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Why it makes more sense to invest in farmers than in farmland

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Two years since the media spotlight turned on the so-called 'land grab' – whereby agribusiness, investment funds and government agencies acquire farmland in Africa, Latin America and Asia – the debate rages on. And rightly so. Private sector expectations of higher food and commodity prices and government concerns about longer-term food and energy security have made land a more attractive asset. But land is central to livelihoods, culture and identity for millions across the developing world. And large-scale land acquisitions can have lasting repercussions for the future of agriculture, including both agribusiness and family farming. Rather than rushing into land deals, governments and investors should properly consider the wider range of options to invest in agriculture. In many parts of the world, family farmers have proved efficient and dynamic. Working with them can generate healthy returns, avoid the risks associated with land acquisitions, and improve farmers' livelihoods.

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Farmland acquisitions – what are the risks?

Some media reporting has oversimplified what is often a complex reality. Not every acquisition is a 'land grab' – much depends on local context, the terms of the lease, how it was obtained, and local reactions to it. If they are properly structured, genuine agricultural investments by operators with a strong track record can create opportunities for recipient countries and local people, bringing capital, know-how, jobs, market access and infrastructure development.

But large land deals carry big risks. People may lose the land that has supported their livelihoods for generations, with negative impacts on their food security and sense of justice. The jobs created in return may be few, short-lived and low-paid.

When investors do not deliver on their promises, recipient countries bear significant opportunity costs. And the massive scale of some reported land acquisitions raises serious questions as to the likelihood that the deals will translate into viable investments without sustained public subsidies. For example, some recent biofuel projects in Mozambique and Tanzania have folded or been converted to other land uses.

Investors too may lose in the process. While expectations of greater returns from agriculture have attracted new players to the sector, some investors underestimate the challenges of large-scale tropical agriculture and the major political and reputational risks linked to large land acquisitions in poorer countries. The reported failed acquisition of 1.3 million hectares by Daewoo in Madagascar vividly illustrates both types of risk. Some investors hope to reduce political risk by acquiring land in multiple countries; but experience with natural resource investments shows that renegotiation and expropriation tend to happen in waves, often linked to changing world commodity prices.

One source of controversy is how much cultivable land is actually available. It is widely perceived that much fertile land in Africa is unused. But the few existing global studies on land suitability and availability tend to be based on statistics and satellite imagery dating back to the 1990s. There are concerns that these studies do not fully factor in intervening changes such as land degradation, and that they seriously underestimate the land areas used by shifting cultivation and pastoralism. Strong demographic growth in many poorer countries exacerbates competition for land and resources. Water may also be a major constraint, and priority in water use could prove to be a source of conflict.

So healthy scepticism is needed when claims are made about how much land really is 'free' in Africa. In

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practice, most cultivable land is likely to be already used to varying degrees of intensity, or at least claimed by local farmers, herders and gatherers. But the land rights of these people often have no proper legal recognition.

As a result, very large land deals are bound to impact on existing rights, even if the intensity of current resource use is low. Dealing with these situations fairly requires careful weighing of individual and societal interests. But the gap between legality – whereby the government may formally own much if not all the land – and legitimacy – whereby local people feel the land they have used for generations is theirs – exposes local groups to the risk of dispossession and investors to that of local contestation. The fact that many land deals are negotiated behind closed doors and without local consultation compounds these problems, with negative impacts not just for local people, but ultimately also investors and host governments.

Is there an alternative?

Where outside investment is needed to sustain agriculture and improve productivity and livelihoods, business models that support local farmers are more promising than large-scale land acquisitions. In many parts of the world, family farmers have proved to be highly dynamic and responsive to market forces. In Ghana, for example, Kuapa Kokoo – a cooperative of 60,000 cocoa farmers – has run a successful business for over 15 years. It owns 45% of Divine Chocolate Ltd, a chocolate manufacturer and distributor based in the UK, and is now expanding into the US market.

A report published in June by IIED, the Food and Agriculture Organization of the UN (FAO), the International Fund for Agricultural Development (IFAD) and the Swiss Agency for Development and Cooperation (SDC) analyses the many ways in which investors can work with local farmers. Some of these models are well tested, such as contract farming, where local farmers cultivate land with support from the company, which then purchases produce at a guaranteed price. There is also growing experimentation with a wider range of models, such as joint ventures or land leases with local communities. In Mali, for example, the biofuel company Mali Biocarburant SA buys jatropha nuts from the local farmers it supports. The farmers own 20% of the business and sit on the company's board – a strong incentive for them to provide reliable supplies of good-quality nuts.

If properly implemented, these models can offer opportunities for local farmers. Of course, none of them are perfect. Most involve partnerships between players with different negotiating power, resources, information and skills. Also, family farmers are often isolated from one another and the transaction costs of organising meetings and developing joint negotiating positions can be major. And investors may be concerned about the reliability or quality of supplies. Therefore, sustained support to strengthen the capacity of farmer groups is key to making these models work.

In addition, for even the most enlightened business models, the devil is in the detail. Depending on its specific terms, contract farming may be a vehicle for supporting farmers and improving their market access, or an exploitative relationship where farmers effectively provide cheap labour and carry production risks. Similarly, joint ventures with farmers can enable greater local control of the business. But, if inappropriately designed, they can deliver only nominal influence over key decisions, and little or no dividend as profits are siphoned off through transfer pricing.

How to bring about better alternatives

Much recent debate has focused on the proposed international principles for 'responsible agricultural investment'. International guidance can provide investors that want to do the right thing with a useful benchmark. But it is unlikely to reach the bad apples. In the longer term, a solid business case for more inclusive models, effective government regulation, strong farmers' groups, and robust public pressure and oversight are more likely to make an impact on investment patterns and outcomes.

Investors' willingness to work with local farmers as part of their core business, rather than as peripheral corporate responsibility initiatives, is central to success, and makes business sense; agribusinesses with a long track record in Africa have done this for decades. Better articulating this strong business case can help consolidate and expand private sector buy-in.

Government regulation can do a lot to promote more inclusive models. Much experimentation with these models is happening in countries where regulation has created strong incentives for businesses to work with local groups. In South Africa, for example, the land restitution process has started to bite in rural areas. As land changes hands from companies to local people, companies are forced to work with communities to keep their businesses going. Land policy can be used as a lever in other ways too: secure land rights for local farmers would help avoid arbitrary dispossession and give farmers an asset to negotiate with; whereas governments' giving away land virtually for free creates no incentives for investors to explore alternatives to land acquisitions.

Farmers must be in a position to negotiate effectively with government and investors. The experience of a sugarcane growers association in Uganda shows that farmer mobilisation and collective bargaining can make a real difference to the price paid to the farmers, the terms and conditions regulating contract farming, and more generally farmers' voices in the industry. External support and facilitation can also make a big difference.

Finally, governments cannot always be trusted to act in the public interest – vested interests and corruption may stand in the way. So transparency and public oversight of government dealings, and sustained pressure from civil society and farmers' groups are needed to hold governments – and investors – to account. Internationally, this pressure has been mounting over the past couple of years; keeping it up can help make the renewed interest in agriculture work for broad-based sustainable development.

The full report *Making the most of agricultural investment: A survey of business models that provide opportunities for smallholders* can be downloaded at http://www.iied.org/pubs/display.php?o=12566IIED.

The views expressed here are those of the author and do not necessarily reflect the position of the institutions that commissioned the report (FAO, IFAD and SDC).

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