Growing Africa's Land

By Adam Robert Green, 2 July 2012

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A global land rush is afoot and Africa is top of investors' lists. Optimists predict agricultural transformation. Critics fear food insecurity, degradation and displacement.

Africa's land is attracting unprecedented commercial interest from governments, sovereign funds, private companies and asset managers, from neighbouring Qatar all the way to South Korea. Around 53m ha - roughly the size of France - has been sold, leased or licensed globally since 2001, and that only covers deals with reliable sources. The true figure could be over 200m ha. Just under half of aquired land is in Africa, with greater demand for large-scale land in 2009 than in two decades of previous expansion. Sudan, Ethiopia, Madagascar, Angola, the Democratic Republic of Congo and Mozambique are among the main destinations.

Two processes are driving the land rush - structural change in the global economy, and rising commodity price volatility. In 2007, food prices mushroomed following export bans from major producers, crop failures, and increased diversion of food crops for biofuels. Governments in arid regions, notably the Middle East, found themselves at the mercy of volatile markets with major fiscal implications due to their widespread subsidies on food. Those spikes were no freak event. Last February, the food price index published by the Food and Agriculture Organisation stood at 236 index points, a 34 percent increase on the previous year, surpassing its previous peak in the summer of 2008, which set off bread riots in Egypt and elsewhere.

Gulf states began looking abroad for new pastures. The Saudi Arabian government identified around 30 countries worldwide in which to help its private sector to invest, offering guarantees, loans and technical assistance, as well as exercising diplomatic muscle, with Sudan and Ethiopia especially attractive. The governments of Egypt, Qatar, the United Arab Emirates, Libya and Syria all sought land in sub-Saharan Africa, as have companies from South Korea, notably Daewoo, while India's crumbling infrastructure and supply-side inefficiencies, resulting in high food price inflation, led some of its groups to look to African production. Western funds such as BlackRock and Emergent Asset Management Ltd. have launched special investment vehicles, as have Gulf funds including the Abu-Dhabi-based Al-Qudra Holding. Western food retailers are increasingly viewing Africa as a source market.

The combination of preferential trade access and salubrious natural conditions have placed some African states in the middle of the biofuels boom. Addax Bioenergy took a 50-year lease in Sierra Leone's Bombali and Tonkolili districts in response to the European Union

renewable energy directive to create a market for biofuels. "Sierra Leone has the climate and lands that enable production of ethanol from sugar cane, which meets both cost and greenhouse gas reduction targets. Furthermore, Sierra Leone enjoys duty-free access into the European market and has adopted an investor-friendly investment code," says Karen Saddler, Addax's chief communications officer.

While strategies vary, a common and distinctive feature in the African context is the dominance of the state, both host and investor. Government-to-government engagement is common, with sovereign wealth funds, state loans, guarantees and overarching bilateral agreements supporting foreign investors. More dominant still are state-owned agribusinesses, such as Zad Holding Company, a Qatari state-owned enterprise involved in the production of food in Sudan for Arab markets. Governments have different goals in supporting domestic companies to invest in African land - oil-rich Gulf states have a food security goal, while the Chinese government sees land investment as part of the broader 'Going Out' commercial strategy - but in most cases they see themselves as important participants, especially those outside the West.

A good problem?

Africa's peripheral position in global FDI might suggest these developments are a cause for celebration. "Africa has an opportunity not only to feed itself, but to feed the world," says Kofi Annan. The world's greatest reserves of available arable land and geographical proximity to several markets serve to put Africa at the front and centre of the land rush. Rising productivity and seed and technology transfer are all hoped-for effects of capital inflows, and if African land can deliver even a conservative two tonnes of grain per ha, global cereal and grain supply could receive a sizeable boon.

International partners are rallying behind the continent. In a declaration at Camp David in May, the G8 resolved to "accelerate the flow of private capital to African agriculture, take to scale new technologies and other innovations that can increase sustainable agricultural productivity, and reduce the risk borne by vulnerable economies and communities".

Those risks are far from trivial. Civil society groups, politicians and commentators - including Mr Annan - fret about the potential impact of rapid foreign land acquisition on property rights, food security and the environment. In a public statement, the Land Matrix - an NGO coalition - claimed: "Investors are targeting countries with weak land tenure security, although they try to look for countries that at the same time offer relatively high levels of investor protection. Only very few projects seem to engage in adequate consultations with local communities."

The concept of 'idle' or 'waste' land, which governments frequently identify prior to channeling in foreign investment, is problematic. Hardly any of Africa's land is formally

registered. Even if no-one directly dwells on a given plot, much is used for shifting cultivation, dry season grazing or trade routes.

Critics worry about food security. The majority of land investment is export-oriented. While 78 percent of land deals globally are for agricultural production, three quarters is for biofuels, for which the African market has limited absorptive capacity. Other shares of production are for mineral extraction, industry, tourism, and forest conversions, which account for the remaining 22 percent.

Critics believe export-oriented FDI reduces food supply domestically. GÃ¼nter Nooke, a German politician, publicly blamed the most recent East African food crisis on foreign acquisition of land, notably the Chinese in Ethiopia. Mr Annan is also concerned. "What worries me is that in some situations groups come in and buy or lease large tracts of land and some make it quite clear that they are coming to lease this land to produce for 'our economies', not necessarily concerned about the food or nutrition security of the country concerned. I believe this is a terrible business model because even if you succeed, to believe that if there is hunger at the doorstep the population will let you take [the food] away is itself naive."

Public anger over leased land during times of food insecurity sparked a revolution in Madagascar, where a 99-year contract to lease 1.3m ha to Daewoo, the South Korean conglomerate, triggered an overthrow of the government and the cancelling of the deal by the new leader Andry Rajoelin, after Daewoo had announced it would pay "nothing" for the land on which they would farm maize and palm oil. An Indian company had also secured a major investment that was subsequently cancelled. Tempers are heated on all sides. Uganda's First Lady, Janet Museveni, is suing the Monitor newspaper over a story implicating the First Family in a land-grab in Karamoja. It is worth noting that Sudan, Liberia and Sierra Leone have all fallen into past conflict in large part due to land disputes.

"Land grabs actually create food insecurity," claims Bob Geldof, the musician-turned-activist "If you are from an area that can't grow food, for example the Middle East, and you buy huge tracts of South Sudan, you're in trouble. Because as soon as there are local outbreaks, bang goes your investment and you don't have food for yourself." Mr Geldof claims he is not averse to big farmers. "There is a place for proper large scale commercial farming. But the greater place is for smallholders because it is an empirical fact that with the right inputs they actually produce more and give greater benefit to society as a whole."

But Ousmane Badiane, director for Africa at the International Food Policy Research Institute, is not convinced by claims that land leasing for export causes food shortages. "There is no evidence whatsoever that export agriculture is bad for food security," he says. "There is plenty of evidence to the contrary, because people growing exports can share over their inputs for domestic food crops."

It is also notable that the upward swing in commodity prices means agricultural risks are now tipped more towards processors and distributors who worry about raw input sourcing, so while land investment is dubbed as 'neo-colonial' it is, in fact, the more attractive part of the agricultural value chain.

The price of soil

Most land deals in Africa involve no or very low land fees. They are also, distinctively, often negotiated direct with governments and thus concern state-owned or public land where individuals dwell, often without formal property rights. According to Human Rights Watch, people in Ethiopia's Gambella region claim a direct link between land leasing and "villagization" programmes, where individuals are moved by state officials into collected settlements elsewhere, sometimes violently. "The main concern is that villagization is essentially the appropriation of the ancestral lands of pastoralists without compensation and without adequate provision in the new villages. Any firm that leases contested land is contributing to the dispossession of these people and to likely insecurity," says Ben Rawlence, senior researcher for Africa at HRW. As the rush for land quickens, some fear the price of land will rise, which could further incentivise powerful elites to displace land-dwellers.

Dr Badiane, an optimist about land investment in Africa, agrees this is the chief risk. "You see a secondary market where the elite positions itself and acquires land at the expense of smallholders and then waits for foreign investors. They know there is money coming from outside. The biggest risk [therefore] may not be at the international investor level, but in how investment is intermediated."

Local political elites can position themselves as intermediaries largely because customary laws often allow local administrations to sell land. "The investor does not deal directly with the local community. They come through central and local government or influential private sector folks. All those people can push poor people off the land."

When it comes to promoting land FDI, Ethiopia's is one of the most ardent regimes in Africa, identifying around 60m ha of available land (the country currently cultivates only around 15 to 16m ha) - and offering tax breaks and fast-track administration to suitable investors. "We have put in place a fast-track mechanism once a potential investor comes. Once they establish the company, develop a business plan and establish that they have the capacity, then within a very short period of time land is made available," says Ato Wondirad Mandefro, Ethiopia's minister for agriculture. He denies this investment drive is leading to dispossession. Land identification involves consultation "at all hierarchies. There should not be, and there will not be, any conflict. In case there are misidentifications, in case there are issues that we did not - or the region could not - identify at the time of handing over or making this assessment, then all the time we will correct it," he says.

The minister notes that investment could drive a broader transformation. "For a country like Ethiopia, where agriculture plays a major and significant role, and produces 95 percent of output from smallholder farms, value addition is very important. We need investment in terms of agro-processing to add value into the produce from smallholder farmers that will have a backward influence in terms of productivity, market linkage and for the general economy in employment generation. One of the areas that we need is investment to add value into our basic commodities that we export raw."

Investors, meanwhile, are encouraging critics to look at the broader challenges of land investment in Africa, rather than focusing simply on the lease price. While it might be low in comparative perspective, the operational costs of running a land investment in Africa are extremely high.

"Very few people look at the total cost involved in bringing a piece of virgin farmland online," says Stephen Murphy, managing director of Citadel Capital Institutional Fundraising, which has a 250,000 acre lease in South Sudan. "In many instances there is little or no infrastructure around the projects you have. I can buy a piece of farmland and I would have no roads, no electricity, and I will probably be 300 or more miles from any population centre. That infrastructure challenge is enormous."

For half the year, most roads serving the Citadel land investment disappear due to rains. It costs $25,000 to move a 40 foot container from Mombasa to their site. Information deficits also hamper the work. Non-existent or scant weather records mean agricultural investments in South Sudan are made with little information about climatic suitability. Then take into account political instability, security-related staff evacuations, and the need to bring their own healthcare professionals for staff. Pooled together, these difficulties result in a direct cost of production of around $550 an acre, compared to around $300 an acre in developed countries.

"That's an enormous upfront cost. To compensate for uncertainty, you need to get a good land deal. If you are paying $500 an acre you just wouldn't do it," says Mr Murphy. Capital costs of the acreage, meanwhile, are also higher; around $400 an acre compared to $220-225 in developed countries. One reason is that operators need to bring more spare equipment because if machines break down, there are often no local engineers to fix them.

Mr Murphy argues that, instead of focusing only on the price of land, stakeholders should look at the regional benefits that a land investment can deliver. "If we are successful we will probably lessen the cost of food regionally by about 30 percent. When you are spending most of your money on food, a 30 percent drop is substantial."

Much heat, little light

Agriculture practitioners and policy makers are doubling down in their efforts to get a handle on current trends and strike the balance between investor interest and national

needs. One obstacle preventing a cool-headed analysis of land investment to date has been the lack of verified data. Until this year, there was no single database covering global land deals. Disparate studies were based on media reports, often inaccurate, or government documents which were rarely comprehensive.

In April, a "Land Matrix" database was launched by research centres and civil society groups, including the International Land Coalition, Oxfam, the European Commission and IFAD. The project documents 1,008 land deals since 2000, amounting to 58m ha of land. Africa dominates, accounting for 34m ha of verified deals, followed by Asia at 29m ha and Latin America at 6m ha.

But although the database was supposed to map the scale, geography and nature of land investments worldwide, data on China - a major player - contained a number of errors, with abandoned projects listed as active, Chinese ownership ascribed when mere contractors were involved and projects cited on the basis of single media reports. Some projects were characterised as Chinese in origin when they were coalitions of countries - for example, an Ethiopian biofuels project was described as a Sino investment but was a collaboration between China, South Africa and Ethiopia, while a rice project in Mali was Libyan-owned with a Chinese contractor. An irrigated maize project in Zimbabwe was a construction contract granted to a Chinese company, rather than a Chinese investment. The land did not get developed.

Michael Taylor from the International Land Coalition acknowledges the errors. "As most deals are characterised by a lack of transparency, it is notoriously difficult to get accurate information and to verify each deal beyond doubt. We therefore confirmed the source for each deal, but we cannot in most cases verify that the information is therefore correct." The matrix should be viewed as an ongoing public resource rather than a definitive map, he says.

"Putting the data into the public realm, knowing that it doubtless contains errors, is a deliberate strategy. We see the Land Matrix as a tool that enables wide public participation by researchers, affected community members, governments, companies and so on, in the continual improvement of the information in the database. It is therefore not a one-off publication of information that we believe to be correct, but a contribution to an open, ongoing and long-term discussion in which all with specialist knowledge in particular areas can be a part of the updating."

Go global, or stay local?

Along with improved data, some stakeholders want to see global regulations for investors. But while acknowleding the social and political risks, land investment need not be viewed as a zero-sum contest between foreign investors and smallholders. Mr Badiane at IFPRI sees room for cooperation through joint ventures, contract farming and outgrower schemes, citing "plenty of examples" in traditional and nontraditional sectors where investors work

proactively with smallholders. He cautions against the current tendency to seek international schemes, such as the UN's new voluntary global guidelines on land investment published in May.

"If this [issue] is internationalised around conventions and restrictive codes of conduct, investors will turn away from the countries more willing to go with international arrangements, and those are African countries. Countries that can resist international convention pressures will then be getting the investment flows," he warns. The likes of Cambodia, where the government has literally displaced land-dwellers at gunpoint, may ironically become primary beneficiaries of international regulations

"We should not need a complicated cumbersome international arrangement to deal with these things. Don't over-burden the issue, because African countries stand to lose the most. If it is too hot and too complicated to invest, people will run away from Africa," says Mr Badiane.

"Africa will be more food insecure if these investments go to other parts of the world and Africa has to turn to those places to buy food. The international community should go easy on this and focus more on the legal environment at a national level, on capacity building and transparency of land management at a local level."