

Responsible Agricultural Investment (RAI): Findings from the Field

Duncan Pringle

Paul Gardener Yvelin De Beville

Consultants, World Bank

27 March, 2017

Outline

1. Background – *Duncan Pringle*
2. Phase 1 activities – *Duncan Pringle*
 - a) Empirical Research Work
 - b) Lessons from the field – Main findings
 - c) Advice to Governments and Private Sector
3. Current phase 2 activities – *Paul Gardener Yvelin de Beville*
 - a) Fieldwork
 - b) Methodology
 - c) Knowledge Notes

Background – setting the scene

The 2008 global financial, fuel and food crisis was a watershed ...

- Fuel prices spiked; Food prices rocketed, export bans threatened- importers worried
- Stock markets crashed; 1/3rd of the value of companies wiped out, but agricultural stocks held up
- Higher commodity prices improved the profitability of farming
- Increasing interest in food/agricultural products, but land and water constraints

Background – setting the scene

...Growing interest in investing in agriculture...

- Recognised need for empirical knowledge to guide “Responsible Agricultural Investment or RAI” -> mandated/endorsed by the UN General Assembly, G8 and G20
- Supported by the Government of Japan, the Inter-Agency Working Group (IAWG) was formed by FAO, IFAD, UNCTAD and the World Bank to assemble a body of knowledge on such investments
- Multi-stakeholder dialogues on responsible investment launched; including work by the Global Committee on Food Security and Nutrition (CFS)
- Several other Global, Regional, Thematic guidelines are elaborated

Background – setting the scene

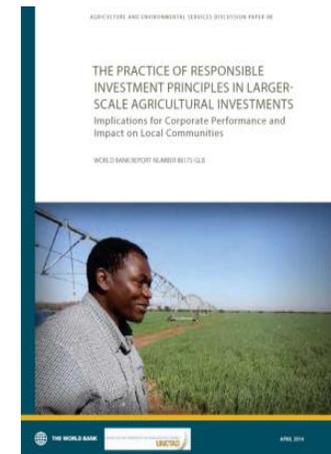
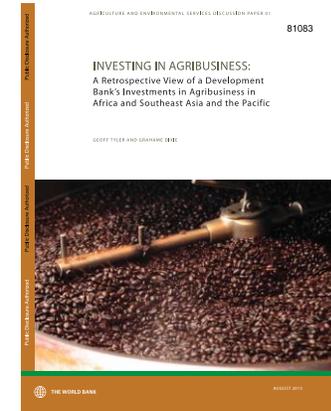
CFS-RAI

1. Contribute to food security and nutrition
2. Contribute to sustainable and inclusive economic development and the eradication of poverty
3. Foster gender equality and women's empowerment
4. Engage and empower youth
5. Respect tenure and land, fisheries, and forests, and access to water
6. Conserve and sustainably manage natural resources, increase resilience, and reduce disaster risks
7. Respect cultural heritage and traditional knowledge, and support diversity and innovation
8. Promote safe and healthy agriculture and food systems
9. Incorporate inclusive and transparent governance structures, processes, and grievance mechanisms
10. Assess and address impacts and promote accountability

Concluded Empirical Research Work

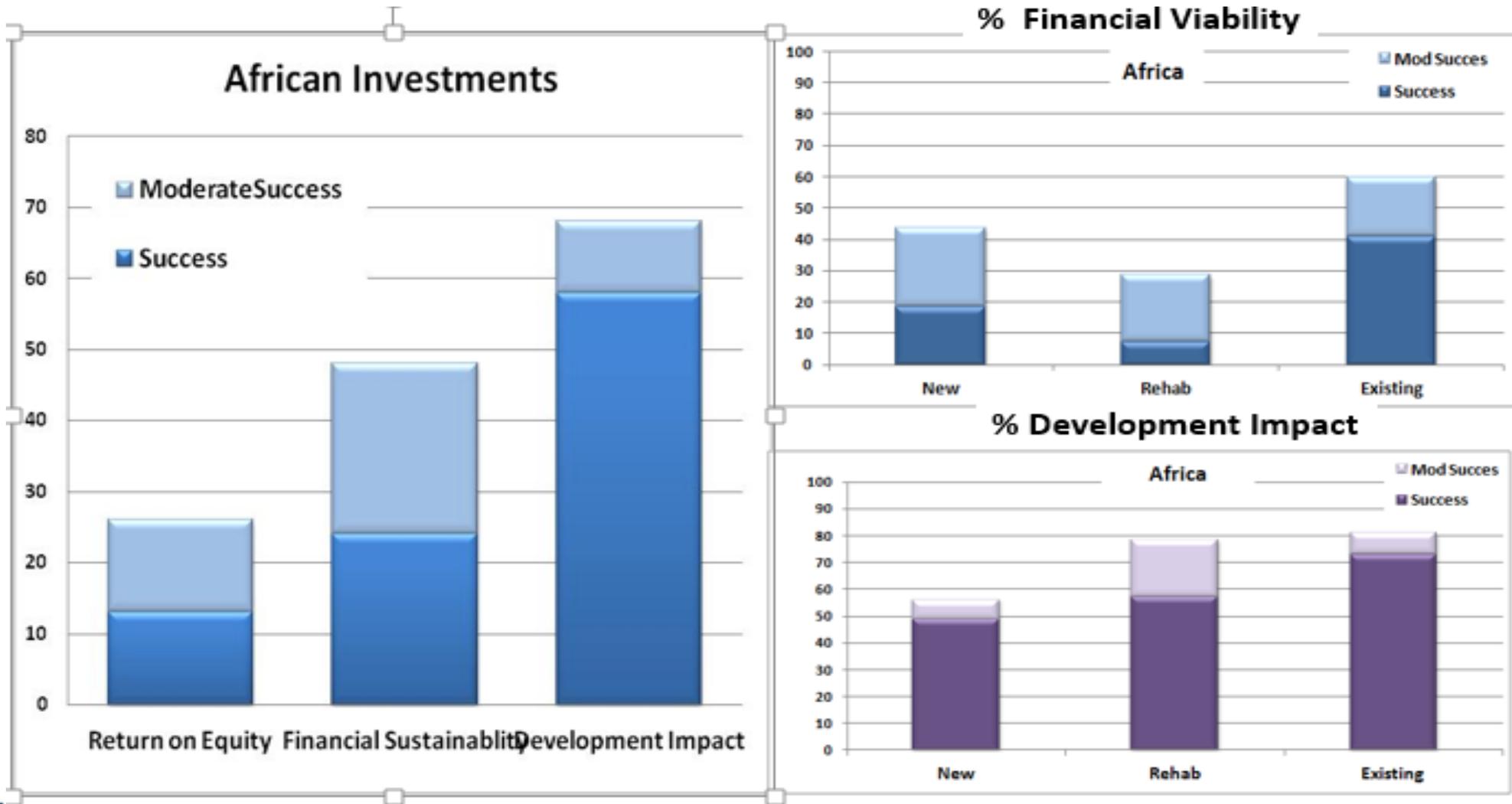
The **IAWG** has conducted a series of research studies and developed more than 10 publications. Three specific research studies:

1. *Investing in Agribusiness: A Retrospective View of a Development Bank's Investments in Agribusiness in Africa and Southeast Asia and the Pacific (2013)*
2. *The Practice of Responsible Investment Principles in Larger-Scale Agricultural Investments: Implications for Corporate Performance and Impact on Local Communities (2014)*
3. *The Impact of Larger-Scale Agricultural Investments on Local Communities: Updated Voices from the Field (2017 to be released)*



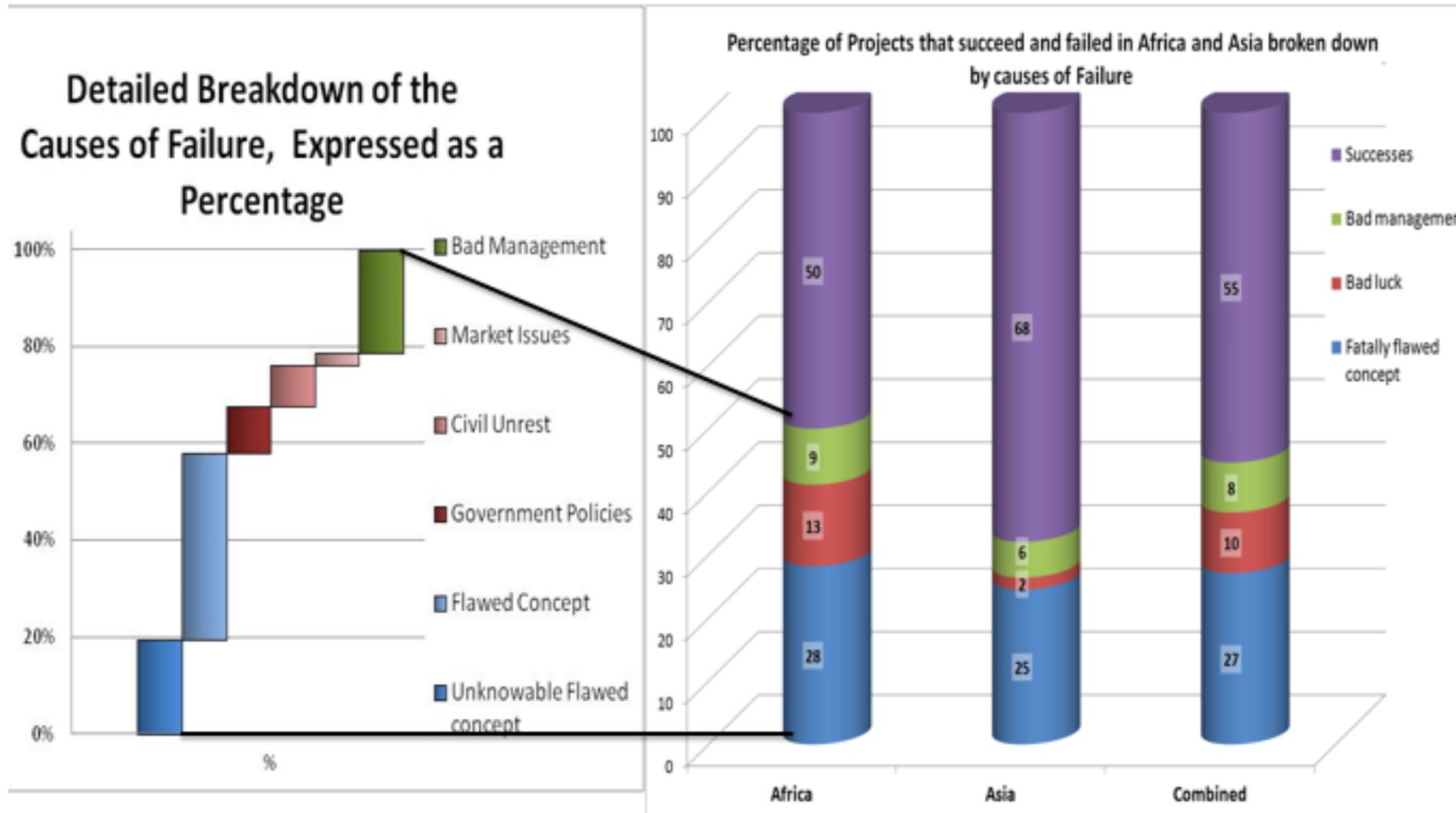
Lessons from the field – Main findings

Lesson 1 - Level of risks are very high, especially for green field sites; 7-9 years to play out, often bought & sold many times



Lessons from the field – Main findings

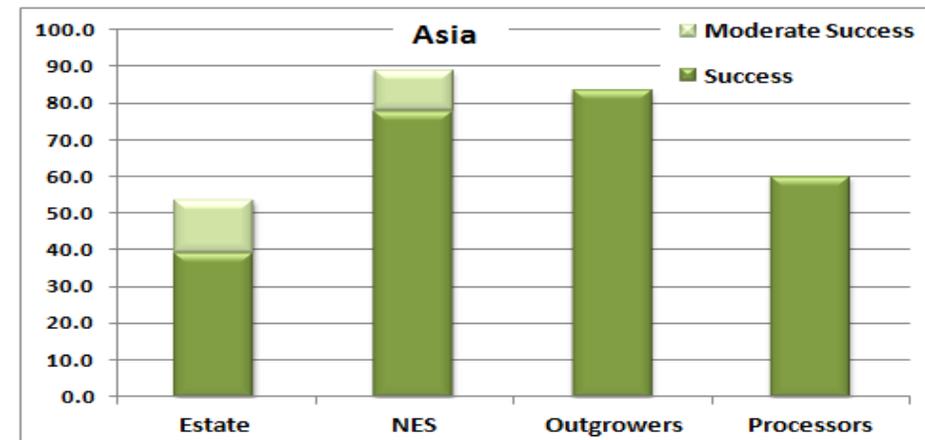
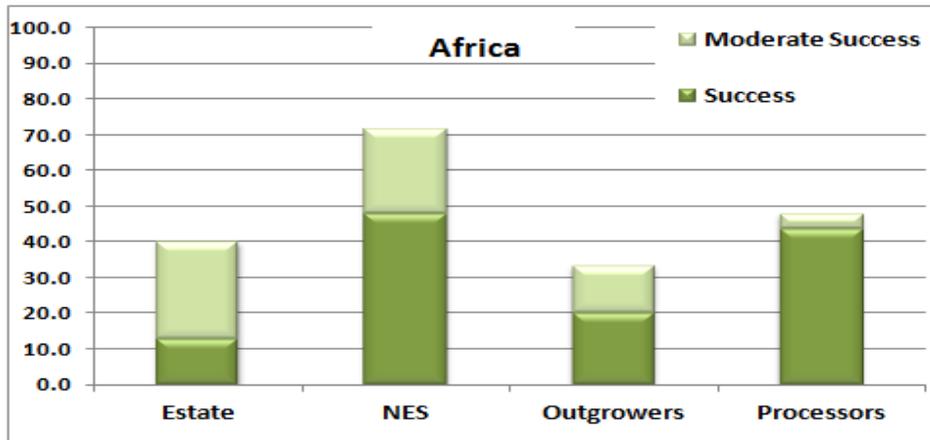
Lesson 2 - Causes of failure - flawed concept, bad management, and issues that are beyond the control of the investor e.g. civil unrest, government policies & markets



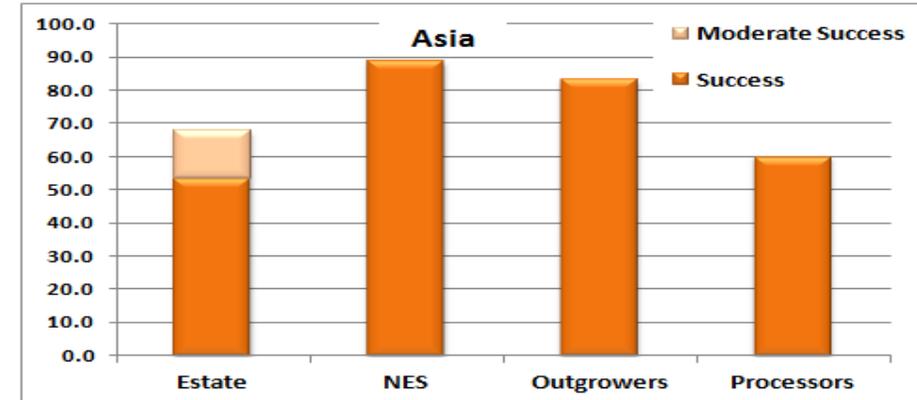
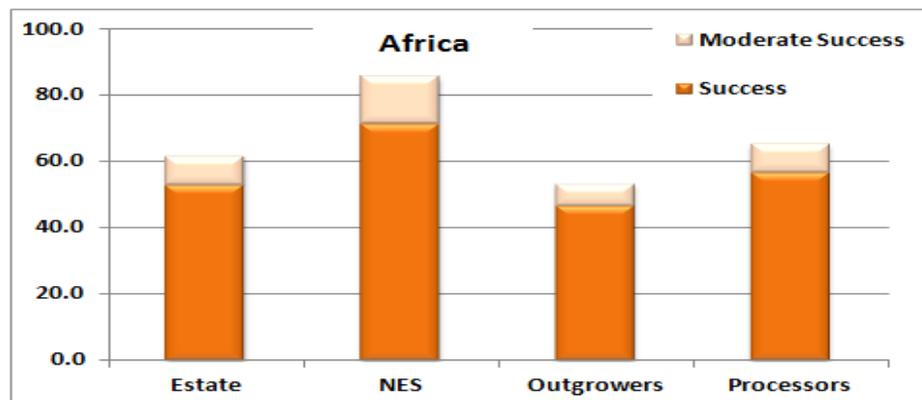
Lessons from the field – Main findings

Lesson 3 - Significant differences between business models: Nucleus Estates & Outgrowers more successful

% Financial Viability : Success and Modest Success

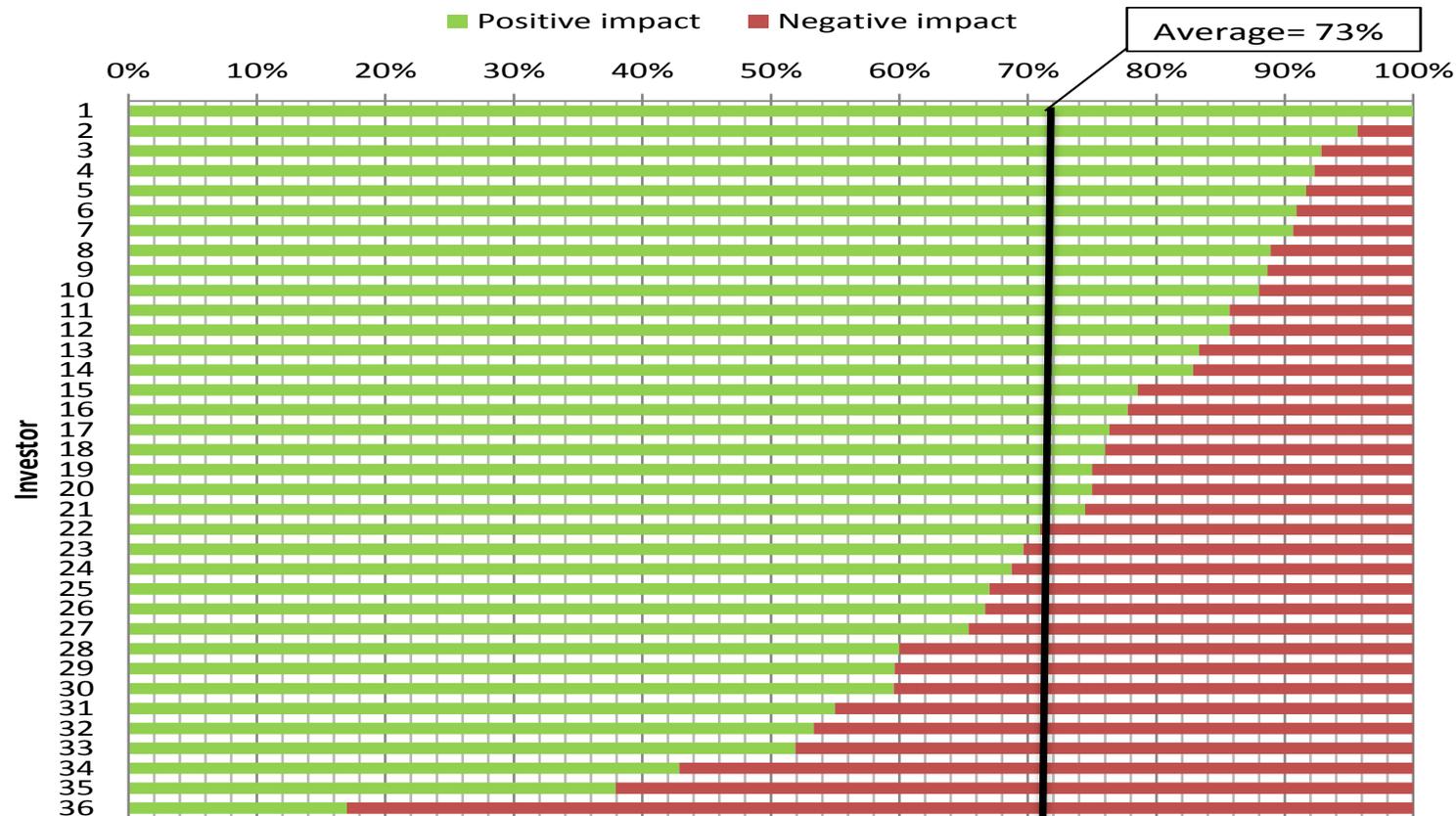


% Development Impact : Success and Modest Success



Lessons from the field – Main findings

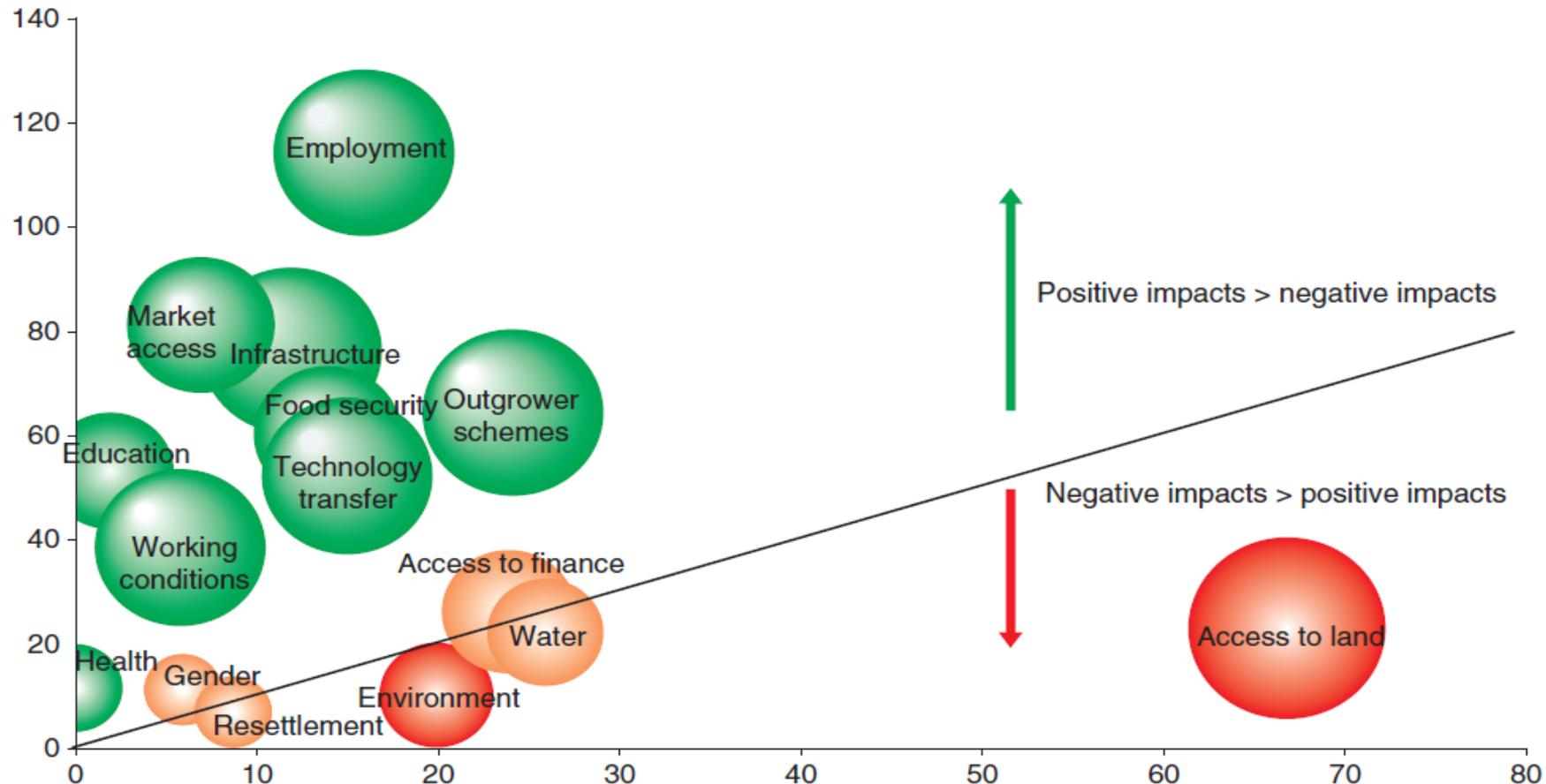
Lesson 4 – Varying stakeholder perceptions. Positive perceptions exceed negative ones. Commonly mentioned positives impacts are jobs, access to markets, infrastructure. Negative impacts are access to land, finance, water etc.



Lessons from the field – Main findings

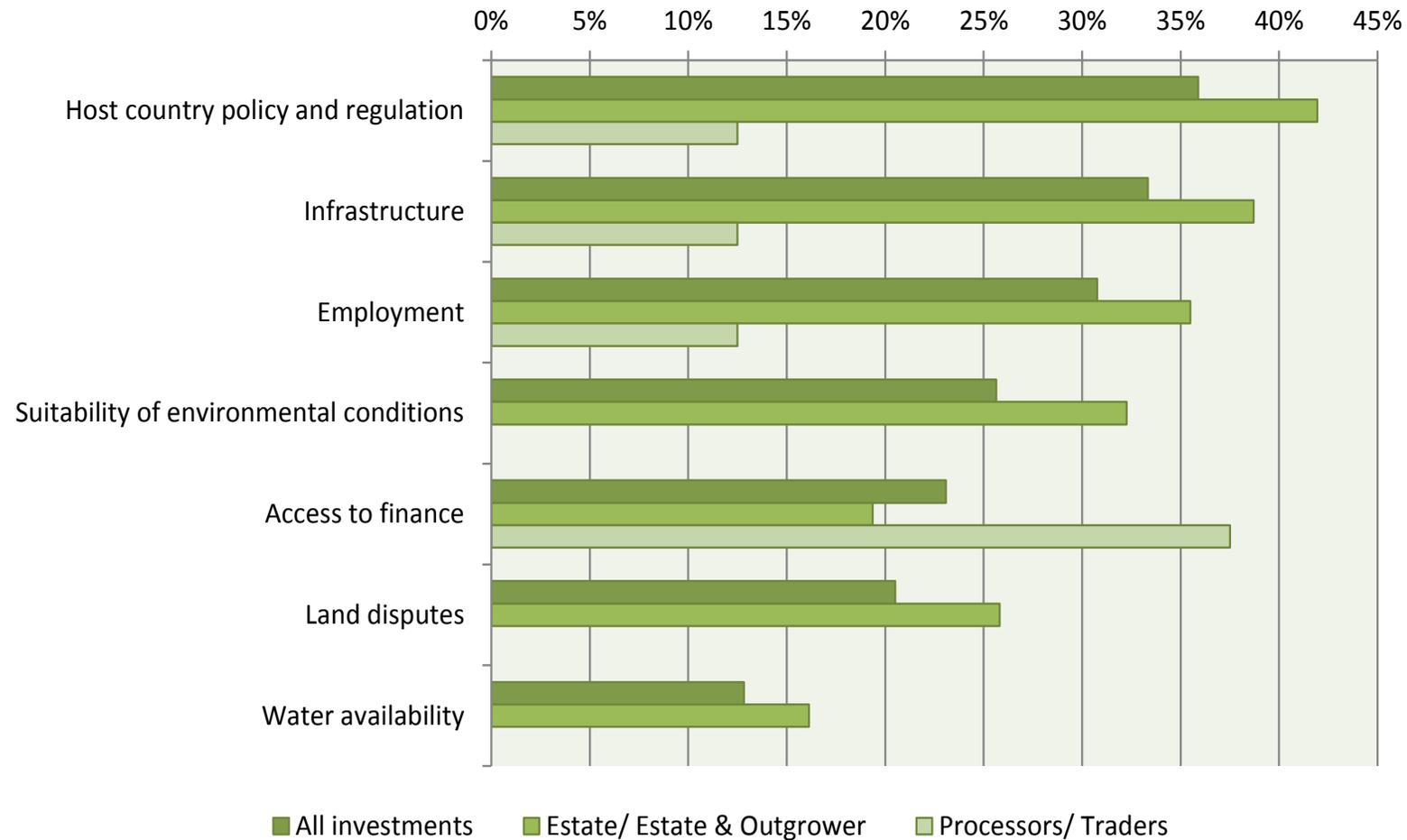
Lesson 4 (continued) Common positive impacts are jobs, markets, infrastructure and outgrowers; negative impact is land, followed by environmental issues (water)

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



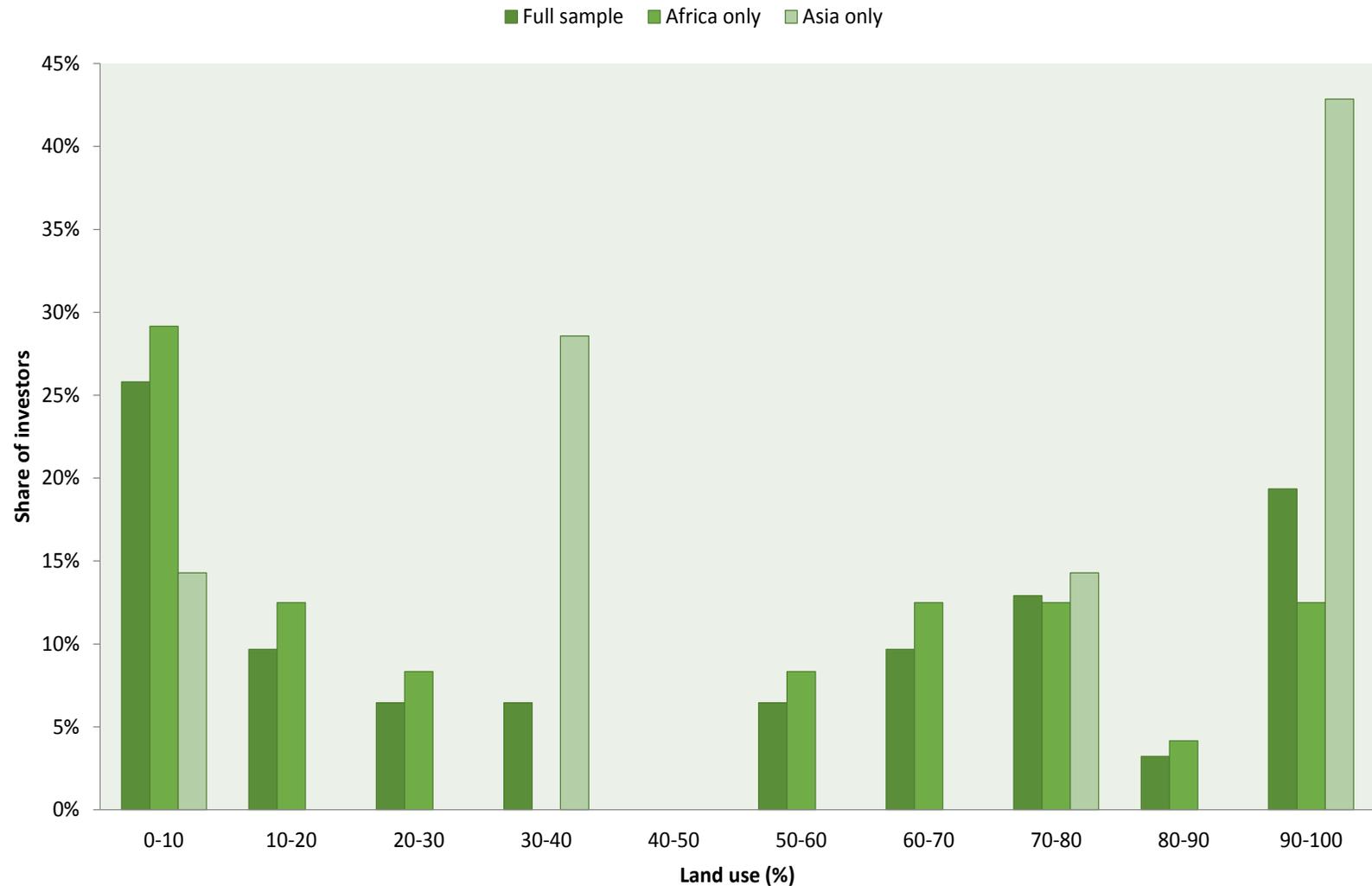
Lessons from the field – Main findings

Lesson 5 - Investors are looking for clarity & consistency in policies, regulations, basic infrastructure and finance



Lessons from the field – Main findings

Lesson 6: A U-shape in land utilization implying unused land, driven primarily by insufficient finance



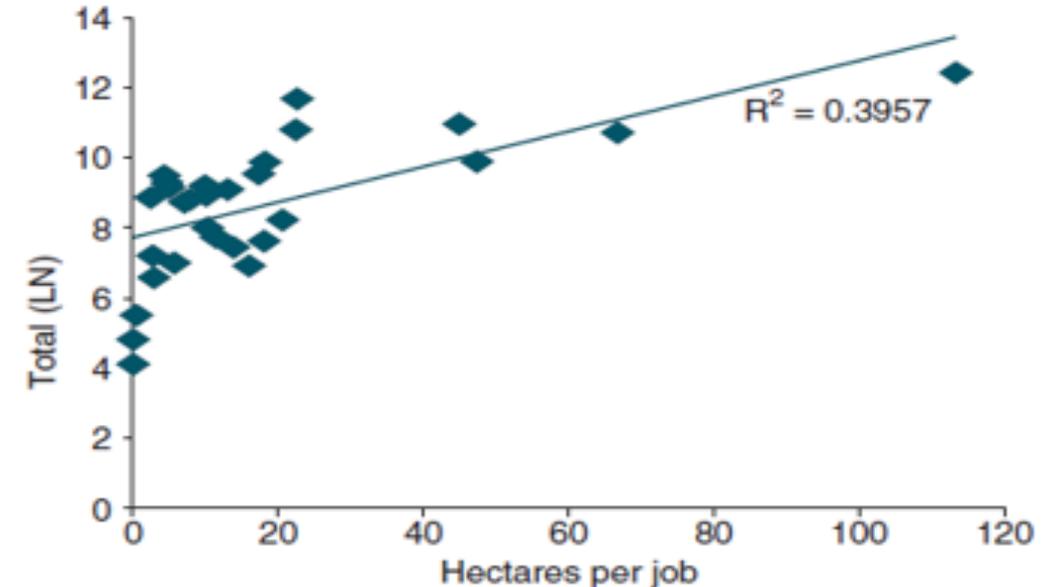
Lessons from the field – Main findings

Lesson 7 – Investments with large land deals are more likely to face delays, lower profitability, and lower job creation per hectare

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%

FIGURE 4.1: Total Area of Investment and Job Creation^(a)



Lessons from the field – Main findings

Lesson 8 – Wide range, mixed, but on balance positive outcomes

- Wide range of outcomes
- On balance, investments studied generated positive socio-economic benefits for surrounding communities and host countries, but...
- ... several negative impacts and room for improvement
- Surveys pointed to significant correlation between three aspects

Experienced and Well-resourced Investors -> Positive Financial & Operational Outcomes -> Satisfied Surrounding Communities

Lessons from the field – Main findings

Lessons 9 - Governments and Private Sector are clear about their needs → *Needs for the next stage*

Governments

- How can we implement RAI principles?
- How should we pre-screen investors and investments?
- How should we regulate, manage and monitor relations between investors and outgrowers, esp. prices?
- What should be the terms of our contracts with investors?

Private Sector

- How should we implement RAI principles?
- We need clarity and stability in the policy environment.
- How can we ensure that we have a voice in policy decisions?
- How can we achieve a balance between transparency and confidentiality?

Advice to Governments

To Maximize positive impacts and minimize negative impacts of agricultural investment:

- Know what development you want; be more choosy about the investor, business model, enterprise
- Set up process to review investments systematically
- Diversify business models
- Guide and support outgrowers' inclusion in business models
- Encourage alternatives to large scale land investments
- Support 1st movers, but not at scale of land
- Do value your natural resources
- Ensure investors to access land with a realistic business plan
- Follow existing land regulations
- Ensure transparency and participation
- Do not expose smallholders to start-up business risks and financial risks
- Have a plan B for failure or exit

Advice to Private Sector

To Maximize positive impacts and minimize negative impacts of agricultural investment:

- Conduct comprehensive Environmental and Social Impact Assessments and feasibility studies
- Develop a concrete and realistic business plan
- Engage openly with stakeholders including communities from the very early stage
- Be transparent: consultation prior to the investment and ongoing dialogue
- Manage expectations especially for job creation
- Start small and consider phasing especially for land operation
- Assume no land is “un-used”
- Ensure patient capital provider who is knowledgeable on the difficulties of running an agribusiness especially on the gestation period
- Don't involve smallholders from the beginning and expose them to the start up business risk
- Develop a robust grievance mechanism

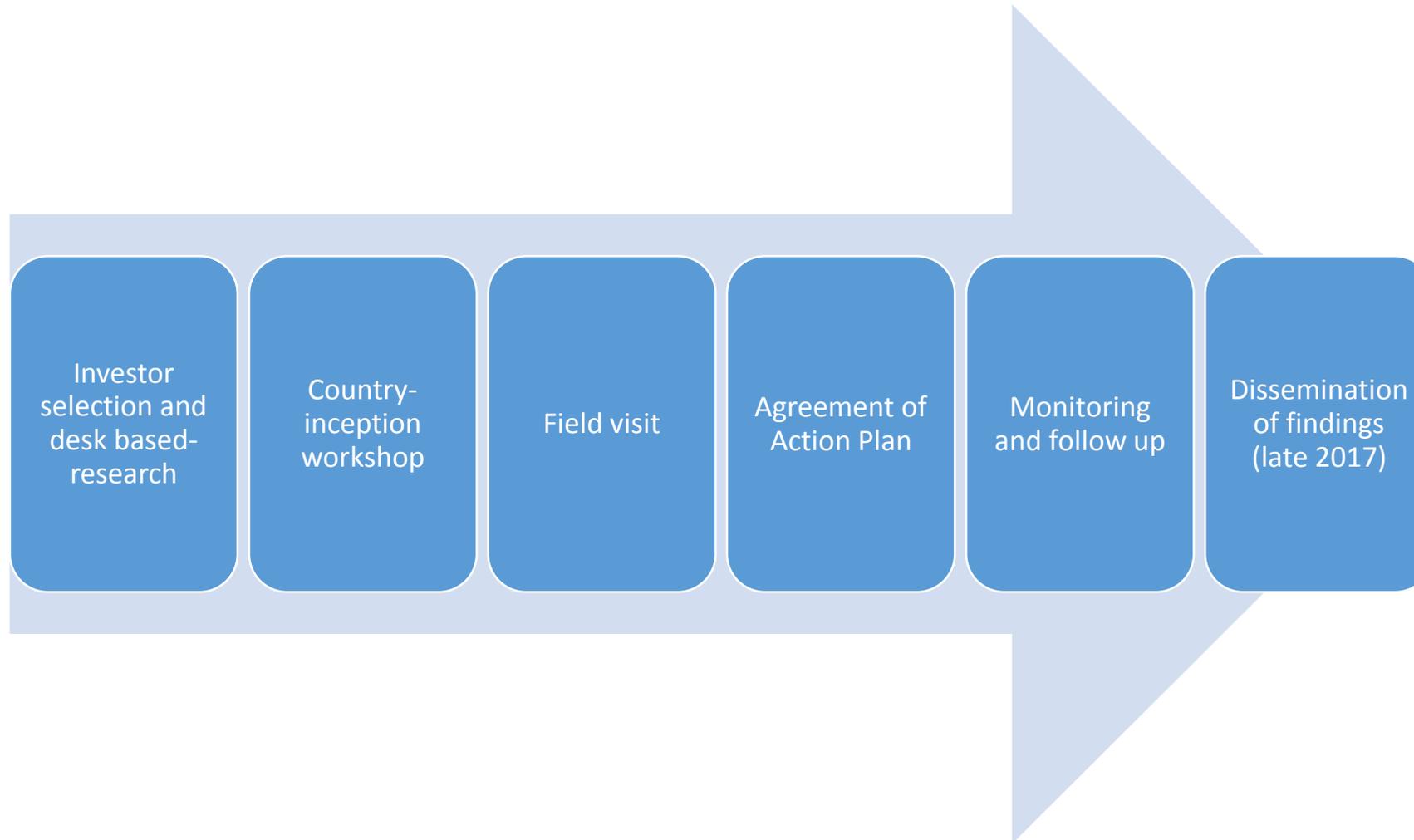
Current phase 2 activities - Fieldwork

Investors, governments and communities want more detailed practical guidance on the how to implement principles of responsible agricultural investment.

- Field work at 8 early stage (1 to 10-years in operation) agricultural investors in Africa across 6 countries, 6 foreign investors, operating on <100 ha to 50,000 ha of land, 87% with outgrowers, producing 6 different crops.
- Objectives:
 - to infuse responsible investment principles into operations *from the outset*.
 - to learn and establish good practices in implementing responsible business practices in agriculture.
 - to develop tested instruments, methods, documents, processes and procedures which can be used in the early phases of future investments.
 - inform the work of development agencies, government bodies, investor groups, NGOs and other institutions that promote responsible investment in agriculture.

Current phase 2 activities - Methodology

Methodology



Knowledge Notes

Key outputs ➡ **A series of Knowledge Notes**

- Purpose: to provide digestible, easy to use information, tools and guidance to governments, investors, communities and civil society for use in their pursuit of sustainable and responsible development in agriculture.
- Contents:
 - Practical “how to” examples and implementable tools gleaned from UNCTAD-World Bank field work.
 - Cross-reference is existing tools and guidance documents.
 - List of relevant responsible investment principles.
 - 4-6 pages maximum!
- Peer review and testing at further country workshops.

Knowledge Notes

Issues covered are under development, depending on field work and where a meaningful contribution can be made.

- An indicative list of likely topics:
 - Screening Prospective Investors
 - Alternative Business Models
 - Economic Linkages
 - Designing Mutually Beneficial Outgrower Schemes
 - Water Rights and Use
 - Women's Empowerment
 - Community Engagement Strategies
 - Participation of Marginalised Groups
 - Training and Integrating Local Staff

Knowledge Notes

Sample contents

- **Screening Prospective Investors**
 - Key aspects to cover in screening procedure.
 - Schematic diagram of screening procedure.
 - Quick fire desktop screening procedure.
 - External advice to build screening capacity
- **Economic linkages**
 - Evidence on types of links – positive and negative – created.
 - Using the investment contract to maximise positive links.
 - How to screen investors for linkage potential.
 - How to nurture local entrepreneurship.
- **Training and Integrating Local Staff**
 - Examples of successful training programs.
 - Partnerships with Universities or training institutions.
 - Overcoming administrative barriers to local employment.
 - Embedding commitments in the contract.

Knowledge Notes

Next steps

- Ongoing monitoring and follow up visits with 8 investors.
- Peer review and testing of Knowledge Notes, including country workshops with FAO and IFAD.
- Publication of Knowledge Notes and Overarching Report on the program, later in 2017.

Thank you