Kiel Policy Brief

Dealing with the Race for Agricultural Land

Aslihan Arslan, Setareh Khalilian, Mareike Lange

No. 31 | June 2011

Institut für Weltwirtschaft Kiel
Kiel Institute for the World Economy

It is becoming increasingly difficult to satisfy the rising global demand for agricultural products in a sustainable manner. Climate change, a rising world population with changing diets, increasing urbanization and industrialization, and a rising production of non-food crops for bioenergy generation all raise the global demand for agricultural land.

This has fostered an increase in international investments in agriculture, mainly in the form of financially strong private and public investors buying or leasing arable land on a long-term basis in Africa, East Europe, Central and Southeast Asia or Latin America. These land deals are seen as development opportunities by the investors and the governments of the target countries, while NGOs and some media outlets refer to them as “land grabs” with a negative connotation. The answer to the question of which of these viewpoints is more accurate depends on many factors. Initial case studies indicate that land deals need to be judged on a case by case basis as it is not possible to form a general verdict given the complex structure and implementation of these deals. However, what has become evident already is the fact that these investments pose new challenges for the host countries insofar as they affect:

- food security locally and in the region;
- the rights of the local population, e.g. land rights and water rights, thereby affecting their livelihood directly;
- the sustainability of land and water use and therefore the rights of future generations;
- the competition in local agricultural markets, thus potentially decreasing prices for products marketed by local producers;
- the scarcity of arable land, especially in cases of population growth in the host country;
- the development of national regulatory institutions that protect natural resources and monitor and enforce the terms of contracts.

This policy brief summarizes the scientific discussion about land deals and presents some initial empirical results from a field trip to a large land investment in Zambia. It is intended to serve as a background paper for the symposium session “Dealing with the Race for Agricultural Land” at the Global Economic Symposium 2011 in Kiel, Germany. We first give an overview of the main drivers of cropland expansion, and then discuss the possible opportunities and risks involved in land deals.

Based on such analysis we summarize first suggestions on how to reap the benefits of land deals for the host countries and its local communities.

Drivers of commercial cropland expansion

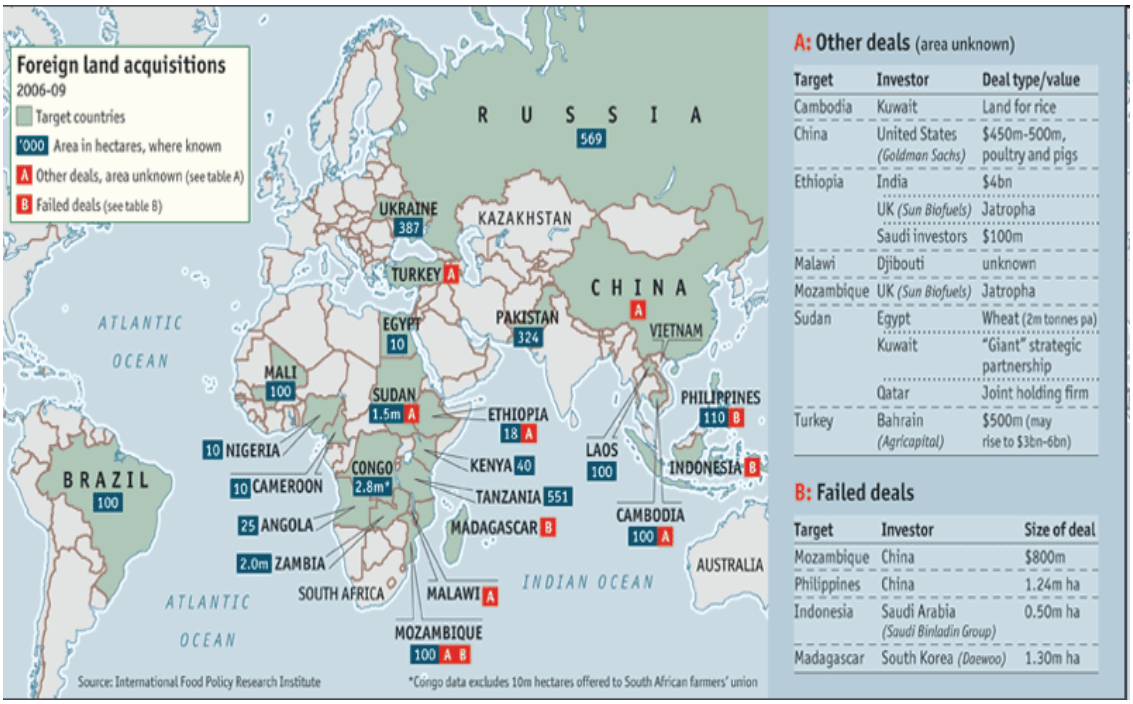
Only three billion hectares (has) out of the world’s total of 13 billion has of land surface is suitable for agriculture, and only 50 % of this arable land is currently cultivated (Deininger 2011). Agricultural land has been expanding under the pressures of population growth, increasing incomes and urbanization for a long time and is expected to continue to do so.

Although the food price crisis of 2007–08 is seen as the main reason behind the current wave of large-scale international cropland investments, the acquisition of farmland abroad by governments is not a new phenomenon. Japan has been leasing land overseas for food production for many years, and China has officially included the investments in land abroad for food production in its development policy since 1990 (de Schutter 2011).

Between 1990 and 2007, cropland expansion has been concentrated mainly in oil crops (e.g. soybean, rapeseed, sunflower and oil palm), the demand for which has increased due to increasing demand for cooking oil in Asia, increased use of soybeans as feed, and the increasing demand for biodiesel in the EU (Deininger 2011). What the food price crisis of 2008 did to this process was to highlight the increasing risks to food security posed by climate change and the distrust in the functioning of international markets due to the export restrictions imposed by major producers (von Braun and Meinzen-Dick 2009). Especially food importing countries with limited access to land and water but plenty of capital led the current “land rush.”

While climate change may open new areas to agricultural production, it is expected to decrease the yields of most important food crops in developing countries. This will also decrease the calorie availability and threaten global food security (Nelson et al. 2009). Moreover climate change mitigation strategies, such as reforestation and an increased demand for biofuels, add to the pressures on land leading to a faster cropland expansion. Six million ha of additional land is expected to be brought into production in developing countries each year until 2030 – sixty percent of which will be concentrated in SSA and LA (The World Bank 2010).

The current increase in investments in large scale agricultural land has attracted criticism mainly because its speed, scale and the terms of contracts that are deemed to pose a threat to the livelihoods of small-holder farmers and communities. Quantitative analyses on the current land rush are scarce, but the analysis conducted for the World Bank report based on press reports provides a good overview of the ongoing processes. This analysis documents a significant increase in interest in land acquisitions and a geographical shift towards Africa, which can also be seen in figure 1. Many of the investments are in countries with abundant availability of uncultivated non-forest land that have low population density. Most of the announced investments have not been implemented yet and they are more likely to target countries with weak recognition of rural land tenure and weak regulation (The World Bank 2010). This is particularly troublesome because it underlines the potential negative impacts on the food security of smallholders and access to land for communities with customary land rights.



Source: The Economist (2009)

Opportunities for host countries

Large scale investments in agriculture raise manifold expectations concerning their impact on the development of the world´s poorest countries. For years, the lack of investment in rural areas has been considered one of the main barriers to economic growth of developing countries. As these countries often do not have enough capital, they welcome foreign governments and companies to invest in their agricultural sector and may even put an emphasis on providing incentives for foreign investors.

For example the Zambian government, in particular the Zambian Development Agency (ZDA) has various policy measures to attract foreign investors to acquire farmland in Zambia. The most elaborate of these incentives are fully developed "farm blocks," which are offered for sale to investors. These farm blocks already have infrastructure developed by the government, and local farmers re-settled from other parts of the region into these farm blocks provide labor for the new commercial farms.[1]

It is expected that the advanced agricultural technologies and knowledge of investors can generate spillovers to the local production (von Braun and Meinzen-Dick 2009) and thereby also positively affect the productivity of local farmers – albeit the absence of this mechanism at the projects visited in Zambia indicates that this effect is not observed automatically in land

[1] In March and April 2011 a field trip to Zambia was conducted in the IfW research project "Landgrab and sustainable development"; foreign investors, local farmers and various government officials were interviewed.

deals. Specific action may be needed to realize these spillover effects such as the out-grower schemes used by some investors that involve local farmers and provide an income source for the local population (de Schutter 2011). It can also be expected that growth in the agricultural sector has positive spillover effects on other branches such as processing companies, seed and fertilizer companies or transportation. Depending on how mechanized the production is, these investments can create new employment opportunities in other sectors (The World Bank 2010).

Some contracts for land acquisitions include obligations for the investor to develop rural infrastructure or construct schools and clinics (von Braun and Meinzen-Dick 2009). In addition, when land acquisition is complemented with compensation schemes for local farmers through community development funds, the investments can contribute to the improvements in local physical and social infrastructure (The World Bank 2010).

A further benefit of large-scale land investments is the increased revenues for the government either by way of selling the land (though this is rare because quite often there is only a nominal price), or by growth of GDP and tax revenues (Cotula 2009). Moreover, the rising productivity of the agricultural sector may improve food security and lead to lower prices that benefit the net consumers. In short, international agricultural investments may contribute to local economic development and livelihood improvements in rural areas (Cotula 2009), if it were not for the risks involved.

Risks involved

In theory, large investments in agriculture could be tremendously positive for the host countries, but due to large risks involved especially for the local communities, these investments have been negatively portrayed in the media and by NGOs that refer to them as “land grabs”. It does not help that most of the initial case studies conclude that the opportunities are usually overrun by the risks involved (The Economist 2011).

The critics of these investments point to the fact that host countries often have insufficient regulations to protect their population. For example, land tenure is complicated in many African countries and land rights are usually customary with no written evidence of usage of ownership – hence governments can sell the land often without consulting the local communities living on the land. Thus local farmers may be displaced when their land is sold to foreign investors – and they may or may not be compensated for it (The World Bank 2010). When locals lose access to land, they may also lose an important means of sustaining their livelihoods. Even when there is a lot of idle arable land, investors may buy the most fertile lands and locals who were using it could be moved to other areas with less suitable characteristics for agriculture (Cotula 2009). Furthermore, when land is declared “unused” by the government, it may still be used by the locals for grazing animals, gathering fuel wood or medicinal plants (von Braun and Meinzen-Dick 2009). This type of land use often serves as a safety net against bad harvests for the communities, which vanishes when the land is sold to an investor and is consequently fenced off. In addition to land use, water use may also be negatively affected, if rules of access to water are not clearly spelled out in contracts. In most

contracts, there is no clear definition of water use rights, causing locals to have less water in areas with water shortage and affecting negatively both agricultural production and livelihoods at the same time.

Case studies of large investments show that despite the initial claims, actual opportunities for employment are small and often limited to unskilled casual labor (Cotula 2011). Wages are low and they cannot substitute the loss of farmland. Moreover, if investors produce biomass for bioenergy, or if they export most of their production, the local food security may be worsened leading to civil unrest and instability. But this may be countervailed by export restrictions that are imposed to fight food insecurity, e.g. in Zambia.[2]

In most countries targeted by investors, there is a lack of sufficient regulations for environmental protection and sustainability, which may be exploited by investors (The World Bank 2010). Overall, the fear is that governments of host countries enter deals that are not beneficial for their population – either because they lack the resources to do it differently, or due to corruption of the elites, or simply because of power differences in the negotiation process (Cotula 2011). Governments are eager to attract investors, keen to compete with their neighboring countries as hosts for investments and may enter deals that benefit the investors more than the local population. They may also lack the means to monitor and control the implementation of regulations and contract clauses (von Braun and Meinzen-Dick 2009).

Even though the foreign investments into agriculture may provide many opportunities, these risks must be carefully evaluated and avoided if the overall outcome for the population is to be beneficial. As a concrete example, Box 1 shows some of the findings gathered during a field trip to land deal projects in Zambia in April 2011.

[2] Maybe due to the strict export regulations, most foreign investors in Zambia produce for the local market. This is the result of own interviews conducted in Zambia in 2011

Box 1: Some of the findings of the field trip to Zambia in April 2011[3]

The project entitled "Landgrabs and Sustainable Development" is an interdisciplinary project aimed at investigating the economic, ecological and ethical impacts of large-scale land acquisitions in Africa. For this purpose, a field trip to Lusaka and to several large-scale agricultural farms in Zambia was undertaken in March and April 2011. Interviews were conducted with civil servants in several ministries, investors (from China), local farm workers, small-scale farmers and experts from NGOs and other institutions. The following summarizes the initial findings of this field trip.

1. Zambian government is providing great incentives for foreign investors – the prices are kept low, "farm blocks" are ready for investors including developed infrastructure and on-site local farmers, and the ZDA (Zambia Development Agency) provides support.
2. Small-scale farmers do not see benefits of the large-scale investments, their productivity has not changed – but they complain that prices for agricultural products have fallen due to large scale production of the commercial farms. This endangers the livelihoods of net sellers of agricultural products.
3. Regulations may be evaded: For example in Zambia, large-scale investors must provide and environmental impact assessment to the Environmental Council of Zambia (ECZ) at time of purchase, but often this is not done. Many investors start production without contacting the ECZ, despite the regulation.
4. Investors normally purchase 99-year leases of land in Zambia, and they are easily given large agricultural areas (e.g. 10,000 hectares or more). The speed of the transactions and the rising interest of foreign investors are worrisome with regard to the extensive time span and the scale of the investments. Continuing this policy without improving the implementation of these projects can lead to long lasting negative consequences for the local population.

How to reap the benefits

Based on the analysis above, this section draws suggestions on how to make land deals beneficial to both the investors and the receiving countries including local communities. The proposals mainly tackle the topics of land rights, transparency of negotiations, sustainable resource use, the sharing of benefits, and knowledge and technology transfer to local communities. Major issues to address in order to make investments beneficial to the receiving country are the strengthening of transparent governmental decision and monitoring structures based on a code of conduct, the enabling of local communities to participate in the negotiations, and the recognition and enforcement of communal rights to land, water and other natural resources.

Given the fact that unclear local land rights and the displacement of people are among the key issues of investments in agriculture, host governments should ensure protection of their populations in this respect. This can be done by respecting and safeguarding customary land

[3] Conducted by researchers at the Kiel Institute for the World Economy, Institute of Global and Area Studies (GIGA) in Hamburg, and University of Greifswald as part of the joint research project entitled "Landgrab and Sustainable Development."

rights, which implies that they should be clearly defined, identifiable and enforceable (The World Bank 2010). Locals should be consulted from the beginning of the process, and all stakeholders should take part in the decision-making process – which would lead to compensatory payments if the locals are willing to relocate. National and international agencies should help the locals to exercise their rights and improve their bargaining power through collective action (Cotula 2011). This implies that negotiations need to be open and transparent.

The host governments should also ensure that the land is used sustainably with respect to soil and water usage, and the social and environmental impact assessments of the proposed investments are provided by third-party organizations (Cotula 2009). Von Braun and Mainzen-Dick (2009) point out that the strengthening of the policy environment and the implementation capabilities of the host countries play a major role. They indicate that especially an improvement of the investment climate through rule of law and contract security facilitates to attract long term sustainable investments.

After the investment decision is made, one major factor is to enable local communities to benefit from the investments. Thus, small-scale local farmers in the region need to be better involved and informed. They must be provided with inputs, extension services and credits (Von Braun and Mainzen-Dick, 2009). Out-grower schemes and contract farming can further facilitate the integration of smallholder farmers into large scale investments. In addition to the direct involvement of smallholders into the production process, contracts should ensure that benefits from the investment are shared with the host countries. Thus, host country governments need to enforce a continuous measurement of investments made and revenues generated to enable the enforcement of the promised investments and share of benefits (Von Braun and Mainzen-Dick, 2009).

In terms of food security, large investments should not put the national food security of the host country at risk due to large exports of the harvest made. Thus, national investment conditions should include rules such that domestic food supplies have priority in food risk situations (Von Braun and Mainzen-Dick, 2009).

Given the fact that most of the receiving countries of large scale land investments are not jet able to assure all these rules of good governance for various reasons, the international community should support the enforcement of such policies (Von Braun and Mainzen-Dick, 2009). There is an understandable general caution amongst development agencies about agricultural land acquisitions, therefore, some guidelines and standards have been proposed to ensure “responsible agricultural investment” and “responsible governance of tenure — albeit they are only voluntary. Boxes 2 and 3 provide an overview of these principles that aim to develop an international consensus for the implementation of large scale agricultural investments to the benefit of all parties involved.

Box 2: Principles for Responsible Agricultural Investment

Given the increased interest in investments in agricultural land and other natural resources in the face of multiple crises, international organizations have been very active in trying to better understand the potential risks and opportunities involved in these investments, and developing principles that should guide them. The World Bank began an in-depth study in 2009 called "Large-Scale Acquisition of Land Rights for Agricultural or Natural Resource-based Use" in some of the most involved countries. Based on preliminary evidence from this ongoing work and collaboration with other international agencies, such as FAO, IFAD, and UNCTAD, the "Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources" (henceforth RAI Principles) were released. This document is a part of an ongoing global dialogue encouraging the participation of all interested stakeholders in order to develop a toolkit of best practices, guidelines, governance frameworks, and possibly codes of practice by the major sets of private actors. The RAI principles are:[4]

1. **Existing rights to land and associated natural resources are recognized and respected.**
   This includes: a) Proper identification of all rights holders, b) Legal recognition demarcation and registration/recording, c) Direct and informed negotiation with land holders/users, d) Fair and prompt payment for all acquired rights, e) Independent avenues for resolving disputes or grievances.
2. **Investments do not jeopardize food security but rather strengthen it.**
   This includes: a) Ensure at least equivalent access to food by affected populations, b) Expand opportunities for outgrower/off-farm employment, c) Adopt strategies to prevent food shortages/reduce risks, d) Consider impacts on national food security in design/approval
3. **Processes for accessing land and other resources and then making associated investments are transparent, monitored, and ensure accountability by all stakeholders, within a proper business, legal, and regulatory environment.**
4. **All those materially affected are consulted, and agreements from consultations are recorded and enforced.**
   This requires clarity on: a) Procedural requirements, b) The character of agreements reached in such consultations, c) How the agreements can be enforced
5. **Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value.**
   This includes: a) Comply with laws, international treaties, best practices, b) Adhere to global best practices, c) Aim to increase shareholder value & benefit host area
6. **Investments generate desirable social and distributional impacts and do not increase vulnerability.**
   This includes: a) Identify social issues/risks during preparation, b) Strategies to mitigate risks and increase social benefits, c) Consider interests of vulnerable groups & women, d) Include provision of local public goods in project design
7. **Environmental impacts due to a project are quantified and measures taken to encourage sustainable resource use while minimizing the risk/magnitude of negative impacts and mitigating them.**

[4] See http://www.responsibleagroinvestment.org/rai/ for details.

Box 3: Voluntary Guidelines on Responsible Governance of Tenure

The first RAI Principle is the most important principle in determining whether the following principles can be adhered to or not, given the fact that most countries targeted by these investments have weak land rights protection (Deininger 2011). In response to growing interest, FAO and its partners embarked on the development of voluntary guidelines on responsible tenure governance. During 2009–10, global and regional concerns regarding tenure governance were identified through an inclusive process of consultations with the public and private sectors, civil society and academia. A "zero draft" of the "Voluntary Guidelines on Responsible Governance of Tenure of Land and other Natural Resources" was published on 15 April 2011 and an e-consultation open to all interested parties was held from 18 April to 16 May 2011. The Voluntary Guidelines will be reviewed by the open-ended working group of the Committee for World Food Security (CFS) and considered at the 37th session of the CFS in October 2011.[5] The Zero Draft for the Voluntary Guidelines calls for procedures that promote transparency, public participation, information accessibility, awareness raising, monitoring and capacity building that are organized in six main headings:

1. **General matters:** Guiding objectives and principles of responsible tenure governance are laid out, where the rights and responsibilities of states are discussed. Policy, legal and organizational frameworks are developed and principles of delivery of services by states that would provide accessible and non-discriminatory services to protect tenure rights are developed.
2. **Legal recognition and allocation of tenure rights and duties:** Safeguards should be established to prevent arbitrary takeover of tenure rights of all existing right holders and to avoid unjustified forced evictions. Public natural resources and their management structures should be clearly identified. Indigenous and other customary tenure rights should be recognized and these groups should be included in the development of policies, laws and projects. Informal tenure should be acknowledged and legalized using simple, participatory and gender-sensitive procedures.
3. **Transfers and other changes to tenure rights and duties:** States should ensure that markets in tenure rights – if they exist – are transparent and competitive by simplifying the procedures for transactions and making the information available to public. Non-market values of land should be respected because they are not well served by the market. Investments and concessions should adhere to the responsible investment guidelines and are subject to discussion with people who would be affected. Investors should make sure that the agreements are publicized and understood by all parties involved. Land consolidation and other readjustment approaches should be conducted in a participatory manner where all affected parties are compensated. States should provide restitution for the unjust loss of tenure. When states chose to implement redistributive reforms, these should be done through transparent, participatory approaches and procedures. Expropriation should only be used if tenure rights are required for a public purpose and compensation should be fair. Forced evictions that violate international and regional human rights obligations and are contrary to the rule of law should be avoided.
4. **Administration of tenure:** States should provide systems to record tenure rights to improve tenure security and the functioning of markets. Valuation of tenure rights should be done in an objective and transparent manner taking into account non-market values where appropriate. States should ensure that taxation related to land, fisheries and forests is equitable and do not discourage socially and economically desirable behavior. Regulated spatial planning should recognize the interconnectedness of land, fisheries and forests and balance the interests of state, private, public and community interests. The system of dispute resolution over tenure rights should be efficient and effective, paying special attention to the inclusion of women, different ethnic and language groups. Transboundary matters should be resolved according to international measures to administer tenure rights that cross international boundaries.
5. **Responses to emergencies:** Climate change adaptation and mitigation policies should clearly address tenure rights questions that may arise due to displacement or mitigation activities. States should also address tenure in their strategies for their responses to natural disasters. The response to violent conflicts should try to protect tenure rights. Violations of tenure rights should be documented for restitution and when this is not possible the resettlement should respect the existing rights of others.
6. **Implementation, monitoring and evaluation:** All parties are encouraged to promote, implement these Voluntary Guidelines. They should monitor and evaluate the implementation of these Voluntary Guidelines through participatory approaches that include states, the private sector, civil society and academia. Based on the outcome of monitoring and evaluation, improvements to tenure governance should be introduced.

[5] The Committee on World Food Security (CFS) was established in 1974 as an intergovernmental body to serve as a forum in the United Nations System for review and follow-up of policies concerning world food security including production and physical and economic access to food. (http://www.fao.org/cfs/cfs-home/en/)

Conclusion

Many countries have a limited ability to regulate investments and protect property rights due to overlapping and unclear responsibilities, lack of staff capacity, poor land records, low payments, and limited emphasis on consultation, economic viability and social and environmental criteria. Case studies of 19 ongoing projects indicate that negative impacts arise due to these limitations, but they also indicate that positive impacts can be realized in well executed projects, whose benefits are shared with local people via provision of public goods, employment, access to markets and technology, or taxes collected by governments (The World Bank 2010).

The key factor in ensuring the positive long-term outcome of these large-scale investments in agriculture is good governance – regulation that protects the land rights of the locals and that demands sustainable production methods by the investors. Governments should also set up requirements on investors to use a percentage of the profit for re-investment in the region – e.g. in infrastructure or production schemes involving local farmers.

International organizations such as the UN and the World Bank together with the governments of the target countries could set up binding regulations for investors, demanding environmental and social impact assessments prior to the deals, adherence to sustainability standards, and minimum requirements for food security in the region. The RAI and Land Tenure Governance Principles presented above constitute the first steps for such regulation that can improve the governance of these investments. Only then the challenges they pose to food security can be addressed and the opportunities they present for development can be realized at the same time.

REFERENCES

Deininger, Klaus (2011). Challenges posed by the new wave of farmland investment. *Journal of Peasant Studies* 38 (2): 217–247. http://pdfserve.informaworld.com/781729__935339048.pdf.

De Schutter, Olivier (2011). How not to think of land-grabbing: three critiques of large-scale investments in farmland. *Journal of Peasant Studies* 38(2): 249–279. http://pdfserve.informaworld.com/19527__935338940.pdf.

Nelson et al. (2009). Climate Change: Impact on Agriculture and Costs of Adaptation. International Food Policy Research Institute, Food Policy Report, October 2009. http://www.ifpri.org/sites/default/files/publications/pr21.pdf.

The World Bank (2010). Rising Global Interest in Farmland: Can it yield sustainable and equitable benefits? September 2010. http://www.donorplatform.org/component/option,com_docman/task,doc_view/gid,1505.

The Economist (2009). Outsourcing's third wave: Rich food importers are acquiring vast tracts of poor countries' farmland. Is this beneficial foreign investment or neocolonialism? May 21, 2009. http://www.economist.com/node/13692889.

The Economist (2011). When others are grabbing their land: Evidence is piling up against acquisitions of farmland in poor countries. May 5, 2011. http://www.economist.com/node/18648855.

Von Braun, Joachim, and Mainzen-Dick, Ruth (2009). Land grabbing by foreign investors in developing countries: Risks and opportunities. IFPRI Policy Brief 13, April 2009. http://www.ifpri.org/sites/default/files/publications/bp013all.pdf .

FAO (2010). Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources. Extended Version, Prepared by FAO, IFAD, UNCTAD and the World Bank, January 2010. http://siteresources.worldbank.org/INTARD/214574-1111138388661/22453321/Principles_Extended.pdf.

FAO (2011). Outcome Document of Consultation Meetings: Voluntary Guidelines on Responsible Governance of Tenure of Land and other Natural Resources. http://www.fao.org/fileadmin/user_upload/nr/land_tenure/pdf/VG_outcome_document_English_corrected.pdf.

FAO (2011). Zero Draft: Voluntary Guidelines on Responsible Governance of Tenure of Land and other Natural Resources. April 2011. http://www.fao.org/fileadmin/user_upload/nr/land_tenure/econsultation/english/Zero_Draft_VG_Final.pdf.

Imprint

Publisher: Kiel Institute for the World Economy
Hindenburgufer 66
D – 24105 Kiel
Phone +49 (431) 8814–1
Fax +49 (431) 8814–500

Editorial team: Helga Huss
Prof. Dr. Henning Klodt
(responsible for content, pursuant to § 6 MDStV)
Dieter Stribny

The Kiel Institute for the World Economy is a foundation under public law of the State of Schleswig-Holstein, having legal capacity.
Sales tax identification number DE 811268087.
President: Prof. Dennis Snower, Ph.D.
Vice President: Prof. Dr. Rolf J. Langhammer

Supervisory authority: Schleswig-Holstein Ministry of Science, Economic Affairs and Transport