09 January 2012 | MP3 at voaspecialenglish.com

Big Investors, Small Farmers in Africa: a Fair Deal?

This is the VOA Special English Agriculture Report.

Foreign investment in African land is growing. Countries like China, Saudi Arabia and South Korea are leasing or buying millions of hectares to grow food for their people.

Research shows that many large land deals lack protections for small farmers. Contracts may guarantee leases for up to ninety-nine years, leaving local people without land for generations.

Better practices balance exports with local food needs and give farmers ways to enforce promises by investors. They also make clear what kinds of jobs and how many jobs will be created. Smallholders can gain influence if they form cooperatives or unions or have the support of nongovernmental organizations.

There are different business models for cooperation between investors and local farmers. Lorenzo Cotula is a senior researcher at the International Institute for Environment and Development in London. One popular method, says Mr. Cotula, is contract farming.

LORENZO COTULA: "Contract farming has been around for a very long time and which essentially involves a company providing credit, inputs like seeds and fertilizers and training and all that, and then buying produce from the farmers at a fixed price when harvest time comes."

Companies usually deduct the cost of the inputs from the final purchase price. He says contract farming represents up to sixty percent of tea and sugar farming in Kenya and one hundred percent of cotton farming in Mozambique.

Contract farming may give farmers more access to markets for high-value crops. But Mr. Cotula found that contracts often go to wealthier farmers. Poorer farmers often work as labor on the contracted farms.

The price that companies pay to farmers may be low, and companies might not honor purchase agreements when market conditions change.

Also, growers may go into debt when the company deducts payments for inputs from the final purchase price.

Another business model is a joint venture. Lorenzo Cotula says an equity stake, or share of ownership, in a business can give communities a voice in decision-making. It can also provide income in the form of dividend payments.

But a practice called "transfer pricing" can make those dividends disappear. Prices are inflated or deflated in deals with companies linked to the partner in the joint-venture. This practice reduces profits for the joint-venture company and dividends for smallholder partners.

As a solution, contracts may require fair market prices for sales to partners.

And that's the VOA Special English Agriculture Report. I'm Jim Tedder.

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Contributing: William Eagle