



## The outlook on farmland acquisitions



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Over the past couple of years, large-scale acquisitions of farmland in Africa, Asia, and Latin America have made headlines in media reports across the world. Dubbed “land grabs” in the media, these investments have kindled much international debate, in which strong positions have been taken on the impacts of such investments on environment, rights, sovereignty, livelihoods, development, and conflict at local, national, and international levels. This briefing note takes stock of the evidence on land acquisitions for agricultural investments, summarising findings from collaborative research that IIED has undertaken since 2008 together with the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD) and, more recently, the Swiss Agency for Development and Cooperation (SDC).<sup>1</sup>

### Trends, drivers, and players

While large-scale acquisitions of land are not new, the scale of some recent land deals is unprecedented. Population growth, increasing rates of urbanisation, and changing diets are pushing up global demand for food and are putting upward pressure on food prices in the longer term. Together with constraints in global food supply and global demand for energy and agricultural commodities, these trends make agriculture an increasingly attractive investment option. Improved prospects for returns from agriculture also encourage speculative investment in land, as prevailing prices of agricultural land seem cheap, particularly in Africa, but seem likely to rise. Governments in countries with high agricultural potential are making policy efforts to promote investment in commercial agriculture. Also, governments in some food-importing countries, for instance in the Gulf, have created policy incentives for land acquisitions overseas as part of broader national food security strategies. In Europe, EU renewable fuels targets have created a guaranteed market that has encouraged investment in biofuels production, both in Europe and overseas.

Quantitative assessments of the scale, geography, trends, and players in the so-called “land grab” are not yet available. There are some aggregate estimates of scale, based on media reports of land deals. For instance, IFPRI estimated that

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\* Research completed in July 2010

<sup>1</sup> Since the preparation of this Policy Brief, the World Bank has published a new report which contains much new evidence on these issues – but timing has prevented that evidence from being included here (see World Bank 2010).

15–20 million hectares of farmland in developing countries have changed hands since 2006 (*The Economist* 2009). Friis and Reenberg (2010) undertook a rigorous review of media reports featured on the ILC blog – and found that land deals in Africa affected between 51,415,000 and 63,111,000 hectares. But the limited reliability of some media reports mean that these figures must be treated with extreme caution – and Friis and Reenberg warn that some of the figures included in their analysis may be overestimated.

Empirical evidence is starting to emerge from studies conducted in Africa and South Asia. For example, a study released last year by IIED, FAO, and IFAD (Cotula et al. 2009) found that approved land acquisitions from 2004 to early 2009 totalled some 2 million hectares in four African countries alone (Ethiopia, Ghana, Madagascar, and Mali). The study drew on national inventories of agricultural land acquisitions of over 1,000 hectares from 2004 to March 2009, based mainly on host government sources, cross-checked through multi-stakeholder interviews. National inventories by GTZ (2010) documented the acquisition of

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about 1 million hectares of land in Cambodia between 1988 and 2006. This includes both agriculture and forestry projects. In Lao PDR, more than 415,000 hectares have been acquired over the past few years in just two provinces. Like media reports, figures from national inventories must be treated with caution, as they are likely to underestimate scale due to limited access to reliable data.

Many deals are likely not to have been included, and land areas affected are likely to be much larger – even more so if deals still under negotiation are included.

European, North American, Gulf, South Asian, and East Asian countries emerge as key sources of investment, though land acquisitions by domestic investors are also significant. Key recipient countries are in Africa (Sudan, Ethiopia, Madagascar, Mozambique, and Tanzania), Southeast Asia (Cambodia, Laos, the Philippines, Indonesia) and parts of Eastern Europe (e.g. Ukraine). Although much media attention has focused on acquisitions by foreign governments, private sector deals account for about 90% of allocated land areas in Ethiopia, Ghana, Madagascar, and Mali (Cotula et al. 2009).

Among private sector players, different categories of operator emerge. Agribusiness companies producing biofuels, agrifood, or other agricultural commodities account for the bulk of approved acquisitions in the four countries covered by Cotula et al. (2009). There are still no reliable data on the relative importance of food and fuel in driving land acquisition processes. Cotula et al. (2009) found that agrifood projects accounted for about 55% of the land

areas acquired in Ethiopia, Ghana, Madagascar, and Mali, with biofuels accounting for much of the remainder. Country studies from Mozambique and Tanzania documented high levels of interest in biofuel projects (Sulle and Nelson 2009; Nhantumbo and Salomão 2010). But the boundary between food and fuel is blurred, as the same crop may be used for both or the same land may be cultivated with multiple crops, and as investment plans may evolve over a project's duration to respond to changing international prices and other incentives.

Some institutional investors (e.g. asset management firms, pension funds) have also become interested in farmland acquisitions as a way to diversify their portfolios, hedge against inflation, and acquire assets presenting low correlation to other asset classes. Some asset management firms have established specialised “farmland funds” to handle farmland investments. But some farmland funds have struggled to attract the levels of investment sought, mainly because of the wider economic crisis – though this situation may change in the medium to longer term.

In private sector-led acquisitions, the home country governments of investors may provide financial, diplomatic, or other support. Direct equity participation in investment projects by home country governments appears more limited but may be growing – and the picture may change if some major deals reported in the media as being under negotiation do come to fruition.

While in some countries targeted for land investments private landholders are significant providers of land, in Africa governments dominate, not least because they formally own much of the land. In these cases, land is predominantly acquired through leases rather than purchases. Where land is acquired from recipient governments, land fees and other monetary transfers are often absent or small, due to the host government's efforts to attract investment, perceived low opportunity costs, and a lack of well-established land markets. Benefits to host countries may include investor commitments on investment levels and infrastructure development (e.g. irrigation systems), though some contracts are vague on these aspects.

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## **What does this mean for local land users?**

Not every lease is a “land grab” – much depends on local context, the terms of the lease, how it was obtained, and local reactions to it. If they are properly structured, genuine agricultural investments by operators with a strong track record can create opportunities for recipient countries and local people, bringing capital, know-how, jobs, market access, and infrastructure development.

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But large land deals carry big risks. People may lose the resources that have supported their livelihoods for generations – not just land, but also water, wood, and grazing. This can have major negative impacts on their food security and sense of justice. Despite perceptions in some government and private sector circles that land

is abundant in many lower- and middle-income countries, much valuable land is in practice already used or at least claimed by local farmers, herders, or harvesters. Even where approved land allocations account for relatively small shares of total land suitable for agriculture, they may still result in people’s displacement as demand focuses on higher-value lands (for example, those with greater irrigation potential or proximity to markets). Strong demographic growth in many parts of Africa means that land competition is likely to increase. And while media reports have focused on land acquisitions for agricultural projects, non-agricultural demands on land (extractive industries, tourism development, and conservation) exert additional pressure. Therefore, very large land acquisitions are unlikely not to affect land access for local groups – even if the current intensity of resource use may be low. Impacts on land access for local groups can be direct, where land is taken to implement a large-scale agricultural investment; or indirect, as greater land competition increases land values and prices out poorer land users.

Evidence of both direct and indirect impacts on local land access is starting to emerge. In Ghana, Schoneveld et al. (2010) discuss a biofuel project that involved the taking of 800 hectares of land and the loss of land for 70

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households from three villages (Schoneveld et al. 2010). A 30,000 hectare biofuel project in Mozambique involved the taking of land used for grazing, of land identified by a local community and an NGO as having potential for game farming and tourism development, and of land promised to communities being resettled from a newly established natural park. It also

involved tensions linked to competition for water resources from the Limpopo River and the Massingir dam reservoir (Nhantumbo and Salomão 2010). In Tanzania, several large biofuel projects involved the taking of village lands, for instance in Rufiji, Kigoma, and Kisarawe districts (Sulle and Nelson 2009). Creation of jobs may partly offset negative impacts on land access – but much depends on the specific

terms. Jobs are often few, short-lived (as the planting phase ends or the project shifts towards greater mechanisation), and low-paid (Cotula et al. 2009; Schoneveld et al. 2010). There is no guarantee that jobs will accrue to those who have lost land, though broader communities may gain.

An important problem is that land acquisitions often take place in contexts where local land rights are insecure and local voice in decision-making is limited. Very few people in Africa have documents for their land. Where land is owned by the state, rural people tend to enjoy use rights conditioned to productive land use. This legal regime, coupled with unclear definitions of what constitutes “productive use”, can open the door to abuse and land dispossession – particularly for groups whose resource use is often not considered as productive due to widespread misconceptions, such as pastoralists, for example. Legal safeguards for local land rights (social and environmental impact assessments, local consultation requirements) do exist in many jurisdictions, but their effectiveness tends to be limited (Vermeulen and Cotula 2010; Schoneveld et al. 2010; Nhantumbo and Salomão. 2010; Sulle and Nelson 2009).

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At the national level, lack of transparency in the negotiation of land deals creates a breeding ground for corruption and for deals not in the best public interest. However, civil society is increasingly making its voice heard: recent months have witnessed growing advocacy by NGOs, producer associations, and community-based organisations.

## **Moving forward**

Large-scale land acquisitions reflect global economic and social transformations with profound implications for the future of world agriculture and the roles of agribusiness and family farming within it. Decisions taken now will have major repercussions for the livelihoods and food security of many people for decades to come. Vigorous public debate in recipient countries is vital to make good strategic choices. While land deal negotiations are unfolding fast, policy-makers should properly consider the wider range of options to invest in agriculture.

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Family farming has long provided the backbone of the agricultural sector in many lower- and middle-income countries – and when given a chance, family farmers have proved to be highly dynamic and competitive on global markets. Global demand for food and agricultural commodities creates new opportunities for developing country agriculture, and public policies and infrastructure to support family farming are needed today more than ever.

Where outside investment is needed to sustain agriculture and improve productivity and livelihoods, business models that involve supporting local farmers are more promising than large-scale land acquisitions. A report published by IIED, FAO, IFAD, and SDC analyses the many ways in which investors can work with local farmers (Vermeulen and Cotula 2010). Some of these models are well tested, such as contract farming, where local farmers cultivate land with support from the company, which then purchases produce at a guaranteed price. There is also growing experimentation with a wider range of models, such as joint ventures or land leases with local communities. None of these collaborative models is perfect, as they typically involve players with very different negotiating powers – but in several cases collective action has enabled farmers to have greater voice and to secure better terms.

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Where the host country and communities see land-based investments as an advantageous option (for instance, where population densities are low), getting the best possible deal from incoming investors is key to minimise risks and seize opportunities. This requires effective regulation, rigorous

scrutiny of investment proposals, transparency in decision-making, skilfully negotiated contracts, and robust social and environmental impact assessments. Development agencies can help strengthen host government capacity to negotiate and manage contracts, and civil society capacity to scrutinise government action. For instance, the recent renegotiation of a land lease for a large rubber plantation in Liberia shows the difference that determined political leadership, a strong government negotiating team, and world-class legal assistance can make to these deals (Kaul et al. 2009).

Central to any policy approach must be securing the land and resource rights of local farmers, herders, and gatherers, and supporting these groups so that they can exercise their rights effectively. This can help protect rural people from arbitrary dispossession and give them an asset to negotiate with. It can also create greater incentives for investors to work with local farmers, rather than acquire large areas of land.

While some governments in Africa may be reluctant to impose greater requirements on investors out of fear of missing investment opportunities, from a host country perspective attracting investment is not a goal in itself but a means to an end: improving local livelihoods while protecting the environment. Attracting investment under poor terms and without strategic vision is unlikely to deliver that goal.

Finally, governments cannot always be trusted to act in the public interest – vested interests and corruption may stand in the way. So transparency and public oversight of government dealings, and sustained pressure from civil society and farmers' groups, are needed to hold governments – and investors – to account. Also, strong farmers' organisations are key for smallholders to negotiate effectively with government and investors. Internationally, civil society pressure has been mounting over the past couple of years; keeping it up can help make the renewed interest in agriculture work for broad-based sustainable development.

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