

# PRIVATE INVESTMENT IN AGRICULTURE

## Why it's essential, and what's needed

By Erinch Sahan and Monique Mikhail



Leyla Kayere, 76, in Mulanje, Malawi, said “we pool our labour to cultivate large pieces of land. That way we can grow more and attract better customers.” (Abbie Trayler-Smith/Oxfam GB)

**Massive investment in agriculture is desperately needed to help fix the broken food system. Private sector investment can play a vital role in delivering inclusive economic growth, environmental sustainability and poverty reduction. However, in order to do so, it must be adequately regulated and should adhere to some key principles, such as focusing on local food markets, working with producer organisations and respecting the rights of small-scale producers, workers and communities.**

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# WHY INVESTMENT IN AGRICULTURE IS ESSENTIAL

The food system is under strain from intensifying pressures. These pressures come from a changing climate, ecological degradation, population growth, rising energy prices, rising demand for meat and dairy products, and competition for land. What global leaders—in governments and business—are beginning to understand is a truth that small-scale producers have understood all along: investment is needed urgently, and on a significant scale. This investment needs to come from both the public and the private sectors. Each has a critical role to play.

While support for agriculture (particularly large-scale support) in developed countries has continued at significant levels, in developing countries there has been under-investment in agriculture by both the public and private sectors.<sup>1</sup> There is a need to increase investment that not only promotes production in a way that ‘does no harm’, but in a way that ‘does more good’. What must be achieved through ‘positive agricultural investment’ is inclusive economic growth, environmental sustainability and long-term poverty reduction.

Private investment of all forms has the potential to make a positive impact. However, investing in small-scale producers, particularly women producers, is especially important. This is because the 500 million small farms in developing countries support almost two billion people, which is nearly one third of the global population.<sup>2</sup> Yet it is these very same small-scale producers who are the most food insecure—due to lack of access to the markets, land, finance, infrastructure and technologies enjoyed by large farms.<sup>3</sup> There is, therefore, an opportunity for public and private investment to make a substantial positive impact on the livelihoods of small-scale food producers.

Such investment, when delivered inclusively and sustainably, can be catalytic in driving innovation, job creation, and in generating inclusive economic growth.<sup>4</sup> Indeed, growth in small-scale agriculture has twice the effect on the poorest as growth in other sectors.<sup>5</sup> It is important to note that the majority of private investment in small-scale agriculture is made by small-scale producers in their businesses.<sup>6</sup> The investments of small-scale producers should be complemented by investments by national governments, donor governments, international financial institutions, research institutions and private sector actors.

There are key roles for public investment, particularly in providing services that support the poorest and least ‘market ready’ small-scale food producers, with whom companies currently have little incentive to engage. The public sector also has a critical function: to set the right policies to regulate investment such that it ‘does no harm’, and the right incentives to encourage investment that ‘does more good’. This is why the private sector cannot replace the public sector in agriculture.

Yet, while the lack of public investment is striking and is a key barrier to creating a just food system, agriculture is inherently a private sector endeavour. Thus the lack of private investment, both large and small, is also cause for alarm, and is the focus of this discussion paper.

# PRINCIPLES FOR POSITIVE INVESTMENT IN SMALL-SCALE AGRICULTURE

Private investment in small-scale producers can be particularly positive, but only when ethical and sustainable business principles are followed. The fair trade movement for instance has demonstrated that it can be socially and economically beneficial to invest in small-scale producers in a positive way. Often there is a strong business case for following such principles; in other situations, they require some effort and cost by investors to ensure small-scale producers, workers and communities benefit from the investment. This includes confirming that investments do no harm, principally by ensuring respect for human rights. It is not philanthropy that makes investments positive, but the principles inherent in the core business model. Oxfam itself is an investor who has tried to make small-scale producers a focus of many of its investments. Government investment into small-scale producers is also key to both attracting more private investment in small-scale agriculture as well as improving the impact of any such investment. From Oxfam's work aimed at encouraging private sector investment that supports small-scale producers around the world, certain principles have emerged as essential to securing a positive investment impact. Some of these are explored below, starting with two points on crops and market selection: staple food crops, and local markets.<sup>7</sup>

## Invest in staple food crops

- Demand for food is growing across developing countries
- Small-scale producers can improve incomes by focusing on food crops
- Diversified cropping leaves small-scale producers less vulnerable

The first step towards achieving inclusive and sustainable investment in agriculture is selecting the right markets. Demand for food is growing across developing countries. This market growth provides a great opportunity for small-scale producers to increase their incomes. In Africa, the consumption of food staples (cereals, roots and tubers, and traditional livestock products) accounts for the greater part of agricultural output, and by 2015 consumption is projected to reach double 2006 levels.<sup>9</sup> This level of growth in market potential is unmatched by any other sector; modelling by the International Food Policy Research Institute confirms that small-scale producers could double or triple their incomes if they were to capture a larger share of the growth in staple food markets.<sup>10</sup>

The alternative to growing staple food crops is producing higher value crops (often for export), such as cotton. This approach has been given much emphasis by development providers over the past few decades. It has been shown to raise the incomes of some small-scale producers in higher-income countries in Asia and Latin America, where they were able to engage in markets on fair terms.<sup>11</sup> Unfortunately, this has rarely been the case for small-scale producers in many countries, and has generally helped only those small-scale producers who are already better off. For instance, in Ethiopia, studies have shown that focusing on improving productivity of food staples has a greater impact on poverty than increasing the production of

*In Tanzania, Oxfam is partnering with Katani Ltd, a sisal processing and marketing company seeking to expand its supply chain by linking with more small-scale producers. Katani purchases processed sisal, and provides training and loans to rural micro-enterprises that do the processing. Its investment allows the micro-enterprises to buy processing machines and sisal from local producers. This has had the impact of increasing incomes for 16,500 small-scale producers by 25 per cent.<sup>8</sup>*

high-value products.<sup>12</sup> Private investment that focuses on the production of food staples often provides the best opportunities for reducing poverty and improving food security in less developed regions, particularly in Africa.

Further, with climate change already increasing weather volatility and sometimes decimating small-scale producers' harvests, it is essential that small-scale producers diversify their production rather than focusing solely on a single crop. Diversification leaves them less vulnerable to changes in local weather patterns or pest infestations that may decrease yields in a particular crop. It also provides a buffer when low harvests caused by droughts or floods elsewhere result in massive food price spikes. For example, growing 'orphan crops'<sup>14</sup> like tef, the staple grain in Ethiopia, can bolster resilience. Tef is highly valued in communities, helps retain biodiversity, and often shows higher productivity on marginal lands.<sup>15</sup>

*Nigerian farmers can produce and deliver soybeans to Ibadan, a local city, at 62 per cent of the cost of imported soybeans<sup>13</sup>*

## Invest for local and regional markets

- Most small-scale producers cannot access international markets
- Dependence on international markets is a danger for small-scale producers
- Local and regional markets are growing

Not only is it essential to support the production of staple food crops, it is important to value local and regional markets, as these are the markets upon which most small-scale producers depend. International markets can be a good source of income, skills and information for small-scale producers, and have been linked to reductions in poverty in producer communities.<sup>17</sup>

However, because of factors such as poor logistics and the large up-front investments needed to meet quality requirements, these international markets are beyond the reach of the vast majority of small-scale producers.<sup>18</sup> The current trend of bringing small-scale producers into existing value chains generally involves only the top 2–10 per cent of small-scale producers. Most producers are marginalized and excluded from formal markets; pastoralists in arid regions are particularly alienated due to the nature of their production. For example, just 2 per cent of maize producers in southern Africa dominate the maize market.<sup>19</sup>

Even when small-scale producers can access international markets, dependence on them can be a serious concern, largely because such producers lack the financial buffers necessary to withstand changes in weather, market or financial conditions that may suddenly shut them out of the export value chain. It is, therefore, critical that any investments that bring small-scale producers into international markets allow them to diversify their income.

Further, local and regional markets for food staples, livestock and horticulture are all growing across the developing world.<sup>20</sup> In Africa, the value of domestic and regional markets for food staples alone is worth more than \$50bn annually. This is considerably more than the value of total international agricultural exports, and will grow along with Africa's population and economy.<sup>21</sup> Small-scale producers are typically in a better position to compete in these markets, partly because of the high logistical costs that make it expensive to import agricultural products.<sup>22</sup>

*Plenty Foods, a Sri Lankan company, adapted its business model to work with producer organisations. This allowed its supply base to become stronger and more reliable. The company decided to shift from engaging directly with individual producers to working with farmers' groups. Plenty Foods facilitated access to finance, insurance and seeds, and increased the number of farmers it reached. These changes also stimulated local economic development by building areas of expertise in service provision within communities.<sup>16</sup>*

## Work with producer organisations

- POs allow small-scale producers to share risks and costs, and negotiate and bargain collectively
- POs help small-scale producers meet the quality requirements of buyers

Once the right markets for positive investment are chosen, there is a host of investments and practices that companies can adopt to achieve positive investment. First of all, investments that work with producer organisations (POs)—co-operative enterprises, associations, private limited companies, and informal networks of producers—can have an empowering impact on small-scale producers. When they operate effectively, POs allow small-scale producers to share risks and costs, and negotiate and bargain collectively. They can also play a quality assurance role that allows small-scale producers to participate in more lucrative markets. As a result, through POs established by producers (themselves often supported by government), producers can better compete in and influence markets, giving them greater access, competitiveness and power.

It is also often more efficient for investors to work with POs than with individual small-scale producers. POs can make bulk purchases of agricultural inputs, insurance, logistics services, and warehousing, resulting in lower costs per producer. Economies of scale may also make it easier for a PO to invest in processing, storage or transport facilities, giving members the ability to choose when and where to sell their products. POs are also better able to attain and share market information. Further, through engagement with women's associations and co-operatives, companies can reach out to small-scale women producers who are otherwise often difficult to access. Small-scale producers also gain a safe environment in which to share information, tackle social problems such as gender-based violence, and provide opportunities to participate in decision-making, and take on leadership roles.

## Invest in processing

- Investment in processing generates jobs and wealth locally
- Such investments can enable smallholders to capture a greater share of value from the crops they produce

Processing of agricultural produce can generate additional value and jobs for local communities. This may involve investment in a processing facility set up to source from local small-scale producers. Alternatively, such an investment may enable small-scale producers or local communities to begin processing themselves. Examples of processing that small-scale producers may conduct include turning sesame seeds into sesame seed oil, drying fruits or vegetables, and producing wax from beehives. However, all of these require equipment, working capital and relevant skills. Private investments that enable local people to acquire what they need to undertake processing can have a positive impact on incomes and development. Investors can also deliberately choose to target processing sectors in which women are strongly involved, to provide additional opportunities for income and business development for women.

*In India, Hariyali Kisaan Bazaar is a chain of over 230 collection and distribution centres<sup>23</sup> that provide small-scale producers with a local 'hub' for affordable inputs and a link to the market through its buy-back scheme. To meet the needs of small-scale producers, these centres provide access to agronomists, insurance services, and targeted collection services, and use mobile phone technology to announce prices and special deals.<sup>24</sup>*

## Invest in access to services

- Investment can help small-scale producers gain access to inputs, technical expertise, information, logistics and finance
- Research and development needs to focus on what is appropriate for small-scale producers

Small-scale producers need access to a whole host of services—such as inputs, technical expertise (e.g. in meeting quality standards), training in environmentally sustainable techniques, weather and market information, business training, transportation, storage, and financing. Indeed, lack of access to these services is often a driver of lower yields and difficulty accessing markets. The public sector has a major role to play in the provision of all of these critical services. But, private investment that expands their availability to small-scale producers can also be instrumental.

Agricultural research and development (R&D) and knowledge-sharing are particularly critical to inclusive investment. Small-scale food producers are not merely passive recipients of northern technologies; they have invaluable knowledge and experience of managing the conditions specific to their area. What they lack is access to other forms of knowledge that could help them improve the productivity, sustainability and resilience of their farms. Global R&D has tended to focus solely on high-tech ‘technology products’, which are largely out of reach and inappropriate to the conditions of small-scale farms. This approach can be replaced by participatory research and development. This is an iterative process whereby producers, companies, researchers, extension agents and civil society work together to develop practices and technologies that are appropriate for small-scale producers and their local conditions—through trial, innovation, and adaptation. Private investment that works with small-scale producers to develop new techniques and technologies in this way can play a key role in improving the productivity and yields of small-scale producers.<sup>25</sup> This may, in turn, make small-scale producers more reliable suppliers and better business partners. However, private investment in R&D cannot substitute public investment, but rather should be a complement to it.

## Invest in sustainable agriculture

- Sustainable use of resources can improve productivity
- Sustainable agriculture makes small-scale producers less vulnerable to climate and economic shocks

As a general rule, the underlying model of agriculture promoted by any investment must be environmentally sustainable. The global food system is both contributing to degradation of the natural resource base and being squeezed by competing demands on it. Yet, food production depends upon healthy ecosystems. Disregarding the health of the environment may produce short-term profits, but real gains will come from long-term environmental sustainability. Recent assessments conclude that more sustainable use of local resources in small-scale agriculture can improve productivity and generate higher production and energy-use efficiencies on a per area basis, outperforming high external-input approaches.<sup>26</sup> Further, when small-scale producers are able to produce more food through techniques that are better for the environment, they are less vulnerable to future climate and economic shocks, and long-term supply for companies is assured.

Principles to ensure ecological sustainability are summarized by De Schutter and Vanloqueren<sup>27</sup> as follows:

1. Recycle biomass and balance nutrient flow and availability;
2. Secure favourable soil conditions for plant growth through enhanced organic matter;
3. Minimize losses of solar radiation, waste and nutrients by way of microclimate management, water harvesting and soil cover;
4. Enhance biological and genetic diversification on cropland; and
5. Enhance beneficial biological interactions and minimize the use of pesticides.

There are several types of sustainable agricultural practices that follow these principles in order to increase production while maintaining the natural resource base. These include agro-forestry, water harvesting in dry-land areas, livestock integration into farming systems, conservation agriculture (including low or zero tillage), systems of rice intensification, and a whole variety of other techniques. Using a combination of the above techniques and linking these to market standards may allow private companies to adopt new ways of doing business and innovate to make sustainable business commercially viable.

#### **Fair out-grower schemes**

Out-grower and contract farming schemes involve pre-agreed supply agreements between small-scale producers and buyers, which may be larger farms situated in the area. The buyers provide up-front inputs, such as credit, seeds, fertilisers, pesticides and technical advice, all of which may be charged against the final purchase price. They agree to buy the produce supplied, usually at a specified price. Fair out-grower schemes (or contract farming arrangements) may be an effective vehicle for providing support and improving market access for small-scale producers. Poor schemes generate exploitative relationships, in which small-scale producers effectively provide cheap labour and carry production risks. The negotiating power of buyers and producers, and the way in which the contract is designed, are key to determining the outcome.<sup>28</sup> Fair out-grower schemes share risks and returns fairly and avoid creating relationships of dependence. They also work through intermediaries who can represent the interests of producers and balance the power disparity between producers and buyers.

## **Women's empowerment**

- Women are over-represented in precarious and low-waged jobs
- Women have less access than men to resources crucial for producing food
- Businesses can empower women workers and small-scale producers by adapting their business models

Women and men have the same rights, and must thus have the same opportunity and support to realize them. However, in too many places, this is not the case. In most countries, women are over-represented in precarious and low-waged employment, and in informal sectors of the economy. In

farms around the world, women, though providing at least half of the workforce, have less access than men to the resources crucial to efficient food production.<sup>29</sup> Businesses can take concrete actions to address this inequality, including by:<sup>30</sup>

1. Ensuring that more women benefit from services provided by the company—e.g. by recruiting female extension staff and using training methods appropriate to women;
2. Ensuring that membership criteria for out-grower schemes and small-scale producer groups offer equal opportunities to women;
3. Introducing targets for women's representation on the boards of contract farming schemes, and rewarding co-operatives that meet these targets with more commercial contracts;
4. Supporting increased representation, active participation and leadership of women in small-scale producer and co-operative groups from which businesses source;
5. Supporting and promoting women's rights, including freedom from harassment and violence, equal property rights, equality in decision-making, equal rights to work and leisure, and freedom of association; and
6. Actively sourcing from women's small-scale producer groups by identifying sectors in which women are vulnerable, taking steps to improve their conditions, setting targets for numbers of women suppliers, tracking against these targets, and conducting audits in supply chains to ensure there is no discrimination against women.

Innovating to address issues faced by women in marginalized communities is critical, and businesses such as Vodafone (discussed below) have demonstrated that it is possible to create business models and products that are both profitable and empower women.

#### **Vodafone—M-PESA<sup>31</sup>**

Poor access to cash, savings, and insurance are problems faced by many poor women in Africa. In Kenya, Vodafone has launched M-PESA, a mobile phone-banking facility, which allows people to make payments, send money to relatives, transfer cash, and repay loans. While both men and women have benefited from this service, recent reports cite evidence that mobile banking, crucial in rural areas with few resources, allows women to control their own money, increases the scope for entrepreneurship, and reduces the strain of travelling to their male relatives—often in the city—for money, saving journeys that can take up to a week.

The service reaches nine million Kenyans, and expansion into South Africa, Tanzania, and Afghanistan is rapidly progressing. As Vodafone's former CEO, Arun Sarin, explained, 'M-PESA is not a charity. It's actually good business and good for society. If we can help improve the quality of life for millions of people, there is no better thing that a company like Vodafone can do.'

# RESPECTING RIGHTS – ‘DO NO HARM’

While the approaches described show ways in which private investment can have a positive impact, particularly on small-scale producers, there are rights that all investments must respect and uphold, which are especially important for investors in large-scale agriculture. These are explored below.

## Rights of local communities

International investors are increasingly drawn to acquiring agricultural land in developing countries.<sup>32</sup> At the heart of the question of whether investment is good for local communities, especially in the long term, is whether it strengthens and upholds, or undermines the rights to land and related resources (e.g. water) of the most vulnerable local people, especially women. The UN Voluntary Guidelines on the Responsible Governance of Tenure,<sup>33</sup> recently adopted in a process backed by governments, CSOs and the private sector, provide useful guidelines on how investment can be beneficial and not undermine land rights. Good investment should respect existing land tenure arrangements—even if they are customary or collective—and in this way can represent a beneficial investment in the land and resources of people living in rural poverty. Bad investment, on the other hand, reinforces existing power relations, and can keep people in poverty, particularly the poorest and most marginalized. Women are particularly disadvantaged when they lose access to land and other natural resources, since these are already limited, and women are more reliant on land for their survival (for water, firewood and small livestock raising).<sup>34</sup> Such rights to land and resources are an essential foundation for broad-based and sustainable economic development.<sup>35</sup> While large scale transfers of land rights away from poor rural populations should be avoided by investors wherever possible, sometimes they cannot. When this is the case, or when there are likely to be significant negative impacts on local communities, particularly indigenous peoples, investors should ensure that discussions with local communities about any acquisition of land—including purchase, long-term leasing or license to operate—follow in a credible way the principle of Free Prior and Informed Consent.<sup>36</sup> This can ensure fair compensation and fair sharing of returns. By achieving better relations with impacted communities, investors are also likely to benefit in the long run. Achieving this, and respecting human rights more generally, is a crucial part of ensuring local communities are afforded their rights.

## Respecting labour rights

Investments, big or small, can generate jobs and improve livelihoods. However, this impact is only positive if the jobs are of high quality and promote the rights of all workers. Where an investment includes the hiring of labour, all labour rights should be respected, including the provisions that:<sup>37</sup>

1. Employment is freely chosen;
2. Freedom of association and the right to collective bargaining are respected;
3. Working conditions are safe and hygienic;
4. Child labour is not used;

5. Living wages are paid;
6. Working hours are not excessive;
7. No discrimination is practised;
8. Regular employment is provided; and
9. No harsh or inhumane treatment is allowed.

In addition to these general labour rights, women's rights in the workplace must be specifically protected. These include ensuring that:

7. Men and women receive equal pay;
8. Maternity leave is guaranteed; and
9. Selection of workers is based on objective criteria, and women are not discriminated against.

## MAKING GOOD INVESTMENT HAPPEN: THE POLICY ENVIRONMENT

Beyond what the private sector can do, it is the underlying policy and legislative structure that determines whether agricultural investment is inclusive or destructive. Donors, international institutions, and domestic governments must all share a vision of promoting inclusive, resilient and sustainable agriculture, focusing particularly on small-scale producers and ensuring gender equity. Policy-makers across different institutions have a critical challenge in this endeavour: to develop policy that both supports small-scale producers and draws private investors towards inclusive and sustainable investments. On the negative side, policy incentives may drive demand for large-scale land acquisitions and lead to conflict, with negative impacts for both the investor and small-scale producers. On the positive side, the policy environment may foster the broad distribution of benefits to communities, and prevent rights violations by investing in 'market readiness for small-scale producers', setting the wider investment climate, and shaping the way that markets are governed.

Unfortunately, a strong regulatory framework is often missing. In the absence of effective national governance, international standards and voluntary initiatives can provide a way to bridge the gap—for example, IFC Performance Standards and multi-stakeholder initiatives, such as the Roundtable on Sustainable Palm Oil. Unfortunately, many of these are sector-specific and limited in their coverage and effectiveness by virtue of being voluntary or inadequately implemented. It is, therefore, essential that national governments work to bolster their policy environment to ensure positive agricultural investment.

### **Establishing 'market readiness' for small-scale producers**

High risks and costs make it difficult for companies to engage in positive investment through dealing with small-scale producers.<sup>38</sup> Investors need to be sure of the security, efficiency and quality of supplies in the medium to long term. Creating this environment requires critical state responsibilities,

encompassing a comprehensive set of agriculture policies, especially where these functions have been dismantled in recent decades. These include:

1. Support for upholding or enhancing small-scale producers' access to and control of land and water;
2. Infrastructure, including reliable transportation networks and storage;
3. Services that improve small-scale producers' access to finance, inputs, technology, information and extension/advisory services;
4. Rural infrastructure and public services (such as child care, health centres, and clean water supplies) that can optimize women's time spent on care and reproductive activities, and increase their health and well-being to enable improved livelihoods;
5. Revised laws and policies, as well as the challenging of customs that deny women equal access to and control over productive resources;
6. Organization of production to improve access to markets with aggregated volumes of high quality and safe products;
7. Open and competitive markets for efficient trade;
8. Oversight and transparency of contracts and rule of law;
9. Collection of sex-disaggregated data on agriculture, food security and nutrition to inform policy making and investments; and
10. A strong legal framework that protects the rights of small-scale producers, including labour rights.

It is these basic structures, policies and services that determine whether investors will tend towards basing their investments on land acquisitions or trade with small-scale producers.

## **Setting the right climate for positive investment<sup>39</sup>**

In order to work truly in the interest of small-scale producers and achieve sustainability, agricultural policies must be attuned to the realities of small-scale production, and appropriate to specific agro-climatic zones. Yet, the climate that supports investment in sustainable small-scale production is often significantly different from the current 'business as usual' investment climate. Thus, even before investments are made, the policy environment can tip the scales either towards or away from positive investment outcomes.

The state has a responsibility to enable, regulate, and enforce the interests of those who are less powerful in markets. Unfortunately, investment promotion policies generally favour large-scale investments (including large-scale land acquisitions), instead of positive agricultural investment. There is a host of investment promotion policies, including investment liberalisation, facilitation, protection and incentives. So far, these government policies have largely helped facilitate access for investors (including access to land) to the detriment of small-scale producers.<sup>40</sup>

Yet, there are ways to regulate investment to tilt the balance towards positive investment. In relation to land, several mechanisms can be used, including: properly implemented redistributive programmes, legal protection of all land rights, and the mandatory inclusion of small-scale producers and impacted local communities in political decision-making processes to ensure they have a say in decisions that affect their land. For broader agricultural investments,

environmental and social impact assessments of investment proposals for large plantations and the strengthening of labour legislation can help achieve positive investment.

There are also direct incentives available to encourage positive investment, such as direct support to small-scale producers. For example, tax incentives can be granted for investments that source produce from small-scale producers, especially women. Alternatively, tax incentives may encourage the involvement as shareholders of small-scale producers—to flip the bias in current tax incentives that favour importation of machinery and equipment. Mechanisms that encourage collective action can shift incentives away from exploitative plantations and towards better livelihoods for agricultural labourers.<sup>41</sup>

Further, contract farming can represent positive investment. Yet, the mechanisms by which contract farming is conducted show wide variations in the experience of small-scale producers. Ensuring secure land rights, access to market information, assistance for small-scale producers in contract negotiation, monitoring, and dispute resolution are all critical to levelling the playing field for small-scale producers.

To achieve positive agricultural investment, regulations to protect the environment and incentives to encourage sustainable agriculture are also needed. Environmental impact assessments and the regulation of pollution are essential first steps to making market systems environmentally sustainable, but incentives to shift toward sustainable production are also desperately needed.

Certification schemes (e.g. organic certification) are bringing about important changes in the agricultural sustainability landscape; unfortunately, they are often out of the reach of small-scale producers. Government support can help small-scale producers access these. Further, even more fundamental and basic changes can be made. There is huge potential for low-input, agro-ecological techniques (described in [the second section of this paper](#)) to raise yields, improve soil fertility, conserve resources, and help small-scale producers adapt to climate change. Several studies and expert agencies—including UNEP, FAO and the IAASTD—advocate sustainable agricultural approaches, and provide a host of government policies to encourage adoption of these practices. For example, extension services can be reformed by dramatically increasing the number of public 'extensionists', ensuring training on agro-ecological practices for all extensionists, and supporting farmer-to-farmer training models (e.g. farmer field schools). In addition, increasing public investment in R&D—and allocating a significant portion of this towards low-cost, agro-ecological, farmer-led practices and technologies, and prioritising techniques that maintain biodiversity and are developed by and accessible to women producers—can lay the groundwork for the adoption of sustainable approaches so that companies can source sustainable produce.

## **Governing markets for empowerment**

While the above measures by governments may shape investments to make them positive, there is also a need to govern the market to make sure investments continue to deliver positive outcomes. Through regulation and incentives, governments determine the power dynamic within markets. While regulating trade between small-scale producers and large companies is an

important component of market governance, it must not be the sole focus. Policies should make markets work better for small-scale producers.

Governance systems that create inclusive and sustainable markets are those that balance risk and reward between market actors, and take a wider perspective of agricultural markets, rather than focusing on individual value chains. As mentioned above, the current trend of bringing small-scale producers into existing value chains can help those who are market-ready, but leave many behind. Thus, in addition to bringing small-scale producers into existing value chains, an inclusive market system should support the majority of small-scale producers who are not formally organized in the market.<sup>42</sup> Policymakers can use market governance tools that are appropriate to their specific context to shape markets to achieve:

1. Trade agreements that support small-scale producer development;
2. Greater diversity of market outlets;<sup>43</sup>
3. Improved price stability and producer share of market value;
4. Stronger organisation and market power of small-scale producers;
5. Fairer trading between producers and buyers;
6. Market preferences for small-scale producers; and
7. Improved performance of the informal sector.<sup>44</sup>

## CONCLUSION

Positive agricultural investment can benefit investors, small-scale producers, communities and governments. However, the benefits are not automatic, and require effort by both businesses and governments alike to ensure they do no harm and have a positive impact on local communities.

Public investment in agriculture is vital and cannot be replaced by the private sector. Governments must give priority to investments in key public goods, such as capacity building, infrastructure, and research systems, to help small-scale producers who are not yet market-ready ensure their food security and livelihoods. Women producers must be empowered through targeted measures.

Private investment should complement public sector investment. Unfortunately, not all private investments in agriculture are positive; current policy environments and business practices often encourage investment that exacerbates poverty. However, when coupled with the right policy environment, private investment can be catalytic to inclusive economic growth, environmental sustainability, and long-term poverty reduction. Such achievements require innovation, a long-term focus and a more inclusive approach by the private sector. The general principles outlined above have the potential to propel private investment towards positive outcomes.

But the policy environment has also proven essential to shaping private investment. Particularly important are specific regulations that ensure all rights are upheld, such that investments 'do no harm'. But, beyond these key fundamentals, incentives are required to ensure that private investment 'does more good', creating a just food system for all.

# NOTES

All web links last accessed in September 2012, unless otherwise stated

- <sup>1</sup> There has also been a decline in donor investment in agriculture. Between 1983 and 2006, the global share of official development assistance for agriculture declined by 77 per cent to only 3.7 per cent, while support for agriculture in industrial countries climbed to more than \$250bn a year. Development assistance for agriculture, including forestry and fishing, calculated from Organisation for Economic Co-operation and Development (OECD), "Official Bilateral Commitments by Sector," DAC5 database; support for developing-country agriculture from OECD, "Producer Support Estimate by Country," at [www.oecd.org/dataoecd/30/58/45560148.xls?contentId=45560149](http://www.oecd.org/dataoecd/30/58/45560148.xls?contentId=45560149).
- <sup>2</sup> IFAD (undated) 'Food prices: smallholder farmers can be part of the solution', <http://www.ifad.org/operations/food/farmer.htm>
- <sup>3</sup> Eighty per cent of hungry people live in rural areas- mostly working as small-scale producers. R. Bailey (2011) *Growing a Better Future: Food justice in a resource-constrained world*, Oxfam, p56  
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