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Uncertainty about the Future Impacts of Large Land Acquisitions by International Investors in Africa, with Ethiopia as a Case

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CLTSUMB

CENTRE FOR LAND TENURE STUDIES

Overview: Multiple Perspectives

- Global perspectives, change and actions
- Historical perspective
- Uncertainty/Risk Perspectives
- Stakeholder Perspective
- Economic Development (Welfare) Perspective
  - Economic development potential
  - Food security
  - Poverty Reduction
- Rights perspectives (land -, human -, labor -)
- Sustainable Land Use/Env. Conservation Perspective
- Land Governance Perspective
- Political Economy Perspective

New Demand for Land in Africa ("Land Grab")

- 20x increase in demand the last 5 years
- This demand increase has come suddenly in low population density areas where land rights tend to be poorly specified
- The local population may easily be marginalized to the benefit of investors
- Weak institutions
- Many African leaders see this as a development opportunity but may lack knowledge about the vulnerability of the ecosystems in these areas
- Questionable also whether the investors have the necessary knowledge & competence to carry out sustainable agricultural production
- High need to develop the governance competence to properly regulate the activity

Land Governance and Actors

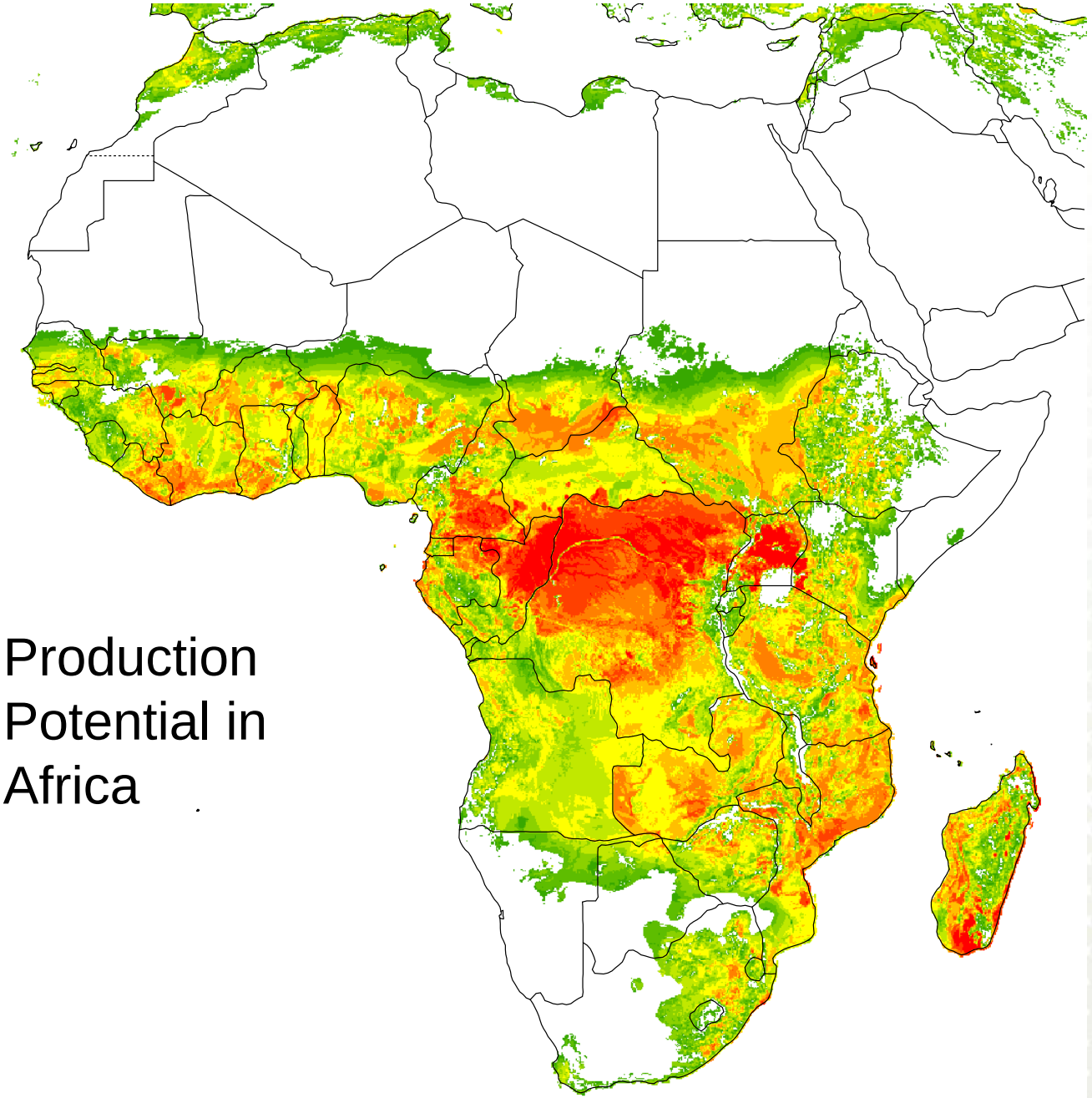
- Key stakeholders
  - National and local governments
  - Local populations
  - International investors
  - International organisations
  - NGOs/Media

Uncertainty/Risk perspectives

- Global market risks/price variability
- Climate risks
- Sustainability of land use/Environmental risks
- Human risks
- Economic risks (Private, social)
- Political stability/corruption/governance risks

Is Large Scale Farming More or Less Sustainable than Small Scale Farming in the Tropics?

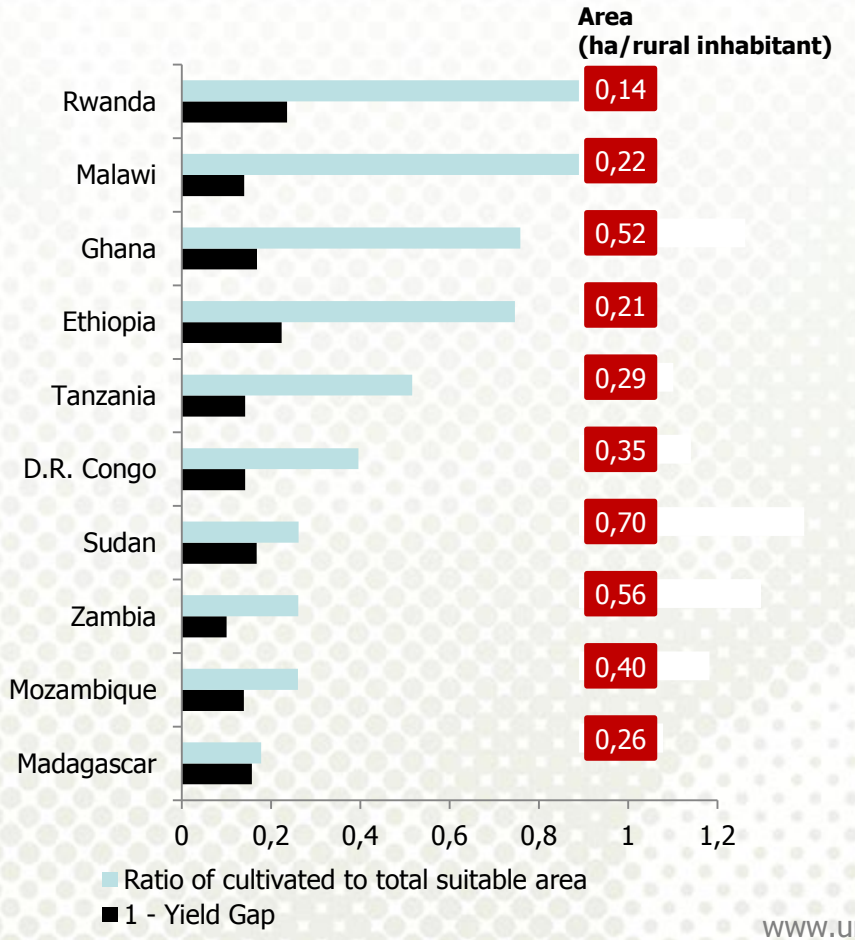
- The Ecosystem Risk is Higher the Larger the Intervention
- Monoculture is more Vulnerable than «Mosaic-like» Smallholder Production
- Mechanisation involving Removal of Trees with Roots and Tillage can Create a Lot of Damage to Tropical Soils (uncontrollable erosion, loss of organic matter, acid soil effects)
  - Example: Zamcan in Norther Zambia,
- Insufficient Knowledge about Ecosystem Characteristics in a Rapid Scaling-up Phase can give Uncomfortable Surprises.
  - Example: Karuturi Global in Gambella, Etiopia
- Smallholder Production may also not be Sustainable



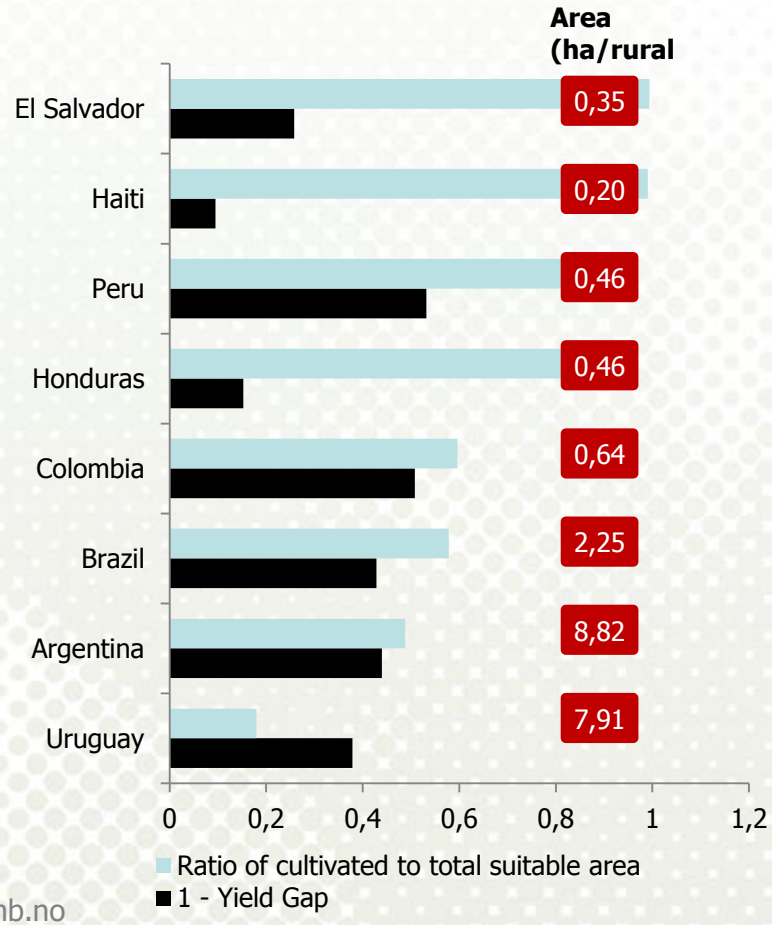
Production Potential in Africa

Land availability and productivity

Africa



Latin America & Caribbean



Power Structures and Property Rights: Post-colonial Africa

- Some common characteristics:
  - Leaders try to stay in power/Many regimes are not very democratic
  - Corruption is widespread (weak institutions)
  - Land distribution based on historical conditions and public land registries are missing or in poor shape
    - Leave room for rent-seeking
  - Traditional rights to land are often unrecognized (not formalised)
  - Many attempts of land titling
    - Faced problems with elite capture
    - The poor were often marginalized

How important are full private property rights to land for African agricultural development?

- China does not yet have private property rights to land and has anyway had the strongest economic growth and economic development of any country ever
- Can weak private property rights be important to allow expropriation of land for development investments and make it available for investors at a low cost?
- Can long-term lease contracts be a better way to stimulate investment as investors do not have to buy the land first as more of their capital can be used on complementary capital?
- Can long-term lease contracts with investors also enable the state to have better control over investors and impose sanctions if the contract agreement is violated?

Paul Collier: Smallholder agriculture is unproductive and needs to be replaced with more efficient large-scale commercial agriculture

- He believes in economies of scale in agriculture
- Africa has abundant land but there is a scarcity of foreign investors:
  - Pioneers are needed
  - Risks are high
  - Governments should subsidize the pioneers
  - Monitor and regulate them
- I will question his simplified «Economies of scale» argument

Are there economies of scale in tropical agriculture? I

- Distinguish sparsely populated and densely populated areas
  - Large scale is most relevant in sparsely populated areas with sufficient rainfall/water access
- Such areas are typically characterised by:
  - Poorly developed infrastructure
  - Weak institutions, including property rights
  - Extensive utilization of land resources
  - Simple technology
  - Imperfect/missing markets due to high transaction costs
  - Vulnerable ecosystems with climate risk («covariate risk»)
  - Poor population

Are there economies of scale in tropical agriculture? II

- Binswanger et al. (1986; 1987; 1989): Production relations in Tropical Agriculture, Byerlee (2012).

Power, Distortions, Revolt, and Reform in Agricultural Land Relations (Binswanger et al. 1995)

- Family farms often have higher land productivity than large farms that depend on hired labor,
  - Due to imperfections in markets for labor and land
- Power structures,"policy distortions" and naïve belief in economies of scale («Big is Beautiful») explain the existence of many large farms in tropical agriculture, e.g. Tobacco estates in Malawi up to 1990+
- Economies of scale are mainly related to processing, coordination of harvesting and marketing, while mechanisation of production often is unprofitable

Historical and more recent studies of plantation crops

- Many of them can be efficiently produced by smallholders, e.g. through contract farming (coffee, tea, rubber, oil palm, cotton) while processing and marketing is done by larger units
- There are no economies of scale in food crops
- Mechanization of production is profitable only when labor is more expensive
- The new high demand for land therefore implies an important employment opportunity in Africa

Is Large Scale Production a potential threat to the poor's rights (Food security, employment, land rights)?

- For countries with weak institutions (which is the case for most African countries), the answer is YES
- Most of the new land allocations to international investors are in areas where the institutions are weakest (Arzeki et al. 2011)
- Over-lapping land rights in e.g. Mozambique and Ghana
- Forced resettlement
- Expropriation with very little compensation
- There is an urgent need to strengthen "Land Governance" in many of these countries

Can there be synergy effects between «large scale» and «small scale» production?

- There are many bottlenecks/constraints that make agricultural development difficult in Africa
  - Lack of capital, infrastructure, knowledge, market access, access to factors of production, technology, labor, etc.
  - There is a need to reduce the risk related to weak institutions and natural hazards
  - Need to coordinate investments and activities
  - Need to utilize economies of scale in processing and marketing
  - Need to provide employment and food security for rapidly growing populations
- This implies that there exist potential synergy effects that should be attempted utilized. Can Contract Farming be a solution?

Challenges Related to Contract Farming

- Quality standards for the produce
- The need for rapid scaling up of the production related to economies of scale in processing and marketing and to recover large inital investments
- Poorly developed labor markets, shortage of labor in the neighborhood
- Need for training of contract farmers
- Unclear and insecure prorperty rights to land
- Capital needs in the production
- Production and market risks
- The level of trust between investors and contract farmers

the emergence of

LAND MARKETS IN AFRICA

Impacts on Poverty, Equity, and Efficiency

edited by ***Stein T. Holden,***
Keijiro Otsuka & Frank M. Place

Land markets in Africa: Conclusions up to 2008

- Important to distinguish between countries with inegalitarian land distribution and countries with a more egalitarian land distribution
  - Land markets increase the access to land for land-poor in countries with skewed land distribution (e.g. Uganda, Malawi, Kenya)
  - Rental markets for land transfer land to households with more non-land resources in countries with egalitarian land distribution (e.g. Ethiopia, Eritrea)
  - Rental markets for land are good for the poor in both types of countries
  - Land policies should aim to stimulate land rental markets because it enhances both productivity and equity
  - Removal of restrictions on land rental that are common in many countries is the best way to achieve this.
- This was based on data from before 2008

Ethiopia

- Was never colonized
- Population 85 million
- 7-8 million need food aid every year
- One of Africa's poorest countries but strong economic growth in recent years
- 14 million ha land cultivated (14% of the area)
- Additional 4 million ha targeted for investors for cultivation

Ethiopia – with 9 regions

The Radical Land Tenure Reform of 1975 and the Derg Period

- All land is state land
- All residents in a community have a constitutional right to access land
- Land was distributed in an egalitarian way within communities
- Maximum farm size of 10 ha
- Land and labor markets were illegal
- Land redistributions to maintain the egalitarian land distribution

1991 Change in Government and More Market Friendly Reforms

- Land remained state land
- Land renting and labor markets were allowed
- Land sales and mortgaging of land remained illegal
- New Federal land law 1998 followed by Regional Land Laws in the four most populated regions

The 1975 reform resulted in substantial land fragmentation

Land Registration and Certification 1998-

- Low cost approach:
  - Local tools (ropes for measurement)
  - Strong local participation
  - Whole community approach
  - Border demarcation with neighbors as witnesses
- Started in Tigray, then Amhara, Oromia and SNNP regions
- Granted user rights to land into perpetuity

Land certificate

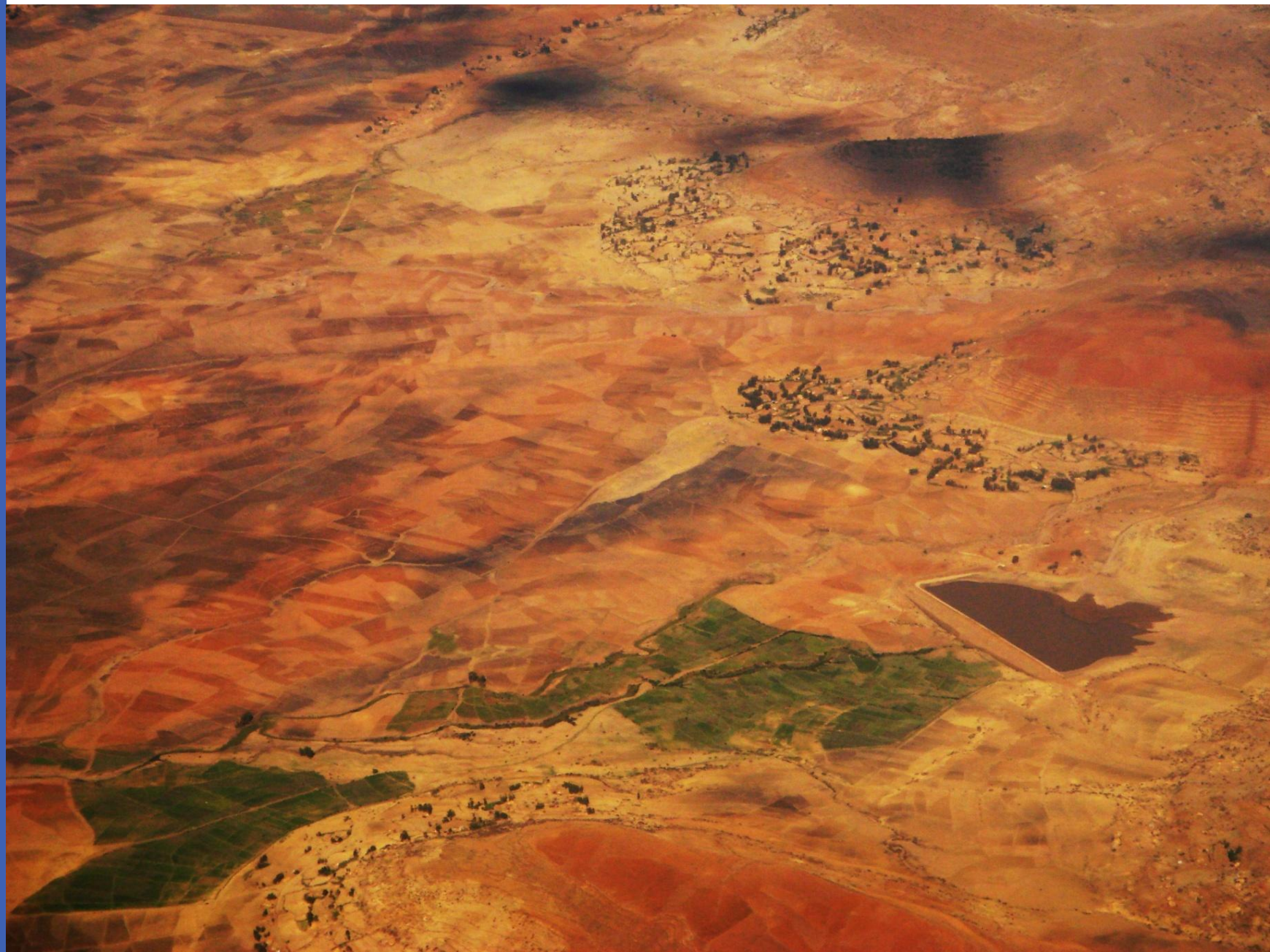
Ethiopia – with 9 regions

Our research: Impacts of low-cost land registration and certification

- Low costs
  - 1 US$ per farm plot, 3,5 US$ per household)
- Reduced number of land disputes
  - Border demarcation with neighbors as witnesses
- Increased investment – increased tenure security
  - More tree planting
  - Better conservation of land
- Increased land productivity (+40%)
- Increased welfare especially for female-headed households
  - Rent out their land and earn more
  - Increased consumption by 5-10% per year they have had their land certificates (1999-2006)
- Near 10 millioner households have received land certificates in 12 years!

Ox-cultivation still dominates Ethiopian agriculture

Tigray landscape with irrigation dam



Smallholder Agriculture on Currently Cultivated Land Cannot Meet the Future Needs of the Country

- Population Growth in the Highlands
- Shrinking Farm Sizes
- Increasing Youth Unemployment
  - 2 million new jobs needed every year
- Migration Expanding
- Need Employment Intensive new Opportunities

Foreign Investors

- Have been allocated large land areas in regions where land registration and certification has not yet been implemented
  - Low population density, lowland with malaria and sleeping sickness, but with good soils
- Formally the State owns all land and writes contracts with the investors
- The local population's traditional rights have a very weak status where registration has not taken place
  - Forced local resettlement

What do the Lease Contracts State?

- Duration of 40-50 years
- The Lessor is the Government of Ethiopia by the Ministry of Agriculture and Rural Development
- The land rent is very low, 1-10 US$/ha per year
  - But the lessor can increase the rent
- The areas must be developed within a short time period
- The lessee must undertake/organize Environmental Impact Assessment
- The Lessor (GoE) is responsible for making the land available and ensuring «social order»
- The investors must make large (risky) investments initially
- The investors have tax exemption the first 5 years
- The contracts can be terminated by both parties with a 6 months warning
- Conflicts should be resolved in the Ethiopian Federal Court based on Ethiopian laws

Ethiopia's Prime Minister Meles Zenawi:

- Ethiopia has made more than 4 million hectares of "fertile and unutilized" land available for agricultural companies that meet government requirements
- About 300,000 hectares have been leased for commercial farming so far
- New land will only be allocated to applicants who submit "proper" business and land-use plans, manage the environment and provide jobs for local citizens
- Meles denies accusations by advocacy groups including the Oakland Institute that communities in western Ethiopia are being forcibly evicted to make way for investors. "The bulk of resettlement is happening on the opposite end of where the private sector investment in agriculture is happening,"

Karmjeet Sekhon, project manager for Indian food company Karuturi Global, Gambella Region

Photograph: John Vidal, The Guardian

"It's very good land. It is very cheap. We have no land like this in India. In three years time we will have 300,000 hectares cultivated and maybe 60,000 workers. We could feed a nation here."

WEL COME
KARUTURI FARM

Mohammed al-Amoudi

Ethiopian-born al-Amoudi is ranked by Forbes magazine as the world's 63rd-richest person and was worth $12.3 billion in March

- Saudi Star Agricultural Development Plc has leased 10,000 ha in Gambella region, aims to lease an additional 290,000 hectares. Plans to produce rice
- Derba Group, an amalgam of three Ethiopian companies said it plans to invest 59 billion birr ($3.4 billion) in seven industrial projects over the next five years
- Invest in cement, steel, agriculture and transport operations, -may generate annual revenue of 41 billion birr and create more than 370,000 jobs

Conclusion

- «The Devil is in the Details»
- Both investors and national governments are climbing steep learning curves and can commit serious mistakes with large long-run negative effects
- Here is a large agricultural development potential (+ food security, + employment opportunities) but the difficulties related to releasing it tend to be underestimated, this requires
  - Good Governance
  - Investement in relevant knowledge
  - Highly skilled and responsible investors
  - Local participation and transparency
- Ethiopian authorities should proceed with caution and allow careful research to reduce the high risks

High Need to Strengthen Competence and Capacity

- Internatonal institutions have an important role:
  - The World Bank, FAO, UN-HABITAT ++
- Universities can help to build competence and do research
- It is important that national government representatives as well as NGOs and Media contribute to informed and constructive dialogs to reduce the risks of violent conflicts
- Formalisation of property rights may become a more important policy instrument to strengthen the poor's land rights
  - Our research in Ethiopia shows that it is possible!