



Introduction

Although fairly short-lived, the 2007–08 commodity price boom and the subsequent period of high and volatile prices reminded many import-dependent countries of their vulnerability in food security and prompted them to secure their food supplies overseas. Together with the financial crisis, the boom led to a “rediscovery” of the agricultural sector by different types of investors. One of the more permanent effects of the food and financial crisis was that it prompted some food import-dependent countries to reconsider their policies to reduce vulnerability from what is considered to be an “undue dependence” on imports. Investment in agriculture, while still small compared with other economic sectors, has been growing rapidly (UNCTAD 2009), and land has become the focus of a new wave of long-term investors (de Lapérouse 2010). Highly publicized were the land acquisitions by foreign investors in Africa and Asia, often for speculative purposes, at very low prices, and in ways that appeared to be not conducive to local welfare or inconsistent with basic human rights.

Given the number of actors involved, the political overtones, and the potentially far-reaching impact of such land acquisitions on local livelihoods and long-term development paths, the phenomenon has attracted considerable attention from public officials, policy makers, think tanks, nongovernmental organizations, and the public. Contributions have highlighted the size of the phenomenon (Kugelman and Levenstein 2010), its link to food security (French Inter-Ministerial Food Security Group 2010), the importance of building on countries’ existing commitments in human rights and food security (De Schutter 2010), and the need to identify

principles to guide large-scale land acquisition. Multilateral and bilateral agencies aimed to anchor such investment more firmly in the existing guidelines for foreign investment, including those by the Organisation for Economic Co-operation and Development and to help countries adapt their policy frameworks accordingly.

Increased investor interest in agriculture provides opportunities to developing countries with large primary sectors and high levels of rural poverty, gaps in productivity, and large amounts of land (box I.1). It affects the work of development institutions and provides an opportunity for them to demonstrate leadership and act as a catalyst in a number of ways (Songwe and Deininger 2009). This study was initiated to overcome the information gaps that undermined stakeholders' efforts to deal with this phenomenon. It is thus analytical rather than normative, and its main purpose is threefold:

- Use empirical evidence to inform governments in client countries, especially those with large amounts of land, as well as investors, development partners, and civil society, about what is happening on the ground.
- Put these events into context and assess their likely long-term impact by identifying global drivers of land supply and demand and highlighting how country policies affect land use, household welfare, and distributional outcomes at the local level.
- Complement the focus on demand for land with a geographically referenced assessment of the supply side, that is, the availability of potentially suitable land for rainfed cultivation.

Box I.1 Who Demands Land?

On the demand side, three broad groups of actors can be distinguished. A first group includes governments from countries initiating investments, which, especially in the wake of the 2007–08 food crisis, are concerned about their inability to provide food from domestic resources. A second group of relevant players are financial entities, which in the current environment find attractive attributes in land-based investments. These include the likely appreciation of land, the scope to use it as an inflation hedge, and the projection of secure returns from land far in the future, something of great importance for pension funds with a long horizon. Although land markets are quite illiquid, some of the more active investors might also benefit from steps to improve the functioning of land markets and, in some cases, use sophisticated quantitative techniques to identify undervalued land. Third, with greater concentration in agro-processing and technical advances that favor larger operations, traditional agricultural or agro-industrial operators or traders may have an incentive to either expand the scale of operations or integrate forward or backward and acquire land, though not always through purchases.

- Outline options for different actors to minimize risks and capitalize on opportunities to contribute to poverty reduction and economic growth, especially in rural areas.

Based on initial findings from this empirical research, the World Bank has contributed to the formulation, jointly with partners, of a set of principles for responsible agricultural investment that respects rights, livelihoods, and resources (box 1 in the overview) (FAO and others 2010). The government of Japan, together with other institutions (such as the United States and the African Union), has been fostering debate on these principles with the goal of developing a consensus around them, receiving broad informal support from other governments that view the principles as a starting point.

These principles have already served a useful purpose in reminding countries and investors of their responsibilities and drawing attention to policies that seemed to violate them. At the same time, the real challenge is to make them operational in a country setting. Empirical evidence is urgently needed to assess whether and under what conditions such investment can serve broader social goals, to provide guidance on how to implement them in practice, and to assess compliance. Observers noted that a broad consultation about these principles has yet to happen. Concern has also been expressed that the way the principles are currently framed creates the impression that their purpose is to promote investor interest rather than to help countries formulate strategies and implement regulations that would protect local rights and allow them to confront the “land rush” in a way that promotes sustainable poverty reduction. Although this was not the goal in designing the principles, there is a need to ensure that their application assists countries in making strategic decisions about large-scale agro-investments.

To do justice to the complexity of the phenomenon and the fact that in many cases information is not readily available, we use a range of methods:

- Compiling country inventories of large land transfers during 2004–09 in 14 countries based on data officially available to in-country consultants,¹ complemented by analysis of media reports on large investments in 2008–09
- Assessing the policy, legal, and institutional framework for large-scale land acquisition based on compilations of background information by a country coordinator and panels with representation from a wide range of stakeholders to arrive at a consensus ranking²
- Identifying by country and region the available land that might attract investor interest in the future, based on a global assessment of agro-ecological suitability for rainfed farming given current land use, infrastructure access, and population density
- Reviewing historical land expansion processes and predicted rates of expansion of cultivated area depending on different demand drivers.

Three insights are worth noting. First, access to information emerged as much more of a problem than anticipated. Even for data that should not be subject to any restrictions of confidentiality or within government departments, limited data sharing and gaps and inconsistencies in record keeping implied an astonishing lack of awareness of what is happening on the ground even by the public sector institutions mandated to control this phenomenon. This lack or dispersion of information makes it difficult to exercise due diligence and to responsibly manage a valuable asset. More importantly, it makes it easy to neglect local people's rights and creates a lack of openness that can lead to bad governance and corruption and jeopardize investors' tenure security. Improving the quality of data recording could thus have high payoffs. Measures in this direction, straightforward from a technical point of view, are a priority for outside support in the short term.

Second, while some countries have transferred large areas to investors, the extent to which such land is actually used productively remains limited. Country collaborators had great difficulty identifying operating investments. In many cases, it appeared that investors either lacked the necessary technical qualifications or were interested more in speculative gains than in productive exploitation. Land taxation and the ability to revoke unused concessions, options available according to many countries' legislation but rarely exercised, should help to avoid such behavior. But gaps in information management imply that taxes are rarely collected. And the shortage of monitoring capacity, together with the fact that those involved are often powerful politically, implies that few concessions have been revoked. Impartial *ex ante* review of investors' technical proposals, which could be outsourced if needed, is a more cost-effective way to avoid having large tracts of land held in less than fully productive ways in expectation of speculative gains.

Third, it was surprising that in many cases the nature and location of lands transferred and the ways such transfers are implemented are rather *ad hoc*—based more on investor demands than on strategic considerations. Rarely are efforts linked to broader development strategies, careful consideration of the alternatives, or how such transfers might positively or negatively affect broader social and economic goals. Only in a very few cases have countries started to establish an inventory of currently uncultivated land with potential for cultivation, its suitability, its current use, and the rights to it. Without such information, it will be difficult to protect existing rights, attract capable investors, fully exploit potential complementarities between private investment and public goods, and ensure that the investment will contribute to poverty reduction and overall development. As agriculture is typically a very competitive business with thin margins, a more strategic approach to land transfers that first considers the relative allocation of land to different commodities will likely also be important for profiting from these investments.

The report is structured as follows.

Chapter 1—Land expansion: Drivers, underlying factors, and key effects.

The chapter quantifies past land expansion and, based on key drivers, highlights predictions for current and potential future demand for land expansion. It uses differences in regional experience to highlight how policy affects the nature, magnitude, and impact of investments and to demonstrate risks and opportunities. This is linked to determinants of the agricultural production structure and the implications for fair land valuations.

Chapter 2—Is the recent “land rush” different? To provide an answer to this question, we rely on press reports on demand for land, inventories of registered transactions, and case studies based on field visits to assess social impacts of actual investments on the ground. Media reports highlight the magnitude of investor interest, the pervasive implementation gaps, and the focus on countries with weak land governance. Project inventories point toward the overriding importance of policies, illustrated by differences in the amounts of land transferred and the number of jobs or land-related investment generated. Case studies show that investments can bring significant benefits, but that they can also impose high costs borne disproportionately by vulnerable groups. This implies that, in many cases, potential benefits from such transfers are not realized or outweighed by negative impacts. As such, measures may be needed to improve capacity on all sides and monitoring of actual outcomes to bring about improvements.

Chapter 3—The scope for and desirability of land expansion. The focus of the debate thus far has been almost exclusively on investors’ demand for land rather than the potential for expanding rainfed cultivated area or increasing productivity on currently cultivated area from a country perspective. Adopting the latter will help in at least two ways. First, it highlights the fact that any investments need to help countries achieve their development objectives rather than the other way around, that for many countries improving the productivity of smallholder farmers will have a much larger impact on poverty reduction than promotion of large-scale land acquisition, and that if a country decides that attracting investors is in its best interest, ways that such investments benefit local populations must be high up on the agenda. Geographically referenced data on land potential also allows to check whether investors focus on the most productive areas and fully use available potential and to identify hotspots that might attract investor interest in the future.

Second, it suggests how one might quantify, at the country level, the supply of land with unused agro-ecological and economic potential where cultivation would not eliminate environmental services or displace existing land users without their agreement. In addition to agro-ecological potential, this will require data on land rights and global public goods (for example, high biodiversity). In the absence of these, we map as a proxy the currently uncultivated, unprotected, and unforested land in areas of low population density (<5, 10, and 25 persons/km²)

agronomically suitable for rainfed cultivation of wheat, sugarcane, oil palm, maize, or soybeans at different levels of infrastructure access. We complement this with an assessment of the yield gap, that is, the percentage share of potentially attainable yields actually obtained on areas currently cultivated, to illustrate that area expansion will not always be the most desirable or beneficial option. Even if it is, benefits may be maximized by linking it to ways of increasing smallholder productivity (for example, through technology spillovers or market access). If technology is not widely used locally, this also implies a need for closer scrutiny of investors' technical proposals and more specific descriptions of how spillovers to local producers are expected to occur.

Chapter 4—The policy, legal, and institutional framework. If there is potential for sustainable agro-investment outcomes but outcomes are far from optimal, it is necessary to explore the framework under which these investments are conducted. Broad consensus exists that the framework governing large-scale land acquisition in sample countries should have five attributes:

- Legal recognition and actual demarcation of rights to land and associated natural resources and the way communities are consulted and decisions made.
- Representative mechanisms should ensure that transfers of rights to land and other resources are voluntary and that all interested parties are consulted, not captured by a narrow elite.
- Clear rules and impartial, open, and cost-effective mechanisms should guide interactions with investors.
- The investments' economic viability and consistency with broader goals of food security should be assessed and publicized.
- Adherence to standards for environmental and social sustainability should be ensured during project preparation and implementation.

Extensive review of arrangements in place in 14 countries helps identify good practice examples that have helped achieve good outcomes and thus can guide countries with weak frameworks. At the same time, it points to a large number of gaps that are likely to lead to some of the negative impacts observed in practice. Addressing these quickly, in a way that focuses on high priority areas and complements existing initiatives, will be critical if investments are to live up to their potential rather than cause significant damage and harm.

Chapter 5—Moving from challenge to opportunity. How can governments, the private sector, and civil society address the risks and respond to opportunities opened by large-scale investment? For governments, what is needed to provide the basis for strategic decisions is an assessment of the following:

- Current and potential future comparative advantage in terms of not only availability of suitable land but also infrastructure, evolution of the labor force and human capital, and anticipated changes in the environment

- The institutional framework for investors (and its implementation) and how consistent it is (and its implementation) with the goals of attracting serious investors, respecting land rights and sharing benefits with local people, and monitoring performance
- Potentially available land, existing claims to such land, and the scope and need for employment generation.

We developed a typology of countries by potential availability of land for rainfed cultivation and yield gap to help countries assess the extent to which large-scale investment will be an option and, if yes, how to shape such investment to contribute to national development. In many cases the most desirable mechanism for investment in the agricultural sector will be providing support to existing smallholders. If investment in land acquisition is desirable, attention will need to be given to the gaps identified in case studies and in the review of policy and legal frameworks. Although industry-led initiatives are not always simple to establish, drawing on them for technical guidance and building on accepted financial sector performance standards offer considerable potential. International institutions and civil society actors can complement this with effective mechanisms involving all stakeholders to monitor and improve land governance and increase disclosure and access to information. This would include dissemination, capacity building, and support to implementation and effective monitoring of a common set of standards. Debate on how to shape it, followed by concrete steps, will be a high priority.

NOTES

1. These countries are Cambodia, the Democratic Republic of Congo, Ethiopia, Indonesia, the Lao People's Democratic Republic, Liberia, Mozambique, Nigeria, Pakistan, Paraguay, Peru, Sudan, Ukraine, and Zambia.
2. These countries are Brazil, the Democratic Republic of Congo, Ethiopia, Indonesia, Liberia, Mexico, Mozambique, Nigeria, Pakistan, Peru, Sudan, Tanzania, Ukraine, and Zambia.

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