LEGEND

Land: Enhancing Governance for Economic Development

Executive summary

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Land governance and inclusive business in agriculture: advancing the debate

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There is growing business interest in investing in agriculture in low and middle-income countries, just as several governments are looking to attract foreign investment to promote economic development. Concerns that investments might displace small-scale producers have raised questions about how to structure businesses in inclusive ways so as to promote equitable and sustainable development in rural areas.

While 'inclusive business' is often conceived of in terms of smallholder involvement in commercial agriculture, any gains for smallholders, employees and other affected people depend on the process and terms of inclusion. Clear criteria are therefore needed to assess inclusiveness in business relations. Yet there is no global policy instrument that embodies international consensus on those criteria.

This report reviews the state of the global debate on inclusiveness in agricultural investments and analyses what 'inclusiveness' means to different value chain actors. We gathered a broad cross-section of opinion and found fairly widespread agreement on some key features of inclusiveness that require progress, but also significant divergence on what those features mean in practice, on levels of ambition and on how to deliver change.

We distilled the areas of agreement into 'five pillars of inclusive business' and tested them against three crop-specific case studies to evaluate the inclusiveness of existing value chains for each pillar. Based on this analysis, we set out how governments, producer organisations, businesses and development agencies can take action to improve inclusiveness.

Five pillars emerged from stakeholder perspectives on the meaning of inclusive business in agriculture:

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

These pillars reflect the type of relationships agribusinesses forge with value chain actors and other impacted people. This is not to suggest that there is widespread consensus on the importance and meaning of each pillar, as some groups favoured some pillars over others (most notably, a strong emphasis on Pillars 1 to 3, but not Pillar 4, among regional farmers' federations) and significant variations were found in what they mean to different stakeholders.

Use of the identified pillars to evaluate evidence on the inclusiveness of selected value chains led to a few key lessons.

The key features of value chain relationships are as important as the business model in assessing inclusiveness.

There is a tendency to focus on business models when researching or evaluating inclusiveness, often contrasting collaborative arrangements between small-scale producers and agribusinesses to the risks inherent to large-scale plantations. Yet business practices can vary greatly within the same model and lead to very different outcomes. Ill-designed collaborative models may establish unfair relations, involve coerced participation, create dependence on one buyer, or push disproportionate risk onto smallholders. A cross-cutting approach that looks at the key features of value chain relationships (around the five pillars of inclusive business) enables the evaluation of inclusiveness within each business, and allows for more nuanced recommendations on how to enhance inclusiveness.

Assess outcomes as well as processes.

Good procedures are the foundation of any inclusive business, but success should not be benchmarked against processes alone. Effective consultations before an investment, for example, are widely considered an essential precondition of inclusive business. But they do not guarantee that communities are better off after an investment – for example, that their land rights are upheld and their food security is improved (Pillars 3 and 5). Therefore, rigorous assessments of inclusiveness would need to consider the five pillars in both their process and outcome dimensions. Business arrangements can also produce different outcomes for different social groups and undermine livelihoods for some or exacerbate inequality. For example, a set-up that works for commercially oriented smallholders may not be inclusive of poorer farmers. Standards of inclusiveness and their assessment should therefore include outcome indicators, identify whether those outcomes are positive or negative, and for whom.

The five pillars of inclusive business benchmark inclusiveness against a sliding scale of ambition, but may involve certain trade-offs.

The five pillars provide a framework for assessing and enhancing inclusiveness. However, trade-offs can arise between the different pillars. For example, large plantations may offer the potential to generate jobs in the formal sector, but can pose high risks for land rights and food security. As such, progress against Pillar 4 on labour rights (i.e. job creation and quality) may come at the cost of crucial dimensions of Pillars 3 and 4. Depending on how they are managed, these trade-offs can undermine inclusiveness. There is widespread support for the notion that, in assessing inclusiveness, employment creation alone cannot make ‘inclusive’ a business established through land rights violations.

The traits of each crop and crop-specific market dynamics affect the structure of value chains and the most effective routes to inclusiveness.

There are inherent opportunities and challenges for enhancing inclusiveness in different value chains due to the characteristics of the crop and wider market trends. For example, labour-intensive crops that are hard to mechanise present greater incentives for agribusiness firms to engage smallholders and workers (Pillars 2 and 4), yet the quality of that engagement is highly variable and the trend towards ever-greater production and processing efficiencies has undermined historical gains in inclusiveness in some cases.

In addition, market restructuring has raised the bar for smallholder participation. Any interventions to enhance inclusiveness would need to address the real-world structural factors that influence value chain relations. Without an understanding of how crop and value chain traits and market trends shape opportunities and constraints, it is difficult to advance inclusiveness in practice or develop effective public policy and programming.

At the same time, evidence shows that effective public action can make a considerable difference in promoting inclusiveness in a given commodity sector and geographic context. This compounds the case for public policies that can help to push entire industries in a more inclusive direction.

Land governance is as a key factor in shaping how businesses are structured, impacting the degree of inclusiveness across all five pillars.

Land governance is central to inclusiveness – control over land has a bearing on each of the five pillars of inclusive business. Where rural people have secure control over land and resources, businesses have greater incentives to work with them. Supporting value chain relations in which small-scale rural producers retain control over land is an important part of strategies to promote inclusiveness that relies less on the goodwill of individual companies, and more on institutional frameworks that make inclusiveness the preferable business choice.

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

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