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# Large-scale Land Acquisitions in Africa

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## Key Messages

- 51.8% of land sought after by foreign investors globally is located in sub-Saharan Africa.
- The flow of land investments in Africa is mainly driven by land fees that are either minuscule or missing altogether. The land fees are in the range of USD 4.8-7.1/ha in Sudan, USD 6-12/ha in Mali, and USD 6.5-10 /ha in Ethiopia while the comparable figure in Peru is USD 300/ha.
- Most of the land contracts available publicly appear to be short and lacking specificity, but allocate extensive areas of land and in some instances priority rights over water, for limited public revenue and loose binding clauses on the size of investments and job creation.
- Although large-scale land investments open opportunities in terms of job creation, technological transfer, and foreign exchange generation, these opportunities can only be realized under a set of institutional reforms that foster accountability, proper valuation of land, equitable compensation for the displaced, and guarantees to the social and environmental sustainability of the investments.

## I. Background

The growing international interest in investing in African farmland has attracted considerable attention recently. Media reports over the past few years spotlighted the scale of land acquisitions and laid the foundation for the analytical investigation that followed. The distinctive feature of these land deals that has attracted the attention of the media and the global research establishment is the speed of the acquisitions, the transparency (lack thereof) of the terms and

the scale of the acquisitions and implied investment.

A study by Deninger et. al. (2011) notes that 29 million of the 56 million hectares of land (51.8%) sought after by foreign investors globally is located in sub-Saharan Africa. Though countries with abundant uncultivated land attracted the most interest, some of these countries were also with poor records of rural land tenure, lack of institutions protecting vulnerable groups, and the absence of a culture of disclosure.

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However, large-scale land acquisitions are not limited to investors from middle or high-income countries. Large-scale acquisitions by domestic investors are on the rise as well<sup>2</sup>. In addition, cross-country investments in Africa have been highlighted in some media reports. Libyan investments in Mali<sup>3</sup>, Mauritius' investments in Mozambique<sup>4</sup>, Egypt's investment in Ethiopia<sup>5</sup> are cases in point.

Much of the information regarding these investments is still anecdotal. Media reports remain the primary tools for gathering data on the status of land deals, the size of the purchases or leases, and the amount of the investments. Based on the available studies<sup>6</sup>, the key features of these large-scale investments are:

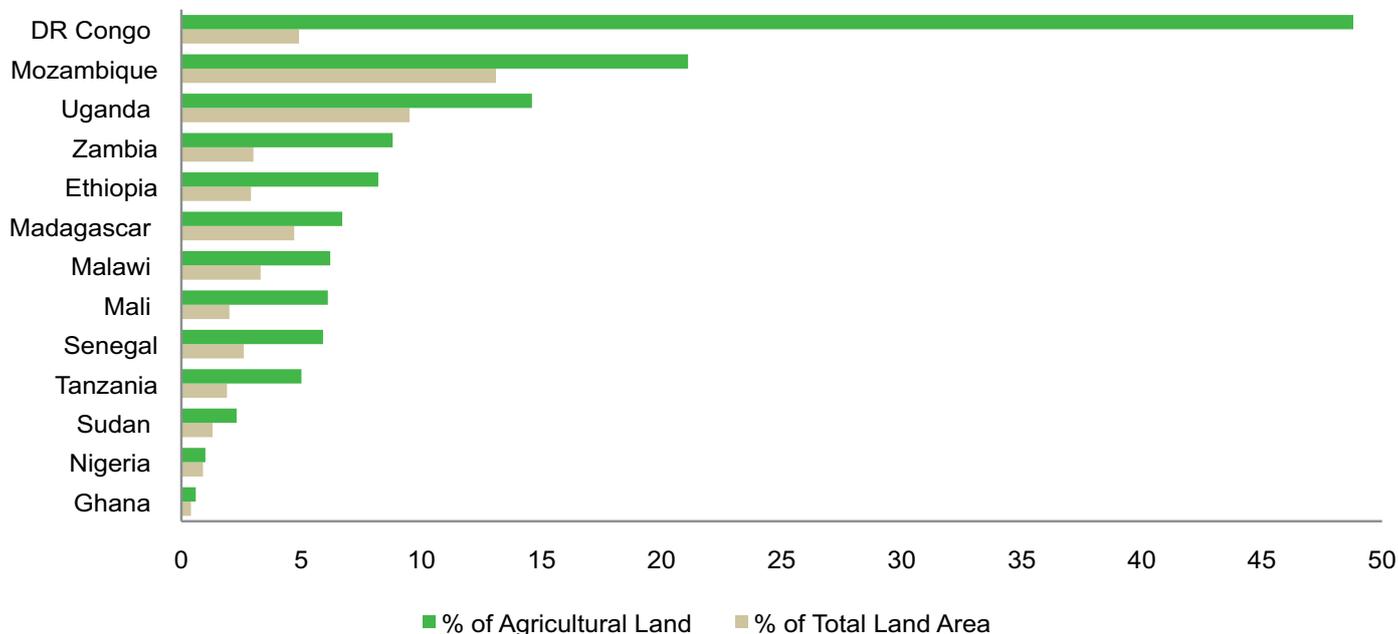
a) Most documented cases of land leases are granted by African governments.

The most striking case is that of Democratic Republic of Congo where almost 50% of the arable land is either leased to foreign companies or under negotiation for leasing (see Figure 1).

- b) The flow of land investments in Africa is mainly driven by land fees that are either minuscule or missing altogether. The land fees are in the range of USD 4.8-7.1/ ha in Sudan, USD 6-12/ha in Mali, and USD 6.5-10 /ha in Ethiopia while the comparable figure in Peru is USD 300/ha.
- c) In some instances, the boundaries between private and public investors are not clear-cut. Cases in Sudan and Mali are cited where the signatories are government ministries, but implementation is driven by private entities in Sudan and land rights are transferred to a third party (private) in Mali.

- d) Although the pattern is becoming more diffuse, patterns of bilateral investment flows are observed.
- e) These differ from the traditional pattern of foreign direct investment in that they are resource-seeking (land and water) rather than market seeking; emphasis is put on production of foods and crops for bio-fuel production for export back to the investing country rather than for domestic consumption or wider commercial export.
- f) They involve acquisition of land and actual production rather than looser forms of joint venture (for instance contract farming).
- g) The involvement of sovereign wealth funds, investment funds and institutional investors is limited but the magnitude of the funds at their disposal make them potentially important sources of investment funds in the future.

Figure 1 Land Deals in Africa (% of Total and Arable Land)<sup>7</sup>



Source: Friis and Reenberg (2010) & FAOSTAT

<sup>2</sup> See Cortula and Vermulen (2010:49), Deininger et al. (2011).

<sup>3</sup> New York Times, Dec. 21, 2010 (by Neil MacFarquhar)

<sup>4</sup> GRAIN (September 1, 2009), Reuters Africa (January 27, 2010)

<sup>5</sup> <http://allafrica.com/stories/201102020331.html>

<sup>6</sup> Some of the references include von Braun and Meinzen-Dick (2009), Hallam (2009), GRAIN (2008), Friis and Reenberg (2010), and Cortula et al. (2009)

<sup>7</sup> This includes deals under negotiation.

## 2. What is driving large-scale land acquisitions in Africa?

The recent interest in large-scale land acquisitions by foreign investors in Africa is not attributed to a single factor. However, the few studies in this area, so far, have narrowed down the set of proximate factors. For instance, a study by Cortula et al. (2009) cites two complementary causes: food security and energy prices in investor countries, and investment opportunities in agriculture.

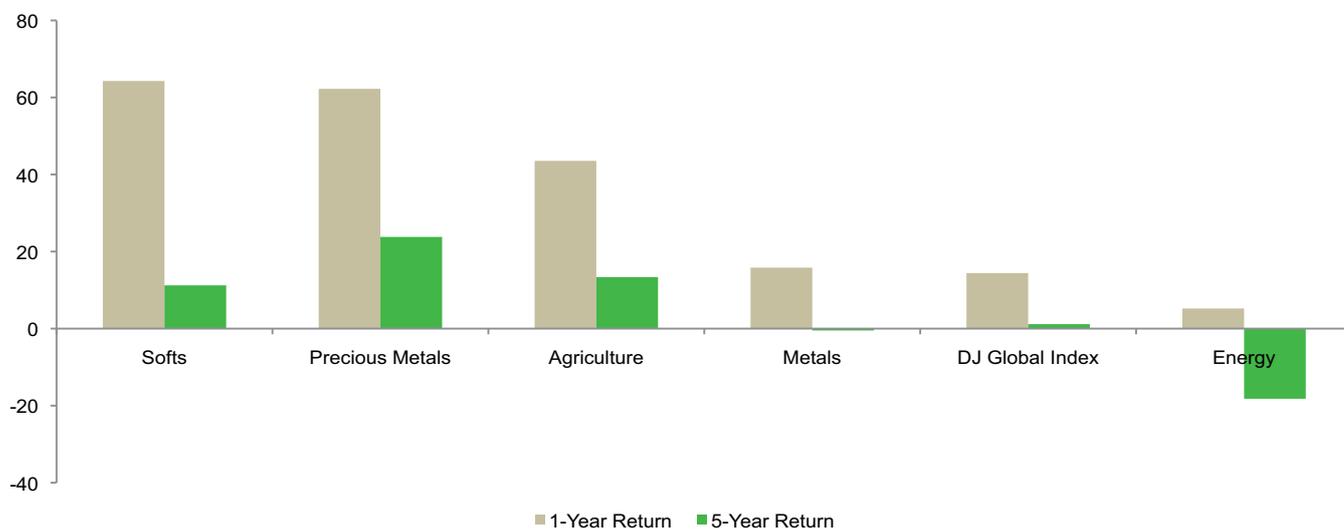
The first factor is a cumulative effect of limited availability of water and land in in-

vestor countries, bottlenecks in storage and distribution, expansion in biofuel production, and increasing urbanization and changing diets. Conversely, the second factor points towards expectations of rising returns in agriculture and land value, and generally positive policy reforms in African countries that have improved the investment climate in Africa.

In contrast, Braun and Meinzen-Dick (2009), and Smaller and Mann (2009) argue that the global food price crisis in 2007-08 may have increased competition for fertile land resources. In addition, the housing and stock market crisis in 2008

created an investment vacuum that eventually led to increased interest in agricultural commodities and competition for land. Thus, these investments are not only aimed at securing land rights for higher food demand in the future, but also the production of commodities with consistent demand and inelastic supply. Figure 2 below provides a comparison between average total returns from Dow Jones' global equity index and commodity sub-indices. The figure illustrates that returns from agricultural commodities and softs (sugar, coffee and cotton) are significantly higher than that of equity, metals, and energy over the past five years.

Figure 2 Dow Jones-UBS Stock and Commodity Returns



Source: Dow Jones Index Data Monthly Report (August 31, 2011)

Therefore, it is imperative to evaluate opportunities and risks associated with the relatively new phenomenon of large scale land acquisitions in the light of this broad set of factors. Moreover, it is useful to consider the implications of these investments in the context of the arable potential of each country of interest in lieu of arable land per-capita. Thus, policy prescriptions regarding the maximization of benefits from these investments should be tailored to fit country contexts. In this brief, we highlight key issues of concern and try to tease out remedial measures (with a focus on the latter).

## 2.1. The role of food commodities speculation

The argument that the rise in food prices, in recent years, was a result of long-term factors conceals the real trend in the price of agricultural commodities. Although the long-term factors have contributed to the rise in prices, the role of short-term factors is increasingly recognized as a dominant element. Long-term factors include increasing demand and change in consumption behavior in emerging market economies; the fall in agricultural productivity as a result of under-investment and structural adjustment programs; and production of agro-fuels over the past decade and future consumption targets set by the European Union and United States. Whereas, short-term factors comprise increases in oil prices in 2007-08 and the rise in fertilizer prices, crop failures in major grain exporting countries including Australia (2007/08) and Russia (2010), and export restrictions to guarantee food self-sufficiency and speculation.

Following the 2008 financial crisis, investors found it increasingly important to look for lucrative alternative investments.

Morgan Stanley (2010) estimated that the number of outstanding contracts in maize futures increased from 0.5 million in 2003 to close to 2.5 million in 2008 and holdings in commodity index funds rose from USD 13 billion in 2003 to USD 317 billion in 2008.

Traditional speculation is largely based on market fundamentals, while commodity index funds almost always invest “long” (for prices to go up). Commodity index funds operate in over the counter (OTC) markets, where the room for scrutiny is minimal, and where the extent of the profits made and bets placed create a constant upward pressure on prices. Moreover, the bundling of agricultural commodities with precious and industrial metals can influence the sale of fund contracts regardless of supply and demand factors.

Although, to date, the role of institutional investors in global large scale land acquisitions has been limited, there are media reports of investments from some institutional investors through asset management funds (e.g., Emergent and EmVest). This group of investors, as noted earlier, is in constant search of asset classes that have consistent demand and inelastic supply. Arable land is a resource that fits this characterization. Thus, the involvement of investors with considerable financial resources, if unregulated, could lead to a ‘land bubble’ that could drive the price of fertile land beyond the reach of domestic investors engaged in agricultural production for domestic and export markets.

## 3. Contractual arrangements

The proprietary nature of official data on contractual agreements contributes to the opacity of the land deals, and limits the ability of studies to determine relative

costs and benefits. Moreover, lack of transparency limits the involvement of civil society organizations to scrutinize the terms and conditions of land deals. However, cross country evidence shows that the level of scrutiny in various countries varies.

Cortula’s (2010) evaluation of a sample of contractual agreements based on content, length and specificity of terms shows broad differences among contracts.<sup>8</sup> Similarly, our own evaluation of randomly selected contracts that are publicly available through the Oakland Institute and Liberian Extractive Industries Transparency Initiative draws similar conclusions:

- a) Some of the reviewed contracts appear to be short and lacking specificity, but allocate extensive areas of land and in some instances priority rights over water, for limited public revenue and loose binding clauses on the size of investments and job creation (examples include contracts from Mali and Sudan). Furthermore, some of the deals are negotiated in the absence of institutions that safeguard local interests (including strict environmental and social protection laws).
- b) However, there are exceptional cases where land fees were substantially higher and a sizeable proportion of the revenue was allocated towards local municipalities and villages, and adherence to global best practices in social and environmental standards were emphasized. Additionally, they stressed on local food security concerns and stricter commitment on jobs. For instance, Liberia is cited as an example of best practice, where contracts are ratified by parliament and made available to the general public.

<sup>8</sup> Countries in the review include Ethiopia, Sudan, Senegal, Mali, Madagascar and Liberia.

c) But, generally, land rents tend to be low (USD 4.8-7.1/ ha in Sudan, USD 6-12/ha in Mali, and USD 6.5-10 /ha in Ethiopia) suggesting implicit estimates of expected benefits (job creation and infrastructure development) exceed opportunity costs (land fees and other financial transfers). Conversely, the limited development of land markets in these countries could have contributed to low land fees.

#### 4. What are the potential implications of these investments?

##### Opportunities:

**a. Foreign direct investment may bring macro-level benefits** (government revenues, employment, and foreign exchange), development of rural infrastructure, and poverty-reducing improvements such as construction of schools and health posts.

Foreign direct investment in agriculture can enhance the efficiency of a nation's agricultural production by developing investment intensive areas such as irrigation and infrastructure. In African countries the urgent need for development in rural areas and the lack of greater fiscal space to support capital intensive projects could facilitate large scale land acquisitions.

Nevertheless, the overriding consideration in these decisions should be the spill-over from foreign investment onto domestic smallholder production in terms of productivity enhancing technological transfers and, possibly, integration of domestic producers into the supply chain. The absence of these linkages, and failure of governments to create them during the course of the investments, amplifies the costs from resource competition (land and water). Thus, the decision to allow large scale land acquisitions should be backed by policy mea-

sures to ensure that dualism in agriculture does not take root.

**b. Job opportunities, could improve rural livelihoods.** Another possible benefit for the rural poor is the creation of a potentially large farm and off-farm employment. Effective contract negotiation and adjunct policy measures are useful tools to enhance these positive spillover effects. The absence of these spillover effects could result in the creation of an enclave of modern agriculture and traditional smallholder agriculture will remain sidelined. Thus, contract negotiations should address these gaps.

##### Risks:

- a. Displacement of people whose livelihoods depend on access to some of these resources (since demand tends to focus on higher value land-better access to irrigation potential and proximity to markets)
- b. In the absence of strict environmental regulations, large-scale production tends to employ methods whose environmental and social impacts tend to be suspect (large scale use of chemical fertilizers and pesticides).
- c. Production by foreign investors may be destined solely for foreign markets. The implications of arrangements that do not take food security requirements of a country into consideration may be potentially costly.

#### 5. Going forward

The potential of these investments (foreign or domestic) both in terms of job creation and revenue generation can be realized under a set of institutional reforms that foster accountability, proper valuation of land, equitable compensation for the displaced, and guarantees to the social and environmental sustainability of the investments.

Thus, the African Development Bank has a significant role to play in championing the following broad set of recommendations.

##### a. Tailoring the model of a 'land board' to the rural sector

Land board is not a novel concept. However, it has seldom been applied to the rural sector. A land board is a public authority tasked with the measurement and recording of unused agricultural land and ensuring large tracts of land are not allotted for competing projects by fostering inter-governmental cooperation. The land board is also expected to investigate formal and informal rights to 'vacant' land, and assess the social and environmental implications of long-term investments. However, the relative success of a land board in facilitating investment largely depends on the complexity of land tenure systems in the country. Countries with tenure systems where ownership structures are clearly defined will benefit more from such a system. Nevertheless, the role that the system would play in identifying land for investment would be an asset especially in countries that rely on Global Positioning System (GPS) identification of land by investors.

##### b. Land auction systems

As noted earlier, one of the features of the large scale investments in land is low land rent. Although in principle 'land rent' should fall between the present value of the stream of income with the planned investment and with previous ownership/use, its determination in many of these countries is subject to far less reasonable considerations. A land auction system would help to set prices right and it would also promote transparency of the land deals. Additionally, the need for learning from global best practices including Peru's public auction system for investments in land, among others, cannot be overemphasized (see

Box 1 in the annex).

### **c. Effective contract negotiations and transparency**

Studies have emerged, very recently, including FAO/IFAD/UNCTAD/World Bank (2010), emphasizing the need for investors to respect land and resource rights, complement food security and not jeopardize it, and guarantee social and environmental sustainability. We go further and argue that for these large scale investments to pay dividends, it is imperative that contractual agreements between the state and investors be grounded in these set of factors dictating responsible agro-investment including, transparency and good governance through consultation and the participation of various stakeholders.

Aside from clarifying the terms for the transfer of land, contracts should also require specific employment commitments. Employment should address differing skills levels and should not be skewed in favor of any skill group. Coverage of the cross-section of skills levels in these investment projects could contribute towards skills and technological transfer. For instance, a contract between Sime Darby Plantation and the Liberian Government requires Liberian nationals to hold half of the ten-most senior management positions within five years of the initial project date (and three quarters after ten years). These requirements should be fostered across investment targets in Africa.

### **d. Negotiating food security agreements**

In countries (cases) where a majority of the projects involve sizeable food production

for export, contractual agreements should incorporate a clause stating that a pre-agreed proportion of the outputs would be directed to the domestic market. This measure would supplement traditional buy-back options and help to counter the effects of rising global food prices.

### **e. Policy Coordination**

The flow of land investments in Africa is exceedingly driven by land fees that are either minuscule or missing altogether. By setting land fees so low, countries set a precedent where others do not have an option but to set their prices lower. This perpetuates the low rental price observed across Africa. A continental policy coordination facility could prove useful in ensuring that the land fees are not set too low. The floor prices for tracts of land differing in quality could be set at agreed upon thresholds.

<sup>9</sup> See the discussion in Deininger et.al. (2011: 59)

**Box 1 Peru Land Auction System**

The Land auction system in Peru began with the Commission for the Promotion of Private Investment (COPRI) in 1993 and specific committees responsible for formulating sale plans. Subsequently, these institutions were afforded sufficient political and economic independence to carry out their functions. The auctions were open to all investors and their results were announced (Liberia's Extractive Industries Transparency Initiative is another example of public disclosure). Moreover, the auctions were announced four months prior to the auctions/sale process. The auctions involved four phases: sale of tender documents, modifications to tender documents through feedback from potential investors, contract award, and payment of the contract price and registration of the contract. The terms stipulated strict 'commitments of investment' and various guarantees to back these commitments (including mortgages and financial agreements). Failure to uphold commitments resulted in forfeiture of guarantees. Moreover, the rights to water and land were treated separately and large-scale investments in land faced higher water tariffs. The higher water tariffs encouraged commercial investors to employ pressurized irrigation systems to economize on water and reflected the scarcity of the resource.

Source: Deininger et.al. (2011) and Hernandez (2010)

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