POSITION STATEMENT – AUG'15

Grow Africa, Responsible Investment and Land

Making good practice a competitive advantage

Grow Africa's role is to accelerate responsible investment in African agriculture, i.e. investment which, in the context of Environmental, Social and Governance (ESG) concerns, promotes positive impacts and avoids negative ones. African agri-businesses often operate in a challenging and weakly regulated business environment, in which operationalizing principles of responsible investment can add costs that compromise their short-term commercial viability, especially if faced with less diligent competition.

Grow Africa is a partnership platform, not a regulator, so whilst it does not have the scope nor mandate to enforce responsible practice, it can play a key role in promoting "responsibility". It does so by fostering an environment in which companies discover a competitive advantage from delivering positive impacts, and mitigating negative ones. Grow Africa achieves this through:

- *Support*: strengthening the enabling environment so that agri-businesses can thrive responsibly.
- *Learning*: helping partners innovate and scale commercially competitive solutions to key aspects of responsibility.
- *Accountability*: elevating the incentives to operate responsibly.

This position statement defines Responsible Agricultural Investment, highlights the challenges of operationalizing this in Africa, and explains the role Grow Africa is playing to make good practice a competitive advantage.

RESPONSIBLE AGRICULTURAL INVESTMENT AND ITS CHALLENGES IN AFRICA

The Principles for Responsible Investment in Agriculture and Food Systems (RAI) were developed by the Committee on World Food Security (CFS), and ratified in October 2014, as a set of non-binding guidelines that apply to all stakeholders in agricultural value chains (see box for summary). The principles build on a number of preceding frameworks and guidelines. Grow Africa recognises the RAI Principles as an internationally agreed definition of responsible investment in agriculture.

The challenge is how to ensure this definition of good practice is operationalized in practice. For example:

- Smallholder production rather than large-scale farming often offers more inclusive economic development, but that requires companies to innovate smallholder business models that are competitive.
- Women's economic empowerment delivers significant development outcomes, but companies must create the business case for this in the context of countervailing cultural norms.
- Secure land tenure is the foundation for agricultural investment by companies and smallholders alike, but how can this be achieved affordably in places where land rights are ambiguous and weakly regulated.

There are compelling long-term commercial reasons to operate responsibly[1]:

- Reduced risk of costly labour disputes, land grievances or litigation from regulatory non-compliance
- Eligibility for commercial or development finance
- More sustainable management of natural resources
- Access to markets with defined minimum standards
- Enhanced reputation and license to operate

Summary of RAI Principles

Have positive impacts:
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

Avoid negative impacts:
5: Respect tenure of land, fisheries, 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

Operate within the rule of law:
9: Incorporate inclusive and transparent governance structures, processes, and grievance mechanisms

Manage risks:
10: Assess and address impacts and promote accountability

Nonetheless, companies investing in African agriculture already face complex commercial challenges, and those aiming to diligently assess and address their impact must take on additional demands and costs. If companies face immediate short-term challenges to their viability, then they are less likely to invest resources in adequately managing longer-term ESG concerns. This is especially true for small and medium-sized domestic companies, who may simply lack awareness on such issues and how to engage with them.

In this context, Grow Africa has defined the role it plays to promote responsible investment. It will help partners reduce the risk and increase the viability of investments, so that companies can take a longer-term perspective. It will help companies learn and innovate commercial strategies that address ESG concerns. And it will elevate accountability, so as to reward good practice and disincentivise poor practice.

LAND ISSUES

Above all other issues, for both communities and companies, land issues are the most likely to cause negative impacts[2] for agricultural investments in Africa. LoI companies highlight this as the most important policy issue for improved management by government in order to enable their

[1] Private Equity and Emerging Markets Agribusiness: Building Value Through Sustainability (May 2015) Credit Suisse, SDC, EMPEA, IFC, WWF.
[2] The Practice of Responsible Investment Principles in Larger-Scale Agricultural Investments (April 2014) World Bank.

investments to advance successfully and responsibly. Grow Africa recognises the following two frameworks as offering definitive guidance on how to manage land-based investments in Africa:

- "Framework and Guidelines on Land Policy in Africa" and the "Guiding Principles on Large Scale Land Based Investments in Africa" developed and adopted by the African Union and related collaborating institutions.
- "Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security" (VGGT) developed and adopted by the CFS in May 2012.

GROW AFRICA'S ROLE IN PROMOTING "RESPONSIBILITY"

1. SUPPORT: STRENGTHENING THE ENABLING ENVIRONMENT

Grow Africa's core work is to convene public and private sector partners around the collective goal of addressing weaknesses in value chains and market systems, thereby reducing the risks and costs of investing in African agriculture. This work is enabling companies to take a longer-term view on their investments, and embrace commercial strategies that build shared value with the communities and stakeholders around them, including through job creation, increased incomes, and better access to affordable and nutritious food.

For example, for 2014, companies reported that their investment commitments resulted in over 8.7 million smallholders being reached through sourcing, services or training, including benefitting from over $300 million in commodities procured or produced. Whilst roughly half this value is for export crops such as cashews and cocoa, the other half is for crops like rice, maize, cassava and sorghum that will be consumed regionally, thereby contributing to food security and import substitution. These figures are a significant increase on 2013 when 2.6 million smallholders were reported reached, and suggest that, following initial investments, companies are now scaling up their operational engagement with smallholders. Additionally these investments created 21,000 jobs in 2014, mostly through farm labour, processing facilities and extension work.

2. LEARNING: INNOVATING COMMERCIAL SOLUTIONS

Knowledge and innovation are needed close the gap between aspiration and reality with regard to responsible investment. Grow Africa is convening partners to share and innovate commercially viable solutions, and to disseminate information on best practice:

- The ***Smallholder Working Group,*** established by Grow Africa and IDH, helps develop innovative smallholder business solutions with farmers, companies, governments, and expert organizations to transition smallholders from subsistence to commercially sustainable production. The main purpose of the SWG is to share knowledge in order to learn from failures and successes, focus on a number of key questions, develop solutions, and implement changes.
- With Grow Africa's support, the New Alliance ***Women's Economic Empowerment Working Group***, brings together representatives from companies, regional bodies and development partners to identify and communicate the business case for agri-business to unlock the developmental and commercial potential of women farmers, agri-entrepreneurs and employees.
- Grow Africa is actively promoting ***due diligence tools*** and approaches to the companies in its network. Specifically, the New Alliance developed an "Analytical Framework for Investors: Due-Diligence and Risk Management for Land-based Investments in Agriculture." This practical tool helps companies to assess and address ESG risks related to land-based investments, and helps assure compliance with the AU Principles and VGGT.

During 2015/16, Grow Africa is helping New Alliance partners to facilitate a pilot year for this new tool.

- Lastly, Grow Africa is designed upon assumed causal relationships between cross-sector collaboration, investment, job creation and smallholder incomes, and reduced poverty and hunger. There is a growing ***evidence base*** for this Theory of Change, but it is contested and requires further critical research and refinement. Grow Africa is working with partners to initiate a body of independent research that will help further understand under what conditions agricultural investment does deliver inclusive and responsible outcomes. Grow Africa has commissioned some targeted impact assessments of specific investments, and these are available on its web site.

3. ACCOUNTABILITY: ELEVATING THE INCENTIVES TO OPERATE RESPONSIBLY

Grow Africa has established new levels of transparency for agricultural investments in Africa, and elevates the accountability of companies and governments to help ensure investments are made responsibly and deliver shared value:

- Grow Africa facilitates ***investment commitments*** that are made from the company to the government in the form of Letters of Intent (LoIs). These include descriptions of the expected development outcomes, how the investment is aligned to national sectoral priorities, and a statement that commits the company to operating responsibly. Grow Africa provides summaries of these LoIs in each Annual Report, and they will also be available on its website.
- ***Annual Reporting*** on LoIs by companies increases accountability for impact, and offers a neutral means for identifying successes and challenges. Grow Africa analyses these responses and reports them in the context of the New Alliance, so they are subject to stakeholder review in country. Grow Africa's neutral role enables companies to highlight issues such as corruption, land tenure or smuggling, that undermine their capacity to invest responsibly but require better management by government and would otherwise remain hidden.
- Grow Africa provides a channel for ***communicating expectations*** on responsible investment, and to highlight the long-term strategic importance for companies. Grow Africa reviews LoIs for investments that have higher ESG risks and targets them with relevant resources.
- Agricultural investments are controversial and challenging, and some of the 200 investments are likely to result in ***grievances*** being aired. The companies have the primary responsibility to manage grievances well and in accordance with international practice and national legislation. Governments may also have a role, where they are implicated. If requested, Grow Africa aims to play a supporting role in providing guidance on how to undertake a grievance procedure and where to access expert or impartial facilitation. During 2015/16, Grow Africa is looking for a strategic partner who can develop such guidance, and provide expert advice to parties involved in any grievance. Beyond any legal consequences, if a grievance procedure concludes that a company has operated unethically then that company should subsequently be excluded from all further involvement with Grow Africa and the New Alliance for Agriculture and Food Security.