

## **Large-scale acquisitions of agricultural land: what are international drivers and trends?** By Carin Smaller, International Institute for Sustainable Development

In 2008 foreign investment in land hit the spotlight. The land acquisitions are strongly driven by food, water and energy security rather than a notion of comparative advantage. Foreign investment in agricultural land is not a new phenomenon. Large foreign-owned plantations have long existed in parts of Africa, Asia and Latin America, in many cases remnants of the colonial era, and are used to produce bananas, sugar, tea, cocoa and other export crops. Since the 1980's however, foreign ownership of land for agriculture significantly declined as other types of foreign investment, particularly contract farming<sup>1</sup>—have been preferred by investors and transnational agribusinesses.

**So why the new rush for land?** The most visible driver of recent land acquisitions was the 2008 food crisis. Countries that depend on food imports for their food security reacted to the high global food prices and subsequent decision by commodity exporters to restrict exports of staple food. High oil prices in 2007 and early 2008 was another driver. It triggered a biofuels revolution, whereby the EU and US set biofuels targets, triggering a surge of interest by the private sector to acquire land to grow crops for energy purposes. Finally, the global financial crisis pushed financial investors to search for new sources of investment. A number of investment banks set up agricultural investment funds including, BlackRock (U.S.), Deutsche Bank (Germany), Goldman Sachs (U.S.), and Knight Frank (UK).

**Water** is one of the silent but most significant drivers of this new trend. Water resources have become so badly depleted and polluted, and yet, water is indispensable to the world's food supply. Close to 70 percent of all freshwater appropriated for human use goes to agriculture. The Gulf states for example, use around 80 percent of their total water supply for agriculture. Saudi Arabia, which for many years encouraged wheat production at home, is phasing out wheat production by 2016. Saudi Arabia established a new agricultural fund whose prime concern includes preserving water resources by investing in agricultural production overseas. Water issues are also a critical part of the equation for American farm companies, especially those growing corn and other water-intensive crops for biofuels. Sub-Saharan Africa uses only 2 percent of its freshwater resources for irrigation and so the region is seen as having an untapped potential.

A quantitative inventory of five African states [Ethiopia, Ghana, Madagascar, Mali and Sudan] compiled by the International Institute for Environment and Development (IIED), FAO and IFAD, documented a total of 2,492,684 hectares of approved land acquisitions since 2004. That is more than six times the arable land of Switzerland and almost half the arable land of the United Kingdom. These include a biofuels project in Madagascar involving 452,500 hectares of land and a livestock project in Ethiopia involving 150,000 hectares of land. In most cases land is leased rather than sold outright. The lease period is typically 50-99 years and the amount is usually in excess of 10,000 hectares with some reports of deals of up to 1 million hectares. The main actor is the private sector, including agribusinesses, investment banks, hedge funds, commodity traders and mining companies. States and sovereign wealth funds also play a significant role.

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<sup>1</sup> Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. FAO, *Contract Farming : partnerships for growth*, FAO, 2001

**What does all this mean for global food security?** More investment in agriculture is critical for food security and economic development. Yet, the most troubling part of the current investment trend is that the primary goal of investors is food production for home state consumption. The investments are about shifting land and water use from local farming to essentially long-distance farming, with the risks that local food needs, land users and water rights will be displaced. It is no longer just the crops that are commodities: rather, it is the land and water for agriculture that are increasingly becoming commodified. Instead of improving food security worldwide, these types of agreements risk creating a trade of food security and insecurity between the host state and the home state. This has serious implications for countries that are already food insecure. In fact, many of the countries that are leasing large tracts of land also have some of the highest percentages of undernourished people in the world, including the Democratic Republic of Congo (76 percent), Ethiopia (46 percent), Kenya (32 percent), Madagascar (37 percent), Mozambique (38 percent), Sudan (21 percent), and Tanzania (35 percent). In addition, most of the countries leasing land are also net-food importing countries and recipients of food aid.

**What is the way forward?** Several international agencies, led by UNCTAD, FAO, IFAD and the World Bank are already involved in developing a set of principles to be adopted at the international level to direct foreign investment in agriculture along a sustainable path. The UN Special Rapporteur on the right to food has developed a set of core principles and measures to address the human rights challenge of large-scale acquisitions. Principles alone are not enough. A practical toolkit to assist foreign investors, developing states and local communities to implement the principles, are critical.

Finally, there are other farming models that have proven to be more socially and politically acceptable, that are economically profitable and, if done properly, would likely provide better prospects for food security, local employment and sustainable development. Joint ventures, including contract farming or outgrower schemes, have become a preferred farming model for many agribusinesses and supermarket retailers, while at the same time providing farmers with secure income and allowing them to maintain ownership over their land and water resources.