UNDERSTANDING LAND INVESTMENT DEALS IN AFRICA

EMVEST ASSET MANAGEMENT IN MATUBA, MOZAMBIQUE

LAND DEAL BRIEF | JUNE 2011

EmVest Asset Management is a joint venture between Emergent Asset Management and Grainvest, a subsidiary of the RussellStone Group.[1] Based out of Pretoria, South Africa, EmVest operates the African Land Fund (ALF) and lists social responsibility as a guiding tenet of its investment strategy, citing a desire to bring "economic uplift to communities through commercially viable, first world practices." To this end, it maintains investments in 5 developing countries—Zambia, Zimbabwe, Mozambique, Swaziland and South Africa—and plans to invest in 14 countries throughout the Southern African Development Community (SADC).[2] Arable land in this region is substantially undervalued relative to arable land on other continents; this provides the basis for projected returns upwards of 25% per annum.[3]

EmVest Limpopo: EmVest's Investment in Matuba, Mozambique

EmVest's project in Matuba, Mozambique is two-phased. It aims to develop virgin land into arable land using irrigation; it will then use the arable land to produce food crops. The undertaking promises significant returns primarily because of depressed production costs. According to a summary prepared for prospective investors, EmVest Limpopo acquired 2,000 hectares of land at "nominal cost" from the Mozambican government for a lease period of 50 years. Cheap irrigation will be facilitated by unlimited access to water charged by surface irrigated rather than total volume used.[4] The latest ALF Quarterly Update reports that the irrigation system is 98% complete along with the local water authority, HICEP, entitling EmVest to utilize all the water they require from the canal for their irrigation needs.[5] The project further benefits from fiscal incentives offered by the government of Mozambique.[6] These include:

- Exemption from customs duties on capital inputs
- Exemption from VAT
- Reduced profit tax — 80% until 2015 and 50% from 2016 to 2025
- Profit repatriation for a base period of 25 years, renewable for ten-year periods
- Optional repatriation of the investment's total equity

> *"In South Africa and Sub Saharan Africa the cost of agriland, arable, good agriland that we're buying is 1/7th of the price of similar land in Argentina, Brazil and America. That alone is an arbitrage opportunity. We could be moronic and not grow anything and we think we will make money over the next decade."*
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> — Susan Payne, CEO, Emergent Asset Management

Ground Reality

EmVest's website and project summary for investors purport to use this "arbitrage opportunity" in a way that generates profits while positively impacting local communities. However, a closer look at the business plans, land leases, and the village of Matuba impacted by the EmVest project reveals a different picture.

2,000 Hectares in Dispute

EmVest provides conflicting reports of the extent of its land concessions and the terms of its lease. The "Investment Project

Summary" as well as written and verbal communication to investors describes a 2,000-ha renewable lease from the Mozambican government secured through outreach, consultations, and the consent of local communities.[7] However, government legal documents (DUAT) on the land acquisition state EmVest Limpopo was granted provisory use of only 1,000 ha of land for a period of two years.[8] EmVest itself appears to recognize in some materials that it has legal rights to only 1,000 ha; its website publicly describes the Matuba project as "greenfield development of 1,000 ha of land" secured "under a 99-year lease agreement from the central government."[9]

A meeting between the Oakland Institute (OI) and the village chief of Matuba and its inhabitants contradicts claims of consultation and consent made by EmVest. They report government authorities forcing them to sign papers releasing 1,000 ha of the lands. When community members were asked about the total amount of land ceded to the government for EmVest Limpopo, they stated that 1,000 ha had been released. They also commented on the implausibility of ceding a total of 2,000 ha (though there has been pressure on them to agree on an additional 1,000 ha) as they "need the land to feed their children and graze their cattle."[10] Neither the villagers nor the chief received a copy of the DUAT or EmVest's agreement with the Mozambican government.

Questioning by the Oakland Institute, after several months resulted in the following response from Emergent's London office: "we currently only have a DUAT for the first 1,000 ha. We are in the process of gaining approval for the second...."[11]

"Henry Guarding Pivots" Slide from Susan Payne's Presentation at Zambia Investment Forum, March 2011

Failure to Deliver on Improved Livelihoods

Job creation has been cited as a major rationale for foreign direct investment (FDI) in land. The Matuba investment project summary and staff at Emergent and EmVest promise job creation with majority employment from the local community.[12]

A recent head count provided by Emergent reveals that currently only 17 permanent positions in the agricultural field have been created, 85 seasonal. The largest permanent positions are in security (36 staff).[13] Peter DeClark, EmVest Matuba's Farm Manager, expressed the company's position on local workers during an investor on-site tour, "...when I look around, everyone here [in the local community] is a potential criminal."[14] In an interview with the OI research team, the Matuba village chief confirmed limited opportunities on the EmVest farm. He shared that villagers had been more able to feed their families while farming their small plots than working (in a limited capacity) for EmVest.

Additionally, the project's terms of authorization as approved by the Mozambican government do not legally require EmVest to generate extended employment opportunities for local people. Instead, the terms require the employment of 18 full-time and 100 seasonal Mozambican workers during the first year of the project. Specific durations and conditions of employment are left unspecified, as are employment requirements for subsequent years.

Socially Responsible Investment?

Both in personal communications and in materials for investors, EmVest claims a strong relationship with the local community, built through the provision of medical facilities, schools and borewells. They also cite their support of the local orphanage, and their preparation of 370 ha of ploughed fields for use by local hires from Matuba.

According to the local community of Matuba village, the orphanage and school operational in the community is built and supported by Caritas, a Catholic charity. The villagers deny EmVest's contribution to the well-being of the village. EmVest did provide two borewells; however, they did so only after locals objected that the company's operations had closed off their cattle's access to drinking water. When asked about the 370 ha of fields prepared by EmVest, the community members spoke only of the 1,000 ha of farmland they were forced to release and the pressure to relinquish more land. "The conflict is because EmVest wants land where people live and farm. But we need this land for our children and to feed ourselves."

The views and conclusions expressed in this publication are opinions of the Oakland Institute alone.

ENDNOTES

1 The RussellStone Group is an investment management firm with expertise and interests in agriculture and financial services. http://www.russellstone.co.za/intro.aspx

2 Currently SADC has a membership of 15 Member States, namely; Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

3 www.emergentasset.com/?func=PageAfricanLandFund (accessed 21 April 2011).

4 250 Meticais/ha/year ($8.09/ ha/year.) Direct communication during an investor visit to Matuba Project, 7 December 2010.

5 Quarterly Update. Issue 9, Q1 2011. African Agricultural Land Fund. EmVest.

6 Authorization 2009 for Project, "EmVest Limpopo Project (Matuba Farm)."Ministry of Planning & Development. Republic of Mozambique.

7 Investment Proposal & Update. These numbers were confirmed in a verbal conversation with the deal manager and CEO of EmVest, Anthony Poorter on 20 February 2011.

8 Autorizacao Provisoria de Direito de Uso e Aproveitamento da Terra. Regulamento da Lei de Terra. Decreto no 66/98 de 08 de Dezembro de 1998, Republica de Moçambique.

9 http://www.emvest.com/Limpopo.aspx

10 Community meeting with OI research team, 25 February 2011.

11 Email Communication from James Burt, Emergent Asset Management in response to questioning by the Oakland Institute. 31 March 2011.

12 Investment Proposal & Update. October 2010. Communication with Emergent's CEO Susan Payne and Anthony Poorter, EmVest's Chief Operating Officer.

13 Email communication, 12 May 2011.

14 Direct communication, investor trip, 7 December 2010.