

CHARACTERISTICS, DRIVERS AND IMPACT OF DOMESTIC INVESTMENTS IN AGRICULTURAL LAND

Darryl Vhugen, Land tenure specialist

Workshop on “Responsible Land Governance and Domestic Investments
into Land and Agriculture: Do Existing Instruments Work, or Are We
Facing New Challenges?”

Brussels, 29 June 2017

I. Introduction

The “land rush” is typically said to have begun in 2008 during the world food and fuel crisis. Since as early as 2010, researchers and commentators have observed that, while most attention has been given to large-scale investments in land by foreign investors, domestic actors have been responsible for most land-based investments in many developing countries, especially if the analysis is not restricted to “large-scale” investments. For example, in 2011 the World Bank estimated that 80 percent of land transactions in some countries were made by domestic investors (Deininger et al., 2011).

Despite efforts by the Land Matrix and others, comprehensive data on land-based investments in agricultural land in low-income countries by domestic investors is largely unavailable. The Land Matrix is probably the best-known database of such investments but it focuses mostly on foreign investments and is limited to those of 200 hectares or more (Land Matrix 2017). The parcel size limitation alone leaves out a substantial number of domestic investments.

Thus, despite the recognition of the prevalence of investments by domestic investors, far less is known about such investments than about investments by foreigners. Important questions to which we have only incomplete answers include: How much land does this involve? Who are the investors? What drives the investments? What are the impacts on the communities where the investments take place? What affect do they have on overall agricultural productivity and food production? Importantly, what do the answers to these questions mean for policy makers and donors?

This short paper reviews what is known and what is unknown about domestic investments in agricultural land in developing countries. (It does not address the knowledge-base on non-land-based investments in agriculture by domestic investors.) It aims to lay the foundation for a discussion of the suitability for these domestic investors of existing principles and tools aimed at promoting and facilitating responsible investments as well as broader policy options for donors and others attempting to support economic growth, increased agricultural productivity and improved rural livelihoods in low and middle-income countries through investments in agriculture.

It is important to note at the outset that small-scale farmers account for the vast majority of investment in agriculture worldwide (FAO 2012). Therefore, such investments warrant much greater attention than they have received to date (Liu 2014). However, in this paper (and in the workshop) such investments are not a focus of the discussion. Thus, we use the terms “domestic”, “national” and “local” investments interchangeably to describe investments made by domestic (non-foreign) wealthy or influential individuals (elites, business owners, etc.) and/or companies.

II. Characteristics of Domestic Investments in Agriculture

While public attention over the past decade has focused mostly on a wave of foreign agribusiness investments, we know that domestic actors have been active in this space for far longer (e.g. Ouédraogo 2003; Ouédraogo 2006; Djiré 2007). Inventories of land-based investments at national levels show that domestic investors account for a significant share—sometimes even a majority—of the land area acquired for agricultural investment purposes (e.g. Deininger, et al, 2011; Cotula, et al, 2014; Liu 2014). Viewed more broadly, we know that domestic investments in agriculture are far greater than foreign direct investment in that sector (Liu 2014). But comprehensive data is unavailable.

A. An overview of domestic investments in agriculture in developing countries

A certain amount of country-level information on land-based investments in agriculture by national actors is available for some countries. For example, various studies in recent years have found that local investors accounted for 97% of the land area acquired in Nigeria, 95% in Benin, Burkina Faso and Niger, 78% in Sudan, 70 percent in Cambodia, 53 percent in Mozambique and 49 percent in Ethiopia (Robinson and Carson 2015; Liu 2014). Some observers maintain that national investors acquire more land for agricultural purposes than foreign investors in most developing countries (Liu 2014).

One trend associated with investment by domestic actors is the increase in the prevalence of medium-sized farms (5-100 hectares) in several African countries. Jayne, et al (2016) studied small-, medium-, and large-scale holdings of farmland in Ghana, Kenya, Tanzania and Zambia. In all countries, the data showed that the land area controlled by medium-scale farms exceeded the area controlled by large-scale farms. Importantly for our purposes, the growth in medium-scale farms is driven mostly by investment by national elites, as discussed below.

The emerging consensus that domestic investment in agriculture in developing countries is so widespread clearly suggests that policy makers, donors and others must develop a better understanding of the characteristics and drivers of these such investment. The available research suggests several challenges in doing so.

B. Good data is lacking

One challenge is the lack of comprehensive and accurate data. In their country-wide analysis of Mozambique, Di Matteo and Schoneveld encountered this problem. The authors analyzed investments using official government data and interviewed investors using a structured questionnaire. Their objective, in part, was to gain an understanding of agricultural investments without limiting the analysis to large-scale plantation projects largely driven by foreigners and which had been the subject of many other studies.

One conclusion they reached was that official data significantly understated the nature and extent of domestic investments. The official statistics showed Mozambicans were the lead investors in about 18% of the 416 investments for which the origin of the lead investor could be established. However, other data and the results of their investor survey revealed that the official government data vastly understated the number of local investors. Thus, while national-level official data recorded a total of 416 investments:

In Nampula and Zambezia [provinces] alone, 418 Mozambican investors received titles since 2002, while over this period only 74 from the entire country were registered with CPI/CEPAGRI [at the national level]. This highlights that domestic investment dynamics are not well covered by national-level trends analyses. Though perhaps smaller in size, data from between 2009 and 2013 suggests that in recent years domestic investors have been approximately four to six times more plentiful than foreign investments.¹

One reason for the lack of good data is that domestic investors are less likely to be regulated by government or seek assistance from investment promotion and other public agencies. Another is that individual domestic transactions tend to be smaller. This has allowed them to fly below the radar of many researchers who have focused on larger transactions, usually involving foreigners. (Zoomers and Quak 2013).

¹ Di Matteo and Schoneveld 2016 at 24

C. What do we mean by “domestic”?

It can be very challenging to separate foreign from domestic investments, “as they are often intertwined and complementary.”² Thus, how one defines “domestic” is important. In the Mozambique study, the authors did an in-depth review of 69 investments. While only 18 of the 69 were led by Mozambican investors about half involved national partners as majority or minority shareholders. This reflects a trend where foreign investors enter into various types of partnerships with national companies or elites with the foreign company often using the domestic partners as an entry point (Liu 2014). In Mozambique, the local partners are often companies controlled by senior government officials. Those officials can facilitate access to large areas of land and the necessary government approvals. The result is that foreigners who have Mozambican minority partners can acquire almost 3 times more land than those with no local involvement. But it can be difficult for researchers to identify the local investors who act as minority investors. In the Mozambique study, most lead investors responding to the questionnaire were unwilling to identify these sometimes “silent” domestic partners (Di Matteo and Schoneveld.)

In fact, the desire to partner with foreign investors may be one of the main drivers of domestic investment.

There is growing evidence that the surge in foreign interest in land is the driver behind domestic land acquisitions by urban elites. Nationals may acquire land with the aim of reaching a deal with foreign companies or acting as intermediaries between these companies and the local population. Their financial, economic and often political connections enable them to establish control over natural resources, and to position themselves at the interface with national or international companies. This also explains why, after purchasing the land, they rarely make follow-up investments to turn them into productive farms.³

Other possible drivers of domestic investment are discussed below.

C. Who are the domestic investors?

The available research suggests that national investors tend to be urban elites such as government officials, civil servants and business people who have little or no experience in agriculture. Many acquire land in peri-urban areas. However, research focusing on rural areas of southern and west Africa have linked land acquisitions by this urban elite with a decline in land available to local people in some of those areas (Koussoubé 2013; Zoomers and Quak 2013).

As noted above, the growth in medium-sized farms has been driven mostly by national investors. But most of these new medium-sized operations are not controlled by smallholder farmers who have been able to increase their holdings to at least 5 hectares. Rather, most of the new owners are “those who primarily lived outside the area and acquired land either through purchase or agreements with traditional authorities ... using capital earned from non-farm or civil service employment or as part of a government land development program.”⁴ More than half of these domestic investors identified in studies in Zambia, Malawi and Kenya lived in

² Liu 2014 at 18.

³ Zoomers and Quak 2013.

⁴ Jayne, et al, 2016 at 11.

urban areas and about one-third were rural elites. Most were men who worked in non-farm jobs, often as civil servants (Jayne, et al, 2016).

D. Drivers of domestic investment

Increased investment by domestic actors has been driven by several factors. One, as noted above, is the desire to partner with a foreign investor. A second is engaging in speculation to make money from increasing land values in peri-urban areas near fast-growing cities.

Third, some national investors have recognized investments in agriculture as potentially profitable business opportunities (beyond mere land speculation). Since as early as 2005, some domestic investors responded to higher food prices in the same way that foreign investors did, seeing an opportunity to take advantage of them to create profitable business enterprises. Others seek to profit from satisfying the demand created by fast-growing, increasingly affluent and urbanized populations who want a better and more diversified diet (Jayne, et al, 2016; Liu 2017).

A fourth driver is an attempt to leverage a shift in policy in some countries to an emphasis on commercialized agriculture. National land policies and agricultural programs that favor commercialized agriculture over smallholder farming favor larger farms and some local investors have sought to take advantage of such policies, incentives and programs (Jayne, et al, 2016).

II. Policy Implications

A. Impact on smallholders and local communities

In the developing world, smallholder farming families—of which there are 500 million or more—constitute the greatest number of investors in land and agriculture. They produce about ¾ of the food consumed in developing countries, supporting at least two billion people. Their productivity plays a key role in achieving food security and reducing poverty (Liversage 2010). Thus, the impact on smallholders of investments in agriculture by national investors is of critical importance.

Unfortunately, this impact appears to have received little attention from researchers and policy-makers. While a lot of work has been done to assess the impact of foreign investment, the same cannot be said of domestic investment. As one observer has written:

Yet, in most developing countries large domestic investors acquire more land than foreign ones and there is no evidence that these acquisitions are more respectful of the rights and interests of local communities. The research and debate on large-scale land acquisition should therefore include domestic investors more systematically and give them similar attention to foreign ones.⁵

There is concern that increasing investment in agricultural land by domestic investors may contribute to rising land scarcity for smallholders and other residents of rural communities (Jayne, et al 2016). There “are major concerns that land sales markets and the alienation of land from customary tenure systems (through title conversion) are improving relatively wealthy

⁵ Liu 2014 at 18.

investors' access to land at the expense of the smallholder majority."⁶ But the research on this point is incomplete and not definitive.

B. Effect on customary tenure rights and institutions

Closely linked to concerns that domestic investments are proving harmful to local communities and smallholders is the possibility that such investments are undermining customary tenure rights and institutions. Significant portions of customary land in many countries have shifted over time to land that is formally titled and governed by statutory tenure systems. Somewhat ironically, such conversions from customary to formal tenure rights in some cases appear to be facilitated by the very customary institutions they undermine.

Transfers of land from customary tenure to formal or informally privatized land appear to be associated with the rise of domestic investor farmers in at least some countries such as Zambia and Malawi. Where customary land institutions still exist, they appear to be increasingly utilized by wealthy outsiders as a means to acquire land. Negotiation with local authorities is often a relatively easy way for wealthy people to acquire land cheaply compared to buying land in statutory tenure areas where land values have already been bid up to market levels. This often (although not necessarily) results in a transfer of land from customary tenure (under the authority of chiefs or their representatives) to statutory tenure with freehold or long-term lease titles. One potential outcome of such trends is that less land is available as a birthright of future generations of people born in customary tenure areas.⁷

If domestic investments serve to accelerate the shift from customary to statutory tenure rights what is the long-term impact on smallholders, food security and overall sustainable development, especially in rural areas? We lack clear answers.

C. Productivity of domestically-owned farms

Little research also appears to have been conducted to assess the impact of national investment in agriculture on farm productivity. On the one hand, if, as some research has found, domestic investors tend to be urban elites with little or no experience in farming, how productive will these farms be? On the other, if government support for the commercialization of agriculture is a significant driver of domestic investment (and this support leads to more farm mechanization and application of modern agricultural technology), can we expect greater productivity from these farms? Again, we don't know.

D. Impact on women and marginalized groups

The impact of domestic investments on women, migrants and other marginalized groups is another area for which research is lacking. "As in the case of land acquisitions by foreign investors, the related increase in pressure on land has further implications for women and migrants, whose access to land is being reduced."⁸ There is evidence that large-scale investments by foreigners have tended to have an impact on women. Research on this subject has certainly increased since the beginning of the "land rush" in about 2008 but experts still describe such research as "limited" or "initial." (Hannay 2016). There do not appear to be any

⁶ Jayne, et al, 2016 at 17.

⁷ Ibid. at 15 (citations omitted).

⁸ Koussoubé 2013 (citations omitted).

studies that have focused specifically on the impact of domestic investments on women's land rights and status in the community. As with other policy areas, there is much we do not know.

E. Lack of data undermines policy-making

Perhaps obviously, these many unanswered questions cause policy-making difficulties for governments, donors and advocacy groups and others.

Under the status quo, African governments cannot monitor, much less understand, how farm structure is changing over time. Similarly, policy makers cannot adequately address such routine questions as the magnitude and location of marketed agricultural surplus. These questions are certainly important for guiding strategic policy decisions aimed at stimulating agricultural growth, reducing rural poverty, and managing strategic food reserves and trade policies.⁹

Making policy on land and agricultural development in such an "information vacuum" is in no one's interests (Jayne and Sitko 2014).

III. Conclusion

The lack of reliable, comprehensive data on the characteristics, drivers and impacts of domestic investments in agriculture in developing countries obviously makes it more difficult to assess the suitability of the various responsible land-based investment principles, guidelines and tools for domestic investors. It will be important to fill this "information vacuum" as all affected stakeholders seek to ensure that all investment in agriculture—by both foreign and domestic investors—is conducted in a socially acceptable and financially acceptable manner.

IV. References

Cotula, Lorenzo, et al. 2014. Testing Claims About Large Land Deals in Africa: Findings from a Multi-Country Study. *Journal of Development Studies*.

Deininger, K., Byerlee, D., with Lindsay, J., Norton, A., Selod, H., Stickler, M., 2011. *Rising Global Interest in Farmland: Can It Yield Sustainable and Equitable Benefits?* Washington, D.C.: World Bank Publications.

Di Matteo, F. and Schoneveld, G. C. 2016. *Agricultural investments in Mozambique: An analysis of investment trends, business models, and social and environmental conduct.* Working Paper 201. Bogor, Indonesia: CIFOR.

Djire, Moussa. 2007. *Land Registration in Mali: No Land Ownership for Farmers?* IIED. London.

FAO 2012.

Hannay, Leslie. 2016. *What Do We Know about Gender and Large-Scale Land Acquisitions?* Land Portal (<https://landportal.info/blog-post/2016/02/what-do-we-know-about-gender-and-large-scale-land-acquisitions>).

⁹ Jayne, et al, 2016 at 19-20.

Jayne, T.S., and Sitko, Nicholas J. 2014. Structural Transformation or Elite Capture? The Growth of “Emergent” Farmers in Zambia. *Food Policy*, Volume 48, October 2014, Pages 194-202 (<http://www.sciencedirect.com/science/article/pii/S0306919214000803?via%3Dihub>).

Jayne, T.S., et al, 2016. Africa’s Farm-Size Distribution Patterns: The Rise of Medium-Scale Farms. *Agricultural Economics*, Vol 47(s), 2016.

Koussoubé, Estelle. 2013. Land Purchases by Elites: The Other Face of Land Grab in Africa? BSI Economics (<http://www.bsi-economics.org/222-land-purchases-by-elites-the-other-face-of-land-grab-in-africa>).

The Land Matrix. <http://www.landmatrix.org/en/>

Liu, Pascal. 2014. Impacts of Foreign Agricultural Investment on Developing Countries: Evidence from Case Studies. UNFAO. Rome.

Liu, Pascal. 2017. Does the End of High Food Prices Mark the End of the Global Land Rush? Thompson Reuters Foundation (<http://news.trust.org/item/20170118102704-ks7qe/>).

Liversage, Harold. 2010. Responding to “Land Grabbing” and Promoting Responsible Investment in Agriculture. IFAD. Rome.

Ouédraogo, Moussa. 2003. New Stakeholders and the Promotion of Agro-silvo-pastoral Activities in Southern Burkina Faso: False Start of Inexperience? IIED Issue Paper 118. London.

Ouédraogo, Sayouba. 2006. New Actors and Land Acquisition Around Lake Bazega, Burkina Faso. IIED Issue Paper 138. London.

Robinson, Guy M. and Carson, Doris A., editors. 2015. *Handbook on the Globalisation of Agriculture*. Edward Elgar Publishing, Limited. Cheltenham, UK.

Zoomers, Annelies and Quak, Evert-Jan. 2013. Untangling the Myths of the Global Land Rush. The Broker Online (<http://www.thebrokeronline.eu/Articles/Untangling-the-myth-of-the-global-land-rush>)