

Large-scale Commercial Agriculture in Africa: Lessons from the Past

Summary

African agriculture is in a phase of rapid commercialisation. Planners and investors in sub-Saharan Africa urgently need to consider how the choice of business model, the local context and the political environment affect outcomes of commercial ventures. A review of past experiences with three commercial farming models reveals the conditions that have provided the most stable environment for investors but also protected the most vulnerable in society and created the best chance for technology transfer and local economic linkages. These lessons from history have contemporary relevance.

Introduction

There is a buzz around African agriculture, with agricultural foreign direct investment rising,¹ governments pledging public spending under the Comprehensive Africa Agriculture Development Programme (CAADP), and significant donors such as the Bill and Melinda Gates Foundation increasing their footprint in the sector. African agriculture is now seen as

an investment destination and a channel for tackling food insecurity and poverty.

This heightened interest creates a need and an opportunity to direct finance in the right way. Without careful planning, the potential benefits of agricultural investment for African farmers could be lost. Already, many recent large-scale commercial investments have failed to deliver on promises or even to become operational.^{2,3} Historically, commercial farming in sub-Saharan Africa has been characterised by instability, change and unexpected outcomes. Conditions that can make or break schemes must be considered and incorporated into planning for future investments.

Based on a review of literature on commercial agricultural schemes since the early twentieth century,⁴ this policy brief presents conditions that have historically created the most positive results from three farming models in Africa: plantations; contract farming, including nucleus–outgrower schemes; and commercial farming areas.⁵ The results are judged against four criteria:

- Stability and financial sustainability of the venture;
- Smallholder inclusion;
- Local economic and agricultural development;
- Protection of workers' and land users' rights.

What history shows

Local context and political economy are as important as project design or business model in determining the outcomes of a commercial farming venture. This interplay of factors increases investment risk and causes ventures to evolve in unexpected ways. For example, plantations have suffered labour shortages after rival employers emerged; large-scale farms are vulnerable to local land grievances. Therefore, despite receiving support from states and donors, many private commercial ventures struggle financially, leading operators to pull out or change strategy. This matters because, as well as affecting investors, changes in business strategy due to external pressures often negatively affect local people. This section discusses three key factors that determine outcomes of commercial agriculture: the business model, the local context and the involvement of third parties as part of the wider political economy.

1. What is the best business model?

All three models create jobs – including contract farming, whose participants often hire labourers. Conditions for agricultural workers are generally poor. But the wages and services offered by unregulated local farmers are sometimes worse than those offered by modern horticultural estates and multinational plantations. For workers on plantations and

large commercial farms, employers have a tendency to shift to casual or seasonal contracts over time, but workers on permanent contracts typically enjoy more benefits, greater security and better pay. Outcomes are also better if agricultural workers have access to farm plots to grow crops for subsistence and sale.

Decent agricultural employment can provide valuable seasonal income for local people and migrants, and a refuge for landless, wage-dependent women. In some cases, workers have gained skills and used their earnings to acquire land and become independent farmers. More often, however, workers cannot accumulate enough savings or skills for meaningful labour mobility. History suggests that jobs created by commercial agriculture are not numerous, skilled or well paid enough to achieve wholesale rural transformation and poverty alleviation.

Establishing plantations and large farms or farming blocks typically involves acquisition of land and related resources that have been – or could be – used by local people. Therefore rehabilitating existing sites, such as state farms, may be a better option. While it can still occur, dispossession is less likely with contract farming as participants already own the land on which crops are grown. The land at most risk of dispossession through commercial agriculture is:

- Communal farming or grazing land;
- Seasonal grazing lands and livestock corridors;
- Farms owned by the poorest members of society;
- Farmland and forests used by women, ethnic minorities and newcomers to an area, who

tend to be in the weakest position to resist elite or investor takeover.

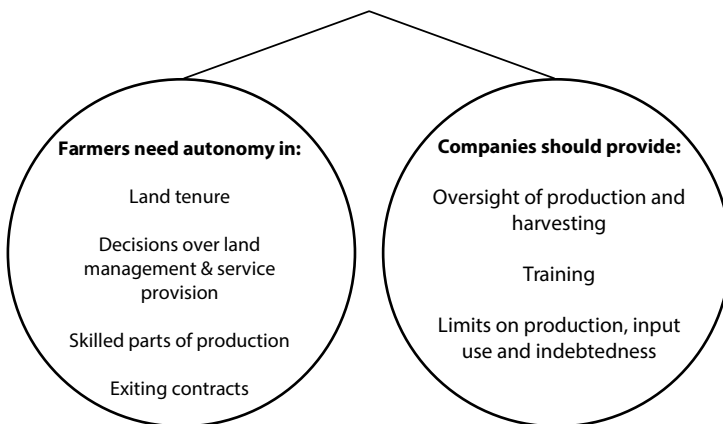
With good design, negative impacts of ventures on local people's land access can be lessened. For example, in Nigeria, settler farmers joining a farming block agreed to allow local people to cultivate as-yet unused areas (although smallholders and pastoralists still experienced dispossession).⁶

When it comes to impacts on the wider economy, contract farming has been suggested as a good model for creating economic linkages and technology transfer. Participating farmers may, indeed, earn a good income (although deductions and debts can eat into this), which is then spent – creating expenditure linkages –or re-invested in agriculture. However, when the contracting firm has a monopsony over marketing and a monopoly over service provision, this tends to exclude local businesses and non-participating farmers from possible benefits in the value chain, and creates few chances for participating farmers to gain technical skills.

Furthermore, many companies prefer working with larger producers rather than smallholders to reduce costs and/or risks. The smallest farmers are often excluded by implicit or explicit entry barriers, and can become marginalised while scheme participants benefit from the cash-crop income and access to credit, extension and inputs. By failing to reach the neediest farmers, contract farming ventures risk missing poverty reduction and inclusion goals.

The best contract farming schemes balance farmer autonomy in some areas with company control in others (see figure below). Lessons can be learned from cases where skills development has taken place, such as Ugandan farmers processing harvested coffee themselves,⁷ and Madagascan participants learning about weeding and inputs from the firm's extension officers and applying that knowledge to other crops.⁸ In particular, it is extremely helpful when the scheme places limits on production (in terms of acreage or volume), input use and indebtedness. This guards against expansion of the contracted crop at the expense of local food production, discourages indebtedness and dependence on expensive inputs, and helps

Balancing farmer autonomy with company control



to create more inclusive schemes with lower barriers to entry.

Like contract farming, large plantations and commercial farming areas can generate modest expenditure linkages through the spending patterns of farm-owners and workers. But whereas some plantations form virtual enclaves with few business opportunities, commercial farms seem to create more up- and down-stream linkages – perhaps because they are not so closely tied to procuring services, machinery and inputs from overseas partners, and because they often produce food crops that are already marketed locally rather than new cash crops. In central Ghana, the establishment of two state farms in the 1960s, followed by several large private farms in the 1970s, prompted some local farmers to start using tractors and fertiliser and to increase their yam and maize production.⁹ The potential for local agricultural development seems to be greater with commercial farming areas than with plantations or monopolistic contract farming ventures.

2. Which local conditions are favourable?

The character of the area where an agricultural development is located will affect its stability and outcomes. Although investments are often purposely located in remote, underdeveloped areas, it is better for local people if they already have experience of commercial agriculture and if alternative income-earning opportunities are available.

The way land is acquired affects the long-term stability of the project. If farmland is acquired unfairly or is not used well, it encourages squatting, resistance and political opposition. After the initial land acquisition, further local-level dynamics of land speculation and concentration are likely, including new farmers

coming to the area to benefit from infrastructure and marketing opportunities, or poorer, indebted farmers selling their land to others.

Three conditions of the local context mitigate land-related impacts:

- A low level of inequality in land ownership among local people;
- Surplus land, which gives livestock herders, squatters and other poor farmers options if plantations and prosperous farmers expand;
- Strong and democratic village-level institutions, to represent villagers' interests and guard against dispossession.

Commercial agriculture can catalyse agrarian society, and as new institutions emerge there will be winners and losers. People most likely to lose out are those who lack voice or influential contacts, such as in-migrants with weak claims to land or young men whose land claims and inclusion in consultations can be overridden by elders. Women are disproportionately vulnerable to negative impacts of commercial agricultural ventures, especially:

- Women with few assets and weak land tenure, such as widows;
- Women who have little bargaining power within households;
- Women who rely on communal or usufruct resource access for cultivation, foraging, fuel-wood and water;
- Women who are pushed into waged labour by poverty and have little recourse to deal with the challenges that female workers often face.

But some women have benefited from the opportunities for paid employment or been able to use the changes brought by commercial agriculture to negotiate new roles for themselves within the household and wider community. Sometimes this is because they have allied with other women to, for example, share work shifts, or because their right to work, unionise, own land or participate in contract farming is valued locally or by the investor.

The nature of the commodity to be produced commercially is also relevant. When these commodities are already produced locally, farmers may have relevant skills and technologies, thus lowering entry and training costs for contract farming schemes and increasing prospects for learning exchange. Local markets for the commodity increase the bargaining power of contract farmers and the likelihood of workers becoming independent farmers after learning skills in the field. If the new commodity can be produced alongside crops that farmers already grow, it improves the prospects for technology transfer and prevents food crops being uprooted. But when the new commodity creates competing priorities for people's time, employers may face labour shortages or contract farmers may not meet productivity targets.

3. How can third parties help?

Third parties, particularly local and national governments, can help ensure the sustainability of commercial ventures and protect the vulnerable. Their interventions can also encourage positive spillovers.

Conditions for plantation workers can be improved by implementing a national minimum

wage or standards for housing. Civil society has been influential in this area. In a recent jatropha plantation development in Ghana, for example, NGO pressure led the company to allow workers to intercrop jatropha with maize and offer free ploughing services.¹⁰

For contract farming, governments and donors have helped farmers access inputs, buy tractors and farm collectively. Farmers' organisations can help by articulating farmers' concerns and increasing their bargaining power, as has happened for small producers in Burkina Faso's cotton sector.¹¹ But farmers' organisations must be democratic – in some cases such organisations merely introduce bureaucracy and corruption. In horticulture, international buyers and certifying bodies have introduced worker safety and child protection standards. However, smallholders may find their stringent quality criteria difficult to meet, which illustrates the difficulty of achieving a balance between control and autonomy in contract farming.

Regarding commercial farming areas, chances of spillover are better when the state encourages local expansion. Governments can provide a supportive environment for local farmers by investing in infrastructure – such as roads, electricity and irrigation – that benefits small as well as larger farmers, and facilitating knowledge transfer. For example, it was a condition of joining the farming block in Nigeria that large-scale farmers give training at an agricultural institute.¹²

Box 1 and 2 suggest the conditions that should provide the most stable environment for investors but also protect the most vulnerable in society and create the best chance for technology transfer and local economic linkages. Note that

BOX 1: Optimal conditions for plantations and commercial farming areas:

- Decent wages (and housing if appropriate) for workers
- Permanent contracts, unionisation and third-party oversight of worker conditions
- Access to farm plots for long-time workers
- Measures to hire and train local people for skilled positions
- Site rehabilitation rather than greenfield development
- Land grievances resolved before commencement, and existing land uses accommodated
- Provision of infrastructure, tractor hire and similar support
- Use of local suppliers
- Measures to facilitate skill and technology transfer to local producers

BOX 2: Optimal conditions for contract farming:

- Clear and well-designed contracts
- Low entry and exit barriers for farmers
- Farmers farm their own land; women farmers may register plots in their own name
- Crop is already grown locally, can be intercropped or fits with the local farming calendar
- Limits on expansion, input use and indebtedness
- Firm provides coordination and participatory training
- Democratic farmers' organisations and effective third-party oversight
- Pro-farmer government intervention to facilitate sustained smallholder inclusion and positive spillovers
- Nucleus estate is small or non-existent
- Use of local suppliers

we are not necessarily endorsing any of these farming models. There may be better options for rural investment.

Recommendations for planning future agricultural investments

1. Early in the planning stage, **undertake a rigorous and independent social impact assessment** before community consultation. This should gather information on: land use, livelihoods and employment alternatives; people's
2. **Plan for instability and change** over the life-cycle of the venture. In particular, planners should consider how a collapse

previous experience in commercial agriculture; which crops are already grown; the availability of farm and grazing land; and relevant local institutions. If the project goes ahead, the gathered information should inform the design of modalities and institutions to protect vulnerable groups and encourage positive outcomes.

2. **Plan for instability and change** over the life-cycle of the venture. In particular, planners should consider how a collapse

of the project might affect workers, local farmers who have adopted new crops and exposed creditors.

3. **Bear in mind the conditions for waged workers.** It is not enough to accept promises that an investment will generate employment. What guarantees can be made of minimum levels of job creation? Will workers have permanent or seasonal contracts? Will they be trained and unionised? Is local surplus labour available or will the project attract migrant workers? What are the local labour demands at different times of the year for both new and existing crops? Companies and third parties may need to develop measures to protect labourers, including those working on smallholdings away from international scrutiny.
4. **Consider possible impacts on food availability,** including food prices. It may help to design limits into contract farming schemes to prevent over-expansion of cash crops at the expense of food production. Planners should consider how farm and plantation workers will achieve food security, particularly in areas with thin food markets or when landless migrant workers will be employed.
5. Get third parties to help **resolve competing interests** inherent to contract farming. If smallholder inclusion is an objective, parties should plan for how companies will bear the transaction costs that can arise from working with many smallholders, and how the poorest smallholders will be protected from indebtedness and exposure to market

volatility. If agricultural development is an objective, parties should plan for how contract farming will allow for independent traders and rivals to emerge or for skills and technologies to spread to non-participating farmers.

6. Governments must **create an environment in which agriculture and related businesses can thrive** beyond the purview of the specific project. This includes identifying local farmers' needs in support of existing production and marketing. Planners should consider how the proposed project, as part of a supportive policy environment, could help to address those needs.
7. Civil society, international donors and policymakers in target export markets should **demand accountability from investors** and ensure that their own interventions do not have negative outcomes. These roleplayers should respond to farmers' and workers' needs, rather than the company's needs. Take steps to prevent corruption at all levels, including within farmers' organisations, and take care when introducing quality criteria that could give companies reason to stop working with certain employees or smallholders.

End Notes

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