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# Land grab or development opportunity? International farmland deals in Africa

by
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Over the past 12 months, large-scale acquisitions of farmland in Africa, Latin America, Central Asia and Southeast Asia have made headlines in a flurry of media reports across the world. Lands that only a short time ago seemed of little outside interest are now being sought by international investors to the tune of hundreds of thousands of hectares.

## Trends and drivers

An article recently published in *The Economist* suggested that foreign investors have acquired or sought some 15-20 million hectares of farmland in poorer countries since 2006, quoting estimates from the International Food Policy Research Institute.[1]

The accuracy of these estimates is hard to assess, but evidence points toward significant levels of activity and upward trends over the past five years. In four African countries alone (Ethiopia, Ghana, Madagascar, Mali), *approved* land allocations to foreign investors since 2004 amount to over 1.4 million hectares of land (just below the size of a country like Swaziland or Kuwait); this excludes allocations below 1,000 ha, allocations to nationals and pending negotiations. Due to incomplete datasets, this is a conservative figure – and it is much higher if deals still under negotiation in the four countries are included.

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[1] "Buying farmland abroad: outsourcing's third wave", *The Economist,* 23 May 2009, p. 65. See also Joachim von Braun and Ruth Meinzen-Dick (2009) "Land grabbing by foreign investors in developing countries: risks and opportunities", Washington DC, International Food Policy Research Institute, www.ifpri.org/pubs/bp/bp013.asp.

Approved allocations include a 452,500-hectare biofuel project in Madagascar, a 150,000-hectare livestock project in Ethiopia, and a 100,000-hectare irrigation project in Mali. All four countries experience upward trends in both project numbers and allocated land areas, and evidence suggests that investment levels will grow in future. Private sector deals are more common than government-to-government ones, though governments are using a range of tools indirectly to support private deals, and levels of government-owned investments are significant and probably growing.

Concerns about food security (compounded by water shortages in key investor countries and by the food price hikes of 2008) and the biofuels boom are key drivers, but other factors are also at play - such as business opportunities linked to expectations of rising food prices, agricultural commodity demand for industry, and policy reforms in recipient countries.

**Mitigating risks, seizing opportunities**

This new and fast-evolving context creates risks and opportunities. Increased investment may bring macro-level benefits (GDP growth, greater government revenues), and create opportunities for raising local living standards. Investors may bring capital, technology, know-how, infrastructure and market access, and may play an important role in catalyzing economic development in rural areas.

But as outside interest increases and as governments or markets make land available to prospecting investors, land acquisitions may result in local people losing access to the resources on which they depend – land, but also water, wood and grazing. National laws may not have sufficient mechanisms to protect local rights and take account of local interests, livelihoods and welfare. Insecure resource rights, inaccessible registration procedures, compensation limited to loss of improvements like crops and trees, and legislative gaps often undermine the position of local people.

Ultimately, the extent to which international land deals seize opportunities and mitigate risks depends on each project's terms and conditions: how risks are assessed and mitigated (for instance, with regard to project location), what business models are used (from plantations to contract farming through to various forms of equity participation by local people), how costs and benefits are shared (including the distribution of food produced between home and host countries), and who decides on these issues and how.

**Unpacking land deals**

While outright purchases appear common in Latin America and Eastern Europe, land leases are predominant in Africa – not least due to restrictions under national laws. Leases are often granted by host governments, though deals with local leaders are common for instance in Ghana, and some deals involve separate contracts with host governments and local people. A recent contract from Madagascar entails a combination of lease and contract farming arrangements, including through a direct deal with 13 associations of local landholders.

Lease durations range from short term to 99 year, and are associated with transfers of water rights. Land fees and other monetary transfers tend to be relatively low, linked to efforts to attract investment, perceived low opportunity costs, and lack of well-established land markets. Host country benefits mainly involve investor commitments on investment levels, job creation and infrastructure development – for example, with regard to the construction of irrigation systems.

Overall, however, some land deals appear rather short and simple, particularly compared to contracts in other sectors such as extractive industries. Key issues like promoting business models that maximize local content, strengthening mechanisms to monitor or enforce compliance with investor commitments, maximizing government revenues and clarifying their distribution, as well as balancing food security concerns in both home and host countries, may be dealt with by vague provisions if at all.

Lack of transparency is a major challenge in many negotiations, with little public access to information and decision-making. This includes many government-to-government negotiations, which may be expected to be subject to greater public scrutiny. Lack of transparency and of checks and balances in contract negotiations create a breeding ground for corruption and deals that do not maximize the public interest.

**What needs to happen**

Trends in foreign direct investment in land for agriculture reflect deep global economic and social transformations, with potentially profound implications for the future of world agriculture. The role of food in human consumption makes it fundamentally different from other commodities. In many parts of the world, land is central to identity, livelihoods and food security, and decisions taken today will have major repercussions for many, for decades to come. While bilateral negotiations are unfolding fast, there is a need for vigorous public debate in recipient countries, so as to base decisions on strategic thinking about the future of agriculture, the place of large and small-scale farming within it, and the role and nature of outside investment.

Where international land deals emerge as a way forward, governments must ask hard questions about the investor's capacity to deliver on very ambitious projects. Sensible regulation, skillfully negotiated contracts and robust social and environmental impact assessments are key. Host governments must create incentives to promote inclusive business models that integrate rural small-holders and family farms, and ensure the respect of commitments on investment levels, job creation, infrastructure development, public revenues, environmental protection, safeguards in land takings, and other aspects. Some recipient countries are themselves food insecure, and robust arrangements must protect local food security, particularly in times of food crisis.

Although extractive industry projects are often controversial, contractual practice in this large-scale, capital-intensive sector may also provide some insights, particularly as the size and value of land deals increases.[2] This might include precise local content requirements (employment, inputs) that evolve over project duration to increase local percentages and extend them to higher-value content (e.g. skilled labour); provisions on local capacity building (training, technology transfer); specific safeguards on land takings and environmental damage; sophisticated revenue sharing mechanisms giving host states a sizeable share of project revenues, possibly increasing it over project duration; and efforts to improve transparency in contracts and revenue management, including through open tendering and civil society oversight (under the Extractive Industries Transparency Initiative).

As interest in land grows, efforts must be stepped up in many countries to secure local land rights, including customary rights, using collective land registration where appropriate and ensuring the

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[2] "Fixing the Land Deals", *Financial Times*, Editorial, 27 May 2009.

principle of free, prior and informed consent, robust compensation regimes, the provision of legal aid, and good governance in land tenure and administration.

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Vale Columbia Center on Sustainable International Investment (VCC), led by Karl P. Sauvant, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

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