Land Policy BULLETIN

LEGEND
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Inclusive business and agriculture: what are we learning from the field?

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Business interest in agricultural investment in low and middle-income countries keeps growing. At the same time, more governments seek to attract foreign investment to promote economic development. But concerns that land-based investments might displace small-scale producers or fail to bring benefits to communities have raised questions about how to structure businesses in inclusive ways to promote equitable and sustainable development in rural areas.

There is little international consensus around what inclusiveness means in agribusiness and how to promote it in practice. Partly reflecting diverse visions of agricultural development, there are many views on the parameters of inclusiveness, key actors' roles and responsibilities and how to move forward. Nor is there consensus on the land governance implications of inclusive business. Insofar as promoting more inclusive business requires collaboration among diverse stakeholders, this lack of consensus can undermine efforts to constructively explore options for both policy and practice.

This issue distils lessons from a sugarcane cooperative in Malawi and a forestry investment scheme in Sierra Leone, which both draw on the five pillars of inclusive business.

LEGEND's latest **'State of the debate'** report on land governance and inclusive business in agriculture, discussed in this Bulletin, aims to address this gap. It identifies five pillars for inclusive business in agriculture: voice and representation; inclusive and fair value chain relations; respect for land rights and inclusive tenure arrangements; employment creation and respect for labour rights; and contribution to food security. By reflecting the types of relationship that agribusinesses forge with value chain actors and other stakeholders, these pillars provide a framework for assessing and enhancing inclusiveness in any value chain.

In this issue, we also distil lessons from two inclusive business experiences: the Phata sugarcane cooperative in Malawi, a community-led business where local farmers supply a nearby sugar mill; and Miro Forestry, an investment scheme in Sierra Leone based on local consent and benefit sharing. Despite their different business models and tenure arrangements, both schemes rely on most of the five pillars of inclusive business. Enabling investments – such as financial support from aid programming and development finance institutions, and service provision from an external management company in the case of Phata – helped make these experiences possible.

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New LEGEND report advances the debate on inclusive business

Philippine Sutz

'Land Governance and Inclusive Business in Agriculture: Advancing the Debate', which was recently published as part of LEGEND's **knowledge portfolio**, reviews the current global debate on inclusiveness in agricultural investments.

Studies that research or evaluate inclusiveness tend to focus on business models and often contrast collaborative arrangements between small-scale producers and agribusinesses with the risks inherent in largescale plantations. Yet business practices can vary greatly within the same model and lead to different outcomes. Ill-designed collaborative models can establish unfair relations, involve coerced participation, create dependence on one buyer or push disproportionate risk onto smallholders.

A cross-cutting approach that explores the main features of value chain relationships allows for more nuanced recommendations on how to enhance inclusiveness in agriculture.

The LEGEND report argues that taking a cross-cutting approach that explores the main features of value chain relationships enables the evaluation of inclusiveness within each business. This then allows for more nuanced recommendations on how to enhance inclusiveness. Its review of stakeholder perspectives on inclusive business finds agreement on some key features of inclusiveness, but also divergence on what those features mean in practice, on levels of ambition and ways to deliver change.

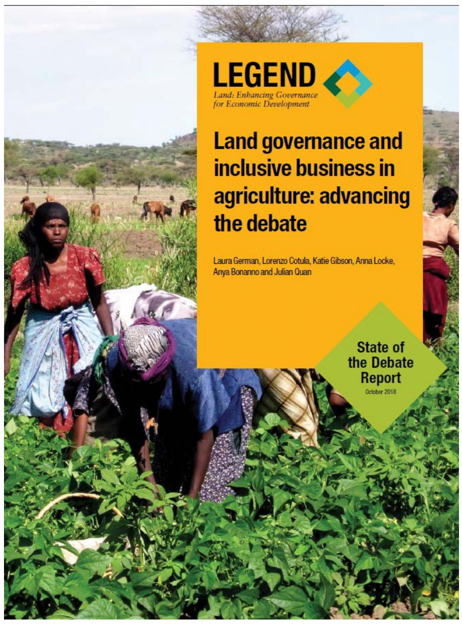
Five 'pillars' of inclusive business in agriculture emerged from the review, providing a framework for assessing and enhancing inclusiveness:

1. Effective arrangements for voice and representation;
2. Inclusive and fair value chain relations;
3. Respect for land rights and inclusive tenure arrangements;
4. Employment creation and respect for labour rights; and
5. Contribution to food security.

The five pillars provide a framework for assessing and enhancing inclusiveness. But trade-offs can arise between the pillars. For example, while large plantations can generate formal sector jobs, they can also pose high risks for land rights and food security. And depending on how they are managed, these trade-offs can undermine inclusiveness. There is widespread support for the notion that, when a business is established through land rights violations, the fact that it creates jobs alone does not make it 'inclusive'.

Using the five pillars to evaluate evidence on the inclusiveness of selected value chains, the report finds that crop characteristics and wider market trends affect inherent opportunities and challenges for enhancing inclusiveness in different value chains. So interventions to enhance inclusiveness need to address the real-world structural factors that influence value chain relations. Evidence also shows that effective public action can make a difference in promoting inclusiveness in each commodity sector and geographic context.

Land governance is central to inclusiveness and has a bearing on each of the five pillars. Where rural people have secure control over land and resources, businesses have greater incentives to work with them. Supporting value chain relations where small-scale rural producers retain control over land is an important part of building institutional frameworks to stop relying on the goodwill of individual companies and make inclusiveness the preferred business choice.



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Phata: from community-led project to profit-making sugarcane cooperative

Philippine Sutz

Phata, a sugarcane cooperative in southern Malawi's Shire Valley, has made a profit every year since its first harvest in 2013, producing above-average yields of over 100 tonnes of cane per hectare. **A recent independent case study** found that the cooperative has helped enrich lives locally, providing regular, reliable income and employment for its 1,103 members and 603 employees and positively affecting the wider local economy in the Chikwawa district. Phata members receive annual dividends based on the size of land they contribute and can receive additional monthly wages as paid plantation employees.

The development phase

The cooperative was created in 2012 when, inspired by the neighbouring Kasanthula cooperative, local farmers decided to plant sugarcane to deliver to the nearby Illovo mill. They approached Agricane – an agricultural engineering and professional management company operating nearby – to envision how to make the most of their land.

In the first year, the average cooperative member received USD 650 in dividends, over twice Malawi's per capita GDP.

Agricane advised them to set up a cooperative and helped them identify a European Union (EU) grant to develop their land for sugarcane farming. The grant required an additional contribution, which they eventually got as a capital loan from not-for-profit investor AgDevCo. With the money secured, community members decided to develop 300 hectares of land as a sugarcane plantation under centre pivot irrigation, setting aside 10 hectares for collective food crops to ensure local food security. The EU grant and AgDevCo loan enabled the cooperative to build largescale irrigation, and the first sugarcane harvest took place in August 2013.

Upscaling

From the first harvest, yields have been consistently high, leading to sustained revenues and profits for the cooperative and its members.

The board agreed to pay out 60 per cent of profits as dividends while keeping 40 per cent to cover operational expenses, repay the capital loan and start building a reserve fund for future investments. According to the case study, the average cooperative member received USD 650 (around GBP 515) in the first year, over twice Malawi's per capita GDP.

Due to these strong financial results and management, the

cooperative repaid the AgDevCo loan ahead of schedule. As a result, the board agreed to increase the initial members' dividends to 70 per cent in 2018. The success of this first phase led Phata to develop a proposal to replicate the scheme in a second phase.

The roles played by Agricane and AgDevCo were instrumental to the cooperative's success. Both provided initial support with field development and infrastructure. Agricane was also engaged as a technical and administrative partner, managing the cooperative. Both gave the cooperative management ongoing technical support and capacity building on:

- Developing a community-led constitution and governing structure;
- Running training courses on agronomic practices and business understanding;
- Securing grant funding for diversification initiatives;
- Requiring cooperative members to work on the farm at least once a week to reinforce skills learning and ownership; and
- Developing a detailed financial model and cropping plan.

The case study identifies the following as key to the cooperative's success:

- **Being demand-led**: The farmers came up with the idea after seeing a successful nearby cooperative. The scheme involved local authorities – chiefs, village heads and local government – early on.
- **A third-party expert management company**: Agricane brought expertise in crop types and farm project management, and the contract between them and the farmers was fair to all parties.
- **Access to a reliable market**: A 25-year offtake agreement from Illovo to buy sugar from the cooperative helped it cover the full period of debt facility.
- **Prudent financial management**: Phata kept 40 per cent of profits in reserves for future investments and paid dividends after profits were in, rather than making forecasts.
- **A community-created constitution**: Developing its own constitution over two years and including the whole community in the process offered multiple opportunities to discuss and vote on specific issues.
- **Independent board members**: Phata ensured independence of its board members by recruiting from outside the local area. Cooperative members voted on the final candidates in a transparent recruitment process.
- **Ongoing capacity building and engagement**: Phata invested in an extension team who offered members agricultural and general business training. This helped wider members understand why decisions are made. Training on financial understanding and farming as a business means members do not borrow money unnecessarily. Management anticipates the difficulties that lie ahead, appreciating that a successful business is an ongoing process that requires regular adjustments, not a one-off effort.

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Miro Forestry Sierra Leone: community engagement and inclusive tenure arrangements

Peter Rowan, Policy and Programme Officer, DFID, and **Stephanie Doig**, Director of Environmental, Health, Safety and Social Development, Miro Forestry

Miro Forestry Sierra Leone (MFSL) is a sustainable forestry and timber products business and a **CDC** investee. Between 2012 and 2017, it established over 4,100 hectares of commercial plantations in Sierra Leone to produce timber products for export and the domestic market. Central to MFSL's success are inclusive and fair value chain relations and inclusive tenure arrangements – two of the pillars of inclusive business identified in LEGEND's 'State of the debate' report.

To ensure inclusiveness of its business, MFSL directly engages with local communities from the start and develops leasing arrangements that directly benefit local landowners. Now the plantation is up and running, MFSL also provides community benefits – such as annual scholarships for over 500 children, community boreholes and over 600 jobs for local people who each support an average family of six – and invests 5 per cent of its revenue in a fund for community-led development projects.

To ensure inclusive business, Miro Forestry directly engages with local communities from the start and develops leasing arrangements that directly benefit local landowners.

Working in a country with little government capacity to support largescale, long-term leases, MFSL managed its own process to develop leasing arrangements. In the past,

companies had signed land deals directly with local government without community consultation, leading to dissatisfaction, resentment and conflict. To address this risk, MFSL identified approaches to facilitate bottom-up engagement with communities.

Lawyer-reviewed draft versions of proposed leases were translated in the local language and shared with communities as a basis for negotiation. A community-led acquisition process followed, using participatory mapping to identify community land use such as sacred sites and water points. This enabled MFSL to exclude areas of cultural or economic importance from the lease. The mapping team engaged with all stakeholders, including vulnerable groups and religious and cultural leaders. They also trained some community representatives in GPS mapping to support the team. MFSL has conducted participatory mapping with around 50 communities.

The company drew up final leases and paid for a lawyer chosen by the landowners to explain these to them. The leases were directly beneficial to local landowners, who received 80 per cent of the leasing fee and more for each hectare developed. MFSL also rolled out an extensive grievance mechanism and stakeholder engagement plan, which have been paramount in ensuring all voices are heard and discontentment is quickly resolved. Like Malawi's Phata scheme, MFSL has emphasised ongoing engagement with communities by setting up regular meetings with landowner committees. Keeping all parties informed on the company's progress has been key to the scheme's success.

MFSL's approach shows how well-planned, effective community engagement builds positive investor-community relations, avoids land conflict and maintains a stable and profitable business. Its method of working with community members from the bottom up ensures long-term engagement, maintaining strong relations throughout the project.

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Page 2: Man tilling with tractor. Credit: Maxpixel
Page 3: Irrigated sugarcane in the Phata plantation. Credit: AgDevCo
Page 4: Miro nursery, Sierra Leone. Credit: Miro Forestry Developments Ltd

About us

Land: Enhancing Governance for Economic Development (LEGEND) is a DFID programme that aims to improve land rights protection, knowledge and information, and the quality of private sector investment in DFID priority countries. It includes the development and start-up of new DFID country land programmes, alongside knowledge management activities, a challenge fund to support land governance innovations, and management of complementary DFID grants, MoUs and contracts, and supported by a Core Land Support Team.

Future issues of this bulletin will feature updates on our most interesting findings and results, keeping you posted and enriching the debate. Contributions reflect their authors' views, not those of DFID or members of the LEGEND Core Land Support Team.

You can send suggestions and comments on this bulletin to **legend@odi.org.uk**

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