

# Alternatives to land acquisitions: Agricultural investment and collaborative business models



Edited by Lorenzo Cotula and Rebeca Leonard



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CENTRO TERRA VIVA  
Estudos e Advocacia Ambiental



# **Alternatives to land acquisitions: Agricultural investment and collaborative business models**

Highlights from an international lesson-sharing  
workshop (Maputo, 17th-18th March 2010)

Edited by Lorenzo Cotula and Rebeca Leonard



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*Cover photo: A couple on their way to work in their field in Phalombe district, Malawi; they are members of a community-based agricultural organisation*

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## ACRONYMS

ACDI/VOCA	Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance
AGM	Annual General Meeting
CFJJ	Centro de Formação Jurídica e Judiciária (Mozambique)
CIRAD	Centre de Coopération Internationale en Recherche Agronomique pour le Développement
CMC	Cocoa Marketing Board (Ghana)
COCOBOD	Cocoa Board (Ghana)
CSA	Cane Supply Agreement (Tanzania)
CSI	Corporate Social Investment (South Africa)
CSR	Corporate Social Responsibility
CTV	Centro Terra Viva, Mozambique
DFID	UK Department for International Development
DNPDR	Direcção Nacional para a Promoção do Desenvolvimento Rural (Mozambique)
EUR	Euro
FAO	Food and Agriculture Organization of the United Nations
FIETA	Forestry Industry Education and Training Authority (South Africa)
FSC	Forest Stewardship Council
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IIED	International Institute for Environment and Development

INR	India Rupee
KIT	Royal Tropical Institute (Netherlands)
LARRRI	Land Rights Research and Resources Institute
MBSA	Mali Biocarburant SA
NASFAM	National Smallholder Farmers Association of Malawi (Malawi)
NBL	Nandan Biomatrix Limited (India)
NGO	Non-Governmental Organisation
PBC	Produce Buying Company (Ghana)
PSOM	Programme for Cooperation with Emerging Markets (Netherlands)
R&D	Research and Development
RDS	Rural Development Strategy (Mozambique)
SDC	Swiss Agency for Development and Cooperation
SUA	Sokoine University of Agriculture
TASGA	Tanzania Sugarcane Growers Association (Tanzania)
TFCA	Chimanimani Transfrontier Conservation Area (Mozambique)
TNRF	Tanzania Natural Resource Forum (Tanzania)
TSPA	Tanzania Sugar Producer Association (Tanzania)
TZS	Tanzania Shilling
UDSM	University of Dar es Salaam
ULSPP	Union Locale des Sociétés Coopératives des Producteurs de Pourghère à Koulikoro (Mali)
UNFFE	Uganda National Farmers Federation (Uganda)
US	United States
USAID	United States Agency for International Development
USD	United States Dollar
WBCSD	World Business Council on Sustainable Development
WWF	World Wide Fund for Nature
ZAR	South Africa Rand

# CONTENTS

<b>1. INTRODUCTION</b> Lorenzo Cotula and Abbi Buxton .....	1
<b>2. FARMER-OWNED BUSINESSES: THE EXPERIENCE OF KUAPA KOKOO IN GHANA</b> Mary Tagoe .....	9
<b>3. MONDI'S "SALE AND LEASEBACK" MODEL IN SOUTH AFRICA</b> Maurice Makhathini .....	19
<b>4. AN EXPERIENCE WITH CONTRACT FARMING IN UGANDA'S SUGAR INDUSTRY</b> Augustine Mwendya .....	33
<b>5. JOINT VENTURE ECOTOURISM BUSINESS IN MOZAMBIQUE</b> Andrew Kingman .....	41
<b>6. A CASE FROM INDIA: THE EXPERIENCE OF NANDAN BIOMATRIX</b> C.S. Jadhav .....	53
<b>7. HOW NASFAM SUPPORTS SMALLHOLDERS IN MALAWI</b> Beatrice Makwenda .....	63
<b>8. A HYBRID BUSINESS MODEL: THE CASE OF SUGARCANE PRODUCERS IN TANZANIA</b> Emmanuel Sulle.....	71





**9. LARGE-SCALE AGRICULTURAL INVESTMENTS IN MADAGASCAR:  
LESSONS FOR MORE “INCLUSIVE” MODELS**  
Rivo Andrianirina-Ratsialonana and André Teyssier .....81

**10. BOLD STEPS AND NEW VOICES: ELEMENTS FOR THE GROWTH OF  
COMMUNITY-INVESTOR PARTNERSHIPS**  
Chris Tanner .....93

**11. CONCLUSION**  
Lorenzo Cotula, Abbi Buxton and Rebeca Leonard .....105

**12. REFERENCES AND ANNEXES .....125**

# 1. INTRODUCTION

Lorenzo Cotula and Abbi Buxton

*International Institute for Environment and  
Development*





## **BACKGROUND AND RATIONALE**

Recent years have witnessed a renewed interest in public and private-sector investment in agriculture. Concerns about longer-term food and energy security and expectations of increasing returns from agriculture underpin much recent agricultural investment. Some have welcomed this trend as a bearer of new livelihood opportunities in lower- and middle-income countries. Others have raised concerns about the possible social impacts, including loss of local rights to land, water and other natural resources; threats to local food security; and, more generally, the risk that large-scale investments may marginalise family farmers. The recent debates about “land grabbing” – the media characterisation of large-scale farmland acquisitions in lower- and middle-income countries – illustrate these trends and positions.

There is great demand for insights on how to structure agricultural investments in ways that do not involve large land acquisitions, that support family farming and that benefit local communities. This demand comes from government and development agencies that seek to promote more equitable forms of investment; from civil society and farmer groups that want to ensure that family farming retains the central place it has in many parts of the world; and from investors that want to find models that make good business, social and environmental sense.

There is growing experience with models for structuring agricultural investments other than large-scale plantations. A wide range of collaborative arrangements between investors, on the one hand, and family farmers and local communities, on the other, include diverse types of contract farming schemes, joint ventures, management contracts, community leases and new supply chain relationships. Learning lessons from this experience can provide useful insights for international policy debates and for the design of new investment projects.

A survey of the evidence from the available literature, which was commissioned by the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and the Swiss Agency for Development and Cooperation (SDC), was a first step in that direction (Vermeulen and Cotula, 2010). But while models like contract farming have been implemented and studied for a long time, many others are more recent and less well documented. In the longer term, there is a need for

in-depth, rigorous research to shed light on what works where, and under what conditions. In the shorter term, however, research efforts are constrained by major obstacles, including difficulties in accessing data and the too recent nature of many projects.

Given this context, creating the space for practitioners to share their own experiences is a valuable start – not necessarily to rigorously compare the economic, social and environmental impacts (positive and negative) of different investment projects, but to provide an understanding of the wide range of models that are possible and some practical insights on how they might work.

## **ABOUT THE WORKSHOP AND THIS PUBLICATION**

It is with this in mind that IFAD, SDC, IIED and Maputo-based Centro Terra Viva (CTV), in partnership with the government of Mozambique's National Directorate for the Promotion of Rural Development (DNPDR), organised an international workshop to share lessons from concrete experience with the use of collaborative business models in agricultural investments. The workshop had two objectives: to facilitate exchange of experiences and lesson-sharing among practitioners; and to generate lessons from local initiatives to be fed into international processes.

The workshop took place in Maputo on the 17th and 18th of March 2010 and brought together around 30 participants, mainly from Africa but also representatives from South Asia. Participants included practitioners from farmers associations and other support groups assisting local farmers in their negotiations with agribusiness; private-sector operators; government officials working to promote more inclusive business models; and observers with first-hand experience in analysing land deals and business models.

The focus was on agriculture defined broadly to include agri-food, biofuels, timber plantations and other agricultural commodities. Experience from other sectors, such as tourism, was included to the extent that they provided insights for agricultural investments.

The workshop provided a forum for participants to share analysis about their respective contexts, the business models they are involved with – their strengths, weaknesses and early impacts – and issues of scalability and replicability. In order to promote lesson- and experience-sharing across a diverse range of participants, the workshop format focused on informal group discussions and debates.

After the workshop, some participants contributed short pieces detailing the experiences and ideas they shared at the workshop. These texts are included here as chapters 2-10. A common template for each of the chapters was agreed at the workshop and closely reflects workshop discussions. Each chapter briefly discusses:

- the local context;
- the key features of the business model, using a conceptual framework developed by Vermeulen and Cotula (2010) and involving four key parameters:
  - “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;
- the pros and cons, strengths and weaknesses of the business model, based on experience so far;
- early results, enabling factors (what made the model possible in that particular context), and constraining factors (what are the pitfalls); and
- key lessons learned, including on scalability and replicability.

The conclusion (chapter 11) captures the highlights of workshop discussions, including experiences that were presented but not written up as chapters. It is hoped that the experiences documented in this report may feed into vigorous

and inclusive debates about the future of agriculture and food security in countries where outside investment is seen as important for improving local livelihoods – by providing governments, farmer groups, private sector and civil society with examples of the wider range of available options beyond large-scale land acquisitions.

## **KEY CONCEPTS AND CAVEATS**

A key concept that underpins this publication is that of collaborative business models. A “business model” is widely understood as the way in which a company structures its resources, partnerships and customer relationships to create, capture and distribute value. The focus in this report is on those elements within the business model that create, capture and distribute value within production and trading relationships – for instance, with purchasers, suppliers or other partners. The examples in this report look particularly at the relationship between agribusiness, on the one hand, and small-scale producers and local communities, on the other.

Within the context of agricultural investments, collaborative business models are those that involve a partnership between an investor, on the one hand, and family farmers and their communities, on the other, and that genuinely share value between the parties. “Family farmers” and “smallholders” are used interchangeably to refer to producers that mainly rely on family labour for their farming activities – while recognising that these expressions tend to obscure local inequalities based on class, gender and other factors (Cousins, 2010). The extent to which different models share value with family farmers and local communities (i.e. the degree of inclusiveness of the models) is assessed on the basis of the “Ownership, Voice, Risk and Reward” framework outlined above.

In other words, the notion of collaborative business models links partnerships between investors and local groups to the very core of a business activity, rather than to corporate social responsibility (CSR) programmes that are peripheral to that activity. Research reports have documented experience with community-investor partnerships on the financing of social infrastructure like schools and clinics (for example, on the “Social Responsibility Agreements” developed in Ghana’s forestry sector, see Ayine, 2008). While these forms of

contractualised CSR may play a role in improving local access to services, the focus here is on partnerships that involve local groups as a key economic actor within an investment's core business model.

Two important caveats are necessary. The first is that the emphasis on partnerships involving agribusiness companies does not imply that family farmers need to partner up with large outside investors in order to succeed. There is plenty of evidence that suggests that, where placed in a condition to work through enabling policies and appropriate infrastructure, small-scale producers are able to farm competitively and seize new market opportunities. Chapter 2 of this report, which discusses the experience of Kuapa Kokoo, a cooperative of cocoa farmers in Ghana that owns 45% of a UK-based chocolate manufacturer and distributor, illustrates this point very effectively. Equally, the focus of the report does not imply that the business models reviewed here are in all cases preferable to plantations.

The second caveat concerns the chapters featured in this report. The strength and limitation of these chapters is that – in most cases – they have been written by those directly involved with implementing the experience documented. This helps provide practical, first-hand insights that would not otherwise be available to the outside observer. It also means that the chapters inevitably reflect the perspective of a particular stakeholder in a given investment project. This approach is in line with the rationale and intention of this report, discussed above – which is to learn practical lessons from a set of concrete experiences and not to showcase or endorse “best practice”.





## **2. FARMER-OWNED BUSINESSES: THE EXPERIENCE OF KUAPA KOKOO IN GHANA**

Mary Tagoe

*Kuapa Kokoo Ltd*





## **INTRODUCTION**

Kuapa Kokoo is a farmer-owned cooperative in Ghana. The cooperative is made up of about 68,000 cocoa farmers. These farmers produce their own cocoa and sell to the Cocoa Marketing Board (CMC), a subsidiary of Ghana Cocoa Board (COCOBOD).

Until 1992, cocoa purchasing was done by only one company owned by the Government of Ghana, called Produce Buying Company (PBC). During this period, the system for buying cocoa from farmers was not effective. Farmers were not paid well and a lot of cocoa was left in the bush. These and other internal problems led to the liberalisation of cocoa purchases within the country. The liberalisation of the internal marketing of cocoa gave opportunities to new companies to be licensed by COCOBOD to buy cocoa from farmers in their respective villages and to sell to CMC for export. The export of cocoa remains controlled by CMC.

Five cocoa farmers led by Nana Abrebrese, a farmer representative on COCOBOD, registered Kuapa Kokoo Ltd as a licensed cocoa company to buy cocoa from farmers. The vision was to organise cocoa farmers to form a union so they could do their own trading. The initiative was supported by Twin, a fair trade producer-owned membership-based body based in London. The organisation of the first farmer groups took about three years. The Kuapa Kokoo Farmers Union was thus established.

Kuapa Kokoo has a unique business model in Ghana. This is partly due to government involvement in the cocoa business and partly because of the farmers' objectives of empowering their members socially, economically and politically. The cooperative tries to ensure the enhanced participation of women and promotes environmentally sustainable production processes.

## **KEY FEATURES OF KUAPA KOKOO'S BUSINESS MODEL**

### **How the business operates**

Individual cocoa farmers produce dried cocoa beans. These farmers either own their lands through inheritance, or they gain access to land through share cropping (whereby the tenant farmer plants cocoa on another person's land and gets 50% share of land as well as the cocoa at the time of the first



Photo: Aubrey Wade/Panos Pictures

*This is my share – Kuapa Kokoo workers split cocoa pods in order to ferment the beans*

harvest – a tenure arrangement known locally as *abunu*); or else they harvest cocoa as care takers (whereby the farmer maintains and harvests a farm owned and planted by another person and gets 30% of the harvest – an arrangement known locally as *abusa*).

Cocoa is sent to the village collecting point, called the “society shed”. There the cocoa is given to an elected official referred to as the “recorder”, who pays the farmer based on the price determined by COCOBOD. At the society shed the recorder weighs, bulks and bags the cocoa into batches of 64 kilos. Kuapa Kokoo vehicles then move cocoa from the villages to be stored at district depots.

At the depot, cocoa is graded and sealed by the Quality Control division of COCOBOD and is then taken to the port for onward exportation. At the port, COCOBOD takes over and issues a “Take Over Certificate” for payment.

A number of Kuapa Kokoo employees are engaged permanently in the trading on behalf of farmers while farmers are busy with their production. The managing director is tasked with the responsibility of making profits and submits quarterly accounts to the board of directors. A department has been created to do research and educate, train, and monitor operations, with the aim of ensuring the development and welfare of farmer groups.

To ensure that farmers get a better price for their cocoa, and with the help of Twin, Kuapa Kokoo registered as a fair trade producer. Under this scheme, the farmers produce high-quality cocoa, and in return they get a premium and a price guarantee from fair trade consumers.

Kuapa Kokoo's desire to increase profits from the sales of its beans to the Western market led it to make an investment in Divine Chocolate Company Ltd. Divine is a UK-based company that manufactures and distributes chocolate. Kuapa Kokoo owns 45% of the shares in Divine Ltd. Following a recent expansion into the US market, Kuapa Kokoo now also owns 33% of the shares in the US branch of Divine. Kuapa Kokoo sits on Divine Chocolate's board and receives dividends.

In 2000, about 8,000 Union members also established another cooperative, the Kuapa Kokoo Credit Union, with support from Twin and the UK Department for International Development (DFID). The Credit Union facilitates access to credit to its members, through "no frills" loans to members and through redeeming members' cocoa farms that have been mortgaged to money lenders.

### **Ownership**

Kuapa Kokoo Farmers Union is a cooperative owned by its members. The Union wholly owns Kuapa Kokoo Ltd, the licensed cocoa buying company that undertakes marketing activities; and Kuapa Kokoo Farmers Trust, the body that manages price premiums paid for fair trade cocoa and channels them into community development projects. As already mentioned, Kuapa Kokoo Farmers Union also holds 45% of the shares in the UK-based chocolate production and marketing company Divine Chocolate Ltd, and 33% of the shares in this company's newly established US branch.

Kuapa Kokoo does not hold rights over land – its members gain access to land through customary ownership or through *abusa* or *abunu* arrangements (see above).

### **Voice**

Through their membership in the cooperative, the Kuapa Kokoo Farmers Union, which in turn owns or controls the other business structures of the group, cocoa farmers have the biggest say in the business and influence management decisions. Five out of the nine board members of Kuapa Kokoo Ltd are cocoa farmers themselves.



Photo: Aubrey Wade/Panos Pictures

*Who said I can't compete? Kuapa Kokoo farmers in Ghana produce cocoa for world markets*

The Farmers Union includes several organs to ensure maximum bottom-up participation. At the grassroots level, Village Societies include members of the cooperative in the village. Members of the society elect a seven-member executive to oversee the day-to-day running of the society. These executives are the President, the Vice President, the Secretary, the Treasurer, the Recorder and two other executive members. Currently there are 1,300 village societies.

The societies in a given “area” (effectively, a district) elect a seven-member executive to form the District Executive Council.<sup>1</sup> Together with the area manager, they form the area management committee that oversees the day-to-day running of the area. There are currently 52 districts within the Farmers Union.

Eleven people from the area executives are elected to the National Executive Council. The members then serve on the boards of Kuapa Kokoo Ltd, Kuapa Kokoo Farmers Union and Kuapa Kokoo Credit Union.

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<sup>1</sup>.Until an amendment to the Kuapa Kokoo constitution that took effect in August 2010, the number of executives was 20.

The Annual Delegates Conference is the highest decision-making body of the Union. Two persons from each society (a man and a woman) attend the Conference. It is here that major policies are approved.

Recent internal reforms have brought about greater decentralisation at the district level. The newly elected President of Kuapa Kokoo Farmers Union is a woman.

### **Risk**

Risks are ultimately borne by the cocoa farmers as they produce cocoa and own Kuapa Kokoo. A “farmers common fund” is used to bear risks like:

- rejection of cocoa at the depot/port;
- delay in payment by COCOBOD;
- inadequate Seed Fund/Capital;
- loss of cocoa in transit; and
- increasing interest on loans.

Kuapa Kokoo Ltd employees who through their negligence lose cocoa or misappropriate funds are however held liable. They may be required to pay for the lost value and dismissed, or their appointment may be terminated.

### **Reward**

Cocoa prices are paid to the farmers. The setting of the price for a bag of cocoa is determined by the COCOBOD at the beginning of each season. But the Farmers Union may choose to top up this price – though it may not choose to pay less. Price premiums linked to fair trade produce are used to support community development projects, and are managed by the Kuapa Kokoo Farmers Trust.

Economic benefits and profits generated by Kuapa Kokoo Ltd go to the Union and its members as represented by their national executives. The farmers approve the use of finances at their Annual Delegates Conference. Based on their financial standing, farmers decide on the amount to pay as bonus per bag. Other incentives to farmers are proposed by the National Executive Council and approved by farmers.



## **STRENGTHS AND WEAKNESSES, CHALLENGES AND ENABLING FACTORS**

Kuapa Kokoo's experience is based on the following strengths:

- well-organised cocoa farmers, grassroots participation;
- reliable farmer groups, increased income for farmers;
- a cost-effective supply chain;
- adoption of new farming techniques;
- a widely recognised case example, and role model for other small scale farmers.

However, the large number of farmers involved in Kuapa Kokoo is ultimately at the root of the following weaknesses:

- high cost of maintaining democratic structures (e.g. elections, participatory decision-making processes);
- high cost of monitoring, difficulty in organising members;
- joint liability of societies in meeting fair trade standards – poor standards by some can have negative impacts for many.

The Kuapa Kokoo Farmer Union has benefitted directly from the business. Benefits include the following:

- community development projects such as the construction of boreholes, schools, sanitary facilities, corn mills and oil mills, among others;
- support to other income-generating activities, including livestock rearing, snail and grasscutter farming, mushroom production;
- periodic training and education tailored to the needs of farmers;
- payment of annual bonuses to farmers;
- improved health services through mobile clinics;
- participatory decision-making giving room for farmers' voices to be heard.

Kuapa Kokoo faces some important challenges, such as:

- low export volume to fair trade markets (on average, about 20% of annual produce);
- high cost of fair trade inspections coupled with increasingly demanding standards, and high cost of membership fees (amounting to EUR 15,000 per year);

- shifting from conventional to organic cocoa to cater for new markets;
- diversification to increase farmers' income, e.g. promoting alternative livelihoods;
- high competition in the cocoa industry.

At its present level of operations, it is believed that the following may help to address the challenges faced by Kuapa:

- selling more fair trade cocoa;
- capitalisation of Kuapa Kokoo Limited;
- strengthening the Kuapa Kokoo Credit Union;
- increasing the loyalty of farmers.

A key factor that has enabled Kuapa Kokoo to be successful in their business is the strong interrelationship among the different Kuapa Kokoo structures and organs:

- the Kuapa Kokoo Farmers Union provides democratic decision-making structures, formulates policy and sees to its implementation;
- the Kuapa Kokoo Farmers Trust promotes equity, transparency and accountability in distribution of fair trade premiums and other income of farmers;
- Kuapa Kokoo Ltd promotes profitability and economic viability through the trading of farmers' cocoa;
- Divine Chocolate provides dividends for economic wellbeing; and
- the Kuapa Kokoo Credit Union supports economic/social wellbeing by encouraging farmers to save, and by providing credit facilities.

## **LESSONS LEARNED**

- Conducive government policies on agriculture and other natural resources are necessary – farmers may then take advantage of such policies to initiate projects. Kuapa Kokoo's experience initiated straight after the liberalisation of the internal marketing of cocoa in Ghana. Yet government involvement in the marketing of cash crops facilitates the marketing of the produce. In the case of Ghana, the Cocoa Marketing Company set up by the Government buys all cocoa from farmers through licensed companies. This enables all cocoa produced each year to be sold out.

- Farmers become very powerful when they are organised, empowered and given the chance to perform; capacity building and sensitisation programmes are necessary for this empowerment process.
- It is helpful to have international partners in the initial stages. This allows the organisation to be able to stand on its own resources later. Over-dependence on foreign aid should not be encouraged, however.
- It is better for farmers to have their own lands and farm for themselves rather than to work for somebody on a farm.

Farmers can take up business opportunities and even invest abroad when they are properly organised. For example, the Kuapa Kokoo Farmers Union is the largest shareholder in Divine Chocolate Ltd, both in the UK and the US, the company that manufactures own-branded chocolate using Kuapa Kokoo cocoa.

This business model can be replicated everywhere in Africa and the world at large, but only if farmers are dedicated.

### **3. MONDI'S "SALE AND LEASEBACK" MODEL IN SOUTH AFRICA**

Maurice Makhathini

*Mondi South Africa Division*





## **INTRODUCTION**

Mondi is an international paper and packaging group with an estimated EUR 6.3 billion revenue whose key operations are in Western Europe, emerging Europe, Russia and South Africa which manufacture packaging paper and converted packaging products. Mondi has operations in 35 countries and about 40,000 employees. The company is fully integrated across the paper and packaging process, from the growing of wood, manufacture of pulp and paper to converting.

The Mondi South Africa Division has a pulp mill at Richards Bay and a paper producing mill in Merebank in Durban. The South Africa division owns and leases about 350,000 hectares of forestry land, of which 245,000 hectares is planted and the balance is comprised of open areas, conservation areas and grassland.

The forestry industry in South Africa comprises corporate companies with a combined market share of about 56%, of which Mondi is one. Individual commercial farmers control about 23% of the industry, followed by government forestry at 14% with the rest being shared between emerging farmers and municipalities. Mondi plantations comprise eucalyptus (77%), pine (12%) and wattle (11%).

## **THE SOUTH AFRICAN LAND RESTITUTION PROCESS**

In South Africa, the Land Restitution Act 22 of 1994 set up the Land Claims Commission and enables communities that were dispossessed of their land after 1913 to claim their land back. The Act allowed land claimants to lodge claims with the Commission and provide proof of dispossession within a four-year window period running up to 1998.

Since 1998, the Commission has been engaged in the process of settling these claims, through access to monetary compensation to the value of the land, restoring the land where feasible, or allocating alternative land equivalent to the area claimed. Many of the urban claims have already been settled, mostly through cash payments, and only now rural claims are being tackled.

The restitution process starts with a community lodging a claim and presenting evidence to the Commission. The Commission then investigates through desk research and site visits to identify land, graves and other evidence of prior settlement. Once the Commission has satisfied itself of the validity of the claim, the current landowner is notified and the claim is gazetted in the Government Gazette.

A process of negotiation then begins involving the claimant community, the Commission, and the landowner. In the case of productive land, any of the parties can propose a settlement model, but government has tended to be sympathetic to models that result in continued production, benefits to the community and minimum loss of skills. Once the landowner and the claimants agree on a model and the government gives its approval, the government commits support grants mainly to empower the claimant community.

It is worth noting that many farmers who held land prior to the Land Restitution Act, particularly those who ran relatively small commercial farms, prefer not to get into partnerships with claimants and tend to simply sell the farm to the government. In these cases, the government transfers ownership of the land to the claimants, and provides a package of support which includes managerial support and empowerment initiatives to enable claimants progressively to take over the management of the farm and keep it profitable.

Realising that about 54% of Mondi-owned land is under claim by about 60 claimant groupings, Mondi set up, in 2008, a land division to deal, inter alia, with land restitution claims and with other rights of communities resident on the land, and to respond to the needs of neighbouring communities.

## **WHY THE “SALE AND LEASEBACK” MODEL: THE KRANSKOP SETTLEMENT**

Once established, the Mondi land division started working on possible settlement models. The design of the models had to take into account specific circumstances of the claims. Factors that were considered and influenced the models included:

Photo: Mondi



*Community representatives sign the deal between Mondi, the Government and the community*

- the appetite of claimants to be resettled on the land;
- the geographic location of claimants;
- the need to continue the business;
- the extent of claimed land;
- the nature of the plantation;
- the needs of claimant communities;
- the historical issues related to the dispossession that have to be dealt with;
- the business capacity and levels of skills and sophistication of the claimant group.

After presentation and government approval of the Mondi models in 2008, it was time to engage the claimant communities to test the models in practice. Subsequent negotiations with communities resulted in modifications of the models. Negotiations can take three or four meetings, depending on a number of factors such as the level of capacity of the community leadership, their real leadership standing in the community, competing power struggles within the community and outside interference with the process. Modifications have included the adjustments to the lease period and frequency of stumpage payments.

The first breakthrough was reached in the landmark Kranskop settlement, which adopted the “sale and leaseback” model. In a nutshell, this model involved the transfer of the land ownership to the claimant communities, the



payment of market price for the land from the South African government to Mondi, and Mondi's leasing of the land from the claimant communities based on a contract between Mondi and the communities. This model was chosen for this settlement because of its ability to respond to the aspirations of the negotiating parties and of the government.

The land at stake in the Kranskop settlement is about 4,000 hectares in total and strategically located in good proximity to the Richards Bay mill. The land has historically been well managed by Mondi, has the correct genus mix and is in good rotation.

The two neighbouring Kranskop claimant communities who reside just outside the forestry land identified in their claim are characterised by high levels of poverty, low levels of education, lack of skills and unemployment. The communities reside on tribal land with no physical or socio-economic infrastructure and a very low income base, within the jurisdiction of a small municipality. The total number of households in the two communities is 450, with 50% of the people under the age of 18. The communities were forcibly relocated from their land in the 1950s without compensation and, as a result, harbour an emotional attachment to the land.

Mondi, on the other hand, has aspirations to continue forestry production on the land in order to respond to the ever-increasing demand for wood by the paper mill in Richards Bay. Mondi became excited about the prospect of increasing the forestry skills pool in the country and expand the forestry footprint in the country. In addition, Mondi saw the real opportunity to practically demonstrate its commitment to empowering the previously disadvantaged, in line with the South African national agenda post 1994.

The national policy framework also created strong incentives for private operators to develop innovative ways to work with local communities. Aside from the land restitution programme, the South African government was, and remains, keen to implement the policy of Black Economic Empowerment. In addition, the government would like to see economic growth coupled with empowerment in the quest to turn around the legacy of apartheid and ensure transformation of the economy.

These are the aspirations and circumstances that informed the choice of the sale and leaseback model, which formed the basis of the historic deal.



*Something to celebrate: community members welcome the signing of the deal*

The Kranskop case became the first forestry land settlement deal in the country, signed in October 2008. Transfer of the land took place early in 2009 with Mondi being paid market value for the land by the government.

## **WHAT THE COMMUNITIES GET IN THE SALE AND LEASEBACK MODEL**

### **Cash benefits: rental and stumpage**

Mondi leases the land from the community for a minimum of two rotations with a five-year notice period. Annual rental was agreed at a percentage of the value of afforestable land and a lower percentage of the value of non-afforestable land. The rental is paid into the Community Trust account of the claimant communities, who then decide on distribution. The annual rental is paid in advance, so the first payment was made seven days after the transfer of the land.

In addition to rental, Mondi pays a stumpage fee, which is a percentage per tonne of wood delivered to the mill. The stumpage is paid quarterly and depends on production in the previous three months. Again payment is made into the claimant communities' Trust account, with the communities deciding on expenditure.

## **Empowerment clauses**

What makes the model an empowerment one is the inclusion of a set of “empowerment clauses” that spell out Mondi’s socio-economic obligations to the communities. These are listed below:

- **Bursary scheme:** Mondi will fund two bursaries per community for students selected by the community who qualify to study for forestry-related university degrees. The bursaries cover tuition, books, accommodation, travel and out-of-pocket expenses. In addition, these students are offered vacation traineeships in Mondi’s operations. On completion of their degrees, they have to serve the community companies for the same number of years they studied; thereafter, Mondi has the right of first refusal to hire them.
- **Assistance in setting up contracting companies:** Mondi will assist the Community Trusts each to set up a trading company, which will be capacitated to contract with Mondi in the forest operations. Each company will be wholly owned by the Trust on behalf of the community.
- **Contracting opportunities:** all contracting opportunities in the forestry value chain are reserved for the community companies, depending on their works capability. The company will start with safer and less hazardous contracts, such as planting, and progressively take on more complicated work like harvesting as their capability grows.
- **Administrative assistance to the Trust:** Mondi will assist the Trusts with administrative matters and legal compliance. This includes compliance with taxation laws and general governance.
- **Local business support:** forestry-related business enterprises initiated by the communities will be supported by Mondi through loan finance, market identification and capacity building. These could be bee-keeping, charcoal manufacture and mushroom growing and picking.
- **Targeted Mondi Corporate Social Investment (CSI) budget for community projects:** a percentage of Mondi’s existing CSI budget will be targeted at community projects that contribute to the communities’ socio-economic wellbeing.



Photo: Mondri

*Running a new business: weed control performed by claimants on their land in Kranskop*

- Institutional advisory services: Mondri will provide, on request, advice to the Community Trusts on development matters including on how optimally to deploy their income for the benefit of the community.
- Assistance with residential development: given the reality of infrastructural deprivation in the areas where the community resides, Mondri will assist by providing professional capacity to package projects for funding by the different levels of government and other funders. This may include housing development, roads, water and sanitation, for instance.

## **KEY FEATURES OF THE BUSINESS MODEL**

### **Ownership**

The communities own the land on which trees are planted, but Mondri retains ownership of the trees. Mondri has a 20-year lease over the land. Land which is unplanted or unsuitable for planting within the forest plantations can be used by the communities for activities such as grazing cattle as long as these activities are in compliance with forestry standards. The communities have an obligation not to disturb the operations in the forests. The forestry business is owned by Mondri who sub-contracts the community-owned companies for tree production operations.

## **Voice**

An executive committee, enshrined in the settlement agreement, on which Mondi, the community trustees and government are represented, is responsible for implementing the settlement agreement and takes medium- and long-term decisions. The Community Trusts, as the landowning entities on behalf of the respective community, take decisions about the land and community development issues – while complying with the lease agreement with Mondi. The Trusts deploy members onto the community company's Board of Directors, which takes decisions about the management of the community business. Decisions concerning the forestry operations are taken by Mondi, whilst government monitors and enforces clauses in the settlement agreement.

## **Risk**

The communities carry the business risk of their company whilst Mondi carries the business risk of the forestry operation. Community business risks could relate to issues of staff competency, supervision and financial management, whilst Mondi risks relate to production. Risks such as fire and forest diseases are shared between Mondi and the communities as these threaten production and therefore the stumpage payment to the communities.

## **Reward**

Rewards to the communities are both qualitative and quantitative. In addition to benefits from the empowerment clauses, the communities derive rental and stumpage income. Mondi extracts the timber for use in the paper mill and negotiates timber prices with the mill.

## **PROGRESS TO DATE**

Since the signing of the settlement agreements in October 2008, Mondi considers that great progress has been made in that:

- The two Trusts are functional and hold regular meetings with an annual general meeting (AGM) every year. Both Trusts have their medium-term business plans and have received and continue to receive training in areas such as institutional governance, land and environmental management and planning. About ZAR 2 million (approximately USD 268,000) in rental and stumpage has accrued to the two communities.

- The two businesses established have to date a combined turnover of ZAR 3 million (approximately USD 402,000), mainly from the silviculture contracts they are performing. Both companies have expanded business beyond forestry, in that they have landed contracts to provide food to contract workers in the larger Mondi operational areas.

About 100 permanent jobs have been created in the silviculture operations. Employees earn above the official minimum wage, in compliance with the country's labour laws. Four students have been given full bursaries by Mondi to study forestry management degrees at the University of Stellenbosch.

Close to ZAR 4 million (approximately USD 536,000) has been spent on training, mentoring and capacity building activities for the community companies and Trusts, mostly funded by the Forestry Industry Education and Training Authority (FIETA).

The Mondi model is being adopted by other companies, with modifications, in the forestry industry and is being applied on non-Mondi claimed land. More importantly, a solid relationship has been built between Mondi, the two communities and the government.

It is hoped that the ultimate outcome will be genuinely empowered communities residing in developed neighbourhoods with a constant flow of income, increased guaranteed jobs, sustainable businesses and a bright future complemented by a growth in the pool of forestry skills and an expanded forestry footprint. Mondi hopes to emerge as a company with an experienced team of development practitioners, and as an example of a good corporate citizen. Benefits to the forestry industry will be access to good practice and an expanded pool of forestry skills.

## **STRENGTHS AND WEAKNESSES**

### **Strengths**

The land claims process starts from a very emotional position where claimant communities feel they are embarking on an epic and sentimental journey to reclaim their land for re-occupation and reverting back to the old lifestyle. However, in the Kranskop case, when the communities realised the economic value and potential benefits at stake, they were persuaded to be part of the

current business operations. The model therefore succeeded in bringing disadvantaged communities into the economic mainstream.

One of the strengths of the model is its ability to identify quality community leadership through the democratic election process of the trustees.

The existence of clear government land-related policies and legislation means that all partners start from an informed basis and an understanding of legislative frameworks of the country. Also, the existence and capacity of support organisations such as FIETA is a major strength of the model. There was never doubt as to where the resources for training in forestry initiatives would come from – FIETA is a state body created with the sole mandate of providing skills training specifically in the forestry sector.

### **Weaknesses**

The complicated arrangements whereby community members are landowners through the Trust, indirectly own the community businesses through the Trust but are also employees of the business has presented challenges.

The arrangement whereby the Trust does not include any non-community representatives means that there is no external advisory input to the community. The involvement of an independent NGO in the Trust could arguably be beneficial.

### **Pitfalls**

One of the pitfalls of this arrangement is that there is a real danger of the Trusts and the community businesses being taken over by local elites, with negative consequences. This is especially so as the business grows and needs more financial and expert input. Nepotism and cronyism are real threats in a situation where the community leadership decides on official positions and job opportunities.

Other communities may, seeing the success of the model, insist on its application where the necessary conditions do not exist. An example is a situation where the claimed land is so small that yields may not be sufficient to support the type of empowerment clauses found in the Kranskop settlement.

There might not be enough capacity from within Mondi and the government to sit on all executive committees and monitor all agreements as further

similar deals are entered into in future. Only nine, or about 20%, of the claims have been settled to date. There might be a need to outsource the monitoring role but this may come with its own challenges.

## **KEY LESSONS LEARNED**

### **Distribution of community benefits**

In the process of putting together and implementing partnership models with community partners, attention needs to be paid to how the benefits will be distributed within the community. It is also important to take into account the needs and aspirations of different community groupings such as women, youth and the elderly. Clear agreement on these issues needs to happen early in the process, and well before benefits actually start flowing. This is more so in the case of monetary benefits, for instance in the form of collective income (rental, stumpage).

### **Negotiating frankly and in good faith**

There is, and always will be, distrust and suspicion of private sector motives by community partners, especially at the beginning of negotiations. It is important to be honest about what is possible and what is not possible, rather than making promises that are impossible to deliver upon. Equally important is to stick to the agreements concluded, to agree to nothing illegal and to never drop operational standards to meet community circumstances – but rather to put every effort to lift communities to the higher standards, however long it takes. For example, it is best to avoid paying higher-than-usual rates to compensate for initial production inefficiencies of a new community company.

### **Owning land versus economic benefits**

Experience has shown that, if properly implemented, benefits such as empowerment, income and employment increasingly become more important than land ownership as such – an observation based on interviews I made with Community Trust members.

### **Turning a threat into an opportunity**

While the land restitution process was initially viewed by landowners in South Africa, including Mondi, as a threat, Mondi now sees that process as a platform and opportunity for continuing operating a commercially viable



business while implementing empowerment initiatives, corporate social responsibility, relationship building and business restructuring.

### **Doing homework on community needs and circumstances**

The assumption was made, when the model was put together and negotiated, that there would be students from the communities who would qualify for university study in forestry – hence the bursary clauses were inserted into the agreement. When it was time to select applicants, it became apparent that this assumption was wrong. Many students selected by the communities had passed the university’s basic matriculation requirements, but did not have mathematics and science as part of their qualifications. This led to the realisation that there was something wrong with the educational system in the province, which did not provide maths and science in certain schools. This necessitated a new focus on the issue of maths and science in Kranskop local schools. Negotiations are under way with authorities on how to introduce maths and science teaching in Kranskop schools. However, as this goes on, greater and deeper challenges are emerging related to the availability of science laboratories and trained teachers. Even though Mondi had conducted research into the communities and their needs through Participatory Rural Appraisal techniques, this exercise did not raise the challenge of poor maths and science teaching at local schools. It is therefore very important to gain a thorough grasp of community conditions and dynamics in order to inform interventions.

### **Success breeds success**

There are always opportunities out there which are not immediately visible at the beginning and which can only emerge and be accessed if success with the initial ones is achieved. In this case, it became possible for the communities to be awarded a contract to feed forestry workers. The catering contract was never anticipated when the model was first negotiated – and in fact at that stage the catering scheme had not been implemented or even conceptualised by Mondi. It was only possible because the community businesses had proved that they can deliver on contracts.

## **4. AN EXPERIENCE WITH CONTRACT FARMING IN UGANDA'S SUGAR INDUSTRY**

Augustine Mwendya

*Uganda National Farmers Federation*





## **INTRODUCTION**

This chapter discusses an outgrower scheme involving the Kinyara Sugar Company Ltd and an association of sugarcane outgrowers. The project is located in Masindi District, in mid-western Uganda. The crop is sugarcane, which is produced by the farmers and bought by the company for milling into cane sugar. The outgrowers supply about 500,000 metric tonnes of sugarcane to the company annually and payments for the cane are made regularly. The processed sugar is sold within the district and in the neighbouring districts, and some of it finds its way to Kampala and Southern Sudan.

## **HOW THE BUSINESS STARTED**

The Kinyara Sugar factory was established by the government of Uganda in the 1970s and was later partly privatised. When the factory was set up, there were no sugarcane outgrowers. The factory operated under capacity, as the land allocated to the company was inadequate to produce enough cane to feed the factory. A few farmers in the vicinity of the factory saw an opportunity to diversify their household incomes and started growing sugarcane and selling it to the factory.

When the company realised the potential that existed with the farmers, it started to spread information and mobilise more farmers to take up sugarcane since a ready market was available. Many farmers embraced the idea.

For some time, farmers produced the cane individually and even marketed it as individuals. There was no specific arrangement to guide the growing and selling of the cane to the company. This frustrated a majority of the farmers, who complained of underpayment – and some even threatened to stop growing sugarcane.

This state of affairs prompted some of the sugarcane growers to initiate the establishment of an association to bring together all the growers. The Kinyara Sugarcane Growers Association was therefore set up and registered as a limited company in 2005. Its main objective was to facilitate negotiations with the management of the Kinyara Sugar Company so as to ensure mutual benefit among the two parties. Other objectives included:

- to promote co-operation between the company and the sugarcane growers;
- to provide a forum for exchange of information and ideas between sugarcane growers and the company management;
- to provide advisory services to sugarcane growers;
- to support, promote, and facilitate member participation in ownership of the sugar mills to further economic benefits.

After the establishment of the outgrower association, its Executive Board sought a meeting with the management of the sugar company. Several meetings were then held to work out the modalities for co-operation between the two parties.

## **THE BUSINESS MODEL**

The Kinyara Sugar Company and the Kinyara Sugarcane Growers Association collaborate on the basis of a contract farming scheme. The company signs contracts with the outgrowers. Through the contracts, the company undertakes to support the growers in production activities, including by providing tractors for the clearing and preparation of land, provision of planting materials and transportation of the cane to the factory. The outgrowers, on the other hand, undertake to sell all their cane to the company, which pays the farmer after recovering its costs incurred in supporting the production process.

Before the outgrowers established the association, the contracts used to be written in terms that favoured the company. These days, the Executive Board of the outgrowers association negotiates with the company management to develop mutually beneficial contracts.

### **Ownership**

The company owns both the processing facilities and the vehicles for transporting the cane. The operating capacity of the processing facility is 3,200 tonnes of sugarcane per day and the factory operates for 11 months in a year (one month a year is for servicing the factory). If the company charges too high transport fees for the cane, the outgrowers are free to organise their own transport.

The land on which the sugarcane is grown is owned by the farmers. The average landholding is 4 hectares, of which 80% is used for sugarcane and about 15% for food crops. The farmers determine at their own discretion the acreage to put to the crop. In addition to buying sugarcane from the farmers,



*Don't just drive away with raw materials: sugarcane processing facility in Uganda*

the company also directly operates a plantation (a “nucleus estate”) of 723 hectares. This land is held by the company. The company may also rent more land from neighbouring landlords if needed.

The company itself is under private management but the government owns 45% of the shares.

### **Voice**

Before the establishment of the outgrower association, each farmer acted individually and the key business decisions were made by the sugar company alone. The farmers had to follow the directives issued by the company management.

Having set up the outgrower association, the farmers can now influence some of the business decisions. They hold regular meetings regarding the sugarcane production, covering issues like tractor hire services, sugarcane price and payment schedules, and supply of planting materials and fertilisers. The Executive Board discusses the outcomes of these meetings with the company management. The Executive Board also holds regular meetings with the company management to discuss issues like the land area to be planted with sugarcane. The company management is willing to hold these discussions with the cane growers, something which did not happen before the association was set up.

Decisions within the Kinyara Sugarcane Growers Association are made democratically. The Executive Board has nine members, including two women.

## **Risk**

Production activities are shared between the parties in that the company provides the tractors to prepare the land and also the planting materials. The farmers look after the crop until it matures and is harvested. After harvest, the company provides trucks to transport the sugar cane from the outgrowers to the factory. Thus the farmers are bound to deliver their produce and the company is bound to get the cane as it is the sole buyer in the district.

Fortunately there has never been any crop failure due to pests, diseases or drought in the history of the business.

The majority of the farmers involved in cane also keep part of their land (about 15%) for subsistence food crops.

## **Reward**

The sugar company assists the outgrowers to meet the initial costs of growing the crop by clearing the land and providing the planting materials and fertilisers. Under the contract, the outgrowers have to supply the cane to the company – there is no other legitimate buyer in the district.

The sugarcane price is based on the prevailing price of sugar and as such it changes over the years. It is 37% of the sugar revenue. Given the method used in determining the sugarcane price, the farmers have no ability to influence it directly. Farmers who feel dissatisfied with the price abandon production and switch to other crops, particularly maize and beans which do very well in the district.

Besides price, the main benefit to the farmers is the services provided to them by the company, while the company takes advantage of the assured cane supply. Through the association, the farmers discuss issues related to the fees for the tractor hire service, cane transport, the planting materials and fertilisers, with the aim of seeking fair treatment. For a given price, these fees do have direct implications for the farmers' income.

The financing arrangement is such that the company recovers the costs of the services provided to the farmers when it buys the cane. In other words, these services are provided on credit. The company charges interest on the loans, which is recovered as an instalment at the end of the crop period. As a result, the farmers complain that the net margin from the first crop is very small.

The farmers are therefore trying to negotiate with the company to stagger the recovery of the credit. Transport charges carry no interest.

In spite of these problems, the fact that a large number of farmers (5,800) is involved in this business suggests that they perceive it to benefit them more than alternative livelihood options.

## **STRENGTHS AND WEAKNESSES**

### **Strengths**

- Farmers get support from the company to produce the sugarcane.
- Farmers have an assured market and are sure of payment for their cane.
- Through the outgrower association, farmers can negotiate better terms for the services offered by the company.
- They can access the market using the transport provided by the company.
- There is a forum for discussing issues pertaining to the business.

### **Weaknesses**

- Lack of any alternative market – the company is the only legitimate buyer in the district.
- The company can inflate the charges for the tractor services, the planting materials and transport.
- If the farmers do not put enough land to sugarcane, the company may have to run the processing facility under capacity.

## **EARLY IMPACTS, ENABLING AND CONSTRAINING FACTORS**

Sugarcane growers in Masindi District are now strong and speak with one voice as an association. Their success has prompted the other outgrowers in Mukono and Busoga regions to form their own associations. In October 2007, this process culminated in the establishment of a national outgrowers association, known as the Uganda National Association of Sugarcane Growers. This national association is now capable of lobbying the government to intervene in the sugarcane industry, including on issues like pricing, fair production and supply contracts, terms of payment, the potential for electricity co-generation, ethanol and financing of farm development. It is worth noting that there is no national guaranteed



minimum price for sugar in Uganda following the liberalisation of the economy in the mid-1990s.

An important enabling factor for this experience was government policy, which allows for free association. This enabled the sugarcane growers to form the association. Also, farmers have secure enough land rights, which allows them to decide how to use the land. Additional land is also available so that farmers can rent land for growing the crop.

The national association is being supported by a donor agency (AGRICORD/IVA), and the Uganda National Farmers Federation (UNFFE) is spearheading efforts to lobby government to formulate a sugar policy.

The main constraining factor is lack of a legal framework that promotes a fair or more inclusive relationship between sugarcane growers and the milling company, which would enable the outgrowers to get a fairer deal without needing to resort to confrontational strategies. The Sugar Policy that is currently being formulated should address most of this problem.

## **KEY LESSONS LEARNED**

- The success of this contract farming scheme substantially depends on the level of organisation of the farmers.
- Easy access to land also contributes to the success of the scheme. Even farmers who may not have adequate land can easily access land to grow the crop on a rental basis (share-cropping is not common in Uganda).
- Support to the farmers in the form of credit strengthens the relationship between the farmers and the company because farmers have no access to credit from financial institutions. The contract farmers therefore consider this a major asset.
- Contract farming facilitates market access for smallholder farmers – which is also highly valued by the growers.
- The willingness on the part of the company to listen to the farmers facilitates the smooth running of business operations.
- Regular meetings between the parties facilitate mutual understanding and harmony.

## **5. JOINT VENTURE ECOTOURISM BUSINESS IN MOZAMBIQUE**

Andrew Kingman

*Eco-MICAIA Limitada*





## INTRODUCTION

Ndzou Camp Limitada is a joint venture company set up by Associação Kubatana Moribane and Eco-MICAIA Limited. The company was established in 2009 in order to develop an ecotourism facility in Moribane Forest, which is part of the Chimanimani Transfrontier Conservation Area (TFCA) in the Manica Province of Mozambique.

The Chimanimani TFCA is one of five transfrontier conservation areas established between Mozambique and her neighbours. The TFCA falls under the management of the Ministry of Tourism of Mozambique. One key aim of the TFCA programme is to enable communities located within both the core conservation area of the TFCA and its buffer zone to benefit from tourism as one suitable and sustainable livelihood strategy. Moribane Forest, a forest reserve first established in 1957, is within the buffer zone of the Chimanimani TFCA. Given its rich biodiversity and natural beauty, Moribane has long been considered as a possible location for a tourism venture.

MICAIA, a grouping of organisations linked by a common mission, consists of an operating foundation, a social enterprise, and a UK-based support group. MICAIA Foundation began working in Moribane in 2008. MICAIA Foundation has the status of “Community Broker” with the Ministry of Tourism – meaning that the Foundation is authorised to assist communities to participate actively in the conservation of the forest but also to benefit from tourism and other activities. The Foundation supported the community of Mpunga (with a population of about 1,200 people), whose traditional land covers an area of 10,000 hectares including most of the Moribane Forest, to establish the Associação Kubatana Moribane. Working with the Association, MICAIA Foundation facilitated learning about tourism and consideration of the possible benefits and risks of developing a tourism venture. The Foundation also helped the community secure the boundaries of its traditional land by facilitating a process of local participation in mapping, zoning and land-use planning, alongside formal involvement of the Government’s local office responsible for land registration.

Throughout the second half of 2008, activities in Moribane were led by the MICAIA Foundation. However, once the community had decided that it wanted to go ahead with a tourism business and to seek funds from the

Ministry of Tourism under the TFCA programme, it was time for the company, Eco-MICAIA Ltd, to get more involved. Eco-MICAIA Ltd exists to create market opportunities for smallholders and communities. As a social enterprise, Eco-MICAIA Ltd seeks to balance social and financial returns. Financial returns to the company are used to support the MICAIA Foundation.

From late 2008 into mid-2009, Eco-MICAIA Ltd (as the more commercially focused MICAIA entity) worked to research and develop a business plan for an ecotourism facility in Moribane Forest. Feasibility studies included market research with Zimbabwean and South African tourists as well as consultation with stakeholders in the province. Architectural plans were drawn up, an Environmental Impact Analysis carried out, and the joint venture company between the Association and Eco-MICAIA Ltd was established. By June 2009, the final version of the Ndzou Camp business plan had been assessed and approved for part-funding under the TFCA programme, though it took until December 2009 for the grant funding contract to be signed.

Construction of Ndzou Camp began in mid-December 2009. When finished, the Camp will have four “*rondavels*” (round houses), two fixed “safari” tents, a three-bedroom family/group lodge, and serviced camping areas as well as a restaurant. Ndzou Camp is due to open in May 2010.

## **DESCRIPTION OF THE BUSINESS MODEL**

### **Key features**

Ndzou Camp Limitada is a joint venture company in which – quite unusually for the tourism sector – the community partner, Associação Kubatana Moribane, is the majority shareholder. MICAIA Foundation’s emerging long-term investment strategy is to base the organisation’s sustainability in part on a portfolio of local mission-focused investments. As one key element of this strategy, it is likely that Eco-MICAIA will retain its stake in the joint venture over the long-term, though its role in organising and overseeing management of the Camp is expected to change. In other words, while MICAIA’s strategy is to build capacity to hand over management to the community, we do plan to retain an equity position in the joint venture.

The business model is based on creating a diverse set of products and services to appeal to a range of markets in the emerging tourism sector in Manica Province. There is a significant emphasis on local procurement, boosting food production for the Camp and visitors, and creating many opportunities such as guiding for local people to boost their household income.

### **Ownership**

As explained above, Ndzou Camp is 60% owned by Associação Kubatana Moribane, with Eco-MICAIA owning the remaining 40%. To secure its 60% equity in Ndzou Camp, the Association was granted USD 205,000 by the Ministry of Tourism. The Ministry funded this grant through resources received from the World Bank. Eco-MICAIA funded its 40% stake through a mix of cash, materials and services – as further discussed below.

The 5.5 hectares of land on which the Camp is built is within the Moribane Forest Reserve. However, with MICAIA Foundation's assistance, Associação Kubatana Moribane was able to secure formal user rights from the government. In effect, the Association was therefore able to contribute the land to the joint venture development. However, the land itself could not be valued as it remains a part of the Forest Reserve and user rights are restricted.

### **Voice**

Under the terms of a 10-year Management Contract signed between Eco-MICAIA Ltd and the Associação Kubatana Moribane, Eco-MICAIA is responsible for day-to-day management of Ndzou Camp. This includes hiring appropriately skilled and experienced staff, arranging training for local people to fill an increasing number of jobs, marketing the Camp and managing reservations, and meeting all legal and financial obligations to government. Eco-MICAIA has recruited an experienced Manager for the Camp (he is from the province and previously managed a small lodge near Caya) and he will be responsible for on-site management under the supervision of Eco-MICAIA's Directors.

The Ndzou Camp Management Committee, consisting of representatives of the Association and of Eco-MICAIA, is responsible for monitoring this Management Contract, based on annually-agreed benchmarks such as targets for visitor numbers, business turnover, and net profit. This Committee is also responsible for taking longer-term, more strategic decisions and has the right

to decide how to use annual profits, striking a balance between distribution and reinvestment. The aim, agreed by Eco-MICAIA and the Association is to reach decisions by consensus rather than by resort to votes based on equity holding. However, in the event of disagreements there is a process involving initial recourse to the Association's general meeting and ultimately to a vote based on equity shares.

### **Risk**

Given that Associação Kubatana Moribane received the money to secure its 60% equity in Ndzou Camp in the form of a grant, the Association's financial risk would, at first sight, seem to be very limited. However, community members consider Ndzou Camp to be of great significance for them: creating local employment opportunities; new markets for local goods; and a source of funds for community development needs. The Camp has become a source of some considerable pride in the community. Should Ndzou Camp fail – and it needs to break even within two years, a serious challenge in a province in which tourism is only now starting to develop – then the community's investment of time, energy and hope will have been wasted.

The Ministry of Tourism carries no direct financial risk in that funds provided to the Association for development of Ndzou Camp are part of a grant from the World Bank. However, the Ministry has given a high profile to Ndzou Camp, partly because it is a highly unusual joint venture in the sector, and partly because it was the first project to go to contract under the Transfrontier Conservation Area programme. Ministerial visits and media coverage mean that Ndzou Camp's progress will be monitored more closely than might ordinarily be the case. At stake is the Ministry's desire to see more explicit and direct benefits from tourism accruing to communities.

The community also bears the risk that, despite the value of the overall investment, the return on that investment is tied entirely to the distribution of annual profits. In the early years of the business, as the area establishes itself as a tourist destination, these profits are likely to be small. In many alternative tourism ventures involving partnerships between communities and investors, the return to the community is either a rent (for land) or (less often) a small percentage of business turnover. In either case, even if the business struggles to make significant profit, the community can be assured of some level of income. On the other hand, if the business is successful, then

the community will gain a greater share of the returns from its equity stake than it would from other models.

Eco-MICAIA's 40% investment was a mix of cash, materials and services. A USD 50,000 low-interest loan was secured from a social investor based in Europe, contributing one part of Eco-MICAIA's financial investment. This loan is repayable over three years and the risk is carried entirely by Eco-MICAIA's Directors. The company also bears the risk of the balance of financial investment (USD 35,000) as well as the contribution of services and materials.

### **Reward**

As 60% shareholder in Ndzou Camp, the Association is entitled to 60% of net profit. This will be paid into a ring-fenced Community Fund within the bank account of the Association. Money will then be available to support community projects as decided by the Association after consultation within the community.

In addition to the 60% of net profit, it is expected that the Association and its members will gain economically from privileged access to visitors to the Camp (for the marketing of crafts, food and other goods and services). Donations to community projects through the Association are also likely and will be encouraged.

Ndzou Camp will generate a small number of full-time jobs for local people but quite a large and growing number of part-time and casual jobs. In particular the roles of guards, cleaning staff, waiting staff and kitchen assistants will all be offered on a part-time basis in order to spread the benefit in the community and ensure there is a sufficient pool of trained people to cope with busy periods in the Camp. Other key opportunities for local people include working as guides and other support staff. In total we expect 30-35 people to be employed in some capacity by the Camp.

Finally, as the Ndzou Camp site also falls inside the newly delimited area of the Mpunga community, and assuming that the government approves the delimitation process, the community will be eligible to receive 20% of any tax paid by Ndzou Camp to the government under Mozambique's Forestry and Wildlife Law of 1999.



## **STRENGTHS AND WEAKNESSES, PROS AND CONS**

The key strengths of the equity model or joint venture lie in the longer-term potential of creating genuine community ownership. The community should not only gain in economic terms, but it should also benefit through empowerment, both as individuals and as a community, as it strengthens social capital. The necessity, if the business is to work, of engaging community leaders in the management and oversight of the business, and of building skills, knowledge and confidence, results in a potentially rich and empowering form of inclusive business.

The key weakness of the approach is the initial gulf in capacity between the partners in relation to the core business. This means that seeking to fulfill the ambition of the joint venture is necessarily a long-term commitment. In the case of MICAIA, partly because of the hybrid nature of the organisation and partly because of its long-term commitment to working in Manica Province, the long-term engagement is assured. However, the model requires securing the involvement over time of a supportive private investor and almost certainly other capable intermediaries.

Another possible weakness referred to above is that the equity model can mean that returns to the investors, including the community, are somewhat slow to materialise. Other than people actually working in the business (around 30 people, many on a part-time basis) or contracted to provide services, the wider community will only benefit from projects funded by income received from the Camp. If this income is very small in the first few years, enthusiasm for the Camp will wane. This could see reduced commitment in the community to maintaining the balance between conservation and extraction in the forest. It could also lead to more problematic relations between the Association and Eco-MICAIA, and at worst could see people proposing to sell the Association's shares in the Camp or to find a new manager. The key to avoiding such problems will be to maintain the active involvement of the Association in all aspects of running the business (including marketing), and to enable people to understand the long-term benefit of owning the business.

## **EARLY IMPACTS, ENABLING AND CONSTRAINING FACTORS**

### **What results/impacts so far**

At the time of writing, Ndzou Camp is yet to open so there are no financial results. However, there has already been noticeable impact in the community, at least amongst those people playing central roles in the Association and the development of the Camp. Increasing levels of confidence are illustrated by members' willingness to challenge processes, and to question MICAIA and others directly if there is something that the Association feels is not working as it should. We have also seen growing engagement in the practical aspects of developing the business; for example, leaders of the Association checking off receipts against the financial report prepared by MICAIA for the Ministry of Tourism, and monitoring deliveries of materials to the contractor.

It would be fair to say that in the early phase of discussions about what was to become Ndzou Camp, many community members were suspicious and doubtful; this was after all a community that had heard many speeches and promises but had seen no follow-up. Gradually, we noted a growing recognition that Ndzou Camp was going to happen, but still little evidence of recognition of community ownership. However, this is now changing too: people wear their Ndzou Camp T-shirts with pride; phrases such as 'when our Camp opens' are heard more often; new voices are being heard, i.e. people in the community who were previously quiet are now offering to speak in meetings; and there is, in general, a greatly increased level of energy in the Association. This represents the less tangible impact of creating a joint venture. The shared ownership and potential dividend is important, but of far greater significance – certainly in the short term – are these signs that people are beginning to believe that they have a stake in something they can shape and be proud of. This is quite distinct from most projects which, however well prepared and planned, are often seen either as the initiative of the NGO/donor/government or as a one-off intervention to address a particular issue in the community.

### **Enabling factors, role of policy and outside support**

Ndzou Camp has been made possible because of two key enabling factors. First, the TFCA programme of the Ministry of Tourism (and the enthusiastic backing of the Provincial Director of Tourism in Manica Province) has enabled the Association to secure the resources to develop a substantial tourism facility

and business. The second enabling factor has been MICAIA's commitment to this model, and its being able to provide expertise and leverage support and financial security. Projects and businesses of this sort are difficult and time-consuming to get off the ground, and few purely private operators will be willing or able to commit to the process or to create a business model in which the community partner has as large a share. Some sort of intermediary is essential and, in this case, MICAIA's combination of operating both a Foundation and a social enterprise proved very effective.

### **Constraining factors**

The principal constraining factor in this equity model is the low initial capacity in the community with regard to the tourism business – its focus, structures and procedures, and operations. This does not mean that there is no business acumen in the community; in fact, several members of the Association including the president are local traders and their experience has been useful in the early stages of the business development. However, tackling this key constraint requires a serious sustained commitment to patiently building skills, knowledge and confidence in the community. This type of capacity building is a process, not an event (or a series of events).

## **KEY LESSONS LEARNED**

As with impact, it is early to draw many lessons from Ndzou Camp. However, one obvious lesson is that any attempt to build an inclusive business in which there is substantial community or producer equity must be backed by extensive initial consultation and continuing capacity building. In the case of Ndzou Camp, MICAIA has been working with the community for nearly two years before the Camp opens.

In the tourism sector in Mozambique and elsewhere there are examples of attempts to build inclusive business models that have struggled because of the challenge of finding willing or suitable private partners. After months and perhaps years of support on an entirely subsidised basis from an NGO, the transition for a community into a business mentality cannot be easy. Similarly, a purely private operator can find it difficult to manage the multiple expectations in the community and amongst other stakeholders.

The hybrid nature of MICAIA, particularly the mix of operating foundation and social enterprise, facilitated a smooth transition between subsidised capacity building, participatory planning and business development and investment. The clear balance between social and financial motivations of Eco-MICAIA also made the company willing to invest in tourism development in an area which, despite its abundant natural beauty and obvious potential, has failed to attract purely private sector tourist operators. Taken together this highlights challenges for replicating genuine shared equity models and taking them to a larger scale.



## **6. A CASE FROM INDIA: THE EXPERIENCE OF NANDAN BIOMATRIX**

C.S. Jadhav

*Nandan Biomatrix Ltd*





## **ABOUT NANDAN BIOMATRIX**

Nandan Biomatrix Limited (NBL) is a company based at Hyderabad, Andhra Pradesh, India. The company offers a wide array of services in sunrise industries like biofuels and nutraceuticals in India as well as in South East Asian countries. NBL has adopted a unique, vertically integrated and yet inclusive business approach to produce and trade in jatropha seed, jatropha oil and other processed jatropha products. Key components of the value chain are research and development (R&D), feedstock development through farmer-centric operational models, production of biodiesel, green power generation and by-product development.

NBL was established 12 years ago. It started operating in nutraceuticals, mainly for the research and commercialisation of medicinal herbs. During the course of this research, jatropha was identified as a potential wonder crop for biofuel production, as it generates good yields in dry and degraded soils and requires minimal care for commercialisation. NBL has adopted the crop for its versatile nature and intended to raise the standards of living of the small and marginal dry land holders and landless labourers.

In India, the market for biodiesel is still in its infancy. With the National Biofuel Policy announced in November 2009, the industry has been set an indicative production target of 16 million metric tons by 2017. The policy provides a framework within which companies can operate. It has also attracted new entrants to the industry and thus made it more healthy and competitive. In addition to business links in India, NBL has strategic associations and partnerships with European companies who are looking out for green fuel options in countries like India.

## **THE BUSINESS MODEL**

### **Overview**

The company's biodiesel business model is vertically integrated. In other words, Nandan takes care of all the key components of the value chain, starting from R&D of jatropha, through to crop cultivation, biodiesel production and by-product development. In this regard, Nandan is a pioneer in India. As far as agricultural production is concerned, NBL operated a range of different models.





Photo: Nandan Biomatrix

*We do our research: Nandan Biomatrix R&D processing facilities at Icrisat*

In Karnataka, Rajasthan and Madhya Pradesh, NBL operates a franchisee model – effectively, a form of contract farming. Franchisees are appointed across the country to assist in the management of contract farming and in buy-back of jatropha seed produce post harvesting. The franchisee is typically a local person from the village or from a local NGO or community-based organisation, and would encourage the farmers to cultivate jatropha on their marginal lands. He (or she) would be the contact between the company and the farmer, with responsibility for providing and coordinating services to the farmers at the local level.

NBL provides the franchisee with planting material, technical know-how, best package of practices and in turn he would monitor the crop as per the specifications of the company. The farmer does not pay for these services directly. The cost is deferred and recovered from the farmer as part of a loan repayment once economical yields have been achieved.

Through its franchisee network, Nandan has put in place an active contract farming network of about 40,000 hectares, and is in the process of expanding that further. Currently there are about 218 franchisees across the country and this

is expected to increase to 500 in the next 2-3 years. This model was chosen in these states because state policies were favourable to contract farming initiatives.

Under this contract farming via franchisee model, NBL has linked up with public sector banks to provide finance. Through an arrangement with a specialised insurance provider, NBL also provides insurance to cover the jatropha crop, so as to mitigate the risks relating to drought, pest, diseases and natural disasters. The farmers will also benefit through training, technical know-how and knowledge dissemination given by the company. This is financed through a tripartite loan arrangement between the company, public sector banks and the farmer; the repayment of this loan takes place when the farmer gets optimal income. Insurance premium paid by the farmer is also covered under the bank finance.

In Uttar Pradesh, NBL has formed a joint venture with Bharat Petroleum Corporation Ltd and with Shapoorji Pallonji Corporation Ltd, and formed a joint venture company, Bharat Renewable Energy Limited. This joint venture works under a so-called “P4 model” – that is Public, Private, Panchayat Partnership. In this model, jatropha is planted on land that belongs to the Panchayats, the local government unit at the village level. Landless labourers are contracted by the joint venture company to plant and look after and harvest the crop on this land. NBL provides the growers with planting material and a package of cultivation practices, monitors the crop through its own field staff, and buys back the produce. The rent paid to the Panchayats is in the form of the produce. This model works only when the policy is favourable. It was chosen here because the Uttar Pradesh government supports P4 partnerships.

In Gujarat, NBL controls an estate farm on 2,000 acres (about 800 hectares) of unutilised land. The land has been obtained on a long lease from the state government. On these leased lands, cultivation of jatropha is undertaken by the company. Approximately 158,000 man-days of employment is generated, and about 500 families benefit from these jobs.

In Orissa, NBL is working with 30 districts to implement a jatropha project. In addition, space has been allocated to NBL in the Biju Patnaik Energy Park, where a Jatropha Information Center has been established to provide technical know-how on jatropha cultivation to local farmers. The government of Orissa has now linked up the biofuel project with National Rural

Employment Guarantee Scheme. In this model, cultivation is on land belonging to the small and marginal farmers who own fallow and unutilised lands. These farmers are trained to cultivate jatropha and are paid to work on their own lands. Non-labour components like fertilisers and other costs are funded by the Orissa government, and as a result the farmer does not require credit finance from the bank.

### **Ownership**

In the Gujarat model, control of the business and its assets, including land, lies entirely with Nandan. In the other three models, NBL and its business partners maintain ownership of the company itself and of the processing facilities, while land is controlled by either smallholders or the local governments. Under the contract farming models in Karnataka, Rajasthan and Madhya Pradesh, farmers are encouraged to plant the crop in their own marginal lands by local agents. These agents can supply inputs and technical assistance through a loan to be repaid when the farmer gets enough income – from the fourth year onwards. In the models in Orissa and in Uttar Pradesh, jatropha is planted on publicly owned land, and the plantation is managed by NBL's project team, but farmed by local landless labourers.

### **Voice**

Nandan sees farmers as a key stakeholder in its business model. Farmers are provided with all the necessary supports for successful production. Amendments to the company's methodologies have been made based on the feedback obtained from the local bodies and the farmers.

While farmers receive support services, they do not have direct say in the management of the company and its business – they are not represented in the company's board, for example. In their dealings with Nandan, farmers are not organised in and represented by a collective body, and there currently is no institutional platform for farmers and company to discuss common issues.

With regard to the execution of P4 schemes in the State of Uttar Pradesh, NBL promotes decentralised decision-making within the Gram Panchayats (elected village councils) in the respective villages. Any project executed under P4 has to go through a process where NBL project managers talk to the Gram Panchayats and find out their inclination towards jatropha. It is important to take up the project only after the Gram Panchayats have expressed their interest and consent since they are the local people and they understand the



*An idea with traction: work on a jatropha plantation site*

dynamics better. The project will only target lands identified by the Gram Panchayats. NBL provide farmers with customised advice for their existing field conditions following soil and water testing, and then register landholders with the bank for loans. If any food crops could be grown there, the farmers are informed of this since jatropha should not be encouraged on fertile soils. Post crop finance, the company assists farmers in cultivating the crop. Even in this more decentralised model, however, farmers do not have direct say in the running of the company or its business.

In Gujarat, the estate farming model does not involve the smallholder farmer at all – here employment is created for landless poor.

### **Risks**

Jatropha production and marketing risks of the farmer are taken care of by the company itself. The company supplies quality planting material and effective cultivation technology to the farmer. Also, the crop is financed through a tripartite contract farming model whereby the company has signed up with public sector banks to provide crop finance. In case of crop failure, NBL has linked up with an insurance company to mitigate the risks.

In addition, an assured marketing platform is provided to the farmer through a buy-back arrangement. Hence all the risks of the crop grower are effectively taken on by the company. Farmers pay interest on the bank loan but are not charged a processing fee or additional charges.

### **Reward**

In case of NBL's contract farming model, the franchisees are paid commission for every acre of business they bring in. The percentage varies depending on their performance. The produce is bought back by the company at prices that have been pre-determined by the State Government. A farmer producing 3 tons of crop per acre receives a gross income of INR 18,000 (approximately USD 400) at a price of INR 6,000 per ton. Jatropha is generally a source of supplementary income for farmers, rather than their main income.

In models like P4, 50% of the revenues from the sale of seeds is shared between the company and the Panchayats.

## **STRENGTHS AND WEAKNESSES, PROS AND CONS**

Each component of the model has its own strengths and weaknesses. The very large numbers of farmers is not a problem in itself, but their geographical spread was an issue for the company. This is the reason for appointing local franchisees. The fact that various international and national agencies have provided support to Nandan's business has been a major asset in the company's operations.

From a "collaborative business model" perspective, the contract farming schemes have the advantage of working with local farmers on their own land. In the government lease scheme, on the other hand, NBL runs its plantation directly. And in P4 schemes, the land is provided by the Panchayats but the company effectively runs the farms. In all of these models, control over the operations (i.e. the ability to take key business decisions) lies entirely with NBL – farmers have no say in steering the business.

## **EARLY IMPACTS, ENABLING AND CONSTRAINING FACTORS**

NBL has jatropha projects throughout India. Jatropha cultivation in India by NBL currently covers 40,000 hectares. As discussed, this includes both contract farming and estate farming methodologies. Beyond financial returns, the socio-economic benefits through jatropha cultivation are even higher. The jatropha projects have created employment for thousands of households. One hectare of jatropha plantation provides employment for at least two households. In addition, the jatropha plantations absorb atmospheric carbon to a significant extent.

Nandan's model has had nominal policy support from the government (including guidelines for jatropha promotion and the establishment of nodal agencies) – until the recent announcement of the National Policy on Biofuels. The recent National Policy provides concrete incentives for instance by encouraging contract farming and by allowing the cultivation of forest lands with energy crops.

One of the pertinent constraining factors is the dual policy system in India, whereby states are entitled to set their own policies, which may not be consistent with the national policy. The gap between the central and the state policies is a major hurdle for companies like NBL to succeed. For example, central policy states that contract farming should be encouraged, but many states do not promote this.



## **7. HOW NASFAM SUPPORTS SMALLHOLDERS IN MALAWI**

Beatrice Makwenda

*National Smallholder Farmers Association  
of Malawi*







## **INTRODUCTION**

The National Smallholder Farmers Association of Malawi (NASFAM) is the largest independent, smallholder-owned membership organisation in Malawi. Its mission is to improve the livelihoods of smallholder farmers. Through a network of smallholder-owned business organisations, NASFAM promotes farming as a business in order to develop the commercial capacity of its members, and delivers programmes which enhance member productivity. NASFAM is founded on the principles of collective action and is democratically governed by its members.

Consumers all over the world are becoming more interested in the ethics of their purchases. Doing the right thing can improve the image of a company and expand its customer base. Therefore, taking up more inclusive business models has the potential of generating significant revenues and makes business sense.

NASFAM understands inclusive business to refer to sustainable business practice that benefits the lower-income members of society. An inclusive business model involves close working partnerships with local suppliers and service providers so as to share value among the partners. Inclusive business rests on both generating revenue and producing beneficial social impact. This chapter discusses NASFAM's own experience with running its business model.

## **HOW NASFAM WORKS**

NASFAM is a farmers association. Its main functions are to organise, support and represent the smallholder farmer, including at the national level. Farmer participation is facilitated through NASFAM's internally democratic structure. Smallholder farmers group together to form "clubs", which in turn join locally to create "group action committees". At the regional level, these committees form into associations. There are 14 regional associations across Malawi, which together form and support the NASFAM community.

### **Origins and development**

The origins of NASFAM go back to the Smallholder Agribusiness Development Project, which was funded by USAID and implemented by the Agricultural



Photo: Jan Banning/Panos Pictures

*My turn – Farmers queue for inputs provided by a state-supported agency*

Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA). The project was designed to seize the opportunities offered by a new policy context for Malawi's agricultural sector. Under the first democratically elected government in Malawi, economic policies were adopted to alleviate poverty and support agriculture. The liberalisation of agriculture was seen as the key to raising incomes amongst Malawi's rural poor. The project sought to improve smallholder access to agricultural inputs and provide better returns on agricultural sales; to support smallholder self-reliance through improved business know-how; and to promote collective action through commercially sound, farmer-owned associations.

Seven "agribusiness development centres" were established in key smallholder growing areas. From these centres, small clubs were formed to develop economies of scale and collective bargaining power, and the members created informal group action committees. These committees gradually began to develop the capacity needed to provide technical services to farmer clubs. The committees were particularly helpful in addressing the constraints that

smallholder farmers faced, such as poor access to transportation, storage, markets, financial services, and access to government. Over time, the committees established themselves into self-financing shareholder-owned and controlled agribusiness associations, which in turn established the National Smallholder Farmers Association of Malawi (NASFAM).

NASFAM was legally registered in 1997. From there, the association has continued to grow and now has over 180,000 members countrywide. NASFAM prides itself on the high numbers of women involved. Women constitute 38% of the NASFAM membership, and on average 31% of the members of association committees are women. Since incorporation, NASFAM has transformed from being a group of individual associations into a cohesive institution capable of maximising the benefits of collective action at a higher level, as well as supporting smallholders to address their own problems through participation in the socio-economic development of Malawi.

### **Policy advocacy**

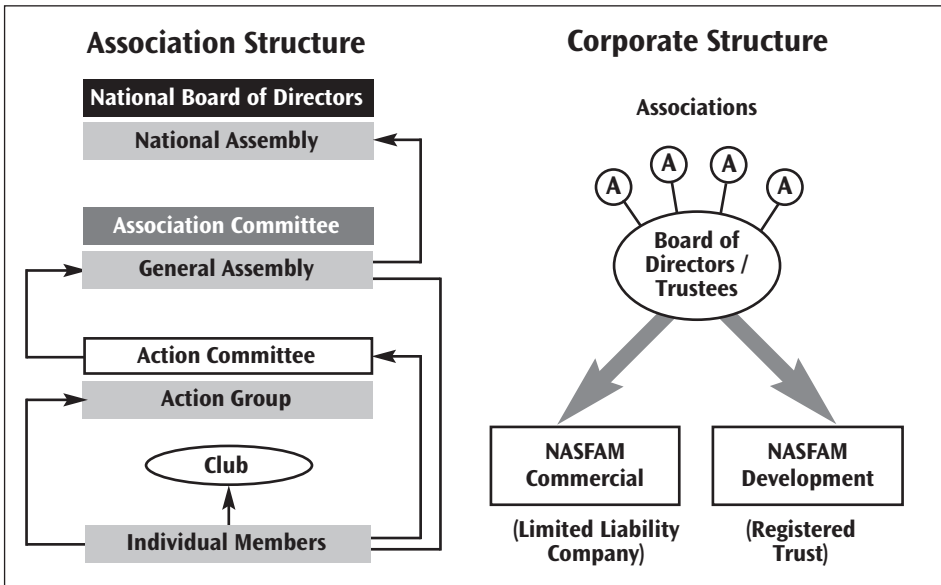
NASFAM has a policy and advocacy unit that works with the Malawian government to promote favourable policies for the smallholder farmer. As a major farmers association in Malawi, NASFAM also sits on several task force committees that work with the government to create national policies that are favourable to smallholder producers.

### **Support services – NASFAM’s commercial and development vehicles**

In addition to its lobbying efforts, NASFAM provides a range of support services to its member farmers. It disseminates a newsletter, runs radio broadcasts and supports farmer-to-farmer trainings for its member farmers, covering issues like farming methods, literacy and business skills. NASFAM also links smallholder farmers to opportunities provided by the private sector. For example, NASFAM has facilitated 38 partnerships between farmer associations and private-sector input suppliers and financial service providers.

NASFAM also operates as a private-sector business. It buys harvested crops from member farmers and bulks them together for marketing. To perform this responsibility, NASFAM runs quality storage facilities. In Malawi, crop storage is a problem, so these storage facilities have addressed a real concern that smallholder farmers have.

## NASFAM's internal structure



Source: [www.nasfam.org](http://www.nasfam.org)

To provide these support services, NASFAM has created two subsidiaries: a for-profit commodity and marketing exchange (NASFAM Commercial) and a donor subsidies centre for development support (NASFAM Development). NASFAM Development receives funding from donor organisations – the Norwegian government and the American government are both large contributors to NASFAM. NASFAM Commercial is the revenue generating arm. Revenues are generated by the farmer products sold with NASFAM's brand. Products include rice and groundnuts. NASFAM bulks, packages, stores and markets this product. These activities are picking up as sales increase, and more products are likely to become available in the future. This will improve the financial security of NASFAM as a business and generate revenues to give back to the member farmers.

## SOME KEY CHALLENGES ENCOUNTERED

- Access to markets: it has been a challenge to gain sufficient access to both produce and input markets.

- **Agricultural productivity:** smallholder productivity is still low, not just when compared to yields available under ideal conditions, but also in comparison to smallholder performance in neighbouring countries – and even compared to what has been achieved in Malawi in previous decades.
- **Association building:** the strength of NASFAM lies in its member associations, the strength of which in turn depends on its individual members. In Malawi, the concept of working together through associations is still under development.
- **Food insecurity, illiteracy levels and HIV/AIDS** are all challenges which affect the capacity of farmers to engage with support projects.
- **Smallholder farmers' involvement in policy:** until recently, smallholder farmers were hardly involved in the policy formulation process. Policies targeting smallholders were developed with minimal contribution from the farmers themselves. Current development best practice advocates a participatory approach where mechanisms are established to include the concerns of key stakeholders into government policy processes. But making this work in practice remains a major challenge.

## **SOME LESSONS LEARNED**

As a farmers' organisation, NASFAM has empowered the smallholder farmers by giving them the tools to succeed. As a business, NASFAM Commercial has created better markets for farmers to gain income. Key lessons learned in this process include:

- Ensure democratic governance and representation, and effective fiscal management and control – in the longer term, these promote increased returns.
- Only work with motivated smallholder farmers.
- Developing strong linkages with service providers, providing on-site technical assistance and strengthening marketing systems are key recipes for success.
- Take proper time for capacity building – it just does not happen overnight.



## **8. A HYBRID BUSINESS MODEL: THE CASE OF SUGARCANE PRODUCERS IN TANZANIA**

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*Tanzania Natural Resource Forum*







## INTRODUCTION

In recent years, Tanzania has been experiencing a rapidly growing demand for its land for both biofuel and food production. While the economic, environmental and social risks involved in biofuel investments have been widely discussed (see for instance Sulle and Nelson, 2009; and Chachage, 2010), similar risks are raised by land-based investments for agri-food – yet the latter do not get the same level of attention in Tanzania as they are generally held to improve food security. Land is the resource on which these investments depend. The Tanzania Natural Resource Forum (TNRF) has started looking into more inclusive agricultural business models by conducting a detailed national study on biofuels, land access and rural livelihoods in Tanzania (Sulle and Nelson, 2009).

With regard to biofuels production in Tanzania, that study discussed the use of “hybrid” business models that combine large-scale farming with outgrower schemes. These models typically consist of a nucleus estate directly controlled by the company, which would have direct control over part of its supply and hold facilities for harvesting and processing; and of contract farming arrangements whereby the company provides inputs to family farmers and the latter sell their produce to the company, thereby augmenting supplies and feeding the processing facilities.

An interesting version of this basic model has been used in Tanzania’s sugar sector. Differently to the “classic” outgrower model, whereby outgrowers merely sell their cane to the mill and the mill processes and sells the produce with no farmer participation, the model used in Tanzania’s sugar industry rewards outgrowers not with a fixed price, but with a share of the revenues generated by the sale of processed sugar. As will be discussed below, farmers can receive up to 55% of the total proceeds, with the company getting the rest.

Examples of this hybrid model are provided by the activities of companies running sugar mills in Kilombero, Mtibwa and Kagera. Kilombero Company owns an estate of 8,000 hectares, with outgrowers operating over 12,000 hectares; Mtibwa Company owns an estate of 7,000 hectares, with outgrowers operating 11,000 hectares; and Kagera Sugar Company owns an estate of 7,000 hectares, with outgrowers operating 300 hectares. Kagera Sugar Company is in its infancy stage and therefore is yet to fully mobilise outgrowers.

This chapter briefly distils lessons from this experience.

## **KEY FEATURES OF THE BUSINESS MODEL**

### **Ownership**

Smallholders retain rights over the land they cultivate, while the company controls the plantation that acts as a nucleus estate and provides the processing facilities, extension services, and marketing support. The processing facilities are also owned by the company. The company fully owns its business, while entering into contractual relationships with farmers.

### **Voice**

At the national level, both outgrowers and sugar millers are organised in collective bodies. Outgrowers producing sugarcane formed an association called Tanzania Sugarcane Growers Association (TASGA). TASGA is in turn composed of constituent associations, which include the Kagera Sugarcane Growers Association, the Kilombero Cane Growers Association, and the Ruembe Cane Growers Association. TASGA's main objective is to lobby private millers on sugar prices and purchasing arrangements, as well as to lobby the government on policy issues affecting the cane growers. The private sector millers are organised in a body called the Tanzania Sugar Producer Association (TSPA).

Both TASGA and TSPA are represented on the Tanzania Sugar Board – an organisation placed under the Ministry of Agriculture and Food Security. The Board is the regulator of sugar production and sales in the country. The Board is comprised of eight people: two from TSPA, two from TASGA, two from the Ministry of Agriculture and Food Security, one from the consumers' side and one from the Sugar Authority. In other words, sugar millers (TSPA) and outgrowers (TASGA) are equally represented on the Board.

For the past three years, the outgrowers have been fairly represented in the Board and decisions are made on the consensus basis. The experience of the present outgrower leaders indicate that they have never voted for the past three years. Also, TASGA has formed a committee that holds meetings with the sugar producing companies, though more can be done to strengthen the voice of outgrowers.

## **Risk**

In outgrower schemes, farmers ultimately carry production risks, linked for instance to crop failure. The sharing of risk is part of the collective negotiation between the outgrower association (TASGA) and the millers. The outcome of this negotiation is a Cane Supply Agreement (CSA). The CSA contains details about the age of cane to be harvested, the mode of delivery, the amount of cane to be delivered, the method of weighing the cane, the method of payment, the method of determination of cane price, dispute resolution mechanisms and what should be done when the factory closes. Outgrowers are not compensated by the millers when their canes are destroyed by fire or droughts, for example. To deal with this issue, TASGA has contacted some insurance companies to devise insurance schemes to compensate farmers when these tragedies occur.

The risk of communities losing their land is minimised as outgrowers cultivate the land they hold under customary systems and, in some cases, on the basis of title deeds.

## **Reward**

Outgrowers take their cane to the miller for processing and sale of sugar. The method to determine prices is set out in the CSA. Broadly speaking, the return to the farmer is based not on a fixed price, but on a share of the income from the processed sugar. For the Kilombero area, for example, the company pays 55% of the proceeds to the farmers according to the companies' executive secretary and outgrowers officials. Similarly, in the Mtibwa area farmers are paid 53% of the sugar income. The rest of the proceeds is earned by the company. In Kilombero, outgrowers supply about 55% of the total cane processed at the mill;<sup>2</sup> this means that farmers have enough negotiating power to minimise the risks that the farmer is exploited.

## **PROS AND CONS**

### **The hybrid model as a rural development opportunity**

The hybrid business model seeks to establish a new potential growth pole in rural settings. It provides access for farmers to processing units, extension

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2. Personal communication from the Executive Secretary of TSPA, 8 April 2010.

services as well as markets. Linking smallholders to a locally based company with a nucleus estate provides opportunities for training in good production techniques. Collective bargaining through TASGA has helped outgrowers get a better deal through the CSA and an acceptable Cane Price Formula, and through the negotiation of better credit access.<sup>3</sup> Outgrowers participating in the schemes receive income – though there is huge variation in income levels among farmers depending on the quantity of sugar cane produced: data suggests that annual income levels among TASGA members range between TZS 240,000 and TZS 6,000,000 (USD 180-4,400; Matango, 2006).

The model could be applied to the production of other crops in Tanzania, building on experience in the sugar industry. But the model is only possible where there is still some open land available to be allocated to companies for their nucleus estate.

### **Limitations**

As the hybrid model involves the establishment of a nucleus estate, it is subject to many of the problems characterising pure, large-scale land acquisitions. Unless there is sufficient unused land available, establishing the nucleus estate is likely to be a challenging task, and may encroach upon existing land rights. In Tanzania, the process to transfer “Village Land” to companies requires reclassifying these lands as “General [i.e. government-managed] Land” for the purposes of Tanzania’s Land Act 1999. This process is often fraught with conflicts between smallholders and companies and among smallholders themselves, mainly because the majority of the smallholders’ land is not backed up by official documentation.

Other limitations of the model include:

- **Business ownership:** the businesses are controlled by the companies – the growers have no equity stake in the sugar mills and have no say over their management.
- **Historical factors:** because of the past failures of large-scale plantation schemes in Tanzania, some Tanzanians are sceptical about these schemes, fearing that the end result of nucleus estates will be the eviction of local communities and poorly performing businesses (Kamata, 2009).

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3. Personal communication from the Chairman of TASGA, 10 April 2010.



*Workers cut the sugar cane in a plantation in Kilombero, Tanzania*

- Land grabbing: multinational corporations, foreign governments and national elites are acquiring large areas of lands for their own use. These processes of land acquisition pose a threat to local livelihoods and land rights. If not well-monitored and governed, these investments can lead to greater landlessness in the future as a result of high demand for land for both biofuel and food production.
- TASGA itself faces a number of challenges, which affect the inclusion of farmers as well as its ability to negotiate a better deal with sugar producing companies. Challenges include poor leadership capacity among elected association leaders at the grassroots level, lack of negotiation skills on the part of association leaders, inadequate transparency in the determination of sucrose content, lack of transparency in cane weighing procedures, dependency on wholly rain-fed agriculture, and poor road infrastructures in outgrower areas.<sup>4</sup>

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4. Personal communication from the Chairman of TASGA, 10 April 2010.

## EARLY IMPACTS, ENABLING AND CONSTRAINING FACTORS

Today, smallholder sugarcane farmers around Kilombero and Mtibwa Mills supply about 50% of the total cane used by the mills. Already 23,300 hectares are under cultivation by over 20,000 farmers.<sup>5</sup> In addition, three millers in Kagera, Kilombero and Mtibwa own estates for a total land area of 22,000 hectares (Mlingwa, 2009). Some of the benefits to outgrowers – in terms of income and capacity building, for example – were already discussed in the previous section.

In order to increase the production per unit area and hence overall output, TASGA is now organising farmers to start block farming. The idea is that rather than individual farmers growing sugar cane separately on dispersed small farms, interested participants will come together to manage block farms. The block farm model allows shared ownership in which smallholder farmers take advantage of economies of scale through the collective management of inputs as well as reduced fixed costs per unit of infrastructure required. Six block farms are fully operational now in Kilombero area.<sup>6</sup>

### Enabling factors

- **Established market:** the sugar currently produced in Tanzania only meets 60% of domestic consumption, forcing Tanzanian businesses to import the rest. More importantly, the whole industrial sugar in the country is imported – the country has no capacity yet to supply industrial sugar. There is thus substantial scope for increased production of sugar to meet existing domestic demand.
- **Arable land:** although existing data on arable land in Tanzania needs to be updated, the latest available figures indicate that there is still some arable land that can be placed under more intense agricultural production. The Tanzania Investment Centre’s website, for example, suggests that the country has about 33 million hectares of land suitable for agricultural development. Compared to straight large-scale plantations, the hybrid model may result in lesser conflict around land as smallholders gain from participating in the project.

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5. Personal communication from the Chairman of TASGA, 5 May 2010.

6. Personal communication from the Chairman of TASGA, 9 April 2010.

- Presence of strong NGOs and institutions: Tanzania hosts local and international NGOs and other institutions that strongly defend local livelihoods and land rights as well as environmental conservation. These include for example Land Rights Research and Resources Institute (LARRRI), TNRF, World Wide Fund for Nature (WWF), University of Dar Es Salaam (UDSM) and Sokoine University of Agriculture (SUA). All of these organisations, for example, have provided input into the biofuels guidelines developed by the National Biofuels Task Force. For instance, in 2009 TNRF produced an information brief on “Developing commercial biofuels through securing local livelihoods and land rights”, which was published in both English and Kiswahili to reach a wider audience.
- Donor support: there is donor interest in supporting family farming. Last year, for example, the European Commission launched a plan to improve infrastructure and strengthen capacity in sugarcane growing regions. There is no current direct donor financing to hybrid business model projects per se, however.

### **Constraints**

- Inadequate sugar industry infrastructure: the existing mills do not have sufficient capacity for processing the cane that the farmers produce. In 2008, for instance, about 30 and 40 tonnes of sugarcane remained unprocessed at the Mtibwa and Kilombero mills, respectively.
- Fire outbreaks: there have been reports of fires in sugarcane farms that destroy the harvest and hence increase risks to both farmers and companies.
- Limited capacity among association leaders at the grassroots level: most farmers have low levels of education; as they elect their local representatives among themselves, the local leadership tends to have poor capacity to conduct meetings and run effective reporting and accounting systems.
- Insufficient research: there is still little evidence about this model. The government of Tanzania has failed for many years to allocate sufficient funding to research, but has recently shown greater commitment by setting aside at least 1% of GDP for research activities. The government also welcomes private sector involvement in research planning and funding. This is an important opportunity for research institutions such as universities, NGOs and companies to carry out studies on alternative business models for agricultural investment.



- Diseases: current sugarcane seeds have shown poor resistance to prevailing diseases and pests. This reduces the harvest expectations in the producing regions, and farmers' morale and willingness to produce more.

Measures to tackle these constraints include:

- Research and development: R&D is very important to help tackle several of the pitfalls and constraints identified – for instance, with regard to strong evidence/experiment based research to develop highly resistant sugarcane seeds.
- Capacity building: all stakeholders including farmer associations, government agencies, NGOs, donor organisations as well as the general community need to understand more about the opportunities and threats presented by the hybrid business model. Stronger capacity for the grassroots leadership of the outgrower associations, and stronger negotiation skills within the national leadership are key to fairer negotiations.
- The role of government: the hybrid model brings together players with very different levels of capacity and negotiating power. To eliminate the potential for exploitation, the national government must play a key role – including through comprehensive and properly implemented laws and regulations to govern plantations and outgrower schemes.

## **9. LARGE-SCALE AGRICULTURAL INVESTMENTS IN MADAGASCAR: LESSONS FOR MORE “INCLUSIVE” MODELS**

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## **INTRODUCTION**

In late 2008, the international media spotlight was turned on Madagascar following the announcement of some very large-scale agribusiness projects. Two companies, Daewoo Logistics and Varun International, sought to acquire areas of land amounting to over 1.5 million hectares. This provoked strong reactions because of the potential dispossession of large numbers of local farmers. These reactions took the form of vivid protests in early 2009, which were relayed to the international arena and forced these companies to abandon their project. They also added to the grievances expressed by the opposition movements, which began to mobilise from December 2008. These grievances directly contributed to the fall of the Ravalomanana government in March 2009. But the failed grandiose agribusiness projects should not overshadow a range of more reasonably sized and better accepted projects that are being implemented in the country.

This chapter discusses two agribusiness projects, one led by Varun and the other by Fuelstock. Based on these experiences, it draws lessons for establishing agricultural investment projects that can serve the interests of both investors and local people.

## **THE CASE OF VARUN INTERNATIONAL**

### **The project**

Varun is an Indian company with headquarters in Bombay. Its Malagasy subsidiary, Varun International Madagascar Ltd, is a business for import and export of general goods and mineral products. To the authors' best knowledge, it has no particular expertise in rural development or urban land allocation.

Following a meeting in January 2008 between the President of Varun Industries and the then President of Madagascar, Varun signed a memorandum with the Ministry of Agriculture in September 2008 and a Memorandum of Understanding with the government of the Sofia Region on 25 October 2008. The project was first presented by Varun as an agricultural production project, including hydroelectric infrastructure and the construction of a new town, with a view to creating employment and contributing to food self-sufficiency. The project was launched on 26 January 2009 with a "contract



Photo: Jean-Leo Dugast/Panos Pictures

*Workers harvest the rice crop in Madagascar*

farming signature workshop” at Antsohihy, the capital of the Sofia Region. The workshop was attended by 250 people, representing the regional authorities and producers from some of the 13 target areas (“plains”).

The first survey of the areas sought by Varun covered 232,000 hectares of land. However, it was found that three quarters of the total had already been occupied. Varun set about to obtain 61,000 hectares of public land on a long-term lease from the state, and to sign production contracts with local farmers on the 171,000 hectares already developed.

Negotiations for access to land were entrusted to a national consulting firm, Sodhai. Varun’s mission seemed impossible: it requested this research body to create 13 farmer associations (one per plain), to negotiate with them the farming contracts, to initiate the procedures for acquiring public land and obtaining the long-term leases, to carry out the necessary topographical work, and to organise local “signature workshops” with each of these newly established farmer groups – all within two weeks and with one field trip.<sup>7</sup> In this process, Varun did not have any direct contact with the farmers’ associations: Sodhai represented the associations in all transactions with Varun.

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7. Information from the terms of agreement between Varun and Sodhai.

The Varun project was particularly ambitious. The total investment amounted to USD 1.170 billion to construct 13 irrigation schemes in two years. The aim was to produce 2.8 million tonnes of paddy and 400,000 tonnes of maize per year from the fourth year. Of the produce, 20% of the rice, 50% of the maize and 100% of the lentils produced was for export. A very ambitious increase in paddy yields from 3 to 10 or 12 tonnes per hectare was expected, along with 4 tonnes of maize, through mechanisation and System of Rice Intensification (SRI) techniques. A return on the investment was expected to be generated from the third year.

Counterpart benefits are less specific in the Varun contracts with the farmer associations. While the company's infrastructure (offices, staff quarters, workshops, garages, etc.) are listed in detail, the health units, schools, power grids and drinking water supply are announced but not quantified.

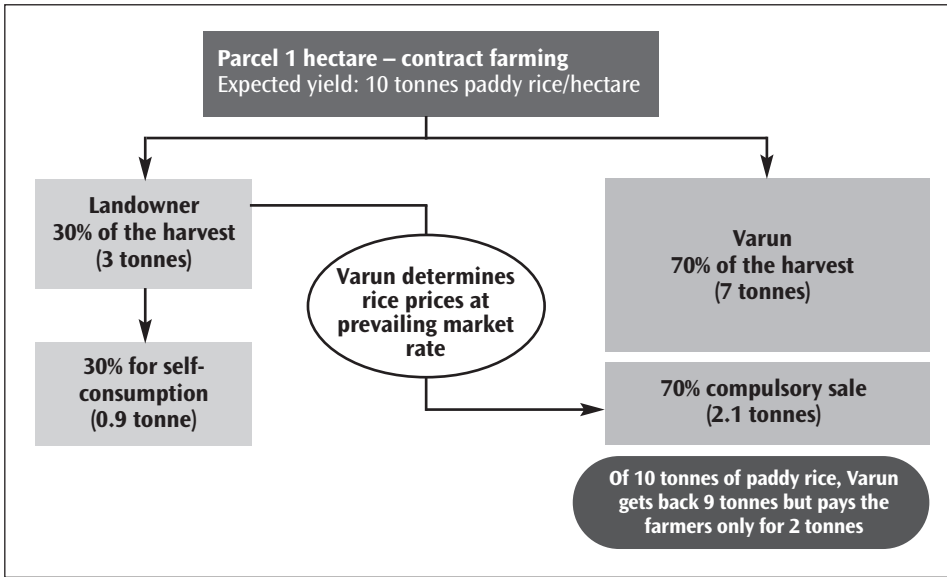
### **“Contract farming” or land acquisition?**

For the lands that were already occupied, the title of the contract concluded between Varun and the 13 farmer associations refers to “contract farming” as the institutional arrangement being established. As is well known, contract farming describes pre-agreed supply agreements between farmers and companies, whereby local farmers grow and deliver agricultural produce for specified quantity and quality at an agreed date, and the company provides upfront inputs, such as credit, seeds, fertilisers, pesticides and technical advice, and agrees to buy the produce supplied. But our analysis of the contract between Varun and the 13 local farmer associations suggests that the terms of this contract would have been tricky to implement.

The contract is not agreed with each individual landholder. It is concluded between Varun and 13 “plains” or community groups that were organised into associations specifically to implement this project. The associations were represented by their president. These officials were supposed to be entitled to “give the land to Varun for cropping” on 171,000 hectares. They agreed to leases for a term of 50 years not only on their behalf, i.e. with regard to their own land, but also in the name of their descendants and on behalf of the association members (who are referred to in the contracts as the “rightful owners”). Life expectancy in Madagascar remains below 60 years, which effectively means that these contracts ceded the land for life.

The contract provides that the 13 associations permit Varun to use the land and carry out all agricultural works for the duration of the contract (25 years, renewable), that the land granted shall not be subject to any claim or conflict, and that Varun can sell the produce as it sees fit – though restrictions are imposed on the share of produce sold on domestic and export markets. The contract also subjects the landowners to a confidentiality agreement and commits them not to interfere with Varun’s activities. Varun is responsible for providing equipment and inputs, the installation of social infrastructure (without further elaboration) and for recruiting a workforce, preferably from the local area. As for the sharing of the produce, Varun was contractually entitled to 70% of the harvest. Of the 30% accruing to the landholders, 70% must be sold to Varun at a rate fixed by the company according to the “prevailing market rate” (see figure below).

**Produce sharing in the Varun contracts**



Source: contract documents, authors’ analysis.

**Development of agriculture or of poverty?**

These farming contracts might have been foreseen to result in greater poverty and exclusion, while the expected benefits for local people seemed limited to statements of intent. Even with an extremely ambitious (and perhaps unrealistic) yield of 10 tonnes of paddy per hectare, and under the terms of the contracts, a farming family with 1 hectare, that is on average 5 persons,

would have received an annual harvest of 3 tonnes of paddy, which would be 900 kg of unmilled rice or 585 kg of white rice. This includes the share of produce to be compulsorily sold to Varun. However, a rural family in Madagascar consumes about 700 kg of white rice per year. The family would have had to buy additional rice for their own subsistence, in a market effectively controlled by Varun.

These farmers have also been converted into rentiers. This raises a number of important questions. Given that alternative activities are undertaken by Varun's agricultural workers, what would local farmers do once their families have become landless? How could they keep farming if their land is given to Varun for half a century? Should they prepare themselves for migration? Conquer new lands (most likely by clearing the last reserves of land that are primary forests)? Or should they move out, without any qualifications, to cities where the meagre areas of industry and services offer up few jobs? In the rush to put the project together, these fundamental questions do not appear to have been addressed and the findings of various consultations on the rural development plans developed for the Sofia Region appear not to have been taken into account. Furthermore, compensation for loss of land in the form of employment remained low, consistently with the logic of large-scale, mechanised farming. The planned hiring of 1,500 workers corresponds to one job for every 155 hectares; this pales in comparison with the employment and livelihoods supported by family farming. In the light of this analysis, the "increase in farmers' incomes" promised by Varun seems debatable to say the least.

However, the political crisis in Madagascar brought this project to a halt. The day after the workshop to sign the contract with the 13 farmer associations, riots in Antananarivo sparked the beginning of a political transition and the project has not been continued since that date. Several government reports have confirmed the decision to suspend all proposed land acquisition, although there has not yet been any legal provision to formalise these intentions.

### **A "lose-lose" model of agricultural investment?**

Varun's experience appears to present the main ingredients of a "lose-lose" model of agricultural investment:

- Top-down approach: while discussions with the highest levels of state lasted for one year, only two weeks were allocated for negotiations with local communities.



- Land negotiation process: the firm recruited as subcontractor for all land negotiations with local communities had no relevant track record. The timeframe of 15 days to create 13 farmer organisations and to negotiate contracts covering an area of 171,000 hectares seems unrealistic. Asking 13 new leaders of farmer organisations to commit to provide land for 50 years on behalf of other villagers and their children also appears to be unrealistic. The remarkable speed of these negotiations may reflect strong political pressure to push this process forward, but there are good reasons to be sceptical about the likelihood that such a project could be successfully implemented, even with the support of higher authorities.
- Contract terms: as discussed above, our analysis of the contract reveals arrangements that were unfavourable to local farmers.

Even without any intervening political troubles, the analysis above suggests that the feasibility of this project was always in doubt. All contracting parties have lost either energy or money in putting this project together.

## **THE CASE OF FUELSTOCK LTD**

### **The project**

Massive projects like those of Daewoo or Varun have overshadowed some of the smaller initiatives, which have managed to settle in and begin their activities. But while these projects may generate socio-economic benefits for local communities, their inclusion of these communities in key business decisions remains limited. The experience of Fuelstock Ltd illustrates these issues.

Founded in 2007, Fuelstock Madagascar is a subsidiary of Fuelstock International, a British company with headquarters in Mauritius. The main activity of the company is the production of jatropha oil for the agro-fuel industry. The plantation is located in the Municipality of Amboromalandy, Boeny Region, in the north-west of the island. Fuelstock chose to settle in this region of Madagascar because of its favourable climate, but also because of its large areas of undeveloped land and cheap labour. According to company officials, the jatropha would not encroach on the areas needed for food crops.

The company targets the local market: an agreement has been signed to supply the Rio Tinto Mining Co, which runs a mining project in Fort Dauphin in southern Madagascar. Fuelstock plans to produce 5,000 tonnes of agro-fuel per month from its fifth year of operation.

**A bottom-up approach though production is controlled by the company**

The Fuelstock project has been established through a bottom-up approach. The mayor and local communities were involved during the entire phase of land surveying and demarcation. Negotiations were held with herders to establish norms for the co-management of the grazing land that will be converted into farmland. Residents of the affected villages have been prioritised in recruitment.

However, we understand that the company does not believe in the effectiveness of the contract farming models followed by some other jatropha producers. These models, which leave land with local farmers, have the disadvantage that the company has no control over agricultural production. The company thus owns 100% of the investment, and is planning to acquire land from the state through a 50-year lease – though final signature is still pending.

Of the 30,000 hectares of land requested by the company, only 5,000 hectares are operational so far. There are no farmers or farmer representatives, nor government officials on the management board – all decisions are taken by the company. The inclusion of villagers in the project mainly occurs through their status as agricultural wage labourers. On the other hand, production risks are carried solely by Fuelstock Ltd.

In this context, local benefits arise primarily in the form of job creation: Fuelstock Ltd envisages the creation of more than 19,000 jobs, including 1,000 permanent employees. This includes the inhabitants of seven villages directly affected by the project, and 18,000 temporary workers to be recruited during the harvest season. Each employee is paid USD 2-3 per day, or almost double the average wage in the region.

In order to use the land, Fuelstock Ltd should also pay property taxes to the municipality, at a rate set by the local council (USD 1 per hectare, or USD 30,000 per year). This represents a bountiful sum given that total annual municipal revenues tend to stagnate around USD 20,000 per year.

Moreover, the Fuelstock project would contribute to local development if the announced infrastructure projects (electrification, drinking water, roads, schools, health centres) are indeed realised. The announcement of these projects has raised enthusiasm among the local people, who see this investment project as a development opportunity. It remains to be seen whether these hopes will be rewarded as the project enters its full operational phase.

### **Towards more inclusive agricultural investments and public debate about strategic choices for rural development**

Lessons from the Varun and Fuelstock projects suggest the following set of recommendations:

- Agricultural investment projects must be premised on the recognition of the land rights of local farmers and herders. Governments should put in place cost-effective processes to protect these rights.
- Very ambitious project proposals should be readjusted in more realistic terms: smaller areas of land tend to more easily allow for partial maintenance of owner-occupation, and contract farming for shorter periods can help avoid feelings of dispossession and of disappointment due to lack of immediate returns.
- More time and attention should be devoted to land negotiations with rural communities. Project implementation must be accompanied by transparent procedures to ensure that the promised local benefits are properly delivered upon.
- As many agribusiness companies contract out the activities to negotiate with local communities, there is a need to strengthen the capacity of public or private bodies that have the necessary expertise to facilitate these processes, and to create standards for their work.
- In Madagascar, a coherent policy framework for the regulation of agricultural investments has yet to be designed. This framework is needed to provide guidance for the authorities that appraise the investment proposals submitted to them.

More generally, a national debate has yet to be held on the strategic choices among alternative models of rural development, on the role of agribusiness

and on its relationship with family farmers. A key challenge is how to promote a model of agriculture that involves, rather than marginalise, family farmers. To date, genuinely inclusive models for agricultural investments, for example where local farmers have meaningful say in key business decisions, have yet to be implemented in Madagascar. In most cases, ownership is firmly held by the companies and major business decisions are taken unilaterally. The partnerships between agribusiness and farmers mainly involve labour relations, with labourers being paid on the basis of the number of days worked. Jobs are neither protected by secure, long-term employment contracts, nor by social welfare guarantees. These new farm workers, most of whom are illiterate, are rarely organised into associations or unions. The lack of effective platforms for negotiation can lead to serious social unrest, which sometimes erupts in extreme manifestations like setting fire to crops.

Nor should the wider economic benefits of large-scale investments be taken for granted. In Madagascar, 2.9 million hectares of land have been requested since 2005 by 52 different agribusiness companies. In 2010, only 11 projects are underway, covering only 23,500 hectares – less than 1% of the area sought. Some of these projects contributed to a serious political crisis which led to a change of government.

Devising new models to frame the relationship between investors and local farmers is therefore particularly urgent. This is one of the key goals the Land Observatory is working towards.



## **10. BOLD STEPS AND NEW VOICES: ELEMENTS FOR THE GROWTH OF COMMUNITY-INVESTOR PARTNERSHIPS**

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As the National Director for Promoting Rural Development noted when he opened this workshop, “Mozambique is an excellent choice for a discussion about community-investor partnerships”. Its National Land Policy explicitly calls for the need to secure the land rights of Mozambicans while also promoting private investment. These objectives may appear contradictory, but are brought together through new legal provisions – notably the mandatory community consultation requirements featured in the Land Law – which require investors to negotiate with local people when they want land for a new project.

Land in Mozambique belongs to the state, and all land users get a “land use and benefit right” either by customary occupation (in the case of the communities), or through a formal request to the state (through the land administration). A prospective investor seeking land is legally required to consult local communities. The result of this process should be an agreement between the two sides over whether and how the investor can access and use certain areas of land. The Land Law and a recent new official resolution covering requests for large areas (defined as over 10,000 hectares) refer to these agreements as “partnerships” between existing rights holders and the individual or firm looking to use local land. These agreements can entail either the ceding of local rights to the investor, normally in return for the promise of jobs and other agreed benefits; or a more formal partnership in which the land right may not be formally ceded, and both sides agree to work together and share benefits (and risks) in some way.

In addition, Mozambique’s Rural Development Strategy (RDS) talks of using land rights in “triangular partnerships” between the state (as owner of the land under the Constitution), the communities (the users and effective ‘holders’ of the land), and private investors (as managers and economic partners). This formulation underlines the role of government in this process, not only as the “owner” that must agree to “its” land being used, but also as promoter and facilitator of a successful outcome between local rights holders and incoming investors.

The RDS goes further, and calls for the formal titling of local rights (which by law do not have to be registered in order to enjoy legal protection), so that communities can use their new documents in negotiations leading to community-private sector partnerships. These approaches are increasingly



relevant at a time when demand is surging for land for very large biofuel, plantation timber, and commercial food production.

The National Director also pointed out however that, in spite of this positive framework, there has been only limited success to date in establishing partnerships and making them work – most consultations result in rights being ceded and the communities receiving a series of promises which may or may not materialise (Tanner *et al.*, 2006).

The cases presented at the workshop are therefore important in two ways. Firstly, they present several successful initiatives from different countries which show that working partnerships between local people and new economic actors are possible. Taken together, they suggest that very different interest groups can find common ground, through negotiations over access to land and resources, and a willingness to work together and share both returns and risks. They also show how the state can gain, not just with new revenues, but also achieving its social, economic and even environmental objectives – the much talked of ‘win-win-win’ scenario.

Secondly, the rich discussion throughout the meeting produced a greater understanding of the partnership process, as something with a distinct beginning, a period of development, and then a future of consolidation and evolution. Each one of these phases presents very different challenges, and requires certain types of support. This short paper draws the strands of this discussion together to present a form of blueprint for the development of partnerships, what they need in order to start and to keep going, and what they must do to thrive into the future.

## **WHAT IS A PARTNERSHIP?**

This question always arises in discussions about communities and investors working together. The meeting itself presented several very different models, ranging from outgrower schemes through to large producer associations that have managed to become partners in successful businesses. A common element in most of them however is the idea of two sides working together within a single operational framework in pursuit of a shared project or goal. The agreement includes how returns and risks are shared, and the rights and obligations of each party. In its recent review of community-investor

partnerships in Mozambique, the Centre for Juridical and Judicial Training (CFJJ) proposed a definition which mirrors these principles:

*“an agreement between both parties (investor and local community) which foresees mutual benefits deriving from access to the natural resources and land occupied by local communities, and which includes some form of active and continuous participation by both sides in the proposed activity”* (CFJJ, 2008:7).

A shared positive outcome is of course what every partnership should achieve, but it is important to remember that risks must also be shared. This is a key issue for poor communities setting off down this road, and those who advocate for new partnerships must be aware of this and build in safeguards. No-one wants the experiment to result in land dispossession and other serious consequences that leave the target community worse off than when they started, perhaps without their land. This is a key area for guarantees or other schemes supported by government, probably with donor assistance of some kind.

The CFJJ definition is also useful however for its reference to a timeframe – a partnership might begin with an agreement, but is given life and form through a process that is “continuous”, “participatory”, and which lasts over a long period. The sustained nature of the relationship is in fact a key element which is brought out more fully in the discussion below. Evidently it is difficult to talk of a real partnership without a secure long-term relationship. Of course there is also a tension here in that the possibility of a long-term relationship is predicated on continued commercial viability of the initiative. The discussions in the workshop were also important in this context, offering a view of how investing in human resources can be set against investing in the shorter-term commercial success of a business, in order to enhance the prospects of longer-term success.

The meeting was also presented with four criteria for assessing the balance of power and other characteristics of the relationship between the partners:

- who “owns” the process, new business, project, or whatever the partnership calls itself (the ownership question);
- how are issues discussed, and decisions made (the voice question);
- how are risks shared (the risk question);
- how are the benefits and costs shared between the partners (the reward question).

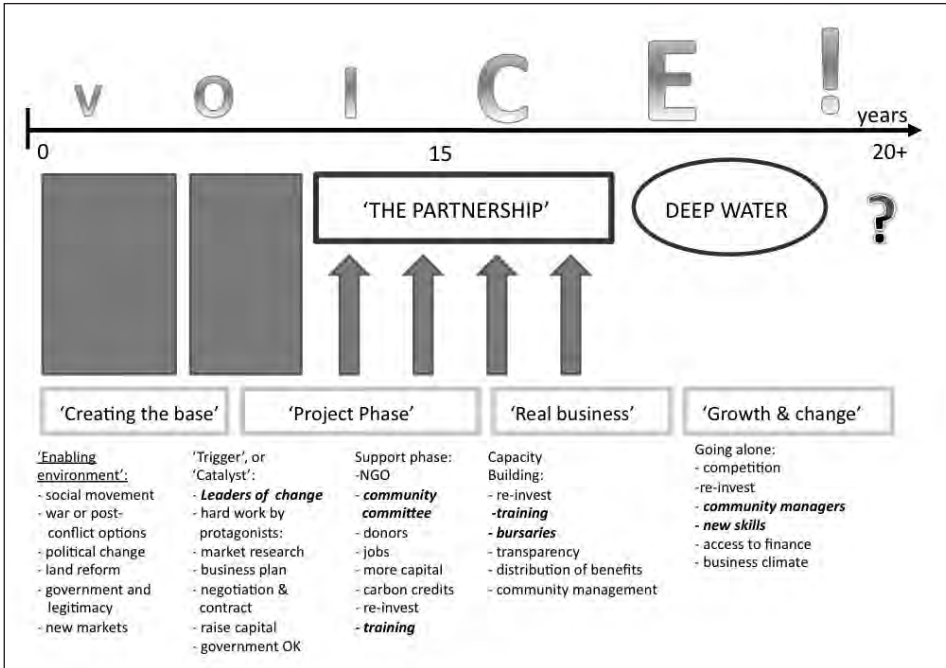
The case studies show clearly that while all of these are important, they vary and evolve as the partnership kicks off and matures. What really stood out however was the question of voice as a fundamental aspect of the process. This especially applies to the voice of what is nearly always the weaker partner – the community or local farmer association members, at the outset, are nearly always poor, not well educated, and vulnerable to manipulation not just by their new “partner”, but by other interests outside the agreement who may seek to control the partnership and effectively kill it off before it begins.

“Voice” also requires a long-term view of “partnerships” and what they need to succeed. And even though it may not be a “partner” per se in the proposed commercial or investment activity, the state can also have a critical impact, by providing (or not providing) space for “voice” to develop and for a partnership to move from its initial formulation through to implementation and investment over the longer term.

## **THE PARTNERSHIP PROCESS**

It may be tempting to see a community-investor partnership as something which is unchanging over time – once established, off it goes and everyone is happy. The workshop clearly showed that this is not the case. Indeed there are distinct phases and steps in any partnership project or activity, and the nature of the relationship between the partners also evolves and changes markedly over time.

It is equally important to understand that much of “the process” of partnership involves activities that take place long before a particular agreement and project might emerge (see diagram below). This long-term view of the partnership process is essential to have in mind when looking at partnerships in the broader context of long-term development policy and strategy. Partnerships do not just happen, they require the right environment in which to take root and flourish, and this takes time to construct and consolidate, both politically and in terms of human resources. Without the right policy environment or a minimum level of support from the government (which might in fact simply be non-interference), partnerships are hard to establish and even harder to grow. Training and bringing local people into management positions is essential, and by definition requires time to bear fruit.



Source: author.

The diagram shows that this strategic vision can involve periods of 15-20 years to take root and then mature into a situation where viable community-investor partnerships can occur. The case of Mozambique is interesting in this context, as what is happening today is based on the participatory policy and legislative process of the mid-1990s that led to the 1997 Land Law. The 1995 National Land Policy is clear about the need to promote private investment in land, including the use of partnerships to resolve the contradiction between securing local rights and allowing new investors into community-controlled areas. Hence, “once the local community is registered in the Cadastre [...] any other entity will be obliged to negotiate [with it]. In this way [...] the community can come in *as a partner in the investment* [...].”<sup>8</sup>

It has taken some 15 years for this statement in 1995 to come close to any form of practical and productive realisation. A similar story was heard in the meeting – from Swaziland, where a new and stronger local voice demanding greater participation in the sugar plantation economy has its roots in processes that began over 20 years ago.

8. National Land Policy, presented in Serra (2007); emphasis added.

In this context, it is useful to talk briefly about each of the phases outlined in the diagram. What needs to be kept in mind throughout, however, is how the aspect of *community voice* changes over this long period of development, from a tiny, almost inaudible whisper, to a loud, self-confident expression by the community that it can now manage its own affairs, including the business in which it may once have been a very junior partner.

### **Creating the base**

This very early phase consists of the development of an appropriate policy and legal framework within which future partnerships may be possible. Typically it will involve discussion at national level between a range of different stakeholders, and if conducted successfully it will produce a set of policies and laws that will allow space for all the different actors to interact and to negotiate, especially when it comes to sharing a limited or diminishing land and natural resource base. The other side of this picture is the emergence of conditions elsewhere that might then also promote the development of partnerships in developing countries. Examples of this are the development of the Forest Stewardship Council (FSC) label, and new markets for Fair Trade.

A key concern in this period of developing the “enabling environment” is legitimacy – ensuring that the policy and legal framework has the full support of all potential actors in future partnership arrangements, private investors, communities, the state. This process can take many years, and as it evolves, human resources are also built up and the way is prepared for new ideas and projects to emerge at some point in the future. Especially if civil society involvement is encouraged, the beginnings of the community voice can be heard.

### **Project phase**

This is the phase that most people would identify as the start of the partnership per se. The case studies presented at the workshop show however that it is probably wrong to characterise this as a set of conditions coming together to suddenly allow new partnerships to develop. In several of the cases, the process began with what can be called a “trigger”, which in fact is often a key, dynamic individual with a vision of what might be possible, a *leader of change*.

Getting a partnership off the ground at this stage will not be easy – although the legal framework might be in place, it is highly likely that the surrounding institutional environment will have lagged behind the policy and legislative

process, and be entirely unsuited or even unable to provide adequate support. The *voice* at this point may be louder, but tends to be represented through the particular individual or organisation, in the name of the communities that are potentially interested in pursuing a partnership approach. If all goes well, a team of like-minded people can help get together the technical and financial resources that are needed.

In this phase, some form of donor or development assistance funding will make a huge difference, for example by providing a cushion for some of the risks (guaranteeing loans, providing some start-up capital to attract the investor, acting as seed funding). A weak aspect of many cases to date is that at this point the *business* and *marketing plan* may not be well crafted, with the result that the partnership requires much and consistent support. In these cases, the project's longer-term sustainability will be in doubt. Dealing seriously and professionally with both the business plan and marketing is then an important condition of future success.

The support of a good NGO to address the social side of the equation – for instance, by planning how to use the resources generated, or strengthening capacity – is often a key input that allows the investor and the community to focus on the business side. Another critical element for longer term success is a willingness by the investor, perhaps in a side partnership with the NGO or government, to begin training local people to assume management and executive positions. The *voice* grows louder as the community and its committee acquire experience, and gain skills.

### **Real business**

In this phase the partnership is up and running, and engaging with its designated market. The private sector partner or the core organisational group still plays a prominent role, but local community partners are acquiring experience and a louder *voice*. At this point in the process the partnership per se is likely to stay relatively stable and out of danger, but will be meeting and dealing with new and difficult challenges – market forces, competition, the need for efficiency. Re-investing in people as well as in the business itself is critical to keep the process going – an issue that is further discussed below.

In this phase, the partnership should be generating profits and be able to raise new funding on commercial markets. Some form of state- or donor-backed guarantee fund might still be relevant during this time. The stronger *voice*

comes from those community members who have matured and learned, as well as from the new cohort of younger members who enter with new skills and education to assume managerial roles. At this point, the nature of the original agreement might change, with the community effectively taking over the business. This is not an easy time, however – the partnership can be characterised as a learner swimmer ready to be tested in deep water without special assistance, and along with a lot of other businesses competing for the same market and offering similar products.

### **Growth and change**

In this phase the partnership is maturing into a fully-fledged business and one can expect that by this stage it will neither need, nor be able to access, preferential or discounted support from donors or development assistance sources. The business will now compete on the open market with other businesses, having to survive on its own merits and its ability to grow and adapt to changing conditions. Depending upon the effectiveness of the investment in people, and the sincerity of the private-sector partner regarding training and bringing local people into management, the *voice* can be loud and confident. There is no guarantee of long-term success, however – like any business, it is foolish to assume that all partnerships will succeed and thrive, and the failure of some, even many, should not be seen as an indication of failure in the model overall.

## **THE IMPORTANCE OF VOICE**

Evidently there are great many factors that lead to the development of a successful partnership. What stood out in all of the cases presented however is the importance of *voice*. This starts with providing space for all stakeholders to take part in the development of the policy and legal framework – if there is no sense of partnership and legitimacy at this stage, and a participatory approach to development in general, it will be more difficult for the particular society to nurture the actual partnerships between local people and investors when these begin to appear.

Voice is then nurtured in the partnership process itself, firstly through a small group of advocates arguing in favour of the community and providing new spaces and mechanisms for them to participate in the early stages of the

process. An excellent example of this from Mozambique is the Covane Lodge project in Gaza Province. With support from a good NGO and other bodies with experience in pro-community development in tourism,<sup>9</sup> the community was encouraged to assess proposals from various competing private firms, make their own choice, and then participate fully in contract negotiations and implementation. This kind of experience underlines the need to create effective community committees and clear mechanisms in the agreements between both sides that provide for dialogue and discussion of day-to-day issues, and also when problems occur and decisions have to be made.

Once the partnership is up and running, the importance of reinvesting in human resources cannot be exaggerated. Without this, the *voice* will not develop and achieve its full potential on behalf of the community. The case presented by Mondi in the workshop is an excellent example of this, where the partnership between the paper company and the communities that now own its old plantations under the South African restitution process includes a bursary programme for young community people. As new graduates are coming through, they become effective community representatives and are also entering the forestry and paper business itself. In Mozambique there are also cases of tourism operators training up the best of their local staff to move into management positions.

Providing educational opportunities for young people in the community then ensures the longer-term development of the partnership enterprise, which might start off with training programmes for selected adults from the community who will take on more junior management posts in the short term. Opening up management posts progressively to local people in this way is also essential. Done well, as an explicit objective of the founding agreement, this will produce the skills and confidence needed to take the partnership forward into the business and “deep end” phases as it matures and grows. By this time, the *voice* will have changed, and may rebound back on the original drivers of the process. A good example raised in the meeting involved an association of small farmers where, some years later and now successful, its own members questioned the auditing practices of the management and called it to account.

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9. Notably the African Safari Lodge programme, South Africa based but now with a Mozambican programme implemented with support from Technoserve, an enterprise NGO, and the Ford Foundation.



Voice is so important that it should be set clearly within the definition of a partnership. The CFJJ definition goes part of the way there with “active and continuous participation by both sides”. Ensuring investment in human resources, as the bedrock of future success, would seem an essential part of this picture.

# 11. CONCLUSION

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This chapter summarises the highlights of workshop discussions. It briefly compares the models shared at the workshop, using the “Ownership, Voice, Risk and Reward” framework developed by Vermeulen and Cotula (2010). It discusses issues of process, focusing on the enabling factors underpinning the experiences shared at the workshop, and then distils some lessons learned. The chapter draws on the experiences documented in the previous chapters, but also on experiences that were shared at the workshop and not written up in the preceding chapters. For example, the case of Mali Biocarburant SA, briefly described in the box below for the reader’s convenience, is referred to in several parts of this chapter.

### **MALI BIOCARBURANT SA, MALI**

Mali Biocarburant SA (MBSA) is a private company that works with more than 4,000 small-scale jatropha farmers in three regions of Mali (and two regions in Burkina Faso). MBSA is setting up decentralised biodiesel processing facilities in West Africa. MBSA works with local farmers on the basis of contract farming arrangements, providing assistance to farmers to improve their agricultural practices through a network of field staff. Jatropha is integrated into existing farming systems, for example through intercropping.

A union of local farmers in Koulikoro, Union Locale des Sociétés Coopératives des Producteurs de Pourghère à Koulikoro (ULSPP), owns 20% of the shares of the company. Thus farmers have voice in the management of the company, and benefit from any increases in share value and from any dividends. MBSA promotes a pro-poor carbon offset scheme and reinvested 75% of its 2007 carbon credit income in strengthening the capacities of its farmers.

The company is financed by the government of the Netherlands (through public investments of 60% via PSOM, the Programme for Cooperation with Emerging Markets), and its shareholders include KIT (Royal Tropical Institute), a pension fund and a private company, as well as ULSPP.

## **COMPARING THE MODELS**

Workshop discussions covered a wide range of collaborative business models involving very different degrees of inclusiveness. In some cases, family farmers were the main drivers of the business. Other experiences entailed collaboration between smallholders and agribusiness but no or little involvement of the former in business ownership and decision-making. Plenty of other cases lay somewhere in between. As discussed in chapter 1, four criteria were used to assess the degree of “inclusiveness” of the models

discussed at the workshop (i.e., the extent to which they share value with family farmers and local communities):

- “ownership” (of the business, of key assets like land or processing facilities);
- “voice” (who takes/influences key business decisions and how);
- “risk” (how supply, production, market and other risks are shared between the parties);
- “reward” (the sharing of economic costs and benefits, including market access, price setting and finance arrangements).

### **Ownership**

Many of the models and experiences discussed within this report are referred to by their ownership structure, such as “contract farming model” or “joint venture model”. This gives an indication of the importance of ownership structures for achieving inclusivity and affecting the nature and distribution of risk, reward and voice. Ownership of shares, for example, formalises a farmer’s voice in decision-making process (de Koning and de Steenhuijsen Piters, 2009), whilst the ownership of community trusts or funds allows farmers to manage risk within market ventures. Workshop participants discussed a range of successful, and some unsuccessful, ownership structures. In some of the experiences shared at the workshop, smallholders and/or local communities owned the business directly – or jointly owned it together with a private-sector company.

For example, NASFAM in Malawi is a private company wholly owned by over 100,000 smallholders (see chapter 7). Similarly, Kuapa Kokoo Farmers Union in Ghana is 100% owned by its farmer members. Kuapa Kokoo includes various companies and structures to undertake trading activities, provide credit to farmers and manage fair trade premiums for development projects. Kuapa Kokoo also holds the largest equity stake (45%) in Divine Chocolate Company Ltd, a UK-based chocolate manufacturer and distributor (see chapter 2). Divine has experienced remarkable growth over the years, and the fact that Kuapa Kokoo holds the largest equity stake in the company is a major achievement. Farmers are motivated to become shareholders because of the financial benefits from premiums paid to farmers who are shareholders, secured sales and market access (de Koning and de Steenhuijsen Piters, 2009).

Happy India is a farmer-owned public limited company that operates a bio-ethanol and by-product manufacturing plant from sugarcane and tropical sugar beet in India. As many as 12,300 farmers, including women, have joined Happy India's scheme as feedstock suppliers or shareholders; of these 9,500 are small and marginal farmers holding on average 0.5 to 3 hectares of land. Shareholding farmers were required to each invest INR 3,000 (approximately USD 67) to purchase one share in the company; the 9,500 poorer farmers were requested to make smaller investment of INR 750 (USD 17). These amounts are still considerable relative to local standards, and raising this investment was challenging; the company assisted nearly 3,000 farmers in acquiring a loan for share purchase from the State Bank of India. It must be noted that borrowing money to buy shares is high risk, especially as shares are an illiquid asset (de Koning and de Steenhuijsen Piters, 2009). Donor funding, systems for reimbursement or alternative models of facilitating ownership may need to be considered. Once acquired in this way, shares can be used as collateral to acquire financial credit.

In the tourism sector, the Covane ecotourism lodge in Mozambique is wholly owned by the community, which also has rights over the delimited area of land in which the lodge is located. A private-sector company operates the lodge through a "market, operate and transfer" deal. This is an adaptation of the better known "build, operate and transfer" model. Rather than building the lodge, which already exists, the private sector partner leads its marketing and operation and will transfer it back to the community at the end of the agreed operating period. The value contributed by the community is essentially the land, which the government continues to own but over which the community is granted legally protected use rights.

There is growing experience of joint ventures involving an equity participation in the business by local landholders and operators. Some of the joint venture initiatives presented at the workshop related to non-agricultural sectors like tourism (for example, the Ndzou ecotourism camp initiated by Eco-MICAIA in Mozambique, see chapter 5), but experience in agriculture is also growing – such as Mali Biocarburant SA's jatropha project in Mali and a honey production company in Mozambique. In South Africa, supportive government policy has resulted in a substantial number of joint ventures being established – with varying degrees of success.

Mali Biocarburant SA's jatropha project in Mali involves a combination of a joint venture and contract farming. MBSA is a private company that works with more than 4,000 small-scale jatropha farmers in three regions of Mali (and two regions in Burkina Faso). A union of local farmers in Koulikoro, the ULSPP, owns 20% of the shares of the company and 30% of the local production facility. This ownership structure aims to strengthen the capacity of smallholders in the longer term whilst facilitating their participation in decision-making in the short term. This highlights the importance of shareholding in achieving chain empowerment and farmer influence, which is often more important than the value of shares themselves (de Koning and de Steenhuijsen Piters, 2009).

In joint ventures, equity shares are usually linked to the parties' contributions, and valuing these contributions correctly is key to getting the equity shares right. However, some assets may be difficult to value. Most difficult to quantify in economic terms are the skills and knowledge that the community brings to the table. Even with tangible assets, valuations may be more difficult than it might seem at first. Further, local farmers may contribute land rights into the project – yet where land markets are not formalised, it may be difficult to establish an uncontested valuation of this asset. Also, the market value of productive land may significantly underestimate the overall value of land to families and local communities.

On the other hand, some of the experiences shared at the workshop did not entail farmer participation in the ownership of the business, including the cases of Nandan in India (chapter 6), Fuelstock in Madagascar (chapter 9) and the examples from Tanzania's sugar industry (chapter 8). This limits the farmers' control over the business, but may also mean that farmers shoulder less risk – as will be discussed below.

Besides ownership of the business, control of key business assets like land and processing facilities are also key "ownership" issues. The issues surrounding rights of access to land were a recurring central feature of all the business models discussed at the workshop. Some projects involved a transfer of land rights from the central or local government to the investor – for example, in the Fuelstock project in Madagascar (chapter 9), in the "nucleus estates" run by Nandan in India (chapter 6) and in the examples from Tanzania's sugar industry (chapter 8).

In some cases, the transfer of land rights to the investor was negotiated directly with local landholders – as illustrated by Varun’s project in Madagascar (chapter 9). Mondi shared the experience of a community land lease negotiated as part of the country’s land restitution programme. The 20-year lease was signed in 2008 between Mondi and two Community Trusts. It allows the company to grow and own timber and to conduct commercial forestry operations on the communities’ land. In return, the Community Trusts receive indexed and periodically reviewed fees as well as a range of other benefits (see chapter 3). The imbalances in negotiating power between the company and local communities, issues of process (e.g. adequate timeframes, support to local communities) and genuine investor willingness to engage in a partnership make a real difference to the nature of these direct investor-community deals – and the outcomes of the Varun and Mondi processes could not be more different.

However, in most of the experiences shared at the workshop, land rights remained vested with local farmers – including the experiences of Mali Biocarburant SA in Mali, Kuapa Kokoo in Ghana, NASFAM in Malawi, the Kinyara Sugarcane Growers Association in Uganda, most of the land area in Nandan’s investments and the experiences from Tanzania’s sugar sector. In contract farming-based schemes like the one reviewed by the Uganda National Farmers Federation (UNFFE) in Uganda (chapter 4), as well as those supported by Mali Biocarburant SA in Mali and by Nandan and Happy India in India, rights over land remain vested with local farmers – who sell their crops to the company. Similarly, NASFAM in Malawi and Kuapa Kokoo in Ghana do the marketing for their members/owners, but rights over land remain with the smallholders. In Mondi’s case, the community leased out the land but retained land ownership.

### **Voice**

“Voice” – that is, the ability to influence key business decisions – is often directly linked to ownership, as an equity share in the company gives farmers a say in business decisions. Shareholding farmers have voting rights to elect the board of directors according to their shares and are involved in decision-making by participating in AGMs. An equity share also enables smallholders to have direct access to key information about the company – crucial for underlying their influence. Some workshop participants felt that farmers’ representation on the board is the only way for them to have meaningful say



in the business. Farmer unions have board representation in MBSA and in Divine Chocolate Ltd, for example. In the case of Happy India, the 11 directors are the farmers who were actively involved from the beginning as company shareholders.

However, participants also felt that formal board representation is insufficient in itself to ensure an effective voice. In South Africa, the Levubu citrus estate involved a joint venture between the landholding community and a private company. The community did have representatives on the board. Yet in practice these representatives tended to have little voice in decisions due to differences in the level of capacity compared to the company management. Ensuring that community representatives have the necessary skill sets and structuring board meetings so as to devote enough time for weaker board members to fully understand the implications of what is being discussed are therefore key factors to make board representation work. This may create challenges for time and resources. When decisions are taken by majority vote, numbers also matter – and unless smallholders have a sufficient share of the votes there is a risk they are marginalised.

Voice can be achieved in ways other than board representation. Collective bargaining over input and produce price can make a real difference for smallholders that engaged in contract farming, for example. The experience of the Kinyara Sugarcane Growers Association in Uganda clearly illustrates this: the establishment of the association significantly strengthened the voice and negotiating power of the outgrowers vis-à-vis the company (see chapter 4). NASFAM further demonstrated how it is possible to affect policy change through creating a platform for smallholder voice (chapter 7).

Overall, participants emphasised the importance of democratic structures for grassroots involvement in business decisions. Kuapa Kokoo in Ghana invests considerable energy in promoting grassroots participation but this does involve high costs, including for instance to run regular elections for cooperative representatives at different levels. NASFAM in Malawi raised similar issues about factoring in the cost of internal democratic processes for organisations that include tens of thousands of members. Several experiences shared at the workshop (Mondi in South Africa; Eco-MICAIA and Technoserve in Mozambique; Kuapa Kokoo in Ghana) also suggested that local voice tends to become “louder” over time, as trust is built and capacity strengthened – an

issue that was picked up by Chris Tanner in his reflection about process (chapter 10). Regular meetings, consensus decision-making and working according to agreed annual benchmarks were all shown to be ways of facilitating inclusive decision-making through the creation of an open and transparent working culture (e.g. Eco-MICAIA in Mozambique and UNFFE in Uganda).

In paying proper attention to the communications between the company and local producers, it is important to be aware of the way in which voice is affected by power structures within the community itself – for example, along gender, age, status, income and other lines. This issue was particularly highlighted in the discussions about the Kuapa Kokoo and NASFAM cases. Also, a significant challenge for the operation of the Community Trusts in the Mondli case was the impact of nepotism and cronyism on community level participation (chapter 3).

### **Risk**

The extent and ways in which risk is shared varies in different business models. Ultimately, all business collaborations require parties to take some level of risk. In contract farming, for example, smallholders often bear production risks linked to weather, pests and other factors affecting harvest, while clear commitments for the company to purchase produce at a guaranteed price shift market risk from smallholders to the company. However, in practice both parties lose if the investment does not work out in either the marketing or production phases. Indeed, both the farmer and the company invest time and resources (e.g. inputs) in the project, and a failure would be a setback for both parties. If the company does not obtain the regular supply that it needs to run the business at a profit, then its entire investment in processing and marketing facilities is at risk. In this sense, risk is shared (rather than allocated) between the parties. Risk sharing can facilitate mutual dependence between company and local producers, which is often crucial to the continuing commitment and investment in an inclusive venture.

In contract farming, the company can play an important role in facilitating farmers' access to finance – not just credit, but also insurance – a key risk-management tool. In India, Nandan has included this component in its business model and, through an insurance provider, provides farmers with insurance support. Farmers ultimately carry the cost of this insurance.

Ownership and risk are directly correlated. Models involving greater local participation in the ownership of the business can also expose smallholders to greater risks. In the Levubu citrus estate in South Africa, for example, the joint venture company went into liquidation. As a result, the community lost the assets it had transferred to the company (mainly equipment). Local land rights were sheltered, as land was not contributed as an asset of the joint venture but rather leased to the company by the community. Where local communities have a stake in the business and bear part of the business risk, thought should be given to developing arrangements for sheltering key livelihood assets like land rights.

### **Reward**

Reward is directly influenced by ownership (with regard to dividends from a joint venture company, which are based on shareholding) and voice (i.e. transforming farmers from “price-takers” to “price-makers”). Risk and reward also tend to be correlated. Perceptions of reward and the mechanisms for delivering value can vary greatly as influenced by a range of risk and contextual factors. The following discussion outlines a number of procedural aspects for achieving fairness in pricing and payment structures.

Prices for inputs and produce are fundamental to determining the distribution of reward across the value chain, for example in contract farming. In Uganda, collective bargaining over product price has made a difference to smallholders (chapter 4). In the case of MBSA, decisions on private prices are based on the market price of biodiesel and are discussed by the board of the MBSA, in which the farmers’ union has a minority representation.

Companies engaged in contract farming face a risk of side-selling, whereby farmers decide to renege on their contractual obligation and sell to other buyers (often in cases where they hope to receive a higher price elsewhere). This means that the contracting company loses its investment in inputs and support. In India, government licensing seeks to address this risk by giving only one company the exclusive right to purchase produce within a given catchment area. This risk management device can have effects on the distribution of reward, however, as it effectively creates a monopsony that can undermine the negotiating power of local farmers. In India, the price of produce is therefore heavily regulated – and in the case of jatropha production, the price of biodiesel is negotiated by companies, farmers and the government.

On the other hand, some workshop participants noted that there is less experience with collective bargaining to determine the price of inputs provided to the farmers by the company. Yet this price has the potential of directly eroding farmers' profit margins. In Uganda, the Kinyara Sugarcane Growers Association has begun negotiations with the sugar producing company to stagger the repayment of the loan for inputs over three years as a way to reduce the burden of these payments on smallholder incomes (chapter 4).

Where farmers partly or wholly own the business, they are entitled to the dividends paid by the business, based on the percentage of their shareholdings. In the case of Happy India, projections indicate that the investment that each farmer was required to make to purchase one share in the company will be recovered through dividends in a five-year timeframe. In this particular case, the farmers' assembly discussed the matter and it was decided to offer higher crop prices to the farmers in the first few years while dividends were foregone. Farmers felt that higher prices were better at this early stage than higher dividends.

However, dividends are conditional on the business being successful – which was not the case in the Levubu estate in South Africa, for example. Also, safeguards need to be in place to avoid that the profits of the joint venture company are eroded by transfer pricing – the manipulation of prices in transactions between the joint venture company and other companies linked to the investor.

Greater inclusiveness in the business model can provide higher rewards for both company and smallholders, for example where the product meets Fair Trade requirements and can be sold at higher prices. Kuapa Kokoo sells part of its produce as Fair Trade, which attracts a premium that is invested in community projects through a farmers' Trust (chapter 2). But meeting Fair Trade standards and complying with the related inspection regime can also be costly.

Communities can also benefit from the commercial know-how of the private sector to increase their rewards. Eco-MICAIA is working with bee-farmers to develop an organic honey product, which fetches a far higher price than conventional honey.

Reward should not be viewed as limited to financial benefits to the local farmers and communities. In chapter 3 (Mondi), explicit reference is made to

benefits that are both “quantitative and qualitative”, highlighting the importance of factors such as empowerment within Mondi’s business model. Eco-MICAIA’s model too emphasises the long-term rewards to the community in establishing a successful venture built upon capacity building and skills development within local communities.

Finally, as with voice, attention should be paid to the distribution of rewards within the community itself.

## **PROCESS, ENABLING AND CONSTRAINING FACTORS**

Issues of process are central. Much discussion at the workshop focused on understanding the ways in which more inclusive business models can be established and implemented. These issues are discussed in detail in chapter 10, and this section briefly summarises some of the main points from workshop discussions. Also, the previous chapters point to a number of pre-conditions for success on the ground, such as strong farmers’ organisations (see e.g. chapter 4) and appropriate local farming systems (an issue raised in relation to the case of Mali Biocarburant SA).

### **Private entrepreneurship and government policy**

There is no single recipe for getting started. The experiences shared at the workshop tend to have started with a catalysing, “big bang” event. Very commonly, this was linked to the entrepreneurship of the company or individual that triggered the process. A genuine willingness of investors to work with local farmers and communities is a key ingredient of success. But government policy can also play a central role in promoting more inclusive business models – by creating incentives to kick-start the process, and providing an enabling environment for it to succeed. This is illustrated by the experience of Mondi in South Africa, where the sale and leaseback model was directly triggered by a range of public policies (such as the land restitution programme and the Broad-Based Black Economic Empowerment programme) and where the government played a key role in directly facilitating the negotiation process (chapter 3). Similarly, legislation on nature conservancies on communal land in Namibia paved the way to community-investor deals in the tourism sector.

MBSA's drive to work with family farmers is partly rooted in the small-scale landholding structure characterising Mali, as well as the assessment that *jatropha* grows best in small plots and marginal land. Also, the Malian government's programme to support rural people who want to set up *jatropha* businesses through providing equipment and inputs has helped to reduce start-up costs. MBSA's business model is affected not only by the government's supportive sectoral policy on biofuel development, but also by other government policies to promote the employment of young people leaving university (whereby the government pays the salary for the first year as a way to help graduates gain practical experience; businesses then retain successful employees beyond the first year).

Whether or not a favourable policy environment is *the* catalyst for a given experience, government support has generally been required to allow experimental ideas of inclusive business to take seed and allow them to flourish in an otherwise competitive field. However, workshop participants from all sides were clear that the business would eventually have to survive on its own in the market place without external support.

### **The role of local land rights**

The nature and security of local land rights play a central role in promoting more inclusive models. They are in turn affected by government policy and by local capacity to make the most of progressive policies. Again, the experience of Mondi in South Africa clearly illustrates the role of land policy. In this country, the land restitution process involves the restitution of lands to communities that were dispossessed as a result of apartheid policies. As land owned by Mondi changed hands as part of this process, Mondi's business model (involving timber plantations on owned land) came under threat. The development of the sale and leaseback model was a direct response to this changing land policy context. In other words, the land policy created strong incentives for Mondi to rethink its core business model, beyond corporate social responsibility programmes (see chapter 3).

In Swaziland, the land restitution policy led to the creation of "strategic partnerships" and required that settled land claims be contingent on a partnership between the claimants and private sector actors. These partnerships ensured that the farming operation would be controlled by a company in which the local communities were shareholders. Moreover, the

private sector partner was obliged to contribute capital and expertise, though the capital was partly funded by grants.

Beyond cases where land is restored to community hands, land policy can play a crucial role in several other ways. In Mozambique, legislation enabling the formal delimitation of community lands was central to experiences in the tourism sector, like the Ndzou Camp lodge supported by Eco-MICAIA (chapter 5) and the Covane lodge supported by Lupa and Technoserve. In the case of Ndzou Camp, the delimitation of 10,107 hectares in the Moribane forest reserve was a prerequisite for the investment to go ahead, as it reassured the investor that the local community had clear rights over the land concerned. The land originally was not delimited, and Eco-MICAIA hired NGO specialists to run a 6-month participatory process that culminated in the formal delimitation of the community's land. Donor funding through the *Iniciativa Para Terras Comunitarias* made that process possible.

The type of rights that local communities have on their land can have profound implications for the business models they may be able to engage with. For example, the fact that communities are entitled to lease out their land in South Africa is a central element of Mondi's sale and leaseback scheme. Yet it is not a legal option in Mozambique and Swaziland. Another important issue relates to whether legal entities can be established to represent the landholding community. While South African legislation provides several clear options, the situation is less clear in other countries. A key factor is the degree of authority that these entities have to take decisions on behalf of the community, their degree of downward accountability, and whether parallel authorities may exist that can undermine or contradict such decisions. In the words of one workshop participant, the "tapestry of confusion" that characterises local land rights and landholding structures in much of rural Africa is a key constraint on agricultural investment.

Well thought out policies require government capacity to monitor changes in the national and international context and develop informed policies on land and other key issues. In Madagascar, the Land Observatory works with the Malagasy government to develop a national strategy for supporting public decision-making on agricultural investments (see chapter 9).

## **Local organisation and capacity support**

Perhaps unsurprisingly, genuine and broad-based involvement of the local community, sustained investment in capacity to enable smallholders to participate equitably and external facilitation and support all emerged as key factors that can make or break a business model.

Collective action allows farmers to present a cohesive position and unified set of values to other parties, to address asymmetries in bargaining power with government and investors, and to reduce the transaction costs of dealing with a large number of individuals at the community level. Strong organisational structures can thus provide a sound basis for encouraging investment as well as working with government to promote good policies for investment. The role played by NASFAM in Malawi and the UNFFE in Uganda, involving for example support to farmers when negotiating contract farming arrangements with buyers, illustrates this very clearly. The issue of transaction costs linked to large numbers of farmers is a key challenge for companies, particularly where farmers are scattered over a large land area. Some companies have also developed arrangements to address this problem. For example, Nandan works through a network of “franchisees” coming from within the community or occasionally from local development organisations (chapter 6). While this type of institutional arrangement enables communication between company and large number of farmers, it is no replacement for vibrant local organisations that can represent the voices of local farmers.

In cases where strong, organised farmer or community bodies do not already exist, governments, development agencies and even private operators can help communities develop organisations that can represent local communities and smallholders. However, local ownership (in the broad sense of the word) is key, and experiences where organisation is effectively imposed upon a community are bound to fail. One of the key elements leading to the failure of the Varun land deal in Madagascar (see chapter 9) was the fact that an inexperienced company was tasked with creating 13 landholder associations to sign contracts for a very large area of land. The timeframe for setting up the local associations and negotiating the contract was two weeks. The leaders of the newly formed groups were expected to sign contracts in the name of all farmers and their descendents during a one day meeting. The deal eventually collapsed.



This experience can be contrasted with that of Eco-MICAIA in Mozambique, which works with existing local groupings to gradually develop formalised associations and then cooperatives. In the case of the honey production project, Eco-MICAIA holds equity shares in trust for the farmers until these formal organisational structures are fully operational. Eco-MICAIA's role as a "social broker" highlights the importance of partnerships, facilitators and intermediaries in creating more inclusive business models (within a production structure and across the value chain). The comparison also highlights the importance of appropriate timeframes and processes to create genuine locally owned organisational structures.

Beyond organisational structures, capacity building can make a real difference to developing more inclusive business models. Business acumen and a good understanding of the relevant markets are essential for the community to participate effectively in negotiations and gain a fairer share of the economic benefits they help to generate. One example raised at the workshop was where local communities may hope to receive more money but do not understand the costs and risks that the investor must carry before profits can be made. Where there is a high degree of trust between the two parties, proper communication may be sufficient. But where mutual trust is still being built, independent support may be advisable to provide the necessary confidence that local interests are adequately protected.

Various examples of external support were highlighted in the discussion. Formal legal advice and assistance can make a difference, where such support is well designed to address the needs of local communities – as illustrated by the experiences of the Legal Assistance Centre in Namibia and the Legal Resources Centre in South Africa. In Mozambique, training on land rights and the other support provided by the NGO Lupa enabled the Canhane community to negotiate a better deal for the management of the Covane eco-tourism lodge. The commercial know-how provided by Technoserve also helped to develop the "market, operate and transfer" model that underpins this experience.

Equally, governments may also facilitate and support negotiations between agribusiness and smallholders or local communities. Governments may for example provide model contracts to be used as a basis in community-investor negotiations. In South Africa, the government supports community workshops during the contract negotiation process, in which contract clauses are

translated and explained to communities. Such exercises can help communities in their ongoing negotiation, but more generally they may also strengthen local skills and capacity to negotiate contracts in future.

### **Development agencies**

Development agencies can play an important role in promoting business models that are driven by family farmers, like Kuapa Kokoo and NASFAM, or that at least support local farmers and communities. The previous section already discussed the roles that may be played in supporting the emergence of robust farmer organisations, and in helping these organisations get the best possible deal from partnerships with the private sector. Previous sections also mentioned the role that development agencies can play to strengthen and document local land rights – for example, in the case of Ndzou Camp and Eco-MICAIA in Mozambique.

In some cases, development agencies have also sought to broker individual partnerships, and disseminate lessons from promising experiences. In Mozambique, for example, a new programme led by the National Directorate for the Promotion of Rural Development, FAO, IFAD and the Government of Netherlands promotes community-investor partnerships by supporting case studies of successful experiences, by directly piloting a small number of community-investor partnerships in the agriculture sector, and by engaging with government and private sector players.

Other important roles that emerged during workshop discussions include the provision of grants and bank guarantees to more inclusive business models. The idea is not to “fund” commercial entities, but rather to lift the barriers that prevent businesses from investing, thereby leveraging private investment that is desirable but that would otherwise not be possible, and to ensure that the investment supports local farmers and communities. For example, in the case of Ndzou camp donor agencies helped finance the 60% equity participation of local communities in the tourism joint venture (see chapter 5).

At the workshop, there was much debate about the scope and boundaries of this type of intervention – and particularly about the extent to which it is legitimate to “distort markets” in order to support more inclusive business models. As with support from host government, several participants argued that although support may well be provided for a specified period, it also

needs to be phased out over time. In order to succeed, collaborative business models must ultimately be able to compete. In other words, even when gradually acquired, commercial viability is a key ingredient for success. The experience of Kuapa Kokoo in Ghana illustrates how initial support from development agencies can help establish a commercially viable, dynamic and growing business that is now able to run on its own legs.

Lastly, well thought out intervention strategies are key for development agencies to make an impact. It is crucial to be able to clearly distinguish those business propositions that are genuinely advantageous for local people. The Swiss Agency for Development and Cooperation in Mozambique identifies clear criteria for community-investor partnerships to be effective development tools, including clearly demonstrable poverty and social benefit, additionality, leverage, commercial viability and replicability.

## **A FEW FINAL REMARKS**

The experiences shared at the workshop concern different crops and involve different scales of operation. They come from diverse environmental, political, socio-economic and cultural contexts. Yet a few key messages emerge from the discussion of the different models at the workshop.

First of all, collaborative business models are not a universal panacea. Most of the experiences shared at the workshop involved partnerships between players with unequal negotiating power. No single experience can be flawless. Some participants called for caution in converting subsistence farmers into commercial players, whether or not as part of a collaborative model, as this conversion is not always beneficial where commodity markets are unstable or local food security at risk. The failure of the Levubu partnership in South Africa offers a warning against enthusiasm for a quick fix. Also, it is recognised that family farmers do not necessarily need to partner up with agribusiness in order to succeed – the experience of Kuapa Kokoo, discussed in chapter 2, shows that smallholders can seize opportunities, compete in global markets and drive successful businesses.

But workshop discussions did highlight positive experiences where collaborative arrangements between a company and local farmers have led to community voices becoming “louder”, backed up by greater negotiating

power. Economic benefits in the form of higher crop prices or dividends are another positive impact experienced in some models – though for many of the projects discussed at the workshop it is still too early to properly assess socio-economic impacts for local communities.

Of course, not all experiences with collaborative business models will work – as with all businesses, a number of them will fail, and proper safeguards must be in place to help shelter local farmers and communities from the associated impacts. Ultimately, a business has to be successful in order for it to benefit local people financially.

But the overarching message coming out of the workshop is that, from the investor's perspective, collaborative business models make business sense. Several business players came to the workshop to share their experiences. Their choices were dictated by a profit motive reconciled with a particular set of contextual factors (such as a given policy framework or geographic environment) and a willingness to act in a socially responsible way. The willingness to act responsibly was seen not as a constraint on the profit motive, but as a way to strengthen it. As the chief executive officer of Mali Biocarburant SA put it, the fact that local farmers have an equity stake in his company means that they have a direct interest in guaranteeing reliable supply of good-quality jatropha nuts – the very foundation of that business.

Entrepreneurship and business acumen are therefore crucial ingredients for more inclusive business models to succeed. The willingness of experienced business players to work with smallholders and local operators as part of the very core of their business model underpinned most of the experiences shared at the workshop. At the same time, the workshop highlighted the important role that public policy and non-profit organisations can play in promoting and shaping more inclusive business models. The clearest example is South Africa, where companies have been prompted to develop more inclusive models as a result of determined government action – ranging from the Black Economic Empowerment policy to the land restitution programme. Companies had to adjust to the changing policy framework in order to continue operating their business. This entailed higher costs, but businesses remained commercially viable through passing on much of this increase to purchasers downstream. While some governments have stepped up efforts to facilitate land access for outside investors, for instance through streamlining laws and procedures,

securing local land rights and supporting local farmer groups is as important to promoting investments that benefit local people.

Workshop discussions focused on direct relations between an agribusiness company and smallholders or local communities. But it is important to consider the role of the wider value chain in developing collaborative business models. Some participants spoke of their roles in negotiating improved or better priced inputs for farmers as well as providing agricultural research and development activities. Creating linkages with finance institutions, for both credit and insurance, also emerged as an important aspect, for example in the experiences shared by Nandan and by Happy India. Down the value chain, many of the models discussed involved the provision of processing facilities (some offering farmers an ownership share), allowing farmers to capture greater value from the product. Many of these business models also incorporate pre-agreed prices or in some way provide farmers with increased income security. Creating opportunities through linkages to additional markets for secondary or complementary products was highlighted as key to establishing successful models.

A challenge ahead concerns the replicability and scalability of more inclusive business models. Most of the models shared at the workshop seem highly replicable, but many have so far been implemented at a relatively small scale. Monitoring and measuring the success of these experiences is a central aspect to ensure their scalability and replicability. And even where individual entrepreneurship is the main factor that triggers an innovative experience with business models, policy is clearly key to scaling it up. The ways in which government policy can play this role are inevitably driven by context: the experiences shared by workshop participants highlighted the diversity of policy environments that can be conducive to successful collaborative business models. However, imaginative and pragmatic policy making can make a real difference to moving from innovative but isolated experiences to mainstream inclusive models at the very core of how business operates.

## 12. REFERENCES AND ANNEXES





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# ANNEX 1. Workshop agenda

## Objectives

- 1) Facilitate exchange of experiences and lesson-sharing among practitioners.
- 2) Generate lessons from innovative local initiatives, to be fed into international processes.

## Day 1. Wednesday 17 March 2010

08.30-09.00	Participants registration
09.00-09.15	<b>Morning session: Setting the scene (Facilitator Alda Salomão)</b> Opening and welcome – Salim Valá, National Director for the Promotion of Rural Development (DNPDR), Mozambique
09.15-09.45	Getting to know each other (mapping exercise and issues board)
09.45-10.15	Key concepts, workshop objectives and programme – Lorenzo Cotula, IIED
10.15-11.30	<b>Panel 1 (15 mins/presentation max, 30 min debate at the end) (Facilitator Isilda Nhantumbo)</b> – Andrew Kingman, Eco-MICAIA , Mozambique – Beatrice Makwenda, NASFAM, Malawi – Hugo Verkuijl, Mali Biocarburant SA, Mali
11.30-12.00	Coffee break

12.00-13.30	<p><b>Panel 2 (15 mins/presentation max, 30 min debate at the end) (Facilitator Isilda Nhantumbo)</b></p> <ul style="list-style-type: none"> <li>– Maurice Makhathini, Mondi Group, South Africa</li> <li>– Rivo Andrianirina Ratsialonana and André Teyssier, National Land Observatory and CIRAD, Madagascar</li> <li>– Mary Tagoe, Kuapa Kokoo, Ghana</li> </ul>
13.30-14.30	<p>Intro to break-out groups Lunch</p>
14.30-17.00	<p><b>Afternoon session: Documenting experiences</b> Drawing on their experience as practitioners / observers, participants discuss:</p> <p>The process for setting up a more inclusive business model – how do you start, what are the key steps</p> <p>Key features of the business model they are involved with, including for example:</p> <ul style="list-style-type: none"> <li>– Ownership (of business, of key assets like land or processing facilities)</li> <li>– Voice (who takes/influences key business decisions and how)</li> <li>– Risk (how supply, production, market and other risks are shared between the parties)</li> <li>– Reward (the sharing of economic costs and benefits, including market access, price setting and finance arrangements)</li> </ul>
17.00	<p><b>Close</b></p>
19.00	<p>Group dinner</p>

*Day 2. Thursday 18 March 2010*

09.00-12.00	<p><b>Morning session: Analysing the experiences</b> In the same working groups, and building on the discussions from Day 1, participants discuss:</p> <ul style="list-style-type: none"><li>– pros and cons of the business models shared;</li><li>– enabling factors (what made the model work in that particular context), role of policy and outside support (including by farmers groups, development agencies etc.);</li><li>– constraining factors (what are the pitfalls) and how they can be addressed;</li><li>– issues of scalability / replicability.</li></ul>
12.00-12.30	<p>In the last half an hour, working groups prepare a mock 5-minute TV news report on best options and key lessons. Each group appoints a ‘journalist’ (or an interviewer and an interviewee) to report back.</p>
12.30-14.00	<p>Lunch</p>
14.00-16.00	<p><b>Afternoon session: Moving forward (Facilitator Higinio Marrule)</b> Back in plenary, the groups report back (mock TV news reports)</p> <p>In plenary, discussions on:</p> <ul style="list-style-type: none"><li>– Key lessons learned and their implications for policy and practice (fishbowl debate)</li><li>– Beyond the workshop: producing and disseminating five-pagers on the experiences shared, relevance of continued exchange</li></ul>
16.00-16.30	<p><b>Final remarks, close</b></p>

## **ANNEX 2. List of participants**

1. Ademola Adesina, Aquifer Ltd, UK
2. Ratsialonana Rivo Andrianirina, Land Observatory, Madagascar
3. Joao Paulo Azevedo, Centro de Formação Jurídica e Judiciaria (CFJJ), Mozambique
4. Bernard Baha, Land Rights Research and Resources Institute (LARRRI), Tanzania
5. Monika Branks, Mozambique
6. Abbi Buxton, International Institute for Environment and Development (IIED), UK
7. Babasaheb Chaware, Happy India, India
8. Lorenzo Cotula, International Institute for Environment and Development (IIED), UK
9. Rica David, Lupa, Mozambique
10. Nazira Dista, National Directorate for the Promotion of Rural Development (DNPDR), Mozambique
11. Michel Evequoz, Swiss Agency for Development and Cooperation (SDC), Mozambique
12. Celso Gusse, Associação Rural de Ajuda Mútua (ORAM), Mozambique
13. Madina Ismail, Instituto Para A Promoção de Pequenas & Médias Empresas, Mozambique
14. Chrandrashekar Jadhav, Nandan Biomatrix, India
15. Andrew Kingman, Eco-MICAIA, Mozambique
16. Rebeca Leonard, Consultant with IIED, UK
17. Harold Liversage, International Fund for Agricultural Development (IFAD)
18. Maurice Makhathini, Mondi Ltd, South Africa
19. Beatrice Makwenda, National Smallholder Farmers Association of Malawi (NASFAM), Malawi
20. Alessandro Marini, International Fund for Agricultural Development (IFAD)
21. Higino Marrule, Technoserve, Mozambique
22. Prudence Mnisi, Swaziland Water and Agricultural Enterprise (SWADE), Swaziland
23. Altino Moises, Centro de Formação Jurídica e Judiciaria (CFJJ), Mozambique
24. Paulo Mussanhane, Technoserve, Mozambique

25. Augustine Mwendya, Uganda National Farmers Federation (UNFFE), Uganda
26. Isilda Nhantumbo, Independent researcher, Mozambique
27. Mikael Rein, Mozambique
28. Alda Salomão, Centro Terra Viva (CTV), Mozambique
29. Shirhami Shirinda, Legal Resources Centre, South Africa
30. Emmanuel Sulle, Tanzania Natural Resource Forum (TNRF), Tanzania
31. Mary Tagoe, Kuapa Kokoo Farmers Union, Ghana
32. Chris Tanner, Food and Agriculture Organization of the United Nations (FAO) and Centro de Formação Jurídica e Judiciária (CFJJ), Mozambique
33. André Teyssier, Centre de Coopération Internationale en Recherche Agronomique pour le Développement (CIRAD) and Land Observatory, Madagascar
34. Salim Valá, National Directorate for the Promotion of Rural Development (DNPDR), Mozambique
35. Hugo Verkuijl, Mali Biocarburant SA (MBSA), Mali
36. Peter Watson, Legal Assistance Centre, Namibia



# Alternatives to land acquisitions: Agricultural investment and collaborative business models

Recent years have witnessed a renewed interest in private-sector investment in agriculture. Some have welcomed this trend as a bearer of new livelihood opportunities in lower- and middle-income countries. Others have raised concerns about the possible social impacts, including loss of local rights to land, water and other natural resources; threats to local food security; and, more generally, the risk that large-scale investments may marginalise family farmers. The recent debates about “land grabbing” – whereby investors acquire large areas of land in lower- and middle-income countries – illustrate these trends and positions.

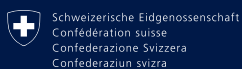
There is great demand for insights on how to structure agricultural investments in ways that leave land and share value with local farmers and communities. And in many parts of the world, there is growing experience with models for structuring agricultural investments other than large-scale land acquisitions.

This publication captures the highlights of the international workshop “Agricultural investment and collaborative business models”, which took place in Maputo in March 2010. At the workshop, farmers’ organisations, agribusiness, government and civil society came together to share lessons from practical experience. The publication makes the insights gained from this exchange available to a wider audience.

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