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Rising Global Interest in Farmland and the Importance of Responsible Agricultural Investment

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There are one billion hungry people worldwide. The food and fuel price spike in mid-2008 and continuing price volatility have underscored the vulnerability of the world's food system to shocks – such as the losses in crop production in the summer of 2010 that prompted Russia to ban wheat exports, leading to an increase in wheat prices of more than 70 percent in five weeks. These price spikes have had a number of repercussions, including a desire by countries dependent on food imports to secure food supplies in the face of uncertainty and market volatility, speculation on land and commodity price increases, and a search for alternative energy sources. These factors have prompted a sharp increase in investor interest in acquiring significant quantities of farmland, water, and forested areas in both developing and emerging countries.

Some see this phenomenon of large-scale land acquisition as an opportunity to overcome long term underinvestment in agriculture, catalyze technology and skills transfers, increase agricultural productivity, and reduce poverty. Such investments could allow countries with abundant or underutilized land and large yield gaps to gain access to technology, increase employment, and create the preconditions for sustained and broad-based development. Others point to the risks as eagerness to attract investors, where land and resource rights are ill defined and institutional capacity is weak, could result in conflict, and environmental damage.

If the world is to deliver on its goal of halving poverty and hunger by 2015, developing countries need to boost agricultural productivity, improve access to food markets, decrease vulnerability to agricultural risks, and create better and more sustainable rural livelihoods. Foreign investment can play a role in helping developing countries meet these goals. But there is an urgent need to attract not just more investment, but better investment that contributes to sustainable agricultural growth in the host country.

The World Bank's work on land policy and administration and responsible agricultural investment or "agro-investment" builds on its commitment to support country efforts to improve agriculture's contribution to food security, create wealth among the poor, facilitate economic transformation, and provide environmental services. The World Bank is especially concerned that such large-scale resource acquisitions do not disadvantage smallholder farmers, who depend on land for their livelihoods.

Photo: Tran Thi Hoa

RISING INTEREST IN FARMLAND: CAN IT YIELD SUSTAINABLE AND EQUITABLE BENEFITS?

While the issue has been hotly debated, this debate has suffered from two main weaknesses. On the one hand, there has been a dearth of rigorous empirical analysis of what is happening on the ground. On the other hand, most attention has been focused on investor demand rather than on the availability of potentially cultivable land and countries determination of whether larger-scale farming could complement smallholder agriculture to promote broad-based rural development. The report ***Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?*** responds to these issues. It reviews global trends of land expansion as well as empirical evidence on land acquisitions in 14 countries between 2004 and 2009: Brazil, Cambodia, Democratic Republic of Congo, Ethiopia, Indonesia, Liberia, Lao PDR, Mexico, Mozambique, Nigeria, Peru, Sudan, Ukraine, and Zambia.

This is complemented by a review of the policy frame-work and an assessment of global land availability based on agro-ecological simulations.

Rising Global Interest in Farmland points to examples where investment provided large and sustained benefits to local populations. In many cases however, desired benefits were not achieved. Especially in Africa,

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investments often did not achieve their full potential in terms of productivity and poverty reduction because of:

- Weak land governance and a failure to recognize or protect local communities' land rights;
- Lack of country capacity to process and manage large-scale investments;
- Investor proposals that were insufficiently elaborated or technically non-viable; and
- Lack of a development strategy to determine whether large-scale investment can be instrumental in helping the host country to achieve its development objectives, and if it is suitable, where and how investment can contribute to those objectives.

Additionally, in many countries, a widespread lack of information makes it difficult for public institutions to properly do their jobs. Without addressing this lack of information, even the most progressive regulations will be difficult or impossible to enforce, corruption can flourish, and it will be difficult to attract serious investors. It will be critical to increase access to information and establish ways in which it can be used to enforce regulations and allow open debate to inform policies and regulations, in addition to strengthening governments' own structures and making data publicly accessible.

The report also identifies the 'yield gaps,' the amount by which a country's actual production falls short of its potential production. Yield gaps, together with the amount of land that is available for expansion is used to classify countries into a series of four broad typologies (box 1).

BOX 1: TYPOLOGY OF COUNTRIES ACCORDING TO POTENTIALLY AVAILABLE LAND AND YIELD GAP

Type 1: Little land for expansion, low yield gap. In countries with high population density and limited land available for cultivation, agricultural growth is driven by highly productive smallholders with increasing access to investment capital, technology, and markets through contract farming. As the agricultural labor force declines, efficient land markets can facilitate land consolidation.

Type 2: Suitable land available, low yield gap. In countries where land is relatively abundant and technology, infrastructure, and human capital relatively advanced, the public sector should establish and maintain an appropriate regulatory framework for efficient factor markets and the protection of areas with high social or environmental values.

Type 3: Little land available, high yield gap. In countries with little cropland available, low yields, and high population density, increasing agricultural productivity will require effective public investment in technology, infrastructure, and market development. To effectively reduce poverty, private investment should target smallholders, particularly where non-agricultural employment is scarce.

Type 4: Suitable land available, high yield gap. In countries with low population density and low yields, smallholder expansion may be limited by labor supply. It may be appropriate to encourage outside investors to introduce labor-saving mechanization on large farms. The public sector should actively promote contractual arrangements that generate multiplier effects benefitting local smallholders.

Review of the policy, legal, and institutional frameworks also leads the report to conclude that a key reason for limited success of large-scale investment to date is the significant gaps in the laws, policies, and institutions that govern such investments. It notes that most dangers could be avoided if there are well defined rights to use and occupy land and greater accountability on the part of governments and investors.

BOX 2: EXAMPLES OF EFFECTIVE METHODOLOGIES

The report provides a number of examples of methodologies which have been used effectively on the ground. These include the following.

- Securing local land rights, participatory mapping, and land use planning in Mexico and Tanzania;
- Transparent land transfer mechanisms involving consultation with local communities in Argentina and Peru;
- Community consultation and internal decision making mechanisms in Mexico;
- Processing of investments and use of taxes, payment for environmental services, and other incentives in Indonesia; and
- Ensuring compliance with environmental safeguards in Brazil.

MOVING FORWARD: OPPORTUNITIES FOR ACTION

The World Bank's empirical analysis from *Rising Global Interest in Farmland* concludes that effective responses to increased pressure on land requires both government leadership in host and source countries, as well as input from a wide range of stakeholders, including private sector operators, civil society organizations, and international institutions. Each has a critical role to play.

A) Governments

For governments, the policy, legal and institutional frameworks will determine their ability to enhance opportunities. Specifically, the evidence is that countries should:

A1) Identify strategic priorities and assess whether, given available resources and necessary trade-offs, large-scale investments could contribute to employment generation, food security, regional and smallholder development, and technology transfer.

Identify public infrastructure or technology investments that could complement private sector efforts through a participatory process of land use planning. Such a process would also enable land holders to determine whether they want to transfer land to investors.

Review and refine investors' incentives in order to promote positive outcomes—examples include encouraging investment in areas where land rights have been clarified or infrastructure is in place, or offering tax holidays only after certain milestones are achieved.

Inform and educate communities in both urban and rural areas, ideally through a participatory dialogue that includes all stakeholders and draws lessons from experience.

A2) Improve land governance to ensure that the pressures from higher land values do not lead to dispossession of existing rights.

Ensure existing rights, including user rights, are sufficiently protected to create the basis for voluntary transfers.

Have state land identified geographically and ensure that mechanisms for its management, acquisition, and divestiture, as well as the imposition of land use restrictions, are transparent and justified.

Make information on land rights that is complete and current available to all interested parties in a cost-effective manner.

Ensure that accessible mechanisms for dispute resolution and conflict management are in place.

A3) In countries where large-scale land transfers are deemed appropriate, improve the capacity of government institutions to administer and manage large-scale land transfers and learn from experience through a variety of mechanisms, including **an audit of existing contracts**. Such analyses could provide guidance on appropriate regulations and standards, environmental safeguards, and ways to ensure that approved investments are economically viable and that they generate local benefits.

Most commonly, capacity building is required in order to:

Establish effective consultation that enables representative participation, provides relevant information, records reservations and decisions, and develops an agreed approach to monitoring and remedies.

Streamline and review institutional responsibilities in order to strengthen coordination between agencies and their capacity to develop and monitor transparent land transfer mechanisms as well as design environmental and social assessments.

BOX 3: USING AUCTIONS TO TRANSFER PUBLIC LAND IN PERU'S COASTAL REGION

Peru uses a public auction mechanism to divest public lands for investment. The government first regularizes any land rights to determine if anyone has claims to it that may need to be respected. This also enables to government to determine what types of rights are eligible for transfer.

When the government initiates the auction, the intention to divest the land and the terms of the bidding are published publically for at least 90 days. Bidders must prequalify for the auction by posting a bond of at least 60 percent of the minimum bid price plus the intended amount of investment. The successful bidder must deposit the land payment and a letter of credit covering the proposed investment amount with the government.

Where an investor expresses interest in public land, the investor is required to present a business plan to a board of public and private sector specialists. If the project is considered viable, the proposal is published for at least 90 days to allow other investors to present offers. If any investor comes forward, the public bidding process above is initiated. If no other investor shows interest, the initial investor can proceed.

Auctions of 235,500 hectares brought almost US$50 million in investment to Peru's coastal regions over the last 15 years, generating large numbers of jobs and underpinning the country's emergence as a major force in high-value agro-exports.

Develop more open modalities of land acquisition such as, the auction model as practiced in Peru, while identifying and protecting indigenous people's rights.

Strengthen records management including, for example, developing and maintaining an inventory of state land and transfers in a central database—a task that can be conducted at lower cost with the benefit of new technologies.

Strengthen technical review and screening of proposed projects as part of due diligence.

B) The Private Sector

Leading companies in the private sector have recently devoted increased attention to principles, guidelines, best practices, and voluntary codes intended to guide large-scale agricultural investments. In other sectors, such leadership is typically followed by the consolidation of approaches taken by key companies into harmonized sets of private standards coupled with certification and compliance systems, eventually integrated with a target country policy and regulatory frameworks.

In an effort to complement the Food and Agricultural Organization (FAO) of the United Nations, the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD) and World Bank Group initiative in formulating Responsible Agro-investment Principles, the authors of ***Rising Global Interest in Farmland*** sought to identify efforts that could be effective in setting and implementing standards relating to environmental and social sustainability. In particular, the study focused on cases in which large transfers of rights and large-scale agricultural investments were involved, whether those transfers took place through leasing, purchase, or other tenure arrangements.

In considering industry standards regarding land acquisition, active government participation is critical in order to effectively translate experience into broad policy reform and to fully integrate those standards in a country's policy and regulatory frameworks. Further, there remains a need for principles with focused, specific criteria founded on experience, plus realistic disclosure mechanisms, third-party verification, and effective enforcement mechanisms.

C) Civil Society and Local Governments

Civil society and local governments can build critical links to local and indigenous people's communities and:

- **Educate** communities to assist them in effectively exercising their rights;
- **Assist in the design**, negotiation, implementation, and monitoring of investment projects where requested; and
- **Act as watchdogs** to critically review projects and publicize their findings to hold governments and investors accountable and provide input into formulation and revision of country strategies.

D) International Organizations

International organizations could support countries to maximize opportunities and minimize risks from large-scale and acquisition by:

- Assisting countries to **integrate information** and analysis on large-scale land acquisition into national strategies;
- Offering **financial and technical support** for capacity building;

- **Supporting stakeholder convergence** around responsible agro-investment principles—for all stakeholders—that can be implemented and monitored; and
- **Exploring mechanisms** that disseminate information and good practices on management of land acquisitions based on the experience of existing initiatives. The Extractive Industries Transparency Initiative model is one possible, but imperfect, model that could inform the design of a new approach.

BOX 4: A FORUM TO IMPROVE LAND GOVERNANCE

Rising global interest in farmland highlights the challenges posed by the dearth of information on recent investments and the fact that stakeholders suffer from a lack of such information. Lack of information on actual land use, existing rights, and land suitability prevents governments from devising proper strategies, revising them as they go along, and ensuring that policies are actually implemented (or identifying why they are not). It hurts investors who want to know where opportunities for investment are available on different terms and what approaches and technologies have worked and which did not in the past. Without written agreements, communities and civil society lack the ability to ensure that investors keep their promises and to assess whether policies are effective or not.

Information gathered in the context of a country-level, multi-stakeholder, land-governance initiative could be used not only for independent monitoring by communities and civil society. Increasing the availability of information on recent and proposed land transfers could also help all concerned to more effectively capitalize on the opportunities presented by increased global interest in land by allowing for continued feedback to decision-makers in the public and private sectors.

PRINCIPLES FOR RESPONSIBLE AGRO-INVESTMENT

The *Rising Global Interest in Farmland* report is one example of the World Bank's commitment to informing debate and understanding of agricultural investment trends and their impacts on economic growth and poverty reduction. As an additional input into this discussion, the World Bank has worked with FAO, IFAD and UNCTAD, and more recently with an expanding set of governmental, non-governmental, and private partners, to help ensure that responsible investments are carried out through the formulation of a set of principles to help governments, investors, communities, and other interested stakeholders to facilitate "responsible agro-investment that respects rights, livelihoods, and resources." The principles address:

- respecting land and resource rights;
- ensuring food security;
- ensuring transparency, good governance, and a proper enabling environment;
- consultation and participation;
- responsible agro-enterprise investing;
- social sustainability; and
- environmental sustainability.

Private investment can provide opportunities to upgrade technology, improve market access, and increase employment—all pre-conditions for sustained and broad-based development. Private investment in agriculture has significant potential to complement public investment in the sector. Countries with reasonably well functioning markets have derived significant benefits from private agro-investment in the form of better access to capital, technology and skills, employment generation, and productivity increases. Contract farming, other outgrower arrangements, and joint ventures with local communities in which the commercial arrangement relies principally on access to the fruits of the land may often offer a better combination of risk and reward sharing than direct ownership, leasing, or other means of control over productive resources.

Discussions about the risks and opportunities that large-scale investment in land entails will continue. The World Bank intends to inform these discussions, providing principles and standards to guide the investment, and identifying ways to encourage buy-in among a wide range of actors. The actors include communities, civil society organizations, government institutions, development agencies, and private investors. There is a diversity of investors, both private and public.

They include operating companies in the agro-food, biofuels, and extractive industries; institutional investors such as pension funds and insurance companies; private equity funds; governmental or government-linked companies such as sovereign funds; and individual entrepreneurs. Each is different and investment objectives, time horizons, expectations of returns, appetite for risk, and stakeholders. Industry know-how varies widely across this cohort of actors.

As part of this initiative, an interactive, web-based ***Knowledge Exchange Platform for Responsible Agro-Investment*** was released in April 2010. The Platform offers a toolkit of resources that brings together examples of relevant research, analysis, principles, guidelines, tools, and best practices from multiple sources on the issue of responsible agro-enterprise for global reference and discussion. This site will continue to be updated.

NEXT STEPS

Multi stakeholder E-discussion: Recognizing the significance of this important and complex issue, and that the World Bank Group is only one of many organizations engaged in this work, an open e-discussion hosted by the Global Donor Platform for Rural Development and facilitated by the International Institute for Sustainable Development will take place in September 2010. The discussion will focus on policy recommendations that might emerge from empirical research.

Applying the principles operationally in cooperation with leading organizations and firms on the investor side: With the support of networks, associations, or programs that are industry-driven yet not directly engaged as investors, the World Bank and other international agencies will work toward mainstreaming the RAI Principles and adapting them to different industries or contexts, in close consultation with other stakeholder groups, including NGOs.