UNDERSTANDING LAND INVESTMENT DEALS IN AFRICA

THE ROLE OF DEVELOPMENT AGENCIES

LAND DEAL BRIEF | DECEMBER 2011

Oakland Institute's (OI) investigation into over 50 land investments deals in seven African countries highlights the role played by a wide range of international development agencies, multilateral institutions, and so-called "socially responsible" investment funds. While using the language of aid organizations these institutions speak of "helping Africa feed itself," "improved food security," "livelihood creation," and "sustainable environmental policies." However a closer look at their agenda and policy prescriptions, and an investigation into the reality on the ground reveals otherwise. Even with growing evidence that the current African land grab is displacing small farmers, indigenous communities, and threatening food and water security, US and international development agencies continue to push for foreign agricultural land investment. This brief explores this issue further.

> "U.S. foreign assistance has always had the twofold purpose of furthering America's foreign policy interests in expanding democracy and free markets while improving the lives of the citizens of the developing world. Spending less than one-half of 1 percent of the federal budget, USAID works around the world to achieve these goals."
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> – This Is USAID, http://www.usaid.gov/about_usaid/

United States Agency for International Development (USAID)

PUSHING FOR LAND PRIVATIZATION IN MOZAMBIQUE

Though mandated with the task of helping the poor escape poverty, USAID has been facilitating the privatization of land much to the detriment and against the wishes of poor smallholder farmers in developing countries. In Mozambique, resistance from peasant organizations, peri-urban cooperatives, and many in the ruling party Frelimo, resulted in land privatization being rejected in the drafting of the 1990 constitution and again in the 1997 land law. USAID along with the World Bank, however, has continued to promote policies, which recommend land privatization and land mortgages as a way of obtaining investment capital.

At a donor Consultative Group (CG) meeting in 2001, Darius Mans, World Bank Country Director for Mozambique, urged the government to "clarify and monetize land use rights [...] so that land can be used as collateral and so that, in time, a given stretch of land will be used by the most productive users."[1] His advice was compounded by James Smith, USAID Acting Deputy Assistance Administrator for Africa, who, at the same meeting, recommended to the government "to consider the possibility of privatizing arable agricultural land."[2]

In a continued push for land privatization, a 2007 USAID report asked for the 1997 Land Law to be amended.[3] In 2011, the US Millennium Challenge Corporation (MCC), an independent US foreign aid agency, made transferability of DUATs (land leases) a condition of further aid to Mozambique. In fact Mozambique is not alone: as its land projects in Mali, Ghana, and Benin make plain, it is obvious that MCC is playing a key role in helping make Africa's farmlands marketable and open for US agribusiness.[4]

PROMOTING FOREIGN INVESTMENT IN SOUTH SUDAN

The world's newest country, South Sudan, faces similar development intervention as the international financial institutions (IFIs) and donor countries encourage the government to make land available to foreign companies for plantations while actively promoting the myth that industrial farming is the key to improved food security in South Sudan.

Despite the lack of a regulatory framework to manage the influx of investment, USAID is working with a consortium of development partners from both multilateral agencies and the private sector including the International Finance Corporation (IFC) of the World Bank Group, Citibank, the Corporate Council on Africa, and others to help South Sudan market its resources and attract private capital in agriculture. In partnership with the World Bank, African Development Bank, the European Union, and Japan, it is also organizing sector-specific private investor conferences, including one on agriculture.[5] One such conference, organized by the White House to bring together potential investors, is planned for December 14-15, 2011.[6] The Oakland Institute's country report on South Sudan[7] demonstrates that by prioritizing private sector interests over those of the rural poor, initiatives might undermine the new social contracts needed to provide a foundation for sustainable peace.

Overseas Private Investment Corporation (OPIC)

USAID's "development assistance" to South Sudan is getting a boost from the generosity of Overseas Private Investment Corporation (OPIC), and the US government's development finance institution. On November 9, 2011, OPIC approved $150 million in financing for Egypt's Citibank to go to the Cairo-based Citadel Capital, a private equity firm. This is in addition to its $100 million in financing for investments by Citadel Capital in July 2010.

The recent financing provides an investment guaranty to Citibank for a two-tranche $150 million loan to expand existing subsidiaries owned or controlled by Citadel Capital – up to $125 million of the OPIC-guaranteed loan is for subsidiaries operating in Egypt and up to $25 million is to be used for subsidiaries operating in South Sudan.[8]

Citadel's agricultural operations in South Sudan, through one of its portfolio companies Concord Agriculture, involve a 25-year lease of 105,000 hectares (ha) of land in two counties in Unity State. According to Citadel, "these projects will engage in large-scale cultivation of cash crops including grain, sorghum, maize, sunflower, rice, and various grain legumes and together comprise one of the largest agricultural projects in Sudan." In an August 2011 communication, Concord's CEO Peter Schuurs estimated a 20 percent return on this investment. According to the terms of the agreement signed in 2009, Concord Agriculture pays a mere $125,000 in annual lease payments to the Unity State government. This comes with an attractive investor incentive package including tax holidays, exemptions from import duties on inputs, and 100 percent profit repatriation, among other things. It is unclear how the local communities actually benefit from this project, apart from some limited employment (around 8-9 employees and another 15-20 menial jobs during the dry season) and some in-kind assistance provided to local communities by the company.[9]

While the South Sudanese Land Act requires companies to conduct environmental and social impact assessments (ESIAs) Concord did not conduct any such assessment, which raises questions about the potential adverse impacts of the project.[10]

With little attention paid to the risks that an unrestrained private sector poses in a fragile post-conflict environment, initiatives such as these threaten to undermine peacebuilding efforts by elevating the interests of foreign investors over those of rural populations.

ASSISTING INDIA'S ENTRY INTO AFRICAN AGRICULTURE

"USAID is working to assist Indian companies operate in 3 East African Countries ... you can take a guess as to which ones ... and given its success, there are efforts to bring this program into South Sudan. I cannot tell you more, you will have to find out yourself."

—Mike Dockrey, Acting Chief of Party, Food, Agribusiness, and Rural Markets (FARM) Program, South Sudan.

Despite repeated calls and emails requesting information about the program from the USAID Head Office in Washington D.C. as well as from the India office, which is managing this program, OI was unable to get information on this so-called *Agriculture and Food Security Program*.

While USAID remains very discrete on the program, the US assistant Secretary of State for South Asia and Central Asia, Robert Blake, was quoted in May 2011 as saying that the United States "is working in Africa to help develop agricultural production. This is the first trilateral cooperation between the U.S., India and Africa."[11]

This initiative has support at the highest echelons of power. Speaking at the Joint Session of the Indian Parliament on November 8, 2010, President Obama said, "as part of our food security initiative, we're going to share India's expertise with farmers in Africa. And this is an indication of India's rise – that we can now export hard-earned expertise to countries that see India as a model for agricultural development."[12] Reports in the Indian media suggested, "India and the US may team up to tap farm opportunities in Africa that may also translate into the US funding Indian farm projects in the Continent."[13]

The US has continued to laud India's model of encouraging growth in Africa as the two countries gear up to collaborate in the 54-nation continent's agricultural sector. The US Assistant Secretary of State for South and Central Asia Robert Blake lauded India's model for encouraging growth in Africa as being very impressive, and Prime Minister Manmohan Singh's two-nation trip to Africa in May 2011 that included visits to Ethiopia and Tanzania as "momentous."[14]

Following Prime Minister Singh's return, Karuturi Global Ltd, the world's largest rose grower, visited Tanzania, Uganda and Ethiopia as part of a delegation of 35 Indian investors considering investments in the three countries. Karuturi announced plans to lease land to grow oil palm, sugarcane and cereals in Tanzania, and add to land it has acquired in Ethiopia where it already grows the same crops.[15]

Given probable US financial and moral backing as suggested by the Indian media in 2010, it is no surprise that Indian companies, including the state-owned trading firm MMTC Ltd, the Indian Farmers Fertilizer Cooperative Ltd (Iffco), and the conglomerate Bharti Enterprises have joined the land rush for Africa.

Growing Indian influence in Africa might help rein in China's expanding power and influence in the region. The rivalry between the two countries for control of natural resources and energy assets beyond their borders is being played out in African countries. While the US might stand to gain from this divide, Africa has much to lose. OI's research in Ethiopia details the 3.6 million ha land grab that is being prominently carried out by Indian corporations such as Karuturi.[16]

Commonwealth Development Corporation and FinnFund's Investment in South Sudan

Commonwealth Development Corporation (CDC) is the UK government's development finance institution whose objective is to "invest in the developing world in a commercially sustainable manner and to attract other investors by demonstrating success."[17] The Finnish Fund for Development Cooperation (Finnfund) is a development finance company that provides long-term risk capital for profitable projects in developing countries and Russia.[18] Until recently these two funds held majority interests in two companies that are engaged in timber production in South Sudan: the Equatoria Teak Company (ETC) and the Central Equatoria Teak (CET) Company. The two projects cover 20,450 ha spread across seven government-owned forest reserves in Western Equatoria State and Central Equatoria State. The concession in Central Equatoria also gives the company rights on 50,000 ha of community-owned natural forest in Lainya County.

CDC's sole shareholder is the British Department for International Development (DfID). According to Andrew McSkimming, a policy analyst in DfID's private sector department, the CDC manages its investments in the following manner:

"CDC does not invest directly in private sector businesses in poor countries. Instead, CDC places its capital in funds managed by independent Fund Managers, the largest of which is Actis LLP. ...The Fund manager aims to build value in the company, helps it to grow and become more efficient, and then after some 5-10 years sells the investment. The net proceeds of the sale are returned to the investors after deduction of the Fund manager's share of the profits.

All profits that are returned to CDC are recycled into new commitments and new investments."[19]

Actis terminated the CDC investment in Equatoria Teak and Central Equatoria Teak towards the end of 2010 claiming they were unable to make it operate in a commercially viable manner. They then proceeded to sell CDC's interest to a number of unidentified investors.[20]

After less than four years of operations, the CDC's sale of its interest in Equatoria Teak and Central Equatoria Teak was handled in a non-transparent and non-inclusive manner. When OI spoke to officials in the RSS Ministry of Agriculture and Forestry in June 2011, the officials were not even aware of the transfer. The director general of forestry subsequently expressed his frustration at being excluded from the transaction, exclaiming: "I wish they [Equatoria Teak and Central Equatoria Teak] had never been given the concessions."[21]

When the CDC obtained its concessions in 2007, it was formalizing a transferable interest in the plantations for the first time. Prior to these concession agreements, there was no simple way to transfer rights in these forest plantations among private actors. Even without considering any development of the property itself, the mere act of formalizing these reserves created added value for the investment. One of the main reasons that the GoSS entered into the investment in the first place was the perception that the CDC were responsible investors,[22] and there is no guarantee that the new investors would be committed to sustainable development in the manner that CDC claims to be.

Furthermore, when the CDC sold its interest in Equatoria Teak, it had only partially performed on its social obligations for host communities. Equatoria Teak only paid $79,000 of the $100,000 that it owed to the affected communities.[23] The company pledges to pay the remaining balance when it becomes fully operational, however its ability to do so may now be compromised since the withdrawal of CDC and Finnfund's support. The community has already used the money to build a secondary school and remains indebted to the contractor for the remaining $21,000. In Central Equatoria, according to local officials, Central Equatoria Teak has still not paid any of the $200,000 that it owes to the affected communities.

The CDC and Finnfund's investment in South Sudan has had mixed results. On the one hand, the concession agreements include social benefits and attention to environmental impacts that are absent from most investments in South Sudan. However, for development funds that portray themselves as socially responsible investors, the Equatoria Teak and Central Equatoria Teak investments fall short on several fronts. The manner in which CDC has managed this project raises questions as to how the fund balances its competing demands to responsible investment and commercially viable investment. The lack of prior consultation of local communities raises concerns about the extent to which the CDC and Finnfund are willing to prioritize the interests of local populations over their desire to make profits. The lack of transparency associated with these investments also precludes meaningful governmental and civil society oversight, leaving the people who were on the receiving end of the company's social and economic abuses with no viable means of seeking redress. By promoting such large-scale land investments before the proper regulatory framework is in place, the government of South Sudan and its international partners are exposing South Sudanese to unjustified risk and greatly reducing the benefits that host populations can expect to receive from their land and natural resources.

Northern Development Agencies Promoting Agrofuels in Africa

The United States and the European Union have set targets to replace 30 percent and 10 percent, respectively, of their gasoline with agrofuels in order to reduce their dependency on fossil fuels. In addition to direct subsidies and other supports provided to the industry in Europe and North America, Northern governments have worked hard to promote agrofuels in Africa, to support Northern firms, and to convince African governments that agrofuels could replace food crops despite widespread hunger on the continent.

Several Scandinavian firms have strong interests in Tanzania. This may explain why the Swedish development agency, Sida, provided funding to the National Biofuels Taskforce (NBTF) established in 2006 to define guidelines for the development of a "socially and environmentally sustainable" agrofuel industry in Tanzania. Both Sida and the Norwegian development agency, NORAD are funding the development of policies for agrofuel investments in Tanzania, including the creation of a legal and policy framework for agrofuel production.

While Germany is a major global producer of biodiesel, it was the German development agency, GTZ, that commissioned the first ever study on the prospects of agrofuels for the transport sector in Tanzania. Germany also funded a United Nations Food and Agriculture Organization (FAO) report that is very supportive of the development of agrofuels in the country.[24]

The donors claim that their overall objective is to provide an enabling environment for an informed public debate, so that best practices can be established for investments of this type. Nevertheless, local NGOs remain skeptical, claiming that the guidelines have only consolidated points covered by existing laws such as the land laws.[25]

Until it was sold to a British-Dutch investment company in August 2011, the UK firm Sun Biofuels was active in the development of agrofuel plantations in Mozambique and Tanzania. The firm was 98.25 percent owned by Trading Emissions, an Isle of Man (UK offshore) incorporated investment company. While visiting Sun in Mozambique on March 16, 2011, UK Minister of State for International Development Stephen O'Brien said: "I have every hope this project will be a shining example for countries around the world as to how to produce green energy which is both good for the environment and the economy." In response, Sun Biofuels executives expressed their gratitude for the continued support of the British government to their operations.[26]

From pushing hard for privatization in Mozambique to make land available for investment, to prioritizing investment opportunities over transparency and fairness in South Sudan, international agencies and funds are participating in the ceding of millions of hectares in Africa. This global farming of Africa, taking place under the rubric of helping the continent, with technologies, jobs and economic development, is in reality causing great devastation and taking a huge toll on the many communities, small farmers, and people dependent on their lands to survive.

ENDNOTES

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