

## Investment in Agriculture: Land grabbing or Creating Shared Value?

*The perspective of SAAF*

***SNS Impact Investing manages the SNS African Agriculture Fund (SAAF). This fund focuses on investing in farmland, agribusinesses and agricultural infrastructure in Sub Saharan Africa. Targeted investments are characterized by both a market based return and social outcomes.***



### **The investment case**

The global demand for food is expected to double in the next 40 years. The corresponding higher food prices and the huge production potential in Africa, creates a tremendous investment opportunity. Investing in the expansion and improvement of the agricultural sector in Africa furthers the interests of the local business community and contributes to social and economic development in this region. Investment is needed to live up to the pressure on the supply side, which is mainly caused by rising energy costs, water scarcity, urbanization and growing desertification. While we experience a growing population and changing diets that cause a rising demand, agribusiness has been underinvested for decades.

According to the FAO, investments in order of 80 USD billion per year is needed to modernize world agriculture. Currently, the actual inflow is approximately 15-20 USD billion per year. Nevertheless, there is a substantial increasing interest in investing in African agriculture. A study from the World Bank - released in September 2010 - identified 45 million hectares of farmland under negotiation for allocation during 2009 alone, of which 70 percent (about 32 million hectares) was in Africa.<sup>1</sup>

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<sup>1</sup> World Bank, *Rising Global Interest in Farmland: Can it yield sustainable and equitable benefits?*, Washington DC, World Bank, September 2010.

The impact proposition with respect to SAAF is to increase productive yield in such a way that all involved stakeholders will benefit. The lack of capital, education, employment and access to markets are reported as the most important challenges of agricultural development in Africa. Investment in agriculture is needed to fill the gap between these capacity constraints.

### The 'land grabbing' claim

Besides the positive impacts coming from improved agricultural practices, investments in farmland have also caused negative side effects. Over the past two years, the phenomenon of 'land grabbing' has become an issue in the media, most notably with regard to investments in Africa. The rise in land acquisitions in Africa and the fact that much of this land is being acquired to provide for the future food and fuel needs of foreign nations has led to allegations of neo-colonialism. The wealthy and powerful nations, including China, are accused of annexing the continent's key natural resources.<sup>2</sup>

The most common definition of the global 'land grab' refers to large-scale land acquisition by foreign investors – either purchase or lease – for agricultural production.<sup>3</sup> It is often referred to – but not necessarily restricted to – as taking possession of and/or controlling land on a scale which is disproportionate in size in comparison to average land holdings in the region. Land grabbing particularly focuses on the impact of the land acquisition on the local and national populations' need to have access to – and own – their natural resources – both today and in the future. In some cases, it is reported that land has been acquired without consent and/or without formal transition based on problems with legal entitlement. However, a more often reported claim is that despite a lack of formal ownership, land has been allocated to investors while it is already used or occupied by smallholder farmers. As a result, the indigenous people are relocated. The land in such deals is usually referred to as 'idle land' or 'wasteland' with no pre-existing users.<sup>4</sup> Such 'land grabbing' claims state that even if it

is land that is not farmed, it is often used by and important to the survival of local communities.

Despite reported land grabbing by foreigners, those doing the grabbing are in most instances the national governments.<sup>5</sup> The worst reported practices are the large-scale state to state investments, mainly referred to as the 'south-south deals'.

### Policy responses

Several multilateral frameworks have been proposed in response to these land grabbing cases and to tackle the challenges faced with land rights. The three main initiatives so far have been:

1. The FAO *Voluntary guidelines on responsible governance of tenure of land and other natural resources* – taking a human rights based approach.
2. The World Bank's seven *Principles for Responsible Agricultural Investment (RAI)* that respects rights, livelihoods and resources – a code of conduct for investors based on social responsibility models.
3. *Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge* from the UN Special Reporter on the Right to Food – arguing for procedural requirements for land deals, such as informed participation of local communities.

### Land ownership in Africa

Land ownership is a highly sensitive issue in Africa. Due to historical or cultural reasons most African countries have regulatory infrastructures different from those in developed countries. Numerous countries fail to have well developed ownership legislation. In general, people in Africa own only a small part of the arable land and do not have explicit ownership of the land on which they live and work. In order to let African countries and their inhabitants also participate in the merits and benefits of increased investments, it is important to take the interests of local people into account as well as the local custom and the historical and ecological situation at the sites invested in. Investors in the African agricultural sector need to be aware of the complexities surrounding land ownership and the differing legal systems.

<sup>2</sup> Future Agricultures, *Land Grabbing in Africa and the New Politics of Food*, Policy Brief 041, June 2011.

<sup>3</sup> Foreign land grabbing in Africa, 2009-2010 Monitoring report by European Civil Society Organisations of European Commission's proposal for Advancing African Agriculture (AAA), FIAN, <http://www.fian.org/resources/documents/others/report-on-land-grabbing/pdf>

<sup>4</sup> Future Agricultures, *Land Grabbing in Africa and the New Politics of Food*, Policy Brief 041, June 2011.

<sup>5</sup> *Idem*

For example, in Tanzania two laws govern the ownership of land. The Land Act covers the land that is managed by the central government; the Village Land Act states that land within the boundaries of a village belongs to the local community. It is therefore vital that investors buying farmland in Africa need to do research on local laws and customs before making purchases in a sector potentially fraught with political and social risks.

**SAAF: a responsible investment in farmland**

The SNS African Agriculture Fund (SAAF) aims at achieving attractive financial returns for professional investors, while adding social value for farm workers and their communities. The core of the proposition is to add value by providing financial capital, knowledge and expertise to increase the yield of agribusinesses and the land. Improving efficiency of already existing farms is a key objective. In addition, the Fund invests in the personal development and wellbeing of farm workers through training and education and by providing them with access to basic health care.

To ascertain socially and environmentally responsible investments, each project will be assessed through a Responsibility & Impact Framework. This evaluation includes questions on land ownership.

Land rights are a precondition for any legitimate land deal and for each investment proposal it is examined how this owner, and the previous owner, acquired the land. An indication of a potentially questionable transfer in the past decades will be assessed and all relevant legal documentation has to be included. However, as legal entitlements are not a sufficient condition for a 'social license to operate', the interests of the community need to be balanced as well. SAAF will seek to avoid investing in any land where a substantial part of it is already subject to land claims and/ or may become subject to such claims. Also, the Fund will consider possibilities of involving local communities and land workers into co-ownership of land and agribusinesses. The beneficiation of the workforce is critical to mitigate social risks both on a micro as well as on a macro level. The psychological factor of land ownership is something that is not to be underestimated in an African context. The expropriations in Zimbabwe raised the awareness of the risks to which farmers are exposed if they do not include the workforce and/ or communities into the business model. These risks are assessed during the due diligence process of SAAF.



### **Due diligence**

Part and parcel of the SAAF investment process is an analysis of any claims on the land that will be purchased or leased. By way of United Farmers Fund (UFF), SNS Impact Investing has hired a qualified investment manager that has dealt with land acquisitions before. UFF has a solid track record of creating actual structures for beneficiation and empowerment of farm workers in the region.

The following box demonstrates how questions surrounding land entitlement are fully embedded in the due diligence process for SAAF. Both the legal and social license to operate is taken into consideration.

### **Creating shared value**

Tensions and potential conflict on land issues can be avoided by conducting an in-depth due diligence process and taking into account the above described criteria. By bringing un- or underutilized land into production and increasing overall output, SAAF contributes to economic growth by investing in land and farms while contributing to the improvement of the knowledge, skills and social wellbeing of farm managers and farm workers.

By structuring its investment process in the way described before SNS Impact Investing tries to add value for SAAF investors in a responsible way. It is by being open, transparent, and responsive to the needs and interests of local communities that we think we can contribute to the creation of shared value.

### ***How to avoid land grabbing? A systematic approach***

*With respect to agricultural businesses, the following key issues are integrated in the due diligence process to safeguard sustainability and to address rural development in a proper manner:*

- *Recognize and respect entitlements, land tenure and ownership;*
- *Buy the land from the legal owner;*
- *Abide and respect local laws, and integrate internationally accepted frameworks and guidelines;*
- *Establish active participation by workforce and local communities through ownership and/ or employment;*
- *Transfer skills, whether technical, managerial or financial;*
- *Establish education to empower workers and create independent emerging farmers;*
- *Engage in broad-based economic empowerment;*
- *Protect of cultural properties;*
- *Integrate the needs of employees and the surrounding community;*
- *Support the development of the community through infrastructure development and job creation;*
- *Look for demand driven investments, based on a need for capital;*
- *Aim for long term investments, not seeking for short-term gains;*
- *Encourage local exits, contributing to local ownership;*
- *Seek to exit holdings by selling them to local farm managers;*
- *Commit to ensuring the food security through the continuous improvement of farming techniques, taking into account local food security*

*Risks involved with land ownership can further be reduced by investing in agricultural businesses as opposed to only investing in isolated land ownership. This implies that the investment will be able to contribute to a significant extent towards the economic and personal development of the workforce and of the local communities.*