



UNDERSTANDING LAND INVESTMENT DEALS IN AFRICA

THE MYTH OF JOB CREATION

LAND DEAL BRIEF | DECEMBER 2011

Overview

The promise of job creation has been put forward by investors, governments, and international institutions to convince local communities of the benefits of foreign investment in agriculture. For instance, the Sierra Leonean president, claimed in March 2011, “Huge investments in the [agricultural] sector will definitely translate into hundreds of thousands of employment opportunities for our youths.”¹ Several countries studied by the Oakland Institute² reveal that many locals thus welcome land investment with the hope that such projects will bring jobs and wages.

Because of the large role that agriculture plays in African economies, the sector has great potential as the driver of economic development and job creation on the continent. Activities such as storage to reduce post-harvest losses to get the best of market opportunities, as well as investments in value-added production such as processing seem particularly relevant to make the most of the tremendous potential of African agriculture. Improving productivity and production by smallholders is also essential to a sector largely dependent on family farms.

However Oakland Institute’s (OI) recent investigations into more than 30 land deals across 7 countries reveals that promises of job creation are often overstated and misleading. Oftentimes, it is unclear how many jobs will be created or whether those jobs are fair compensation for lost land and livelihoods for farmers. Evidence shows that large-scale agricultural investments provide minimal benefits to local communities, and that this should be taken into consideration by development practitioners and policymakers when evaluating the legitimacy of “responsible” agro-investment.

While potential benefits for locals can vary according to employment arrangement and production type, most employment options present a number of drawbacks for the local laborer or smallholder. It appears that lofty employment claims made by investors have not been substantiated with actual job creation, or jobs with significant development benefits.

Furthermore, modern agricultural schemes are highly mechanized and provide relatively few, often short-term, and seasonal jobs. There is no indication that investors are seeking to maximize local employment or that governments are prioritizing job creation. On the contrary, investors often find scalable, mechanized agriculture to be more manageable, and governments lure these investors by placing few or no limits on expatriate workers. To truly spur job creation, host governments would need to establish investment agreements that contribute to, rather than detract from local livelihood options.

By granting concessions in an attempt to attract investment, host countries invariably incur two types of costs that greatly outweigh the benefits of job creation: first, the direct costs for establishing infrastructure and subsidized services; and second, the indirect costs in the form of foregone government revenue and national income as a result of exemptions from taxes, import and export duties, etc. In many cases the benefits of new employment are negligible in comparison. For example, according to one report, the Kenyan government spent 40 billion shillings (approximately \$514 million at 2002 exchange rates) on establishing Export Processing Zones to attract foreign investment, but only 2,000 new jobs were created as a result.³ It can be argued that many more jobs could have been created if this money had been spent on job creation in the small-scale manufacturing, storage, and processing of agricultural products.

Claims of Job Creation

Amidst the global rush for farmland, land deals have been justified by those who claim agricultural investment in Africa will spur much-needed employment. Indeed, the World Bank, in a 2010 report, includes “employment generation” as one of the purported benefits of farmland investment, noting particularly that entrepreneurial and skilled people have the most to gain through new employment opportunities.⁴ Among the land deals investigated by the Oakland Institute, nearly all promise job creation for locals. Yet, evidence indicates that these claims are overstated.



In Mozambique, Emergent Asset Management not only promises job creation through its Matuba deal, it also projects “majority employment for the local community.”⁵ However, a head count in May 2011, revealed that the company has created only 17 permanent positions and 85 seasonal positions in the agricultural field.⁶ In Mali, Petrotech-ffn Agro MALI-sa (“Petrotech-ffn”) claims it will create 100 jobs on a holding of 10,000 hectares (ha).⁷ Yet, the Oakland Institute estimates a population density of 1 to 2 people per ha in this lease area, which translates into at least 10,000 to 20,000 people who will be affected by the Petrotech-ffn land deal. The creation of only 100 jobs for 10,000 to 20,000 people is negligible.

Also in Mali, Malibya’s 100,000-ha project claims it will generate at least 10,000 jobs and that it could “provide employment for all the inhabitants of the Region of Ségou.” The population of the Region of Ségou in 2009 was over 2.3 million people,⁸ with an active population roughly estimated at 989,000.⁹ These employment claims appear highly exaggerated. Furthermore, Malibya claims it will create 10,000 jobs on 100,000 ha (or 0.1 jobs per ha) producing hybrid rice, when grains production typically only creates 0.01 jobs/ha, ten times less than what Malibya purports.¹⁰

In Sierra Leone, one of the greatest purported benefits of the Addax Bioenergy land deal, which was signed in February 2010, is the large number of local jobs to be created. The Memorandum of Understanding states that in the first phase of production (2010-2013), the project will employ an estimated 3,000 people, increasing to 4,000 in phase two of production (2013-2015).¹¹ The Environmental, Social and Health Impact Assessment (ESHIA) for the project states that Addax is to employ approximately 2,200 permanent and 2,500 seasonal workers.¹² As of October 2010, however, Addax had employed only about 200 people from the lease area as casual laborers, and promises of salaried positions have gone unfulfilled.¹³

Also in Sierra Leone, promises of employment and other development opportunities were the main reasons stated by landowners and chiefs for agreeing to the leases for the Quifel International Holdings land deal. Yet, there have been no public statements or documents indicating how many jobs will be created or whether those jobs can compensate for lost local income and decreased food supplies. So far, employment opportunities have been limited to local young men (35 to 40 per site) hired for only one month to manually clear 5 ha test plots.

Oakland Institute’s evidence is supported by other findings, including one 2010 World Bank study, which found scant

evidence that foreign land investment is creating many local jobs. Labor requirements for production vary greatly among crops and production systems, such that crop choice and organization of production will have far-reaching impacts on the potential for agricultural investment to affect local livelihoods.

A 10,000 ha maize plantation in the Democratic Republic of Congo, for example, created only 0.01 jobs per ha while a sugarcane plantation would generate 0.351 jobs per ha. The World Bank report found job creation in Ethiopia to be similarly limited, with an average of 0.005 jobs/ha for cases where figures were given. “The patchy data that are available suggest that investments create far fewer jobs than expected,” the report said. The above figures must be compared with the labor intensity of family farms. Smallholder soybean production, for example, creates 0.125 jobs/ha,¹⁴ nearly eight times more jobs than the 0.016 jobs/ha created by large-scale soybean production.¹⁵

Palm oil and (non-irrigated) sugarcane generate between 10 and 30 more jobs per ha than does large-scale mechanized grain farming (see Table 1).¹⁶ This is due to the fact that, in general, tree crops and perennials have limited opportunity for the substitution of capital for labor, since key operations – especially harvesting – are typically manual regardless of farm size. For these types of farms labor intensity varies little among types of production systems, and employment opportunities are more certain. By contrast, grain production is very easily mechanized, which leads to vast differences between small and large operations. For example, a smallholder using animal power and manual labor in Cameroon is estimated to require 40 days to produce a ha of maize, while a large, fully mechanized farm will use 2 days of labor but higher amounts of capital to achieve the same result.¹⁷

Evaluating Employment Arrangements

Agricultural investments involve two main forms of employment: wage labor and contract farming or farmer outgrower schemes. Determining how each arrangement may affect local people depends on the location, the size of the operation, the crop(s) to be cultivated, and the compensation awarded.

WAGE LABOR EMPLOYMENT

The majority of land deals investigated by the Oakland Institute offer basic wage labor employment, mostly low-paying laborer positions, which present a number of disadvantages. First, as reported by the World Bank, wage labor income by itself amounts to 2 to 10 times less than the income of the average smallholder.¹⁹ Second, most agricultural wage labor positions



Table 1. Key Factor Ratios of Large-scale Investments¹⁸

Commodity	Jobs per 1,000 ha
Grains	10
Jatropha	420
Palm Oil	350
Forestry	20
Rubber	420
Sorghum	53
Soybean	18
Sugarcane – ethanol - rainfed, one-third mechanized harvest (Brazil)	153
Sugarcane – ethanol - irrigated, mechanized harvest (Mozambique)	150
Sugarcane – ethanol - irrigated, manual harvest (Tanzania)	700
Wheat-soybean	16

Source: World Bank, 2010; based on business plans for investments covered in case studies undertaken for the above-mentioned report.

are seasonal. Thus, the impressive number of positions to be created, such as the 20,000 to 30,000 employees to be hired by Karuturi in Ethiopia are misleading in terms of actual employment creation for local development.

In Sierra Leone, investigation by the Oakland Institute in October 2010 determined that casual laborers on the Addax Bioenergy project are paid 10,000 Leones (approximately \$2.25) per day, and are paid for only two out of every three weeks; a week's wages are "held back." Promises of a monthly salary have not been fulfilled. Casual laborers have no job security or benefits. No contributions are made on their behalf to the National Social Security and Insurance Trust.²⁰ Quifel, another investor investigated by this research has hired local young men (35 to 40 per site) for only one month to manually clear the 5 ha plots, and they were paid 7,000 Leones (approximately \$1.65) per day for the taxing labor. Local foremen for each site were paid about 8,000 Leones per day (\$1.80), or 246,000 Leones (\$57 per month), and were kept on to oversee the trials.

Additionally, massive influxes of laborers, usually men, from other areas of the country can have significant adverse social effects on local communities, such as increased competition for resources. Oakland Institute's interviews with locals revealed concern from many people in both the Gambella and Benishangul regions of Ethiopia that laborers will stay after their employment, acquire land, eventually bring their families, and further exacerbate pressures on the land and resources. There is also concern that laborers will mirror the practice of settlers by clearing forests for their own benefits (housing, fuel, and charcoal production) with limited regard for local livelihoods. Examples from past developments in Ethiopia lend credence to these concerns.²¹

FARMER OUTGROWER SCHEMES

A potentially more beneficial option for local employment creation is the farmer outgrower scheme, a contractual agreement whereby the farmer agrees to provide established quantities of a specific agricultural product, meeting the quality standards, and delivery schedule set by the purchaser. Because this arrangement supposedly taps into existing smallholder systems rather than infringing upon them, dual benefits are expected for this model, including supply benefits for the investor and increased income for locals.

Under certain conditions, well-managed outgrower schemes can be advantageous for small farmers by solving many of their market linkage and access problems and increasing cash income. Among the deals investigated by OI, AgriSol Energy, Addax Bioenergy, Sierra Leone Agriculture, and others plan to establish farmer outgrower schemes, and all claim that these will bring development benefits to local communities. For instance, the Addax website states, "Addax Bioenergy seeks to create lasting opportunities for local farmers by implementing contract farming schemes and inciting farmer cooperatives to grow food crops on fallow plantation land."²² Most of the planned outgrower schemes identified by OI research are to be developed on the side of large-scale plantations, generally in a second phase of the investors' plans. Most appear to constitute a "social responsibility" component of the investors' plans, fulfilling promises made to governments and farmers when negotiating the deals.

The potential problem with outgrower schemes, however, is the existence of inevitable information and power asymmetries between smallholders and large agribusinesses. In such schemes, the firms generally provide farmers with the necessary inputs (seeds, fertilizers) at set prices as well as control the prices to be offered to farmers for their crops.



Indeed, if farmers are not well organized, or where there are few alternative buyers for the crop, there is a danger that farmers will enter into unfair deals.

Another difficulty is that outgrower schemes often take years to implement and require a great deal of effort and commitment from the investor. As Gregory Myers of USAID notes, “Transaction costs for investors to deal directly with small farmers are high.”²³ Indeed, Brian Mathis of Pine Street Alternative Asset Management, has stated,

“Scale is a key concern...Contract negotiations are complex and difficult; even governments will hire lawyers to deal with the complicated aspects of negotiating deals for land. For some investors, ‘mega farms’ [are] needed at times, as dealing with many smallholders can be a headache.”²⁴

Thus, power asymmetries between farmers and firms, together with the high transaction costs of contract farming for investors, translate into important concerns regarding the outgrower schemes planned in conjunction with large land deals. These concerns merit increased examination with respect to the sustainability of such schemes over time.

REDUCED LABOR STANDARDS TO ATTRACT INVESTMENT

Job creation through African agricultural investment is also undermined by labor-related investor incentives. In the attempt to attract foreign investment in key sectors, many Sub-Saharan governments offer fiscal and non-fiscal incentives to investors, the latter of which may include restrictions on labor rights and exemptions from labor laws. For example, a number of African governments, including Uganda and Kenya, have allowed new investors to withdraw union recognition, mostly in export processing zones – a particular selling point for investors.²⁵ It is clear, however, that such restrictions weaken organized labor’s capacity to demand rights enforcement or improve conditions.

In addition, many governments, including Ethiopia, Sierra Leone, Mozambique, and Tanzania, have relaxed requirements for local employment, allowing companies to hire unlimited numbers of expatriate employees. Evidence from Ethiopia reveals that a number of Indian firms have brought in large numbers of expatriate unskilled workers; some NGOs report that these might constitute up to 40 percent of the workforce, depriving Ethiopians of both managerial as well as menial jobs.²⁶

Also, in Mozambique, the terms of authorization for the EmVest Matuba project, as approved by the Mozambican government, do not legally require EmVest to generate extended employment opportunities for locals. Instead, the terms require the employment of 18 full-time and 100 seasonal workers during the first year of the project. Specific durations and conditions of employment are left unspecified, as are employment requirements for subsequent years.²⁷ In an interview with the OI research team, the Matuba village chief confirmed limited opportunities on the EmVest farm. He shared that villagers had a greater ability to feed their families while farming their small plots than working (in a limited capacity) for EmVest.

Similarly, AgriSol Energy in Tanzania has stated its preference for expatriate workers over locals. When asked if AgriSol had considered potential job creation for local populations in the project lease areas, Bruce Rastetter, co-founder and Managing Director of AgriSol Energy, stated,

“You know, we haven’t done that...what I appreciate, from a practical standpoint, is how [the Tanzanian Prime Minister] understands the country and the capabilities and what we’ll need to bring in. They, quite frankly, think we’ll need to [bring in outside farmers], and they’re fine with bringing in South African farm managers...the white South African farm managers, to be able to provide that general expertise.”²⁸

These comments directly contradict claims made by Pharos that AgriSol is in the process of “identifying local farm project managers.”²⁹

SMALL-SCALE VERSUS INDUSTRIAL AGRICULTURE

Finally, in the context of potential job creation, the quality of local livelihoods is another crucial factor to consider. Family farmers are the backbone of Sub-Saharan economies and societies, with small-scale farms accounting for over 90 percent of agricultural production.³⁰ A large body of research backs the notion that small farms are more productive, biodiverse, and sustainable than large, industrial-style plantations, and in terms of local peoples’ wellbeing, small-scale agriculture offers a number of benefits. For instance, goods that come from small farms are relatively less capital-intensive than goods from large farms, meaning that more labor is used to produce each unit. Therefore, small farms employ relatively more labor, including rural unskilled laborers, than do large farms, providing more gainful



livelihood options for locals. Additionally, small farms have a higher output per land unit because they utilize their land more efficiently, growing multiple crops, thereby improving local food security. Small farms are also more productive because of their relatively high concentration of labor per ha compared to larger farms.³¹ Additionally, because the household is the main workforce, the costs of supervision are low³² – household labor is generally self-supervising in effort and diligence.³³

Lastly, small farms' utilization of relatively more labor per land unit naturally distributes a relatively larger portion of

their profits, revenues, and output to their laborers. The average farm size for crop-based farming in Mali is just 4.7 ha, and one third of the 805,000 farm households cultivate less than 1 ha.³⁴

To put in perspective the impact of large land deals on local communities and livelihoods there is the example of what OI found in Mali where recently leased land could (conservatively) sustain 112,537 farm families,³⁵ well over half a million people (686,478).³⁶ Instead, that land is now concentrated in the hands of 22 investors, who are planning to employ a few thousand plantation workers.³⁷

The views and conclusions expressed in this publication are opinions of the Oakland Institute alone.

ENDNOTES

- 1 State House Press, "Speech by his Excellency the President Dr. Ernest Bai Koroma on the Occasion of the Launching of the World Bank Funded Youth Employment Support Project," 17 March 2011, http://www.statehouse.gov.sl/index.php?option=com_content&view=article&id=283:speech-by-his-excellency-the-president-dr-ernest-bai-koroma-on-the-occasion-of-the-launching-of-the-world-bank-funded-youth-employment-support-project-miatta-conference-centre-17th-march-2011&catid=34:news-articles (accessed 8 June 2011).
- 2 See the different investigative reports in Oakland Institute's series: "Understanding Land Investment Deals In Africa," <http://media.oaklandinstitute.org/land-deals-africa>
- 3 H. Jauch, "Export processing zones and the quest for sustainable development: A Southern Africa perspective," available at: <http://www.gpn.org/research/namibia/jauch.pdf> (accessed 30 July 2011).
- 4 The World Bank, "Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?" September 2010, p xv.
- 5 Investment Proposal & Update. Communication with Emergent's CEO Susan Payne and Anthony Poorter, EmVest's Chief Operating Officer, October 2010.
- 6 Email communication with Oakland Institute, 12 May 2011.
- 7 Petrotech-ff Agro Mali, Note de présentation projet biocarburant.
- 8 Institut Nationale de la Statistique, 2009.
- 9 Based on statistics from Pays du Monde (accessed March 21 2011) active population in Mali reached 5,574,000 inhabitants in 2004 or very roughly 43% of the total population. The estimated active population for the region of Ségou assumes this rough national percentage holds true at the regional level as well.
- 10 Oakland Institute field research, November 2010. See: "Understanding Land Investment Deals in Africa; Country Report: Mali," Oakland Institute, June 2011.
- 11 The Republic of Sierra Leone, State House, "President Koroma hails ADDAX Group's multi-million-dollar biofuel Investment in Sierra Leone," 11 February 2010, http://www.statehouse.gov.sl/index.php?option=com_content&view=article&id=142:president-koromahails-addax-groups-multi-million-dollar-biofuel-investment-in-sierraleone-&catid=34:news-articles (accessed 16 January 2011).
- 12 Coastal & Environmental Services (CES), "Sugar cane to ethanol project, Sierra Leone, Draft ESHIA," March 2009, p 177.
- 13 Oakland Institute field research, November 2010. See: "Understanding Land Investment Deals in Africa; Country Report: Sierra Leone," Oakland Institute, June 2011, p 33.
- 14 J. Maarten Dros, "Managing the Soy Boom," *WWF*, June 2004.
- 15 Large-scale soybean production job creation figures obtained from "Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?" The World Bank, September 2010.
- 16 The World Bank, "Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?" September 2010, p 28.
- 17 The World Bank, "Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?" September 2010, p 29.
- 18 Factor ratios based on case studies from: "Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?" The World Bank, September 2010.
- 19 The World Bank, "Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?" September 2010, p 26.
- 20 Oakland Institute field research, November 2010. See: "Understanding Land Investment Deals in Africa; Country Report: Sierra Leone," Oakland Institute, June 2011, p 28.
- 21 See Oakland Institute's "Understanding Land Investment Deals in Africa; Country Report: Ethiopia," Oakland Institute, June 2011, p 39.
- 22 Addax & Oryx Group, "Addax Bioenergy Pioneering the African opportunity in sustainable tropical biofuels," <http://www.addax-oryx.com/pdf/uk/addaxbioenergy.pdf> (accessed 19 April 2011).
- 23 USAID, Millennium Challenge Corporation, "Proceedings." Round Table Discussion on Land Access and Responsible Agribusiness Investment. April 2011.
- 24 *Ibid.*
- 25 S. Taylor, "Labor Markets in Africa: Multiple Challenges, Limited Opportunities," Available at: http://www.relooney.info/o_NS4053_141.pdf (accessed 30 July 2011).
- 26 S. Guhu Ray and V. Roy, "Ethiopians say Indians grabbing land, Indian farmers claim it is official," *Teheka*, 25 September 2010.
- 27 Oakland Institute investigation, see: "Understanding Land Investment Deals in Africa; EmVest Asset Management in Matuba, Mozambique," Oakland Institute, June 2011.
- 28 B. Rastetter, direct communication, 26 April 2011.
- 29 Pharos Global Agricultural Fund "Africa Projects – 2011," PowerPoint presentation, March 2011.
- 30 IFPRI, "Will they Survive? Prospects for Small Farmers in Sub-Saharan Africa," IFPRI, Sustainable Food Security for all by 2020 Conference, 4-6 September 2001, Summary Note, http://conferences.ifpri.org/2020conference/PDF/summary_spencer.pdf (accessed 6 June 2011).
- 31 Steve Wiggins, "Can the smallholder model deliver poverty reduction and food security for a rapidly growing population in Africa?" (Draft). Overseas Development Institute, 8 June 2009.
- 32 Peter Hazell, Colin Poulton, Steve Wiggins, and Andrew Dorward, "The Future of Small Farms for Poverty Reduction and Growth," International Food Policy Research Institute, May 2007.
- 33 Steve Wiggins, "Big farms or small farms? How to respond to the food crisis," The Future Agricultures Consortium, 16 July 2009.
- 34 USAID, "Accelerated Economic Growth: Strategic Planning for the Development of a Multi-Year Plan for Feed the Future," June 2010.
- 35 This calculation has been done assuming an average farm size of 4.7 ha, over an area of 528,926 ha. This is the total area of land allocated to investors in the Office du Niger, according to an official map from October 2010.
- 36 Assuming a conservative average household size of 6.1 persons (for rural areas) according to the 2009 census, Institut Nationale de la Statistique. 2009, op. cit.
- 37 Oakland Institute field research, November 2010. See: "Understanding Land Investment Deals in Africa; Country Report: Mali," Oakland Institute, June 2011.