

# TIPPING THE BALANCE

Policies to shape agricultural investments and markets in favour of small-scale farmers

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A recent wave of large-scale land acquisitions and other commercial investment in agriculture has raised concerns that small-scale producers are being marginalized. This report takes a new look at the role of public policy and market governance in ensuring inclusive sustainable development. It identifies key policy levers and how these tip commercial investments in favour of either small- or large-scale farming, and how policy levers influence market governance to constrain or support the fair sharing of risk and reward between small-scale producers and the rest of the market. A considerable proportion of the report is dedicated to identifying policy elements that can specifically contribute to gender-equitable results. The focus of the analysis is on national policy, with international policy discussed insofar as it affects national policy and investment processes. The work was supported by four country case studies, conducted in Guatemala, Nigeria, Tanzania and the Philippines.

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# FOREWORD

Agriculture is back on the agenda. With almost two billion people dependent on 500 million small farms in developing countries, and given the high and volatile food prices of the last five years, the world is waking up to the need for more investment in agriculture. In the context of deregulation and liberalization of agricultural markets, the current economic crisis, and the interest of companies and others in securing access to land, water and agricultural commodities, this has translated into an emphasis on private investment.

The potential double benefit of employing the poorest people while ensuring enough food for all is tantalising. Such investments can certainly reduce the shortfall in productive resources – technology, skills, and infrastructure – that many developing countries suffer from, and generate economic benefit. However, to date they have often failed to generate positive impacts in terms of poverty reduction, wellbeing or resource efficiency. They have also often been blind to the fundamental role that women play in food production, and the drudgery they face in maintaining farms and caring for the family, unpaid and with few improvements in their lives.

Oxfam and IIED both work on inclusive business models that seek fair and transparent relationships between large corporations and small-scale producers in support of sustainable livelihoods, women's rights and poverty reduction. We have seen how missed policy opportunities and market failures impede progress, with the role of government and public policy relatively absent in the discourse on investment and agricultural market development in recent years. This research aims to tackle this governance gap.

The research has highlighted key policy levers and innovation in public policy that can better shape livelihoods programmes, helping Oxfam identify ways through programme policy and advocacy to deliver better results for an inclusive sustainable agricultural development. It also provides opportunities to strengthen the links between our programme learning and our GROW campaign, which is working to build a new global governance that averts food crises while increasing public and private investment that supports small-scale food production.

For IIED, the research has provided an opportunity to build on two different strands of work – the work on agricultural investment, large-scale land acquisitions and inclusive investment models, on the one hand, and the work on the governance of agricultural markets to improve inclusion of small-scale farmers, on the other.

We hope that 'Tipping the Balance' will similarly help knock down the walls between programme and advocacy approaches to improving women's and men's livelihoods, and encourage readers to understand agricultural investment and market governance as one interlinked policy area. The report provides some specific conclusions about relevant policy levers and how they can tip the balance towards or against women and men smallholders, drawing examples from country studies in Guatemala, Nigeria, Tanzania and the Philippines, as well as wider global references. Perhaps most importantly, the report provides a framework of analysis that we hope others will apply to the specific policies that are relevant to their own country or local context.

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# EXECUTIVE SUMMARY

More investment is required in agriculture if the sector is to meet a growing list of expectations, from rural poverty reduction to food security, stewardship of natural resources, and climate resilience. With high and volatile food commodity prices, governments have increased commitments to public investment in agriculture, but these have failed to materialize. A lot of attention has instead been paid to creating a facilitating environment for private investment in agriculture. Investment is now indeed flowing back into the sector, much of it from commercial investors rather than from governments.

Attracting investment is not an end in itself, but a means to an end. The quality of the investment – i.e. its ability to help a country pursue its stated policy goals – is critical. Stated goals underpinning investment promotion policies often encompass the improvement of women's and men's livelihoods, while respecting the environment – contributing to inclusive, sustainable development.

On a global scale, farming is dominated by small-scale producers who remain the main source of agricultural investment in many countries, with around 500 million small-scale farms supporting almost two billion people, nearly one-third of the global population. Women play a critical role. In Tanzania, for example, women are reported to produce about 70 per cent of all food crops. The big questions related to inclusive sustainable development for commercial investment in agriculture are therefore: (a) whether that commercial investment will support, bypass, or marginalize small-scale producers and women; and (b) what role public policy can play in tipping commercial investment and the benefits of agricultural markets in the direction of pro-smallholder and pro-women models of development, while respecting the environment.

That was the rationale for this collaboration between Oxfam GB and the International Institute for Environment and Development (IIED) – to analyze the policy levers on agricultural investments and the governance of agricultural markets that can tip commercial investment in the direction of agro-industrial or pro-smallholder and pro-women models.

This report develops a framework to examine the role of policy at three levels: at the level of agricultural policy basics (Section 2); at the level of directly shaping investments (Section 3); and at the level of market governance (Section 4). The key policy levers are summarized in Table 1, and elaborated on at the end of each section.

The work was supported by four country case studies, conducted in Guatemala, Nigeria, Tanzania, and the Philippines, and led by national researchers.

**Table 1: Summary of policy levers on agricultural investment and the governance of agricultural markets**

Level	Policy levers
<b>The basics</b>	Agriculture within wider development policies Infrastructure and institutions Cross-cutting gender laws and policies Voice and participation
<b>Agricultural investment</b>	Investment policies Control over land and natural resources Conditions for investor access to land and natural resources Contract farming and supply chain relationships
<b>Market governance</b>	Support for producer organizations Diversity of market outlets Market co-ordination Competition policy Quotas and market preferences Public policies for private standards Trade policy

There are six inter-related sets of conclusions from the study.

### **1. Policy matters – but currently it is biased against smallholders**

Changing that bias requires investment in small-scale agriculture – both in physical infrastructure and services that allow small-scale farmers and particularly women to invest in cash and food crops, and in the policy infrastructure that addresses their needs, and which provides voice and participation with the capacity to use them. A lack of appropriate policy and physical infrastructure tends to favour large-scale over small-scale farming by raising the cost of procuring produce from multiple scattered smallholdings, and increases the likelihood that investors will prefer in-house production on land that they own or lease themselves. Agricultural investment is then likely to follow a two-tier model, of commercial farms as outposts of global agribusiness operating in isolation from the majority of smallholdings on the economic and political margins. Public investment in physical and policy infrastructure can improve the ‘investment-readiness’ of smallholders and promote business models that support small-scale producers – with related benefits for poverty reduction, social cohesion, and natural resource management.

### **2. The investment climates that support smallholder investment and corporate investments in agriculture, while having elements in common, are not the same**

In general, commercial investors are attracted by the returns that can be generated from large-scale agriculture, which may or may not include smallholders as outgrowers. While policy can support more and fairer connections between commercial investors and small-scale producers – such as through oversight of contracts, incentives for producer organization, and oversight of trading relationships between producers and buyers – these value chain linkages are more likely to work best for a particular segment of rural societies (referred to in this report as ‘Rural World 1’ – see Box 1). This segment involves only the top 2–10 per cent of small-scale producers, primarily men, who have the assets and access to capital, organization, information, and infrastructure to ‘step up’ to formal and co-ordinated markets. Private investors working with a small segment of producers can create islands of excellence in a generally poor infrastructural environment, although government-supported infrastructure and services can enable smallholders in Rural World 2 to take the risks involved in ‘stepping up’ into these modern markets.

### 3. Policies must respond to the diversity of rural societies

The challenge of promoting inclusive sustainable development in rural areas will remain unaddressed unless investment policies respond to the diverse needs and aspirations of the many different segments of rural societies.

This report points to the dangers of 'one size fits all' policies that ignore the diversity of smallholder households and livelihoods and effectively frame smallholders as scaled-down versions of large (and male) farmers. There is a strong economic rationale for investment in diverse farming systems that cater for the different 'rural worlds' that tend to overlap in any given locality, to bring better market opportunities, technology, and – of particular importance to the landless and to women – jobs, as well as reforms that increase people's access to and control over natural resources.

For example, for rural producers who are not formally organized in the market (Rural World 2), the most relevant policy levers are about improving the institutions and governance of domestic markets, including the 'traditional' and informal trade that forms the main links between smallholders and low-income consumers. Informal markets are particularly important for women, so policies to strengthen rather than undermine these markets are needed, as well as measures to address women's specific market access constraints. Much can be achieved with simple investments in physical infrastructure, such as local market spaces and investment in local processing, though warehousing and storage, market information, or transparent commodity exchanges can, when well designed, also reduce the impact of remoteness from markets and mitigate risk. This both ensures greater resilience for relatively vulnerable small-scale producers and allows greater scope for risk-taking, particularly by women and small-scale producers. Other important policy levers are available to governments to strengthen the organization and market power of small-scale producers (including channelling support for informal groups, given women's predominance in these organizations), encourage preferential public/food security procurement, provide a greater diversity of market outlets, make standards and certification work better for small farmers, break up cartels and monopolies, improve price stability and producer share of market value, and/or provide market preferences for small- and family-scale producers, for instance in export quotas or public procurement, or through protecting small-farm sectors from import competition.

On the other hand, for Rural World 3 groups, who have few land or other assets, wage labour is particularly important, and measures to promote fair labour relations and labour-generating sectors are an important part of promoting more inclusive models of agricultural investment. For example, there are issues of poor working conditions in plantations and packing houses that must be addressed through policy and business practice. 'Soft' infrastructure is important, particularly for women, such as education and health care, as well as social protection and informal savings schemes. Redistributive reforms are also needed to increase access to land and other natural resources. Integrated social protection mechanisms (such as the labour laws in India) can reduce vulnerability to shocks and help build infrastructure such as irrigation systems, which can in turn build climate resilience.

### **Box 1: Three rural worlds**

- **Rural World 1:** These are the 2–10 per cent of producers with access to capital, organization, information, and infrastructure, who can more easily ‘step up’ to formal and co-ordinated markets – i.e. the richest of the poor.
- **Rural World 2:** These are the majority of smallholders, who are ‘hanging in’ – and who are generally more reluctant than those in RW1 to invest in the agricultural part of their livelihoods. They are also less likely to be formally organized in the market, are likely to trade with the informal sector, and may derive part of their incomes from waged work. State institutions and modern agri-food business are usually inaccessible for smallholders in RW2.
- **Rural World 3:** Many small-scale farm households are approaching landlessness; surveys in sub-Saharan Africa have shown at least 25 per cent to be in this position, controlling less than 0.11 hectare per capita. Tenant farmers and wage labourers are often the most marginalized rural citizens. There are around 450 million agricultural workers globally, 200 million of whom cannot cover their basic needs. Small-scale farms in RW3 are more likely to be female-headed households, and more likely to depend on off-farm labour opportunities. Policies and business initiatives that support smallholder production may not cater for the needs of these groups.

#### **4. Policy innovations in inclusive investment do exist**

Overall, prevailing trends in policy favour large-scale land acquisitions over small farm development. This bias is rooted in different policies, including those that regulate investment promotion and control over land and natural resources. But the country case studies undertaken for this report and the wider literature also provide examples of policy innovations that support investment by small-scale farmers and create incentives for models of corporate investment that include them. Measures that strengthen local control over land and natural resources, including legal requirements for local consultation and free, prior, and informed consent, effective regulation of commercial investment, and targeted government action to promote the equitable inclusion of small-scale producers in value chains all tend to promote more inclusive forms of investment in agriculture. But no policies were identified with regard to investment regulation that adequately addresses the important gender dimensions of agricultural investments. There is great potential for policy innovations that address gender equality, such as helping overcome women’s ‘time poverty’ or ensuring their control over key assets.

#### **5. Effective implementation is vital**

There is a major gap between good policy intentions and what is happening on the ground. Effective policy requires not only well thought out policy design, but also sustained investment in implementation. This includes capacity strengthening of government agencies and regulators and among the groups that would stand to gain from proper implementation, including small-scale producers themselves. Mechanisms for dispute resolution are also essential. This also includes budget allocations that reflect policy intent, relevant targets, and an implementation bias towards small farms. The capacity and influence of ‘national machineries’ responsible for promoting gender equality objectives need to be strengthened too. Equally, there is a need to address the conflicts that frequently arise between progressive statutory law, on the one hand, and customary norms that perpetuate gender inequality, such as patriarchal land allocation, on the other.

## 6. Politics matter

Vested interests undermine socially optimal outcomes, yet without a political analysis there is a risk of assuming that politicians choose policy in a socially optimal way and of constructing a normative analysis that focuses on technical solutions to the challenges of economic liberalization. There is also a risk of tacitly endorsing the macro-economic and political roots of poverty and thereby reducing the policy aims of inclusive and sustainable development to defensive strategies to alleviate poverty and reduce environmental degradation.

Lobbying and advocacy must not stop at the point when new policies are introduced, but must continue to ensure dedicated interventions in support of smallholders and women and to prevent unintended consequences. The final question then arises as to the investments that are required for inclusive policy. That has much to do with transparency and accountability, to allow citizen oversight, and innovations that create space and capacity support for small farmer **voice** in influential policy institutions. But such policy also has to recognize that the world of smallholder agriculture and its associated trade is largely informal, and out of reach of most instruments and institutions of public policy.

Some commercial investments in agriculture are undesirable under any circumstances, for example if investments lead to large-scale clearances; or have no connection to or multipliers with the domestic economy; or privilege just a small group of the rural population; or make no contribution to domestic food security. But effective use of policy levers can make a difference in promoting models of commercial investment that encourage inclusive sustainable development. As we head into an uncertain era of extremes in commodity prices, climate change, and generation change, with disillusionment with farming livelihoods deterring young people from going into farming, getting this policy environment right for governing investments and markets is more important than ever.

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This research report has been written to share research results, to contribute to public debate and to invite feedback on development and humanitarian policy and practice. It does not necessarily reflect the policy positions of Oxfam and IIED. The views expressed are those of the authors and not necessarily those of Oxfam or IIED.

The full report on which this summary is based is available from <http://www.oxfam.org.uk/policyandpractice>

For more information, or to comment on this report, email [jthorpe@oxfam.org.uk](mailto:jthorpe@oxfam.org.uk)

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## IIED

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**Shaping Sustainable Markets** is the flagship research project for the Sustainable Markets Group at the International Institute for Environment and Development (IIED).

Can markets be 'governed' to better benefit people and planet? This project explores the individual and combined impact of market governance mechanisms on sustainable development to find out what works where and why. Some of these mechanisms are well established. Others are innovative ideas yet to be tested in the real world.

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