

LARGE-SCALE AGRICULTURAL DEVELOPMENT SCHEMES IN DEVELOPING COUNTRIES: POTENTIALS IN MYANMAR

Tin Htut Oo

CEO, Agribusiness and Rural Development
Consultants (ARDC)

GLOBAL FOOD SECURITY

- GREEN REVOLUTION IN 1960s SAVED AN ESTIMATED ONE BILLION PEOPLE FROM FAMINE AS FOOD PRODUCTION INCREASED FROM 800M TO MORE THAN 2.2B TONNES BETWEEN 1961 AND 2000 – MAINLY THROUGH CROP INTENSIFICATION USING HYVS, AGROCHEMICALS, IRRIGATION, MODERN TECHNIQUES RATHER THAN LAND EXPANSION
- Enormous gains in agricultural production was often accompanied by negative effects on natural resource base and has wider environmental damage through deforestation and emission of greenhouse gases
- Need to further intensify crop production with less land and water resources to feed projected 9B people in 2050 with dietary changes favoring meat and vegetables as urban population reaches to 70%
- FAO projected the need for 70% increase of agricultural production by 2050 globally to meet food demand alone excluding demand for bio-fuel feedstock = extra billion Tonnes of cereals and 200m Tonnes of meat to be produced annually compared with production between 2005-2007
- IFPRI estimated real price increases of wheat 59%, rice 78% and maize 106% during 2010 – 2050 period
- Farmers face series of unprecedented and intersecting challenges of rising fuel and inputs cost, highly fluctuating commodity prices due to global economic crisis, and impact of global climate change

RISING LAND ACQUISITION IN DEVELOPING COUNTRIES

- AT THE FOREFRONT ARE FOOD-IMPORTING COUNTRIES WITH LAND AND WATER CONSTRAINTS (e.G. GULF STATES) AND COUNTRIES WITH LARGE POPULATIONS AND FOOD SECURITY CONCERNS (E.g. CHINA, SOUTH KOREA, INDIA)
- Targeted developing countries where production costs are lower with more abundant land and water
- Others factors for investment include geographic proximity and climate conditions for preferred crops
- Different types of investment either directly or through state-owned entities and private-public partnership on land leases, concessions or purchases with widely differing size and terms of contracts
- Another type to secure food supplies is through contract farming and investment in rural and agricultural infrastructure including irrigation
- Investment in perennial plantation and cash crops rather than basic staples through land acquisition driven by profit-making motives of private sector in developing countries happened during the past decades

LARGE-SCALE LAND ACQUISITIONS: THREATS AND OPPORTUNITIES

- Decrease in public and private sector investment in agriculture has led to food price spike of 2008 and food prices surge to record levels in early 2011
- Land acquisition for large-scale commercial agriculture can be seen as opportunity: changing global economic context, fiscal inability of public sector to provide capital and urgent need for greater development in agricultural productivity and rural economy
- Opportunities can be seen as unwarranted optimism emphasizing the threats to people's livelihoods and ecological sustainability if inequality exists in bargaining power which can lead to socio-political instability
- Additional investments in agriculture in developing countries should be welcome in principle – while speed, scale and terms of land acquisition have provoked opposition in some countries (E.g. Philippines blocked china land contract, Daewoo logistics corporation 1.3M ha lease negotiations in Madagascar played a role in political conflicts in 2009)
- Demand for land particularly with access to water has also increased within the countries which requires more attention through sound monitoring, statistical assessments and land rights policies and considerations on ecological sustainability of land and water resources for large-scale investment

GENERAL POSSIBLE BENEFITS OF LARGE-SCALE AGRICULTURE INVESTMENT FOR RURAL POOR

- ❑ Creation of significant number of farm and off-farm jobs;
- ❑ Development of rural infrastructure;
- ❑ Poverty-reducing improvements such as health and education services;
- ❑ Transfer of new technologies and practices;
- ❑ Increased food and agriculture production for domestic consumption in addition to consumers abroad;
- ❑ Global price stability and food security

POTENTIAL BENEFITS BY FDI

(FAO Commodity and Trade Policy Research Working Paper, No. 28)

- Employment creation
- Technology transfers
- Introduction of private sector “know how” and sustainable business models
- International market access
- Skills development
- local funding
- fostering economic linkages and more transparency

DISADVANTAGES OF LARGE SCALE FARMING

- Many wastage
- Environmental deterioration
- Less efficiency
- Less welfare for the employee
- Conflicts with local people
- Huge biodiversity losses
- Losses will affect to many dependents

ALTERNATIVES TO LAND ACQUISITIONS

- Is it possible to formulate inclusive agribusiness models bringing benefits to smallholder farmers and protect their land rights while ensuring returns to private companies? Do agriculture investment projects need to evict existing farmers ?
- Promoting investment models that maximize opportunities for smallholders include;
 - (1) contract farming;
 - (2) management contracts;
 - (3) tenant farming and sharecropping;
 - (4) joint ventures;
 - (5) farmer-owned business; and
 - (6) upstream/downstream business links

No best possible option benefiting smallholders while remaining attractive for investors – need to take into account local land tenure, culture and tradition, demographic and agro-ecological considerations

GOVERNMENT POLICY FOR LARGE SCALE FARMING

TOWARD WIN – WIN POLICIES:

- Transparency in negotiations;
- Respect for existing land rights including customary and common property rights;
- Sharing of benefits;
- Environmental sustainability;

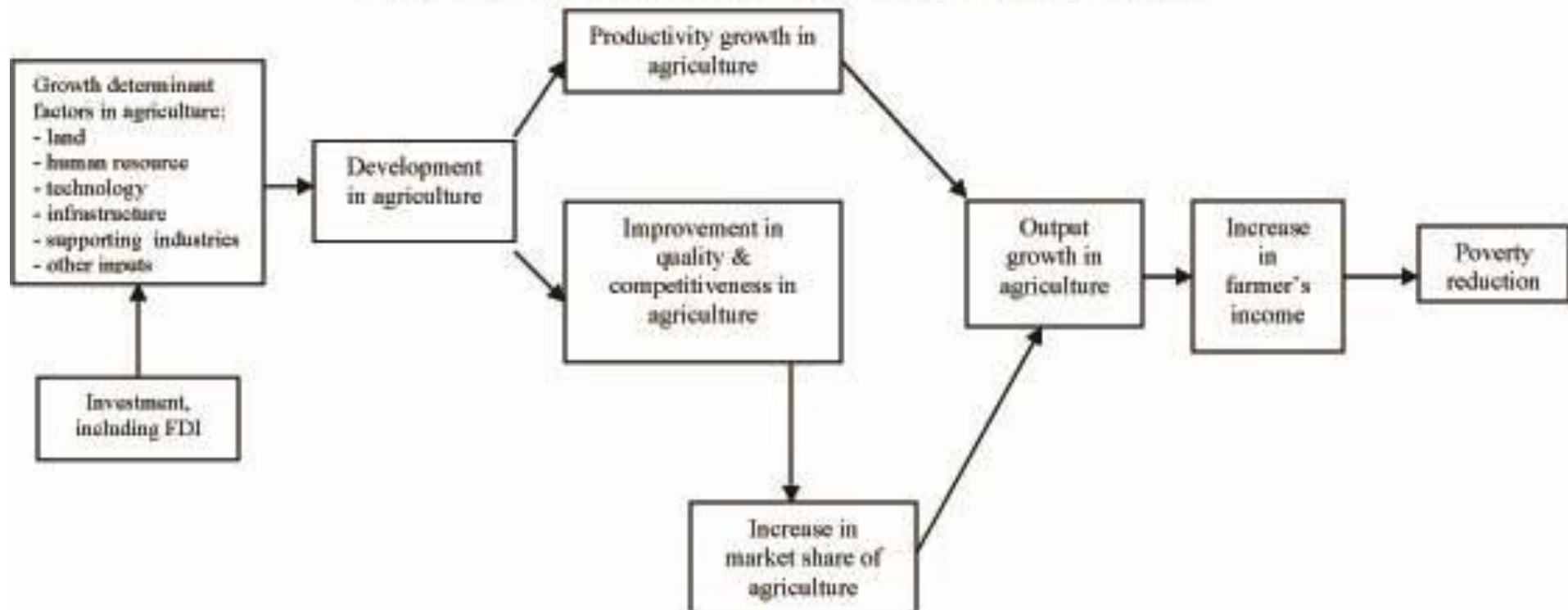
DIFFERENT POLICIES DEPENDING ON TYPE OF CROPS

- Subsistence/Food crops;
- Cash crops-seasonal crops;
cotton, jute, sugarcane, flowers, vegetables
- Cash crops-plantation/perennial crops;
coffee, tea, palm oil, rubber, fruits, spices

RELATION BETWEEN INVESTMENT, DEVELOPMENT OF AGRICULTURE AND POVERTY REDUCTION

(Source: Tulus Tambunan, *The impact of FDI on poverty reduction*)

Relation between Development of Agriculture and Poverty Reduction



PROMOTING AGRICULTURAL DEVELOPMENT THROUGH SUPPLY CHAIN MANAGEMENT

A supply chain can be looked into as a set of agribusiness activities and products that lead to a produce that reaches the final consumer.

Supply chain management in agribusinesses can help in understanding:

- ❑ How the products reach the final destination;
- ❑ The economic relationship (structure) between the members in the chain;
- ❑ Change of this structure over time;
- ❑ Key threats to the entire value chain;
- ❑ Key determinants of the share of profits created by the chain

PROMOTING AGRICULTURAL DEVELOPMENT THROUGH SUPPLY CHAIN MANAGEMENT

COMMON ISSUES IN SUPPLY CHAIN MANAGEMENT

- 1) Relationship between members of the chain-particularly relationship between individual farmers to create a trading entity with capacity to supply sufficient quantity and continuity to be a credible supply chain member;
- 2) Competition for market share between chains and between the domestic and global retailers-applying new technologies such as biotechnology and using the information within the chain to innovate in both products and processes will provide opportunities for competitive advantage base on differentiation as well as cost leadership;

PROMOTING AGRICULTURAL DEVELOPMENT THROUGH SUPPLY CHAIN MANAGEMENT

- 3) Technical and professional issues in supporting the operation of supply chain include facilitating;
 - ✓ the development of relationships between farmers to allow their participation,
 - ✓ the development of relationships between members of the supply chain,
 - ✓ information flows between members of the supply chain,
 - ✓ establishing common standards between members of the supply chain, and
 - ✓ optimizing performance within each level of the supply chain and in the linkage processes

IMPORTANCE OF LARGE SCALE AGRICULTURE

- Supply Chain Management in large-scale agriculture;- from plow to plate concept including GAP, traceability, food and nutrition security aspects;
- The need to control for high perishability and safe handling involves specialized production, packing techniques and refrigerated transport, all of which require large capital investments and also investment in research, development and marketing, which small and medium-sized enterprises cannot easily afford (Johann Kirsten & Kurt Sartorius, 2002);
- Success models of large-scale agriculture include land development for smallholder rubber and palm oil plantations under FELDA in Malaysia and in Indonesia, and PPP with multinational corporations in Vietnam for tea and coffee production;

PPP MODEL FOR TEA SMALLHOLDERS IN VIETNAM

TYPICAL PROBLEMS OF SMALL-SCALE AGRICULTURE FARMING

- Low quality, lack of standard and brand
- Underdeveloped technology
- Poor marketing

Commodity	Vietnam export	World
Black Tea	1600 USD/ton	3000 USD/ton: <u>Srilanka</u>
Coffee	2172 USD/ton	2426 USD/ton (Robusta London)

TEA TASK FORCE FOR PPP IN VIETNAM

Objectives

- **To help Vietnam's tea growers and processors to achieve 4.0 Unilever quality standards Index.**
- **Increase tea procurements from Vietnam by Unilever to 25,000 - 30,000 tons of Rainforest Alliance certified sustainable tea.**

Role of Public sector

- **Local government of Phu Tho province and MARD create favorable condition for PPP**
- **Local government supports to train farmers and certify for tea**
- **Vietnam Tea Association: committed as main stakeholder in PPP taskforce**
- **MARD support to scaling up sustainable standard**

PPP MODEL IN VIETNAMESE TEA SMALLHOLDERS DEVELOPMENT

TWO PILLAR APPROACH

INTEGRATING AGRONOMY AND PROCESSING INTO ONE SUPPLY CHAIN

Unilever's VIETNAM TEA INITIATIVE

Working with Tea Farmers for Sustainable Tea Plantations and improving quality and yields of tea leaf

Provide T.A and support for improved farming practices

Facilitate for Rain Forest Alliance certification

+

Working with selected Tea Processors for Improving Tea Quality to Export Index and improving good manufacturing practices

Long-term partnerships and cooperation for increased tea export quantity and quality.

Potential investment in a tea processing facility for long-term supply .

KEY MILESTONES UNDER TEA PPP IN VIETNAM

Phase 1 :

- Achieve procurement target of over 10,000 ton in 2011 with 3,000 tons RA certified.

Phase 2 (From 2015):

- Potential investment in tea processing facility and/or plantations.
- Expand farmers' network to more farmers in more provinces
- Achieve procurement target of 25,000 – 30,000 tons / year

Phase 3:

- Develop Vietnam become a stable and substantial source of tea of Unilever

Myanmar political update

- People desire toward higher income and living standards – poverty reduction and good governance
- Since 1988, open-market oriented policy & privatization of state own enterprises initiated
- after 2010 election, the process of market liberalization accelerated with public sector reforms
- the political, economic and governance reforms moving with rapid pace after decades of isolation
- ASEAN AEC in 2015 and rapid regional connectivity – challenges as well as opportunities

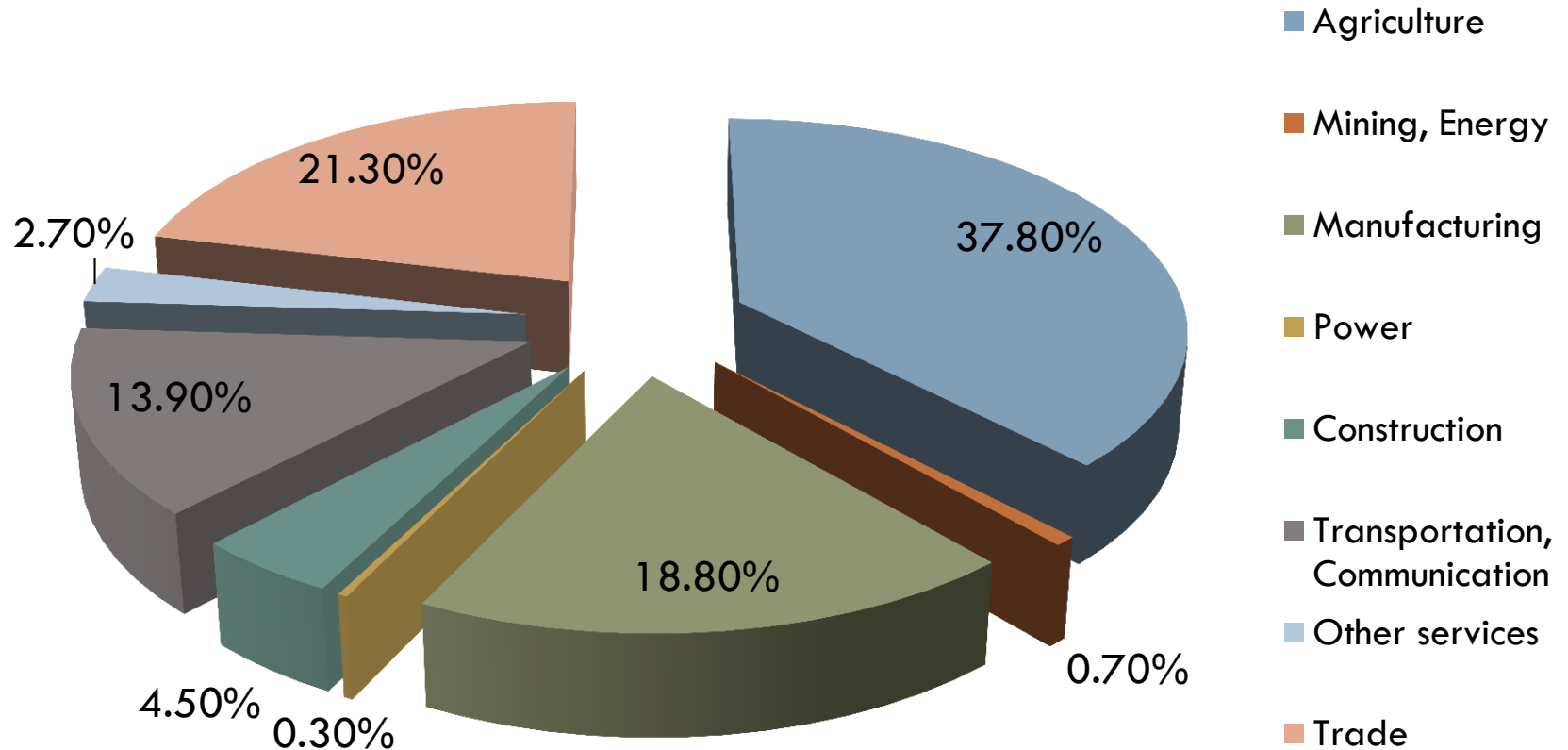
Myanmar economy update

- Land area → 676 thousand sq. km
- GDP per capita (current estimates by ADB) USD857
- GDP growth 5.5% in 2011 and 6% in 2012
- Population
 - ▣ Whole country 59.78 million (26% under national poverty line)
 - ▣ Population growth 1.1%
 - ▣ Urban population 18.343 million (34%)
 - ▣ Rural population 41.437 million (66%)
 - ▣ Population density 88 per square kilometer

Agriculture sector contribution

- Account for 37.8 % of total GDP (2010/11)
- 8.6% of annual growth rate
- 15.4 % of total export earning
- Employ 62.1% of total labour force

Structure of production in GDP



PRESENT LARGE SCALE FARMING IN MYANMAR

ALLOCATION OF FALLOW LAND AND WASTE AGRICULTURE LAND TO LOCAL PRIVATE ENTREPRENEURS STARTED IN EARLY 1990s. Situation of commercial agricultural land development scheme until end 2009:

- Total agricultural fallow and wasteland = 14.66 mil acre;
- Total land area allocated for large-scale commercial farm = 1.64 mil acre;
- Total land developed area = 0.63 mil acre
(Only 38% of total allocated area)

Farmed area with crops and livestock totaled only 27% of total allocated area due to lack of capital investment and technology, infrastructure as well as constraints in macro-economic policy particularly unfavorable investment environment for FDI

Mostly large-scale perennial crops plantation such as rubber and palm oil achieved relatively good progress rather than seasonal food and cash crops

TYPE OF POTENTIAL AGRICULTURE DEVELOPMENT SCHEME FOR POSSIBLE ODA PROJECTS

- MYANMAR HAS POTENTIAL FOR BOTH LAND AREA EXPANSION AND CROP INTENSIFICATION GIVEN RICH NATURAL RESOURCES AND GEO-POLITICAL LOCATION IN WORLD'S MOST ECONOMICALLY ROBUST ASIAN REGION
- HUGE POTENTIAL EXISTS FOR LARGE-SCALE COMMERCIAL AGRICULTURE INVESTMENT AND FDI WITH PROPER CODE OF CONDUCT
- **LAND DEVELOPMENT FOR SMALLHOLDER AGRICULTURE SCHEMES WITH PPP:**

PURPOSE: to enable target groups in a suitable state or region of Myanmar to achieve sustainable livelihoods and food security through access to unutilised waste and fallow lands (5 to 10 acres for each household) for agricultural development;

TARGET GROUPS: Landless poor households who have limited or no access to productive assets; Former combatants from ethnic conflicts who lack access to productive resources; Externally and/or internally displaced persons from poor households who lack access to land.

PPP: Facilitate PPP in supporting the smallholders' agricultural production and providing services such as access to markets through the development of supply chain management, contract farming, technical support, processing of value-added agricultural products (e.g. coffee, black pepper, sugarcane, rubber or horticultural crops for export, etc.).

KEY FACTORS FOR SUCCESSFUL AGRICULTURE INVESTMENT IN MYANMAR

KEY RECOMMENDATIONS TO HELP IMPROVE LARGE-SCALE AGRICULTURAL INVESTMENT INCLUDE BUT NOT LIMITED TO:

- ❑ LAND USE PLANNING AND AGROECOLOGICAL ZONING;
- ❑ STRENGTHENING AGRICULTURAL CREDIT AND FINANCING;
- ❑ STRENGTHENING R&D AND EXTENSION SERVICES;
- ❑ RURAL INFRASTRUCTURE DEVELOPMENT;
- ❑ VOCATIONAL TRAINING FOR FARM WORKERS PARTICULARLY LANDLESS FARMERS IN SKILL TRAININGS SUCH AS AGRICULTURAL MECHANIZATION, PLANT PROTECTION;
- ❑ CREATING CONDUSIVE MACRO-ECONOMIC POLICY ENVIRONMENT FOR INVESTMENT PARTICULARLY FDI;
- ❑ PROMOTING PUBLIC PRIVATE PARTNERSHIP TO DEVELOP SUPPLY CHAIN MANAGEMENT; AND
- ❑ TRANSPARANCY AND GOOD GOVERNANCE

THANK YOU FOR YOUR KIND ATTENTION!

