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The global land rush: implications for food, fuel, and the future of development

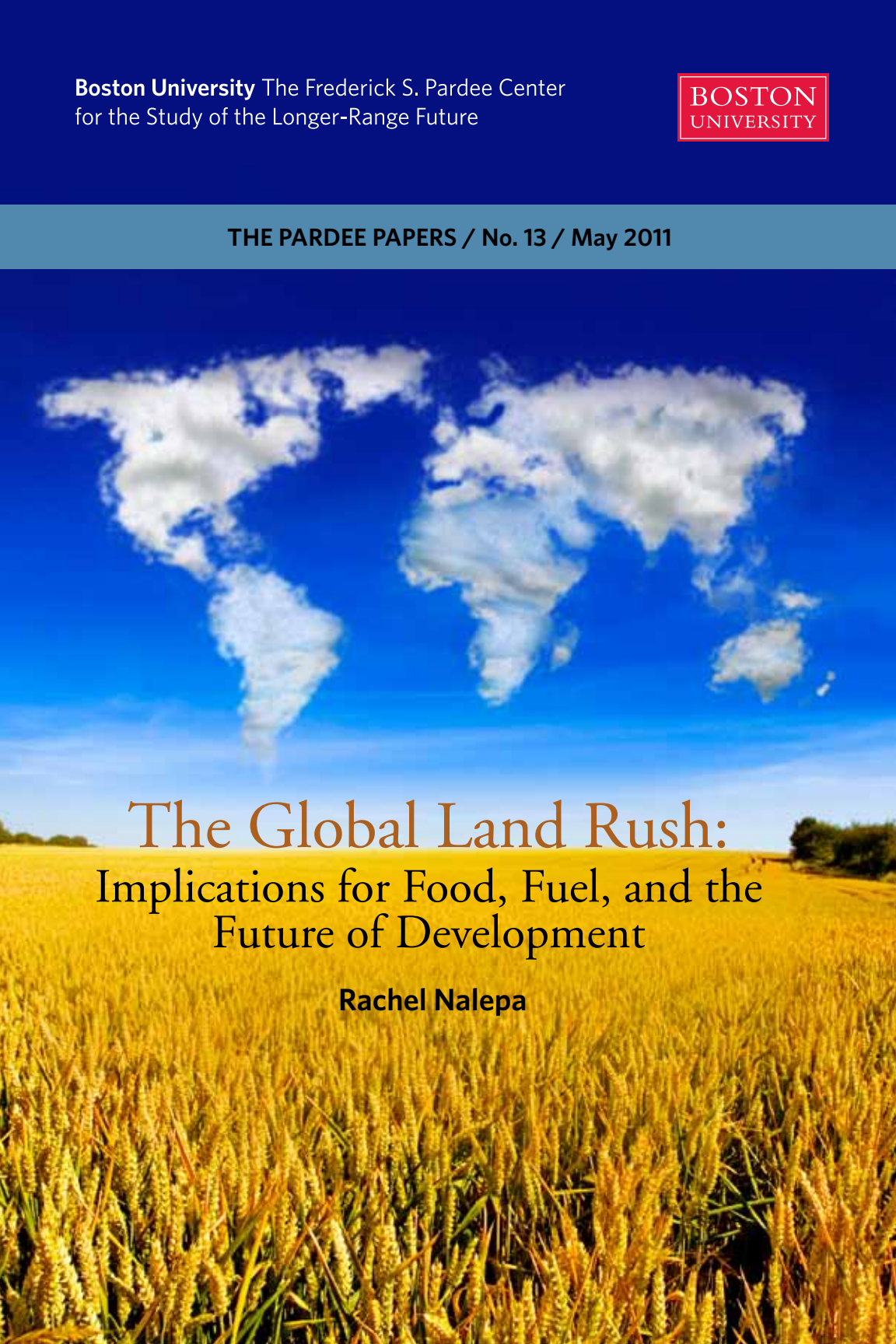
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The Global Land Rush: Implications for Food, Fuel, and the Future of Development

Rachel Nalepa

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The Frederick S. Pardee Center for the Study of the Longer-Range Future
Boston University
Pardee House
67 Bay State Road
Boston, Massachusetts 02215
Tel: 617-358-4000 Fax: 617-358-4001
www.bu.edu/pardee
Email: pardee@bu.edu

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The Global Land Rush: Implications for Food, Fuel, and the Future of Development

Rachel Nalepa

Abstract

Foreign direct investment in agricultural land in developing countries has escalated dramatically in recent years, attracting the attention of mainstream media outlets around the world. Often referred to as the “global land rush” or “global land grab,” these investments are made specifically to transform arable land into profitable and more productive agricultural enterprises for food and agrofuel stocks for use by the investor countries. Proponents advocate for a “win-win” scenario, maintaining that concessions not only benefit investors, but that spillover effects like technology transfer and increased employment will jumpstart agricultural productivity in developing states. Critics generally believe that these deals will result in more harm than good, especially in places where land rights are historically contentious or weak. Using recent evidence, this paper examines the emerging political economy of the global land rush and discusses how insecure tenure rights and poor governance are resulting in adverse short-term effects that call into question whose notion of “development” is being served through these concessions. It also aims to go beyond debating the merits of the “win-win” scenario to discuss how a historical and naïve approaches to agricultural investment on behalf of foreign investors, combined with a lack of a strategic vision for development (or capacity to enforce a vision), could undermine the very mechanisms that lead to pro-poor growth in the long term.

The author would like to thank Professor Adil Najam and Cynthia Barakatt of the Pardee Center as well as Professor Ann Helwege of the International Relations Department at Boston University for their guidance and editing assistance.

GLOSSARY

AEZ: Agro-ecological zone

CoC: Code of conduct

FAO: Food and Agriculture Organization of the United Nations

FDI: Foreign direct investment

FIAS: Foreign Investment Advisory Service

IIASA: International Institute for Applied Systems Analysis

IIED: International Institute for Environment and Development

IFAD: International Fund for Agricultural Development

IFC: International Finance Corporation

INGO: International non-governmental organization

ODA: Official development assistance

RNF: Rural non-farm

TNC: Transnational corporation

SWF: Sovereign wealth fund

“Buy land—they’re not making it anymore.”

—Mark Twain

The last few years have seen a media frenzy surrounding the issue that is being referred to as the “global land rush” or “global land grab.” Foreign direct investment (FDI) is being channeled into developing states at unprecedented rates for the purpose of transforming arable land into profitable and more productive agricultural enterprises for food and agrofuel stock.¹ In 2009 alone, 45 million hectares worth of large-scale farmland deals (approximately the size of Spain) were announced before the year came to a close (World Bank 2010). The phenomenon features all the dramatic elements of a fascinating news story: big investors from rich nations acquiring or leasing vast tracts of sovereign land belonging to the poor and transactions shrouded in secrecy. Approximately 236 feature stories on land concessions appeared in the international press between August 2008 and April 2010 (Friis and Reenberg 2010). Good copy aside, there is a reason that the spotlight is falling on this trend: it is quickly changing the global political economy of land.

CONTEXT FOR THE “WIN-WIN” SCENARIO

Nearly half of humanity lives in rural areas and an estimated 2.5 of those three billion rural inhabitants are involved in agriculture (World Bank 2008). With few exceptions, no country has been able to sustain rapid transition out of poverty without raising productivity in its agricultural sector (Timmer 2005). Public spending and official development assistance (ODA) to agriculture have been falling for years and there is no dispute that investment is needed to help farmers increase productivity in the face of stagnating yields, low resilience to climate disturbances, and fractured access to credit and food markets. This is especially true for subsistence and small-scale farmers in Africa who were bypassed by the benefits of the Green

1. The term agrofuel is used to distinguish highly capitalized, large-scale, first-generation biofuel projects typified by monoculture and often requiring inputs such as synthetic fertilizer and pesticides to yield cost-competitive harvests. These include fuel crops such as maize, corn, oil palm, soya, sugar cane, sugar beet, oilseed rape, canola, and jatropha.

Revolution that helped many farmers throughout Latin America and Asia improve their productivity in the latter half of the 20th century.

By 2005–2007, it seemed that increasing FDI might be filling this resource gap. FDI flows to global agriculture had tripled from early 1990s levels of less than U.S. \$1 billion per year to \$3 billion annually (World Bank 2008). Institutions such as the World Bank and the United Nations’ Food and Agriculture Organization (FAO) were—and seem to remain—cautiously optimistic about the intensity of this revived interest, maintaining that, if executed responsibly, these investments would result in a “win-win” scenario for both investors and target states. Spillover effects like technology transfer and increased labor would jumpstart agricultural productivity and serve as an engine for economic development generating a tide to lift all boats.

However, critics generally believe that these benefits will not materialize and claim that from a human rights perspective, these deals will actually result in more harm than good. This is the concern especially in places where land rights are historically contentious or weak, allowing governments to redistribute land as they see fit, leaving many people displaced and without recourse. The concern is that even if there are intentions on behalf of the target state or investors to compensate those on the losing end of these land transfers, the momentum of these deals is outpacing target states’ capabilities to handle them; many do not have the legal infrastructure and lack other sufficient mechanisms to protect or even assess local livelihoods and welfare (Cotula and Vermeulen et al. 2009). If this is indeed the case, it also would be difficult for target states to enforce the provisions of these deals to ensure that they contribute to a positive longer-term vision of agricultural development. If the fabric of local economies is not strengthened as a result of these transactions, the harshest critics would be validated in their fears: These concessions amount to little more than a large-scale resource transfer from the poor to the rich.

So who is right?

CHALLENGES IN THE FIELD

Two factors make it difficult to study land transfers systematically or to make sweeping generalizations about their impacts: lack of data and the diversity of projects.

Lack of Reliable Data

Neither states nor investors are required to report the status or provisions of these deals, nor is there a central registry cataloging them as they happen. In addition to the variation resulting from heterogeneous registry requirements and procedures among and within states, lack of resources and effort put into collecting and sharing information can result in inconsistencies and large data gaps. For example, a now seriously troubled agrofuel project undertaken by the German company Flora EcoPower on land adjacent to elephant sanctuary in Ethiopia was reported by Reuters to involve 13,000 hectares while only 3,800 hectares are registered with the Ethiopian Investment Agency (Cotula and Vermeulen et al. 2009).

Lack of disclosure through official channels or a central registry also means that land transfer incidence is to a large extent gleaned from the media, further compounding accuracy issues. Ideally, field researchers can corroborate media stories, but this is not always possible and propagating misinformation becomes a real danger. For example, media reports may allege that investors have acquired land in a foreign country when what actually happened was a team of surveyors visited with an intention to eventually invest.

This has engendered suspicion that land transfers are over-reported. On the other hand, many land deals lack transparency and may not be officially recorded at all. This may be because customary procedure in the host country does not dictate that details be shared with a wider community of stakeholders or they may be deliberately obscured given their highly political nature. For example, an alleged 400,000-hectare deal in Sudan was reported in the media but was missing from the Sudanese government's official public statistics (Cotula and Vermeulen et al. 2009).

Does this mean we can infer that for every transfer that is exaggerated or falsely represented in the media, one more went completely unreported?

Accurate and complete data will remain elusive until countries develop more systematic methods of tracking land parcels as they change hands or, just as importantly, become willing to share them.

Project Diversity

No two land deals are alike and potential impacts must be considered with this in mind. Results will vary depending on a wide range of variables encompassing governance, the socioeconomic characteristics of affected

Each concession has its own historical and cultural context that might include long-standing tensions over land ownership in post-colonial societies or current struggles associated with land rights reform.

communities, geophysical features of the lands they occupy, and the commercial structure of the agricultural project itself. For example, partnerships that include secure contracts providing for the sharing of risks and returns among all stakeholders will surely have a dramatically

different outcome than a foreign firm importing both workers and seeds to work cheaply-leased, tax-free land only to directly repatriate both crop and profit. In addition, each concession has its own historical and cultural context that might include long-standing tensions over land ownership in post-colonial societies or current struggles associated with land rights reform. These singular circumstances imply that to fully characterize what is happening, a depth of information is required in order to complement global surveys with local evidence. Thus, using existing data to scale up or down for prescriptive purposes becomes a scientifically challenging process.

Despite these data challenges, a significant and rising international effort is being made to integrate information on land acquisitions from a variety of sources including the FAO, farmers' organizations, various international non-governmental organizations (INGOs), and think tanks, among others. The World Bank has issued an analysis of hundreds of land deals spanning 14 countries in order to aggregate existing data and situate the phenomenon in the context of past land use and projected land expansion scenarios. In addition, more probing case studies are emerging through a series of publications by the International Institute for Environment and Development (IIED) as well

as through ethnographically grounded work by independent scholars. Early evidence suggests that critics are justified in many of their concerns regarding negative impacts on smallholders, farmers, and pastoralists. Despite this, many target states continue to provide incentives precisely for the purpose of attracting this type of FDI, marking the onset of a “race toward the bottom” (World Bank 2010). This phrase, used by the World Bank itself to characterize the momentum of these concessions, is especially poignant given that, as an institution, it has been a proponent of the “win-win” scenario—a rhetorically cautious proponent with many caveats, but a proponent nonetheless.

Using recent evidence, this paper examines the emerging political economy of the global land rush. The first section will provide an overview of the issues involved as well as discuss why certain states are being targeted over others. The following sections will explore how:

- insecure tenure rights and poor governance are resulting in adverse effects in the short term that call into question whose notion of “development” is being served through these concessions, and
- ahistorical and naïve approaches in agricultural investment on behalf of foreign investors combined with a lack of a strategic vision for development (or capacity to enforce a vision) could undermine the very mechanisms that lead to pro-poor growth in the long term.

Though land is acquired for purposes other than agriculture, this paper will specifically refer to concessions made for cultivating crops for food or agro-fuels since these currently make up the bulk of the projects (by number if not in size). In addition, even though large-scale land concessions cannot be characterized completely through global North-South dynamics, this paper will exclusively focus on land transfers and leases that transpire between post-industrialized/transitional economies and developing states—many of which happen to have a colonial history.

The need to confront these issues is urgent: the destruction of farming structures is irreversible on the scale of one or several generations (Merlet and Jamart 2009). And with agricultural leases being signed for upwards of 99 years, these concessions will have profound and lasting impacts on the development trajectories of target countries.

FOREIGN DIRECT INVESTMENT IN LAND: AN OVERVIEW

Drivers

FDI in agriculture is not new, but until recently it has been considered mainly a commercial venture. This changed during the 2006–2008 global food crisis when nations suddenly realized the extent of their vulnerability in the face of volatile global food markets. Many could no longer afford to import staple grains and were not able to buffer the shock through domestic food supplies for various reasons. In a single year, food riots erupted in at least 30 countries from Senegal to Mexico. This arguably inspired finance-rich countries to seek a new vision of food security—one that involved circumventing food markets altogether through acquiring or leasing foreign land and directly repatriating food supplies.

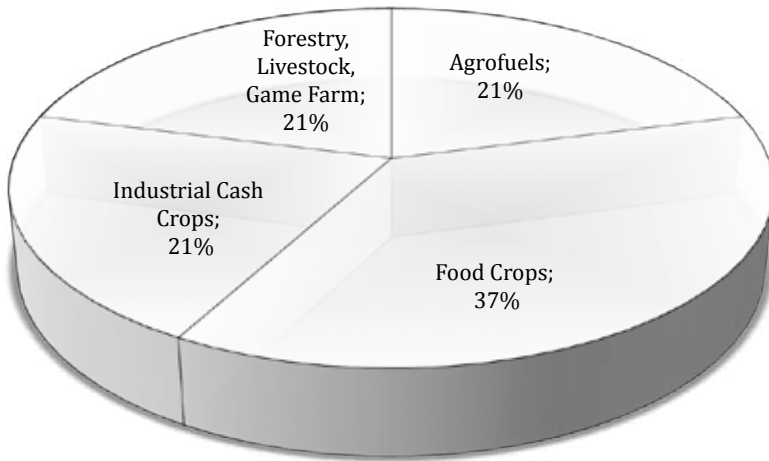
Food security concerns are now a major factor driving these new investments in land. For example, Qatar, with only one percent of its land suitable for crops, has obtained 40,000 hectares in Kenya and has expanded its reach into Southeast Asia and Sudan for rice, oils, and grain production (*Capital Business* 2009). The United Arab Emirates, a country that imports 85 percent of its food, acquired 324,000 hectares of farmland in the provinces of Sindh and Punjab, the breadbasket of Pakistan, in 2008 (Kerr and Bok 2008). Perhaps the most infamous foreign land transfer to date is the failed deal between the South Korean group Daewoo Logistics and the government of Madagascar. By purchasing land parcels in increments eventually constituting nearly half of Madagascar's arable land, South Korea hoped to reduce its dependence on corn imports from the Americas. Protests from the Malagasy people fueled a growing civil unrest and led to the downfall of president Marc Ravalomanana by the time the deal was canceled in early 2009 (Zigmo 2009).

While foreign land is being sought to augment food supplies, commercial opportunities in agriculture also have become attractive investments. Prospecting and speculation added to the volatility of the market in 2007 when “soft” commodities, such as food crops, began outperforming hard commodities, such as raw materials, in the commodities investment market (Daniel and Mittal 2009). The fuel crisis, happening in conjunction with

the food crisis, spurred a rush of investments in agrofuels in anticipation of new renewable portfolio standards and policies, and land values jumped significantly. Farmland prices jumped by 16 percent in Brazil, 31 percent in Poland, and 15 percent in the Midwestern U.S. during the course of 2007 alone (von Braun and Meinzen-Dick 2009).

This overlapping of commercial investment opportunities with food and energy security has resulted in a mix of motivations for investment as shown in Figure 1.²

Figure 1: Share of Intended or Implemented Investment Projects by Commodity



Source: Based on World Bank data collected from reports on the GRAIN website October–August 2009.

It also explains why there is such a diverse portfolio and combination of players when it comes to investments in foreign land for agricultural purposes. Land deals occur most commonly between private entities or in the form of public-private partnerships, though government-to-government transactions have been known to occur. A number of investment banks have set

2. Based on best available data. Distinguishing between plans for food and fuel is challenging as the same crop may be used for both or plans may evolve during the life of the project (Cotula and Vermeulen et al. 2009).

up agricultural investment funds, including Deutsche Bank and U.S.-based BlackRock, Goldman Sachs, and Morgan Stanley (Smaller and Mann 2009). Also involved are Gulf States' sovereign wealth funds (SWFs). SWFs are state-owned investment funds created mainly for the purpose of generating returns on foreign exchange surpluses. Some deals officially reported as originating in the private sector have varying degrees of sovereign backing or nebulous unofficial government involvement. Furthermore, it is sometimes difficult to find clear boundaries demarcating state from non-state enterprises as is the case with many Chinese firms (Cotula and Vermeulen et al. 2009).

Even though the most recent global food crisis is over and prices have dropped considerably since the start of 2010, the cost of the typical food commodity basket is still nearly 70 percent higher than it was between 2002 and 2004 (UN 2010). This is due to underlying structural factors constituted by a confluence of competing pressures on land.

A rising population, especially a burgeoning global middle class, will be demanding more meat—a land-intensive source of protein. The agrofuel-versus-food debate is likely to intensify with concerns over energy security and fluctuating fossil fuel costs. Though it is important to note that since the crisis many agrofuel projects ended up experiencing delays or have been shelved temporarily due to lower oil prices, the nascent global agrofuel complex continues to develop through the formation of new and increasingly complex transnational corporate/state arrangements (Borras Jr. and McMichael et al. 2010; Dauvergne and Neville 2010). A mid-range scenario approximates that by 2020, an additional 500 million hectares will be required to meet global agrofuel demands under current mandates (Gallagher 2008; Fischer 2008).

Land is also being swallowed up by increased urbanization and is in demand for other industries such as tourism, forestry, and mining. This multitude of pressures will only increase with time, suggesting that, even though cyclical bear markets related to agricultural commodities may come and go, ever-climbing prices will be the hallmark of the long-term trend (Walayat 2010).

Where Are the Targets?

Africa hosted 70 percent of the demand for land between 2008 and 2009, with Sudan, Ethiopia, Nigeria, Ghana, and Mozambique accounting for more than 23 percent of projects worldwide (World Bank 2010). A recent study estimates that between 51 and 63 million hectares have been transferred in 27 countries in Sub-Saharan Africa over the last few years (Friis and Reenberg 2010). Africa is followed by Latin America (Brazil and Argentina), which hosted 21 percent of all project investment in 2008–2009, Central Asia with 11 percent, and, finally, Southeast Asia with 10 percent (World Bank 2010). In most cases these concessions constitute a fairly small fraction of total land in the host country, but the quality of that land is of paramount importance. Even smaller-scale deals that escape media attention may result in the transfer of the best farmland while leaving smallholders with land that is less productive, water stressed, or inaccessible to markets. The origins of the most active investors and some of the largest deals are featured in Figure 2.

Figure 2: Origin of Key Players and Select Land Deals



Sources: ODDO Securities 2010; von Braun and Meinzen-Dick 2009; World Bank 2010.

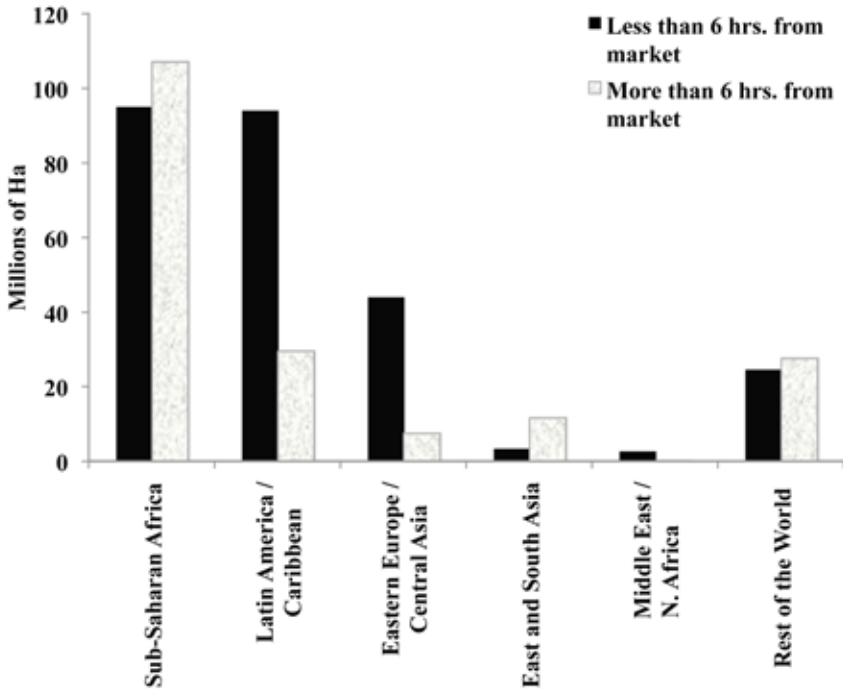
Scrambling for Land: “Suitability” Versus “Availability”

The possession of cultivable land is one factor that determines which countries are targeted for land deals, and a great amount of effort has been put into identifying the location of remaining suitable land to meet future food and agrofuel needs. Organizations such as the World Bank, FAO, and International Institute for Applied Systems Analysis (IIASA) have generated and refined tools using satellite imagery and other data that categorize land appropriate for growing various crops into agro-ecological zones (AEZ) according to soil quality, rainfall, aspect, slope, etc. Socio-economic variables such as available technology and management practices can also contribute to determining the AEZ (albeit in a limited fashion due to the heterogeneity of available data) and applied to find desirable places to expand cropland based on low population densities, proximity to roads, and existing irrigation infrastructure. The amount of the remaining arable land that is uncultivated, not forested, and with population densities less than 25 persons per square kilometer that could be dedicated to the five rain-fed crops of sugarcane, wheat, maize, oil palm, and soybean is estimated to be roughly 445 million hectares (World Bank 2010). Over half of this land can be found in 10 countries and, in turn, half of these are in Africa, making Sub-Saharan Africa one of the last places on Earth where many countries have a low population-to-fertile land ratio (World Bank 2010). Whether the development of this land is cost-effective is another question since much of it is located more than six hours from a market (Figure 3).

These data attempt to quantify how much land could potentially be used for certain crops but are not able to reflect who might be using the land and, in many cases, for what purpose. Thus the terms “suitable” and “available” are not necessarily interchangeable. Moderate resolution satellite imagery can be used to determine if land is generally cultivated, but unless finer resolution imaging or other types of complementary data are available and systematically integrated into policy decisions, broad statements about land availability cannot reasonably be made with the amount of public confidence and alacrity we have seen recently.

For example, the government of Mozambique has stated that only approximately nine percent of the county’s arable land is currently in use (Cotula

Figure 3: Potential Supply of Land for Rainfed Cultivation
(pop. density < 25 persons/km²)



Source: Adapted from World Bank 2010.

and Dyer et al. 2008), while in Indonesia, the Department of Agriculture reports that approximately 27 million hectares of “unproductive forestlands” are open to be offered to investors (Colchester and Jiwan et al. 2006). In 2009, Reuters quoted the Zambian Agricultural Minister saying that Zambia was using less than 15 percent of its land and that more than 30 million hectares were “begging to be utilised [sic]” (Tostevin 2009). The 2010 Annual World Bank Conference on Land Administration and Policy seemed to serve as much as a platform for many states’ representatives to advertise the availability of cultivable land (while downplaying social and environmental assessments) as a discussion of some of the major concerns with the scale and speed of recent land transfers.

These claims become problematic in light of the fact that many countries attracting investment have not done due diligence in investigating who is

using the land that they are offering, mainly because of weak institutional capacity and a lack of resources. In Zambia, for example, land information is collected and maintained by multiple authorities all using different “formats, scales, accuracy, and extent” without proper indexing or storage conditions (World Bank 2010). The World Bank found that poor management of land information

has resulted in an “astonishing lack of knowledge on behalf of land agencies and governments as to what is going on within their own borders” (World Bank 2010). Satellite images used to monitor investor projects on land acquired in Mozambique reveal

The World Bank found that poor management of land information has resulted in an “astonishing lack of knowledge on behalf of land agencies and governments as to what is going on within their own borders.”

overlaps with already-titled community areas. Countries may be prematurely putting land on the auction block, perpetuating the myth of *terra nullius*—a convenient colonizing notion that underdeveloped land is unused or unowned (Wiley 2010). This could lead not only to embitterment and contention threatening the profitability of the intended agricultural venture, but also potentially result in violent conflict.

What About “Marginal Lands”?

The gravity of allocating cultivable land that may or may not be in use by other groups becomes even greater when land concessions are made in places that are already food insecure. For example, targets such as Sudan, Democratic Republic of the Congo, Mozambique, Madagascar, and Zambia all have a prevalence of undernourishment between 22 percent and 69 percent (FAOSTAT 2010). Agrofuel projects have especially been under scrutiny, since cultivating oil crops to feed mostly Western countries’ consumption habits can be considered unethical undertakings within hungry countries. If demand for agrofuels is to be met, however, some sort of expansion will be necessary since the countries that use the most fuel cannot reasonably fulfill mandates through domestic production. For example, the EU has committed to raising the contribution of agrofuels to their fuel mix to 10 percent by 2020, and companies have already laid claim to more than five million hectares of land across the global South in order to meet

this objective (Borras Jr. and McMichael et al. 2010). These mandates, combined with the pressure of rising costs and thinner margins within the agricultural and energy industry, have contributed to the creation of an emergent and powerful “biofuel complex” (Borras Jr. and McMichael et al. 2010).

With the growth of this complex, the concept of “marginal land” has emerged as a term commonly associated with the promotion of agrofuels. Marginal lands are defined as areas unsuitable for cost-competitive food crop cultivation, so classifying land as “marginal” effectively circumvents the more divisive questions surrounding the food-versus-fuel debate. One of the problems with this term (and others like “degraded,” “idle,” or “wasteland”) is that it lacks a systematic definition, so it can be unclear what is meant when the term is used, especially in a politicized context. Another issue is that the people already utilizing these lands often have intentions behind land use patterns in agriculture that are not easily discerned from the remote methods being used to identify them, namely satellite imagery and remote sensing.

For example, land described as “idle” or “abandoned” through remote methods may have purposefully been taken out of rotation to fallow, left by pastoralists to regenerate, or specifically dedicated to secondary growth forest. In places where the average smallholder farm is only one or two hectares in size, land parcels dedicated to subsistence farming are too small to be detected by most satellite imagery and may be tagged as “marginal” when, in reality, they are supporting households through mixed food crops, biomass for cooking, building materials, and providing foraged food products such as fruits and nuts (Sugrue 2008). One study documented agrofuel crops in India planted on what had been deemed “wasteland” though communities were already using this land for a variety of purposes (Rajagopal 2007).

For these reasons, care should be taken in co-opting language from global studies and making the leap into prescriptive inferences. Using the notional language of global models in a political narrative can give a false sense that these land classifications are ontological and have provided a foolproof tool by which investments can be ethically sanctioned. Just as it cannot be inferred from these labels that these lands are not already claimed, it cannot be assumed that these parcels lack value outside of their potential for competitive agriculture or that agrofuel companies should have *carte blanche* for developing them.

“Good Investment Climates”

Perceived land availability is not the only feature that is drawing investor interest to host states. In the absence of formal and/or well-functioning land markets, undervaluation of land is common. Land in Mozambique is selling for as little as U.S. \$1/hectare (Deininger 2010). In Peru, where foreigners can own land outright, the going government price has been on a downward trend from U.S. \$3,400/hectare in 1997 to \$300/hectare today (Hernandez 2010).

“Good investment climates” are also being created through restructuring. The Foreign Investment Advisory Service (FIAS) and the World Bank, along with its private arm, the International Finance Corporation (IFC), help countries systematically remove investor-identified barriers. For example, the goal of the new FIAS “Land Market” product is to address the common complaints investors have about the difficulties in accessing and securing land in many developing countries as well as the effort, time, and money that goes into obtaining permits for land development (Daniel and Mittal 2010). In addition to obtaining FIAS assistance in streamlining administrative procedures, special or “near-term” arrangements are also made for the sake of investors that include decrees of land tenure security or extended lease periods that have not necessarily been afforded domestic smallholders (Daniel and Mittal 2010). In Pakistan, investing firms enjoy tax breaks for 10 years, retain 100 percent of the profits, and are permitted to repatriate all that is produced to their home country (Mustafa 2008). These conditions hold even in the case of an acute food deficit, even though nearly half of all Pakistanis are estimated to live in some state of food insecurity (World Food Programme 2010).

This type of restructuring followed on the heels of results released from an FIAS-administered survey in which 79 percent of investor participants identified land acquisition and site development regulation as the most significant barrier to investment in Pakistan. Investment authorities on the regional or provincial level are also being set up in some states to speedily deal with investments and transaction costs. In some cases these investment authorities are also responsible for identifying available land to provide to investors. How these lands are officially identified is largely unknown.

Up-front incentives like tax breaks, low transaction costs, and 100-percent profit repatriation certainly attract attention, but the determinants of a smart agricultural investment are hardly constituted by the carrots alone. Investors will be operating within norms and laws unique to the host country, and there are many agro-environmental, structural, and institutional factors that will impact the success of the venture. From a simple risk perspective, the following preconditions would be essential in facilitating a positive outcome for investors:

- **Recognition of property rights.** Clearly delineated and legally protected property rights should simplify land transfers and reduce transaction costs as well as offer protection when investors in turn become the owners or lessees of the land.
- **Good governance.** Governance measures are composed of indicators that take into account voice and accountability, political stability, regulatory quality, rule of law, control of corruption, and government effectiveness in the host country (Kaufman and Kraay et al. 2009).

Figure 4a: Tenure Ranking of Countries Frequently Hosting Land Deals



Tenure ranking

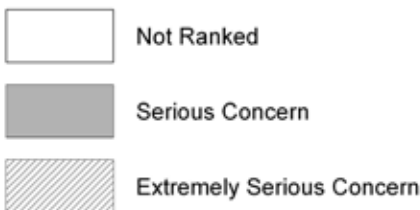
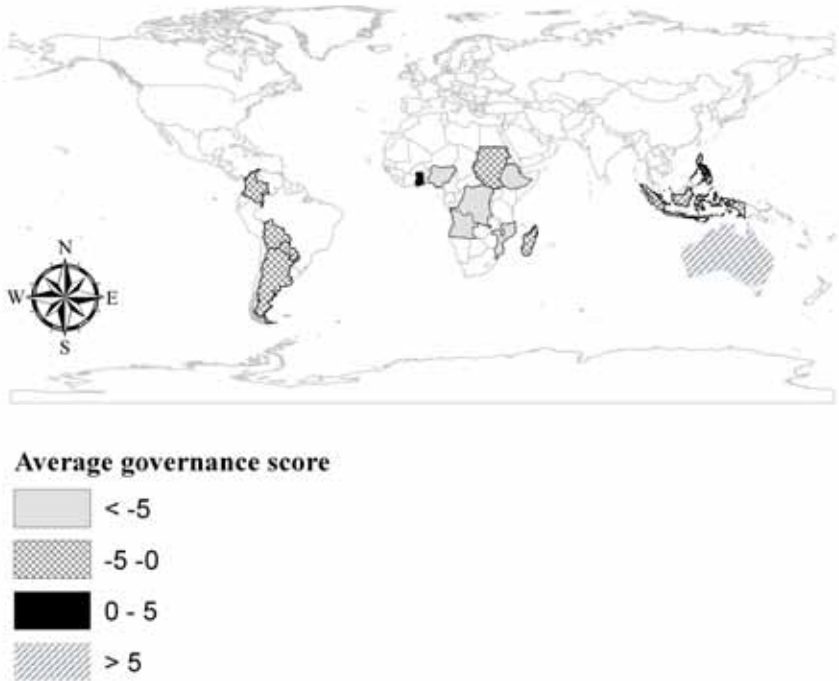


Figure 4b: Average Governance Scores of Countries Frequently Hosting Land Deals



Sources: Adapted from Kaufmann, Kraay, and Massimo 2009; ODDO Securities 2010; USAID/Ard, Inc. 2008; World Bank 2010.

Surprisingly, we still see many of the countries targeted for investments ranked poorly on property rights protection and governance (Figures 4a and 4b).³ Many of them are also poorly scored on the World Bank/IFC’s “Ease of Doing Business Index,” which ranks countries using indicators such as the ability to enforce contracts and protect investments, and the ease of registering property (World Bank/IFC 2010). GRAIN, a Spain-based NGO that has been outspoken in its opposition to “land grabs,” has interpreted this result to mean that investors are targeting states where it is relatively easy to gain control over others’ land (GRAIN 2010). Even if this is not the primary motivation in all cases, the result does suggest that a new type of risk assessment seems to be prevailing—

3. Providing one average score from six separate components of governance provides a less nuanced picture of the specific dimensions of governance within a country: two states could receive the same average score though one may rank highly on half of the indicators and poorly on the other half, while the second country has middling scores for all dimensions, for example.

one in which the perceived long-term benefits of dealing with obtuse laws and inept, ineffective institutions are worth the effort.

Though weak states may provide opportunities for investors to coax a win out of resource transfers under unstable conditions, the same cannot be said for the landless and current small landholders. Those without recognized land rights and good governance to protect those rights are the most vulnerable to displacement—with a real possibility of seeing no benefits at all.

WHOSE DEVELOPMENT? EVIDENCE FROM THE FRONT

The Role of Property Rights and Governance

Roughly one-sixth of human beings live with precarious situations in which their land is subject to customary or community control—neither formally acknowledged nor respected under the law (Merlet and Jamart 2009). Even if property ownership (collective or otherwise) is officially acknowledged, this does not mean that rights are necessarily secure. For example, in many countries throughout Sub-Saharan Africa, landholders run the risk of losing land to the state itself. Ghana’s constitution allows the government to acquire land “for the public good” if it deems the land is better suited to be leased to another user. In Indonesia, approximately 70 percent of the country’s land area is classified as “forest estate,” which falls under the jurisdiction of the state’s Forest Department and can be conceded to investors though there may be people living on the land (World Bank 2010).

When governments in target states with unrecognized tenure rights and/or weak governance decide to redistribute land, often it is through “quasi-official” judicial processes adopted more for the sake of investors than local people (World Bank 2010). For example, communities may be alerted to the possibility of losing their land by public notice. When Sun Biofuels (a UK-based company) was seeking to expand operations in Tanzania, allocated land was to be published in the local newspaper prior to the President’s assent to allow for contestation. Not only was the allocated land published *after* being officially approved, but the market price for the land was not factored into the compensation package for the villagers, who only received money for the lost crops (Deininger 2010). In Sudan, land claims

must be raised within two weeks or the local government authority will decide the land is “free of rights,” liberating that land parcel for investors (World Bank 2010).

There have been cases reported where any semblance of stakeholder involvement is neglected. In the Democratic Republic of the Congo, if processing a concession application takes more than six months, the regional authority can grant occupancy rights to the investor as requested in the application, even if no work has been done to identify stakeholders (World Bank 2010). In some cases, if the government decides to reclaim the land for redistribution, landholders may be forcefully evicted. When the Tanzanian government wanted to lease land parcels already in use, widespread arson ensued, leaving 800 people homeless. More than 100,000 livestock were left without water and pasture, and a villager was reportedly raped by riot police working on behalf of the government (Tandon 2010).

Even if they manage to hold onto the land in title, landholders lose both influence over how their land is appropriated and bargaining power when negotiating for compensation (if indeed any is offered) because of tenure insecurity. This is especially true for those who may be only indirectly (but not necessarily insignificantly) affected (Deininger 2010). Female-headed households are especially vulnerable since women’s formal rights to land are usually tentative at best and their voices go unheard even though they may be the majority in their communities (Tandon 2010). Any power they do have tends to shift to men as land gains in commercial value (Cotula and Vermeulen et al. 2009).

Living under rule of ineffective governance compounds problems associated with weak tenure as legal recourse for compensation may be out of reach for the common landholder. In states like Mozambique, Zambia, and Tanzania, affordable options exist to record, delimit, and upgrade group tenure but are difficult to access (Deininger 2010). In other states, a clear transfer mechanism of rights may exist but there is no representation for landholders as in the case of both Mozambique and Indonesia (Deininger 2010).

The World Bank and others are concerned that even if investors are not directly participating in the more egregious abuses by targeting states that

have weak governance and unrecognized/poorly protected property rights, they are complicit in any harm that may result. In response to these concerns, the FAO, World Bank, and other international organizations and civil society groups have been promoting the adoption of a code of conduct (CoC) to provide a guiding set of principles for investors. There has been a general lack of urgency on the issue as the UN Committee on Food Security failed to sanction a set of guiding principles put forth by the World Bank in October 2010 (Aloisi 2010). Though some variation of a non-binding CoC will most likely be adopted in the coming year, the potential of a vague set of rules to serve a function beyond lip service is still being debated, and many believe that it will merely amount to a rubber stamp to continue with land transfers—business as usual.

The Role of Power and Intrastate Hegemony

The media has played a major role in sparking debate over these large-scale land deals by bringing human rights abuses and reports of displacement into the international spotlight. Though this may be considered a positive contribution as it brings attention to an important issue, the subtle dramatizing or perfunctory treatment of players and motivations surrounding these investments does nothing to encourage the development of a more robust and nuanced picture of what is actually happening on the ground. For example, portraying “local communities” and investors in a David-versus-Goliath-like struggle gives the impression that there are two sets of interests: those of the investors and those of a homogenous stakeholder group of landowners with similar interests that comprise a “local community.” This worldview belies the messy nature of land relations, however, glossing over the fact that these communities are separate and distinct groups with different amounts of power and competing agendas. Fuller characterizations of these intrastate power dynamics are needed in order to understand which groups may be benefiting over others and why.

After being approved by the central government, the power to effectively broker these land transfers is commonly delegated to the regional or provincial land agencies and investment authorities. For example, Ethiopian regional investment authorities have the power to sanction concessions below 5,000 hectares without consulting other agencies (World Bank 2010).

Under this emergent trend of decentralization, there is a strong possibility that land appropriation decisions would be influenced by provincial politics, considering that agrarian settings also happen to be where the political and economic power of landed elites is the most entrenched (Borras and Franco 2010). If endemic power structures are biased to further empower elites through already established legal, “quasi-official,” or institutional mechanisms at the expense of others, even a well-intentioned investor would be unable to ensure an entirely just process. It is simply out of their purview. A good first step would be to investigate who is actually capturing the rents of these undervalued lands to establish to what extent an inflow of FDI to the sector serves as merely a vehicle to reinforce already established hegemony at the provincial or regional levels.

Though redistributing resources along already existing lines of power does not necessarily imply any wrongdoing, there have been reports of illegal or extra-legal incidents that suggest abuses of power on behalf of investors as well as various interest groups within the target states themselves. Land is an extremely valuable asset in developing states (typically accounting for 30 to 50 percent of national wealth), making the land sector particularly susceptible to corruption and rent-seeking (Kunte and Hamilton et al. 1998). In the Philippines and other parts of Asia, there have been reports of intimidation and harassment of local farmers by speculators and local agents working on behalf of palm oil agribusiness investors (Montemeyer 2009). In southern Sudan, there have been agreements between politically well-connected individuals and American companies that are “not really following any law” (Zarro 2010). Even if these incidents are the exception as opposed to the rule, they beg the question: what is a “land grab” versus concession? Does the former refer to land obtained illegally, with the latter characterized by a mere asymmetry of power and information between actors? If yes, can a concession also be understood in the context of a resource transfer between social and economic classes within the target state itself or only applied to describe a transaction occurring between investors originating from two sovereign states?

The Role of the State

And what of state interests? A joint IIED—FAO—IFAD study of land transfers in five African countries found that fees and direct monetary

transfers are not the main host country benefit (Cotula and Vermeulen et al. 2009). Investment, rather, is the key and the hope that struggling agricultural sectors can be more critically linked to agricultural export markets. However, restructuring (as it currently is being done) can seem antithetical to both smallholder and local government interests. For example, one local benefit generated by land concessions is higher tax revenue; yet centrally decreed tax breaks for investors may prevent provincial governments from collecting revenue, subsequently reducing the ability and incentive of local governments to provide complementary public goods (World Bank 2010). This may imply that there is a concept of “development” that supersedes a concern for strengthening local economies or one based on an understanding that even though an inevitable reshuffling of winners and losers will result, some concessions are necessary to secure the long-term investment.

Assessing the validity of this approach is complicated. Linking short-term impacts of land concessions to long-term effects on poverty alleviation in a causal relationship is difficult. This is the case not only because of time lags, but also because isolating the effects of these agricultural investments from other confounding influences on the economy is challenging. Still, local buy-in is essential if investments are going to succeed in the long run, so national and local interests should not be decoupled. Since most concessions must be initially sanctioned at the central level before being passed to local and regional authorities, the state also plays a pivotal role in making sure that investors and projects are chosen based on their alignment with a concrete vision for national development and not chosen along the lines of “any investment is good investment.” Unfortunately, this is not what seems to be happening.

Though many countries have formal national objectives for development, the World Bank notes that many lack specific guidelines for choosing among projects. It is common to have only vague criteria in evaluating projects such as “job creation” or “improved productivity” (World Bank 2010). Alternatives remain unexplored and priorities are being set *ad hoc* in a response to investor demands rather than linked to cohesive host-state plans for growth upfront (World Bank 2010). Poor vision (or lack of resources to implement any cogent vision) leaves opportunities for inexperienced and possibly predatory investors and precludes local buy-in as smallholders

are less likely to lend support to ill-conceived projects. It also potentially undermines the very mechanisms that lead to pro-poor development such as employment generation and diversification of the rural economy.

RISKS TO LONG-TERM PRO-POOR DEVELOPMENT

Investor Naïveté

Speculation and special arrangements such as tax breaks for investors may attract attention, but a lack of legal and institutional architecture to facilitate implementation and verify assets may deter solvent and experienced investors. Agricultural enterprises already are generally considered to be high-risk ventures and often the target state does not have the ability or political will to properly vet the investors or enforce contracts if the investors decide they are either “in over their heads” or finds the business terrain more difficult than expected. In many cases financial information is checked perfunctorily (if checked at all) and not available to parties outside those negotiating the deal (World Bank 2010). If the project fails, this becomes a loss on both fronts: If the host state cannot attract capable investors, nobody wins.

Target states need better mechanisms to ensure that investors are solvent, especially if they are going to attempt to develop leased lands for agrofuel crops where best practices have not been thoroughly researched. The Ethiopian government has prepared some 23.3 million hectares for the purpose of agrofuel projects, but potential investors are required to provide very few

details regarding the investment capital—an oversight that may have already resulted in tremendous loss (MELCA Mahiber 2008; Yewondwossen 2010). For example, the German company Flora EcoPower cleared vast tracts of controversial land adjacent to an elephant sanctuary in the

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Oromia region of Ethiopia for the purpose of cultivating a castor bean plantation. The project ended up in crisis, ultimately collapsing in the spring of 2010 when the company was not able to pay its debts to suppliers or its

employees (Sisay 2010). Flora EcoPower was the largest agrofuel company operating in Ethiopia—yet it exported its product only three times during its period of operation (Yewondwossen 2010). After facing an uncertain future in Ethiopia, the company has announced plans to reopen and will apparently settle its debts of \$2.5 million, but the experience is one to learn from (Yewondwossen 2010). These risks do not only apply to agrofuel projects, either. In Liberia, a rice investor reneged on his agreement with the government and decided to start cultivating wetlands when he failed at developing the less fertile land originally conceded to him, displacing 1,000 farmers in the process (World Bank 2010).

There may be no way to ensure that a situation such as the one that beset Flora EcoPower will not happen from time to time or that all investors will respect the terms of their agreements. There are, however, regulations that could reduce the risk of attracting ill-prepared investors. In Peru, where it is legal for foreigners to own land outright, a large percentage of the purchase price and anticipated future returns must be deposited as soon as a bid is made, which seems to be an effective screening mechanism (World Bank 2010). Mechanisms like this could also screen out investors that might dishonor agreements, lessening the burden of monitoring and enforcement for poorer countries.

Investor Inflexibility

Even solvent and experienced investors cannot be guaranteed a successful project. Cultural conditions and the local business landscape in the host country will influence the way the agricultural sector functions and must be considered. There are complex sentiments and relationships surrounding land in target countries. Not only is land an emotive asset class inexorably linked to identity and culture, it is a politically sensitive asset as well since many states have been struggling for land rights reform for years. Individuals may be linked to their communities and specific parcels of land through long-standing feuds, unspoken agreements, and symbiotic relationships—histories a foreigner is unlikely to know anything about. Though many states are transitioning away from a sentimental view of land to a more westernized, utilitarian view, the coming together of these distinct viewpoints can breed resentment, misunderstanding, and false expectations. Investors

need to understand that there is no such thing as an apolitical land acquisition in post-colonial and post-conflict societies.

Preconceived notions regarding which business models are best suited to the economy of the localities is also an issue. For example, most conceded land currently is destined to be managed as a large, corporate venture falling under the umbrella term of “agro-industry.” Agro-industry, or agribusiness, describes all enterprises and supply chains involved in developing agricultural products from farm to fork, and often involves heavily capitalized transnational corporations (TNCs). Bigness and the elusive quest for economies of scale in the agricultural sector are not virtues that have taken hold in many countries; this is true especially for those that have historically relied on small-scale agriculture. Reconciling these two approaches is paramount for long-term success, especially in Sub-Saharan Africa. Even though most landholders would appreciate the influx of capital, “the African small-scale farmer does not feature on the commercial farming radar”—the unstated assumption being that the land itself should be the limit to African input (Makunike 2009). This ignorance about the history of farming practices and adherence to a particular paradigm of commercial farming that is dismissive of local methods are major obstacles to gaining local buy-in. Given that the IFC intends to increase lending to agribusiness by up to 30 percent over the next few years, this will be an important topic to address (Blas 2009).

Lack of smallholder support is certainly a threat to the success of a venture in the short-term, but there are also long-term ramifications for hasty investors and host states that either do not or cannot exercise discernment when it comes to the nature of these land deals. If projects do not coincide with a solidly founded development strategy, countries may end up with a fragmented agricultural system or one that has failed to provide the touted “win-win” benefit of employment creation. In both cases, it is unlikely that the host country will see the type of rural diversification that is necessary for poverty alleviation.

Employment Effects

Increased employment is one of the positive benefits of these investments. The World Bank cites that communities in surveyed countries were very

appreciative of the employment generated by investments, and that they believed that such employment “contributes to their well-being” (World Bank 2010). The report also mentions a project in the Ukraine where one firm is paying nearly 5,000 new local employees one-and-a-half times the average wage. This is an undisputed benefit for those who have been hired, but the entire distribution of winners and losers needs to be taken into consideration. The type of jobs that will be available in association with a new investment may only benefit those with a particular skill set, and some people who lost land access may not be hired. For this reason, provisions that include increased employment cannot necessarily be considered an adequate trade-off for conceded land. And, of course, there is no guarantee that concession agreements will address local employment at all, and if they do, evidence indicates that they do so only vaguely (Cotula and Vermeulen 2009). In some cases provisions may be addressed concretely but never realized. For example, an agrofuel project in Mozambique employed only 65 or 70 full-time and seasonal workers out of the 2,650 jobs that were promised in the original plan (World Bank 2010).

Some investments may actually reduce the number of jobs available as increased mechanization reduces the need for manual labor. Agrofuel projects almost always require heavily industrialized, large-scale, monocropping methods (Borras and Franco 2010), and it appears that investors are targeting countries that are currently using less mechanized farming methods where they can achieve relatively quick productivity gains through importing machinery or employing newer technology (GRAIN 2010). A fully mechanized soy field will generally provide only 18 jobs per 1,000 hectares in the Ukraine, and a mechanized grain field will support only 10 (Deininger 2010). Sugar crops for ethanol worked manually provide 700 jobs in contrast with mechanized crops, which only provide 150 (Deininger 2010). It is also important to note that productivity improvements that may come with a mechanized model don't automatically translate into improvement in poverty alleviation. One can look to Brazil for evidence of this—expansion into the *cerrado* (savannah) region was technically considered a success, but employment generation and impacts on rural poverty were limited (World Bank 2009). Between 1991 and 2001, China raised 400 million people out of poverty based on a smallholder sector with an aver-

age plot size of less than two hectares; Brazil achieved the same amount of growth using mechanized agriculture, but the number of rural poor actually increased (Songwe and Deininger 2009).

Agricultural Dualism and Rural Growth

Also of concern is that these large-scale industrialized models will eventually fragment rural communities into enclaves of highly advantaged commercial farms within a traditional smallholder agricultural sector (FAO 2009). For example, a major tenet of transnational corporations is vertical integration: moving upstream toward the production side in order to consolidate control over all processes from seed to final product. This allows businesses to avoid buying raw commodities on the market since these also include a share for traders—one that can be significant due to the hedging for fluctuations in the world market. This effectively cuts costs and edges out rivals, namely unsubsidized, smaller farmers who do not have the same resources. Where there is no functioning autonomous vision of development, a lack of spatial planning may further exacerbate the fragmentation of agricultural and ecological systems, potentially disrupting the mutually beneficial relationship between the rural farm sector and non-farm sector that is the key to poverty alleviation.

Historically speaking, a prerequisite to poverty alleviation has been growth in the rural non-farm (RNF) sector. RNF growth depends on local wages rising enough to afford the goods that the RNF has to offer (Timmer 2005). Rising agricultural-sector incomes contribute to this by increasing the demand for RNF-sector goods and, subsequently, rising wages in the RNF sector help drive the expansion of farms by allowing the purchase of more agricultural products (FAO 2003, World Bank 2010). This reciprocal relationship cannot work in a dualistic agricultural sector. Agricultural growth initially puts money into the hands of those who own land and if that money is spent on imports, repatriated, or otherwise not spent on local goods and services, the proper economic linkages cannot be created (FAO 2003). In this way, it becomes clear that the assumption that increased productivity automatically leads to poverty reduction is incorrect and that protecting jobs is a critical factor in poverty reduction—especially in situations where nonagricultural economic growth is insufficient to draw workers out of the agricultural sector (Songwe and Deininger 2009). These are particu-

larly important considerations in Africa where, unlike the trajectory of rural development in China, the adoption of certain agricultural business models may only encourage farmers to leave rural communities without urban jobs and services to support them.

Moreover, the notion that mass-scale agriculture is the only way to increase productivity, spur rural development, and provide enough food to keep pace with population growth is simply untrue. Proponents of the industrialized model can equate the “small farming is charming” attitude with denying development, but as we have seen, directing more FDI toward supporting smallholder agriculture is pragmatic, not ideological. Plenty of guidance and case studies are available documenting well-integrated models that are both productive and have worked well for local farmers and investors alike. What’s more, they will be less likely to foster a dualistic agricultural system. As the World Bank notes, for land-abundant countries, now is the time to choose between an agricultural sector founded on “broad-based ownership and medium-sized farms or a dual structure where a few mega farms coexist with many smallholder producers” (World Bank 2010). This sheds a whole new light on the seriousness of conceding land parcels for 99 years with minimal knowledge of or control over what is happening on that land.

Settling the Debate: Key Issues

Increased FDI is bringing much-needed resources into the agricultural sectors of target states, yet all of the elements of the World Bank’s “good policy recommendations” in regard to land acquisitions are currently missing: deals are non-transparent, include vague or no provisions for the host state, and frequently occur in countries with weak governance and unrecognized property rights. Not enough consideration is given to local history and farming expertise. Thorough economic, social, and environmental impact assessments are rarely performed.

The continuing intellectual debate seems to hinge on projecting longer-term impacts on poverty alleviation based solely on an amalgamation of observations of short-term effects from around the world. Much of the data that we do have is derived from research projects that span some months (if that) and reflect only select cases. The depth of information to adequately characterize the potential of indirect linkages isn’t available at this point. Whichever side of

the “win-win” scenario one happens to align with, examples that reinforce that view are plentiful. For example, for every case in which one might find small-holders being displaced without compensation, one can certainly find a case in which certain households benefit from more employment opportunities.

So how do we choose the appropriate approach for framing large-scale land concessions in the modern era? The phenomenon has all the hallmarks of a “globalized” issue: it cuts across multiple disciplines and scales. The burgeoning agrofuel complex is characterized by highly mobile capital moving through an increasingly intricate web of “North-South-South” linkages or “triangular” projects involving multinational corporations, states, and private actors (Dauvergne and Neville 2010) that seems to render the nation-state an antiquated concept. With the push of the FIAS and IFC on host states to take stock of land ownership and create special property arrangements for investors, land reform seems to be imposed from the outside rather than through the sovereign state. In this light, a political economy approach seems like a good place to start—moving through scales from the local to the global asking the important questions: Who owns what? Who does what? Who gets what? And finally, what do they do with the surplus wealth? (Borras, McMichael, and Scoones 2010).

Transparency is the key. The process by which land is identified and allotted to investors must be made clear. For example, by 2013, Ethiopia plans to lease three million hectares of land that the government claims to be idle (Rice 2010). Experts claim that there is no such thing as idle land in Ethiopia, let alone anywhere else in Africa (Daniel and Mittal 2010). States need to be transparent about their methodology in arriving at this conclusion and

how cadastral information—that is, information from an official land registry—is reflected in these assessments, if at all. Researchers need to follow suit by making a greater effort to explicitly discern

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between the land classifications that are used now so colloquially, including “degraded,” “idle,” “sleeping,” “waste” and “marginal.” Is degraded land only a physical term? Is marginal land always an economic term? Even if it seems out

of the scientific purview of the work, studies using only biophysical data to classify land should stress this fact since results may have real policy implications and may influence investor decision-making.

Moreover, the concept of land suitability needs to be expanded to include information about tenure status, as this is an important step in identifying populations at risk for displacement. Participatory mapping projects can further help to identify where people might be more vulnerable to resource loss, conflict, and environmental damage. Having tools that include cadastral information would also serve investors as cultural and political outsiders to gain local buy-in and increase the chances of project success.

These concessions also need to be documented as they happen. The establishment of a central registry that catalogs concessions and tracks the status on provisions serves three purposes:

- 1) It helps resource-strapped states share the burden of monitoring investor activities.
- 2) It contributes to the assessment of overall trends and serves as a baseline to start making links between investments and multiplier effects.
- 3) It serves as a “watchdog” for investor behavior. Some investors may have noble intentions, but with the momentum of these deals it is unlikely that an investor CoC will be enough to totally deter unethical opportunistic behavior as privileged TNCs and investor conglomerates continue to colonize vast tracts of farmland the world over.

Ultimately, states need help not only with monitoring and enforcing provisions but also in making more stringent demands in the first place. Disadvantaged states hold power in possessing a scarce resource that will only rise in value. It may be difficult to exercise discretion, but holding to a cogent strategy for rural development and choosing projects that meet specific criteria designed to serve this vision is essential. It is the first step to maximizing the likelihood that benefits will go beyond merely reinforcing patterns of hegemony in agrarian societies and result in the type of rural diversification that leads to long-term poverty alleviation—and not just a reshuffling of the winners and losers in the short term.

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ABOUT THE AUTHOR



Rachel Nalepa is a doctoral student in the Geography and Environment Department at Boston University. She specializes in the political ecology and geopolitics of land investments for agrofuel developments in Ethiopia. She holds a master's degree in international environmental policy from the Monterey Institute of International Studies and was a Pardee Graduate Summer Fellow in 2010.



Boston University The Frederick S. Pardee Center
for the Study of the Longer-Range Future

Pardee House
67 Bay State Road
Boston, Massachusetts 02215
www.bu.edu/pardee
Email: pardee@bu.edu
Tel: 617-358-4000
Fax: 617-358-4001

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