International Land Acquisition in Sub-Saharan Africa[1]

Per Pinstrup-Andersen[2]

There is an urgent and important need for more investment in agriculture and rural areas of Sub-Saharan Africa. Shortage of capital is a major hindrance for rapid economic growth and poverty alleviation. Foreign direct investment (FDI) can play a major role. New investment should be directed towards the alleviation of constraints faced by smallholder farmers to expand agricultural production and increase farm incomes, such as improved rural infrastructure, institutional innovation, e.g. farmer organizations, laws to assure contract enforcement and credit and savings institutions; market development for inputs and outputs; and improved value chains for agricultural commodities, e.g. processing, transportation and storage. Both public and private investment is needed. Public investments in infrastructure are particularly important to facilitate private investment in such things as credit, food processing and technical assistance to smallholders.

Due in part to the rapidly increasing food prices in the world market during 2007-08, there has been a rapid increase in FDI in developing country agriculture, with current estimates ranging from 50 to 230 million has (equivalent to 20-100 times Denmark's agricultural area). Investors include country governments, corporations, capital funds and investment firms.

FDI can play a very important role in the promotion of economic and agricultural growth, improved food security and reduced poverty. Unfortunately, FDI can also be harmful to low-income people and the environment. At least four goals should be considered in the design and implementation of FDI in agriculture and rural areas of Sub-Saharan Africa: 1) Yielding a reasonable return to the investor; 2) producing more food or non-food agricultural commodities, 3) reducing poverty and improving food security locally and nationally, and 4) improving or at least doing no harm to the natural environment. Well designed and implemented investments can achieve all four goals. Investments should focus on facilitating smallholder driven development instead of replacing smallholders by large-scale primary production. Such a focus is justified on both economic and ethical grounds. As further discussed below, focusing on the latter is likely to result in increasing poverty, food insecurity and related human misery among smallholder farm families driven of their land.

A number of voluntary guidelines for FDI in developing country agriculture exist to avoid unacceptable consequences, including those developed by the United Nation, the World Bank and the Committee on Food Security. However, because they are voluntary, they are not bindings and include no enforcement mechanisms. The G8 New Alliance on Food Security and Nutrition, which is an agreement between the G8 members and 10 African countries, has been useful in improving the clarity on land tenure and mobilize capital for agriculture. However, the Alliance has also contributed to large-scale foreign investor takeover of land from smallholders. This is illustrated by the Louis Dreyfus Commodities Corporation taking control of more than 100,000 has in Cote d'Ivoire for rice production. It appears that

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[2] Graduate School Professor, Cornell University and Adjunct Professor, University of Copenhagen

the deal fell through and the corporation abandoned the effort. Information about the fate of the evicted smallholder farm families is lacking.

Solid, structured, research-based evidence about the impact of FDI in African land is scarce. Investors treat such evidence as confidential. However, there is a large amount of anecdotal evidence and an increasing number of case studies. Two case studies, one for a country and another for a single investor may illustrate the kind of case study material available. First, a case study of Ethiopia concluded that: 1) FDI forced a very large number of farm families off the land they cultivated, 2) FDI increased food insecurity among families in the vicinities of the FDI, 3) there was large discrepancies between publicly stated positions and what actually happened on the ground, and 4) no limits on water use and no environmental impact assessment were implemented. The second case study was about the Mozaco Corporation established by Rioforte Investments and JFS Holdings, which evicted 1,500 farm families from land over which they acquired long-term lease through a contract with the Mozambique government. It appears that Rioforte has now gone bankrupt but it is unclear whether the farm families have been permitted to return to their land.

So, what do we know about the consequences of FDI in African agriculture? In spite of the scarcity of solid, science-based information, the large amount of anecdotal evidence and results from case studies, the following conclusions can be made:

1. FDI in African agricultural lands has caused a massive removal of smallholders from their land.
2. The large majority of the evicted farm families were unable to find alternative income opportunities and food insecurity and nutritional deficiencies increased.
3. Only a small share of the land acquired by the foreign investors (and from where smallholders were evicted) has been cultivated. Planting of Jatropha trees on only a small portion of the land controlled by the investor in Mozambique and Tanzania is an illustration.
4. High risks, lack of knowledge and falling food and fuel prices have contributed to a high failure rate among the FDI projects and bankruptcies are common.

Although this presentation is not about Danish FDI, the following lessons may be useful:

1. Transparency regarding the impact of FDI projects on low-income people and the environment in the project area is critically important to demonstrate positive effects and avoid speculation and potentially misinformation about negative effects. Failure by Silverland to share such information publicly and with members of the investor pension funds appears to be ill advised and may backfire because it may give the impression that Silverland does not comply with its stated policies and practices. Similarly, the public support of IFU investment in African agriculture is likely to be stronger, if such information was collected and shared to the public. Ideally, third-party monitoring and evaluation should be pursued.
2. Danish FDI should be focused on the constraints facing smallholder farm families such as those mentioned above. This means investment outside the farm rather than taking control of the land now cultivated by smallholders. Danish FDI has an opportunity to become a role model for

other FDI in agriculture and rural areas of Africa both by leading the way towards transparency and by achieving all four goals mentioned above.

3. Danish publicly funded development assistance should be used to facilitate economic growth and poverty alleviation among smallholder farm families by investing in off-farm constraints, including those mentioned above. Such Danish public funding should strengthen African country governments' own efforts to generate the public goods needed to facilitate private investment in the agricultural supply chain.
4. Neither Danida development assistance nor Danish private capital should be used to evict smallholder farmers from the land they cultivate.
5. Using Danida funds targeted for poverty alleviation to invest in African land, as currently discussed, does not seem appropriate and may in fact increase rather than alleviate poverty.