RESPONSIBLE AGRICULTURAL INVESTMENT

Chris Brett
Lead Agribusiness Specialist
Asuka Okumura
Operations Officer

Agriculture and Food Global Practice
The World Bank

October 3, 2018

7th General Meeting of the CARD
Tokyo

Principles for Responsible Agricultural Investment (RAI)

- There is a broad recognition that agricultural investment must be conducted responsibly and sustainably in order to ensure net developmental benefits to host economies.

- To ensure net positive outcomes for all stakeholders, “CFS Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI)” have been developed as a voluntary guideline through a multi-stakeholder process.

Why is RAI important ?

Investments from the private sector into agriculture play key roles:

- Meeting the growing needs of Global Food & Nutrition Security
- Creating jobs and economic opportunities across value chains especially in the rural areas & growing secondary towns
- Achieve the range of sustainable commitments made by companies & organizations across the supply chain – including the SDGs

To maximize positive impacts and mitigate negative impacts from agricultural investments we must:

- improve the business environment
- Implementing appropriate safeguards / performance standards

'Nothing is straightforward, investments will bring <u>mixed</u> outcomes'

THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Our research shows:

- There are a wide range of outcomes.

- Typical positive impacts include job creation, access to markets, infrastructure, outgrowers schemes. The most difficult issue is land.

- Large range in perceptions by surrounding community, but the share of positive / negative socio-economic impacts by investor Ratio = 3:1

- Operational and financial success is a key prerequisite for environmental and socio-economic stability.

Our research shows (2):

- Investments can be a catalyst for social transformations, especially for women.
- The income from employment or contract farming provides opportunities for savings and investment in fixed assets, land improvement and education.
- Community development programmes were typically appreciated when consultative and well-funded.
- Economic spillovers to the surrounding economy do occur, but are neither guaranteed nor automatic.

Our research shows: (3)

- Technology transfer occurs primarily through training. The impact varies, depending on the business model, crop and other factors.
- People who have been resettled disproportionately bear costs associated with new investments.
- Local people were often insufficiently conscious of environmental degradation. Enlightened investors were raising awareness.
- Communication and transparency were critical success factors across all aspects of the operation.

Factors determining the impacts of investments

- Good governance
- Local context
- Involvement of local stakeholders
- Formulation and negotiation process
- Contents of investment contract
- Profile of the investor
- Robust business plan
- Type of production system and crops
- Support from third parties

…….. and more

Advice to policy makers

- Know what development you want; be more selective 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 small-holders to start-up business risks and financial risks
- Have a plan B for failure or exit

THE WORLD BANK IBRD • IDA | WORLD BANK GROUP

…….. and more

RAI RESPONSIBLE AGRICULTURAL INVESTMENT

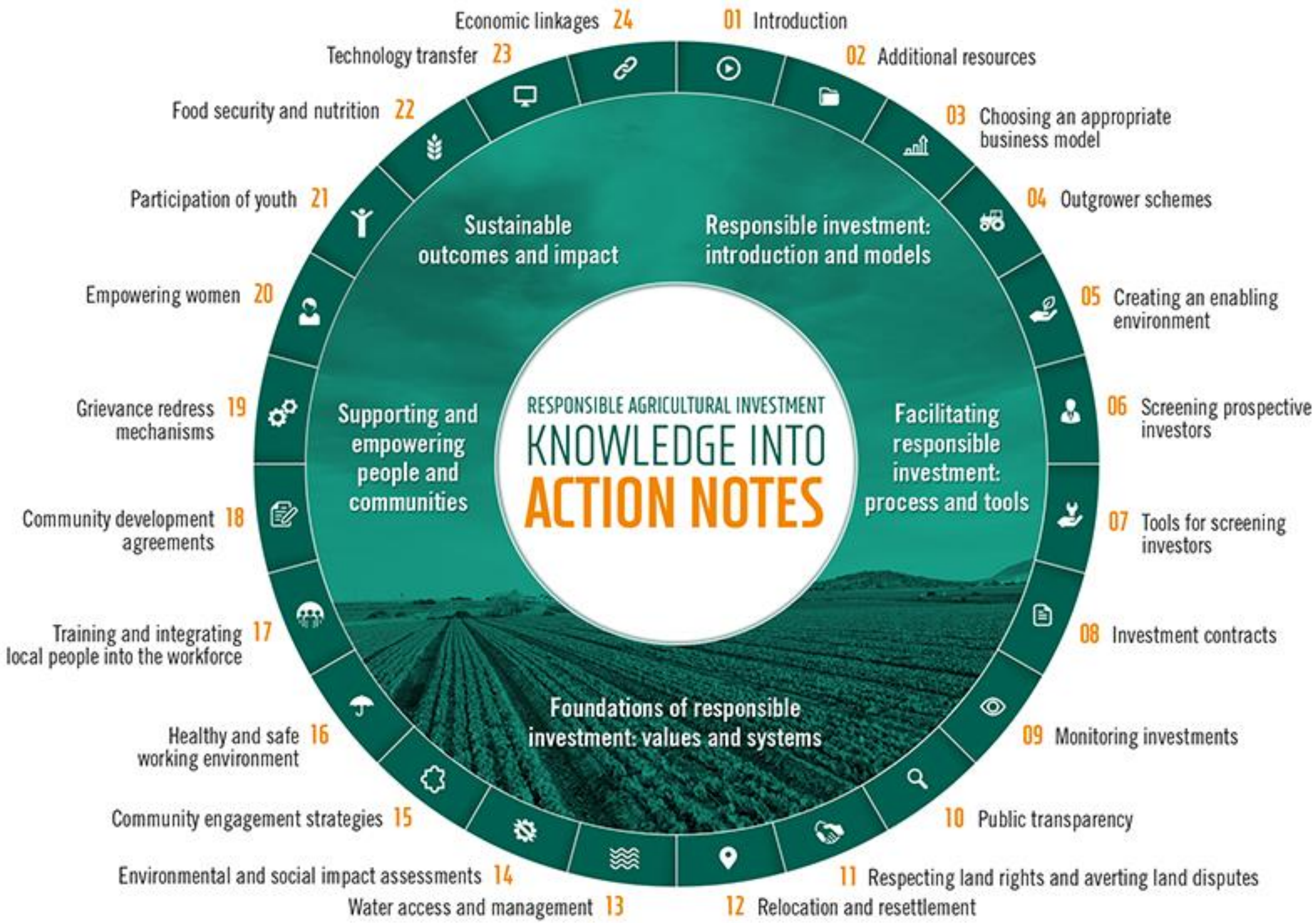
Stakeholders involved

Host government	Communities	Investors
Smallholder farmers and SMEs	Civil society	Financial actors
	Home country government	

RAI: Knowledge into Action Notes

RAI: Knowledge into Action Notes

www.worldbank.org/responsibleinvestment



THE WOR
IBRD • IDA | WORLD

RAI: Knowledge into Action Notes - examples

RAI • KN 06

Screening prospective investors

This note provides guidance to governments on how to screen and select prospective investment projects to ensure they maximize the social, economic, and environmental benefits while minimizing the risks. It provides investors information on what can be expected in cases of good screening practice.

The acceptance of investors that later fail financially or have poor social and environmental outcomes has had damaging impacts on many countries as well as communities. Screening investors is a critical component of a country's policy framework to mitigate those risks and to improve the likelihood that investments will have a positive effect on sustainable development priorities. This note summarizes available resources on how to screen agricultural investments and calls on donors, international organizations, and civil society to develop more.

THE WORLD BANK IBRD • IDA | WORLD BANK GROUP

UNITED NATIONS UNCTAD

RESPONSIBLE AGRICULTURAL INVESTMENT (RAI)

KNOWLEDGE INTO ACTION NOTES

RAI • KN 07

Tools for screening prospective investors

This note supplements Note 6: Screening prospective investors.

The investment screening process requires suitable tools for assisting government agencies in their work. This note provides examples of tools that government agencies can adapt to their national context and use to develop the technical capacity to screen and select investors.

THE WORLD BANK IBRD • IDA | WORLD BANK GROUP

UNITED NATIONS UNCTAD

RESPONSIBLE AGRICULTURAL INVESTMENT (RAI)

KNOWLEDGE INTO ACTION NOTES

The UNCTAD–World Bank *Knowledge Into Action Note Series* is a compendium of practical, thematic guidance documents for use by governments, investors, and other stakeholders in the implementation of responsible agricultural investment principles. Background and a complete list of notes are in *Note 1: Introduction.*

SCREENING SYSTEM FOR MULTIPLE STAGES

In line with the three stages of the screening process identified in Note 6, the screening tools that follow identify a series of issues for assessment at each stage (figure 1). Alongside each issue the following supplementary information is provided:

- The overarching question that should be assessed with respect to each issue (in bold).
- Specific guiding questions that the screening body should consider with respect to each issue.
- Documentation that screening bodies can use during their deliberations.

ANNEX 1. SIMPLIFIED RAPID ASSESSMENT OF AN INVESTOR PROPOSAL

If a country does not have full-scale in-house capacity or the budget to hire external experts, it is highly recommended to conduct at least a simplified rapid assessment as follows:

Review the investor

Gather basic information from the Internet (company's website, news articles, industry journals):

- Does the company's history or current portfolio explain that it has experience in the proposed business?
- Does the proposed management team have experience?
- How many employment opportunities will be created (permanent and seasonal/temporary and annualized jobs created per unit of land) as a benchmark to compare with other enterprises?
- Are there any news articles which show how active the company is?
- Has the company had any issues, such as noncompliance with labor regulations, poor environmental management practices, and disputes over land rights? If so, specify the type and assess whether they may affect the proposed project.

Seek information on the parent (holding) company if there is one:

- How familiar is the company management with the agriculture sector proposed for the investment?
- Does the investor's corporate investment time horizon align with the enterprise type proposed; that is, do they have a long-term view in cases such as timber, palm oil, and other plantation crops or are they a short-term investor focused on a quick exit? If so, what is their exit plan and is it realistic?

Examine the financial statements:

- How financially healthy are the project sponsors? Do they have a strong balance sheet (that is, a large value of equity and assets compared with liabilities plus cash reserves to meet investment obligations)?
- How does the project affect the investor; that is, how does it compare financially with business assets and reserves?
- Income statement: What is the main source of revenue and how stable is that?
- Balance sheet: What does the debt-equity ratio look like? Is there an adequate cushion of equity funding to cover any financial difficulties the project may face, particularly at the early phase?
- Cash flow: Does the company create positive cash flow? Does including the cash flow of the investment make flows negative? If it does, identify where the shortfall funding will come from.
- Benchmarking: If available, compare the investor with other companies in the industry.

Review the business plan

Financial projections

- Income statement:
  - *Revenue projection:* Validity check (especially for growth in expected volume and price). Verify if the growth of total revenue is realistic.
  - *Number, quantity, or volume of products:* What are the assumptions the projection is based on and do they have reasonable justifications? Is the starting number realistic? Are the growth rates of the short-, mid-, and long-term horizons feasible? Does the story make sense in light of the market size, the investor's (or smallholders') production capacity, and the competitive environment?
  - *Sales price:* Is the assumption reasonable in light of historical data? Is the growth projection realistic? Does the projection reasonably account for downside risk or cyclical waves?
  - *Cost projection:* Does it take into account all key items (such as transportation costs)? Is the division of fixed and variable costs reasonable? Are the fixed and variable costs consistent with the revenue projections and based on reasonable assumptions? Does the projection include costs for research, consultation with communities, and any necessary assessments?
- Balance sheet:
  - *Finance:* How reliable and secure is additional financing?
- Cash flow:
  - What does the cash flow look like?
  - When will positive cash flow occur? The further in the future, the higher the risks, so a sensitivity analysis should be done to assess the impact if key assumptions are not realized; for example, lower product process, slower offtake in yield growth curves, higher variable and direct costs.
  - How will the deficit be funded, and are there contingency plans to fund additional shortfalls and delays in accordance with the results of the sensitivity analysis?

THE WORLD BANK IBRD • IDA | WORLD BANK GROUP

Next steps

- Operationalize the knowledge on RAI into the daily activities of the key stakeholders by developing their capacities.

  – Learning journey
  – Country level implementation

- Consideration to extend the principles across the value chain

Thank you

Chris Brett, Lead Agribusiness Specialist: cbrett@worldbank.org
Asuka Okumura, Operations Officer: aokumura@worldbankgroup.org

www.worldbank.org/responsibleinvestment