

**Making the most of agricultural  
investment:  
A survey of the range of business  
models that provide opportunities  
for smallholders**

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# The study

- Collaboration between FAO, IFAD, SDC and IIED
- Follows on the “Land grab or development opportunity” report (May 2009) - which documented growing interest in land-based investment, linked to food security concerns and expectations of returns from agriculture linked to food, energy and ag commodity prices
- Agricultural ≠ land-based investment: are there ways to structure agricultural investments in ways that involve smallholders? What are the more inclusive business models?
- Literature review – plenty of literature on some models, far less on others
- Still ongoing – first draft stage

# ‘More inclusive business models’

- Business model: the way in which a profit-making company structures its resources, partnerships and customer relationships to offer a unique value proposition within a market
- Business models are more inclusive if they involve close working partnerships with local landholders and operators, and if they share value among the partners
- This encompasses a wide range of arrangements – some tried and tested, others still isolated pilots
- Eg contract farming, joint ventures, management contracts
- None of them is perfect – here not overview of “best practice”, but survey of possible models, considering their pros and cons, opportunities and constraints, and options for scaling up

# Framework for assessing and comparing business models

- Many possible typologies of business models, various possible criteria for assessing them
- **Economic soundness** key: without it, the project cannot be implemented unless supported by non-market forces
- Focus on: ability of different models to **share value with local groups**

# Framework for assessing and comparing business models – cont'd

Four key aspects to 'sharing value':

- **Ownership:** of the business (equity shares), and of key project assets such as land and processing facilities
- **Voice:** the ability to influence key business decisions, including weight in decision-making, arrangements for review and grievance, and mechanisms for dealing with asymmetries in information access
- **Risk:** including commercial (i.e. production, supply and market) risk, but also wider risks such as political and reputational risks
- **Reward:** the sharing of economic costs and benefits, including price setting and finance arrangements

# Template

Common template to analyse models:

- Brief description
- Prevalence and practice (with case studies in boxes)
- Roles of third parties and of policy support
- Pros and cons, opportunities and challenges
- Future potential and options for scaling up

# The example of contract farming

- Pre-agreed supply agreements between farmers and buyers.
- Great diversity - from highly centralised models to nucleus estate model through to multipartite models
- Usually, local farmers grow and deliver agricultural produce for specified quantity and quality at an agreed date.
- In exchange, the company provides upfront inputs, such as credit, seeds, fertilisers, pesticides and technical advice; and agrees to buy the produce supplied, usually at a specified price.

# Contract farming (2)

- **Ownership.** Business owned by the company, though joint ventures possible; land rights usually remain with smallholders
- **Voice.** Business decisions taken by the company, negotiating power of smallholders varies depending on model
- **Risk.** Smallholders bear production risks linked to weather, pests and other factors affecting harvest. Clear commitments for the company to purchase produce at guaranteed prices shift market risk from smallholders to the company
- **Returns.** Mainly determined by the purchase price for agricultural produce, but also by the terms and conditions for input supply from the company. Depending on negotiating power, contract farming can be favourable to smallholders, or exploitative arrangements where smallholders are effectively wageworkers but carry production risks

# Pros

- Enables companies to ensure regularity and quality of supplies without taking on the commercial and political risks associated with acquiring land
- For high value, labour-intensive crops, contract farming may promote efficiency in farming, compared to plantations
- Enables farmers to gain access to credit, seeds, know-how. Procuring inputs through the company may generate economies of scale that may be passed through to the farmers
- Can help smallholders gain access to more lucrative but remote markets for high-value crops, and reduces market risk and hence increases income stability for farmers
- Smallholders may also develop management skills

# Cons

- Negotiating power key - smallholders may not be able to secure a favourable deal. Where scheme accounts for large share of farmers' income or company is only purchaser, monopsony undermines local negotiating power
- May be difficult to enforce - farmers may sell produce on the open market if market prices rise above contract prices; limited remedies against a company not honouring its purchase commitments when market conditions change
- For the company, some supply risk may remain, eg insufficient or inconsistent quality and quantity, default by growers
- Transaction costs may be high, particularly with large numbers of farmers
- Where the company advances credit and deducts payments from purchase prices, risk of indebtedness
- Poorly defined delivery schedules or quality standards may enable manipulation by the company or its employees

- Despite widespread perceptions, not land-neutral
- No direct land acquisitions, but changes in land access may still occur in the longer term
- Local elites better able to seize opportunities created by ag intensification and commercialisation
- Cash crops controlled by men may encroach upon lands previously used by women for food crops

# Some preliminary conclusions – still work in progress

No single model emerges as the best possible option for smallholders in all circumstances:

- models are often used in conjunction and a wide range of hybrids are possible (eg contract farming + joint venture + management contracts)
- devil's in the detail – all depends on specific terms
- no single model fit for all purposes – but most well suited for labour-intensive crops, eg fruit and vegetables and some tree crops

But secure local land rights key in all models

## Three areas for possible next steps

### 1. Improving understanding of more inclusive business models

- The detailed structure of individual business models, particularly their exact contractual arrangements and economic and financial structure
- Issues of process - how a particular business model came to be chosen compared with alternative options, what conditions made the operation of that business model possible, what factors constrained it and how they were addressed by the company and smallholders
- Socio-economic outcomes - the actual impacts of alternative business models on local livelihoods, incomes and empowerment

## 2. How to develop policies and programmes at national and local levels

- Support to smallholders in their dealings with agribusiness can make a real difference
- Government action key but simplistic policies (eg a general requirement that all agricultural investments include a fixed percentage of contract farming) are particularly vulnerable to box-ticking exercises
- More effective interventions push for the progressive improvement of more equitable models, incl eg increasing the set of options, providing sensible regulation and flexible model contracts where relevant, establishing mechanisms to support smallholders in their dealings with agribusiness
- Development agencies and other groups (e.g. legal services organisations) can play an important role

### 3. Action at the international level

- Ongoing discussions about a possible code of conduct or set of principles on agricultural investments
- Much attention on minimising negative impacts of large-scale land acquisitions
- But international guidance should go beyond - to promote models that maximise opportunities for smallholders
- Given major power asymmetries, international agencies can help by strengthening the capacity of host governments and smallholders to negotiate and manage deals with agribusiness