

Agribusiness Investment Models for Inclusive Growth in Myanmar

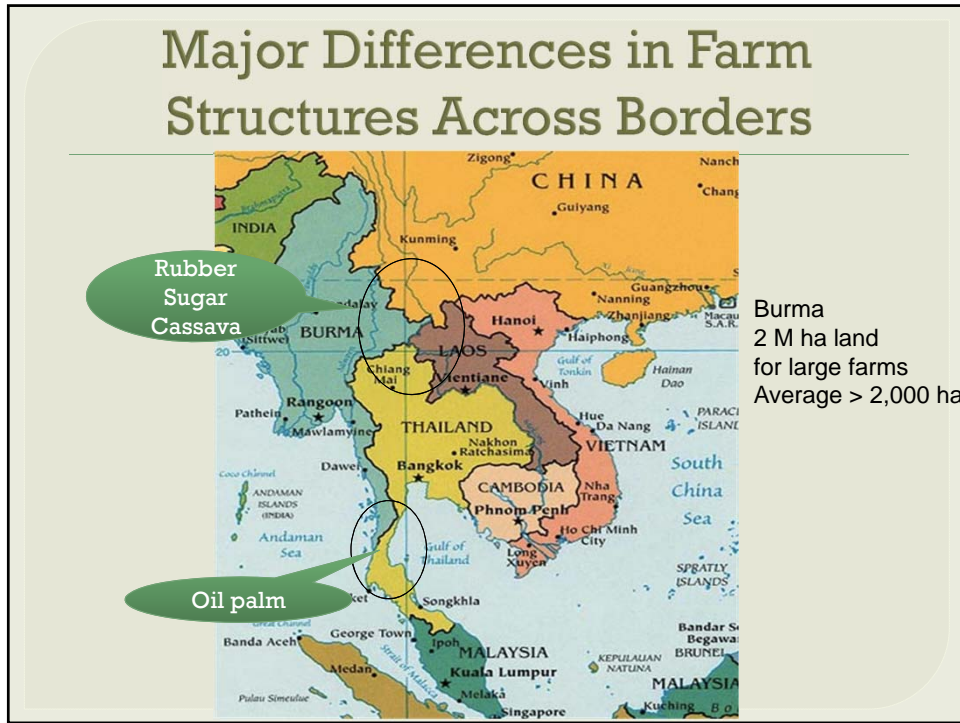
Diagnosis and Ways Forward.



Our Team

- ◉ Derek Byerlee, Michigan State University
- ◉ Dolly Kyaw, Consultant, MDRI-CESD
- ◉ U San Thein, Consultant, MDRI-CESD
- ◉ L Seng Kham, MDRI-CESD

Major Differences in Farm Structures Across Borders



Definitions

SMFs	Market-oriented small <u>and</u> <u>medium-size</u> farmers	Say < 50 acre but depends on enterprise
SMEs	Small and medium nonfarm enterprises	Say < 100 employees
ABCs	Agribusiness companies	At least 100 employees (companies—mostly vertically integrated)

Objectives

- To provide strategic policy priorities on:
 1. How to design agribusiness models based on SMFs to accelerate growth and poverty reduction?
 2. How to design large-scale agribusiness farming models (if needed) to be sustainable (econ, social, env)?

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Methods

- Quick (but clean!) diagnoses of seven value chains
 - Sesame, maize, rubber, oil palm, sugarcane, & poultry
- Review of experiences in the region
 - Especially Thailand but also lessons from Vietnam, Laos and Cambodia

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Process

- **November/December**
 - Review of available knowledge including regional experiences
 - Meetings and interviews with key stakeholders
 - Private sector, farmers , associations, CSOs, gov officials
 - Field visits to 5 states/regions
- **January/February**
 - Draft report for comments
 - Initial findings discussed in seminars with policy makers, researchers and key stakeholders
- **Now**
 - Finalization and dissemination events

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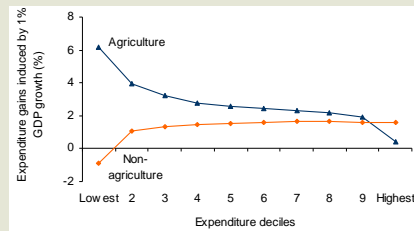
Background

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Agricultural Growth is Especially Effective for Growth & Poverty Reduction

- Few economies of scale in farming
 - Asia--Example of Green Revolution
- SMF-based strategy
 - Both efficient and equitable
 - High rural inequality reduces agriculture's effectiveness

GDP growth from agriculture benefits the income of the poor 2-4 times more than GDP growth from non-agriculture (WDR 2008)

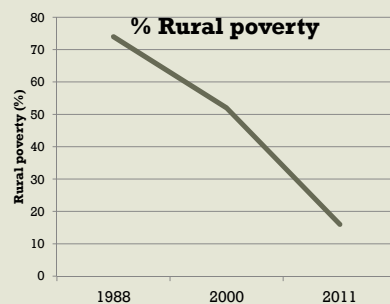


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Thailand: Case Study of SMF-Based Development

GROWTH + POVERTY REDUCTION

World's top exporter of rice, rubber, cassava. In top 3-5 for sugar, F&V, poultry, processed foods



KEY ELEMENTS OF THAI SUCCESS

- National commitment to end poverty
- Policy open to trade and markets
 - Strong agribusiness sector
- Public investment and efficient state support
 - Roads, irrigation, extension
- Strong land institutions

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Large-Scale Farming Models Sometimes Justified

- ◉ Factors favoring large-scale
 - Close coordination with processing
 - Demanding market standards
 - Pioneering risks—new crops in new areas

- ◉ Large scale can be inclusive if:
 - Good jobs, training, technology spillovers, social infrastructure

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Myanmar Agriculture and AgBiz: Overall Outlook

POSITIVES

- ◉ Strong markets
 - Incomes and urbanization
 - Regional integration
 - Global exports and prices

- ◉ Good resource base (land and water/capita), diversity

- ◉ Strongest asset
 - Millions of small and medium scale farmers!
 - 2.3 Million > 5-50 acres

NEGATIVES

- ◉ Poor investment climate
 - Infrastructure
 - Legacies of previous govts

- ◉ Weak state capacity
 - Lack of public goods and services for SMFs

- ◉ But
 - Open borders
 - Spirit of reform
 - Many initiatives

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Myanmar at a Cross Roads

AGBIZ → GROWTH AND POVERTY REDUCTION

- Involves and upgrades value chains based on SMFs
 - Markets, technology, value chain financing
- Creates good jobs for a growing rural labor force

AGBIZ → RISKY BUSINESS

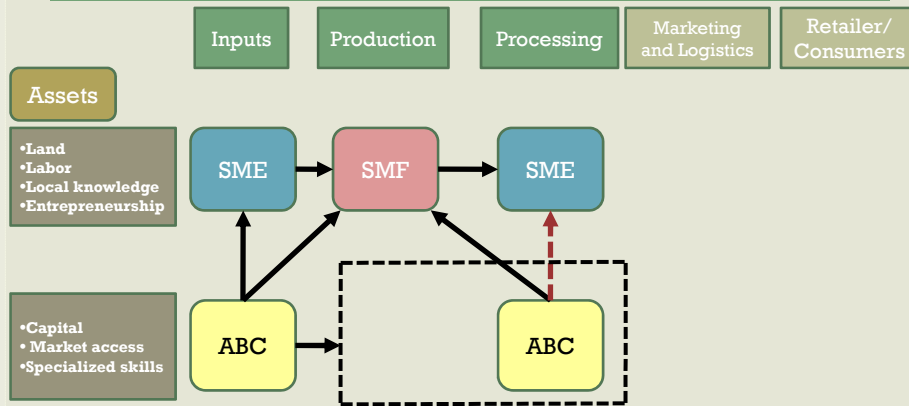
- Based on large land concessions
 - Overlaps with rights of existing land users
 - Creates high inequality in land ownership
 - Clears forests of HCV
- Economic risks too if:
 - Inexperienced investors
 - Speculation on cheap land?
- Example of Cambodia

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Diagnosis Business models in 7 value chains

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Framework for Business Models



Relationships ABCs-SMFs – spot markets, close but informal links, formal contracts (price and resource providing)

Selection of Value Chains

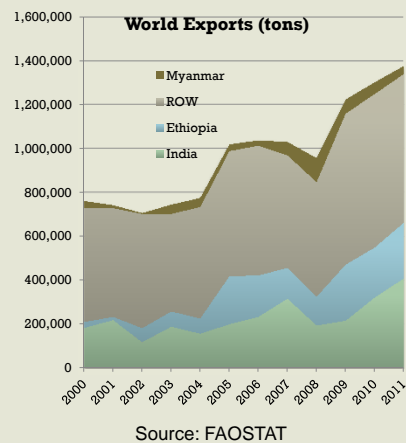
- Not covered in previous MDRI-MSU report
- Products with dynamic markets + exports
- Cover a range of business models, from SMF-based to land concessions
- Field visits
- Caveats
 - Quick overview and often only for one major production zone

Sesame

MYANMAR WORLD'S LARGEST PRODUCER

- MY now world's largest producer and consumer
 - Multiple uses—oil, snack, exports
- Business models
 - Independent SMFs in spot markets

BUT MY IS LOSING COMPETITIVENESS



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Sesame

CONSTRAINTS

- Many
 - Production risks--Low inputs, dryland
 - Lack of varieties
 - Processing- small volumes, old mills
 - Value chain—quality control and standards

OPPORTUNITY

- Upgrade value chain for higher quality markets
 - Contract farming incl. with supermarkets
 - Organization of export industry players
 - Branding?

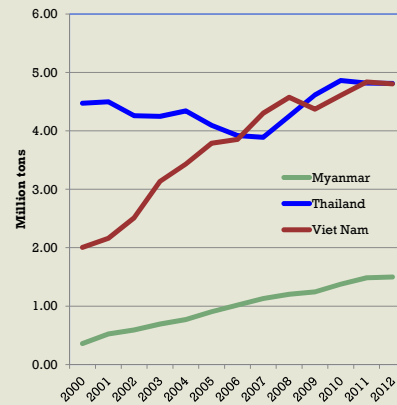
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Maize

BUSINESS MODEL

- Independent SMFs linked to ABC on inputs (hybrid seed) and output mkt
 - Rising area and doubling yields (< 2 t/ha in 2000 to 4 t/ha 2012)
 - Surge in export markets to over 0.5 M t
- Some contract farming and also 101 program for input financing & extension

GROWING PRODUCTION BUT MUCH POTENTIAL



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Maize

CONSTRAINT

- Low margin in relation to high input costs
 - Risky—weather and prices
- Extension
- Soil erosion

OPPORTUNITY

- Rapid demand growth
 - Domestic feed
 - Big export market in China
- Scale up adoption of zero tillage + CA practices
- Irrigated maize in cool season
 - BD 60% higher yields and production than MY

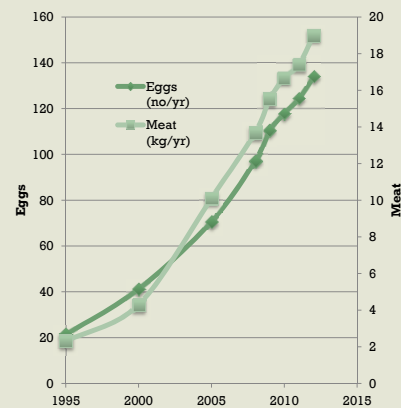
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Poultry

BUSINESS MODELS

- Broilers—contract farming
 - Well tested model by ABC
 - Inputs, advice, credit
 - Returns > 2 x rural wage
 - Supply chain from feed to processed meat
- Layers—independent SMFs closely linked to ABC
 - Inputs, advice, but not contractual

MYANMAR SUCCESS STORY



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Poultry

CONSTRAINTS

- Volatility of feed prices
- Health & trans-border diseases
- Competitiveness under regional trade integration
 - Increase scale of contract growers, or
 - Vertically integrate upstream into production

OPPORTUNITIES

- Rapid demand growth
 - Preference for chicken meat
- Reliable low cost protein meal through local sourcing

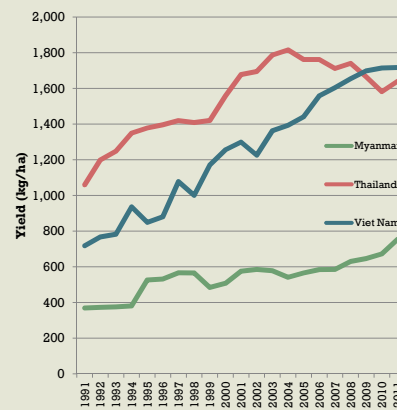
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Rubber

BUSINESS MODELS

- Asia--Rapid growth, strong export demand
 - > Asian 90% world rubber & 85+% of that smallholder
- Business models MY
 - Independent SMFs selling to processors of RSS
 - Large plantations (> 1000 ac)
 - Directly export to CH & VN

LAGGING YIELDS IN MY



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Rubber

CONSTRAINTS

- Low yields
 - R&D, extension
 - Access to finance for HY clones
- High price volatility
- Low quality & discounted prices
 - Regulation of standards, price incentives
- Sustainability (deforestation)

OPPORTUNITIES

- Close large yield gap
- Regulate and upgrade standards
- Build integrated supply chains to the soon-to-be privatized manufacturers
- Look at diversified agro-forestry systems

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Rubber – Options for SMFs

1. State-led

- Extension, grants for HY clones, processing cooperatives, quality standards (TH)

2. Private-sector led

- Long-term contract farming (2+3 model)?
- Short-term contract farming—existing trees

3. Public-private partnership

- Cess (e.g., 1%), Industry Board, certification of standards

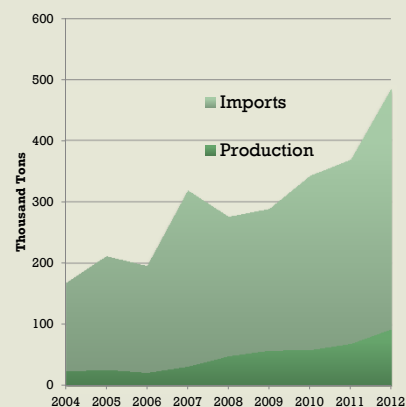
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Oil Palm

BUSINESS MODELS

- Main focus of GoM edible oils policy
 - > major source of oils consumed
- Vertically integrated ABCs
 - 500 ha to > 100,000 ha
- Virtually no SMFs

CONSUMPTION >> PRODUCTION



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Oil Palm

CONSTRAINT

- Competitiveness?
 - Yields, infrastructure
- Lack of R&D, technical support, labor
- Negligible development of concessions (90% ABCs < 10% planted)
- Sustainability (deforestation)

OPPORTUNITY

- Review vegetable oils strategy to assess competitiveness and sustainability
- Invite responsible FDI
 - Adhere to RSPO standards on social and environmental sustainability
- Design incentives to include outgrowers in concessions

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Highlights of Other Value Chains

SUGARCANE

- Transition from state to private including JVs and FDI
- Some successful contract farming
 - Still low value share to farmers (48% vs 70% in TH)

CASSAVA (TAPIOCA)

- Thailand and Vietnam
 - US \$ 3+ billion export industry
 - SMF based—initially via contract farming
- Myanmar
 - Exports only via ABC
 - Big opportunity

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Summary of Business Models

Number of * represents existing model
Potential indicates future options

	Vertically integrated ABC	Independent SMFs	Contract farming	Independent SMFs linked to inputs	Independent SMFs linked to SMEs in processing	Organized SMFs in collective action
Rubber	**		Potential?		***	Potential
Oil palm	***	Potential	Potential			
Sugar	**		**			
Sesame		***	Potential		**	Potential
Maize			*	***		
Cassava	**	**	Potential		Potential	
Poultry	*		*** (Broiler)	*** (eggs)		

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Well-Known Cross-Cutting Constraints

- ◉ **Hardware**
 - Infrastructure- high transport costs, and electricity
- ◉ **Software**
 - Financial institutions in rural areas
 - Lack of strong producer organizations
 - Access to technology, extension & agric. education
 - Lack of value chain coordination and regulation
 - Penalty in quality and price

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Toward More Efficient and Inclusive Business Models

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Attracting Investment into Agribusiness

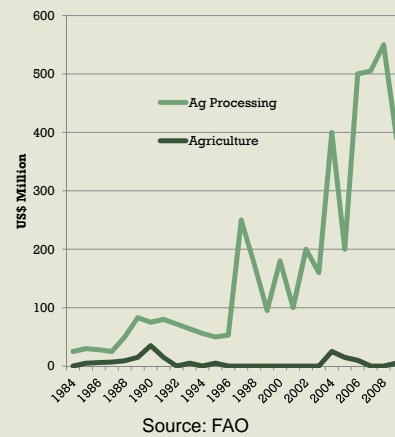
- ◉ Improvements in investment climate for both SMEs and ABCs
 - Invite WB Doing Agribusiness Indicators
- ◉ Highest potential in agro-processing
 - Expected rapid growth and high job multiplier
 - Major driver--Improved agric productivity
 - Financing investment
 - Target % lending + capacity building (AgriFin)

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Review of FDI Rules

- Total FDI stock \$191 & 2013 flow only \$14 M!
 - Mostly oil palm and seed
- Seek FDI that provides value added
 - Focus on inputs and processing
 - Seek known investors
- Relax rules on FDI in agricultural processing and inputs industry

FDI FLOW IN THAILAND



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Foresight and Oversight for Investors

- **Clear strategic vision**
 - Priority sectors and types of investors
- **Capacity to manage investments (MIC + other Ministries)**
 - Investor & proposal scrutiny and transparency
 - Streamline approval process
 - Review of ESIA's (MoECAF)
 - Monitor implementation of investments

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Agribusiness Input Industry to Drive SMF Productivity

◉ Seed industry

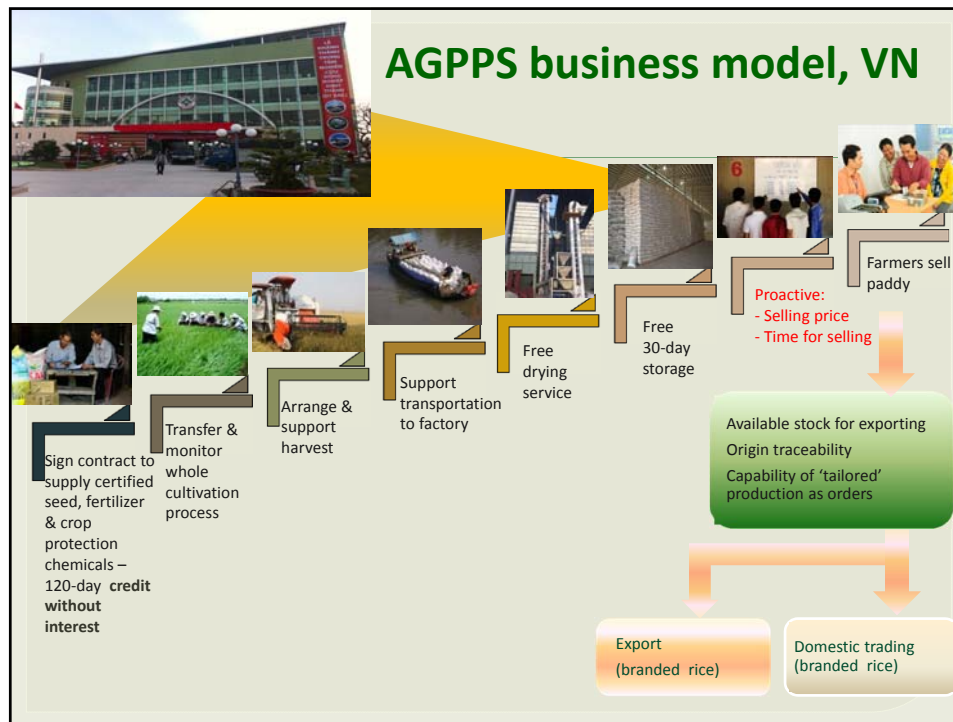
- Already significant activity in hybrid seed
 - But limited competition—build SME seed companies (e.g. India hybrid maize)
 - + Opportunities—Rice, private nurseries (rubber)
- Need to approve and implement new Seed Law
- Strengthen MOAI
 - Allow private companies to produce foundation seed
 - Hardware—seed quality labs

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Contract Farming

- ◉ High expectations but not a panacea
 - Limited to selected products and markets (high value niche markets, processing requirements)
 - E.g. Sugarcane, horticulture, poultry
- ◉ Contract farming for rubber?
 - Long-term outgrower programs for high quality
 - Short-term to upgrade existing trees?
- ◉ Food staples such as rice?
 - Only for premium quality (e.g., AGPPS branded rice in VN)

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Making Contracts Work Better for Farmers

- ◉ **Build FOs and negotiating skills**
 - Especially on 'fair share' of value to SMFs
- ◉ **Provide model contracts**
- ◉ **Broker tripartite agreements with banks**
- ◉ **Law for contract farming? (TH, VN, IN)**
 - Arbitration mechanisms

Collective Action

- ◉ Industry agrees on cess/levy for:
 - Services (R&D, extension, market regulation)
 - Replanting grants (?)
- ◉ Feasible only for some crops
 - Major exports, imports, or few mills
 - Needs minimum threshold industry value (≈\$100 m)
 - Candidates—Rubber, s/cane, rice, pulses, oil palm
- ◉ Institutional arrangements
 - Many details—PPP led by private sector
 - Requires legislation to implement levy

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Options for Managing Cess

Administrative status	Own research institute & other services	Fund only that outsources services
Parastatal board or council (with industry representation)	Malaysian Oil Palm Board (R, Q) ORRAF (rubber), Thailand (R, E, G) TSHDA (Tea), Sri Lanka (E, G, M)	RDCs Australia (one for each crop) (R)
Private industry association or council	CENIPALMA, Colombia (oil palm) (R, E) FEDECAFE, Colombia (coffee) (R, E, G, Q, M)	FIRCA, Cote d'Ivoire (all cash crops) (R, E, POs)

R = Research, E = Extension, M = Market promotion & prices
Q = Quality regulation, G = \$ for replanting, POs = Producer Org

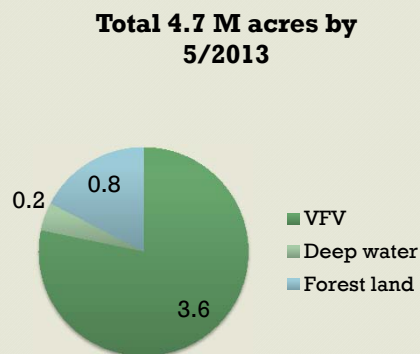
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Managing Large Land Concessions

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Status of Land Concessions

- Concentrated in Kachin, Taninthary, & Ayarwaddy, Sagaing
- Mainly rubber & oil palm, + Jatropha, s/cane, rice
- Average size of VFV is 6,170 ac
 - But some above 50K acres (despite rules)
- Allocated 0.5 M ac VFV since 2010



Excludes 12,000+ concessions to SMFs in Mon State

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Risks of Land Concessions

- ◉ Not achieving growth objectives
 - Only about 25% developed (despite rules)
- ◉ Overlapping rights, especially in *taungyar*
 - Scrutiny processes not open and transparent
 - No requirement for prior public disclosure and consultation with local communities
- ◉ Overlapping forests of HCV (Taninthary)
- ◉ Lack of capacity to monitor
 - Skills and resources

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Next Steps on Land Concessions

- ◉ Freeze further concessions to:
 - Demarcate 'available' land
 - Existing land users, crop suitability
 - Transfer based on voluntary and informed agreement, fair compensation
 - Build capacity of local communities on land rights, fair deals with ABCs
 - E.g., model contracts, potential profits
 - Accurate and transparent information on deals
 - Capacity to manage on the ground

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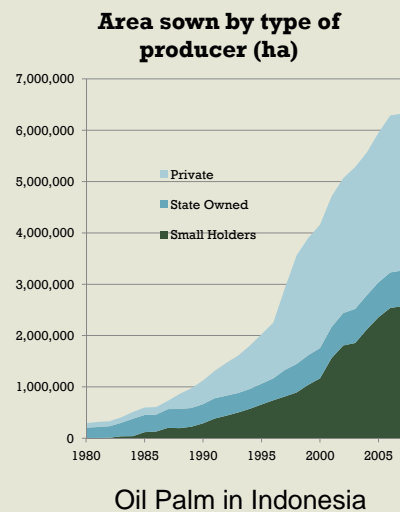
Maximize Positive Spillovers and Minimize Risks

- ◉ Incentives or requirements for outgrower schemes
- ◉ Joint ventures with communities based on contributions of land and water
- ◉ Requirements for training and technology transfer (esp. FDI)
- ◉ CSR for social infrastructure

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Outgrower Schemes

- ◉ Linked to nucleus estate and processor
 - Indonesia Nucleus + Outgrower Schemes
- ◉ State support can reduce costs of setting up outgrowers



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For Existing Concessions

- ◉ **Develop a detailed geo-referenced and field verified public data base**
 - GIS coord, investor, investment plan, progress status
 - Examples from Laos (gov) and Cambodia (CSO)
- ◉ **Strengthen monitoring**
 - Field presence of MOAI staff
 - Simple technology (Google Earth +)
 - Cancel non-performers and others not following rules

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Explore Potential of SMF Land Concessions

- ◉ **> 40% of rural families landless or near landless (LIFT, 2012)**
- ◉ **Options:**
 1. Look at formalizing rights of informal settlers in VFV or forest land
 2. Organized settlement programs with infrastructure, settling and business grants
 - SLC project Cambodia (\$4,000 per settler)
 3. Organized settlement program with perennial crops (FELDA model of Malaysia?)

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Final Word

- ◉ Optimistic outlook for AgBiz
 - Strong market prospects
 - Success stories from MY and from the region provide base for + ve development outcomes
- ◉ Need for strategy to shift to:
 - AgBiz investments based on incentives and models that work with SMFs (biggest asset!)
- ◉ Recognize key role of government investments to support SMFs (e.g. R&D)—'long game'
- ◉ Possible quick wins in cassava, rubber, irrigated maize, high quality sesame

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Extras

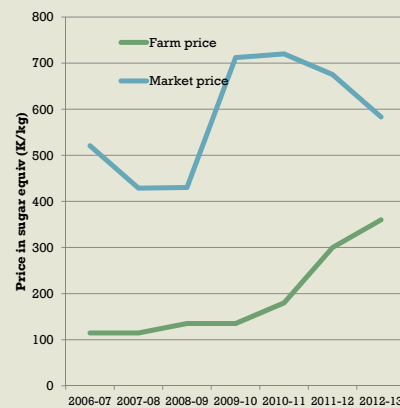
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Sugarcane

INDUSTRY IN TRANSITION

- State to private sector in 2009-11
- Business models
 - Contract farming SMFs
 - 70% < 2 ha
 - JV--Tripartite with bank for tractors & trucks
 - Nucleus estate with contract farming
 - Vertically integrated ABCs

FARMERS' SHARE OF PRICE UP BUT STILL LOW



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Sugarcane

CONSTRAINTS

- Low price share to contract farmers
 - 48% cf 70% in TH
 - Improving over time
 - Lack of trust ABCs and SMFs (some)
- Scale economies in milling
- Land
 - Zoning for mill supply
 - Conversion paddy land to sugarcane

OPPORTUNITIES

- Growing domestic demand and value adding
 - Molasses to ethanol
 - Co-generation electricity
- Export market
 - China
 - EU—under EBA agreement but will need certification

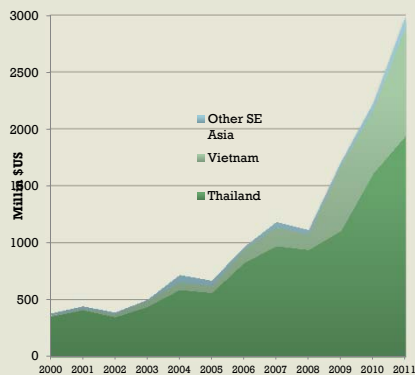
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Cassava (Tapioca)

SE ASIA'S NEXT GREEN REV?

- Industry Established 1970s by Thailand--feed to EU
- 2000s take off
 - Starch to China, then feed and biofuel
 - Exports TH and VN > \$3 bil
- Also large domestic market
 - Bioethanol, starch

CASSAVA EXPORTS



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Cassava: Business Models

THAILAND AND VIETNAM

- Initial contract farming
- Now mostly independent SMFs linked to SME processors of starch and dry chips
- Rapid yield gains from varieties and better management, semi-mechanized

MYANMAR

- Huge potential
- Business models
 - Some independent SMFs
 - One v. large vertically integrated ABC
- Potential for SMFs to take the lead
 - Link to CIAT network

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Guidelines for Investors

- ◉ Principles for Responsible Agricultural Investment (WB, FAO, IFAD)
- ◉ Voluntary Guidelines on Land and Natural Resources Tenure (FAO)
- ◉ Private Sector Roundtables for Certification
 - RSPO (Palm Oil), BSI (Sugar) etc + EU Biofuel standards

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Principles for Responsible Agricultural Investment)

Area of concern	Key Issues
Property rights	<ul style="list-style-type: none"> • Long established occupancy rights are recognized • Relevant rights are publicly recorded • An accountable & representative structure for local decision-making is in place
Voluntary transfers	<ul style="list-style-type: none"> • Expropriation not used to transfer land to private interests • Processes for transferring land involve informed consent by existing users • Proceeds from land transfers are fair and accrue to actual users
Transparency	<ul style="list-style-type: none"> • Relevant information (land prices, contracts) publicly available • Agreements are understood by the parties and can be enforced • Public sector responsibilities add value, are clearly assigned, performed effectively
Economic viability	<ul style="list-style-type: none"> • Effective mechanisms to check technical viability & economic feasibility in place • Investments are consistent with local strategies for development • Adherence to agreed terms is monitored and enforced
Environmental & social sustainability	<ul style="list-style-type: none"> • Areas unsuitable for agricultural expansion are properly protected • Environmental policies are clearly defined and adhered to • Social safeguards are implemented

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