

TENURE RISK IN THE AFRICAN SUGAR SECTOR CAN CAUSE COMPANIES TO LOSE UP TO \$100 MILLION

Our research finds that land disputes in the African sugar sector often cause long and costly delays, with 46% of disputes lasting over 10 years. Half of these are still unresolved today. In serious cases disputes close projects down, causing reputational damage to companies and investors involved, and up to \$100.9 million in foregone revenue. Mistrust between local communities and companies can lead to negative social and economic outcomes for individuals, creating landscapes permanently scarred by land legacy issues.

While land tenure issues need to be navigated with caution, implementing the right mitigation strategies can bring positive outcomes for all involved. Examples such as the Phata Cooperative in Malawi demonstrate that sugar investments can succeed both commercially and socially when it comes to securing land rights. However, sugar companies often lack the tools and data to make the business case for such interventions. The Tenure Risk Tool (TRT) is a freely available model that enables agribusiness to accurately assess tenure risks in their due diligence processes. Encouraging strategic investments in mitigation can create more opportunities for positive, inclusive economic transformation in the wider sugar sector.

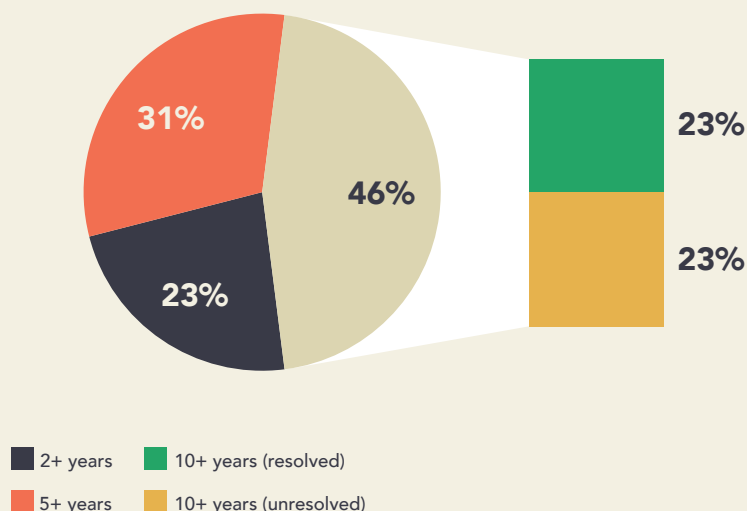


FINANCIAL AND REPUTATIONAL RISKS IN AFRICA'S SUGAR SECTOR

Numerous investments in African sugar assets have become embroiled in disputes over land rights, ranging from encroachment to violent conflict. These disputes have led to long and costly delays (see Figure A), increased project costs and severe reputational damage. According to our data, 62% of disputes in the African sugar sector started before operations began. Discussions with leading investors suggest that these experiences have encouraged many sugar producers to focus either on rehabilitating or expanding existing sites, instead of seeking greenfield projects governed by complex land rights.

The effect of this is two-fold. On one hand, many communities with complex land arrangements seeking investment into underutilised plots of land are unable to attract them despite growing opportunities for the sugar market. Secondly, increasing pressure of expansion on brownfield sites carries its own risks, since it can reignite or exacerbate existing disputes over legacy land issues.

FIGURE A: AVERAGE LENGTH OF LAND TENURE DISPUTE IN AFRICA'S SUGAR SECTOR



CASE STUDIES: TANZANIA AND SIERRA LEONE

In the most extreme cases, attempts to create new sugar production and processing infrastructure ended with multi-million dollar damages due to tenure disputes. In Tanzania, a European company was forced to write off its entire investment of \$52 million before any revenue had been generated. Another international investor in Sierra Leone faced at least 18 months of delays to reach the operational stage due to tenure issues. This investment went ahead with just 10,000 hectares of the envisaged 50,000 planted at a total cost of \$250 million, including a loss of at least \$9.5 million of additional, unplanned expenditure related to tenure issues.

HOW THE MODEL CAN INFORM BUSINESS DECISIONS

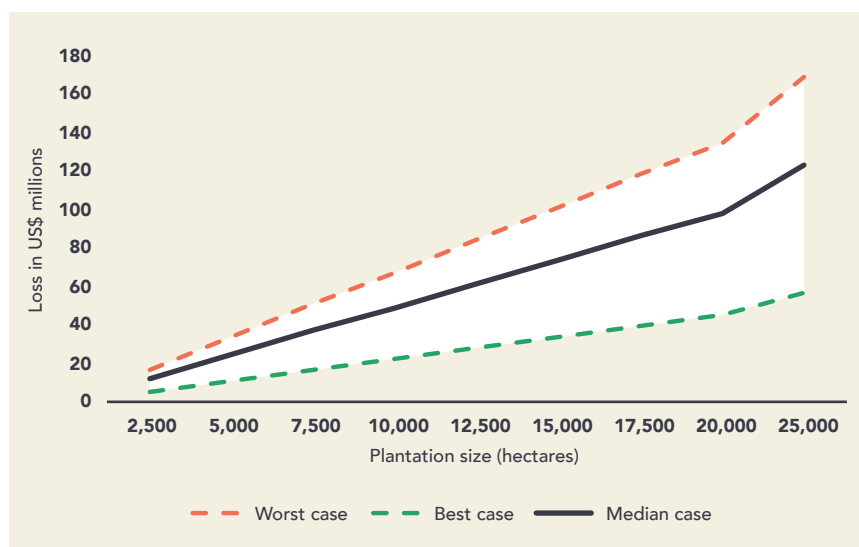
Using the tool, we can demonstrate how sugar companies can prevent such extreme losses. We analysed the potential losses caused by active tenure disputes in Kenya, Malawi and Tanzania, across a range of plantation sizes. Figure B presents the best, median and worst scenarios for sugar companies in Tanzania. Owing to the enormous upfront capital costs associated with building a mill and setting up irrigation, the loss risked by companies varies between \$5-7 million for a 2,500 hectare cane plantation to a staggering \$170 million for a larger, 25,000 hectare operation. These losses are incurred in the form of foregone revenue as a result of active disputes delaying operations.

TABLE A: AVERAGE RANGE OF FINANCIAL LOSSES CAUSED BY LAND TENURE DISPUTES

	BEST CASE	MEDIAN CASE	WORST CASE
Kenya	\$31,221,160	\$68,328,748	\$91,919,143
Malawi	\$35,082,495	\$77,429,863	\$100,862,290
Tanzania	\$29,373,008	\$63,018,219	\$86,363,927

Table A presents the average financial losses that sugar companies risk facing over different plantation sizes, according to the three different countries. The results show that the average sugar investment faces a risk of losing between **\$29.4 and \$100.9 million** in foregone revenue. This does not account for higher costs associated with managing land tenure issues or negative social and environmental impacts caused on the ground. By quantifying risks, companies can implement appropriate mitigation measures that will protect businesses and communities from such damage.

FIGURE B: POTENTIAL FINANCIAL LOSSES CAUSED BY LAND TENURE DISPUTES IN TANZANIA



AFRICA'S SUGAR SECTOR

Following a string of notorious disputes in sugar, major sugar buyers and investors signed up to strong pledges to improve their practice and performance. In 2014 Coca Cola and PepsiCo committed to zero tolerance policies on tenure abuse and both companies have started mapping their supply chains to better understand tenure risks.

Pressure from such consumer-facing companies has put on additional pressure further up the supply chain. Africa's largest sugar producer, Illovo, responded vigorously, pursuing improvement actions with the support of civil society organisations and technical partners. Other significant producers like Tongaat Hulett and RCL are also attempting to improve practice on tenure. However, local companies and state-run enterprises are falling behind and need a stronger business case to justify increased investment in mitigation. Our conversations with actors throughout the supply chain revealed that economically viable projects are being hampered by uncertainty over social and environmental risks and most notably, risks stemming from land tenure.

A SWEETER FUTURE?

There are an increasing number of sugar projects that combine commercial viability with positive social, economic and environmental impacts for communities and smallholders. Small farmer business models such as the Phata Cooperative unite industrial, irrigated plantation models with an innovative leaseback approach. In exchange for their land, smallholders receive dividends, access to parcels of land and technical assistance for planting a variety of food crops. However, efforts like this require measures such as continuous engagement, participatory mapping and above

all, free, prior and informed consent from the communities involved. Without these, expansion of sugar in Africa will remain challenging in large part due to tenure issues.

The Tenure Risk Tool (TRT) will allow companies to access exposure to tenure risk, thereby justifying and making the business case for measures that benefit all involved. It is a simple, intuitive tool that can be adapted to companies' business needs and accurately quantify the risk of land tenure disputes based on the geographical location of the project and modifiable assumptions regarding the size

and location. To achieve this, TRT is based on a simple discounted cashflow model in Excel format, which is linked to Landscape geospatial risk data that considers data from over 180 cases.

Strategically investing in alternative business models helps future-proof businesses. TRT 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.

THE QTR INITIATIVE

Quantifying Tenure Risk (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.

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 specialising in global development. ODI and TMP have discussed tenure risk with nearly 80 companies and TMP manages a database of over 500 cases of tenure disputes.

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.

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