The Overseas Development Institute (ODI) and TMP Systems spoke to over 80 businesses throughout the agricultural supply chain in sub-Saharan Africa about their management of land tenure issues. A quarter of these companies produced or invested in oil palm and were familiar with a wide variety of issues related to land tenure, ranging from encroachment and theft to open conflict and major disruption to operations. We used data collected from companies to show that these risks can cause the cost of running oil palm plantations to treble as well as delaying operations, resulting in a foregone revenue of up to $22.1 million. Yet, these risks can be mitigated by implementing the right due diligence procedures, boosting the financial sustainability of the investment as well as positively impacting local communities by strengthening their land rights. The Tenure Risk Tool (TRT) provides free support to the sector by accurately assessing tenure risk to help justify appropriate corporate policies and action plans. This is especially relevant considering that pressure on land for vegetable oil production will continue to intensify in sub-Saharan Africa.
RESULTS

We used the tool to analyse the potential losses caused by tenure disputes in Liberia, Côte d’Ivoire and Uganda. Depending on the size of the plantation and its location, delays caused by tenure disputes can result in palm oil companies losing tens of millions of dollars from foregone revenues. Figure A illustrates the range of financial losses that palm oil investments risk incurring across a range of plantation sizes in the case of Liberia. Even smaller operations with a size of 2,500 hectares can face delays to their operations costing them between $1 and $2.4 million in foregone revenue. This exposure can grow to $83 million for larger projects of 100,000 hectares. Liberia is a particularly pertinent example given the tensions between large concessions awarded by the government and community land rights, which have caused open conflict between local farmers and authorities.

TABLE A: RANGE OF FINANCIAL LOSSES CAUSED BY LAND TENURE DISPUTES IN CÔTE D’IVOIRE, LIBERIA AND UGANDA

<table>
<thead>
<tr>
<th>Country</th>
<th>Best Case</th>
<th>Median Case</th>
<th>Worst Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Côte d’Ivoire</td>
<td>$9,766,450</td>
<td>$16,091,647</td>
<td>$21,806,680</td>
</tr>
<tr>
<td>Liberia</td>
<td>$9,841,372</td>
<td>$16,351,502</td>
<td>$22,133,101</td>
</tr>
<tr>
<td>Uganda</td>
<td>$8,251,147</td>
<td>$13,340,337</td>
<td>$18,770,602</td>
</tr>
</tbody>
</table>

We averaged out the financial losses that palm oil companies risk facing over different plantation sizes and three different countries, resulting in a range of between $8.3 and $22.1 million in foregone revenue, which represents a Net Present Value (NPV) of 25-67% of the original investment. Whilst high, these figures do not take into account any additional cost associated with managing land tenure disputes or the reputational risk caused by such conflict.
HOW OIL PALM CAN LEAD TO POSITIVE SOCIAL OUTCOMES

Although complex land tenure laws and arrangements are prevalent throughout West Africa, experience shows that positive economic, social and environmental impacts can be achieved if the right strategies are adopted. Especially in West Africa, where the crop originates, artisanal production methods can be successfully scaled up whilst securing land rights, as many positive examples demonstrate.

Nonetheless, land tenure issues appear to be endemic in the sector. 16 of the 30 producers we spoke to under the QTR initiative primarily cultivated oil palm. They all had stories to tell about land tenure issues and while a large proportion of cases are minor, tensions can boil over and cause serious financial, environmental and social damage. Herakles Farms, a 70,000 hectare oil palm project in Cameroon, is regarded as a showcase of ‘land grabbing’ and ended with the company halting operations, resulting in multi-million dollar damages as well as leaving behind a toxic atmosphere among local communities. In less extreme examples, issues relating to land tenure can push cultivation costs to as much as $15,000 per hectare, three times the cost of producing oil palm in Southeast Asia.

HOW THE MODEL CAN HELP SHAPE DUE DILIGENCE

Yet, many businesses that we spoke to struggled to put in place social due diligence procedures to safeguard land rights. This partly relates to the issue that social impacts are less tangible than environmental ones covered by assessments such as High Carbon Stock assessments. It is often difficult for companies to justify social due diligence when there is lack of quantifiable risk data.

TRT is a simple, intuitive tool for quantifying tenure risk to conduct due diligence on responsible land rights decisions. It incorporates three main sources of data:

1. Commodity-specific operating and capital expenditure data to calculate discounted cashflows.
2. Data from 29 delay cases caused by tenure issues, ranging from 12 to 1,985 days, taking into account different types and severities of dispute.
3. Geospatial risk data that factors in the geographical variation of social risks.

By selecting a discount rate and a risk score linked to the geographical coordinates of an investment, the model generates best case, worst case and median case scenarios of the cost that companies risk facing due to land tenure disputes. These figures are given for greenfield and brownfield sites and thereby take into account differences in capital expenditure between these two types of investments.
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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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.

BY QUANTIFYING TENURE RISKS, OIL PALM COMPANIES CAN BUILD NECESSARY KNOW-HOW

For oil palm companies, assessing tenure risks is especially important considering the high costs associated with procuring heavy machinery, establishing nurseries, developing the necessary infrastructure and bringing in or training skilled labour. A recent survey by the Organisation for Economic Co-operation and Development (OECD) and Food and Agriculture Organization of the United Nations (FAO) found just 30% of companies in the agricultural supply chain to have policy commitments in place aimed at ensuring that tenure rights in investments are secure. TRT will help more businesses to make the case for implementing such commitments and allocate staff to carry out effective mitigation strategies. This is crucial in times when pressure on land continues to grow, further exacerbating tenure risks.