Private Sector Workshop on Responsible Agricultural Investment

Johannesburg, South Africa,

11th July, 2017

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A one-day workshop on Responsible Agricultural Investment was held in Johannesburg, South Africa, on 11th July, 2017. It targeted the private sector and was jointly organised by the United Nations Conference on Trade and Development (UNCTAD) and the World Bank. 25 participants from the private sector actively discussed and shared experiences and views on large scale agricultural investment on a number of selected key topics.

Opening Session

The workshop was opened by Ms. Christiane Stepanek-Allen, Chief, Responsible Investment and Partnerships, Division on Investment and Enterprise, UNCTAD and Mr. Christopher Brett, Lead Agribusiness Specialist, World Bank.

Ms. Stepanek-Allen welcomed those in attendance, briefly introduced UNCTAD and its investment-related work, including the organization's contribution to responsible investment in agriculture. She highlighted the joint evidence based research undertaken by UNCTAD and World Bank, along with partner organizations, to develop a body of empirical knowledge on Responsible Agricultural Investment (RAI). In the wider context, this could be a potential contribution to the attainment of several UN Sustainable Development Goals. Ms. Stepanek-Allen outlined the objectives and format of this private-sector focussed workshop and introduced the team leaders of the day, including Mr. Christopher Brett and Ms. Asuka Okumura from the World Bank and Mr. Duncan Pringle, Lead Field Researcher and agribusiness specialist.

Mr. Brett introduced the World Bank Group and its tasks, and highlighted the value of the public-private relationship. He also explained the background and the importance of RAI, and introduced the research work by the Inter Agency Woking Group (IAWG) consisting of FAO[1], IFAD[2], UNCTAD and World Bank to date. The field research undertaken by UNCTAD and World Bank shows that there are many positive impacts from large-scale agricultural investment observed by stakeholders, such as job-creation, access to market, economic opportunities, and infrastructure. However, there are also negative outcomes such as land issues. How to minimize these negative consequences and maximize positive impacts is the issue that RAI is trying to address. It was also announced that World Bank and UNCTAD were developing a set of Knowledge into Action Notes (Knowledge Note) to provide practical and operational "how to" guidance on a range of topics around RAI. Four Knowledge Notes had been selected as background documents to guide the discussions of the day (See programme annex 2).

[1] Food and Agriculture Organization

[2] International Fund for Agricultural Development

To set the scene, Mr. Brett invited Mr. Ramesh Moochikal, President and Regional Head – South and East Africa, Olam International, to present lessons learnt from its investment experiences across Africa.

Olam conducts business in 25 counties in Africa, having started in Nigeria. It is important to understand the priorities of governments to do business in the country. The company deploys different formats of farming models depending upon local conditions such as the land management policy of the government. Mr. Moochikal highlighted that agricultural investment is a long-term project, and stakeholders are long term partners. A win-win relationship with communities ensures stable business. He explained that Olam recognizes three responsibilities: commercial, environmental and social. In Africa, employment, food security, import substitution and upskilling are the four main issues and agricultural investments could address them by taking governance and community relationship into consideration.

He mentioned that there is no one "pan-African" strategy to fit everywhere, as each market is different. Land is a sensitive issue and the situation is different in every country. Examples of Zambia, Tanzania, Ethiopia and Mozambique were showcased as comparisons. He also emphasized that investing in agriculture is a long-term journey and most investments in Africa fail due to the lack of sufficient cash flow to bridge the gestation period. Access to finance is a hurdle but there could be innovative solutions such as sale and lease back transactions.

Discussion points from participants included; potential role of the BRICS bank, sale and lease back transactions, working capital finance, government intervention which makes business difficult, micro finance, and support for smallholders.

Following the presentation of Olam International, the participants attended one of the two parallel sessions according to their preference of topic.

Knowledge Note 1: ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT AND MANAGEMENT PLANS

Introduction

Mr. Brett introduced the Knowledge Note and presented the importance and issues regarding Environmental and Social Impact Assessment (ESIA) and Environmental and Social Management Plans (ESMP), as well as experiences from market players, good practices, and recommendations from research findings. He highlighted that the proper ESIA and robust ESMP are very important tools for successful and sustainable investments, even though they are considered costly and time consuming exercises. Lack thereof, especially with regards to a comprehensive social risks assessment, can result in business failures with impact on the success of both the business and community. He also emphasised that the process should not be a "box-ticking" exercise, but should be an on-going with proper integration into the business and monitoring process so as to continually update the assessment and interventions required.

Discussion

Participants shared their experiences and views on ESIA and ESMP.

- A case in Angola was introduced as an example of failure which could have been avoided if a proper ESIA had been conducted.
- Scope of ESIA is also important. It should involve water studies, carbon assessment and any other required geological studies.
- A case in Malawi with a potential of 5,000 small scale outgrowers that did not be materialized due to lack of consensus from two farmers was also introduced to describe the constraints in the African context to fully comply with IFC's standard as a global high standard.
- A case in Zambia was also shared to discuss Land Legacy Issues, which could be identified through ESIA process.
- The issue of right timing to engage with a relevant decision maker in the Government was highlighted to mitigate risks by taking a diversified view. It should be a joint effort between the investor and the government, even though it is not an easy task since the investor must interact with multiple ministries as well as multiple tiers of government bodies (local, provincial, and national).
- In some areas, a functional structure to conduct business responsibly is not in place. Long-term investment in the system and appropriate policy instruments are indispensable to develop an enabling environment. It could be undertaken through public-private partnerships (PPPs). International organizations such as World Bank should operationalize existing global principles to support business. A case was presented in which a company which complied with a global standard lost a bid since other competitors didn't comply to such a standard and therefore had a different cost structure.
- It was also discussed that both management and operational levels in the company/investment should be involved in the ESIA and ESMP process. Most managers are now becoming more aware of the importance of sustainability and public commitments.
- Cost of ESIA is a burden – "to do the right thing costs money". Monitoring of social aspects by a third party is also expensive. African Development Bank's program was raised as an example to support such upfront costs.
- The responsibility to resolve a dispute raised after a legal agreement with government was presented as an unclear issue. Disconnection between the central government and the local government also makes the issue difficult.

Knowledge Note 2: SCREENING INVESTORS

Introduction

Mr. Duncan Pringle introduced the Knowledge Note and presented why screening is important as well as good practices associated with it. Research by the World Bank shows that a significant number of investments failed due to what should have been foreseeable and avoidable reasons. Poor planning and a miss-match between investors' intention and the local situation, including the level of technology and priorities of stakeholders especially government, are major causes of failure. Screening by both, Governments and investors' own in-house screening, could avoid these risks. Realistic business plans, capacity and access to finance, and proper ESIA are important elements to be reviewed.

Discussion

Participants shared their experiences and views, especially on the roles of governments.

- Importance of proper and timely decision making by Governments as well as their responsibility for engagement with the affected community were presented. Governments should understand and balance the risks and benefits investment will bring, as well as consequences of failure due to an unstable environment.
- Well-constructed rules, and consistency and transparency on these are important to incentivise investments. Governments should clearly recognize and present their development objectives and develop clear and transparent policies. Predictability is a key for business.
- Conflict between national and local priorities is another challenge for investors. Proper understanding of institutional arrangements by the Government (e.g. layer of decision making) was pointed as a key for a successful consultation process.
- Lack of clarity on the land tenure, and poor coordination between traditional authority and Government are also big challenges for investors.
- Appropriate level of review by Governments was raised as a question, since it is a real challenge for Governments to have sufficient and appropriate capacity to assess business plans and the commercial viability thereof. It is also an issue how much commercial information should be provided to Governments for assessing the business, as much of the detail could be confidential and proprietary to investors.
- Investors need a single focal point to Government and the Ministry of Finance could be the entry point for the dialogue with Government. Investors need to understand the priority and focus area of the Government, on which their business plan is to be developed. The more difficult part of investment is to get the "social license" to operate from the local community rather than the legal licence from Government, the process for the former requires long term commitment and building of the relationship.
- Investment Promotion Agencies can play a comprehensive role if they have proper capacity and political backing from the authorities. It was also mentioned that it would be helpful to establish a one-stop-agency for both domestic and international investors. However, there is

a potential conflict between facilitator's and regulator's roles if they are housed in the same agency.

- Disconnect between central government and local community was raised as an issue. It would be a question whether the local conditions provided from central government do really reflect the real needs from the community at local level. What works well is if the investor directly approaches the community and develops an understanding of their needs. Interventions by Governments do not work if they have a lack of capacity. As a positive example, the case of Cote d'Ivoire was showcased as one of the most engaging Government, which is proactive in incentivizing investors to align with priorities of Government.
- To develop a universal standard for community engagement is not a recommended approach as there is not a "one-fits-all" solution for such engagement.
- To develop long term trust, investors must demonstrate their long-term commitment and the capacity to do so to the community.
- Universities, NGOs and international organizations including World Bank and UN can play a bigger role to facilitate proper engagement and overcome a trust gap between the government and the private sector.

Presentation of ECO FARM Case Study

Mr. Pringle presented a case in Mozambique to illustrate some issues relating to the subject of outgrower and integrated business models, as well as challenges and changes the investment brought to the community. The case experienced several challenges including the need to change the fundamental business plan due to adverse global economic shifts, which resulted in the lead investor withdrawing and having to be replaced. The company chose an integrated business model around a core estate with outgrowers grouped into two co-operatives. A Services Company was established to provide power, water and training support to the operation as an integrated business between the company, the co-ops and Government.

The case has a unique pricing model to ensure members of the outgrower co-ops receive at least $10/per day based on a household income survey, instead of a market benchmark model, where the product prices are lower.

The original plan supposed to resettle over 80 families, but the investor re-negotiated the boundaries with the government to avoid such re-settlement. Interestingly there was disappointment when the families were not moved, as they were looking forward to the agreed financial remuneration. The example also highlighted the importance of creative cooperation with NGOs such as training and institutional support for both co-ops and communities.

Knowledge Note 3: DESIGNING MUTUALLY BENEFICIAL OUTGROWER SCHEMES

Introduction

Mr. Brett introduced the Knowledge Note citing issues and considerations around outgrowers schemes, which have the potential to create benefits for both the investors and local farmers. He pointed out that it is important to build the structure based on "right consultations and relationships", as well as a proper assessment of the costs involved in developing the scheme and the timeframes expected in getting economic returns. Examples of good practices included the involvement of third parties such as NGOs in the system.

Discussion

Participants shared views on outgrower mechanism and broader relationship with community.

- There are different types of pricing mechanism and finance structure in outgrower scheme. Structures and levels of finance (ratio of initial finance and inputs against expected value of products) depend on crops and their respective markets. Challenges and risks include side selling of crops and availability of inputs was discussed. A case in Tanzania was presented to demonstrate where outgrowers required investors to commit to a contract to guarantee a minimum price, which is higher than market price, and negotiated every year.
- A case of poultry production in Tanzania was shared as an innovative financing structure partnering with third parties. The case also provides training services.
- Initial analysis on capacity of farmers is one of the keys to develop a sustainable production mechanism.
- Some stakeholders request some forms of insurance to protect risks, but the cost is extremely high. There is a debate on the possibility of public support to such insurance mechanism.
- Technologies such as satellite data provide significant improvement to the industry. Capacity to analyse and utilize big data still has a long way to go but is improving. It could potentially reduce risks and bring more success to outgrower programs. A case to apply customer satisfaction technology into impact assessment was shared to showcase the utilization of science into business in order to build better relationship with outgrowers and community.
- Land-based finance is still challenging but a participant showcased a case which provided finance to smallholders based on their recognised land holding. The case also facilitated the liquidity of land so that farmers started to trade their land.
- How to get young people to farming is one of the big issues. Technology can attract the younger generation to agriculture. Young entrepreneurs in agribusiness was discussed taking "uberization" of tractors as an example.
- Long term stakeholder relationships are necessary to consider any public private relationships. Possible areas where PPPs can contribute, include the improvement of quality of extension service and infrastructure.
- Rather than theoretical and academic products, practical case studies and toolkits applicable to real business are raised as requests for World Bank and other institutions to develop.

Knowledge Note 4: INCLUSIVE BUSINESS MODELS

Introduction

Mr. Pringle introduced the Knowledge Note with a presentation on how to maximize benefits of large-scale agricultural investment for local communities. Responsible investment in agriculture has a potential to contribute to enhancing the livelihoods of local communities. Challenges exist with traditionally marginalized groups, such as women who tend to receive less benefit. Economically sustainable investment is a necessary but not a sufficient condition for distributive benefits. Proper consideration and appropriate business philosophy that encourage and leverage "shared-value" among companies, communities and other stakeholders are vital to maximize potential benefits.

Discussion

Participants shared opinions and experience on inclusive business models.

- A case of how to manage cattle was shared to showcase the impact of creative ideas to solve issues.
- Multi-stakeholder approaches including NGOs are important to bringing benefits to marginalized groups of people. Caution was also raised with regards to potential over-engagement by certain NGOs.
- The burden of the private sector to contribute to public goods such as infrastructure was raised as a challenge. A case of Durban ("municipal property rights rebate") was introduced to share the public sector's support to private sector's activity as a type of incentive to encourage investment.
- An example of infrastructure in Nigeria was shared to discuss where government could be involved. It was also pointed that it is important to well consider where PPP works better and what risks exist.
- Significant increases of population density in surrounding areas of successful investment could become a social issue over time and need to be considered in advance. A job created by the investment could bring 20 people from other areas into the community, it could create conflicts. One approach for such issues would be to facilitate the local community develop the capacity to provide services to the investor, such as storage, and to integrate investment itself with community by local procurements. It was also pointed out that it is getting difficult for investor to manage expectation from communities on the types of social services requests which should principally be governments' responsibility (e.g. schools, potable water, and electricity). The long-term impact of the investment must be well considered before the project is embarked on. Commitments from Governments also needed to develop the social services over time as the business matures and more people settle in the area.
- In the absence of established government policies, social investment obligations by the investor could be agreed upon and recorded in the investor contract (or social compact). Government responsibility to inform local community of investor obligations and to formulate schemes to off-set negative implications.
- Difficulty and sensitivity around land rights were highlighted. One initiative to educate community on land rights was shared as an approach to address the issue. The Department of Justice could train land advocacy officers.
- How to mitigate disputes such as political, geographical and tribal conflicts was raised as an issue. To develop an on-going consultancy mechanisms around investment could be a solution. It is important to have proper facilitation skills and bring in the right people to make

such mechanism appropriately functional. The issue was raised whether investors should continue to engage agricultural specialists or social sciences experts to facilitate long-term community engagement at the local level.

- To identify a reliable and capable third parties, who could assist communities and facilitate consultation is not necessarily difficult, though the situation in each country may vary, for example whether there is a strong chiefdom-ship structure or not. The critical issue is how to build trust in the long-term.
- PPPs could be successful; such as an arrangement, where extension officers, funded by Government, but seconded to and managed by the private sector. They can have the opportunity to develop a better skillset through association with the company in-house training, thus further bringing value to small holders.
- There is not a “one-fits-all” model. We must be very flexible depending on county, crop type, land-ownership format, market structure, legal framework and government policy.
- One of biggest issues for investors in Africa is that in some cases the legal contract is not enforceable under law. World Bank can play a role to work with Governments to develop an appropriate legal structure to attract investors.

Closing Session

The discussions and findings from the four sessions were briefly summarized and Mr. Brett and Ms. Stepanek-Allen thanked participants for their active engagement and rich contributions to a wide range of subjects. Their inputs will be reflected in the further revision of the Knowledge Notes.

Participants made a number of suggestions on how to ensure widest possible dissemination of forthcoming Knowledge Notes and the underlying RAI work:
- Webinars and short videos for a wider audience, including youth
- Practical case studies
- Translation into multiple languages
- Outreach to commercial farmers in addition to small holders
- Capacity-building for governments to understand the issues at hand and create and facilitate an enabling business environment

Annex 1: Participants List

Name & Surname	Department/ Agency	Designation
Dr. John Purchase	Agbiz	CEO
Mr. Jim Heyes	Criterion Africa Partners	Managing Director
Mr. Russell Curtis	Invest Durban Ethekwini Municipality	Head of Department
Mr. Ramesh Moochikal	Olam	President & Regional Head
Mr. Harvey Leard	Silverstreet Capital	Investment Committee Member
Ms. Mbali Nyembe	ABSA	Analyst Africa Strategy
Mr. Tanyazi Chirwa	Norfund	Senior Associate
Mr. Hamlet Hlomendlini	Agri SA	Chief Economist
Ms. Makiko Toyoda	International Finance Corporation	Regional Lead - Sub Saharan Africa
Mr. Andrew Makenete	Musa Group	Vice President - Agribusiness
Mr. Manie Grobler	Agri All Africa	Chief Financial Officer
Mr. Kazumi Fujimoto	Embassy of Japan	Second Secretary
Mr. Thapelo Moleleki	ABSA	
Mr. Justin Murray	Barakfund	Portfolio Manager
Ms Sibongile Zulu	Industrial Development Corporation	Agro Processing and Agriculture
Hon Seedy M. Lette	Global Africa Integrated Farms Ltd	
Mr. Boas Seruwe	Daybreak	CEO
Mr. Martin Heunis	Southern Cross Marketing Management	Group FM
Mr. Mohammed Essay	US Commercial Services	Trade Specialist
Mr. Edgar Bruggemann	Illovo Sugar	Grower Affairs Director
Mr. Johann van der Merwe	Illovo Sugar	Group Head of Advocacy
Mr. Dirk Hanekom	Agri All Africa	CEO
Mr. Monako Dibetle	Nestle South Africa	Public Affairs Manager
Mr. Giles Hedley	Barakfund	Investment Relations Manager
Mr. Joe Maswanganyi	Senwes	Group Executive Director

Organizer Team

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Annex 2: Agenda

Session	Time	Room 1	Room 2
Opening Session & Case Study 1	9:00 - 10:15	Opening Remarks	
		Case Study – 1: OLAM	
Break	10:15 – 10:30		
Knowledge Note working sessions	10:30 – 12:00	Environmental and Social Impact Assessment and Management Plan (Led by Chris and Asuka)	Screening prospective investors (Led by Duncan and Christiane)
Lunch	12:00 – 13:00		
Case Study 2	13:00 – 13:30	Case Study 2: Grown Energy & Eco Farm	
Knowledge Note working sessions	13:40 – 15:10	Designing mutually beneficial outgrower schemes (Led by Chris and Asuka)	Inclusive business models (Led by Duncan and Christiane)
Break	15:10 – 15:25		
Feedback and Closing	15:25 – 16:25	Feedback on Notes	
		Closing remarks	