



UNDERSTANDING LAND INVESTMENT DEALS IN AFRICA

TANZANIAN VILLAGERS PAY FOR SUN BIOFUELS INVESTMENT DISASTER

LAND DEAL BRIEF | SEPTEMBER 2012

Overview

The Tanzanian government has put agriculture at the forefront of its development agenda through its “kilimo kwanza” (agriculture first) initiative, which was established in 2009. For a country like Tanzania, which is gifted with a rich diversity of natural and human resources and has a population that is still largely rural, investment in agriculture can offer considerable development potential.

In recent years, the production of agrofuels by foreign energy companies has been a growing area of agricultural investment in the country. Although proponents of this trend argue that it will bring much-needed agricultural investment to a country where the majority of the population is engaged in agriculture,¹ others are concerned that large-scale agrofuel production, coupled with insecure land rights and weak land governance, is actually fuelling exclusion of rural households from their land.²

This brief is a case study of an agrofuel project that was established in the District of Kisarawe by Sun Biofuels, a UK based company. In this district, located about 70 kilometers southwest of Dar es Salaam, 80 percent of the 100,000 inhabitants are engaged in agriculture. The local population also depends largely on minor forest produce for their livelihoods.³ Initiated in 2009, the project aimed at producing the agrofuel crop *jatropha* on more than 8,211 hectares of land that was leased from 11 villages. After two years of activities, Sun Biofuels went bankrupt and was bought by 30 Degrees East, a private investment company registered in Mauritius. The Sun Biofuels bankruptcy has left the population in a dire situation. Locals have lost their farmland and their supply of fresh water as well as access to essential natural resources, while the durable employment and creation of infrastructure that were expected with this investment did not materialize. The company has dismissed 600 employees, and the project employed only 35 people at the time research was conducted.

Prior to the Sun Biofuels bankruptcy, the project had already seriously undermined the livelihoods and food security of

the population in the area. Wages of the agricultural workers employed by the company were too low to compensate for the loss of income previously received from farming activities. Furthermore, the establishment of the plantation has resulted in a dramatic loss of access to water and other natural resources, to the point that local villagers are now forced to buy water, which was freely accessible prior to the project.

The experience of the Sun Biofuels project in Tanzania offers key lessons for large-scale land investments in Africa.

First, any community or country faces a major risk, which can turn the dream of “development” into a nightmare, when it hands over its future welfare and development to a foreign company and investors whose names might not even be publicly disclosed.

A second lesson to draw from the Sun Biofuels example is that even in a country like Tanzania, which is often touted as protective of people’s right to land, large-scale land investments are often concurrent with an array of poor practices, including the lack of adequate consultation and application of the principle of Free Prior and Informed Consent. Most notable in this case is the complete lack of accountability for a company that has left people in a disastrous situation after having seriously impacted their livelihoods and environment. The villagers have not been compensated for the loss of their land, while the promises of durable employment and infrastructure have failed to materialize as well.

Third, as seen in other countries,⁴ this research shows how the investor used false promises of development, jobs, and improved lives to convince local communities to give away their land. The Oakland Institute’s research provides substantial evidence that, even before the bankruptcy, the local population ended up with fewer resources, more expenses, and lost access to essential common goods such as water, grass, and forest products. In the hope of improving



their livelihoods, poor communities were convinced by the investor to give up their land rights, only to find themselves with a tremendous loss two years into the project.

Land deals such as Sun Biofuels in Kisarawe lead to serious questions about Tanzania's "kilimo kwanza" strategy, which is focused on large-scale commercial agriculture controlled by foreign investors. The Kisarawe experience suggests that the path to sustainable development has to include smallholders in the process—not exclude them. The importance of smallholders needs to be recognized through increased autonomy, support for local institutions, and secure land rights and entitlements.⁵ For Tanzania, this would mean, among other things, recognizing smallholder rights to land instead of vesting land rights to large-scale investors.

Background

The quest for energy security by oil-importing countries, combined with the crisis of climate change and increasing land and soft commodity prices, has led to a worldwide expansion of agrofuel cultivation.⁶ Against this background, both countries and private companies are seeking to invest in and acquire land in other countries in order to grow and process crops into agrofuels, which are then sold on global markets or exported back to their home markets.⁷ While the production of agrofuels is rapidly increasing worldwide, questions are raised as the investments impinge on land

that is used by local communities for food production and other socio-economic activities. This process has been called land grabbing, referring to the "exploration, negotiations, acquisitions or leasing, settlement, and exploitation of the land resource."⁸

The argument for promoting investment in agrofuel production is that it will not only promote welfare of rural populations but also address energy and environmental concerns, creating a win-win situation for all stakeholders. Agrofuels are thus promoted as a "package solution to energy security, environmental protection and rural development."⁹

Recently, the Tanzanian government put agriculture at the forefront of its development agenda through the "kilimo kwanza" initiative. As a country gifted with a rich diversity of natural and human resources and a population still largely living in rural areas, investment in agriculture appears to offer considerable development potential for Tanzania. It is estimated that there are four million peasant families in Tanzania whose principal income-generating activities are small-scale farming and pastoralism,¹⁰ which form the backbone of the economy. In other words, land is an invaluable economic asset from which most Tanzanians make their livelihoods. However, the main focus of "kilimo kwanza" is the commercialization and "modernization" of agriculture through public-private partnerships. The initiative specifically aims to mobilize the private sector by creating incentives for



One-year-old jatropha plantation on land acquired by Sun Biofuels, Kisarawe. © The Oakland Institute



investments, including making land available for agrofuel investors.¹¹ Through the “kilimo kwanza” initiative, the government intends to increase the amount of land available for large-scale commercial agriculture—all of which is targeted to come from village land areas.¹² However, it is feared that this strategy will eventually undermine the role of small-scale farmers and pastoralists and their importance as food producers.

Sun Biofuels

The UK-based company Sun Biofuels, which has widely invested in agrofuels in developing countries in East and Southern Africa, entered Tanzania in 2005. Through the establishment of a local affiliate, Sun Biofuels Tanzania Ltd, the company planned to invest about 25.3 billion Tanzanian shillings (tshs) [\$20 million] in a project to establish a jatropha plantation and an agrofuel processing plant that would permanently employ about 1,500 people once in full operation, according to the company.¹³ Sun Biofuels and other foreign companies have chosen Tanzania as a production country based on favorable climatic conditions and the assumed existence of available and underutilized land.¹⁴

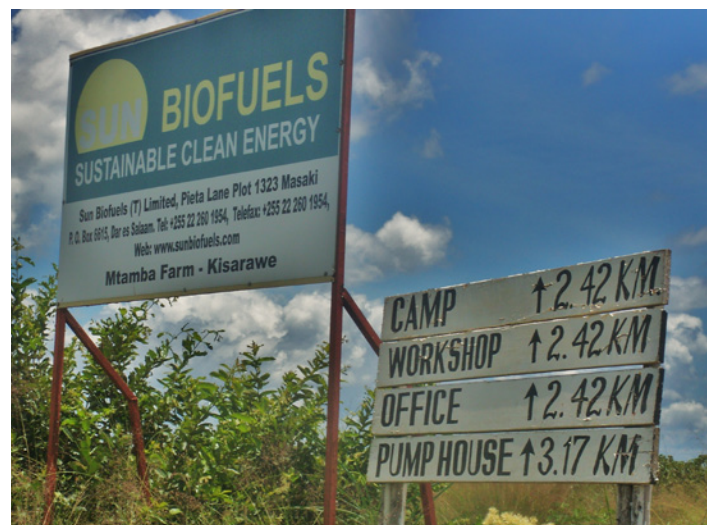
After a long land acquisition process, the Tanzania Investment Centre granted Sun Biofuels the derivative title for a 8,211 hectare area, and Sun Biofuels slowly started their operations in 2009 by planting 2,000 hectares of the total land area with jatropha.¹⁵ The first jatropha seeds produced were exported to South Africa for processing.¹⁶

As most land in Tanzania is still under the jurisdiction of Tanzania’s approximately 12,000 villages, agricultural investment-related deals targeting these land areas require community consultations.¹⁷ Although land legislation in Tanzania is perceived as one of the most protective of land rights in Africa because of this requirement, the community consultation process, which is characterized by asymmetric power relations,¹⁸ is viewed by many as unsatisfactory.¹⁹ With regard to large-scale land deals, the legal authority of villages is restricted to their recommendations, as they cannot veto land deals involving 250 hectares or more, which are viewed by the state as being in the “public interest.”²¹

Land Acquisition and Power

Kisarawe District, located about 70 kilometers southwest of Tanzania’s major city, Dar es Salaam, has about 100,000 inhabitants, of which about 80 percent are engaged in agriculture. Additionally, the use of various forest resources provides important safeguards to people’s livelihoods.²²

When Sun Biofuels began the process of acquiring land in Kisarawe, they approached the 11 villages surrounding the targeted plantation area (Mtamba, Muhaga, Marumbo, Palaka, Kidugalo, Kurui, Mtakayo, Vilabwa, Mitengwe, Mzenga ‘A’, and Chakaye) directly, and the acquisition process involved meetings between company representatives and village assemblies.²³ Sun Biofuels’s direct involvement in identifying and negotiating for land with the rural communities is problematic in several ways. During these consultations, Sun Biofuels appears to have deliberately made populist promises of employment generation and the construction of roads, schools, water wells, and clinics. Company representatives were influencing and shaping the very needs of villagers in order to paint a picture of a win-win situation, knowing that poor people in need would find it difficult to withhold consent.



Sun Biofuels Mtamba Farm in Kisarawe. © Mikael Bergius, 2012

Villagers in Kisarawe refer to their encounters with Sun Biofuels as information meetings rather than negotiations; throughout the meetings they were informed about the various benefits they would enjoy from the project, none of which materialized.²⁴ For instance, villagers in Kurui reported that they were happy to agree to the land acquisition as they were promised hospitals, roads, pharmacies, and employment.²⁵

Local villagers are not used to this type of negotiation, and such an approach immediately puts the rural communities in the weaker position, providing little space to ensure their free, prior and informed consent (FPIC) prior to finalizing a deal—an internationally recognized principle that would apply to such an investment. As a consequence, the promises given by the company were never codified in a formal contract, making it hard for the villages to hold the company accountable for its failure to deliver on the promises.²⁶



“We agreed verbally to give our land to the investors because we wanted their promises of social services in the area, but we don’t know exactly how much land per person was taken as we have no documents and plans to let us know where our land starts and finishes. I did not know my land laws and land rights so didn’t understand what I had agreed to until my land was gone, and I received no compensation.”

— Villager, Palaka village, Kisarawe²⁷

District government officials in Kisarawe revealed that, in this instance, only one-sided information was given to the locals during community consultations. After weighing both positive and negative aspects of the proposed investment at the district level—and deciding at that level to proceed—community development officers were sent around the villages to “educate” local people on the benefits the investment would bring, with no mention of what villagers stood to lose.²⁹ District officials claimed that local people were aware of potential disadvantages because some of them were involved in the Environmental Impact Assessment (EIA), and contend that they agreed with the district officials’ judgment that the proposed investment would be advantageous to the local community overall.³⁰ However, it is important to note that potential disadvantages were not “advertised” to the local population as the benefits were, which soon presented problems.

The Destruction of Rural Livelihoods

Tanzania’s reputation as a country with abundant available land is attracting foreign investors. However, a recent study shows estimates of available land in Tanzania differ by as much as 50 million hectares.³¹ The concept of land availability thus needs a critical analysis, since “even where land is

“There is a big difference between agreement in the land acquisition process and participation in the meeting. They took our participation in the meeting as an agreement of our consent. But there was nothing to sign, no contract.”

— An elderly man, Kurui village, Kisarawe²⁸

currently underused and seems abundant, it is still likely to be claimed by somebody.”³² Such land is often the collective asset of rural communities and is an important contributor to livelihoods.³³ Conflicts are thus likely to occur when investors, with the backing of the state, seek to expropriate land in the name of the “kilimo kwanza initiative.”³⁴

The land acquired by Sun Biofuels in Kisarawe was collectively held forest and bush land that belonged to the villages and was used by local communities for various social and economic activities, including grazing, charcoal production, and the harvesting of timber, poles, firewood, wild food, fodder, and medicine.³⁵ These activities are important means of diversifying sources of food and income beyond agriculture, with some households stating that up to 70 percent of the household economy was dependent on resources from this land.³⁶ With the arrival of Sun Biofuels in the area, the local people lost access to this land and their additional resources, and have thus been forced to be more reliant on income from agriculture.

Furthermore, the village households are now required to buy the products they once collected freely, or spend a significant amount of time going to distant areas to collect them.³⁷ This has directly impacted household economy: expenditures have increased just as there is less time available for agricultural activities, implying that a smaller share of agricultural production is available for sale, thus lowering household income. One household member told the researcher:

“After the investors came here, it takes much more time to go to the forest and collect the firewood. Before the investments it was only five minutes away from home, now I spend about 2 hours per day.”

—Villager, Marumbo village, Kisarawe³⁸

Moreover, because forest products now have to be transported from distant areas, the price of these products has increased. For instance, household members reported that the price of a 25 kilogram bag of charcoal had more than doubled³⁹ since the investment started.⁴⁰ In rural Tanzania, the majority of a households’ income—62 percent on average as of 2007—is spent on food, a percentage that increases for the poorest segments of the population.⁴¹ As a result, changes in expenditure and income have immediate serious consequences on food security, in particular for poor households. Such changes are likely to affect food consumption patterns, as less money is available to purchase food products.



“We cannot afford rice at this time. It has become more expensive and we have less money available now since the investors arrived.”

– Villager, Marumbo village, Kisarawe⁴²

However, the most urgent concern stressed by all households interviewed during the course of OI research has been the water situation, which deteriorated after the arrival of Sun Biofuels.⁴³ The EIA undertaken by Sun Biofuels actually recommended that, given water scarcity in the area, the plantation should not cover any key water sources used by local communities. However, this advice was not followed.⁴⁴ Villagers in Marumbo reported that the nearest water source is now between five to ten kilometers away, depending on where you live in the village. Prior to the investment, villagers spent no more than 15 to 30 minutes total collecting water.⁴⁵

The decreased water access places the heaviest burden on the poorer segments of the communities, who often lack transportation. Whereas access to fresh water was freely available to all prior to the investment, many people are now forced to buy water at prices that are difficult to afford.⁴⁷ One household actually described times when the household faced a choice between water and food, substituting one for the other in purchases.⁴⁸ Furthermore, the increased distance to water sources exacerbates the negative effect on farm productivity and income created by land inaccessibility, as mentioned above.⁴⁹



Land Acquired by Sun Biofuels in Kisarawe. © Mikael Bergius, 2012

High-income households are not as heavily impacted by the reduced land access as low-income households. In addition to agriculture as a source of livelihood, high-income households often include small-scale food vendors or shops

where they sell basic food items. With lower local agricultural productivity and increased traffic through the area following the investment, some of these households have experienced positive linkage effects, with increased sales through their businesses.⁵⁰ A similar trend was also seen with the sale of agricultural products among the households with farms located close to and accessible from the road running through the village.⁵¹ Thus, the best-resourced households have the capacity to thrive on large-scale agricultural investments, which may foster increasing rural inequities.

“The water situation has become much worse. Before we used to find water nearby, very close to the house, but now this land has been cleared, and the source of water is totally destroyed by the investors.”

– Villager, Marumbo village, Kisarawe⁴⁶

Employment Generation – Impact on Household Economy

Central to the win-win rhetoric is the argument that diversification of rural economies through creation of employment opportunities will, in the long run, “bring welfare to what are often disadvantaged communities.”⁵² When Sun Biofuels acquired land in Kisarawe, one of the promises made was around employment opportunities. Great expectations were created among the local communities who started to picture higher incomes and a better quality of life.⁵³

While operating between 2009 and 2011, the company employed approximately 750 people. It was the prospect of securing a safer and more reliable income that attracted many villagers to work at the plantation. Moreover, as their land became inaccessible, some households were forced to find additional sources of income. The majority of workers were casual laborers doing regular manual plantation work, with no pension or medical aid, and unable to unionize.⁵⁴ Fieldwork carried out during this research demonstrates that, in most cases, employment with Sun Biofuels negatively affected household economy. In most households, where one or more household members went to work at the plantation, the agricultural activity of the household was either reduced or completely stopped, leading to a subsequent decrease in productivity and income. Wages at the plantation did not offset the loss of income from agriculture and forest products.⁵⁵ While household income decreased, expenditures on food and other products increased, leaving households worse off economically.⁵⁶ For example, one household member said:



“During the time I was working at the plantation, we needed to buy food because we did not produce ourselves. Sometimes we spent up our money before the next month salary. These were insecure times.”
—Villager, Marumbo village, Kisarawe⁵⁷

Furthermore, former plantation employees reported that most of their salaries were used on-site at the plantation to meet their own needs in terms of food and water, leaving little money to bring home.⁵⁸ Villagers from Palaka reported that wages on the plantation were low, and that, due to water scarcity in the local area, those who were employed by Sun Biofuels had to spend 2,000 Tanzanian shillings [\$1.40] on drinking water every day, leaving them with very little surplus earnings.⁵⁹

The actual events surrounding the Sun Biofuels investment in Kisarawe are very far from the promises of win-win development. Instead of increased welfare, the experience points to increased vulnerability and poverty among the local population. According to a local government official in Kisarawe, the families of plantation workers are getting poorer every day.⁶⁰

Current Status of the Project

Sun Biofuels was never able to clear and plant more than the initial 2,000 hectares and did not reach sufficient production levels for the project to be financially sustainable.

Sun Biofuels was unable to raise the final capital needed to see the project to completion and declared bankruptcy in summer of 2011. Nearly 600 workers were given notices of termination.⁶¹ A few months later, a new company, 30 Degrees East, bought the shares of Sun Biofuels aiming to mothball the project while raising the capital needed to get the project going again.⁶² Now, 90 percent of Sun Biofuels shares are controlled by 30 Degrees East, while the remaining 10 percent is shared equally by Harbert Marwa and Daudi Mwakabore, two Tanzanian investors.⁶³ The changes in shareholdings were registered with the Business Registrations and Licensing Agency (BRELA) in Tanzania in October 2011.⁶⁴

30 Degrees East, which is registered in the tax haven of Mauritius, is a private investment company focused predominantly on East Africa and Southern Africa. Alongside its involvement in Sun Biofuels, 30 Degrees East is also engaged in a public-private project in Tanzania's Iringa region, where it aims to introduce new potato varieties

with high yield potential to boost smallholder productivity and “create a pathway out of poverty for a large number of farmers.”⁶⁵ One of the shareholders in 30 Degrees East and the director of Sun Biofuels, Christopher Egerton-Warburton, is a former Goldman Sachs banker. Egerton-Warburton spent 14 years within the Debt Capital Markets group at Goldman Sachs before forming the London-based merchants bank Lions Head Global Partners (LHGP) in 2008. LHGP offers financial advice and fund management, with a main focus on emerging markets and Africa. It has been collaborating closely with 30 Degrees East in the Iringa public-private project,⁶⁶ and playing a significant role in the rehabilitation and funding of the agrofuel project in Kisarawe.⁶⁷

Since 30 Degrees East took over the Sun Biofuels shares, the activity on the plantation has shrunk to a minimum, with only 35 workers active at the plantation, including security guards.⁶⁸ The future of the project is still uncertain, and as of April 2012, it was not known when or if the plantation would resume normal activity. At the time research was conducted,



Harvested and dried jatropha nuts at Sun Biofuels Mtamba Farm in Kisarawe.
© The Oakland Institute



the new owners were in the process of reviewing their strategy and business plan for the plantation. This rethinking was primarily driven by the realization that jatropha is not the miracle crop that has been portrayed in recent years, and that actual yields and growing conditions are not as good as initially projected by Sun Biofuels. For this reason, the new company is also considering the production of other types of cash crops.⁶⁹

As for the Sun Biofuels ownership change, no information was provided to the villagers and village leaders, repeating the history of improper consultation and leaving the rural populations on the sideline.

For the people in the surrounding villages in Kisarawe, the situation is unbearable. All of the land acquired by Sun Biofuels, whether it was cleared and planted with jatropha or left untouched by the company, is no longer accessible by the villagers. Security guards, which form the majority of the currently employed workers, prevent villagers from accessing the land. According to media reports, it is not possible for the villagers to get their land back and they were supposed to receive the compensation from the government. However, according to the district officials, Sun Biofuels did not pay all the money due, and therefore compensation is not available for villagers.⁷⁰

Local communities have lost access to the land that provided them with water and other important products that supported their livelihoods, and now also their employment. Since their livelihoods have deteriorated and their lives have become more vulnerable since the arrival of Sun Biofuels, their anger is rising and tensions are building. The frustration is not only linked to the unfulfilled promises, but also to the frustration about the company's collapse and the uncertain future of the project.

"We want to organize and make our demands. We will become the security of the land and not let anyone in unless we are assured that the promises are fulfilled. We are going to protect the land, 5 persons from each village, so per day it might be 55 people there."

—Villager, Marumbo village, Kisarawe⁷¹

Conclusion

The Sun Biofuels case is rich in lessons about large-scale land investments in Africa.

First, communities and countries face a major risk as they hand over the keys of their future welfare and development to a foreign-based company and nameless investors. The risk, as seen with the bankruptcy of Sun Biofuels and other examples of poor business choices, is that the "development" dream can turn into a nightmare. Bad weather or volatility of international commodity and oil markets are additional risk factors. In major agricultural economies, for instance in Europe and North America, agriculture was not developed through foreign investment but through the combination of people's hard work and supportive public policies, helping farmers to grow while protecting them against the hiccups of the weather or the economy.

A second lesson to draw from the Sun Biofuels example is that, even in a country like Tanzania that is often touted for protecting people's right to land, large-scale land investments come with a wide range of damaging business practices, including the lack of adequate consultation and application of the principle of Free Prior and Informed Consent. In this case, the most notable is the complete lack of accountability for the company, which has left people in a disastrous situation after having destroyed their livelihoods and their environment. Beyond the lack of compensation for the loss of their land, the promised durable employment and infrastructure have not materialized.

Third, as seen in other countries,⁷² Sun Biofuels investment shows how false promises of development, jobs, and improved lives have been made in order to convince people to give away their lands. Even before the bankruptcy, instead of a better life, local people ended up with fewer resources, more expenses, and lost access to essential common goods such as water, grass, and forest products. With the hope of improving their livelihoods, poor communities were easily convinced by the arguments of the investor and find themselves with a net loss two years into the project.

The "kilimo kwanza" strategy and its focus on large-scale commercial agriculture is based on a belief in creating win-win situations through investment. However, land deals such as Sun Biofuels in Kisarawe reveal the problems with this approach. The government's strategy does not recognize that a majority of Tanzanians are small-scale farmers and pastoralists, and that these are also important investors.⁷³



Based on the idea that such investment can bring a win-win outcome for the people, the government and investors promote projects such as Sun Biofuels saying they will “bring development” to Tanzanians, but fail to define and implement investments in a way that will effectively address the people’s needs.⁷⁴ It treats rural Tanzanians merely as bystanders in an externally created project, and this approach is not sustainable in the long term. Furthermore, as the Sun Biofuels case illustrates, the community consultation requirement does not guarantee that the interest of rural communities will be secured. Direct encounters between poor rural villagers and cash-rich investors are embedded in asymmetric power relationships in favor of the latter, and often result in increased poverty and vulnerability among the local population.

The Kisarawe experience suggests that the path to achieve sustainable development must include and not exclude smallholders in the process. The importance of smallholders needs to be recognized through increased autonomy, local institutions, and secured land rights and entitlements.⁷⁵ For Tanzania, this means, among other things, putting power over land in the hands of the smallholders, and not in the hands of large-scale investors.

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