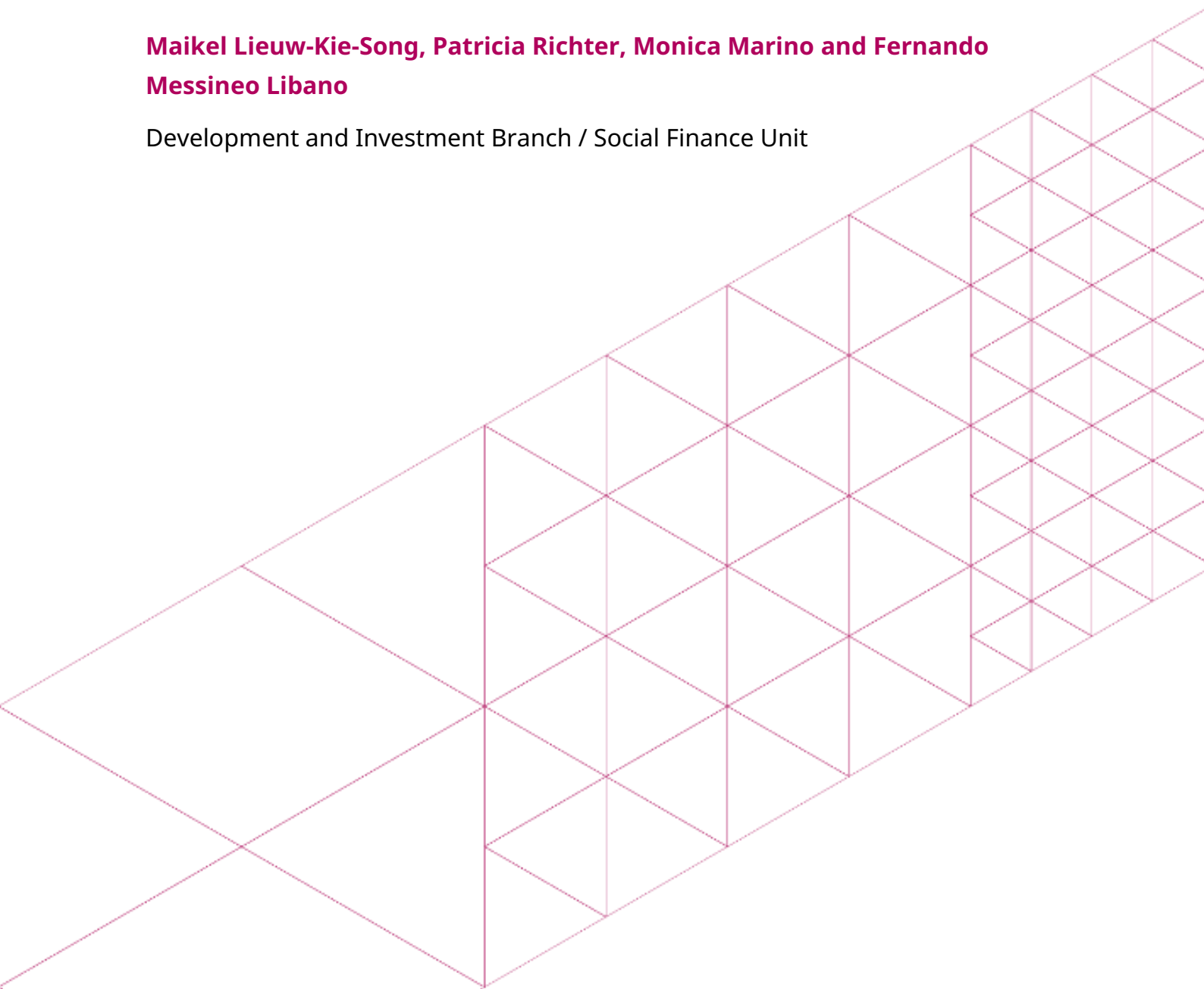


Employment effects in impact investments

Key insights emerging across studies in Tanzania and in Zimbabwe

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▶ 1. Introduction

As part of the Joint ILO-EU STRENGTHEN Project, the ILO conducted a series of employment effect reviews of interventions financed by the EU. In addition to the originally planned studies, the EU requested the ILO to conduct two further employment reviews of interventions that would be typical investments under the new External Investment Plan (EIP) of the EU. Therefore, the objective of these additional studies was to generate evidence and provide guidance for the development and improvement of the employment dimensions of the EIP with a focus on the agricultural sector. The guidance would in particular help inform: (i) expectations and potentially targets with regards to employment outcomes for financing of activities along agricultural value chains through blended investment funds; (ii) indicators and reporting requirements that can be put in place for monitoring and reporting of employment effects; and (iii) how subsequent evaluations and impact assessments can best approach assessing employment effects.

The ILO commissioned two employment effects studies^{1,2} on investments of the Africa Agriculture and Trade Investment Fund (AATIF) of which the EU is a shareholder. The first study was on the Export Trading Group (“ETG”), focusing on the company’s operations and on the cashew value chain in Tanzania. The second study was on BancABC, more specifically on its clients in Zimbabwe, focusing on loans to commercial farmers. The authors thank the staff of ETG and BancABC for facilitating the data collection. The purpose of the specific studies was to gain a better understanding of (1) the mechanisms through which investments impact on employment along the agricultural value chain; and (2) the quantitative and qualitative employment impacts resulting from these investments.

Section 2 of this note provides a brief overview of the two AATIF investments that were subject to the employment effects reviews. In section 3, we distil key insights that we see

¹ Review of Employment Effects of AATIF Financing and ETG’s Operations in the Cashew Value Chain in Tanzania. Oyuma, C. O, Kiti, C. C., Rajabu, K. J., - Research Support Services, June 2020

² Review of Employment Effects of AATIF Financing through BancABC lending in Zimbabwe: Case of the Paperhole Investments Outgrowers Scheme. DevPact, June 2020

emerge across the two studies and that we consider relevant to the AATIF and the EU when aiming to promote more and better jobs through their financing and investments.

► 2. Overview of each individual study

a. ETG operations in Tanzania

The first study assessed the possible employment effects of AATIF's USD 30 million investment in ETG – Africa. In particular, the study looked at the company's operations in Tanzania, where ETG processes and exports cashew nut, and supplies inputs in the local market. The study shed light into the employment figures along the cashew nut supply chain in the country and the limited actions that a company has for reaching out to smallholder farmers and cooperatives in the specific country context. National policies limit cashew nut purchases to auctions under the Warehouse Receipt System controlled by the Cashew nut Board of Tanzania (CBT). This entity sets minimum prices for cashew nut and runs the sales and marketing of cashews. ETG is the off taker of 20 to 30% of the raw cashew nut in the country (~60,000 MT) and processes close to 12% of the purchased cashew nut. In terms of direct employment, the company has around 1,900 employees of whom the majority (87%) are general workers who work full-time in cashew processing but are employed under non-permanent arrangements. In terms of indirect employment effects of ETG at the farm level, the study found that although most cashew was grown by smallholder farmers, around 80% of the 13,000 FTE of labour input was supplied through wage workers. This was typically farm labour hired by the smallholder farmers as casual labour. The study also estimated that through ETG's cashew nut purchase, the company indirectly supported the equivalent of 23,000 smallholder farmers. Additional indirect employment stimulated by ETG's plant activities is estimated at 5,000.

b. Increasing Zimbabwean farmers' access to credit

The second study looked at financing provided by AATIF to BancABC (USD 20 million). In particular, the study focussed on the BancABC operations in Zimbabwe targeted at increasing the bank's agricultural portfolio in the country. To achieve this goal, BancABC developed a partnership to finance an outgrower scheme managed by a grain trader (PHI) sourcing maize, wheat and soybeans. This partnership reached commercial farmers who were not able to access credit given their land tenure status, allowing for increased investments in mechanization and employment in an adverse economic context. The data collection for the study was challenging due to the number of parties involved (BancABC, PHI and the outgrowers) and the impact of restrictions put in place by the government in the context of the Covid-19 pandemic. Therefore, the study resulted in an analysis of how the partnership between the bank, outgrower scheme, and farmers generated employment effects and in a case study on a specific commercial farmer participating in the scheme. In general, the study found significant impacts across the different entities. In addition to qualitative aspects, the case study of the commercial farmer indicated that the number of employees on the farm increased almost three-fold due to the financing, reaching a total of 116 workers.

▶ 3. Key insights across the two studies

The individually studies produced many insights into the mechanisms through which investments impact on quantitative and qualitative employment aspects along the agricultural value chain. However, it is only by distilling patterns across the studies that lessons emerge with the potential to inform both the EU as well as the AATIF on employment-related expectations of investments in agricultural value chains as well as relevant indicators to track progress towards these expectations. Across the two studies, we identified **seven key insights**.

A. Part-time and seasonal employment are important in the context of agriculture-related activities and should be taken into account when reviewing employment impacts.

- i. Tanzania: the cashew nut season lasts between 5 to 6 months and the annual employment generation for certain operations in the supply chain spans over a similar period. For example, each Primary Cooperative Society (AMCOS, 643 in total for cashew nuts) employs around 6 to 9 workers for 5 months, varying according to the cashew volume. Also ETG hires 87% of their employees on fixed-term contracts (6 to 12 months). Even though the workers generally work year round, this hiring practice reflects the fluctuations in cashew nut volumes. Another 5% is hired as casual labourers. Most of the smallholders considered cashew farming as their main income activity, however, they also had other agricultural and non-agricultural income sources. Furthermore, all smallholders relied heavily on hired labour. However, no smallholder farmer hired labour on a full-time basis but only on a part-time basis and generally for specific tasks. Therefore the estimated 10,400 FTE of labour input provided by casual labour is likely to involve far more individuals.
- ii. Zimbabwe: farm workers did not rely solely on agricultural labour for their livelihoods, but were also able to pursue other income generating activities outside of working on the outgrower's farm. This included working on their own pieces of land and engagement in petty trading.

B. The relationship between investments in agricultural equipment mechanization and employment effects is multi-fold.

- i. Zimbabwe: the financing allowed the farmer to expand irrigation equipment. Interestingly, the expansion went along a threefold increase in employment. Typically, one would expect mechanisation to go along a reduction of employment. Looking closer, the purchase of equipment allowed the farmer to expand the irrigated area slightly more than three times (from 210 hectares to 710 hectares) which appears to be the actual driver of the employment effect. In addition, the skills of the workforce also changed significantly, as the farm had to employ and train more centre pivot and irrigation pump operators. Therefore, the management and overall employment effect of mechanisation was positive.

C. Specific crops or specific agricultural activities might involve more employment. Therefore, the potential employment effects of specific crops could be included as a factor in investment decisions, while still taking into account other factors, such as food security, market demand and environmental impacts, among others.

i. Tanzania: it was clear that a crop like cashew created substantial additional employment in the value chain because cashew processing is labour intensive. At the moment, the company's processing facilities are working at 82% thus not at full capacity. This means that the company has further impact potential on direct employment if it increases the share of cashew nuts it processes, as this is where most direct employment is generated. Despite the existing plants not working at full capacity, ETG is building a new processing plant in a different location which could allow it to process a larger volume of nuts as well as create additional employment opportunities for local communities.

ii. Zimbabwe: the study showed that financing could also target labour intensive value chains such as perennial crops which require more labour input per hectare compared to the annual crops such as maize, wheat, and soybeans, which were financed in this specific case.

D. In agriculture-related investments the impacts on wage levels and income along the value chain can be as important as the number of additional jobs created.

i. Tanzania: Based on the ETG cashew nut volume purchased, it is estimated that the company indirectly reached 23,000 smallholder farmers in 2018. The farmers surveyed mentioned that they in turn pay their labourers well above minimum wages for the hired labour, which accounts for 80% of the labour inputs in the farm. ETG directly provides employment opportunities to local rural communities and also pays casual and fixed-term employees rates of approximately TZS 6,300 per day way above the basic minimum wage (TZS 3,846 per day). The high levels of retention shows that the company seems to create attractive employment in its regions of operation.

ii. Zimbabwe: the study showed that the commercial farmer that benefited from the loan paid wages above the minimum required by national law and did not record any work-related accidents, showing employment effects that go beyond simply adding more jobs. The lowest paid worker in the study received USD2 per day, which translates to at least USD44 per month, compared to the national minimum wage rate of ZWL550 per month (approximately USD30).

E. The two studies showed very different gender effects and raise the question about mechanisms to achieve more balanced gender outcomes.

i. Tanzania: 97% of the fixed-term employees in ETG processing plants were women who reported not having a formal education. This was different for the permanent workforce which consisted of just 16% women and who had higher levels of education. At the farm level, the wages for the tasks undertaken by men (related to pest control) were double compared to the wages paid to women for the tasks they carried out which were deemed less skilled. However, female hired labour per acre was two times that of men and participation of female family labour was also double.

ii. Zimbabwe: the commercial farmer assessed for the study reported that only male workers were hired for the new permanent jobs created, whereas only women were hired for the seasonal jobs. The main reason given was that these jobs were related to activities requiring physical strength.

F. The financing structure and the extent to which it is adapted to the national context and legislation by local partners can strongly influence employment-related aspects and other impacts of an investment.

i. Tanzania: the specific set-up of government controlling the cashew nut supply chain creates a very particular context for all supply chain actors. Positive outcomes are better prices paid to smallholder farmers improving household income, linkages to smallholder farmers to the cooperative movement and traceability of the raw cashew nuts through the system created. Nevertheless, farmers have constraints in accessing inputs through the AMCOS and they do not always realize the benefits of being part of

a cooperative. The AMCOS themselves face several challenges (e.g. mismanagement and misappropriation of funds, changing government policies, inadequate information flow) that have led to weak entities ultimately not being able to fulfil their potential. As a result, farmers have limited access to extension services, inputs and credit, which limit their capacity to increase production and productivity. Such activities could be supported by alternative mechanisms, including companies like ETG, who would be interested and could play a key role. Currently, ETG and hence its financiers like AATIF, have limited direct impact options in the production of cashew nuts in Tanzania.

ii. Zimbabwe: the specific financing structures had multiple effects. First, by engaging with an impact investment fund focused on agriculture, BancABC had to expand its agricultural portfolio and look for innovative ways of deploying additional resources, while applying Social and Environmental considerations in the process. This led the bank to establish, among others, the partnership with PHI. A second consequence of the financing structure happened at the level of the partnership with PHI: by working together with PHI on the design of the loan (including its guarantees) and by recognizing the joint venture agreements between outgrowers and resettled farmers, BancABC provided access to finance to outgrowers who would otherwise not have resources to invest in their operations, including expansion and upskilling of their workforce. Finally, the type of financing provided also impacted the ultimate borrower: the outgrower stated that longer term, capex-oriented loans would allow for more expansion and therefore, more employment. However, even the working capital facility provided already allowed for such impact, by freeing up resources from other sources to be directed to investment on fixed assets (e.g. pivot irrigation).

G. The effects of investments go beyond finance but also result in upgrading of systems within investee companies, including management of labour practices as well as other sustainability aspects.

i. Tanzania: as a result of the engagement with international lenders like AATIF, ETG adopted international good practices in its operations. One example is the development and implementation of occupational safety and health measures. ETG did this through expanding its in-house ETG Management System into which the company include EHS standards, structured procedures to manage social and environmental risks and regular

audit inspections, among others. Employees also receive trainings on food safety management, which is part of ETG's plan of certifying its facilities in the near future. The company has already obtained ISO certifications on OSH and Environmental Management.

ii. Zimbabwe: in addition to the financial benefit arising from accessing AATIF funding, BancABC reported that it improved the bank's Social and Environmental Management System as a whole, which led it to be recognized as the Social and Environmental leader across the economic group (Atlas Mara). This development was triggered by social and environmental management requirements that were integrated in the Facility Agreement and adequately supported by technical assistance provided by AATIF. Moreover, at the farmer level, the study found no accidents related to machinery and equipment operations occurred in 2019. This was a direct consequence of, according to the interviewed farmer, the upskilling of workers resulting from additional financial resources available.

As a **concluding remark**, we see an important aspect emerging from both studies which is relevant to consider in informing the EU's *"(i) expectations and potentially targets with regards to employment outcomes for financing of activities along agricultural value chains through blended investment funds; (ii) indicators and reporting requirements that can be put in place for monitoring and reporting of employment effects; and (iii) how subsequent evaluations and impact assessments can best approach assessing employment effects."* Financing instruments like AATIF might not always have clearly identifiable ring-fencing of projects, especially at the ultimate beneficiary level, and thus the attribution of specific employment impacts to specific sources of capital is challenging or not possible. Therefore, certain assumptions need to be made about the use of the capital provided and its pathways to impacts. As a consequence, employment-related impacts can be measured but proxies – both for direct and indirect effects covering quantitative and qualitative aspects – might be useful alternatives.

Both studies also show us that complementary interventions in value chains, using different support mechanism including technical assistance and measurement backstopping, can complement and enhance the employment-related impacts of financing mechanisms such as AATIF.

