LAND GRAB?
The Race for the World’s Farmland

EDITED BY
Michael Kugelman
Susan L. Levenstein

Asia Program
Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027

www.wilsoncenter.org/asia
LAND GRAB?

The Race for the World’s Farmland

EDITED BY
Michael Kugelman
Susan L. Levenstein
LAND GRAB?

The Race for the World’s Farmland

ESSAYS BY
Carl Atkin
Gary R. Blumenthal
David Hallam
Chido Makunike
Ruth Meinzen-Dick and Helen Markelova
Raul Q. Montemayor
Alexandra Spieldoch and Sophia Murphy

EDITED BY
Michael Kugelman
Susan L. Levenstein

©2009 Woodrow Wilson International Center for Scholars, Washington, D.C.
WWW.WILSONCENTER.ORG
The Woodrow Wilson International Center for Scholars, established by Congress in 1968 and headquartered in Washington, D.C., is a living national memorial to President Wilson. The Center’s mission is to commemorate the ideals and concerns of Woodrow Wilson by providing a link between the worlds of ideas and policy, while fostering research, study, discussion, and collaboration among a broad spectrum of individuals concerned with policy and scholarship in national and international affairs. Supported by public and private funds, the Center is a nonpartisan institution engaged in the study of national and world affairs. It establishes and maintains a neutral forum for free, open, and informed dialogue. Conclusions or opinions expressed in Center publications and programs are those of the authors and speakers and do not necessarily reflect the views of the Center staff, fellows, trustees, advisory groups, or any individuals or organizations that provide financial support to the Center.

The Center is the publisher of *The Wilson Quarterly* and home of Woodrow Wilson Center Press, *dialogue* radio and television, and the monthly newsletter “Centerpoint.” For more information about the Center’s activities and publications, please visit us on the web at www.wilsoncenter.org.

Lee H. Hamilton, President and Director

Board of Trustees
Joseph B. Gildenhorn, Chair
Sander R. Gerber, Vice Chair

Public members: James H. Billington, Librarian of Congress; Hillary R. Clinton, Secretary, U.S. Department of State; G. Wayne Clough, Secretary, Smithsonian Institution; Arne Duncan, Secretary, U.S. Department of Education; Kathleen Sebelius, Secretary, U.S. Department of Health and Human Services; Adrienne Thomas, Acting Archivist of the United States; James Leach, Chairman, National Endowment for the Humanities

Private Citizen Members: Charles Cobb, Jr., Robin Cook, Charles L. Glazer, Carlos M. Gutierrez, Susan Hutchison, Barry S. Jackson, Ignacio E. Sanchez

Available from:
Asia Program
Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027

www.wilsoncenter.org

ISBN1-933549-55-6
## CONTENTS

**Introduction and Acknowledgments**  
*Michael Kugelman*

**PART I: OVERVIEW AND GENERAL PERSPECTIVES**

**International Investments in Agricultural Production**  
*David Hallam*

**Agricultural Land Acquisitions: Implications for Food Security and Poverty Alleviation**  
*Alexandra Spieldoch and Sophia Murphy*

**Investors’ Perspectives on Farmland**  
*Gary R. Blumenthal*

**Necessary Nuance: Toward a Code of Conduct in Foreign Land Deals**  
*Ruth Meinzen-Dick and Helen Markelova*
PART II: REGIONAL CASE STUDIES

Large-Scale Agricultural Investment in Africa: Points to Ponder
Chido Makunike

Overseas Farmland Investments—Boon or Bane for Farmers in Asia?
Raul Q. Montemayor

Investment in Farmland and Farming in Central and Eastern Europe and the Former Soviet Union—Current Trends and Issues
Carl Atkin

RECENT ASIA PROGRAM PUBLICATIONS

GLOSSARY

AFIRE Association of Foreign Investors in Real Estate
ASEAN Association of Southeast Asian Nations
AU African Union
BRIC Brazil, Russia, India, and China
CAFO Concentrated animal feeding operations
CAP Common Agricultural Policy
CEEC Central and Eastern European countries
EU European Union
FAO Food and Agriculture Organization
FDI Foreign direct investment
FSU Former Soviet Union
IAASTD International Assessment of Agricultural Knowledge, Science, and Technology for Development
IATP Institute for Agriculture and Trade Policy
ICTs Information and communication technologies
IFAD International Fund for Agricultural Development
IFPRI International Food Policy Research Institute
IIED International Institute for Environment and Development
INTRODUCTION

Michael Kugelman

The world is experiencing a grain rush. With increasing frequency, wealthy, food-importing countries and private investors are acquiring farmland overseas.

These transactions are highly opaque, and few details have been made public. What is known, however, is quite striking—particularly the scale of these activities. The International Food Policy Research Institute (IFPRI) estimates that 15 to 20 million hectares of farmland have been subject to negotiations or transactions over the last few years. According to the Economist, this represents the size of France’s agricultural land and a fifth of all the farmland in the European Union.¹

One of the largest and most notorious deals is one that ultimately collapsed: an arrangement that would have given the South Korean firm Daewoo a 99-year lease to grow corn and other crops on 1.3 million hectares of farmland in Madagascar—half of that country’s total arable land. However, according to a German press account, similar mega-deals have either been finalized or are in the works. Sudan has leased 1.5 million hectares of “prime farmland” to the Gulf states, Egypt, and South Korea for 99 years; Egypt “plans to grow” grain on 840,000 hectares in Uganda; and the president of the Democratic Republic of Congo “has offered to lease” an incredible 10 million hectares to South Africa.² To get a sense of the enormity of such deals, consider that most small farmers own two- or three-hectare plots.

The most common characterizations of this trend portray capital-rich Arab Gulf states and the prosperous countries of East Asia preying on the world’s farmland. One specialist has estimated that by the end of 2008, China, South Korea, the United Arab Emirates, Japan, and Saudi Arabia

Michael Kugelman is program associate with the Asia Program at the Woodrow Wilson International Center for Scholars, where he focuses on South and Southeast Asia.
controlled over 7.6 million cultivable hectares overseas—more than five times the usable agricultural surface of Belgium.  

However, such assessments do not capture the whole picture. It is not simply wealthy countries targeting the developing world; North African countries are investing in sub-Saharan Africa, while Southeast Asian countries are eying each other’s soil. There are also examples of domestic jockeying for land. In Indonesia, Java-based companies are laying claim to land on the outer islands of Borneo and Sulawesi. Finally, there are oil-for-wheat swaps; Libya and Ukraine have talked about giving Ukrainian farmland to Libya and an oil and gas contract in Libya to Ukraine.

THE NEW FARMS RACE: ROOTS AND REASONS

Why are we now witnessing this race for the world’s farmland, and what propels its participants? The chief reason is food security.

In 2008, world food prices reached their highest levels since the 1970s. The skyrocketing costs of staple grains and edible oils triggered riots across the globe—particularly in the teeming, impoverished cities of the developing world, where many people spend up to 75 percent of their incomes on food. Some top food-exporting nations, in efforts to prevent food price spikes and public unrest at home, imposed bans on food exports. Such bans, by taking large amounts of grain supplies off the global market, exacerbated the food insecurity of food-importing nations dependent on such staples.

Prices have now stabilized and the world food crisis has receded from the media spotlight. However, food costs are still high and commodities markets remain unpredictable. Additionally, other factors—such as eroding topsoil, farmland-displacing urbanization, water shortages, and the spread of wheat-destroying disease—demonstrate the challenges nations and their populations continue to face in meeting their food needs.

Indeed, food security remains an urgent global concern—and particularly for agriculturally deficient, water-short nations that depend on food imports to meet rapidly growing domestic demand.

Some of these nations have decided to take matters into their own hands. Increasingly, in an effort to avoid the high costs, supply shortages, and general volatility plaguing global food imports, these countries are bypassing world food markets and instead seeking land overseas to use for agriculture. Crops are to be harvested on this land and then sent back home for consumption.

Indeed, the chief motivation for land-seeking nations is simple: to ensure a stable and steady supply of food for their large, hungry, and often-restive populations. Energy security is another impetus; many nations are scouring land overseas to use for biofuels production. Meanwhile, private-sector financiers recognize land as a safe investment in an otherwise shaky financial climate, and hope to capitalize financially on the food- and energy-security-driven mushrooming demand for agricultural land.

Far from being coerced into these land deals, many developing-country governments welcome them—and even lobby aggressively for them. Pakistan, for example, has staged “farmland road shows” across the Arab Gulf to attract investor interest, offering lavish tax incentives and even a 100,000-strong security force to protect investors. Host governments hope that heavy injections of foreign capital will enhance agricultural technology, boost local employment, revitalize sagging agricultural sectors, and ultimately improve agricultural yields. They are also drawn to the new roads, bridges, and ports that some land investors promise to build. With such tantalizing incentives, many host-nation governments have no compunction about holding farmland fire sales.

HISTORY REINVENTING ITSELF

While often referred to as a new trend, today’s land lust is simply the reappearance—in a new form—of a phenomenon that has occurred for centuries. In the 19th century, European colonialism gobbled up global farmland. In the early 20th century, foreign fruit companies appropriated farmland in Central America and Southeast Asia. Later in the same century, Britain attempted (unsuccesfully) to convert present-day southern Tanzania into a giant peanut plantation. Even the nightmare scenario invoked by critics of today’s foreign land acquisitions—a wealthy nation whisking its newly grown crops out of a famine-scarred country—has a historical precedent: During the Irish potato famine of the 19th century, England was exporting fresh Ireland-grown crops back home.
Still, today’s overseas land investments differ from their predecessors in significant ways. Their scale is much larger; they emphasize staples instead of cash crops; they are concluded on the basis of agreements instead of through the barrel of a gun; and they are spearheaded by more government-led investment than in the past.

What is also new about today’s run on agriculture is the high level of passion it has produced, and its polarizing effect. Some regard it as the spark for a new green revolution—while others perceive it as a “new colonialism” or “land grab.” Indeed, supporters believe these capital-laced, technology-heavy deals, by boosting agricultural productivity, can help bring down global grain costs and reduce the threat of future food crises. Critics, conversely, worry about deleterious impacts on small farmers, their land, their livelihoods, and the environment. Some argue that the deals’ purported benefits could become moot if they result in mass displacements, land degradation, and resource shortages.

These land investments are rife with controversy, and yet they have major implications for global agriculture and food security. Predictably, they have generated considerable media attention and public debate—but more so in the developing world and Europe than in the United States. In an effort to boost awareness and promote discussion in Washington, the Woodrow Wilson Center hosted a May 2009 conference on foreign land acquisitions. Organized by the Center’s Asia Program (with assistance from four other Wilson Center programs), the event examined the patterns and motivations of such investments; considered the implications for investors, host countries, and food security; and highlighted case studies from Africa, Asia, Central and Eastern Europe, and the former Soviet Union. The conference represented one of the first efforts in the United States to bring together perspectives from international organizations, farmers, and investors alike, all under the same roof, and in a public forum. This volume comprises the event’s seven papers.

David Hallam’s opening essay provides a broad overview of international agricultural investments, focusing on trends, motivations, impacts, and policy implications. Hallam, of the UN Food and Agriculture Organization (FAO), first provides a reality check. The number of implemented investments, he notes, “appears to be less” than what the media are reporting, and land controlled by foreigners “remains a relatively small proportion” of total land. Additionally, while government funds are fueling the deals to an extent, investors are “primarily” from the private sector. Finally, foreign farmland investments represent only one strategy for satisfying food security needs. Others include regional food reserves and better international food market information systems, both of which are “under active discussion.”

Nonetheless, he writes, land investments remain “a reality to be reckoned with.” The “key question,” he writes, is the extent to which host-country benefits—capital inflows, technology transfers, more employment—“spill over” into host-country agriculture and create a “synergistic relationship” with existing smallholder systems. He asserts that these benefits will not materialize in local settings if land deals result in an “enclave” of “advanced agriculture” operating in isolation from indigenous, traditional smallholder agriculture. Contract farming (whereby small farmers produce crops for a larger entity, such as an agribusiness firm) can bring together smallholders and advanced agriculture, and Hallam advocates this arrangement as an alternative to outright purchases and leasing of land. He acknowledges, however, that investors may favor land acquisitions or long-term leases when economies of scale prevail, or when major infrastructural expenditures (such as roads and ports) are required.

FARMLAND ACQUISITIONS: FOOLISH OR FORTUITOUS?

Be that as it may, Hallam underscores that large-scale foreign investments in agriculture “raise complex and controversial issues.” Alexandra Spieldoch and Sophia Murphy, both of the Institute for Agriculture and Trade Policy, take a close look at the more troubling aspects of these acquisitions. One is the presence of “lopsided” power relationships in “virtually every one” of the deals being proposed. Foreign investors are typically large, wealthy transnational firms or rich governments, while host governments are poor, at war, or embroiled in political conflict. Few of the host governments can boast of strong and independent democratic institutions—a concern not just for investors, but also for local affected communities who may find their governments have no authority to speak on their behalf. Smallholders and women—arguably those
most impacted by the deals—are particularly vulnerable in this context. The former “have little political voice” and are not well organized. The latter, marginalized to begin with, often have their economic contributions overlooked by policymakers, and consequently agricultural investment “undermines viable businesses headed by women.” Spieldoch and Murphy reference the case of a Norwegian firm acquiring land in Ghana that houses shea trees—trees that yield income-generating fruit for local women producers.

Another reason for concern is the conflicting interpretation of land use. Government officials often claim that the land they plan to sell or lease is unused. However, “what the government may categorize as wasteland might very well be meeting an important share of rural people’s household needs,” Spieldoch and Murphy explain. Rural denizens often use uncultivated land as a source for wild foods, medicinal plants, and water. Indigenous use of this fallow land to satisfy resource demand is particularly significant given the world’s paucity of healthy land and natural resources. The writers point out that two-thirds of the world’s agricultural land is currently degraded, and by 2025 nearly two billion people could live in water-scarce regions. And yet the authors argue that the industrial, large-scale agricultural production envisioned by foreign investors will further exacerbate this environmental blight. Fresh water will disappear; soil nutrients will be depleted “at unsustainable rates”; and fossil fuels will be heavily expended to support fertilizers, pesticides, and farm machinery.

The Spieldoch/Murphy essay declares that land deals “must reduce, not expand, the number of hungry people and communities struggling to survive,” and “must serve the interests of the most vulnerable.” Gary R. Blumenthal, of the agricultural consulting firm World Perspectives, Inc. (WPI), suggests that large-scale foreign land acquisitions can serve these very purposes. How so? His essay argues that such investment “enables the full and efficient application of current technology,” resulting in productivity levels four to five times that of many small farms. This judicious use of technology can reduce the need for labor—but he insists this is a good thing, given that lower rates of labor per hectare mean better nutrition, higher education levels, and more healthcare for local communities. Furthermore, argues Blumenthal, the chief fact on the ground—a large, growing, and hungry world population—cries out for scale and capital investment. “Using smallholdings agriculture as a development policy is like promising an automobile to everyone in the world, but limiting construction to hand labor,” he writes. “The principles of industrialization and mass production apply as equally to agriculture as they do to non-agricultural goods.” Such views are not disputed by farmers, Blumenthal adds. Despite the negative connotation of large-scale farming—“big is bad and small is charming”—he notes that WPI surveys of U.S. farmers reveal “the ambition to become larger” by expanding their acreages.

According to Blumenthal, the incentives to invest in agriculture are numerous. In a sector where demand is soaring and supply is dwindling, financial returns are a chief motivation. “Capital flows to where it is rewarded the most,” he says, “and nothing attracts investment better than a perceived market shortage.” He also cites a public policy rationale, noting how policymakers are encouraging more private investment in farming at a time when public agricultural investment remains strikingly low (African governments spend only 5 percent of their national budgets on agriculture, he writes). Hallam’s essay estimates that developing countries need an additional $30 billion per year in investments, and yet according to Blumenthal, agriculture’s share of international donor aid is just 3 percent. Such shortfalls “beckon” commercial investors, he concludes.

RESPONSES TO THE RACE FOR THE WORLD’S FARMLAND

Blumenthal asserts that historically, the investment community has actually avoided agriculture, owing to its fears about the passions and emotions whipped up by outsiders’ involvement in land. Only in the last few years, when the commercial rationale became so compelling—thanks in large part to the realization that agricultural investments can serve as a portfolio diversifier and hedge against inflation—has this situation changed, and dramatically so. In June 2009, droves of investors—hedge fund managers, agricultural industry executives, and even chief financial officers of universities—converged on a New York City hotel for Global AgInvesting 2009, “the first investors’ conference on the emerging worldwide market in farmland.” Indeed, according to IFPRI’s Ruth
Meinzen-Dick and Helen Markelova, foreign investors today “are negotiating deals at a rapid rate.” Given this reality, they argue, policymakers and civil society can no longer settle for making “blanket pronouncements praising or denouncing the deals,” but must instead focus on what can be done to help host countries “seize the opportunities and mitigate the risks” surrounding the deals.

Their essay proposes a series of questions to be asked about any potential international farmland transaction, in order to help determine how beneficial it would be for local communities, host governments, and investors alike. These questions focus on current land use (how and by whom the land in question is currently being used) and on land tenure arrangements, or property rights. Do individuals have formal rights to the land, and does the government recognize these rights? Or do local groups have more informal “customary” tenure over the land (a status more easily exploitable by governments and investors)? What are the deals’ terms—will the land be sold or leased (the latter offers revenue streams and reversibility options, but if short-term may not create incentives for long-term environmental sustainability)? Will there be enforcement provisions? To what extent will proposed benefits of the deals be “shared” with locals—will farmers be able to participate in contracting arrangements, and will they have access to improved technologies? Will local communities retain any of the food produced on their land—particularly during food shortages? Will the land be able to withstand long-term, intensive production? Finally, how “informed and involved” are land users in the negotiations over these notoriously non-transparent deals? The transparency issue is essential, the writers insist, because “free, prior, and informed consent will create greater legitimacy for foreign land deals.”

Meinzen-Dick and Markelova propose an “international code of conduct” to help ensure foreign land acquisitions are “economically, socially, and ecologically sustainable.” Such a code would emphasize transparency, respect for land rights (including customary rights), benefits-sharing, environmental sustainability, and adherence to national trade policies—including the host country’s right to restrict exports “during times of crisis.” They contend that wide dissemination of such codes would better prepare communities, host governments, and investors for “constructive negotiations.” For this arrangement to work, however, a variety of actors must participate. The international community must enforce the code in both investor and host countries; host governments must monitor local people’s rights; the media must “showcase” the better deals, “shame” the bad ones, and push for more transparency; and civil society must focus on “preventing unjust expropriation.”

This code of conduct option has been proposed by others as well. At its July 2009 meeting, the G8 nations pledged to develop a best practices proposal to govern foreign land transactions. The World Bank, the United Nations, and various regional organizations are all formulating codes of conduct. Yet at the same time, the option has come under fire, with detractors contending it would be toothless and incapable of inducing compliance on the part of host governments and investors.

An alternative approach puts more of the onus on host governments. Spieldoch and Murphy write that countries “ultimately need a national (and local) dialogue on what they want for and from their land.” They recommend that host governments (with cooperation from investors) ensure that deals uphold the universal human right to food (a right enshrined in international legal conventions), and that land investment guidelines incorporate the feedback, priorities, and needs of all affected groups and communities. Spieldoch and Murphy also advocate that land use be reviewed in light of demographic shifts. Rural populations are projected to more than double by 2050 in some of the African countries most sought after by foreign land investors, they point out. “Governments need to have some sense of the demands to be expected for land and water in the next decade and beyond before they make decisions on land contracts that will not, by their very nature, be short-term,” they warn.

FROM THE FARMLAND FRONTLINES: REGIONAL CASE STUDIES

Some critics contend that international responses to foreign land deals betray an ignorance about realities on the ground in host countries and local communities. What are these ground realities? The second part of this volume offers accounts from three salient regions, written by people from—or intimately familiar with—these areas.
Africa

Though the recent spate of overseas farmland acquisitions is global in nature, Africa may be the biggest hotspot. According to a joint study by the FAO, International Institute for Environment and Development, and International Fund for Agricultural Development, since 2004 there have been nearly 2.5 million hectares worth of “approved land allocations” in just five African countries: Ethiopia, Ghana, Madagascar, Mali, and Sudan.\(^7\) Africa is a logical choice for investors—it possesses fertile land and ample water, yet, because of some of the world’s lowest farming productivity, governments there are desperate for help.\(^8\) Indeed, Ethiopia’s top leaders unabashedly state their willingness to cede their land to investors, justifying this strategy as a means of supporting development and of ending poverty and hunger. According to the Ethiopian government, 2.7 million hectares are now available to investors from the Middle East and East Asia.\(^9\)

Paradoxically, many African countries relinquishing their farmland are so acutely food-insecure that they depend on aid from the World Food Program (WFP). Ethiopia, for example, receives $116 million in WFP food aid—not much more than the $100 million Saudi Arabia is paying Addis Ababa to grow grains on Ethiopian farms for Saudi consumption.\(^10\) Meanwhile, according to the New York Times, Sudan receives “a billion pounds of free food” from international donors, yet still manages to grow wheat for Saudi Arabia, tomatoes for the Jordanian Army, and sorghum—a Sudanese staple—for camels in the United Arab Emirates.\(^11\)

However, there is another side to this story. Some private-sector investors in Africa’s farmland declare they will not export food out of the host country, and that they will instead make it available for local markets. In early 2009, the pan-African conglomerate Lonrho announced it had leased Angolan land for 50 years. The firm’s chairman told the Financial Times that by focusing on “domestic production for domestic consumption,” he hoped to avoid “some of the outcry associated with other deals on a continent still unable to feed itself.”\(^12\) Later in 2009, the head of Emergent Asset Management, one of the most active private investors in southern African land, informed the BBC that “we are not bringing in our own farm workers and then taking the food and exporting it.” Instead, local communities will benefit from new farming techniques, seeds, technologies, and the “above-average wages paid by Emergent’s local partner.”\(^13\)

Regardless of the nature of foreign land acquisitions in Africa, an essential fact remains: African land is a highly contentious phenomenon. “More so perhaps than on any other continent,” writes Senegal-based agricultural commodities exporter Chido Makunike, “so many livelihoods, and entire cultural and economic experiences, are directly tied to the land.” These strong ties, he explains, “engender a strong sensibility about land that is poorly understood by many non-Africans.” His essay describes these sentiments about land in Africa, and argues that failing to understand them will make successful agribusiness projects in the region unlikely. For example, if foreign investors target what to them appears to be empty land but is in fact a community’s ancestral burial ground, then “passion and resentment” will ensue. Additionally, Makunike describes the large-scale agriculture model as “Africa-dismissive.” Millions of smallholders are seemingly ignored, while capital, expertise, and sometimes even managers and workers are imported from overseas. The “presumption,” according to Makunike, is that other than the land itself, “the African side has nothing to bring to the table.” It is this “dismissive attitude” of foreign investors that not only prompts “worry and resentment” about land deals in Africa, but also “endangers their longevity and ultimate political and social viability.”

Nonetheless, Makunike does not necessarily object to foreign investments in agriculture. On the contrary, he suggests that when local communities “can be shown and convinced” that the commercial use of land “would definitely and significantly improve community well-being,” then the investment is a wise one. Makunike, like Hallam, is cautiously supportive of contract farming. According to Makunike, it offers African smallholders income opportunities while giving them the flexibility to grow their own crops on the side. The biggest question is whether investors would have the patience to offer training and assistance to their smallholder partners—given that time-pressed investors “are used to having large groups of tightly controlled laborers who are hired and fired at will.” If land deals are done right, concludes Makunike (who helps run a contract-farming-driven tea-exporting venture in Senegal), local communities will see their interests “tied up with the success” of the investment—a tremendous benefit for the investor.
Asia

After Africa, Asia is arguably the hottest target for farmland investments. Cambodia, Indonesia, Pakistan, and the Philippines have attracted particularly strong interest, and IFPRI has highlighted several proposed or finalized Asia-based deals in excess of 100,000 hectares. As in Africa, the Asia region’s public investments in agriculture have been woeful in recent years. In Indonesia, agriculture accounted for 40 percent of gross domestic product in 1970; by 2008, the figure was less than 14 percent—the result of a greater emphasis on industry and services. The consequences in recent years have been predictable: “Irrigation canals eroded, dams crumbled, and seed stocks grew obsolete.” A 2008 Credit Suisse report concludes that irrigated land growth across Asia has sunk to a 50-year low. The study finds that rice cultivation in Asia is growing at 0.7 percent per year this decade, compared to over 4 percent in the 1960s.

According to Raul Q. Montemayor of the Federation of Free Farmers Cooperatives, Inc. in the Philippines, “agribusiness opportunities abound in Asia.” The region is home to growing populations and rising consumption trends, he explains, while a lack of rural infrastructure (such as roads and ports) translates to “limited capacities” to produce and provide food. Farmland investors win over Asian governments with promises of official development assistance, loans, and other perks. Gulf investors in the southern Philippines and in Indonesia even portray their ventures as “proactive attempts to curb terrorism and extremism” through the provision of employment and livelihoods to Muslims.

Given that most Asian countries limit foreign ownership of land, leasing is the easiest and most common form of international land investment in Asia. However, Montemayor expresses great concern about the “rapid encroachment on small farms” spawned by foreign land leases in Asia. Displacement is a legitimate threat; drawing on first-hand accounts from Philippine smallholders and his conversations with farmers’ group leaders across Asia, he paints an ugly picture of people being “pressured and intimidated” into “involuntarily” leasing their land. A driving force behind such tactics are local “rogue elements” that collude with agribusiness investors. Montemayor describes how such “goons” terrorize targeted investment areas, forcing settlers to flee and “making them easy prey for opportunists” ready to lease the settlers’ land. And yet, he says, despite all these travails, small farmers have precious little to gain financially from leasing their land. Montemayor insists that “even a low-technology farmer” working his modest two-hectare plot could “easily generate” the “measly” 50 cents to a dollar per day offered as rental payments by foreign firms.

Montemayor offers recommendations for how international land investments can better benefit local landowners, rural communities, and host countries generally. Strikingly, each of his proposals focuses on local initiatives; he says little about the role of international players, and nothing about an international code of conduct. First, host governments must develop clear policies on foreign land investment that take into account “the overriding interests of the country”—from food security to the environmental sustainability of land and natural resources. Second, foreign investors must “strictly adhere” to relevant host country rules and regulations, with repercussions if they fail to do so. Finally, legal assistance should be provided to local landowners and users to ensure that they are not snookered into signing “one-sided” contracts.

Central and Eastern Europe Countries (CEEC) and the Former Soviet Union (FSU)

Though presumably not as extensive as in Africa and Asia, land acquisitions in Central and Eastern Europe and the former Soviet Union are also robust. After the Soviet Union collapsed in the early 1990s, foreign investors (most of them private) rushed to claim formerly state-owned farms—and this process has continued today. Firms from Scandinavia, South Korea, the United Kingdom, and the United States are investing in land in Russia, Ukraine, and Siberia. One of the larger deals in the works involves Gulf investors acquiring 500,000 hectares of land in Russia. Such interest is understandable; Blumenthal notes that the nutrient-rich surface soils of the FSU are highly appealing to investors. Still, even with this considerable investment activity, one hears relatively little about foreign land hunts in this part of the world. According to Carl Atkin of the farming and agri-investment consulting firm Bidwells Agribusiness, this is because such activities are long-standing, strongly encouraged in local settings, and therefore less controversial.

Atkin surveys investment types and the farmland investment climate across the CEEC and FSU. One group of financiers seeks real estate investments, and targets EU countries because of the legal and fiscal
stability and well-developed property rights found in these nations. The other group focuses on operational farming investment, which involves “accessing large areas of land at relatively low cost,” typically through leasing, and most often in Russia and Ukraine. Atkin is generally optimistic about investment prospects. He writes that most of the world’s fallow but farmable land is located in Russia and Ukraine. Additionally, Europe is blessed with ample water resources and hence solid productivity potential. Furthermore, both the CEEC and FSU have strong infrastructure (in terms of roads and ports) and enjoy close access to markets in Europe and Asia.

Atkin acknowledges investor challenges as well, especially foreign ownership restrictions (including Poland’s, which forbid foreign ownership until 2016 and are rooted in historic fears about Germans “buying up vast tracts of cheap land”). Quality management is a problem in the meat and milk sectors; many FSU states do not meet EU import standards on animal health and welfare. The global financial crisis has also presented challenges. Atkin notes that some investors are shifting away from Ukraine and other hard-hit countries, and more toward the CEEC and South America, which are perceived as more economically stable.

SOUL SEARCHING ABOUT SOIL SEARCHING: THE STAKES

Despite these obstacles, Atkin is confident that prospects for investment in global agriculture remain sound. On the demand side, global populations are growing, with “a projected nine billion mouths to feed” by 2050; dietary shifts are increasing the number of the world’s meat-eaters; and current energy policies ensure a continued thirst for biofuels. On the supply side, land availability is limited, water shortages are rampant, and agricultural technology is wanting.

Another investor advantage is that agriculture is more “recession-proof” than the general economy. According to Atkin, this is because food expenditures are relatively inelastic, and “the fundamental production of commodities” for the very poor will be little affected by economic downturns—particularly relative to “higher-end food services and retail.”

Long-Term Implications

Such an assessment suggests that large-scale international investment in agriculture is likely to continue, if not intensify, in the years ahead. Such large, sustained investments over time could have great consequences not just for individual smallholders and land users, but for entire host societies and countries.

Meinzen-Dick and Markelova point out that land converted from smallholder production to plantation agriculture will not likely revert to its original users, “and within a generation farming skills may be lost.” Such land transfers therefore have “profound and long-term implications” for the structures of rural societies. They also discuss the harmful effect large land deals could have on the “wider sociopolitical and economic context” of host countries. Granted, to this point Madagascar is the only case where a land deal has contributed to widespread political instability. However, the factors at play in most host countries—land, food insecurity, and poverty—make up a combustible mix that could easily explode. In countries—such as Pakistan—where violent, extremist anti-government movements have mastered the ability to exploit land-based class divisions, the political risks are particularly high.

Several essayists also underscore that the long-term risks of large-scale land acquisitions do not apply only to host countries and investors. Hallam, for example, points out that third parties could be impacted by changes in global trade volume and price variability when a large food importer bypasses the market and grows its food abroad. Such an observation raises larger, long-run questions: Does non-market food production portend shocks for global market supply and consequent price rises? What could be the implications for poor food-importing nations (such as those in West Africa) that cannot afford to invest in agriculture abroad if supplies continue to be removed from the market and food prices once again rise precipitously? Indeed, the Spieldoch/Murphy essay observes how negotiations for land overseas have continued even while world food prices have moderated—an indication that some wealthy food-importers “are no longer counting on global trade” to meet food needs. One must consider how this apparent waning faith in the international food market could affect global food security prospects in the years ahead.
Immediate Concerns

Such a long view, however, must not take away from the more immediate concerns. Montemayor’s essay highlights the pressures and hardships farmers are already facing in the Philippines and elsewhere in Asia. Meinzen-Dick and Markelova write about evictions and landlessness in Colombia and Guatemala. In western Kenya, where the U.S. firm Dominion Farms has allegedly leased 3,600 hectares of land for 45 years, one small farmer refused the company’s offer to pay him for his three-hectare plot. Soon thereafter, according to the farmer, Dominion manipulated the water level of a nearby dam so that he could not harvest his corn.18

And then there are the 300 rural Cambodians who marched to Phnom Penh in August 2009 to tell their stories. One of them, a monk, said that villagers in his town lost 100 hectares of land in a “high-profile land grab by rich and powerful people.” When villagers protested these seizures, police made arrests and handcuffed villagers “just as the Khmer Rouge had done.” Another of the marchers sang a song about losing “his land, his cattle, his livelihood, and the corrupt authorities who refused to help.”19

RECOMMENDATIONS

Both these immediate problems and the longer-term risks amplify the need for greater attention to and discussion about foreign land acquisitions. This collection’s authors offer a variety of recommendations for how to approach the deals. Some of the major ones are listed here, not necessarily for the sake of endorsement but more as an effort to stimulate much-needed debate on the ways forward.

For Investors

1. Understand and respect local conditions. Be aware of on-the-ground realities in host countries. Uncultivated land is often used by the poor to serve resource needs; untitled land is not necessarily unclaimed; and the impact of large-scale land acquisitions extends to land—and livelihoods—far beyond the areas where land is acquired.

   In the developing world, land is a contentious issue and is strongly associated with memories of colonialism and dispossession—so investor decisions could have considerable implications for political stability. Additionally, natural resource shortages, degraded land, and soaring population rates predominate in many of the nations where land is sought the most—so land deals could also have serious repercussions for environmental sustainability. Investors should honor any host-country regulations on land use, the environment, labor, and other relevant areas.

2. Invest in the people, not in the government of the day. Ruling regimes come and go, but the masses always remain. Financiers should tie their ventures to the interests of local communities. Earning the latter’s support is essential for the ultimate success of foreign land investments, because having the people on the investor’s side will enhance the stability and sustainability of investments and strengthen bottom lines.

3. Carefully evaluate the qualifications of local partners. Many investors come from holding companies, are not agrofood specialists, and therefore lack the necessary expertise for large-scale agribusiness management. Firms should seek assistance from host-country professionals with strong farming and business skills, and also those with the toughness to operate in challenging environments. Investors should be vigilant about vetting potential partners, given the reports of local agents hiring thugs to terrorize smallholders or to swindle land from unsuspecting or intimidated farmers.

4. Consider the merits of contract farming and assure its benefits for farmers. General foreign direct investment (FDI) trends favor looser arrangements over outright acquisitions of assets. Contract farming offers advantages both for investors (security of supply and reduced labor costs) and farmers (income possibilities and flexibility). However, to be sustainable, contract farming must give farmers sufficient rights to plant and manage their crops. Investors must also take the time to provide adequate technical training and support to contract farmers.

For Host Governments

1. Develop a clear and comprehensive farmland investment framework that reflects national and local interests. Host nations should devise land-use policies and combine them with guidelines for investing in domestic agriculture.
This framework should incorporate matters of food security, rural development, poverty alleviation, and environmental sustainability (including local seed development and seed conservation).

The framework should include the views of those most affected—particularly women and community-based organizations. Working with local communities is essential, as it helps foster an understanding of local power relationships, which can in turn inform strategies to protect against abuses.

Additionally, monitoring regimes should be instituted to ensure that investors comply with the framework’s regulations.

2. Uphold the right to food as a human right. International law recognizes the right to food as a universal human right. Governments—and investing nations and firms—should not endanger the right of local communities to food. When necessary, host countries should impose tariffs or other protective measures to ensure local industries are not subjected to foreign investment that could jeopardize domestic food security or right-to-food measures.

3. Protect the most vulnerable from investor excesses or exploitation. Foreign land contracts are notoriously opaque and allegedly one-sided. Host countries should offer legal assistance to smallholders and land users to help them navigate contractual negotiations and reach more favorable terms. A system to protect historical, ancestral, and legal rights should be established to help prevent land dispossession. Contracts and leases should be approved by a legitimate public or private authority in the host country before going into effect.

4. Do not outsource ultimate responsibility for rural development policies to foreign investors. Though foreign capital in agriculture can bring potential benefits to farmers, governments and governments alone should build the infrastructure and provide the basic services that will lift farmers out of poverty.

For the International Community

1. Be wary of media reports. Because the facts about foreign land acquisitions are scarce, media reportage is frequently inaccurate and misleading, and feeds into the polarizing debate on land deals.

2. Do not forget South America. Africa and Asia have netted some of the largest deals, and have therefore garnered the most attention. Meanwhile, investors have been snapping up land in the former Soviet Union since the early 1990s. However, investors’ interests are increasingly turning toward South America. This region houses a significant portion of the 1.5 billion hectares available worldwide for rain-fed crop production, and investors are attracted to its nutrient-rich soil, water-laden farmland, and livestock-producing capabilities. Land sales in South America are already increasing land concentration levels, and displacements have been documented in Colombia and Guatemala.

3. Devise an international code of conduct. Such a code could emphasize transparency in negotiations; indigenous food security and rural development needs; respect for existing land rights; benefits-sharing; environmental sustainability; and adherence to national trade policies, including export bans during crises.

However, such international initiatives must be complemented by efforts in host countries to monitor and protect local rights, and by media and citizens’ campaigns to highlight both promising and troubling deals and to push for more transparency.

4. Keep a proper perspective. Leasing or buying up farmland overseas constitutes only one type of investment and one way of safeguarding food security—and the proportion of land under foreign control remains relatively minor.

Additionally, large-scale land acquisitions may not necessarily harm smallholders. Technology-intensive, labor-reducing farming production may improve the quality of life in local communities.

Finally, despite favorable conditions for continued overseas farmland investment, such investment could be slowed by financiers’ fears of falling land and commodities prices and by the controversial nature of land.

5. Gather more information about foreign agricultural investment. More data is needed on patterns, scales, and impacts. Best practices should be developed not just for large land acquisitions, but also for alternatives such
as contract farming and other joint ventures. Given the absence of information on foreign land deals, consulting the ample data available on general FDI trends can be helpful in gauging the pros and cons of international land deals.

THE FUTURE OF OVERSEAS FARMING INVESTMENT

Today’s international land acquisitions are often linked to some broader chain of events. IFPRI’s director has described the hunt for land abroad as a new phase of the 2008 world food crisis. The Economist has depicted the phenomenon as “outsourcing’s third wave,” following manufacturing in the 1980s and information technology in the 1990s.

Similarly, some discern the trend as part of an evolving quest for resources. Nineteenth century gold rushes became 20th century oil rushes, which have yielded to 21st century land rushes—and now, perhaps, power rushes. August 2009 marked the launch of two “hugely ambitious power-generating schemes.” One aims to harness sunlight in North Africa and export 15 percent of Europe’s power needs to southern Europe as solar energy. The other plans to dam the Congo River and convey 40,000 megawatts of hydel energy to South Africa.20

Still, when one narrows the lens and studies the trajectory of land deals on a country-by-country basis, the image that emerges is not of a monolithic juggernaut, inexorably gobbling up the world’s land—it is instead an inconsistent and contradictory picture. Thailand is now cracking down on international investments in the country’s agriculture and drafting legislation that would punish Thais who help foreigners “take advantage” of local farmland.21 Conversely, Pakistan, despite opposition from media, civil society, farmers’ groups, and even some government agencies, is intensifying its calls for Gulf investment in its farmland.

Nonetheless, transcending this muddled picture is one crystal-clear point, one that shines through in all seven essays: The developing world needs more investment in agriculture. Farm yields are stagnant and millions are hungry. Investment in the world’s farming is necessary to invigorate agriculture and alleviate global food insecurity.

Foreign land deals, if planned and executed correctly, could conceivably help bring about this outcome. Yet as stated in one of the above recommendations, foreign investors cannot be held uniquely responsible for agricultural development in nation-states; such a burden ultimately rests with governments. After all, to use Montemayor’s words, foreign investors can always “pack up and leave if things go bad.”

Indeed, there is no guarantee that developing-world countries will be swelling with deep-pocketed agribusiness investors several decades hence. Therefore, host governments and local communities should treat any benefits resulting from land deals as a mere down payment toward a more long-term investment in government-led national agricultural revitalization programs—programs that assist the poor rural smallholders and landless laborers who will definitely be around for the long haul.

* * * * *

Both this publication and the conference that preceded it would not have been possible without the assistance and support of a number of Wilson Center colleagues. These include Mame-Khady Diouf and Justine Lindemann of the Center’s Africa Program; Kayly Ober of the Environmental Change and Security Program; Lauren Herzer of the Comparative Urban Studies Project; and Jacqueline Nader, formerly of the Program on Science, Technology, America, and the Global Economy.

When this project was in its very early conceptual phases, foreign land investments were not receiving nearly the amount of attention they are now, and information was even sparser than it is today. The editors are deeply grateful to a number of experts who not only helped explain the topic and suggested angles to pursue, but also strongly encouraged that the conference and the publication be undertaken. These people include Javier Blas of the Financial Times; Alex Evans of New York University; Zoe Goodman, formerly of the 3D organization; Gawain Kripke of Oxfam America; Ellen Messer of Brandeis University; author Paul Roberts; and Carin Smaller of the International Institute for Sustainable Development.

Others deserving mention include Suraya Afiff of the KARSA Institute in Indonesia; Jun Borras of Saint Mary’s University in Canada; John Lamb of the World Bank; Carola Lentz of Harvard; Peter Lewis
of Johns Hopkins/SAIS; Henry Machina of the Zambia Land Alliance; Zachary Makanya of the Participatory Ecological Land Use Management (PELUM) organization in Kenya; Will Masters of Purdue; Kidane Mengisteab of Penn State; Bill Moseley of Macalester College; Roz Naylor and Walter Falcon of Stanford; Jesse Ribot of the University of Illinois; Jonathan Rigg of Durham University in the United Kingdom; Beatriz del Rosario of the International Federation of Agricultural Producers; Ibrahim Saif and Farah Shoucair of the Carnegie Middle East Center; Jean-Francois Seznec of Georgetown; Michael Taylor of the International Land Coalition; and Peter Vandergeest of York College in Canada.

Last but by no means least, the editors express their tremendous appreciation to this volume’s nine contributors. All of them are busy professionals, yet they all generously took the time to contribute to this collection. We thank them for their time, efforts, and good cheer—even when deluged with our questions and requests.

NOTES


8. Over the period of 1980-2004, agricultural output per farm worker grew by less than 1 percent per year in Africa; by comparison, these rates exceeded 3 percent in East Asia and the Middle East. See “Outsourcing’s Third Wave,” Economist.


16. Ibid.


PART I

Overview and General Perspectives
There has been a recent resurgence of interest in international investment in agricultural land. Purchases and leasings of agricultural land in Africa by investors from various Gulf states for food production in support of their food security strategies have perhaps attracted the most attention until now. However, these are just one of a variety of actual or planned investment flows with different motivations. Countries outside Africa are also being targeted, while additional major investments have been made or are being planned by Chinese and, rather controversially, South Korean investors. Investment companies in Europe and North America are also exploring opportunities, and are motivated by potentially high returns on investment partly due to higher food prices and especially where biofuels feedstock production is a possibility.

The main driver of the recent spate of interest in international investment in food production appears to be food security, and a fear arising from the recent high food prices and policy-induced supply shocks that dependence on world markets for foods supplies or agricultural raw materials has become more risky. Investment in food production overseas is one possible strategic response among others. At the same time, a number of developing countries in Africa are making strenuous efforts to attract such investments to exploit “surplus” land, consequently encouraging international access to land resources whose ownership and control in the past have typically been entirely national.

Not surprisingly, this apparently anomalous situation—food-insecure, least-developed countries in Africa selling their land assets to rich countries to produce food that is in turn repatriated to feed the rich countries’
people—has attracted substantial media interest. It has also attracted international concern more generally, including at the G8 agricultural ministers meeting in April 2009. Some argue that these investments could mark the beginning of a fundamental change in the geopolitics of international agriculture. Certainly, complex and controversial issues—economic, political, institutional, legal and ethical—are raised in relation to food security, poverty reduction, rural development, technology, and access to resources, especially land. On the other hand, the low level of investment in developing-country agriculture, especially in sub-Saharan Africa, has been highlighted for decades as a matter of concern and identified as the underlying root cause of the recent world food crisis. Therefore, any possibility of additional investment resources cannot be dismissed out of hand. The focus needs to be on how these investments can be win-win, rather than on accusations of neocolonialism.

RECENT INVESTMENT TRENDS AND PATTERNS

There are no detailed data on the extent of such investments. Available foreign direct investment (FDI) data is not sufficiently detailed to determine just how much investment in agriculture there has been and what forms it takes. It is therefore difficult to say with any precision whether the recent investments are a totally new development or a continuation of existing trends. However, the World Investment Report for 2009 (published by the UN Conference on Trade and Agricultural Development, or UNCTAD) has a focus on agriculture, and country case studies currently being conducted by FAO, UNCTAD, and the World Bank should provide some more detailed information regarding the extent, nature, and impacts of investments in particular countries. Anecdotal information is available from the media, although the accuracy of much of this is questionable. Some information is available from the investors themselves and from those developing countries receiving inward investment, although not too much detail is divulged, given the sensitivity of the issues surrounding these investments and the need for confidentiality.

On the basis of the information available, a number of observations can be made regarding recent trends and patterns.
There does appear to have been an increase in international investments in agriculture in developing countries, although the number of actual implemented investments appears to be less than the number being planned, discussed, or reported in the media.

In most cases, land under foreign control remains a relatively small proportion of total land areas.

The main form of investment is the purchase or long-term leasing of agricultural land for food production.

The major investors are the Gulf states, but also China and South Korea.

The main targets for investment are countries in Africa, but also Pakistan, Kazakhstan, Cambodia, and Brazil, among others.

Investors are primarily from the private sector, but governments and sovereign wealth funds are also involved.

Private-sector investors are often investment or holding companies, rather than agrofood specialists. This means that necessary expertise for managing complex large-scale agricultural investments needs to be acquired.

Since private-sector investors are often funded by government or sovereign wealth funds, it is frequently difficult to separate the private sector from the public sector and therefore to judge the extent of public-sector involvement.

Sovereign wealth funds seem to be playing a lesser role than had originally been presumed, although they do appear to have diversified their portfolios to include investments in developing countries and in agriculture.

In host countries, it is governments who are engaged in formulating investment deals.

Recent investments emphasize the production of basic foods, unlike FDI in agriculture in the past.

Investments include the production of animal feed to meet the rising demand for livestock products.

More traditional FDI continues—in horticulture and flowers in East Africa, for example—but is emphasizing various forms of joint ventures, such as contract farming.

Recent investments involving the acquisition of land are against the trends in FDI more generally.

There may be some signs of a shift away from Africa, and of a search for greater local involvement, through joint ventures—as was the case with FDI in the past.

**INVESTOR MOTIVATIONS**

The motivation for these investments depends on whether the investor comes from the private sector or a government. Private-sector investments can represent portfolio diversification for financial returns. Biofuels production is also an important objective. Still, as noted earlier, the main reason for the recent interest—which differentiates it from previous international investments—is food security. Investors seek enhanced food security through investment in countries that do not face the land and water constraints that investor countries suffer from back home.

Another key issue is the security required for investments. While there is currently a preoccupation with buying land, since the titled ownership of assets is seen as most secure, there are many arguments against this from the point of view of the host country. It is also not clear if it is even necessary or desirable for the investing country. The acquisition of land does not necessarily provide immunity from sovereign risk, and can provoke political and economic conflict. Other forms of investment, such as contract farming and out-grower schemes (when smallholders produce and sell to a bigger farm or processing facility), can offer just as much security of supply, and are discussed later on.

In any case, land investments are only one strategic response to the food security problems of countries with limited land and water resources. Therefore, discussion of these investments needs to be set in the wider context of broader strategic debate about food security problems. There are a variety of other mechanisms to improve food security—including the creation of regional food reserves, financial instruments to manage risk, bilateral agreements including counter-trade (barter arrangements), and the improvement of international food market information systems—under active discussion. At the least, investments could simply target much-needed infrastructure and institutions that currently constrain developing-country agriculture, especially in sub-Saharan Africa.
This, together with efforts to improve the efficiency and reliability of world markets as sources of food, might raise food security for all concerned by expanding production and trade possibilities.

HOST COUNTRY MOTIVATIONS

Lack of investment has been identified as a fundamental cause of the stagnant production and low productivity of developing-country agriculture. FAO estimates that in order to double food production by 2050 (a target that must be attained to feed growing populations and to ensure a basic right to food), developing countries need an additional $30 billion per year in investment. The most recent projections are even higher. Public investment resources are limited by budgetary pressures, and official development assistance to agriculture has been declining over many years. The private sector in developing countries has tended to have little capacity to fund investment. International investments therefore have a potentially important role to play.

At the same time, a number of countries are enthusiastically seeking to attract such investments to exploit “surplus” land that is allegedly unused or underutilized. However, selling, leasing, or providing concessional access to land raises questions about how the land concerned was previously being utilized, by whom, and on what tenurial basis. In many cases, the situation is unclear due to ill-defined property rights (informal land rights are based on tradition and culture). While it is true that much land in sub-Saharan Africa is currently not utilized to its full potential, “surplus” land overall does not necessarily mean land is unused or uncropped. Its exploitation under new investments involves reconciling different claims. Changes in use and access may involve potentially negative effects on food security and raise complex economic, social, and cultural issues. There is substantial evidence of such negative effects arising in other contexts—large-scale biofuels feedstock production, for example. Such difficulties demand, at the least, consultation with those with traditional rights to the land in question, and favor alternative arrangements for investments. More generally, issues are raised by the shift in the terms of access to land from traditional and historical to market-based.

One reason land may not be used to its full potential is that the infrastructural investments needed to bring it into production are so immense as to be beyond available national budgetary resources. International investments might bring much-needed infrastructural investments from which all can benefit, but at the same time inadequate infrastructure may deter international investors.

The financial benefits of asset transfers to host countries may be small, but international investments are seen as potentially providing a variety of developmental benefits, which are described just below. Whether these potential developmental benefits are actually realized is a key concern in the current discussion.

IMPACTS OF INTERNATIONAL INVESTMENTS

Benefits to the host country are a major concern. The key question involves the extent to which benefits from land investments spill over into the host-country domestic sector in a way that produces a synergistic relationship with existing smallholder production systems and other key food-production players. Benefits should, in theory, arise from capital inflows, technology transfers leading to innovation and productivity increases, infrastructural provisions, the upgrading of domestic production, quality improvement, income and employment creation (including for local input and service suppliers), export earnings, and possibly an increase in food supplies for the domestic market and for export. Indeed, investments in agriculture should be able to boost food security.

Crucially, these benefits will not materialize if investments result in the creation of an enclave of advanced agriculture in a dualistic system with traditional smallholder agriculture—particularly if the smallholders cannot attain this advanced agriculture. Studies on the effects of FDI on agriculture show that such benefits do not always come about. These studies catalogue concerns over highly mechanized production technologies with limited employment-creation effects; a dependence on imported inputs and hence limited domestic multiplier effects; the adverse environmental impacts of production practices such as chemical contamination, land degradation, and depletion of water resources; and limited labor rights and poor working conditions. At the same time, there is also evidence of longer-run benefits in terms of improved technology, product quality, and
sanitary and phytosanitary standards. In considering the question of benefits, it is therefore important to take a dynamic perspective.

Additional political and ethical concerns are raised in cases where the host country is food-insecure. While there is a presumption that investments will increase aggregate food supplies, this does not imply that domestic food availability will increase—notably in cases where the food produced is repatriated to the investing country. Food supplies could even decrease in countries where land and water resources are commandeered by investment projects at the expense of domestic smallholders. Extensive control of land by other countries can also raise questions about political interference and influence.

The impacts of such investments are not necessarily confined to the two parties involved. Third countries may also be impacted through any resulting changes in international trade volume and price variability. Such a scenario could arise when a major importer secures food supplies outside the market.

While international land acquisitions have been relatively little-studied and information on them is scarce, there is a lot of knowledge and research on FDI more generally in agriculture. In spite of the unique economic and political dimensions of land acquisitions, the general FDI experience can provide some guidance not only on the likely benefits and pitfalls of land acquisitions, but also on the pros and cons of different forms of FDI. It is interesting to note that some of the features of the current round of land investments appear to be contrary to trends in FDI more generally, which seem to favor looser contractual arrangements rather than the actual acquisition of major assets.

Whether or not international investments lead to broader developmental benefits for developing countries depends crucially on the terms and conditions of the investment agreements, and on the effectiveness of the policy and legislative frameworks in minimizing risks.

**ALTERNATIVE BUSINESS MODELS**

There are a number of alternatives to land purchasing or leasing that might achieve or even better achieve the food-security objectives of investing countries. Alternative business models—various contractual arrangements, for example—can offer just as much security of supply. It is interesting to note that in other contexts, vertical integration (whereby one firm takes control over upstream or downstream activities) tends to be based much more on such arrangements than on more traditional approaches (whereby firms simply buy upstream or downstream firms and do all these firms’ activities). The development of East African horticultural production for export by European supermarkets is a case in point. Such looser arrangements are likely to be more conducive to the interests of the host country. However, even here, there will probably be questions as to the compatibility of the needs of investors with those of smallholder agriculture. This in turn raises questions about poverty reduction potential.

Determining the appropriate business model will depend on what products the investment is intended to produce, on the production system itself, and on what collateral investments—in infrastructure, for example—are needed. Investors may favor land purchases or long-term leasing where economies of scale are significant, or where major infrastructural investments such as roads and ports are needed. Where economies of scale are not significant, contractual arrangements such as out-grower schemes may be just as acceptable to investors and possibly more capable of generating developmental benefits for local producers.

Mixed models are also possible. For example, there are instances of large-scale commercial units, often a privatized former state farm, owned and operated by an international investor, and participating in a symbiotic relationship with smallholders. The latter sell their output under contract to the central company, while receiving support in the form of agreed sales, credit, and technical assistance. In essence, such mixed models feature both the traditional acquisition of a large facility and arrangements with local smallholders to supply additional production. Sugar investments in Tanzania are one example of such an arrangement, while the creation of a similar model based on so-called “farm blocks” is an objective of government policy in Zambia.

**SOME POLICY IMPLICATIONS**

If it is acknowledged that international investment might make a positive
contribution to raising productivity in developing-country agriculture, then the question arises as to what policies might help to maximize the positive contributions while minimizing the associated risks. Investing countries can provide policy incentives to encourage and target outward investment. However, the onus to attract investments to where strategic needs are greatest and to ensure that those needs are met falls primarily on the host countries. The latter also need domestic policy measures to ensure that local agriculture is capable of capitalizing on any spillover benefits of investments.

Host countries need to create an environment that is conducive to international investment and reduces perceived risks. At the same time, national interests need to be preserved. Developing countries have made a great deal of progress in this respect in recent years, liberalizing entry conditions and establishing investment-promotion institutions to facilitate inward investment. Some participate in bilateral treaties and other international agreements and conventions for contract enforcement, arbitration, and dispute settlements (such as the Multilateral Investment Guarantee Agency).

Still, the lack of clear property rights, especially in regards to land, remains a deterrent to investment in some countries. Lack of adequate infrastructure may also deter some investors, although others see the very provision of infrastructure as a necessary component of their investments.

If the general developmental benefits of international investments are to be realized, then appropriate policy, institutional, and legislative frameworks need to be in place to guarantee them. Apart from the financial terms and conditions of the investment, provisions may be needed concerning the local sourcing of inputs such as labor; social and environmental standards; property rights and stakeholder involvement; food security; how much food to export and how much to retain in the host country; and distribution of revenues.

Finally, trade policy issues are raised in cases where investors want to repatriate food that has been produced. For example, some host countries have offered trade policy exceptions, such as agreements not to impose export controls—even in times of domestic food crises.

**CONCLUSIONS AND OUTSTANDING ISSUES**

The decades-long lack of investment in global agriculture has been identified as an important underlying cause of the recent food crisis and of the difficulties developing countries have encountered in dealing with this crisis. Developing countries’ capacity to fill the investment gap is limited, and the share of official development assistance going to agriculture has trended downwards over the years to as little as 5 percent. Therefore, in general terms, the apparent recent surge in interest in international investment in agriculture should be welcomed rather than condemned.

The much-publicized “land grab,” involving the purchase or leasing of agricultural land in developing countries for food production, is just one form of investment. Yet it is a reality to be reckoned with, and a number of developing countries are encouraging such investments.

While such investments should not be rejected in principle, there are indeed risks for host countries, and they raise complex and controversial issues—economic, political, institutional, legal, and ethical—in relation to food security, agricultural investment and development, and land tenure and transfer. It is important that any international investment bring development benefits—technology transfers, employment creation, upstream and downstream linkages, and so on—to the host country. However, these benefits are not automatic. The case for an international code of conduct—one that highlights the need for transparency, stakeholder involvement, and sustainability, and which emphasizes concerns for domestic food security and rural development—needs to be explored.

There is an urgent need to monitor the extent, nature, and impacts of international investments, and to catalogue best practices in law and policy to better inform both host and investing countries. Detailed impact analysis is needed to assess whether an international code of conduct is desirable and what its content should be. Forms of investment other than land acquisitions (such as contract farming and other joint ventures) are more likely to yield development benefits for host countries. The scope of such investments needs to be evaluated and best practices promoted.

If FDI is to play an effective role in filling the investment gap facing developing-country agriculture, then there is a need to reconcile the
investment objectives of investing countries with the investment needs of developing countries. Investment priorities need to be identified in a comprehensive and coherent strategy, and efforts must be made to identify the most effective measures to promote the matching-up of capital to opportunities and needs.

According to the UN Food and Agriculture Organization (FAO), 1.2 billion people worldwide live with hunger. This is an increase of more than 100 million people since 2006, and represents a major setback in efforts to halve (and ultimately to eradicate) hunger in the world, an objective that governments committed to in 2000 with the adoption of the UN Millennium Development Goals. This increase in hunger comes at a time of great uncertainty for global ecosystems and for economic structures and institutions. For the first time in three decades, there is strong agreement among policymakers that more investment in agriculture is urgently needed in poor countries to address hunger and poverty, to develop and diversify their economies, and to stop the steady erosion of arable land even as the demand for food continues to grow. The nature of this investment, however, is far more controversial: what kind of agricultural technologies to use; whether to focus on the production of food or commodities; how to cultivate links to local, regional, and international markets—all of this is hotly contested. The year 2008 witnessed a truly extraordinary number of negotiations on the part of governments and private firms looking to sign agreements that would confer ownership of, or long-term leases on, land abroad. Not all of these deals have resulted in signed contracts. Many are still under negotiation, while others have fallen apart because of adverse economic conditions, political instability, and concerns about the impact on local food security and livelihoods.

Agricultural Land Acquisitions: Implications for Food Security and Poverty Alleviation

Alexandra Spieldoch and Sophia Murphy

Alexandra Spieldoch is director of the Trade and Global Governance Program at the Institute for Agriculture and Trade Policy (IATP). Sophia Murphy is a senior advisor for IATP.
reactions in the countries where the land is located or because the global financial crisis has dried up available capital. Yet the trend continues, and a number of multilateral institutions are now paying close attention. In April 2009, the International Food Policy Research Institute (IFPRI) released a new report titled “‘Land Grabbing’ by Foreign Investors in Developing Countries: Risks and Opportunities.” The FAO has commissioned several pieces of work and has planned an inter-governmental meeting to review the issue. The World Bank is publishing guidelines for codes of conduct for investment in overseas farmland. The 2009 World Investment Report (published by the UN Conference on Trade and Agricultural Development, or UNCTAD) is focused on agriculture and agribusiness and includes a review of land-lease and land-purchase agreements. Access to land and the right to food is one of several issues the UN Special Rapporteur on the Right to Food has singled out for his attention during his mandate.

These are very specific kinds of investments, in some cases entailing the ownership of land, and in all cases giving a foreign entity the right to use the natural resource base—namely, soil and fresh water. There is still considerable disagreement on what the investment should aim to achieve. The answer to this question is critically important. Investment framed around the purchasing or leasing of land in developing countries by foreign firms or governments raises specific sets of issues that this paper will explore. The essay is focused on the social and economic implications of such investment for the people living on or adjacent to the land in question. The authors consider the proposed and existing investments from a human rights perspective, and conclude with policy recommendations.

CONTEXT AND MOTIVATIONS

Land acquisition by foreigners is not a new phenomenon. Colonization of farmland by foreign settlers dates back thousands of years. The 19th century saw a huge wave of colonization by European powers in the Americas, Africa, Asia, and the Pacific. The colonizers appropriated much of the most fertile land for themselves, pushing local populations onto marginal land for their own production. At the time of independence, a number of former colonies in Africa, Asia, and Latin America nationalized much of their economies in a bid to reassert local control. At the time, a number of development economists supported these actions. However, since the 1980s, there has been considerable pressure on developing-country governments to get out of economic management and to do all they can to encourage foreign investment as a way to ensure development. This pressure has come from developed-country governments and from officials in multilateral institutions, including the World Bank and the International Monetary Fund, but also from some UN organizations. Additionally, it has come from the private sector, including the London Club, which is a forum for private-sector debt holders to negotiate with debtor governments. Developing countries have responded by welcoming investment in land for tourism, natural resource extraction, and, more recently, contract farming to supply transnational supermarkets and food-processing firms.

The most recent phenomenon is countries and firms looking to outsource food, feed, and fuel production to stabilize future supplies at a time when markets are volatile and reserves are low. Investing countries for the most part lack arable land and, especially, sufficient fresh water to grow what they need domestically. Host countries are hoping for capital investments that build infrastructure, bring new technologies and know-how, and create employment. Companies are interested in securing stable supplies of different agricultural commodities, either to sell directly or as inputs for their processing and distribution concerns. The investment in production is aimed at increasing control over costs at a time of heightened market volatility.

The scale of the push for land is sobering. In their review of the biofuels industry and its pressures on land use, researchers at the International Institute for Environment and Development and FAO list several examples of big projects, including 30,000 hectares in Mozambique for a London-based firm (the Central African Mining and Exploration Company) to grow sugarcane; 300,000-400,000 hectares in southern Benin for a joint Malaysian-South African venture to produce palm oil; and a push by the president of Tanzania to find 400,000 hectares of land for a Swedish firm that wants to grow sugarcane for ethanol.1 All of these projects are controversial and have faced local opposition.

Other examples of land acquisition investments come from China, which is seeking offshore farmland for biofuels crops such as sugar,
cassava, and sorghum. China has also invested in projects across Africa to produce food for consumption in local and regional markets. Meanwhile, South Korea has announced national plans for land acquisitions in Mongolia, Russia, and other countries to grow food for export back home. The Gulf Cooperation Council, a trading bloc comprising six Persian Gulf states, has developed a joint strategy to outsource food production in Sudan and Pakistan, as well as in some countries in Southeast Asia, Africa, Eastern Europe, and Latin America. Kenya is reported to have signed a deal with Qatar to supply land for fruit and vegetable production for export back to Qatar.

The investment tends to flow from wealthier to poorer countries, but is by no means limited to a “North-South” pattern; a number of developing countries are also actively investing in their regions and across the globe. For example, India has soybean projects in Brazil; China has an estimated 23 farms in Zambia; and Mauritius has a Memorandum of Understanding with Mozambique that has brought Mauritian investment to Mozambique to produce food for both local and regional markets. The nongovernmental organization GRAIN lists some 180 proposed deals in its October 2008 online review of the issue titled, “Seized! The 2008 Land Grab for Food and Financial Security.” IFPRI’s April 2009 report estimates that since 2006, 15 to 20 million hectares of land have figured in negotiations or transactions in some 50 deals, mainly in Africa.

There are two prominent reasons for the investments in agricultural land. One is the production of biofuels feedstock. The second is the production of food supplies, including feed for livestock. While the actual crops in question are often one and the same, the dynamics behind the two markets are distinct, in part because of the particular set of public policies (domestic and international) that underpin the fuel and food sectors.

Countries such as Saudi Arabia have invested vast sums of money to become cereal producers despite their lack of arable land and fresh water. The projects have initially been successful, but are not sustainable. A number of Middle Eastern countries are therefore looking abroad to see if they can use their capital to secure arable acres elsewhere. Countries such as South Korea also have food security concerns. When the food crisis hit world markets early in 2008, South Korea (a net food importer) saw global supplies vanish, while prices for many commodities—particularly rice—went sky-high. The price increases were the result of a combination of supply problems, protectionist moves by some of the main suppliers to world markets, and the new demand created by biofuels support policies that mandate a minimum market for the industry, regardless of costs. As the director general of IFPRI recently stated, the recent rash of land purchases “is truly a consequence” of the sudden food price increases in 2007 and 2008, and of fears of depleted stockpiles. Yet even as prices have moderated, the negotiations for land continue. These land deals reflect the fact that some of the richer net food-importing countries are no longer counting on global trade to meet their food security needs.

Another group of investors is motivated by the sudden emergence of the biofuels sector as a significant new source of demand for agricultural commodities. The Norwegian firm ScanFuel is launching a biofuels project in Ghana by planting 10,000 acres with jatropha (and the firm is holding another 10,000 acres for food production). By 2015, the company expects to be producing 5,000 barrels of biodiesel oil a day.

What do host countries hope to gain? Host governments list a number of potential benefits, including infrastructure for agricultural markets (new roads, port facilities, etc.); access to research and technology; and credit for markets where capital is scarce. Ideally, the investments would also support local food systems and promote fair prices for local producers. From a development perspective, the end result of an ideal investment should provide smallholder farmers with more choices, access, and control.

**WHY THE CONCERN?**

The land-lease and land-purchase agreements raise a number of troubling issues. These include unequal power relations (particularly between the contracting partners and between host-country governments and their people); conflicting interpretations about land use; scarce natural resources; and the potentially negative implications for smallholders and women.

**Unequal Power Relations**

Fundamentally, there are significant risks for host countries because of the lopsided power relationships involved in virtually every one of the proposed deals. Many of the investors are large, well-established
transnational firms such as Archer Daniels Midland, Cargill, and British Petroleum, or investment funds like the Carlyle Group, which manages more than U.S. $85 billion worldwide. Other investors are governments of wealthy countries (including Saudi Arabia, Qatar, Bahrain, South Korea, and China), or corporations acting with a rich state’s blessing. Conversely, most of the host governments are poor, some (such as Sudan and intermittently Ethiopia) are involved in wars, and others (Madagascar, Zimbabwe, and Pakistan) are politically unstable. Additionally, few can be said to preside over strong and independent democratic institutions. This is of course a risk for investing firms or countries, but it also raises questions about the authority of host governments to speak on behalf of the communities directly affected by land sales or leases.

A recent paper from the International Institute for Sustainable Development puts the push for land purchases and lease agreements into the context of bilateral and regional investment agreements, which have proliferated in the last decade. The paper demonstrates how unequal power among parties can play out in creating unfair rules. Significantly, many existing bilateral investment agreements require host governments to treat the foreign investor exactly like domestic investors. Such accords also give investors the right to export all or almost all of what is produced. They allow host countries to limit exports in the midst of a financial crisis but not necessarily in times of food shortages, and allow foreign investors to sue host governments for any lost profits.

Within host governments, there are different levels of authority and competing political and policy interests. For example, it is quite possible that several ministries in the host government might be involved in negotiating a contract, while other ministries with an interest are excluded. Ministries that might have an interest include industry, agriculture, land, rural development, trade, finance, energy, and environment. Rarely are power relations among different ministries even approximately equal. Local and state authorities will definitely have a considerable stake in the deal, but may well be excluded from the negotiations. The local community itself is likely to have more than one view on the priorities for investment and the conditions that should be attached to any new economic development. Additionally, there will be clear differences between landless workers and those with land, between larger and smaller landowners, and even within households—because men and women often have different stakes in the use of land and in any accompanying employment and commerce. All of this must be taken into account.

**Conflicting Interpretations of Land Use**

Sometimes farmland investments are supported because investors acquire the use of marginal or unused land. Yet deciding the best way to use the land is a political issue. What the government (or an official’s interpretation of a satellite image) may categorize as wasteland might very well be meeting an important share of rural people’s household needs—particularly in the poorest households, and especially during times of economic shock, which many developing countries are now experiencing. Uncultivated land is used for grazing, as a source of wild foods and medicinal plants, and for access to water.

Members of networks such as the South Asian Network on Food, Ecology and Culture have documented the importance of uncultivated biodiversity in India, Bangladesh, and elsewhere. A recent survey of 50 families in 10 Bangladeshi villages reveals that uncultivated food provides an average of 65 percent of the food (by weight) and 100 percent of the feed and fuel needs of the poorest households (those with no land), and 34 percent and 20 percent respectively for the better-off households (those with some land of their own). Disputes over land ownership have a long and violent history in much of the developing world, where the legacy of land dispossession carries a powerful political charge relating to national identity, reconciliation, justice, and the legitimacy of the state. Moreover, the push for land acquisitions by foreign interests comes at a time when many countries are still struggling to successfully implement land tenure reform, in some cases after brutal wars or the demise of confiscatory political systems such as apartheid in South Africa. Efforts to secure the passage and implementation of land policies and laws that are pro-poor, pro-farmer, and pro-food security are easily undermined by market-led approaches, especially when the terms of the contracts specify that foreign investors must have the same rights as local businesses.

**Scarce Natural Resources**

Natural resource degradation, particularly of common property resources, is increasing food insecurity and undermining the livelihoods
of the poor. The UN reports that land degradation affects more than 900 million people worldwide, and as much as two-thirds of the world’s agricultural land. It is projected that as many as 1.8 billion people will live in regions facing absolute water scarcity by 2025, and that two-thirds of the world’s people could be subject to water stress if trends do not change.

Investment that restores agricultural land to ecological health would be a significant investment in a country’s future prosperity and in the well-being of local communities. UNCTAD and the United Nations Environment Program (UNEP) have published a series of case studies on successful experiences with organic agricultural production in East Africa. FAO has also published work in this area, as have many academics, including Jules Pretty at the University of Essex and Miguel Altieri at the University of California-Berkeley.

However, investment in industrial agriculture, which remains the dominant model for large-scale investment in agriculture, tends to use large amounts of fresh water, depletes the soil of nutrients at unsustainable rates, and depends heavily on fossil fuels (for machinery, fertilizer, pesticides, storage, and transportation), which in most developing countries are an expensive import.

**Impacts on Smallholders and Women**

A number of the incentives offered by governments to attract foreign land investors reinforce the disadvantages of smallholder producers who lack bargaining power, access to markets, resources, and land rights. In general, smallholder farmers have little political voice and are poorly organized. They do not necessarily have common interests, either: some may be in a position to benefit, while others are not. A group of scholars has documented the emergence of a common pattern in the developing world as agriculture is commercialized and integrated into the global economy. Communities find themselves divided. Some find new opportunities with the arrival of an external actor (contracts to grow horticultural products, for instance), while others are further marginalized, unable to meet the requirements that the new opportunities impose, and with nowhere but an urban shantytown to retreat to if their hold on agriculture fails. The implications of most of the land investment deals for local producers and farm workers are not yet clear. However, the experience of other investment-for-export programs suggests to governments and policymakers that they should proceed with considerable caution and forethought if they wish to avoid exacerbating poverty and to make something of the potential opportunities.

As the majority of the world’s food producers (and food providers), women face particular challenges related to land-use choices. They generally have customary rights to land, but they seldom have formal legal rights. Women are commonly discriminated against in both formal and customary systems of land tenure. Their ability to claim legal rights and participate in institutions and political activities is often curtailed, making their rights vulnerable to abuse. Women are typically small-scale producers, and as such they lack independent resources or collateral with which to secure credit. If the government or the community appropriates their land, then their lack of formal rights denies them legal recourse. One result is that they might end up working on other farms (or in commodity-processing factories) for money for wages and/or food. Or, they might secure some other form of employment to provide food for their families and to make ends meet when traditional means have failed.

To be clear, new investment in agriculture can provide, and has provided, employment opportunities for women. Yet too often the jobs are temporary, low-paid, and insecure. Women working in agriculture are vulnerable to sexual abuse and forced pregnancy tests. They also face the double burden of working outside of the home while still being expected to prepare meals for their families. In some cases, because policymakers do not take women’s economic activities into account, new investment undermines viable businesses headed by women. ActionAid’s 2008 report on biofuels, “Food, Farmers, and Fuel,” illustrates the pitfalls of not undertaking gender analyses of potential investments. For instance, when the government of Ghana granted land to a Norwegian firm for biofuels feedstock production, women producers in the region objected that this land was already planted with shea trees—and that the fruit from the trees was providing them with an important source of income.

**WHAT NEXT?**

The global financial crisis has complicated the picture. The dramatic fall in the prices of a number of agricultural commodities, coupled with
severe shortages of investment capital, have frozen some negotiations over land deals and led to the cancellation of others. The biofuels sector in particular is in some disarray. However, the long- and even medium-term prediction is that commodity prices will be unstable, but rising.

Government initiatives under multilateral and regional auspices may make land investment agreements more equitable and sustainable, but ultimately countries need a national (and local) dialogue on what they want for and from their land. The African Union (AU) was expected to publish guidelines for such investments in July 2009 (though they were not available when this essay was written). According to the British newspaper The Independent, “Some of the AU’s new guidelines on land sales include recommendations that new investors should promise to help with infrastructure, such as health facilities, agree to pay local taxation and look at ways to get more involved on the food-processing side which would create more local jobs.”

The FAO's David Hallam is quoted in the same article. “Imagine,” he says, “empty trucks being driven into, say, Ethiopia, at a time of food shortages caused by war or drought, and being driven out again full of grain to feed people overseas. Can you imagine the political consequences? That’s why proper legal structures need to be put into place to protect land rights, and why we should look at some form of international code of conduct.”

The fact that some of the countries targeted for investment receive food aid from the World Food Program (WFP) reinforces how likely Hallam’s scenario is. Cambodia, Niger, Tanzania, Ethiopia, and Burma are all countries with completed or projected land deals, and they are all beneficiaries of WFP aid. These countries live with extreme levels of food insecurity. They all need to make significant investments in their domestic production as one part of re-establishing food security.

Policy Recommendations

Here are some initial steps for moving forward in ways that protect both human rights and ecological health:

1. **Articulate a national vision for agriculture that respects human rights.** All UN member states are committed to protecting and promoting the universal human right to food. Government economic policies must be consistent with this and other human rights obligations. This commitment entails an open and participatory debate on policy before decisions are made, a transparent legal system that citizens can readily access, and a commitment to protecting populations from actions that would undermine food security.

   Therefore, investment agreements need to be explicit in their respect for existing human rights law. Such an approach would set the stage for a coherent regulatory framework for investment that respects government obligations to honor, protect, and fulfill the right to food. This would require, among other things:

   a. Clearer identification of extraterritorial responsibilities that would restrict governments and corporations from implementing policies that compromise the realization of the right to food abroad. This implies adopting an approach that would require a human rights assessment of any proposed policy that would affect the framework for economic policy (such as a trade or investment agreement) in a third country. Investor countries must accept responsibility for working with host countries to uphold human rights.

   b. Free, prior, informed consent based on inclusive consultations and full disclosure of information and terms related to contracts.

   c. Regulated trade so that countries can use tariffs and appropriate safeguards to protect domestic industries from foreign investment that might otherwise undermine domestic food security measures and jeopardize national commitments to implement right-to-food policies.

2. **Build ecologically sound and resilient farm systems.** Ecological sustainability is critically important. The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), signed by 58 governments, reflects a powerful consensus among governments, academics, and nongovernmental organizations (NGOs) on the need to redirect agricultural science and technology to support small-scale farmers and local knowledge. This assessment makes clear that climate change is undermining many existing agricultural production practices and assumptions. The IAASTD reviews some of the available policy options to enable agriculture to adopt
more climate-friendly practices. Investment in adaptive technologies must prioritize policies that give preference to the leadership of smallholder producers, including women; that emphasize the development and use of local seed varieties, and farmers’ ability to save seeds; and that provide reliable access for small producers to local, regional, and global markets through collective engagement in agricultural value chains.

3. Protect the space for local priorities. Governments must ensure broad-based engagement, leadership, and accountability in the various guidelines and best practice codes envisaged by the World Bank, FAO, and others. This should include NGOs and especially community-based organizations, as well as affected populations. Women leaders should be at the center of developing guidelines for best practices.

It is important to maintain a level of pragmatism about what can work. Human rights organizations will say from experience that good laws and ensuring they are implemented are two distinct things. This makes working with local communities and establishing norms for their involvement all the more important, so as to understand local power relationships, get local community support for any policy changes, and consider best strategies to protect against abuses.

4. Review land use and availability in light of demographic changes. The International Land Coalition’s scoping study on commercial pressures on land (a conceptual framework and research agenda for a report expected for the second half of 2010) points out that two kinds of land ownership should be distinguished: land owned by the government (sometimes called crown land), and land for which clear ownership rights are conferred on individuals.14 Crown land is rarely unused, but users are not likely to have a clear legal right to the land should the government decide to lease it out on a formal basis. Land held by individual title cannot be passed on without the owner’s consent, but there are many examples from across the developing world where such consent is forced, because of underlying poverty and need, because of misinformation given about landholders’ rights, or simply because the state has the power to force consent, even without the legal authority.

ActionAid’s 2008 report on biofuels describes the pressures generated within households if there are differences among family members about how to respond to a request to sell family land. The report shows that in Guatemala, many women have lost their land because their husbands have not respected the law that requires both husband and wife to sign any contract of sale on family land. In these cases, the husbands have gone ahead and sold the land despite their wives’ objections.

In terms of land availability, many developing countries face increases in populations, especially in rural areas, over the medium and long term. In Ethiopia, projections suggest that the rural population will grow from 70 million in 2006 to 183.4 million in 2050; in Madagascar, the population is expected to grow from 18.6 million to 44.4 million; and in Tanzania from 38.5 million to 85.1 million.15 Getting a better grasp of land use and availability will help craft appropriate policy. The pressure on land is already great and is growing. Governments need to have some sense of the demands to be expected for land and water in the next decade and beyond before they make decisions on land contracts that will not, by their very nature, be short-term.

5. Consider how the investment fits with broader development objectives. There continues to be fierce debate on the value of “free” market trade versus more regulated trade and investment. But on a number of related issues, some consensus is emerging. For instance, there is widespread agreement on the importance of agriculture and its contribution to broader—and relatively equitable—development in poorer countries. Agriculture is no longer viewed just as a sector associated with poverty, or as a sector to leave behind as a country develops. There is also growing agreement on the need for radically different approaches to natural resource management to reflect the emerging scarcity of fresh water, on the need for much more careful husbandry of genetic diversity in crops and domesticated livestock, and on the importance of restoring agriculture to solar-powered rather than fossil-fuelled energy use. Any new investment deals should contribute to long-term sustainability and be ecologically friendly, given that such qualities would reflect the emerging consensus about agriculture and development.
CONCLUSION

Clearly, large-scale investment in agriculture is needed. However, such investment must be made with historical and political contexts in mind, and must be premised on the potential to meet social and environmental objectives. For example, land deals must reduce, not expand, the number of hungry people and communities struggling to survive. They must be appropriate in scope and must serve the interests of the most vulnerable, and not only those who can pay or who are well-positioned to gain. Land deals must also occur as part of democratic processes; they should not take place outside of public political debates. In light of today’s multiple crises, the fact is that this kind of investment has the potential to achieve much good, and should therefore be encouraged along these lines.

NOTES


In recent years, investor interest in food and agriculture has increased due to the confluence of several critical factors. These include the heightened publicity about the impending food supply-demand imbalance caused by population growth; China’s emergence as an economic power and thus an increased consumption of commodities; the new demand for biofuels; perceived limits on production from an environmental standpoint; and the calculation that commodities provide a hedge against inflation while contributing to portfolio diversification.

Historically, the investment community has not been interested in the food and agricultural sector. According to an analysis in the *European Review of Agricultural Economics*, food processing captured just 10 percent of global investment in manufacturing during a recent seven-year period ending in 2004. And as can be seen in Figure 1, production agriculture captured a mere fraction of the investment that went to food processing during this period. This historical disinterest has occurred despite the fact that the food and agricultural sector employs over half of global labor, and comprises a significant share of both gross domestic product and per capita income.

What has typically scared investors away from agriculture is the fact that it comprises perhaps the largest social issue confronting governments everywhere. The elephant in the room is the huge excess of labor devoted to agriculture. In fact, only a fraction of the world’s farmers would be needed if current technology—which investors can provide—were fully applied.

Anyone who considers the general lack of private investment in agriculture to be a good thing is clueless about elevating the well-being and

---

**Gary R. Blumenthal** is president and chief executive officer of World Perspectives, Inc. (WPI), a global food and agricultural market analysis and strategy consulting firm.
potential of mankind. The fact is that countries with higher rates of agricultural labor per hectare of land incur poorer nutrition, lower education levels, and a lack of healthcare.

**PERCEPTIONS OF LARGE-SCALE FARMING**

Large-scale farming often has a negative connotation. There is a common stigma that big is bad and small is charming—and it is not limited to poor developing countries. The Obama administration makes frequent references to ending subsidies to “agribusinesses,” which is merely code for large farmers. U.S. Department of Agriculture (USDA) Secretary Tom Vilsack has said that his ambition is to help small farmers. This prompted American Farm Bureau Federation chief economist Bob Young to tell participants at the 2009 USDA Outlook Conference that “factory farming,” “corporate agriculture,” and “agribusiness” are all terms often uttered with a sneering tone—and yet they comprise the membership of his organization. Indeed, there are two million farms in the United States, but less than 2 percent of them generate over half of all commercially used production.

Small may be charming, but in multiple surveys of farmers by WPI it is clear that all of these workers have the ambition to become larger. Additionally, the availability of very large planting and harvesting equipment makes these aspirations realizable. A group of U.S. wheat farmers were the most ambitious workers polled, indicating a desire to expand their already-sizeable acreages five-fold. Similarly, wheat has historically been easier to cultivate than cotton, but technology is now enabling farmers in Brazil to grow cotton—a more profitable crop than wheat—on more land. Additionally, large-scale farming is often associated with foreign investor involvement—and this foreign factor has come under heavy criticism in the context of today’s international land acquisitions. Consider, however, that the presence of xenophobia in the debate on agricultural land is not new, as illustrated by the following in the United States alone:

- *Agricultural Foreign Investment Disclosure Act of 1978*: This law required foreign investors in U.S. farmland to register with the USDA.

**REASONS TO INVEST IN AGRICULTURE**

In 2008, the commodity price spike and associated warnings of food shortages drew the attention of many outside investors to the agriculture sector. From the money manager’s viewpoint, scale agriculture (which involves large farming projects) enables the full and efficient application of current technology, and thus results in productivity (yield per land) four to five times greater than that of many small farms. Additionally, as mentioned earlier, agriculture provides a hedge against inflation and contributes to portfolio diversification. Furthermore, some investors envision real estate value appreciation on an increasingly populated planet, and still others consider agricultural...
investments to be the perfect antidote to their otherwise glass-and-steel-encased urban lives.

Commercial Rationale
Given the fundamental supply and demand situation, commercial investors can certainly visualize the financial returns possible. An already-malnourished world population will grow 50 percent larger. Surplus commodity stocks have declined, while food prices are rising.

Meanwhile, land is limited and available prime production land is technically becoming scarcer. Capital flows to where it is rewarded the most, and nothing attracts investment better than a perceived market shortage. The converse occurred during the extended bear market in agriculture from 1996 to 2002, when the industry was unable to attract either capital or talent. During this period, the information technology sector grabbed all the headlines, while agricultural economists repeatedly warned that food stocks-to-use ratios—the buffer against supply shocks such as drought—were declining rapidly.

Public Policy Rationale
Commercial investors also pay attention to what policymakers say and do. The G8 agriculture ministers meeting in Treviso, Italy, in April 2009 emphasized the “global challenge to reduce food emergency,” warned that the lack of food could become a global security issue, and specifically called for increased investments in agriculture from both public and private sources.

Crop demand, driven by demographics and increased wealth, is further increased by biofuels policies. Policymakers are actively priming biomass-based energy with mandates and subsidies (nearly half the increase in demand for corn has been due to ethanol). Policymakers also warn that climate change will increase the need for biomass production.

However, astute observers of politics and policy might caution anyone from adhering too strictly to what our public institutions and officials might be saying about agriculture. In recent months there have been contradictory messages directly related to farmland investments, such as the following:

“There would not call it land-grabbing... There is a potential for win-win situations... they help increase agricultural production in developing countries, provide jobs, boost export[s] and bring in new technologies to improve farm efficiency...” —Kanayo F. Nwanze, president of the International Fund for Agricultural Development

“We’re a bit more careful on that. We believe that every country should own their land to make sure they can feed their own people.”
—Ilse Aigner, Germany’s agriculture minister

Another reason to be wary of public sector views on agriculture is that public investment in agriculture is simply lacking; those who wait for public funding are more likely to go hungry. Agriculture is the dominant industry in Africa, and yet governments in the region spend just 5 percent of their national budgets on the sector. Many news articles have emphasized how agriculture’s share of international donor aid has fallen from 17 percent to 3 percent. No one should be betting on any substantial increase in this aid, particularly given the global economic crisis. All of this beckons commercial investors.

Key Considerations for Agricultural Investors
There are several factors of agricultural production of importance to investors. These are physical capital, financial capital, human capital, and geopolitical risk.

Physical Capital
Investors in real estate are fond of two adages: (1) They don’t make it (land) anymore, and (2) location, location, location. Concurrently, those in agriculture contend that trade in food is really trade in water, since the latter is fundamental to the former’s production.

Land
Land is a necessary but limited asset for meeting food and fuel demand. Only about 10 to 13 percent of the land around the world is considered
arable. Additionally, as any agronomist will point out, not all soil is equally productive; different soil types benefit different types of agricultural production. If land costs were undifferentiated, a commercial land investor would seek to acquire mollisol areas because they have naturally nutrient-rich surface soils that run deep with organic matter. Mollisol areas—which include parts of North and South America and portions of the former Soviet Union—will involve lower costs in terms of nutrient supplementation (e.g., fertilizer use).

However, in areas where market forces have been allowed to price land fully (e.g., without being distorted by policies), the relative natural productivity of the soil is likely already capitalized into the land value. This means that a commercial land buyer must calculate the long-term cost of nutrient soil supplementation, the resulting yield (productivity), and thus the financial return for each potential soil type and its respective cost of acquisition.

Because soil type affects requirements for both mechanical and chemical energy (e.g., natural gas to produce ammonia as a precursor for inorganic nitrogen supplementation), poorer soil areas have tended to go fallow during times of high energy costs and/or low agricultural commodity values. However, energy and agricultural prices have more recently become intertwined, making marginal soil areas more economically viable, or profitable. Still, the ambition is to reduce cost relative to return. Therefore, many investors aspire for agronomic areas viable for the production of a valuable legume (such as soybeans) that naturally contributes to the binding of nitrogen in the soil, consequently reducing the requirement for costly supplementation with inorganic fertilizers.

Water
A second critical physical asset for competitive agricultural production is water. This has become the topic *de jour* in the context of global warming, but also of use and sustainability based on population growth and agricultural use. The recently released UN report *Water in a Changing World* forecasts that half the world’s population will be living in areas of acute water shortage by 2030. Fresh water is readily present in many parts of the globe, but is more scarce where populations are growing most rapidly (sub-Saharan Africa, North Africa, and Southwest Asia). Already, these regions allocate more than 60 percent of their surface water to human uses, of which the majority goes to agriculture.

From the context of water availability, udic areas can offer suitable land for agriculture. These are regions that benefit from well-distributed rainfall and soils that store moisture at levels equal to or in excess of the amount lost to evapotranspiration, and can be found in the eastern United States, the rainforest areas of South America, Western Europe, China, and west central Africa. Ustic areas—found in parts of North and South America, equatorial and southern Africa, Europe, and Australia, and in much of India—may also be favorable areas for agriculture. Such land is characterized by moisture that is limited, but present during times and conditions suitable for agricultural production.

Of course, water is transportable, and thus regular and evenly distributed rainfall is not necessary to have a productive agricultural area like California’s Central Valley. Irrigation is what enables farmland in semi-arid Idaho—with an average annual rainfall of 11.7 inches—to be valued at almost as much as farmland in Tennessee, which receives average annual rainfall amounts of 48.4 inches.

What is notable is how extensively irrigation has been deployed in the two most populous countries of the world, China (55 percent irrigated) and India (90 percent irrigated), whereas in the world as a whole, only around one-third of arable land is being irrigated. Because irrigation systems have typically been expensive relative to the cost and value of the resulting agricultural production, deployment has usually been the result of government initiatives.

With global climate change and associated water scarcity threatening future food production, there is an increased focus on irrigation. Seeing this need and opportunity, farm equipment manufacturer John Deere reportedly made acquisitions in 2008 to become the world’s third-largest irrigation company. Other major irrigation companies are Rain Bird Corp., Jain Irrigation, and Netafim. More recently, participants at World Water Week declared that water management should become an explicit part of the global climate change policy agenda.

Livestock
Since the number of people worldwide who underconsume protein exceeds the number of people who are hungry, investors are keen to look at the relative competitiveness of livestock-producing areas around the world. Livestock production systems are broadly distributed around the
Livestock production is area-intensive, and requires land for pastures or for feed production. Since most agricultural land is presently fully utilized, the places considered likely for supporting increased future livestock production are generally forested areas—hence the concern that increased animal protein production will lead to more environmental destruction.

Financial Capital
Financial capital is important for any economic endeavor, and agriculture is a particularly capital-intensive industry. Moreover, capital and access to capital are not evenly distributed. Many businesses operate while utilizing borrowed capital. The greater the debt liability of a company relative to its assets, the larger the risk.

U.S. agriculture has a debt position (debt-to-asset ratio) of just 9.1 percent, which means it is flush with liquidity. By contrast, many agricultural producers in developing countries have very little access to credit, regardless of their equity position, and thus find it hard to make investments in their own business. Thus capital is a prime factor of production that the agricultural investor brings to the table.

Human Capital
Developing countries often assert that their advantage in production agriculture is an abundance of low-cost labor. However, in many cases technology trumps labor—the success of the Industrial Revolution being a case in point. The cost of labor is relative to the cost and availability of technology, which varies by agricultural commodity or product. Generally, agricultural systems are the least efficient—meaning they produce the lowest amount of usable biomass per hectare—when the area per agricultural worker is lowest. Ironically, global and national policies are largely geared toward preserving the current volume of labor per hectare. Instead, investors assess human capital on the basis of three factors: cost relative to available technology, education, and entrepreneurship.
There is a general, although not absolute, correlation between these rankings and those that highlight the countries providing the best opportunity for capital appreciation from real estate investments (see Figure 3).

The BRIC countries (Brazil, Russia, India, and China), and developing states closely associated with rich countries (Mexico because of its proximity to the United States and NAFTA, Turkey because of its proximity to EU states and potential EU accession), are also attractive markets (see Figure 4).

Pursuing general real estate investment is quite different from pouring capital into agricultural land. Farmland with relatively low geopolitical risk (i.e., in the United States or Europe) is already highly capitalized. Thus, investors in agricultural land must look at agronomic values as well as geopolitical risk. Figure 5 reflects where some of the recent investments in agricultural land have focused.

---

**Figure 3: Countries Providing Best Opportunity for Capital Appreciation, 2008**

![Figure 3: Countries Providing Best Opportunity for Capital Appreciation, 2008](source: AFIRE)

**Figure 4: Top Emerging Countries for Real Estate Acquisitions in 2009 (Based on Investor Point System)**

![Figure 4: Top Emerging Countries for Real Estate Acquisitions in 2009 (Based on Investor Point System)](source: AFIRE)

**Figure 5: Recent Investments in Agricultural Land**

![Figure 5: Recent Investments in Agricultural Land](source: WPI)
THE NEED FOR CAUTION

Since risk analysis is a key part of the due diligence required of all investors, the following five factors need to be considered:

Volatility. Prices for undifferentiated agricultural commodities have fallen dramatically since last year’s spike, though they remain above long-term trend levels. A 10-year forecast by the Organization for Economic Cooperation and Development (OECD) and the Food and Agriculture Organization (FAO) calls for prices to remain relatively high—though it is important to note that both the history and future of commodities prices entail volatility. It is the sector’s volatility, including longer periods of low prices than high prices (the trough preceding the recent boom lasted 19 years, and the one before that lasted 11 years), which has in the past discouraged the interest of general investors. Only in more recent times have sophisticated investors come to recognize that commodities add diversity to their portfolios and serve as a hedge against inflation.

Expansion Capacity. From a producer and investor standpoint, production that exceeds demand means low prices and a lower return. Such an outcome is quite possible in global agriculture, given recent developments. Earlier this year, the head of the FAO argued that global food production must double by 2050 to prevent mass hunger. While this target may initially seem daunting, consider that most farmers around the world are subsistence producers achieving less than half their yield potential. As one hesitant investor has noted, land is cheap and there is plenty of it. U.S. corn farmers are concerned that technology companies are correct in their prediction that national average yields will double from 155 bushels per acre to 300 bushels by 2030 (they already easily exceed that number in annual yield contests).

Asset Depreciation Risk. Annual land value growth for 2010-2017 is forecast at 3 percent, which is better than passbook savings but far below what investment bankers were previously promoting. Asset bubbles are the worst. While commodity price fluctuations can be hedged, there is no formal farmland risk management tool. Moreover, farmland asset value decreases impose longer-term losses rather than one-off events. Land is less liquid, so the loss must be endured. While agriculture is viewed as a diversification move for investors, a strong shift of capital back toward the undervalued stock market could affect agriculture. After the bull commodity market of the 1970s, U.S. farmland values declined 30 percent or more, and bankrupted many farmers. It took over 20 years for previously higher farmland price levels to be recovered.

Historical Experience. Anyone who has been around agriculture for a few years is understandably skeptical whenever anyone asserts that “this time it’s different.” The claim of a new era for agriculture is not new.

Politics. The same policymakers beckoning the foreign investor can turn on the idiomatic dime if they sense strong objections from the people. Land is fraught with political conflict. FAO Director-General Jacques Diouf has described foreign purchases of farmland as “a political hot potato.”

CONCLUSION

Because of historic human complications, agricultural land occupies a particularly difficult realm for the investor. The Swing Riots of 1830—when farm laborers protested among other things the use of horse-drawn threshing machines in Britain—were the agricultural equivalent of the actions of the Luddites, the British textile artisans who in the early 19th century responded violently to the technological advances sparked by the Industrial Revolution.

Meanwhile, turning land over to foreign hands is undeniably controversial. Simeon Mitropolitski of the International Real Estate Digest has written that if you ask Russians what was worse, killing five million Ukrainian farmers in the 1930s or selling Alaska to the United States in 1867, “don’t be surprised” by the answer. “For the Russians,” he explains, “the selling of Alaska was a real crime because selling the land was selling their souls.”

And yet meeting the food requirements of a larger and wealthier world population requires scale and capital investment. Using smallholdings agriculture as a development policy is like promising an automobile to everyone in the world, but limiting construction to hand labor. Romanticists may prefer starvation, but the principles of industrialization and mass production for increasing productivity apply as equally to agriculture as they do to non-agricultural goods.
NECESSARY NUANCE: TOWARD A CODE OF CONDUCT IN FOREIGN LAND DEALS

Ruth Meinzen-Dick and Helen Markelova

Foreign acquisition of agricultural land has become a hot and widely discussed issue, fueled by numerous media reports as well as increasing attention by the research and practitioner community in the past 12 months. This trend is driven by wealthy food-importing nations that have the capital to invest in agriculture, but sparse land and water resources to produce enough food on their own. These farmland deals, whether in the form of purchases or leases, have many economic, social, and political implications for both investor and host countries. The conjunction of land, food, and money has produced both strong interest in this topic and an emotive debate about whether these represent much-needed investment or a foreign “land grab.”

However, a polarized debate on whether the deals are good or bad generates more heat than light. Instead of blanket pronouncements, what is needed is a careful examination of each case in terms of the social and ecological implications. In this paper we discuss the nuance needed to go beyond all the polarizing talk, and toward a code of conduct that can ensure that foreign land deals are beneficial as well as sustainable.

Foreign investment in, and acquisition of, land in other countries is not a new phenomenon. Great Britain attempted to set up large farms in its colonies, as exemplified by the Tanganyika groundnut scheme in the 1940s, when Britain attempted to turn large tracts of land in what is now

Ruth Meinzen-Dick is a senior research fellow with the Environment and Production Technology division at the International Food Policy Research Institute (IFPRI). Helen Markelova is a research analyst at IFPRI.
southern Tanzania into peanut plantations. During the first part of the 20th century, foreign-owned fruit companies had such a strong influence in Central America that many countries in this region were termed “banana republics.” In the early 1990s, after the collapse of the Soviet Union, foreign investors rushed into the former Soviet republics to acquire former state-owned collective farms. And a decade ago, China began leasing land for food production in Cuba and Mexico.1

However, the current wave of land acquisitions has a different scale, new drivers, and a new set of players. In the postcolonial era, the private sector was seen as the main actor in land acquisitions, generally buying land from private landowners in host countries. While private investors remain major actors today, many of the new deals are between governments (or sovereign funds), or involve governments backing private investments.2

The emergence of investor states represents more than just the appearance of a new actor; it is also indicative of the new drivers behind the land acquisitions. While the private sector has traditionally invested under the motivation of maximizing profit, often focusing on tropical commodities rather than on basic staple crops, food security concerns are an important factor in many of the new investments, especially those by governments. Agricultural production constraints, growing demand, diminishing availability of arable land and water, bottlenecks in storage and distribution, and a lack of confidence in world food trade all culminated in the food price crisis of 2008, and increased concerns about the availability and price of food, even in relatively wealthy countries.3 Yet the prospect of exporting staple foods from developing countries—where there are significant numbers of food-insecure people—raises questions about the deals, especially in countries where food aid is also being supplied.

In addition to food security concerns, energy security is another driver of the recent land deals. With oil reaching over $100 a barrel in 2007-08, many countries are seeking alternative sources of energy to increase long-term energy security and reduce oil imports. Governments in China, India, Brazil, the United States, and the European Union have enacted a number of mandates for the use of agrofuels in transportation fuels, guaranteeing a profitable agrofuels market and encouraging the private sector to invest in this area, and even providing financial incen-

OPPORTUNITIES AND THREATS

Proponents of foreign investment in agricultural land point to a number of potential opportunities for both investors and host countries. However, there are concerns that this “win-win” outlook is unfounded and that such investments may not lead to agricultural development or benefit the host countries and their poorest citizens. This section considers the opportunities presented by the land deals as well as the threats they pose for the livelihoods of the communities where the deals are, or will be, happening.
The Promises of Agricultural Investment

Certainly the agricultural sector in the developing world requires more investment than is presently allocated. Such countries need an influx of capital and technology to stimulate rural economies, and in the face of domestic fiscal constraints, large-scale foreign investment appears to be an attractive means to acquire such resources. Many of the deals include provisions for infrastructure such as ports or roads, which are of interest to host governments and can be regarded as a benefit to the host country as a whole. There is evidence that increased investment in food and agrofuels production in the rural areas of developing countries can have important benefits for their economies, particularly in terms of boosting and modernizing the agricultural sector and reviving rural economies.11

Such revitalization would be important not just for domestic economies, which would benefit from the incoming capital, the development of new industries (e.g., agrofuels), and greater food availability, but also for rural communities in the form of new farm and off-farm employment generation and opportunities for livelihood diversification. In addition, investors would bring in new agricultural technologies, which many of the developing countries would not be able to develop or obtain otherwise due to poor spending on the agricultural sector.13 In addition to the direct spillovers such as technology transfers, the benefits promised by some investors include the rehabilitation and upgrading of rural infrastructure (such as roads and bridges), the construction of new health facilities and schools, and even local capacity-building, all of which could contribute to increased yields and incomes, and thus, long-term poverty reduction.

The Danger Signs

Despite the potential opportunities that large-scale land acquisitions may present to host countries and rural communities, there are plenty of warnings that they may also be detrimental to the socioeconomic development of these countries. For example, many of the alleged major benefits, especially payments and infrastructure investments, go to the domestic economies at large, and investor companies are often granted general subsidies and tax breaks on such transactions. In order to assess the net benefits or losses for the livelihoods of resource-dependent communities, one must consider not only the benefits that may accrue to local people in terms of employment or increased output prices, but also any losses for people who were deriving their livelihoods from the land being leased or purchased.

In many cases, the question of possible benefits for local populations depends on the security of land tenure. If existing land users have secure land tenure and can negotiate with outside investors, then there is at least some compensation. Even in these cases, however, there are concerns over whether local landowners are adequately informed about fair prices or about the full implications of selling their land, and over their being subjected to undue pressure to transfer their land.14 In Latin America, such sales are leading to high levels of land concentration in some countries. The experience of Central America during the coffee boom of the late 19th century, when land privatization policies led to the concentration of land in few hands, provides a cautionary tale.15 Studies by the Center for Social Studies in Peru reveal recent data for land concentration through commercial pressures that are much higher than levels in the early 1970s, prior to agrarian reform.16

But if land is officially designated as state land and its users have only customary rights to it, negotiations are between the government and investors, and local people may have little say in the deals, and little compensation if they are forced off their land. This lack of attention to existing users who do not necessarily have formally recognized claims to land has already resulted in a number of evictions and contributed to landlessness and impoverishment, with documented cases in Colombia and Guatemala.17 This has been especially acute in the land acquisitions for agrofuels production. Moreover, the lands often allocated for such use are those designated as “underutilized,” but of crucial importance for mobile populations and women. Without formally recognized rights, these groups face a higher risk of displacement.18

In addition to unrecognized rights to resources, local resource users have low bargaining power and virtually no presence in the negotiations over land deals. Even though local and international civil society and media have been advocating on their behalf, the playing field remains very uneven—local consultations are not held, and deals are made
without the informed consent of the resource users. Even if some form of compensation is agreed upon, it becomes difficult to monitor investor compliance with the agreed terms of compensation and other proposed benefits for affected communities. The rapid pace at which many of these deals are being completed does not allow the time necessary to establish sound governance mechanisms, especially because of the international forces (such as the global food price crisis and increasing energy demands) at play.

Shifts in climate patterns, demographic changes, and higher agricultural prices have raised the value of arable land (and water) everywhere, making the expected returns to land even higher. This has increased both domestic and international competition for land, making it even easier for smallholders to lose their landholdings to more powerful actors. Those with better access to financial resources, whether large international corporations, foreign governments, or even domestic businessmen, are better able to secure access to land, further eroding the poor’s access to resources.

The place of smallholders in meeting future global food demand will be determined to a large degree by who is successful in gaining or retaining the rights to the land used for agricultural production. Land converted from smallholder production to plantation agriculture is unlikely to be transferred back to its former users, and within a generation farming skills may be lost. The transfer of extensive land areas to large mono-cropping systems therefore has profound and long-term implications for the economic and social structures of rural societies, and may significantly reduce the livelihood options of local land users.

The ecological sustainability of land and water resources used in the deals is another important concern, especially considering the relatively short-term orientation of the foreign investors versus the long-term outlook needed in considering the environmental impacts of land uses. Large-scale intensive agricultural production can threaten biodiversity, carbon stocks, and the availability of land and water resources. Land that is perceived as “unused” is often in long-fallow cultivation cycles because its tropical soils are unsuitable for intensive cultivation. If the land is already marginal, more cultivation may lead to further degradation. Moreover, irrigating these large plantations may divert water from local users or from environmental flows.

Lastly, large-scale land acquisitions may have a negative effect on the wider sociopolitical and economic context of the host country. There are documented cases, such as the Daewoo Logistics Corporation’s (ultimately unsuccessful) plan to lease 1.3 million hectares of land in Madagascar, where negotiations over deals have contributed to political instability and internal social conflict. These deals touch on the already-politically contentious issue of land allocation and land rights, so they carry a possibility of exacerbating existing tensions. Besides, many of these developing countries are already net importers of food and receive large amounts of food aid. For example, the country with the largest World Food Program presence is Sudan. However, Sudan is also the site of some of the larger land deals, and is letting investors export 70 percent of the crops grown in the country. This raises concerns about the implications of foreign land acquisitions for the internal food security of host countries, given that high-quality land may be diverted from local food production, livestock grazing, and other livelihood activities of local communities.

BEYOND POLAR POSITIONS: QUESTIONS FOR FOREIGN LAND ACQUISITIONS

There are two major competing narratives that prevail in discussions about foreign acquisitions of agricultural land. One is a “beneficial investment” narrative concerning foreign investors bringing needed investment (and, in some cases, improved technology, farming knowledge, or rural infrastructure); generating employment; and increasing food production. The second is a “neocolonial land grab” narrative concerning foreign investors expropriating local land with little local input, and growing crops that are exported directly—even when local people do not have enough to eat. The widespread media stories and growing debate over these two narratives have played an important role in drawing attention to the issue.

But the time has come to go beyond blanket pronouncements praising or denouncing the deals, and to look more closely at the specifics of each case. Because foreign investors are negotiating deals at a rapid rate, the focus of policymakers and civil society needs to shift to what can be done to ensure that host countries can seize the opportunities and mitigate the risks associated with the deals. Asking the following questions about
any deal can help assess the extent and distribution of benefits, and can provide the key to the long-term sustainability of the investments, which in turn can help investors, host governments, and local people alike.

**Current Land Use**
The starting point is to look at how the land is currently being used, including for agricultural production, pastoralism, or biodiversity conservation. Who are the current users? Are they communities or individuals? What other vital resources like water and forests are being used in conjunction with the land? If the land is fallow, then why is this so (e.g., unsuitable for agriculture, reasons of conservation, etc.)? Is this land being used for purposes other than agriculture? A realistic understanding of these questions is the foundation for understanding who will be affected, and for ensuring that the net benefits of foreign involvement are not overestimated.

**Land Tenure Arrangements**
It is essential to look at current users’ property rights. Are these individual or communal rights, and are they recognized by the state and outside investors? Are there any indigenous groups using the land under customary tenure, and if so what are their livelihood sources? Situations of customary tenure are especially prone to land expropriation in a manner that is considered legal under statutory law but illegitimate by local people. If the land is under private ownership, then existing users are more likely to have a say in the arrangements and to derive a benefit. In some cases indigenous people are especially disadvantaged; in other cases they may be better organized and have stronger land rights than more recent migrants or other poor households. Whatever the situation, if local rights are not respected, then there will be resentment and protests are likely to arise.

**Proposed Land Use and Livelihoods**
A realistic assessment of proposed investment patterns on the land is needed to gauge the likely scale of benefits from the foreign land acquisitions. It is not only the scale of benefits that matters, but also the way the benefits will be shared. Therefore, it is important to ask if there are opportunities for smallholders to participate (e.g., through smallholder contract farming), and whether improved technologies will be shared with local farmers. Will the new land uses generate more and better livelihoods (through employment, contract farming, and increased local agricultural output prices), and will they generate more income than the income from previous sources?

**Food Security**
Food and energy security in investor countries is driving much of the current wave of foreign land acquisitions, but it is critical to look at the food security situation in host countries and surrounding regions as well. Will the food produced on the land be exported (all or in part), or sold domestically? What happens if there are food shortages in the host country, and especially in the food-producing region? Exporting food while local people go hungry not only harms local people, but is also likely to cause unrest, thereby undermining the sustainability of land deals.

**Ecological Conditions**
Understanding local ecological conditions is necessary to assess whether proposed productivity increases are achievable and sustainable, and whether they will impose positive or negative externalities. Why is land currently not under intensive cultivation? What are the production constraints? How realistic is it that the injection of capital and knowledge that the investors have to offer will spark sustainable production increases? Will there be land degradation over time, as when most tropical forests are cut for cultivation? If irrigation is brought in, does that take water away from local communities? Is the irrigation likely to be sustainable, or will it lead to salinization over the long term? Will farming practices reduce biodiversity? The latter is a particular concern in forest areas, whereas the diversion of water is a particular concern in dryland areas. Environmental costs need to be weighed against any projected productivity increases, because such costs not only undermine the long-term sustainability of the foreign farms in question, but can also cause harm to other farms.

**Transparency**
One major problem with many of the large-scale foreign land acquisitions is that they have been shrouded in secrecy, which creates suspicion...
and precludes local participation. It is important to ask in each case about the extent to which existing land users are informed about and involved in negotiations over the land deals. What compensation or share of benefits do they get? Free, prior, and informed consent will create greater legitimacy for foreign land deals.

**Terms of Agreement**

The nature of the contracts and agreements will shape the distribution of benefits between the investors, the host government, and local people. Is the land sold or leased to foreign investors? Leases, unlike sales, offer reversibility of arrangements and a revenue stream each year, instead of a lump-sum payment. However, short-term leases may not create a strong incentive for investors to consider long-term environmental sustainability. Are there other investments such as infrastructure development (like roads, bridges, and information and communication technologies [ICTs]) built into the terms of agreement? What revenues do the state and local people receive from sales, rentals, or infrastructure investment, and what tax relief or other incentives are offered to investors?

**Enforceability**

Agreements are one thing; delivering on them is another. Therefore it is important to consider what enforcement provisions are included in the contract. Who will monitor compliance and enforcement? What measures will be used as enforcement mechanisms (fines, etc.)? Are there arbitration or conflict management institutions accessible to local people (who often lack the resources to challenge large companies in court)? Enforcement is especially problematic when there are large power asymmetries between investors, host governments, and local people, so credible measures are a necessity.

**TOWARD A CODE OF CONDUCT**

Examining each of these factors can help move beyond blanket pronouncements about foreign investments. Media coverage and civil society campaigns to showcase the land deals that are relatively beneficial—and to shame those that are not—can help show investors that it is in their long-run interest to ensure that their investments are not just legal, but also legitimate. The next step beyond stopping bad deals is to try to ensure that all future foreign investments in agricultural land are mutually beneficial.

An international code of conduct for international acquisitions of agricultural land would provide an important mechanism for ensuring that these projects are economically, socially, and ecologically sustainable. Elements of such a code should include:

- Transparency in negotiations
- Respect for existing land rights, including customary rights (held under customary arrangements, as individuals or clans or tribes) and common property rights (jointly managed by community members under formal or informal arrangements)
- Sharing of benefits
- Environmental sustainability
- Adherence to national trade policies, including restrictions on exports during times of crisis

Not only would such a code provide guidelines to develop land projects, but the widespread dissemination of such a code would help prepare local people, host governments, and investors for constructive negotiations. It may be naïve to think that a code of conduct would level the power asymmetries, but even having such a code to appeal to could help in the negotiations. Additionally, it would be important for the international community to enforce such a code in investor as well as host countries, and for host governments to monitor and safeguard local people’s rights.

However, international and national government structures alone are not sufficient. There will remain an important role for the media to increase transparency on land deals, and for civil society to keep pressure on preventing unjust expropriation. Just as we need to look beyond blanket pronouncements about foreign land acquisitions, we also need to look beyond simple prescriptions for their governance, and engage with multiple types of institutions to forge sustainable increases in agricultural productivity that are mutually beneficial.
NOTES


3. Ibid.


5. Cotula et al., Land Grab or Development Opportunity.


10. von Braun and Meinzen-Dick, “‘Land Grabbing’ by Foreign Investors.”


21. von Braun and Meinzen-Dick, “‘Land Grabbing’ by Foreign Investors.”


23. Michael Taylor, personal communication with authors, April 27, 2009.

24. Byerlee, “Drivers of Investment in Large-Scale Farming.”

25. von Braun and Meinzen-Dick, “‘Land Grabbing’ by Foreign Investors.”


31. von Braun and Meinzen-Dick, “‘Land Grabbing’ by Foreign Investors.”
PART II

Regional Case Studies
Large-scale commercial farming in Africa as is being contemplated by many international investors today is not a new phenomenon on the continent. The economic component of colonization by European powers often included farming plantations. Sometimes this involved the growing of tropical crops for export back to the mother country. Other times cash crops were grown for general export to raise money for the colonial project.

The introduction of colonial plantations left a mixed legacy in Africa. The positive aspects include the introduction of well-adapted new crops (e.g., maize), the commercialization of indigenous crops, the development of new markets and extension services for farmers, the introduction of innovations (such as fertilizers, pesticides, and mechanization), and the development and expansion of transportation networks and related infrastructure. On the other hand, the impacts of colonial plantations were considerably negative, as seen by labor exploitation (including slavery, low wages, long hours, no benefits, and mistreatment), and by soil and environmental degradation from the implementation of intensive farming techniques, such as fertilizers.

After African countries started becoming independent in the 1960s, the plantation-style business model became hard to sustain. The management and technical aspects of the plantations had generally been kept exclusively in the hands of the colonists, so there was a sudden skills deficit after their departure. Almost-free or cheap labor, a key part of this farming model, was no longer politically tenable after independence, although today it remains a key feature of

---

Chido Makunike is a Senegal-based agricultural commodities exporter, agricultural consultant, freelance writer, and blogger.
the large farms that remain. Fickle prices of global commodities and competition from other countries also contributed to the demise of large plantations in Africa.

So the idea of large-scale farming is not new to Africa, although it never took hold or became the dominant agricultural model. Only in a few countries—such as South Africa, Zimbabwe, Kenya, Egypt, and the Ivory Coast—did it really flourish and become a significant part of the economy. But even in these countries, the model has been under tremendous pressure in recent years and continues to evolve rapidly. It will survive, but in forms very different from how it was first introduced.

Current talk about large international agribusiness deals on the continent (and one hears about possible agreements and investments on a nearly weekly basis) takes a dangerously and naïvely ahistorical view toward investment in African farming. Such perspectives reduce the chances of win-win for these deals, thereby making them even more high-risk than they already are or need to be. The investor of today wanting to take advantage of the tremendous and largely untapped agricultural potential of Africa would be foolish not to study the history of the large-scale commercial farming model in Africa.

SENTIMENTS ABOUT LAND IN AFRICA

In Africa, so many livelihoods, and entire cultural and economic experiences, are directly tied to the land—more so perhaps than on any other continent. Such strong ties in turn engender a strong sensibility about land that is poorly understood by many non-Africans, and particularly Westerners. Yet regardless of how this view is perceived or judged—and to outsiders it can seem almost irrational—it is unwise for prospective farmland investors to ignore these sensibilities.

Large-scale investments of any kind are generally done in a very opaque fashion, with negotiations usually conducted secretly between investors and government and private-sector officials. Ordinary citizens rarely obtain information on the intricacies of these arrangements. People may grumble and suspect all kinds of things about how these deals are concluded, but generally the schemes are far enough removed from the public consciousness for involved governments and investors to escape popular scrutiny.

This is the same sort of non-transparent spirit in which many of today’s proposed farming investment deals are being discussed. No doubt, the principals involved on both sides believe that they can conduct these deals far from public scrutiny, just like easy-to-conceal mining or infrastructure projects. On the contrary—due to African sensitivities about land, negotiating deals in such an old-fashioned, back-room manner is foolish and dangerous. There are several reasons for this.

First, a big mine can be kept relatively fenced off, so that local communities know little about its goings-on and possible impacts on them. However, this is simply not possible with vast stretches of farmland.

Second, land with rich soil—the type of land that attracts investors—is typically occupied and used by locals, even if done so poorly or sparingly. Given how recent the Western ideas of individual ownership and title to land are to most of Africa, there is almost always some community that claims ownership over the land, even if, legally and technically, it may now belong to the state.

So it is very difficult to appropriate a huge piece of farmland in any African country without sparking some sense of dispossession and displacement. Yet this outrage does not just result because of threats to or direct losses of livelihoods. One often hears in news reports that large percentages of African farmland may not currently be in use. Consequently, the Western approach to such land (or perhaps more fairly and accurately, the market-based utilitarian approach) might be characterized as the following: “What’s the problem? They are not using it and are not equipped to use it, or capable of using it, maximally in any meaningful commercial way. So if we take the land, give them at least some token compensation, and then develop the land and provide them jobs and downstream opportunities, then surely that is a net gain for the natives that they should warmly welcome. So what is the problem? Why all the fuss?”

Such a reductivist approach captures the whole ethos of today’s land deals. One must always keep in mind that for better or worse, African ties to the land transcend economic and utilitarian considerations. For example, occupying land that happens to be a community’s ancestral burial ground will arouse passion and resentment. Even if this land has
not been used for a long time, it still retains a very powerful traditional and symbolic importance for that community.

Make no mistake: This sentimental/cultural tie to a particular piece of land does not necessarily mean that it is off-limits to economic and commercial development in perpetuity. Rather, when the community can be shown and convinced that using it for commercial purposes would definitely and significantly improve community well-being, cultural procedures can be employed to make it acceptable for this kind of use.

However, an investor who is ignorant or contemptuous of these sensibilities, and who brings in the bulldozers simply on the basis of a lease or title deed obtained in the capital city (which, in the view of some communities, may as well be another universe), will right away incur the enmity of the community, rather than its cooperation and support. What is required, and what I fear is often missing in the context of mega-farm-land deals, is simple respect for those attached to the land—respect that communities are not used to getting from government bureaucrats and politicians (except during election time), or from most of the foreigners they have interacted with since the colonial era.

For farming investments—more so than perhaps any other type of investment—the goodwill of neighboring and surrounding communities is essential for long-term success, particularly in terms of security of land tenure. It is simply good business to try and get these communities on one’s side, rather than have them suspicious or resentful from the beginning. Indeed, governments and ordinary citizens in most African countries are eager for investments that produce new jobs and related economic opportunities. And there is a growing realization among even the most traditional people that in today’s world, the value of land cannot just be evaluated on cultural, ancestral, religious, or sentimental grounds: the land can and must also be smartly put to use to materially improve living conditions. Therefore, there is no wholesale objection to large-scale farming investment, although there are a lot of concerns about it.

Nonetheless, the cultural, ancestral, religious, or sentimental elements cannot be ignored. Africa is currently in a state of transition between two approaches of land use and management. One is traditional and pre-colonial, while the other is newer and Western-oriented. The Africa of today is a hybrid of these two different paradigms. The extent and nature of the mix varies from country to country. Many of Africa’s problems—

not just those of agriculture and land use—derive from its considerable difficulties in finding the right balance between the old and the new.

Many failed interventions over the years have taught us that the transition to whatever will end up being the ideal mix of old/indigenous and new/imported cannot necessarily be forced or rushed. Some changes will take place more easily and faster than others. Synthesizing a new consciousness is not an easy, straightforward process that can be done according to some formula, as has sometimes been naively thought and tried by governments or “development agencies.” Yet many investors today only view the prospects of farming in Africa in narrow, shallow, and ahistorical ways. Such limited perspectives ignore the complex, messy realities that must be understood for investors’ ventures to be successful.

RESEARCHING AND RESPECTING LOCAL SENSIBILITIES ABOUT LAND

For agribusiness investors, acquainting themselves with African conceptions about land is a business-savvy strategy. Taking the time to do this as part of their due diligence will make them more knowledgeable and smarter. Incorporating this knowledge into a business plan helps protect this necessarily long-term kind of investment from social and political risks that may not be obvious at first glance.

Critically, investors should not let their relationships with African governments detract from efforts to focus on the needs of the people. After all, even in undemocratic countries, governments come and go. So while it is still wise—and in fact unavoidable—to engage governments, this must be done in a way that does not tie investment to the tenure of any particular ruling clique or administration. It is important that investments be secure, even as governments come and go.

When an investment is well-researched and smartly and sensitively structured to respect and benefit the people of a country rather than the politicians or the government, then it has a much better chance of lasting and thriving for the long term. I am not convinced that this is the way most of the highest-profile agribusiness deals we hear and read about are being done.
Africans need and want local and foreign agribusiness investment for the potential economic benefits, but they now also insist that the investments take into account and respect their sensibilities. They insist as well that such investments avoid the many perceived ills of the past. Whereas in a less informed and less free era these sensibilities could be ignored or suppressed, now it is just foolish and a poor protection of one’s investment not to take these sensibilities into account.

AGRIBUSINESS PERSPECTIVES AND HOW AFRICANS PERCEIVE THEM

In agribusiness circles, “bigness” is a much-prized quality. It is commonly accepted that economies of scale are the way to be competitive in a global farming environment of ever-more discerning consumers, greater competition, rising production costs, and tighter profit margins. So according to many subscribing to this worldview, the small- or medium-sized commercial farm is endangered. The African small-scale farmer does not feature on the commercial farming radar at all.

This position is implicit in the way today’s proposed agribusiness deals are announced and discussed. The most naïve and uninformed investors talk about not just bringing in capital and expertise, but sometimes even managers and workers, from abroad. While never stated outright, the presumption seems to be that apart from the actual land, the African side has nothing to bring to the table. It sometimes seems that Africans are expected to gratefully stand aside as investors take over the land, and to be satisfied with the small crumbs of a few low-wage jobs they may be allowed to obtain. Deals structured in this Africa-dismissive way cannot be sustainable in the long term, no matter what guarantees are offered by the governments involved.

It is this unspoken—yet obvious to Africans—dismissive attitude that sparks worry and resentment about these deals and endangers their longevity and ultimate political and social viability. For many Africans, the underpinning attitudes of these deals are reminiscent of all that was demeaning to them about colonialism—hence the charges of “neocolonialism” and “land-grabbing.”

Seeking an Elusive Common Ground

It is quite understandable that an investor, particularly a large one operating in as risky an area as farming, would want to control as many aspects of his operation as possible. After all, he wants to develop and tweak every variable in his business for maximum productivity and profitability.

Consequently, there is a part of me that has no trouble understanding why investors would hope that once they have successfully negotiated for the land, that the locals would largely step aside to let the investor develop and run his investment in a way he believes is required for profitability, and as he has seen or experienced it work somewhere else. The reigning thinking about successful agribusiness models imposes fairly narrow and specific restrictions on what is required for success. Today, the criteria for such success revolve around not just the large-scale, but also the mega-scale, in terms of land size, capital investment, ton-per-hectare output, and so on.

This is all very well, and there are probably some situations where these narrow, tightly controlled parameters offer the route to success. Such discussions are controversial, and they comprise a part of the bitter and ongoing ideological debate about the “best” model of farming in the world today. This debate revolves around the mixed concerns of global food security, food affordability, environmental and social justice, and the natural and understandable profitability worries of agribusiness. These issues lurk at the edges of the debate about large-scale agricultural investment in Africa. Some of the most vociferous opponents of these mega-farming deals object to them primarily on the grounds that the model exploits locals; is based on input-intensive farming that pollutes the environment; and is part of an evil conspiracy by a few dominant global agribusiness players to control the world’s food supply and to put their profits above the world’s food security, food accessibility, and food affordability needs.

Agribusiness deals can in fact be beneficial for all parties, and can take approaches that are more practical than ideological. Ultimately, however, overseas farmland investment is such a big and intricate issue of so many different local variables that there is no “one-size-fits-all” solution to how farming can and should be done to try to accommodate all the various parameters of farming’s importance to mankind.
PARTNERING WITH SMALL-SCALE AFRICAN FARMERS

Nonetheless, in the African context, it is important that prospective agribusinesses broaden their thinking about achieving economies of scale. One alternative to the directly controlled plantation model is for the investor to partner with hundreds or thousands of small-scale farmers, who serve as contract growers. There are some crops for which this may not be well-suited, but there are many others for which this can work very well.

The biggest hurdle to this idea of agribusiness partnering with small-scale farmers is not so much the difficulty of making this model of commercial farming work, but rather the large paradigm shift required on the part of investors. For instance, contract-grower models necessitate more research and community involvement than investors may be accustomed to or are interested in. Additionally, farmers will need training and other kinds of technical (and sometimes material) support. Investors may not have the patience to make this type of commitment to farmers, given that they are used to having large groups of tightly controlled laborers who are hired and fired at will.

This is far from a perfect model, and its successful implementation requires patience and a different way of thinking. Additionally, there is considerable potential for one or both parties to exploit the arrangement (a reality that illuminates how goodwill on both sides is essential for success). However, the potential benefits are considerable for the farmers, for the host countries, and particularly for the companies willing to make this investment.

For example, if the investor partners with neighboring farmers, his need for landmass and labor is drastically reduced, particularly as his contract farmers become more experienced at producing according to specified quality standards and as the partner farmers become yield-productive.

These farmers are business partners who are not under the agribusinesses’ direct control. But in return for giving up this control, the investor has relieved himself of considerable management and other headaches of having a large labor office. Additionally, the productivity of the contract farmers will obviously vary, but the agribusiness only pays for product that meets specified standards and so does not directly carry the financial and business risks of low productivity.

Farmers gain under this model as well. Given that they interact with the agribusiness as independent businesspeople, they tend to be highly motivated about making an income. Additionally, the farmers are welcome to grow crops for themselves or other suppliers during off-seasons or at any other time.

When this arrangement works well, a huge additional benefit for the investor is that the community begins to see its own best interests tied up with the success of the enterprise. Not only does this have positive implications for the investor’s bottom line, but it also provides long-term social and political protection for his investments that can transcend legal documents.

CONCLUSION

Investors are likely to get burned if they view Africa as an agricultural blank slate on which they can simply write whatever primarily suits them or is convenient for them. African agriculture does indeed offer great potential and exciting opportunities, but only for the smart investor who is willing to do his homework diligently in order to stay well-clear of the many potential pitfalls. Investors need lateral, outside-the-box thinking—perspectives, for example, which embrace partnerships with small-scale farmers—to maximize their engagement with farming in Africa.
FOREIGN INVESTMENT IN AGRICULTURAL VENTURES IS NOT EXACTLY A NEW PHENOMENON IN ASIA. LARGE BANANA AND PINEAPPLE PLANTATIONS CARRYING WELL-KNOWN FOREIGN BRANDS HAVE BEEN OPERATING IN THE PHILIPPINES SINCE THE EARLY 1900S. MALAYSIAN AGIBUSINESS FIRMS HAVE LONG EXPANDED THEIR PRODUCTION OF PALM OIL, RUBBER, AND SIMILAR INDUSTRIAL CROPS TO NEARBY COUNTRIES LIKE INDONESIA AND THE PHILIPPINES. IN FACT, MANY OF THE HACIENDAS AND PLANTATIONS THAT STILL EXIST IN THE REGION TODAY TRACE THEIR ROOTS TO THE COLONIAL PERIOD WHEN SPICES, TEA, RUBBER, AND OTHER TROPICAL PRODUCTS WERE SHIPPED IN LARGE VOLUMES TO EUROPE AND OTHER OVERSEAS MARKETS.

The recent period, however, has seen a distinct spike in the number, scope, and magnitude of investments by foreign entities in farmland and agricultural ventures overseas. Nowadays, announcements of new large-scale and often government-backed initiatives hog the headlines of local newspapers on a regular basis. The trend has caught the attention of multilateral agencies like the Food and Agriculture Organization (FAO) and the World Bank. Several studies are now being undertaken to determine the longer-term implications of this development.

This short paper aims to contribute to the analysis by identifying the major motivations for undertaking such investments in Asia, and by assessing the actual or potential effects of these investments on host countries in the region—with particular emphasis on small farmers. The last section provides some recommendations for managing this trend so that it can approximate a win-win situation for all parties concerned.

RAUL Q. MONTEMAYOR is the national business manager of the Federation of Free Farmers Cooperatives, Inc. (FFFCI) of the Philippines, and vice president of the International Federation of Agricultural Producers (IFAP).
DRIVERS OF OVERSEAS FARMLAND INVESTMENTS

Commercial Motivations
The most common and logical rationale for undertaking overseas farmland investments is commercial in nature. Asian countries may provide the best agroclimatic conditions for producing certain crops, offer significantly lower labor costs, or proffer other competitive advantages that enable investors to maximize profits and financial returns.

Foreign agribusiness investors could also be in a better position to tap nearby domestic markets and to react promptly to market developments if they locate their production and processing activities closer to the demand areas themselves. Agribusiness opportunities abound in Asia, where many countries simultaneously have burgeoning populations; increasing consumption trends; and limited capacities to produce and supply food to their consumers.

In Asia, the reasons for this limited ability to produce and supply food are varied. There is a lack of rural infrastructure—such as roads, irrigation, ports, etc.—which makes the transport of inputs and products difficult and expensive. Rural credit is also a major problem, and consequently farmers scrimp on inputs and suffer lower yields. Furthermore, due to poor marketing systems, farmers are vulnerable to price volatility and manipulation.

Globalization and the gradual removal of both trade and investment barriers at the international level have made it easier for companies to relocate their supply bases and to pick production areas where they can enjoy optimal tariff- and other trade-related incentives for both their imported inputs and exportable products. An American investor who locates his production in a member country of the Association of Southeast Asian Nations (ASEAN), for example, could theoretically benefit from zero-tariff privileges for almost all agricultural products sold to other countries within the ASEAN free-trade area.

The shift toward freer trade regimes has also intensified competition among agribusiness entities, leading many to look for ways to cut costs, improve quality, and gain other competitive edges over their market rivals. Vertically integrating production with processing and marketing operations has become a popular way not only to ensure timely and consistent access to quality raw materials, but also to secure them at potentially lower costs without having to go through manipulative middlemen and assemblers.

Food Security Motivations
Food security concerns have emerged relatively recently as a second significant driver of overseas farmland investments. The 2008 global food crisis and warnings that similar crisis situations could recur in the near future have understandably led many countries, particularly those with limited production assets and food sufficiency capabilities (such as the Gulf states, China, India, Japan, and South Korea), to find new ways to secure access to food for their own populations. Dire warnings about climate change and the future availability of arable land, water, minerals, and other natural resources on the one hand, and projections that global food requirements will double by 2050 on the other, have further fueled the sometimes-frantic move to secure productive areas offshore.

The impulsive reaction of some countries to impose export restrictions during the food crisis last year also led many governments to rethink their food security strategies and to develop contingency measures in case their traditional trading partners cannot, or refuse, to supply them with food during future emergency situations. The specter of not only very high food prices but also an actual unavailability of food in the future has induced many government leaders to resuscitate and revitalize their food self-sufficiency programs, and in some cases, to look to offshore food production as an additional safeguard against food riots and other sociopolitical disturbances that may ensue during future food crises.

Additionally, the increasing incidence of food contamination, animal diseases, and food-borne toxins have prompted food safety-conscious countries like Japan to curtail imports of vegetables and other vulnerable farm products from traditional foreign suppliers. In turn, Japanese agribusiness firms have been encouraged by their government to directly undertake and supervise the production of these commodities in foreign countries, and then to process and ship them back to Japan using strict hygiene and sanitary protocols and processes.

A related stimulus to foreign investments in agriculture has been the biofuels craze. As fossil fuel prices started to soar a few years ago, the
production of ethanol from sugarcane, corn, and similar cellulosic crops, and biodiesel from palm oil, jatropha, and other vegetable oil-producing plants, gained headway. India, Malaysia, and Thailand were the most active Asian countries in developing their domestic biofuels industries. China, Japan, and South Korea were also active domestically, but given land and other constraints, these nations also started looking overseas to grow biofuels feedstock and other food necessities.

Biofuels production, however, has been criticized as a proximate cause of the 2008 food crisis, particularly because of the conversion of scarce land resources from food-production use to use in planting normally inedible feedstock. Meanwhile, fossil fuel prices have gone down significantly in 2009, dampening investor interest in biofuels ventures. Still, some countries have nonetheless maintained long-term energy security policies that provide incentives for alternative energy and biofuels production. Simultaneous concerns over food security at home may lead such nations to situate their feedstock generation activities on foreign land, while preserving their own land for food production.

Foreign agricultural investments have generally been welcomed, and often encouraged, by governments in host countries. These investments can potentially provide funds and expertise that would otherwise be unavailable for the development of largely marginal areas and for the upgrading of local infrastructure and basic facilities. Agribusiness ventures can also generate much-needed employment in the project areas, which are usually situated in underdeveloped rural and agricultural zones. At the same time, such ventures may provide opportunities for technology transfers to local residents.

Local and national governments are particularly attracted by the prospects for larger tax and related revenues that could be collected directly from the agribusiness ventures and from other subsequent economic activities. In some cases, foreign land investment offers have come with promises of official development assistance, concessory loans, the guaranteed supply of fuel or minerals, or other quid-pro-quos from the governments where the investors come from. Furthermore, many of the ventures supported by Gulf governments in the southern Philippines and Indonesia have been depicted as proactive attempts to curb terrorism and extremism by providing jobs and livelihoods to Muslims. It is therefore not surprising that many of these farmland investments have received the blessings and endorsements of most governments in Asia.

**MODES OF OVERSEAS FARMLAND INVESTMENTS**

Most countries in Asia have constitutional and other regulatory limits on foreign ownership of land and similar natural resources. In countries like the Philippines, there is also a maximum hectarage that can be owned by individuals or corporate entities. In addition, the Philippines has a land reform program that imposes restrictions on the sale, transfer, or leasing of land from program beneficiaries to other parties.

**Leasing Land**

Because of these constraints, the easiest and most common mode by which a foreign entity can undertake overseas farmland investments is by leasing land. Many Asian governments have facilitated this type of investment by entrusting ownership of large tracts of public land to certain state agencies, which in turn lease them to foreign corporations. In the Philippines, for example, the National Development Company leased large tracts of land to multinational banana and pineapple companies in the southern part of the country beginning in the 1920s. According to some Cambodian farmer leaders, a National Land Concession entity has reportedly been established by their country’s government. This new body, according to these farmer leaders, owns public land and has the authority to lease or sell this land to foreigners on a long-term basis.

**Joint Ventures and Partnerships**

Another option is for the foreign entity to enter into a joint venture or similar business partnership with a domestic corporation, which then fronts as the lessee of the farmland in question. This may allow easier and trouble-free access to land, while potentially enabling the partnership to reap tax and other incentives normally enjoyed only by domestic enterprises. A possible drawback of this arrangement is that the foreign investor has to share control and profits from the project with local business partners.
Examples from the Philippines
In places like the Philippines where there are more stringent rules on land ownership, foreign companies have had to indirectly, and often-surreptitiously, lease small individual tracts of land from local farmers and settlers. Thirty-year leases are the norm, with options to renew the lease for another 30 years. Farmers are usually enticed with an initial lump-sum payment for the rental for the first five years, with subsequent payment every five years, plus preferential (but not guaranteed) employment with the company.

In other instances, foreign investors enter into contract-growing arrangements (e.g., joint ventures) to obviate complications from land leases. Contract growing has become more popular in the Philippines in recent years, as it enables agribusiness firms to avoid labor costs arising from employer-employee relationships and collective bargaining agreements with unions, such as minimum wages, Medicare, social security, overtime pay, pensions, and other recurrent employee benefits. The firm essentially maintains control over farm management since it has the right to select and supply the inputs to be used in the farms, and farm owners are contractually bound to follow the firm's prescribed farm plan and practices. Additionally, the contract grower is obligated to sell his output to the firm under pre-agreed terms and conditions during the period of the contract.

Outright lease and contract-growing arrangements have sometimes been combined. For example, some agribusiness investors have established food-processing ventures, for which they directly lease adjacent land to supply a desired proportion of their raw material requisites, then enter into contract-growing agreements with nearby farm owners to provide the balance of their requirements. This arrangement provides a more comfortable level of assurance of raw material supplies, while allowing the company to operate without having to directly hire farm workers as employees.

ISSUES AND CONCERNS
There are clearly many significant benefits that can be gained from foreign investments in agricultural ventures in Asian countries. As mentioned earlier, investments, particularly in rural areas, can have high economic multiplier effects and may generate much-needed employment, tax revenues, technology transfer, and infrastructure and communication services, and, in doing so, also improve the access of local farmers to markets and input supplies. It has also often been argued that farmers are better off leasing or selling their land, and working as paid laborers on their own land, rather than continuing to live marginally through subsistence farming.

However, the rapid encroachment on small farms arising from overseas farmland investments has started to raise more eyebrows and warnings because of the potentially disastrous side effects.

Displacement
One common concern has been the large-scale and long-term displacement of small farmers from their land. This is true even when public lands such as forests are leased to agribusiness ventures, since these areas are invariably populated by settlers, indigenous tribes, or other undocumented occupants who have been forced to move out of lowlands. Even when leased public land is largely unoccupied, farmers and landowners on adjacent private plots are invariably targeted and lured into leasing their land as the agribusiness firms expand their operations and look for areas that are already cleared and arable. Additionally, once foreign investors signify their intentions, it is inevitable that local speculators and opportunists will take advantage of unsuspecting landowners by surreptitiously acquiring control, if not outright ownership, of the latter's land so that the former can later resell the rights over the properties and make huge capital gains.

In 2009, there have also been many reports of small landowners being pressured and intimidated into involuntarily leasing their land. In some parts of the southern Philippines, local agents of palm oil agribusiness investors have been suspected of hiring goons to harass uncooperative landowners. Elsewhere in the Philippines and in other parts of Asia, rogue elements have reportedly been let loose to sow terror in target areas, forcing frantic settlers to evacuate their homes and farms, and making them easy prey for opportunists—who have readily offered to lease the settlers’ land in exchange for advance rental payments.

Even with land reform in the Philippines, landlessness is still widespread in the country’s rural areas. A similar situation exists in many
other Asian developing countries with large, rural populations dependent on farming; with limited land; and with land concentrated in the hands of a small elite. Many settlers who have been innocently cultivating land for generations still do not have firm titles to support their occupation, and could easily find themselves suddenly eased off their land by investors and prospectors who have managed to secure legal titles. In such a situation, it would be difficult for governments to justify how foreign entities could easily gain control, if not ownership, of large tracts of land, while a vast proportion of the population either has no land at all, or cannot be accorded even a modicum of tenure security.

Special accommodations given to overseas farmland investments also often contradict domestic policies and program thrusts. Some Cambodian farmer leaders, for example, question why established national regulations that encourage farmers to protect and preserve forests are conveniently set aside to enable foreign firms to convert these protected areas into large-scale plantations. In the Philippines, the government has actively wooed foreign investors to establish agribusiness ventures on large tracts of land owned by small land reform beneficiaries. This has raised concerns that tenants newly emancipated by land reform could once again become laborers on their own land in a veritable “land-return” process, putting to waste the long struggle of acquiring land from recalcitrant absentee landowners.

A similar case of apparent policy incoherence and inconsistency arises from the perceived adverse effect of overseas farmland investments on the food security of local communities and countries as a whole. Many such projects in Asia, for example, have been criticized for ceding control of large tracts of productive land to foreigners while the countries themselves are chronically short on food supplies and dependent on imports to feed their populations. Particularly controversial are cases where the resultant products are to be exported out of the country, or where land is converted from rice, corn, or other staple crops to vegetable, horticulture, and other commodities that may arguably be of higher value but are not deemed essential for local food security.

In such cases, individual farmers stand to lose total access to their own land to grow food. This is because plantations must control contiguous land areas for sanitation and pest-control purposes. Additionally, facilities like irrigation canals cannot be broken up. Therefore, if a farmer’s property falls within the plantation area, the plantation will not allow the farmer to cultivate his own farm—neither in full nor in part. The farmer then has no choice but to lease the whole area. Similarly, whole villages and even towns could be converted into plantations of crops that cannot be eaten, making these communities potentially vulnerable to food shortages in the future. For similar reasons and particularly because of the recent food crisis, it would be difficult at this time to get support for growing biofuels feedstock on large tracts of land in any country—particularly if this is to be done by foreign entities.

Some of the benefits expected from overseas farmland investments may also not materialize, or may be offset by costs and damages to local communities and economies. Large-scale plantations, for example, usually employ intensive cultivation practices that may lead to irreversible land degradation, water pollution, and long-term environmental damage. Massive doses of inorganic fertilizers and inputs, deep plowing, radical recontouring of soils, and year-round planting could eventually render the land barren, infertile, and essentially unusable by the time the lease contracts expire. In some areas of the Philippines, large-scale banana plantations have been criticized for siphoning off scarce irrigation water from rice areas, and sometimes even for diverting water canals to their sites.

One-Sided Contracts

The one-sided nature of contracts is another common concern. This was a major issue in the Philippines in the past, when farmers and other landowners signed contracts that ceded control of their land to foreign agribusiness investors. Such transactions occurred during the 1980s and 1990s, a period when banana, pineapple, palm oil, and other plantations—some of them partly foreign-owned—started expanding in the Philippines.

For example, some of the long-term lease agreements from this period exempt investors from any meaningful liability in case their agribusiness ventures prematurely fold up. Some even include a clause obligating the lessors to pay the investors for any permanent improvements that stay on the land, such as irrigation canals, at the time the lease contract expires. The lease agreements have also effectively ceded full control over the land to the agribusiness firms over extremely long periods, with very little room for landowners to maneuver and with few means to address
their grievances. Landowners who have leased their properties to agribusiness companies, for example, are explicitly banned from introducing any improvements or planting any crops on their own land without the express consent of the lessee firm.

The issue of one-sided contracts also cropped up when agrarian reform beneficiaries in the Philippines (to whom many plantations were transferred) ended up leasing back the lands to, or entered into contract-growth arrangements with, the former owners of the plantations. In their haste to consummate the agreements and get advance payments, the reform beneficiaries signed the contracts without any legal advice or detailed negotiations. The Department of Agrarian Reform eventually had to step in to protect the land reform beneficiaries.

Though such developments occurred in the past, it is not far-fetched to assume that similar problems could arise with the prospective agribusiness investments being scoped out in the Philippines today. In fact, many of the lands currently being eyed for overseas farmland investments in the country are agrarian reform areas, including large tracts of land in predominantly Muslim areas of the southern Philippines.

One could intuit that contract growers may have more leverage vis-à-vis the agribusiness firms than do outright lessors, since the former’s agreements are relatively shorter and they retain some form of control over their land. However, their contracts are often worded such that they are effectively also just workers on their own land. Inputs are supplied exclusively by the company, and contract growers have to strictly follow the company’s prescriptions on what, when, and how to plant and maintain the crops. Additionally, they are legally bound to sell all of their products to the agribusiness firm on terms that have been negotiated in advance. Because the contract growers are usually not well-organized, they generally end up with an agreement that is stacked in favor of the firm.

The only bright spot stems from the rising number of contract growers. As more and more agribusiness companies go the contract-growing route, they will have to find a way to attract and retain the required number of contract growers in order to ensure their supply of products. This in turn gives contract growers some leverage in bargaining for new and better contract terms.

Farmers’ Welfare
A final concern is the welfare of the small farmers and landowners who have leased or committed the use of their land to foreign agribusiness enterprises. Many have been enticed with advance rental payments ranging from U.S. $100 to U.S. $200 per hectare per year (paid in lump-sum at the start of each five-year period); assuming a farmer has leased two hectares on average, this rental payment would amount to a measly U.S. $0.50 to $1.00 per day. Arguably, even a low-technology farmer could easily generate as much if not more income per day from his own efforts on his own two-hectare farm. One can only speculate about how much more wealth and output small farmers could generate if they were provided with just the basic levels of support by their government, and about the opportunities in life they and their children have missed out on by opting to cede their land to investors and consequently being relegated to workers, if not squatters, on their own property.

In addition, the promise of full-time employment with agribusiness ventures is not guaranteed. Farmers may be too old, or their children may not qualify for work on the plantations. Agribusiness firms are usually highly mechanized, have low labor-to-land ratios, and will always be on the lookout for ways to cut costs, including those of labor. Many periodically hire workers on a casual or contractual basis, lay them off after a prescribed period, and then rehire them on the same basis in order to avoid having to pay mandated benefits to regular employees. The perceptible trend in the Philippines toward contract growing and labor subcontracting is, in fact, seen to be primarily a strategy of agribased companies to reduce their employee-related costs and obligations, to subvert the power of unions, and to acquire the flexibility to reduce their workforce without having to worry about retrenchment and retirement costs.

RECOMMENDATIONS
Overall, while overseas farmland investments can and do bring substantial economic and other benefits to local communities, there is no assurance that small landowners, contract growers, and other rural residents will get an equitable and commensurate share of the benefits from these
investments. Nor are the long-term interests of the host countries—with respect to food security, environmental sustainability, socioeconomic development, and even poverty alleviation—necessarily and automatically promoted as a result of such investments. Clearly, proactive steps need to be taken to ensure that overseas farmland investments are not purely extractive and opportunistic in nature and purpose. International land investments must provide concrete and lasting benefits to local landowners, rural communities, and the recipient country on the whole.

What will this entail?

First, governments need to craft and adopt clear policies that will take into full consideration the overriding interests of the country—including food security, rural development, and poverty alleviation objectives—and also the long-term environmental sustainability of land and natural resources. Clear land-use policies and regulations can then be laid out together with guidelines for foreign investment in domestic agricultural ventures. A clear farmland investment modality will protect national interests while at the same time help foreign investors reduce their start-up costs and minimize future risks to their business ventures.

Second, foreign investors must strictly adhere to the country’s labor, environmental, and land-use rules and other such regulations, and should be dealt with firmly if they fail to do so. They should follow restrictions on what types of plantation crops can be planted in certain areas; rules on what they need to undertake to protect the land, water, and other environmental resources in the areas they operate in; and regulations with respect to labor employment. If they apply for and are given investment incentives, their operations should also be monitored to ensure that they comply with their commitments and operational plans.

Third, given that much of the land targeted by foreign agribusiness investors is owned and/or occupied by small farmers and settlers, there is clearly a need to provide legal assistance to ensure that local landowners and land users are not lured into one-sided contractual agreements. At the same time, a system to protect their historical, ancestral, and legal rights should be put in place so that they cannot be indiscriminately and unfairly dispossessed of their rights and properties. As much as possible, prospective lessors should be organized so that they can negotiate on a more even footing with the investors and possibly even engage as co-investors instead of just as lessors in the agribusiness venture. As a general rule, leases, contract-growing arrangements, and similar contracts could be checked by appropriate government agencies or private assistance or legal advisory firms before they enter into force.

Finally, it must be stressed that overseas farmland investments are not the cure to the problems that continue to confront large masses of small farmers and landless rural workers in Asia. While these investments can provide tangible benefits, and steps can be taken to ensure that they do so, the hard work remains for governments to assume and execute their responsibility of building the roads, putting up the irrigation, delivering the health and education services, and providing the other basic infrastructure and services that will enable farmers to generate profits from their farms and rear their families out of chronic poverty. These masses of small farmers—not foreign entities—are the real and most strategic investors that governments should encourage and support. And unlike foreign investors, who can easily pack up and leave if things go bad, these small farmers are also the most loyal and resilient investors, if only because they have nowhere else to go.

NOTES

1. Such reports come from first-hand accounts of small landholder victims in the Philippines, and from the author’s conversations with farmer leaders from other Asian countries.

2. This information is based on the author’s reading of farmland contracts in the Philippines.

3. These refer to contract-growing arrangements between farmers and banana/pineapple plantations and companies in the Philippines; the author has seen and read some of the contracts governing these deals.
INVESTMENT IN FARMLAND
AND FARMING IN CENTRAL AND
EASTERN EUROPE AND THE
FORMER SOVIET UNION—CURRENT
TRENDS AND ISSUES

Carl Atkin

“Buy land, they don't make it any more.”
—Mark Twain

There has been much written in the press over the last 6 to 12 months about the global “land grab,” and arrangements by some Middle Eastern and Asian governments and quasi-governmental corporations to lease land in Africa and Latin America. While the 2007-08 food crisis might have whipped up considerable interest in the agricultural investment space, it is a trend which has been going on for a long time. Indeed, given the illiquidity of farmland and operating companies, most people investing in the sector are taking a minimum 10-year view. Those who want to make a quick buck by exploiting short-term volatility should probably stick to commodities markets or equities with high-sector exposure, such as fertilizer and machinery manufacturers.

Agricultural land is an interesting asset class, containing the generic characteristics of real estate. It is an inflation hedge, it provides income generation, and it is not correlated to other investments, especially commercial or residential real estate. Thus, it is easy to see why high-net-worth individuals, family offices, and institutions are keen to get exposure, in spite of the recent government-backed surge in Africa surrounding strategic food security issues.

Carl Atkin is a partner and head of research at Bidwells Agribusiness, a leading international provider of consultancy and management services to the farming, food, energy and agri-investment sectors.
Agricultural land is also an emotive asset class; the issues of rural land use, food production, and the control of food supply systems often evoke political sensitivities. The issues surrounding foreign direct investment in land are clearly more complex and charged than in other industries like manufacturing. Agricultural land markets are also highly imperfect. They often suffer from a lack of transparency, with many restrictions on ownership and occupation. In developed markets, strong non-economic drivers such as lifestyle, recreation, and tax are often considered more important than agricultural income potential or capital growth based on agricultural productivity. In transition economies, markets are poorly developed (if at all) and even the agricultural value drivers are almost totally irrelevant.

OVERVIEW

This paper focuses on overseas farmland investments in Central and Eastern Europe countries (CEEC) and in the former Soviet Union (FSU). These areas of the world have received less attention in the press over the last 6 to 12 months, given that the focus has largely been on the “race for Africa.” However, foreign investment in agriculture in these countries is long-established (since the early 1990s), and is less politically charged, particularly because agrarian reform and holdings consolidations are actively encouraged by government and industry groups.

Investors interested in farmland and farming in the CEEC and the FSU break down into two groups.

One group considers such investments principally as real estate investment. It targets land within the European Union (EU) or within countries (such as those in the Balkans) that are short-term candidates for EU accession. This is because EU membership brings legal and fiscal stability, and on the whole, private property rights and legal and cadastral systems in EU member-states are reasonably well-developed.

The other group focuses mainly on operational farming investment. It wishes to seek superior returns on working capital by accessing large areas of land at relatively low costs (probably by leasing). These investments have tended to focus on the FSU, with the most prolific activities occurring in Russia and Ukraine. Real estate purchase, though time-consuming and bureaucratic, is possible in Russia, but not in Ukraine, where agricultural land is subject to a moratorium. In the FSU, large-scale operators can be grouped into a number of types:

- Successors to former state farms (sovkhazi) and collective farms (kolkhozi), which have often become joint stock companies—some of which have flourished, and some of which have been saddled with high debts and low productivity;
- Backwardly integrating food-processing companies (that is, firms that have moved down the supply chain into primary production, such as Astarta in Ukraine);
- Poorly developed entrepreneurial Russian and Ukrainian businesses (that is, poorly developed compared to all the forecasts in the early 1990s, though there have been some notable examples, such as Russian Farms);
- Western-backed investor businesses (e.g., Landkom, Black Earth Farming, Ltd.)

THE STATUS OF FARMLAND IN THE CEEC AND THE FSU

Efficient agricultural land use collapsed in the FSU and in parts of the CEEC in the early 1990s, when organized state and collective farms were dismantled or privatized. Large areas of land were left uncultivated. Yields and output fell as the newly fragmented private farm sector could not access inputs, capital, or technology. Much land remains unfarmed, fragmented, or both. According to the UN Food and Agriculture Organization, of all the world’s land not currently in production, at most 12 percent of it could potentially be farmed—and much of this land is in Russia and Ukraine. However, there remains a range of conflicting views about balancing global agricultural production with the preservation of biodiversity and carbon sequestration capacity.

Under land reform, land is often very fragmented. Unlike nations such as Poland, which boasts large tracts of commercial farmland in well-sized units, countries like Romania and Ukraine have land redistributed to the people in hectare (ha) blocks, to be “parcelled” into
workable agricultural units. In Russia, in particular, individuals tend to hold “virtual land shares” within the former sovkhozi or kolkhozi because the process of land reform is usually incomplete—tracking down individuals who may have died or moved away is an immensely bureaucratic and time-consuming process. Thus, while Western operators often wish to establish full land titles, many local businesses never complete the land registration process. Land reform not only has an important impact on value, but also on the ability to collateralize land. Only fully aggregated land has any meaningful collateral value.

Most accepted forecasts point to a northward shift of the production belt in the Northern Hemisphere. Europe is relatively robust in terms of output, as seen by the vast tracts of the FSU being opened up for productive agriculture as growing seasons lengthen. Europe also looks well-positioned with relatively abundant supplies of fresh water, which are “future-proofed” for the medium term. Europe and the FSU are also “future-proofed” against undulations in water supply and climate change. For these reasons, these regions have excellent productivity potential.

Cost-to-market analysis is a fundamental element of any agricultural investment decision, not just in terms of considering long-haul freight rates, but also the practicalities of getting large quantities transported in and out of ports or countries with very limited roads and port facilities. Generally, the CEEC and the FSU have a reasonably developed infrastructure with relatively close access to markets in Europe and Asia.

LAND PRICE DEVELOPMENT AND OUTLOOK

While many land markets in the CEEC and FSU are highly imperfect (see the chart on the next page), one can argue that as a broad rule of thumb, good-quality land with title in Russia trades at about €500/ha (about U.S. $735). Similar land in Romania trades for about €2,000 to €3,000/ha (U.S. $2,940 to U.S. $4,415), in Latvia for €5,000/ha (U.S. $7,360), and in the United Kingdom for €15,000/ha (U.S. $22,070). There is a strong argument that agricultural land prices will converge between the old EU-15 and the CEEC countries within the EU (clearly not to 100 percent, as there are inherent productivity differences, but instead probably to 55 to 70 percent of Western European values). This convergence means that land prices in the CEEC and FSU will continue to rise, despite the recent softening of costs in Western Europe and the Americas.

INVESTMENT ACTIVITIES AND CHALLENGES IN THE CEEC AND FSU

Current Activities

In countries where title to land is robust (such as in the CEEC), investment propositions are often principally about agricultural real estate exposure, perhaps with some limited exposure to operational farming through a contract farming or joint-venture arrangement. Agricultural real estate funds that are active or propose to be active include Northbridge,
Invalda, Miro, Palmer, Fairplay, and Insight, along with numerous high-net-worth individuals and family offices. These investment opportunities can yield significant capital appreciation in the land (on the basis that land values will rise as commodity prices rise). Additionally, a modest but respectable income return can be generated from leasing the land, or by some form of contracting or joint-venture arrangement.

One of the difficulties with investment products is in getting a sufficiently attractive running return to tempt institutional investors. High-net-worth individuals and family offices who have dominated this sector until recently place less emphasis on running returns, and often remain content with capital growth. Institutional investors are often more concerned about a running return.

**Challenges to Agricultural Investment**

There are a number of challenges to investing, even in countries like Poland and Romania where land titles are robust. Some countries impose foreign ownership restrictions, negotiated as part of their EU accession treaties. Poland has some of the most onerous limitations, theoretically restricting the ownership of land by foreign nationals and entities until 2016.³

Tenancy legislation is a complex area. In some Western countries, such as the United Kingdom, tenancies are set by reference to the market, allowing the full income return potential of the land to pass back to the landowner. In other countries, such as Poland, tenancies are often set by reference to an archaic formula that does not enable the landowner to enjoy such benefits. Payment is often made in kind. It is not unusual for Romanian plot owners to turn up at harvest with some sacks in their car trunks, seeking grain for payment. In locations where the farm tenancy market is not well-developed, more innovative occupational structures are necessary.

Nonetheless, the support environment is worthy of consideration. The CEEC has received Special Accession Programme for Agriculture and Rural Development (SAPARD) funding as part of the EU accession program (to help with agricultural modernization). It now also obtains the Single Area Payment Scheme (SAPS), a simplified version of the Common Agricultural Policy (CAP) payments customarily made to farmers in Western Europe, albeit at lower levels for now. The introduction of SAPS has dramatically improved farm profitability in the CEEC countries within the EU, but has led to the usual problem that arises with agricultural support. A lot of the support has become capitalized in the land price or rent, or improved profitability has been lost in the upstream value chain—it is typically not retained in the operational farming business.

Business structure and personnel are equally important for consideration. There are a myriad of offerings in the area of operational farming, some with very robust and well-thought-out business plans, some with appropriate scenario planning and sensitivity analysis, and, unfortunately, others exhibiting significantly more froth in their expectations of yields and profitability. The principal challenge with all these businesses is operational: Is the management capable of growing the area of cultivated land by tens of thousands of hectares year-on-year while, at the same time, increasing crop yields as many business plans suggest they will? For many of these businesses, quality and availability of senior management may prove the ultimate limiting factor. Those businesses with strong management teams and operational plans are likely to succeed. Others have little more than knowledge of the opportunity with very limited execution capability.

**IMPACT OF THE GLOBAL FINANCIAL CRISIS ON AGRICULTURE IN THE CEEC AND FSU**

The global financial crisis has made a significant impact on agriculture in the transitional economies of the CEEC and FSU, restricting access to working capital. Fertilizer and input use are both down substantially as farmers simply cannot get credit either from clearing banks or from major agricultural suppliers. Forecasts for the 2009 harvest in both Russia and Ukraine reflect a sharp decline on the back of reduced yields. Credit also restricts investment. Many businesses (especially privatized *kolkhozi* and *sovkhodz*) without external capital) have outdated and unreliable machinery. Soviet-era grain elevators are often crumbling, inefficient, and corrupt. The largest farming businesses have found it necessary to internalize their grain storage—in itself a low-return activity—as an essential mechanism to access the superior returns from operational
farming, which in the FSU might be 15 to 20 percent or more. By comparison, according to Bidwells data, returns from operational farming in Western Europe are between 1 to 4 percent and between 4 to 8 percent in the CEEC.

There has generally been a retreat away from more risky investment locations, especially Ukraine (where there is concern about the underlying stability of the macro-economy), and a shift toward the CEEC and South America (which are both seen as more stable). The financial crisis, however, does present opportunities. For example, lots of distressed assets are going very cheap in Russia and Ukraine at the moment.

The general view remains, however, that agriculture is more recession-proof than the general economy. Agricultural prices do not behave consistently during recessionary periods. For example, the years 1973 and 1974 were characterized by relatively high levels of inflation and significant shortfalls in global crop production. In fact, 1973 marked the beginning of a structural shift to a new and higher level of nominal prices for crop and livestock commodities. In contrast, the years 1981 and 1982 were characterized by large growth in U.S. and world crops and relatively strong demand. Crop and livestock prices at that time were characterized as normal.

To some extent, the agricultural economy is also more recession-proof because of the importance of export markets for many major producing regions (especially the United States and the European Union), and because food expenditures are not as elastic as most other costs. While there will clearly be impacts on the processing and added-value elements of the supply chain, and on higher-end food services and retail, the fundamental production of commodities for those living in the U.S. $2 to $10 per day bracket is likely to be much less affected.

The long-term fundamentals remain sound. Population growth remains unabated. There will be a projected nine billion mouths to feed by 2050. Despite the recent downturn in the economy, the International Monetary Fund is still predicting economic growth over the next five years of between 7 to 8 percent per annum in India, and between 9 to 10 percent per annum in China. Dietary shifts (characterized by rising rates of meat-eaters) probably remain one of the most important drivers of demand growth in the medium term, with the U.S. $2-per-day level being the important threshold (this figure represents the level at which basic caloric needs are met and diets typically become more diverse, allowing for more meat and dairy consumption).

Meanwhile, biofuels are likely to remain a central part of the United States’ energy policy. A University of Illinois report from September 2008 notes that “An ethanol-fueled spike in grain prices will likely hold, yielding the first sustained increase for corn, wheat, and soybean prices in more than three decades.” Barack Obama’s recent election and his emphasis on U.S. energy security are important in this respect.

Finally, the supply fundamentals of restricted land availability, water shortages, climate change, and the limitations of technology remain strong.

IMPACT OF AGRICULTURAL INVESTMENT IN THE CEEC AND FSU

Generally, governments are supportive of foreign investment in agriculture, especially at the regional level. For instance, there is a certain amount of kudos amongst Russian oblast (regional) governors for flows of capital. Regional business strategy is, however, not without hindrance. There are pressures to farm all the land (as opposed to leaving it fallow) and to keep dairy and beef cattle rather than growing arable crops—yet many Western farming companies would prefer entirely arable operations as they are less risky and require less working capital.

At the local level, many companies support initiatives such as village schools, ambulances, or hospitals, but these are usually done on a cash basis that can be accounted for. The old state and collective farms have tended to play a wider social role—for instance, by giving pensioners free food and maintaining roads. Such services have declined, though their demise is not associated with the arrival of Western investors, but rather with a collapse of the old centrally planned farms that were not focused on economic efficiency.

Western operators seem to have a better track record than their indigenous counterparts in paying rent, whether in kind or in cash. Generally, the emergence of new companies (both Western and domestic) has driven up rents for rural peasants, who often have no choice but to lease
their land back for a minimal amount to the former collective farm they had previously allocated it from. There is clearly political pressure to create and maintain employment for such laborers, but the recent financial crisis and a year of sustained losses for most of the major operators have put pressure on businesses to downsize workforces.

The experience of Western operators is mixed. At the height of the bubble in 2007, many companies raised large amounts of cash very quickly and were under pressure to deploy it quickly. Thus, many companies embarked on a “land grab” strategy that probably got too big too quickly at the expense of operational farming. In contrast, businesses that grew more slowly and integrated land acquisition plans and operational farming plans have tended to be more successful. Some of the less successful investors are now actively divesting land, preferring to focus production on a smaller area. Lease values and land prices have fallen considerably since the height of the market, which itself was clearly unsustainable. Many business plans were overly ambitious about the speed of yield growth and underestimated the costs of land improvement and the working capital needed to farm vast areas of arable land. Those that are well-established will survive—albeit at a much reduced value—while many ventures never left the starting blocks.

Supply chain experiences are often negative. The major input suppliers and trading businesses (ADM, Bunge, Cargill, and Dreyfus) now present in most CEEC and FSU markets do not offer the full suite of risk management tools available in Western Europe or North America because supply chains generally operate in a more adversarial way. Quality management remains a problem in large parts of the meat and milk sectors, with many FSU countries not meeting EU import standards on animal health and welfare. In Ukraine, this problem has led to the backward integration of many large food processors into operational farming.

CONCLUSION

From an investment viewpoint, there is immense optimism in the agricultural investment sector. In the medium term, there are immense opportunities in Russia and Ukraine, although the short-term financial crisis has dented confidence in these economies, especially in Ukraine. Execution capability is the critical component of all investment options. Some of the funds, companies, and ventures will achieve and exceed their business plans and become very successful; others will be casualties.

Understanding the challenges of operating in a transitional environment is important, as is having robust structures, corporate governance, financial control, and, most importantly, first-class operational management. In regards to the latter, this is likely to mean people with first-class technical farming and business skills, but also people who are tough enough to operate in what is quite a challenging environment.

The agricultural investment sector is based on sound fundamentals, and there are exciting opportunities. However, some bubbles will clearly burst along the way.

NOTES

1. The CEEC include those nations that were part of the Warsaw Pact before 1989 and are now in the European Union. These are principally the Baltic states of the former USSR (Latvia, Lithuania, and Estonia), as well as Poland, the Czech Republic, Slovakia, Hungary, Romania, and Bulgaria. The FSU encompasses the remaining 12 of the former 15 Union of Soviet Socialist Republic (USSR) states. Presently, most of the investment interest and activities are in Russia, Ukraine, and to a lesser extent, Kazakhstan.

2. Indeed, water—not land—is likely to be the limiting factor on agricultural output in many emerging economies such as India and China. Temperate crop yields in the last 30 years have doubled by tripling water use. Global agriculture is not just living on borrowed time; it is living on borrowed water.

3. The reason for this is historical—concern about Germans buying up vast tracts of cheap land, especially in the west of the country that was part of pre-1945 Germany.


RECENT ASIA PROGRAM PUBLICATIONS

Special Report No. 143 – Taiwan and the Global Economic Storm
Thomas Bellows, Peter Chow, Yu-long Ling, T.Y. Wang, October 2009

Running on Empty: Pakistan’s Water Crisis

Going Global: Chinese Oil and Mining Companies and the Governance of Resource Wealth
Jill Shankleman, August 2009

Kuala Lumpur Calling: Al Jazeera English in Asia

Mikkal E. Herberg, Juli A. MacDonald, Tanvi Madan, Ron Somers, October 2008

Special Report No. 141 – Japan’s Declining Population: Clearly a Problem, But What’s the Solution?
Robin LeBlanc, Jennifer Robertson, Leonard Schoppa, Keiko Yamanaka, July 2008

Special Report No. 140 – China’s Galloping Economy: Prospects, Problems and Implications for the United States
Cong Gao, Steven Dunaway, Jeffrey Logan, Barry Naughton, May 2008

Hard Sell: Attaining Pakistani Competitiveness in Global Trade
Manzoor Ahmad, Shaghil Ahmed, Mirza Qamar Beg, Shahid Javed Burki,

Special Report No. 139 – Japan’s Political Mess: Abe Failed, Can Fukuda Do Better?  
Shinju Fujihira, Sherry L. Martin, Robert Pekkanen, Jun Saito, January 2008

Ten Years After: Revisiting the Asian Financial Crisis  
David Burton, J. Soedradjad Djiveandono, Ilene Grabel, Worapot Manupatpong, Jomo Kwame Sundaram, Robert H. Wade, Mark Weisbrot, Meredith Jung-En Woo, October 2007

Special Report No. 138 – Taiwan’s Dilemma: A Democracy Divided Over National Security  
Thomas J. Bickford, Elizabeth W. Hague, Shirley Kan, Vincent Wei-Cheng Wang, September 2007

Special Report No. 137 – More Than a Concrete Jungle: Urbanization in Japan  
Theodore J. Gilman, Carola Hein, Ronald K. Vogel, Merry I. White, April 2007

Carlos Correa, Heiner Flassbeck, Jomo Kwame Sundaram, Elaine Zuckerman, April 2007

Fueling the Future: Meeting Pakistan’s Energy Needs in the 21st Century  

Special Report No. 135 – The Chinese People’s Liberation Army: Should the United States Be Worried?  
Dennis J. Blasko, Bernard D. Cole, Kristen A. Gunness, Litai Xue, December 2006

Special Report No. 134 – Six-Party Stall: Are South Korea and China Part of the Problem or Part of the Solution?  
Kerry Dumbaugh, Kirk W. Larsen, Sung-Yoon Lee, Bojiang Yang, November 2006

Special Report No. 133 – The Avian Flu Challenge in Southeast Asia: The Potential of Public-Private Partnerships  
Tjandra Yoga Aditama, Peter Gourlay and Maryjane Lacoste, David Reddy, September 2006

Special Report No. 132 – Edging Toward Full Empowerment? South Korean Women in the Workplace and the Political Arena  

Special Report No. 131 – China and Democracy: A Contradiction in Terms?  
Richard Baer, Merle Goldman, Suisheng Zhao, Yongming Zhou, June 2006

Special Report No. 130 – One Year After the Tsunami: Policy and Public Perceptions  
Roberta Cohen, Bambang Harymurti, Muhammad Qodari, Courtland Robinson, May 2006

A copy of any publication can be obtained free of charge by visiting the Asia Program online at http://www.wilsoncenter.org/asia. A more complete list of Asia Program publications may also be found online.

The Woodrow Wilson Center Asia Program  
One Woodrow Wilson Plaza  
1300 Pennsylvania Avenue, NW  
Washington, DC 20004-3027  
Ph: 202-691-4020 Fax: 202-691-4058

Email: asia@wilsoncenter.org  
http://www.wilsoncenter.org/asia