

ASSESSING TENURE RISK IN WEST AFRICAN OIL PALM INVESTMENTS

Oil palm investments are returning from Southeast Asia to West Africa, where the crop originated. As this interest intensifies, land conflicts are likely to become more prevalent. Our research shows that such disputes can treble the cost of cultivation and cause year-long delays. Despite this, many companies do not mitigate tenure risk because they lack the data and tools necessary to understand their risk exposure and take action. To tackle this, the Quantifying Tenure Risk (QTR) initiative offers free support to businesses investing in West African oil palm to help them accurately assess tenure risk and plan corporate policies and action plans.

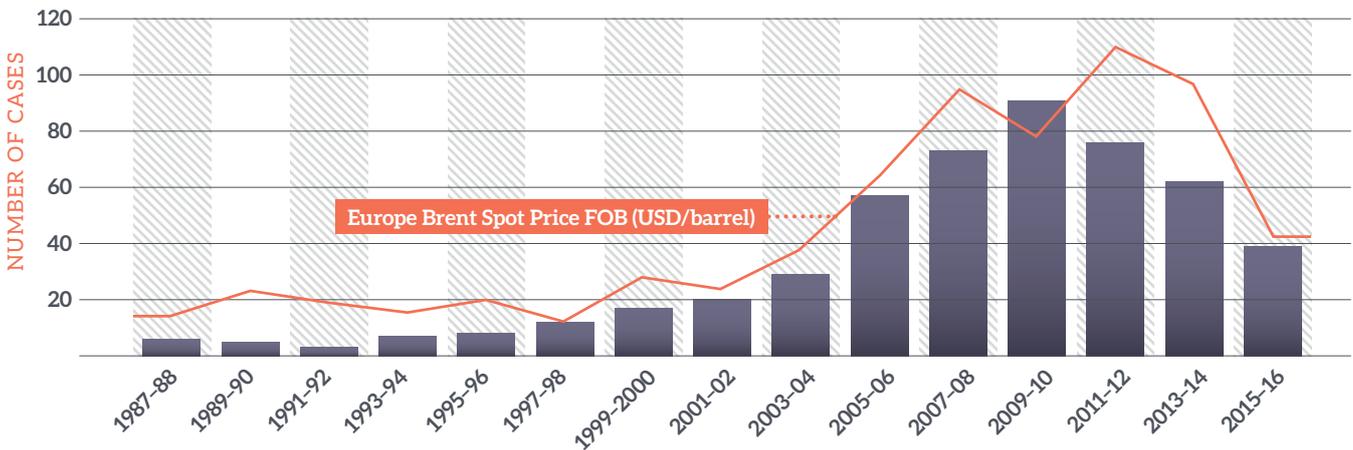
Higher costs and lost revenue

We interviewed 10 oil palm producers operating in West Africa, all of which reported problems with land tenure. Land disputes caused investments to treble in some instances, pushing up cultivation costs to as much as \$15,000/hectare. This figure does not account for the impact of delays on foregone revenue.

Delays typically last years, not months

Loss of revenue is especially high in West Africa due to the greater seasonality of production compared to Southeast Asia. There is a small window of opportunity to plant before the rains begin. Miss this window, and planting must be put back a year. Costs are compounded by the perennial nature of oil palm, which takes three years to bear fruit.

Instances of conflict tend to correlate with commodity prices - which are set to rise in the medium term

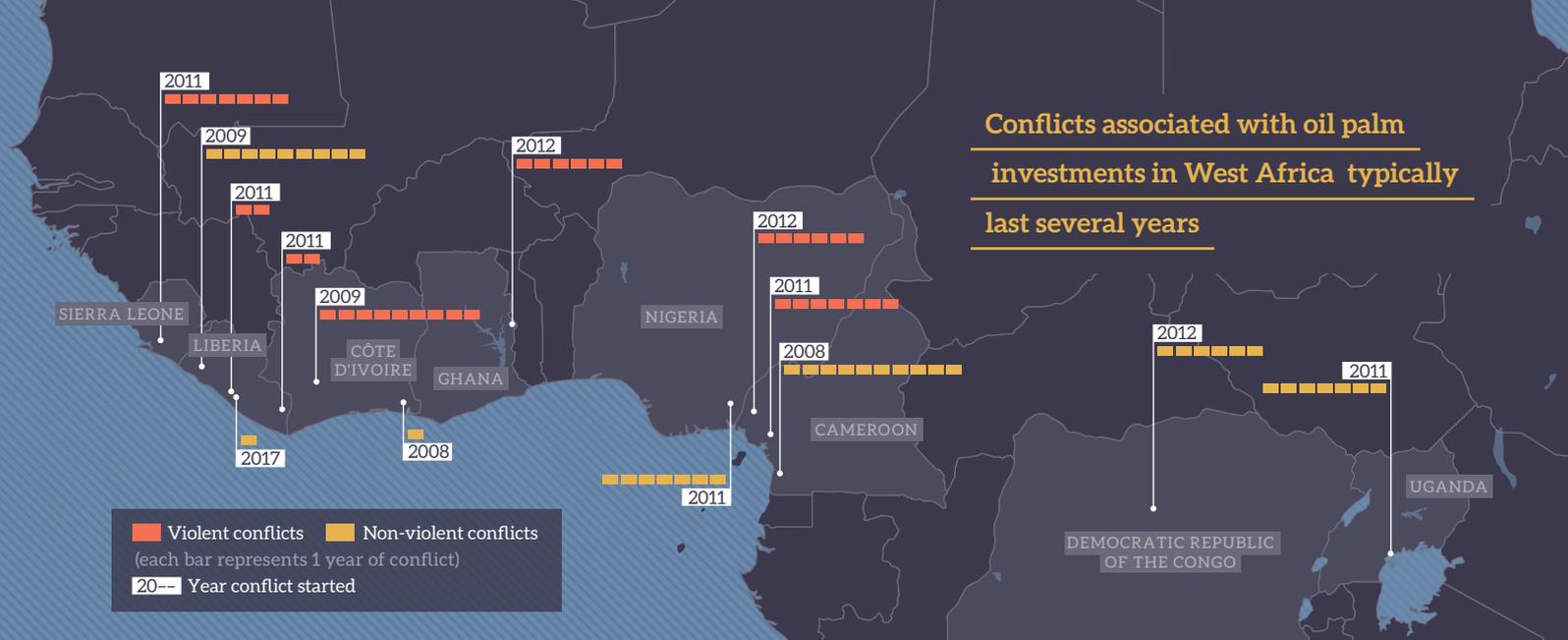


Tenure risks can be high

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.

What are the risks?

- 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



Land rights and due diligence

The operators and investors we spoke to were familiar with approaches to environmental due diligence, which is integrated into certification schemes such as RSPO, but were unclear how to assess the social impact of investments. They felt unable to justify investing in social due diligence, due to a lack of quantified risk data. QTR's discounted cash flow model based on real company data can be used in combination with IAN Diligence geospatial risk data to conduct due diligence on responsible land rights decisions. It is a simple, intuitive tool that can be adapted to your business needs to assess the impact of different types and severities of dispute.

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.

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.

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.

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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