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The land rush doesn't have to end in a poor deal for Africans

It is not too late for equitable partnerships to flourish between foreign investors and local communities

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Foreign investment has often worked against the interests of African farmers. Photograph: Siphiwe Sibeko/Reuters

If dodgy emails offering millions in return for your downpayment to repatriate a stranded Nigerian astronaut do not tempt you, then maybe this will appeal to your speculative side. A hectare of fertile African land, a 99-year lease, and all for $1 a year. Think about it: crop prices are soaring, land is appreciating and import-dependent rich nations virtually guarantee you a never-ending export market.

It's starting to sound like that Nigerian astronaut deal.

But this is not a scam. Sadly for anyone who happens to live on that farmland there are countless examples of governments handing it over at bargain prices to foreign investors, ranging from hedge funds to biofuel producers.

Critics call it "land grabbing". The trend of buying or taking out long-term leases on land first came to prominence during the 2008 world food crisis. As food riots raged from Mexico to Bangladesh, speculators and countries with their own food security fears quietly sealed deals with African nations. Others call it "neo-colonialism". Expanding, industrialising populations in need of plentiful food sources with cheap workforces take over vast swaths of Africa.

But proponents, including some at the World Bank, see overseas investment in foreign farmland, particularly in Africa, as a way to modernise agriculture there, bringing more food and profits to the local population.

One of the difficulties in assessing the impact of the land grab is that many of the transactions are opaque and the extent of investment unclear, but the UN's food and agricultural organisation and other analysts estimated last year that nearly 20m hectares (50m acres) of farmland – an area roughly half the size of all arable land in Europe – was sold or had been negotiated for sale or lease in the space of just six months.

Investors range from Gulf states dependent on food imports to Indian farming companies and European-based biofuel producers. Targets include Sudan, Tanzania, famine-prone Ethiopia and Madagascar.

Momentum

On the latest evidence, the land rush is gaining momentum, with new investors entering the fray. Pension funds are the latest players to look to farmland after the financial crisis hammered returns on traditional assets such as shares.

The growing interest has prompted the World Bank to launch its own research into how developing nations could benefit from the foreign money. The full report is due any day now but the release has already been delayed several times. A leaked draft suggested that so far, wealthy investors have largely threatened local resources and exploitatively targeted countries with lax laws and low charges.

It is hardly the ideal outcome supporters of land deals have in mind: that the investor makes financial or food-security gains, while the recipient gets local jobs, higher yields and some share in the profits and crops.

NGOs were hardly surprised by the headlines from the World Bank leak. Opinion varies between them over whether investment, when responsible, can bring benefits. Oxfam, for example, has said it can. Others believe land sovereignty is paramount. African land should remain in African hands. But there is broad agreement that deals are often done under-the-counter and fail to involve local people.

Survival International highlights the example of the tribes of the Lower Omo Valley in Ethiopia. The charity says that after losing their hunting land as national parks were created in the 1960s and 1970s, local people then saw part of their territory turned into a state-run farm. Now the government is brokering deals to lease out tracts of tribal land to foreigners, so that they grow cash crops including biofuels. Survival says local tribes have had no say in the matter. It is a tale echoed by other NGOs, which report incidences elsewhere of consultations being held but letters inviting locals arriving after the fact.

This is not just about isolated tribes. The sheer numbers of Africans dependent on agriculture should raise alarm bells over what is at stake if opaque, bargain-basement land deals are to continue. In West and East Africa, agriculture contributed about a third to GDP between 2003 and 2007, compared with just 1.6% in developed economies, according to the UN Conference on Trade and Development. Agriculture accounted for more than half of total employment between 2002 and 2006.

Those farmers stand to gain from new technology but they also risk being disenfranchised and left hungry. In reality, the dream of a win-win relationship is often a skewed flow of profits to the investors. Go back to the proposition: a 99-year lease on arable land at $1 a hectare. To put that in context, farmland in Britain is selling at about £15,000 per hectare, according to the Royal Institution of Chartered Surveyors.

If you do not believe the low African land price quoted, how about the first-hand account of the farmer and philanthropist Howard Buffett, son of billionaire Warren. He recounts the recent offer of an equity stake in a land deal being brokered by a hedge fund. The host government would provide 70% of the financing and a 98-year lease, requiring no payments for four years. After that, the cost would be $2.91 per acre per year. Another fund pledged yields of 15-20%, dwarfing the average return on US agricultural land of 6%. As Buffett says: "If I didn't know better, this would sound like a great opportunity!"

But then he spells it out. "Here's what I'm sure of: these deals will make the rich richer and the poor poorer, creating clear winners who benefit, while the losers are denied their livelihoods," he writes in the foreword to the report (Mis)Investment in Agriculture: The Role of the International Finance Corporation in the Global Land Grab, by the Oakland Institute, a US thinktank.

The counter-argument is that with about 1 billion people living in hunger, according to the UN Food and Agriculture Organisation, the world's developed nations cannot stand by and let fertile African land lie fallow.

Anti-poverty campaigners challenge the notion that food is so scarce. People go hungry in poor countries because they cannot afford food, not because it is unavailable, they say. That is true up to a point, but ultimately people will go hungry without more investment, whether that be local or international.

There are models – in theory at least – where investing overseas could benefit both sides. With aid budgets squeezed, they may well become more desirable routes to development.

Take this example from sustainable development specialist Dr Mahendra Shah. Under a shared-benefits deal on cultivated land, where the yield gap is large, food production of 100 tonnes is boosted to 500 tonnes with foreign investments in agricultural technology. This could be shared 200 tonnes for the investor and for the recipient and the balance of 100 tonnes sold on the local market, with the proceeds invested to benefit the local community.

Equitable

Bodies such as Unctad are optimistic it is not too late for such equitable partnerships to flourish. It believes pension funds, with their apparent focus on reputation and accountability, could set new best-practice standards as they join the land investment trend. Unlike speculators, they are also more likely to think about the long term.

But if African governments didn't lease land at $1 per hectare, investors wouldn't be able to buy at $1 per hectare. The buck stops with the seller. Guidelines drawn up by the World Bank and others may be well-intentioned but they are unlikely ever to be truly binding.

African governments must consult their people, strive for national food security and know the value of what they are selling. They must also know what not to sell – too often land is classed as "unused" and flogged on when, in reality, it is vital hunting ground or a water source for local communities and ecosystems.

Investors need to do their due diligence in Africa, just as they would anywhere else. But the landowners, too, need to use the emerging tools available to them. Land databases are being compiled, while methods to assess the value of farmland investments, including the socio-economic returns, are being created by Shah and his colleagues at the International Institute for Applied Systems Analysis in Austria. This is the only way to forge clearer and fairer deals.

When world leaders gather at a UN summit next month to discuss the Millennium Development Goals, including eradicating hunger, it may well be against the backdrop of a new world food-price crisis. Extreme weather has struck crops from Pakistan to Russia. They may well conclude that part of the answer lies in African farmland. But they must ensure that food security for the rich does not result in more hunger for the poor.

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