From Land Grab to Win-Win

Seizing the Opportunities of International Investments in Agriculture

- Stirred by food security concerns, land in developing countries has become a target of international investments
- Benefits of deals have reportedly not trickled down to local populations, revealing a need for more inclusive strategies
- Collaboration promises mutual benefits

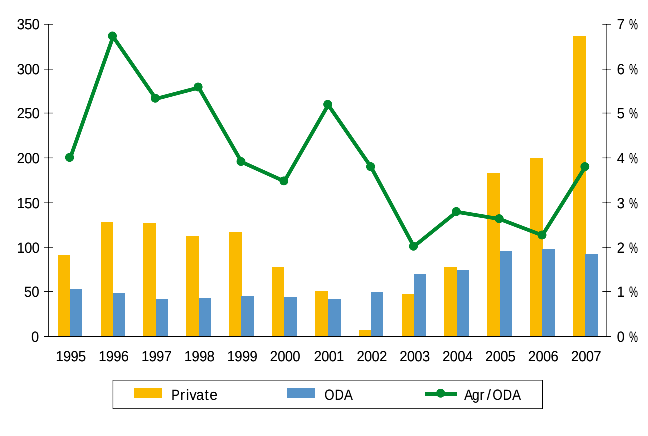
Foreign acquisitions of farmland in Africa and elsewhere have become the focus of concern. Many observers consider them a new form of colonialism that threatens food security of the poor. However, investments could be good news if the objectives of land purchasers are reconciled with the investment needs of developing countries.

Alarming capital gaps

The agricultural sector in developing countries is in urgent need of capital. Decades of low investment have meant stagnating productivity and production levels. In order to halve the world's hungry by 2015, as targeted by the 1996 World Food Summit, FAO calculations show that at least US$ 30 billion of additional funds are required annually.

Developing countries' capacity to fill this gap is limited and official development assistance (ODA) offers no real alternative (Figure 1). In fact, the share of aid going to agriculture has been on a downward trend to below 5 percent. The question is not *whether* international investments should provide a supplement to other capital inflows, but *how* their impact can be optimized.

Figure 1: ***Capital Flows to Developing Countries*** *(in billion US$)*



Source: OECD, Creditor Reporting System, 2009.

What do we know?

Information about international investments in agriculture is scarce and mostly based on anecdotal evidence. From what limited information is available (Box 1), three observations stand out: (i) international investments into agriculture have increased, but land under foreign control remains a small portion in developing countries; (ii) though investments are mostly private, governments are heavily involved, especially in recipient countries; and (iii) the focus of investments has shifted from cash crops to the production of basic foods.

Box 1: ***Key Facts of International Investments in Agriculture***

- *Investments have increased*
- *Deals seek access to resources, not markets*
- *Main form of investment: land purchase or long-term lease*
- *Share of total land assets owned by foreigners is small*
- *Major investors: Gulf States, China, Republic of Korea*
- *Main target region: Africa, also Latin America*
- *Investors: mostly private sector, but governments involved*
- *Investment partners in host countries: mainly governments*
- *New focus: production of basic foods and animal feed*

These observations hint at the main driving force behind the current wave of investments. Many deals are stimulated by food security concerns, especially those coming from wealthier countries with land and water constraints. High food prices and policy-induced supply shocks evidently created fears that dependence on world markets to satisfy domestic demand has become risky.

Seizing opportunities through partnerships

The sale of farmland to international investors is not without risks for developing countries. Experiences show that they can cause land expropriation or lead to an unsustainable use of resources, thereby undermining the livelihoods of local populations.

They also promise several opportunities, including a technology transfer to stimulate innovation and productivity increases; quality improvements; employment creation; backward and forward linkages and multiplier effects through local sourcing of labour and other inputs. Even an increase in food supplies for the domestic market and for export is possible.

However, these benefits will not come automatically, and it will take efforts of both investors and recipients of investments to realize the full potential of land deals. Above all, it requires an understanding that collaboration promises mutual benefits.

Making investments work

Host countries hold the prime responsibility for attracting investments to where strategic needs are greatest and ensuring that these needs are met. Many land deals seem to have been settled between the investor and the government in host countries, with little concern for whether benefits would trickle down to the local population. Insufficient documentation of smallholders' rights prevented them from making any claims. While much land in developing countries is currently not fully utilized, apparently 'surplus' land does not mean that it is unused or unoccupied. Better systems to recognize land rights are thus urgently needed. Similarly, governments should try to avoid that investments create enclaves of advanced agriculture that are detached from local realities. These will do little to improve smallholder production or generate additional incomes and employment opportunities.

International investors are equally called to action. They should recognize the local consequences of their investments and consider labour, social and environmental standards; stakeholder involvement; and food security concerns – not because they are obliged to do so, but because it minimizes their investment risks. Madagascar is a case in point. Public unrest stopped a deal after it became known that the government tried to lease 1.3 million hectares of land to South Korean investors. Similar events prevented investments in Indonesia (500 thousand hectares to Saudi Arabian investors) and the Philippines (1.2 million hectares to China). More inclusive strategies would have offered a solution.

Exploring alternative strategies

Apart from improving the conditions of land deals, investment partners should also consider looser contractual arrangements. In fact, the purchase and direct use of land resources is only one strategic response to the food security concerns of countries with limited land and water. A variety of other mechanisms can offer just as much – or even higher – security of supply, e.g. contract farming and out-grower schemes, bilateral agreements including counter-trade, and improvement of international food market information systems.

Investments could furthermore be in much-needed infrastructure and institutions that currently constrain agriculture in developing countries. This, together with efforts to improve the efficiency and reliability of world markets as sources of food could raise food security for all through an expansion of production and trade possibilities.

Ways forward

The risks attached to international investments have led to calls for a binding code of conduct. While its enforcement is likely to be problematic, it might nevertheless offer a framework to which national regulations could refer, especially if parties realize that compliance with common standards is in their mutual self interest.

More importantly, international investments in agriculture other than land acquisition should be evaluated and promoted. To this end, the extent, nature and impact of international investments going to developing countries needs to be better understood and monitored. Best practices should be catalogued in law and policy to better inform both host and investing countries. An international experts meeting, to be organized by FAO in July of 2009, will offer important insights in this regard.

Further information

- **FAO.** 2009. *International Investments in Agricultural Production*, by Hallam, D. http://www.fao.org/fileadmin/templates/em2009/docs/Hallam.pdf
- **FAO, IFAD & IIED**. 2009. *Land Grab or Development Opportunity?* http://www.fao.org/docrep/011/ak241e/ak241e00.htm

For further information on this brief, please contact David Hallam (ES-Policy-Briefs@fao.org) of the Trade and Markets Division of FAO.