulations of the warehouse receipt system, the commodity exchange, contract farming and the cooperatives.
- Improve regulations of financial institutions and make efforts to ensure that interest rates for loans to agricultural investment decrease.

B. *Inclusive and profitable business models and value chains*

- Integrate youth and gender issues in the Agriculture Sector Wide Approach (ASWAp) and take measures to attract youth to agriculture.
- Build on ongoing efforts to support the inclusion of vulnerable groups, including youth, women and people affected by HIV/AIDS in agricultural investment.
- Develop and apply business models that suit the Malawian context. Draw on successful examples of for example nucleus estates with "in-growers" or contract farming arrangements.
- Promote the production, processing and marketing of high value niche and certified products as well as local traditional crops.
- Promote investment in value adding activities such as storage, processing and marketing.
- Promote public-private cooperation to enable investors to enable inclusive business models. (Development finance may for example cover initial risks of investment projects with a high development potential.)

C. Dialogue between stakeholder groups

- Develop clear and stringent procedures on how investors can engage in genuine consultative processes with local communities.
- Promote genuine cooperation between the Government and representatives of civil society, the private sector, farmer organizations and other key stakeholders to strengthen the enabling environment for responsible investment in agriculture.
- Use monthly public-private dialogue meetings and existing dialogue platforms to increase awareness about the CFS-RAI principles and discuss how they could be applied in the specific context of Malawi.

D. Awareness raising and capacity development

- Carry out awareness raising activities about the importance of responsible investment in agriculture with senior and technical government officials in key ministries including agriculture, industry and trade, foreign affairs at both central and local levels as well as with private sector actors, traditional leaders and communities.
- Televisé a role play about a negotiation of a fictive investment agreement.
- Use the role-play as a learning tool with communities.
- Translate the CFS-RAI into Chichewa and common local languages.
- Develop visual learning tools about the CFS-RAI and responsible investment to target illiterate people.

