

Foreign direct investments in land in developing countries

The world food crisis has spurred foreign direct investments (FDI) into arable land in developing countries. While significant financial inflows into agricultural sectors could be beneficial on a global scale, it could negatively affect local livelihoods.

The increasing number of large transactions for both the buying and leasing of arable land in developing countries indicates the recent revaluation of this scarce global resource. The price increases of most agricultural commodities and the continuing world food crisis have worsened the situation in countries that are net food importers. The main causes of this crisis were suboptimal harvests, stock reduction, commodities speculation, and increasing demand for non-food use of agricultural commodities.

Where will the global food and commodities crisis lead to next?

Asian investors who wanted to secure their fodder and commodities needs began the accelerating process of land purchases. Thereafter, mainly European investors sought to meet their demand for raw materials for their domestic biofuel production. The global food crises led to increased investments from land-scarce but capital-rich countries in arable resources in developing countries. In addition, private investors and companies also show interest

in setting up large-scale agricultural production facilities in regions with abundant arable land. The authorities in receiving countries perceive strategic investments in their farm land as solution of abundant land and low productivity.

Furthermore, increasing commodity prices led to the expectation that institutional investments in natural resources in the financial market would also turn out to be profitable. Set against the backdrop of the financial crisis and the crash of the stock markets, investing in land and forest was even perceived to be a relatively risk-free venture.

It is debatable whether the rural population would benefit from the build-up of large-scale investments.

Origins and destinations of large-scale Foreign direct investment

FDI – foreign direct investment – is determined as an investment which aims at taking over and thus controlling at least 10 percent of the shares or voting power of an incorporated company, while any lower amount is conceived as portfolio investment (IMF 1993). In the frame of land purchases, the investors pursue manifold intentions which are laid down below.

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China is a forerunner of large-scale land acquisition in other regions. The countries of south-east Asia are "ante portas".



Land acquisition in developing countries can be categorised into four major groups:

a) Countries with large populations and rapid economic growth (e.g. China, South Korea, Japan and India) are looking for investments abroad to secure the growing commodity demand for food, fodder and non-food use (e.g. rubber). China is the forerunner of large-scale investments into foreign arable land, especially for rubber in south-east Asia, soy and sugar cane in South America and Africa, and e.g. in cocoa production in Ghana. China's fast growing population and its improvement of welfare per capita has led to increased food consumption and stronger preferences in their nutrition requirements. Meat consumption increased by 112 per cent per capita since 1995. Although this figure still drags behind the US equivalent of meat consumption, there is still an enormous growth potential. Since protein fodder for meat production is made from soybeans imported from Brazil and Africa, this investment

Comments on FDI

"Such investments are not to be generally condemned."

(Joachim von Braun, Director General, International Food Policy Research Institute)

"Rise in land deals could create a form of 'neo-colonialism', with poor states producing food for the rich at the expense of their own hungry people."

(Jacques Diouf, head of the UN Food and Agriculture Organization)

"With the global financial crisis, this is a chance for Cambodia to look to the future by pushing agriculture in order to attract foreign investments."

(Suos Yara, Cambodian Undersecretary of State)

"Much more private investment into agriculture is needed in order to promote the sector in developing countries and to combat poverty. We should assist to design a favourable business environment in this regard."

(Dr Christian Henckes, Head of Section, Promotion of Agriculture and Food, GTZ)

opportunity attracted many Chinese investors abroad. Besides Chinese companies are investing in large rubber plantations in Laos and Myanmar, that provide raw materials to the chemical industry.

b) Food importing countries with limited land and water resources, but rich in capital such as the Gulf states (e.g. Libya, Kuwait, Qatar, Saudi Arabia, and Bahrain) are at the forefront of new investments in farmland abroad after the world food crisis. Recently, oil rich countries in the Middle East and North Africa launched a land securing process involving foreign agricultural lands to assure their domestic food supplies. In 2007 for instance, the United Arab Emirates were reported to have purchased up to 800,000 hectares of arable land in Pakistan alone. Projects implemented by Saudi Arabia, Libya, Qatar and other oil exporters are similarly ambitious.

c) Industrial countries, especially European countries and companies are looking for investments in agricultural commodities for biofuel production. Furthermore, peaking crude oil prices and political subsidy schemes especially in Europe made biofuel production even more attractive to private investors. In this regard, Brazilian and African sugarcane production, South Asian palm

oil production and Jatropha projects worldwide are intensively used in the production of biodiesel and bioethanol.

d) Domestic land speculation in developing countries (e.g. Cambodia). Cambodian efforts to challenge and trump Thailand in its position as the main tourist destination in south-east Asia and its receptiveness towards FDI, boosted land speculation in coastal provinces and around Angkor Wat. The expected two-digit economic growth accompanied by political security resulted in significant land investments. In some regions, farmers – often lacking officially recognised land titles – were driven off their land, even though they had cultivated their plots for decades.

Various political and economic interests, the lack of scientific assessment and different results of existing land investments, have created different views and opinions amongst the agricultural community. The sustainable impact matrix on page 37 provides an overview of various possible impacts.

Sustainability requirements of FDI in arable lands

When it comes to FDI, there is no universal approach in establishing institutional and legal frameworks that aim to be sustainable and beneficial



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to the whole of society. Every case is situation-specific and thus has to be assessed individually.

However, general guidelines and measures to overcome probable negative impacts and potential negative externalities should be kept in mind:

1. Generation of accurate and reliable information. Most information comes from 'grey' literature, newspapers and Internet blogs. To verify these sources, local information and stakeholder opinions are necessary (since obtaining accurate information about land deals is quite a sensitive topic).

2. Transparency and participation of all stakeholders. To obtain information on large-scale land investments is the first step to ensure sustainability

of FDI in land. The essential elements are: participation of all affected communities at the different stages of an investment project (from planning to evaluation), implementation of an effective system for the redistribution of benefits and provision of public goods.

3. Policy dialogue between receiving and investing countries and private investors. Public presentations and discussions on the risks and chances of large-scale investments in land can help in reaching an agreement on rules to find a sustainable approach which encompasses poor-growth.

4. Enforcement of NGOs (especially rural ones) and farmer groups.

NGOs and local stakeholder organisations should be formed through public support to control investments and guarantee the participation of all groups.

5. Development of international guidelines for investments in land and natural resources abroad.

6. Enforcement of scientific research. Focus should be on food security issues and the economic, social and ecological impacts of FDI in land in the receiving countries.

7. Integration of smallholder production could be a key towards sustainable production. The main management principle could be **the integration of smallholder production**

Investment receiving countries (status March 2009)

Investment receiving countries	Acreage bought/leased in ha	Investors Government (G), Private (P)	Land use (implemented and planned)
1. Africa			
Madagascar	1,300,000	South Korea Daewoo (P) – contract not materialised	maize, palm oil
Sudan	approx. 1,300,000	South Korea, Bahrain, Saudi-Arabia, Egypt, Kuwait (G & P)	wheat, maize, potatoes, fodder, oil fruits, animal production
Uganda	approx. 800,000	Egypt (G & P)	wheat, maize, cattle
Madagascar	approx. 450,000	India: Varun International (P)	rice
Ethiopia	approx. 200,000	Saudi-Arabia (P), Flora Ecopower (G & P)	food, biofuels
Mali	200,000	China, Libya (G)	irrigation (rice, vegetables)
Tanzania	approx. 55,000 incl. others	UK CAMPS Agrienergy (P) et al.	jatropha (biofuels)
Kenya	40,000	Qatar (G)	food
Cameroon	not specified	China (G & P)	rice, forest (wood, CO ₂ -emission rights)
Mozambique	not specified	China (G)	rice, forest (wood, CO ₂ -emission rights)
2. Asia			
Indonesia	1,250,000	Saudi-Arabia, South Korea (G & P)	rice, maize
Philippines	1,243,000	China, Saudi-Arabia, Bahrain (G & P)	rice, maize, sugar cane, cattle production
Laos	700,000	China, Thailand, Vietnam, Kuwait (G & P)	natural rubber, palm oil, food, hydropower
Mongolia	270,000	China, South Korea (G & P)	food
Cambodia	not specified	Kuwait, Qatar	rice, tourism
3. Latin America			
Brazil	up to 1,000,000	Japan, China, et al. (mainly P)	food, soya, biofuels, forest (wood, CO ₂ -emission rights)
Mexico	not specified	China (mainly P)	food
4. Eastern Europe			
Ukraine	approx. 500,000	Egypt, Libya, Saudi-Arabia (G & P)	food
Russia	approx. 80,000	China (mainly P)	food

into the value chains of large agribusinesses. Therefore it is necessary to generate a proper incentive system to stimulate such collaboration (e.g. out grower schemes).

The topic of land acquisition is often referred to as „land grabbing“,

and in the media this term is strongly associated with “unjust enrichment”. However, it would be desirable to appreciate that FDI concerning land acquisition could indeed be a success factor for pro-poor growth, provided that the investment is made in such a manner that it fulfills economical,

environmental, and social minimum standards.

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Economic, environmental, and social impacts on rural livelihoods

Economic impacts	
Positive	Negative
<ul style="list-style-type: none"> • Creation of jobs in rural areas • Additional tax income • Investments in education & health • Development of rural infrastructure • Spurred economic growth through multiplier effects • Higher incomes for rural communities • Technology transfer • Productivity increases • Market access for small-scale farmers (out grower schemes, credit, business development services, fertiliser) • Stability in global supply of food crops and lower price fluctuations 	<ul style="list-style-type: none"> • Reduced food supply security in the receiving country, when food crops are not available for local consumption (e.g. export or replacement with industrial crops) • Biased distribution of the monetary inflow – a public good is sold but the income might not be ‘publicly’ distributed • Rise of regional land prices through soaring competition with regard to acreage and resources, and therefore lower access to land for poor people • Increase of regional unemployment (for projects with imported workforce or high degree of mechanisation) • Valorisation of land
Environmental impacts	
Positive	Negative
<ul style="list-style-type: none"> • Definition of property rights (gives incentives to producers to use sustainable harvesting methods) • Enhanced maintenance process with respect to arable land • Preservation of soil fertility • Reduction of soil contamination • Enhanced quality of groundwater through reduction of pesticide use 	<ul style="list-style-type: none"> • Environmental externalities due to weak or absent eco-audit systems (deforestation, soil degradation, or salinisation) • Decreasing biodiversity through monoculture cultivation • Intensive use of land and water resources
Social impacts (smallholders, food security, access to land)	
Positive	Negative
<ul style="list-style-type: none"> • Employment opportunities • Increase in civil safety and political stability in the region • Access to enhanced rural infrastructure • Access to education and health services • Promotion of gender issues 	<ul style="list-style-type: none"> • Exclusion of rural communities, especially women, from use of common lands (collecting wood or grazing livestock) • Marginalisation of small-scale farming systems • Strong competition for local producers, especially smallholders • Application of low working standards • Risk of increasing land conflicts in territories without defined land titles (Hala’ib triangle conflict between Egypt and Sudan) • Misappropriation of arable land, displacement (of indigenous people) without compensation, and migration into cities

Zusammenfassung

Die weltweite Lebensmittelkrise hat die internationalen Direktinvestitionen (FDI) in die Anbauflächen der Entwicklungsländer in die Höhe getrieben. Während starke Finanzströme für die Landwirtschaft auf globaler Ebene vorteilhaft sein können, können sie die lokale Einkommenssituation unter Umständen negativ beeinflussen. Der Artikel gibt einen Überblick über die verschiedenen Formen internationaler Direktinvestitionen in Anbauflächen. Eine Übersicht veranschaulicht verschiedene Beispiele von Investitionen, eine Nachhaltigkeitsmatrix zeigt die dadurch verursachten Folgen. Schließlich wird aufgezeigt, wie negative Auswirkungen dieser Investitionen vermieden werden können, um letztlich eine pareto-effiziente Win-Win-Situation – also eine Situation, bei der keine der Parteien durch eine Veränderung schlechter gestellt werden würde – zu erreichen.

Resumen

La crisis mundial de alimentos ha estimulado las inversiones extranjeras directas (IED) en tierras cultivables en los países en desarrollo. Mientras que las inversiones de recursos financieros significativos en los sectores agrícolas podrían resultar beneficiosas a una escala global, también podrían afectar negativamente a los medios de vida locales. Este artículo proporciona una visión panorámica de los diferentes tipos de IED en tierras agrícolas. Adicionalmente, se incluyen ejemplos ilustrativos de flujos de inversión a manera de resumen, al igual que una matriz de impacto sostenible sobre los efectos que se producen. Finalmente, también se describen las condiciones requeridas para evitar los efectos negativos y llegar a una situación ganar-ganar dentro del concepto de eficiencia de Pareto.