Tenure Risk Assessment Tool

ASSESSING TENURE RISK IN AFRICAN SUGAR

Land disputes associated with Africa sugar often lead to long and costly delays. Our research finds 46% of disputes last over 10 years – and half of these are still unresolved today. In serious cases, disputes close projects down and severely reduce market access. Companies are failing to mitigate these serious risks because they lack the tools and data to make the business case for action. The Quantifying Tenure Risk (QTR) initiative offers free support to businesses investing in African sugar to help them accurately assess tenure risk and develop corporate policies and programmes.

What are the risks?

Many investors and operators underestimate tenure risk, despite evidence that land disputes can forestall projects and even threaten parent companies. Problems can drive up costs by up to 29 times – enough to reassess initial investment decisions. Disputes can escalate quickly and be drawn out.

Conflicts can result in:

- cash flow problems
- supply chain issues
- operating and legal costs
- damage to property
- injury to employees
- increased security costs
- loss of insurance cover
- loss of operational licenses
- poor credit ratings
- restricted market access
- reputational harm
- ROI being nullified

Making the business case

Businesses and investors are often unable to manage tenure risk as they lack the necessary data to make the case for action. QTR's discounted cash flow model based on real company data can be used in combination with IAN geospatial risk data to conduct due diligence on responsible land investments. It is a simple, intuitive tool that can be adapted to your business needs to accurately assess different types of dispute.

Green vs brownfield investments

According to our data, 62% of land disputes in African sugar occur following large greenfield investments. This increased risk leads many sugar producers to focus on expanding existing sites. Yet brownfield investments and outgrower expansions also carry a significant risk. They can reignite legacy disputes – deeply held historical grievances that are sometimes hidden for generations.

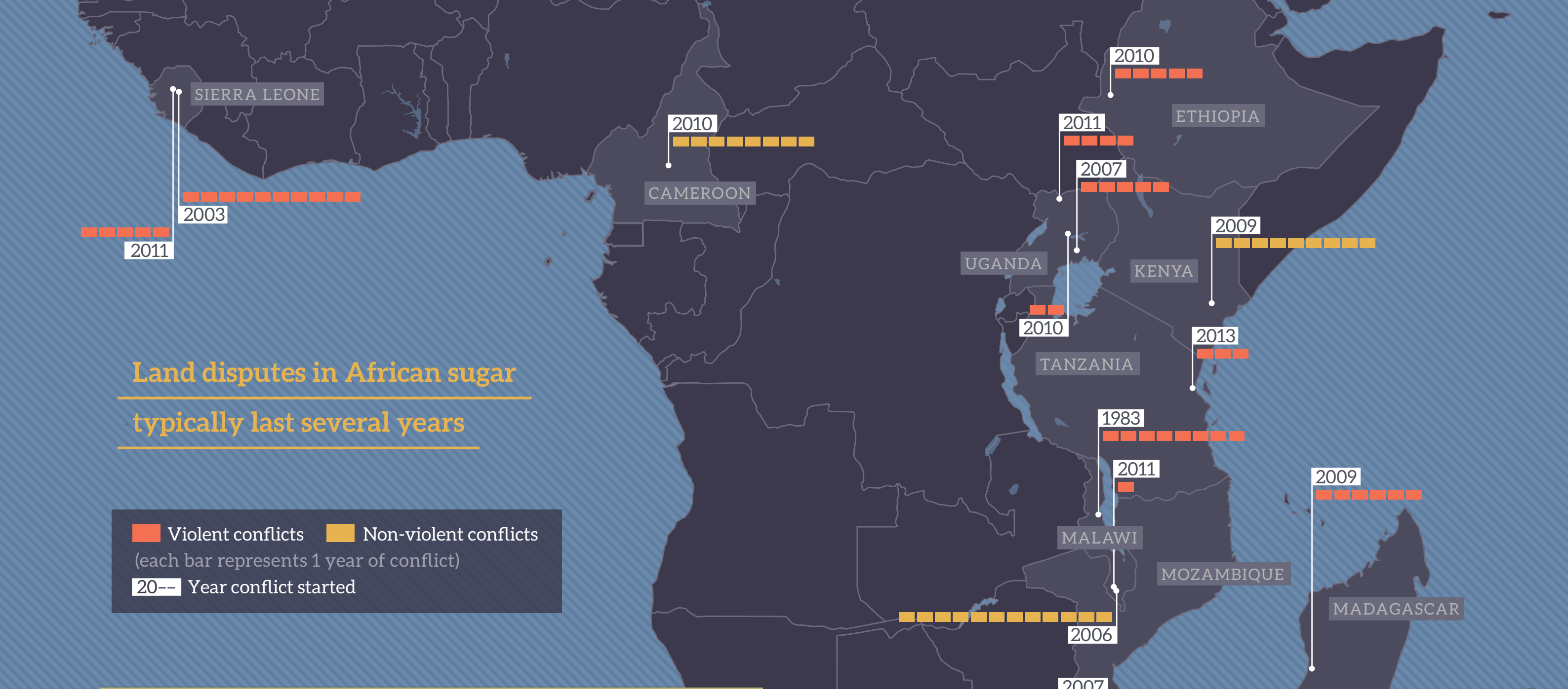
New business models

Low sugar prices have led to underinvestment in tenure risk management. Yet when prices rise over the long term, pressure on land will increase the frequency and severity of disputes. Strategically investing in alternative business models will help future-proof your business. For example, the supplier Phata has entered into an innovative leaseback agreement with Illovo whereby smallholders receive a dividend and are offered employment by management company Agricane in exchange for access to their land.

"The benefits of this project are a positive step forward. We are determined to build on this success to become a thought leader on land rights." *Illovo*

Land rights are key in sugar

Following a spate of high-profile disputes in sugar, failing to manage tenure risk carries a higher reputational risk than for other commodities. Producers are increasingly differentiated by their performance on land rights, while international businesses like Tongaat Hulett and RCL have the edge on local companies and state-run enterprises thanks to progress made on tenure issues.



CASE STUDIES

Tanzania and Sierra Leone

We interviewed a company which had forecast a 3-4 year set up period in Tanzania. After a decade of false starts, they were forced to write off their US $52m investment before any revenue had been made. Another company investing in Sierra Leone became operational after an 18 month delay, but ongoing problems led the company to offload the impaired asset with only a fifth of the land planted – despite an investment of US $250m, including US $9.5m spent on tenure issues.

ODI and TMP Systems

The Overseas Development Institute (ODI) is the UK's leading global development think tank. ODI has an extensive body of research on land rights and an in-house team dedicated to agricultural policy. TMP Systems is an asset management and investment consultancy specialised in global development. The firm has discussed tenure risk with over 70 companies and manages a database of over 440 cases of tenure disputes.

QTR services

Our large, robust and representative study of tenure risk in African agriculture offers the most reliable assessment of tenure risk to date. We have reviewed 180 cases, checking a large sample against real company data to fine-tune our model. QTR offers tailored risk management solutions to businesses engaged throughout agricultural value chains. Our services are free of charge and include consultation on corporate policy and specific cases, staff training, and guidance on tools and resources.

Data sharing and confidentiality

We are improving, expanding and refining our discounted cash flow model and invite businesses to take part. By sharing your company data, you can contribute to a better investment environment for the industry as a whole. All data shared with the QTR initiative is anonymised and confidential. We are happy to enter into Non-Disclosure Agreements and can provide the necessary paperwork on request.

The QTR initiative

QTR is a joint research initiative from the ODI and TMP Systems funded by the UK Government. Our aim is to provide data and analysis to reduce land conflict and improve land governance through better informed investment decisions. QTR's initial focus is on Africa and agriculture, but plans are underway to expand to other sectors and regions.

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