In 2008 the African nation of Madagascar permitted a private South Korean firm, Daewoo Logistics, to sign a 99-year lease on 3.2 million acres of land, representing nearly half of the country’s arable land. Daewoo planned to grow approximately five million metric tons of corn and 500,000 tons of palm oil annually on the land, and had intended to spend approximately USD 6 billion over 20 years to build support infrastructure. The land deal generated significant controversy. While Madagascar’s national leaders celebrated the arrangement as a turning point in the country’s economy, many others viewed the deal, which was negotiated behind closed doors, as yet more evidence of poor governance and a violation of the country’s constitution. The deal fuelled anti-government protests that had already been occurring in the country. In March 2009, a military-backed coup d’état forced the resignation of President Marc Ravalomana, and the newly-installed leader Andry Rajoelina subsequently cancelled Daewoo’s contract.
Until the much-publicized political turmoil in Madagascar, the role of private investors in acquiring or leasing farmlands in developing countries had received little attention. The Daewoo case highlighted the vast investment potential for private investors in agricultural land. At the same time, it illustrated the potential for farmland investing to generate negative impact and controversy, along with concrete risks for investors.

Farmland investing in developing countries represents lucrative opportunities for investors. It also presents an opportunity for investors to contribute to the much-needed expansion of food production in the developing world.

However, when undertaken without due consideration to social and environmental impacts, it creates significant potential for negative impact on local food security, political stability and community access to resources, among other areas, which can lead to significant operational, regulatory and reputational risks to investors. Farmland investing in developing countries is a relatively new frontier and, while principles addressing responsible farmland investing have emerged, there are challenges surrounding their implementation. This type of investment should, therefore, be approached with caution. Farmland investing requires a high level of due diligence as well as a significant level of understanding of developing market issues.²
In recent years there has been a significant increase in the involvement of institutional investors in farmland ownership in Asia, South America and Africa. A number of factors have contributed to this increase, including spikes in food and fuel prices, the desire of some capital-exporting, food-importing countries to secure reliable sources of food, land speculation, and the demand for alternative energy sources.

Investors may gain exposure to farmland investments through a diverse set of investment funds, including private equity funds, mutual funds and real estate investment trusts. Funds are managed either by private or publicly traded companies, and raise money from institutional investors, endowments and wealthy individuals. These funds acquire or lease farmland held by either a private owner or government, or buy equity or debt in a company that manages or owns farms. The funds offer relatively high rates of return, in some cases surpassing 20 per cent per year. These returns are based on a combination of land appreciation and revenues generated from farm production.

Investment in farmland is relatively low – estimated at 1 per cent of total farmland value – although evidence suggests that it is growing. While it is difficult to ascertain actual figures due to a lack of transparency, an estimated USD 5 billion to 15 billion is invested in farmlands annually. GRAIN, a non-governmental organization that tracks farmland acquisitions, estimates that, as of 2009, roughly USD 100 billion had been poured into these investments by about 120 funds.

Foreign agriculture investors bring much-needed capital for agricultural development and, if structured and carried out responsibly, farmland investing can contribute to economic development in the developing world. Specifically, farmland investments have the potential to bring about tangible benefits such as job and income creation (through both direct employment and through outgrower programs); training and skills development for local communities; the development of economic infrastructure such as roads, water supply and electricity, as well as social infrastructure such as medical facilities, schools and housing; as well as technology and knowledge transfer.

However, as a result of approaches to farmland investing that generally do not take ESG impacts into account, this potential is often undermined by negative outcomes for communities, local economies, food security and the environment. As revealed below, an investment’s impact is affected by a variety of factors, including the nature of an investor’s ownership and/or lease rights as well as the political, social and economic situation in the host country, and the strength of its institutions.
DIRECT IMPACT

WAGES AND LIVELIHOOD
Farmland investing is often focused on corporate farms, which typically create opportunities for employment as well as knowledge and skill transfer. However, wages for hired hands in some countries are low and unlikely to be raised without regulatory pressure from the host government. Anecdotal reports indicate that seasonal workers in Sierra Leone, for example, are paid approximately USD 2.25 a day, while workers in Mali receive even lower wages of USD 0.60 to USD 1.20 a day. In contrast, wage levels are generally higher for workers in South Africa, which has a minimum wage structure that is reviewed annually. In March 2011 this review led to a minimum wage increase of 4.5 per cent, to ZAR 7.5 (USD 1.10) per hour, for agriculture workers. In addition, in South Africa limits have been imposed on the number of working days for agriculture workers, and the government requires farms to pay overtime wages.

Corporate farms tend to edge out under-capitalized family-owned farms. In many cases, small-scale or subsistence farmers have been encouraged to sell family plots so that these plots can be leased out to investors, thereby abandoning traditional forms of livelihood in favour of low-wage employment in corporate farmlands.

MARGINALIZATION OF COMMUNITY RIGHTS
Some developing country governments, eager for foreign investment, are quick to offer attractive land leases and incentives to foreigners, without full consideration of local communities and customary law. This may undermine community rights over communal resources and deprive local communities of full access to vital resources such as water.

DISPLACEMENT AND RESETTLEMENT
In some cases, local communities have been displaced from areas allocated for land deals. Moreover, evidence points to unsatisfactory implementation of resettlement plans. The consequences of displacement go beyond economic impacts. In addition to land being the primary source of livelihood, communities often have a strong cultural and even spiritual affinity to land, and severing this link can have a devastating impact on people’s lives.
OPAQUE LAND DEALS
Land deals are often forged and managed with little transparency and under unclear terms. The opacity of such land deals should be a red flag for responsible investors.

ACCESS TO RESOURCES
A survey by the International Institute for Environment and Development (IIED) indicated a number of disturbing characteristics of some land deal contracts: many are short and written in broad language that is not commensurate to the extensive and long-term rights granted to investors; some give investors priority rights to scarce resources such as water; many fail to ensure safeguards for local interests; and many contain inadequate environmental and social safeguards. These characteristics have the potential to put communities in competition with investors for vital resources such as water and land.

POLITICAL INSTABILITY
Non-transparent land deals tend to arouse suspicion and, as the case of Madagascar showed, can fuel existing local grievances and contribute to political unrest. Land deals that are carried out in areas with unresolved claims and disputes also have the potential to exacerbate existing tensions between rival parties and possibly cause conflict and violence.

BROADER IMPACT

FOOD SECURITY
Various case studies of individual land deals in developing countries indicate that a significant portion of farmlands are being used to grow crops for fuel and export. Giving priority to such crops has the potential to undermine food security in host countries.

While there are no authoritative figures on the actual percentage of corporate farmlands being used for biofuels, case studies of land acquisitions in Ethiopia, Ghana, Madagascar and Mali show that approximately 50 per cent of acquired land was intended for biofuels, while the other half was intended for export crops.

Media reports of specific farmlands in Africa and Latin America mirror these findings. Moreover, misaligned interests between host governments and investors pose a challenge to food security programs. Land leases have a lifespan of at least 50 years to ensure long-term growth of the agricultural sector. However, investors’ time horizons are generally much shorter, typically between five and 15 years. This means that, after a few years, agricultural development can lose steam because of an investor’s withdrawal and the subsequent need for government to secure additional capital.

ECONOMIC DEVELOPMENT
If structured correctly, land deals have the potential to contribute to economic development through agricultural development and its multiplier effects on employment, the growth of local business, and improvements in infrastructure.
However, many of the current land deals are being challenged for what are perceived to be overly generous incentives to investors. Evidence suggests that land deals often provide for generous multi-year tax holidays and tariff incentives, depriving the host countries of much needed tax revenues for a number of years. Some fear that farmland acquisitions will have a detrimental effect on land reform programs that provide the poor with secure and equitable access to land. Anecdotal reports indicate that some foreign investors have been wary of land reform and have pressured governments to scale back on the extent of such reform.

**ENVIRONMENT**

Industrialized farming can negatively affect local ecosystems if not managed properly. Two key sources of impact are the use of pesticides and the diversion of water for irrigation. Pesticides contaminate water sources, threatening wildlife and human health. Meanwhile, irrigation for large farms requires the diversion of water from vital ecosystems that support biodiversity. There are also concerns over deforestation as a result of forest conversion into farmland.

**GOVERNANCE**

Investors operate in countries where governance is typically weaker than in their home countries, and political systems are linked to local elites rather than strong institutions. Opaque land deals with inadequate economic and social safeguards help perpetuate weak governance systems in host countries, and effectively support non-transparent leadership.

Prevailing practices in farmland investing, especially those involving non-transparent processes and inadequate consultation of affected communities, generate a number of risks for companies and investors.

**OPERATIONAL RISK**

The direct and broader impacts of farmland acquisitions pose a range of operational risks for farms, including security of personnel and assets, productivity loss, increased exposure to corruption, as well as contract cancellation and expropriation.

**SECURITY RISKS**

Companies perceived to have deprived local communities of their rights may face hostility from communities and interest groups (possibly even rebel groups), exposing the companies to security risks and potential human rights violations. Security risks are particularly high in areas that face political and/ or land-related disputes. These unresolved issues create volatile environments for foreign investors. An outbreak of violence is likely to severely affect a farm’s...
operations and compromise the safety of its employees. Political instability will require greater security measures for farmlands, although the use of national security forces and/or private security guards also raises investors’ exposure to human rights violations and increases liability risks. A case in point is Chiquita Brands International, which operates banana plantations in Latin America. In March 2007, Chiquita paid USD 25 million in fines to the U.S. Government for making protection payments to the United Self-Defense Forces of Colombia (AUC), a paramilitary organization considered a terrorist group by the U.S. Government. Chiquita’s payments to the AUC were apparently made to protect its employees.\textsuperscript{17} Since 2007, families of the victims of human rights abuses carried out by the AUC have filed lawsuits against Chiquita under the Alien Tort Claims Act. The lawsuits, covering approximately 4,000 victims, have been consolidated and are pending in a U.S. federal court.\textsuperscript{18}

LABOUR-RELATED RISKS
Low wages in corporate farms are a flashpoint for investors and workers and can lead to protracted risks to a farm’s productivity. For example, Del Monte farms worldwide have experienced labour-related strikes and protests during the last 20 years, affecting the company’s operations, increasing liability risks, and attracting unwanted public attention.

CORRUPTION-RELATED RISKS
The lack of transparency in land deal negotiations, coupled with weak government institutions may create increased exposure to corruption. The fall of Egyptian leader Hosni Mubarak in early 2011 revealed a web of corrupt commercial land deals by private domestic investors. There is reason to believe that similar corrupt practices have occurred in farmland deals.\textsuperscript{19}

CANCELLATION AND EXPROPRIATION RISKS
Negative social impacts of farmland acquisitions may lead governments to cancel contracts or expropriate leased lands with serious implications for investors. Following the political upheaval in Madagascar, for example, Daewoo’s land deal was ultimately cancelled in March 2009 by the newly installed government.\textsuperscript{20} The cancellation forced Daewoo into takeover negotiations with another South Korean company, however the talks failed. In July 2009, Daewoo filed for bankruptcy.\textsuperscript{21}

REGULATORY RISK
Increasing concerns over the adverse social and economic impacts of farmland acquisitions by foreigners have prompted some host country governments to review land deals and consider imposing regulatory restrictions such as limits on foreign ownership and additional taxes. These regulatory proposals are likely to restrict the future market potential for farmland investments. Argentina, Brazil and Uruguay are reportedly drafting laws to restrict foreign acquisitions of land.\textsuperscript{22} Argentina is eyeing a cap of 1,000 hectares for future land sales, following Brazil, which imposed a limit of between 250 and 5,000 hectares, depending on the region.\textsuperscript{23} Uruguay’s president, meanwhile, is reportedly considering higher taxes on landowners with more than 2,000 hectares of farmland.\textsuperscript{24}
The imposition of limits on land acquisitions in South America may only be the first step. Future regulations may require stronger environmental and social safeguards as well as tighter risk mitigation measures. (Note that while tighter regulations may generate risk for some farmland investments in the shorter term, Sustainalytics believes that, to the extent that such regulations address concerns surrounding food security, environmental protection, and other ESG issues, they will in fact reduce investor risk in the longer term).

REPUTATIONAL RISK

Media coverage of farmland acquisitions and civil society campaigns has increased, creating potential reputational risks for investors. Civil society groups have labeled these investments as “land grabbing” as well as a form of “colonization,” terms that tend to resonate in developing countries, and are likely to tarnish an investor’s reputation. For example, the Regulate Finance for Development network profiled Europe-based private equity funds in a report entitled The Vultures of Land Grabbing. A May 2011 report by the Oakland Institute, a California-based advocacy group, cited a number of American universities such as Harvard and Vanderbilt among investors in a fund that has acquired farmlands in Africa under questionable circumstances. This report was carried by a number of mainstream media, focusing public attention on university endowments. In June 2011, activists from at least 25 organizations carried out a demonstration to protest farmland acquisitions in developing countries during an international conference on agriculture investing in Geneva. As food prices continue to rise, public attention on food security issues in the developing world will also continue to increase, which will expand opportunities for targeted campaigns.

Responsible Investment and Farmlands in Developing Countries

While some funds involved in farmland investing state that their investments are socially responsible and/or ethical, public disclosures provide scant evidence of concrete ESG-related policies, safeguards, or risk mitigation measures. However, there is growing recognition among investors of the need to operate sustainably as a way to mitigate risk. A number of investors have developed and disclosed specific policies and strategies to manage the ESG risks associated with farmland investing.

FARMLAND-SPECIFIC RESPONSIBLE INVESTMENT POLICY

A number of investors have responsible investment policies that cover their investments in farmlands. One approach embedded in some policies is the exclusion of certain types of lands, such as those that are disputed and located in environmentally-sensitive or protected areas. Some investors also impose
restrictions on the type of land in which they will invest: they only consider lands that have been farmed, and do not consider acquiring forests or newly-converted lands. Such restrictions can help weed out investments that may expose investors to unacceptable levels of risk.

**ENGAGEMENT AND ACTIVE OWNERSHIP**

Some investors engage with and take an active ownership approach to applying ESG standards to their investments in farmland. The International Finance Corporation (IFC), which has invested USD 75 million in the Altima One World Agriculture Development Fund, appraises the fund’s proposed portfolio based on the IFC’s Environmental and Social Safeguard Policies, including its exclusion list. It also requires the fund to ensure capacity to manage ESG issues through the establishment of a management system and internal standards. The IFC requires the fund manager to report on its compliance to these standards annually.

These are intended to address direct impacts on local communities, although continual monitoring is important to ensure that standards are applied over the long term. A few investors have, in fact, developed internal mechanisms to track the impact of their investment.

**THE EMERGENCE OF INTERNATIONAL FRAMEWORKS**

Since 2008, multilateral regional gatherings have attempted to address food security and agriculture investing. The proposed Principles on Responsible Agro-Investing (PRAI), backed by several major international organizations including the Food and Agriculture Organization of the UN, the International Fund for Agricultural Development, and the United Nations Conference on Trade and Development, have emerged from these various discussions.

Recognizing the potential for both positive and negative impacts from agro-investment, the Principles address key issues surrounding rights to land and resources, transparency, community consultation, environmental protection, and other areas of concern raised by stakeholders.

Civil society groups have criticized the PRAI, alleging that they “create an illusion that by following a set of standards, large-scale acquisitions can proceed without disastrous consequences to peoples, communities, ecosystems and the climate.” In Sustainalytics’ view this critique highlights the challenges of implementing the PRAI but does not invalidate the principles themselves. They provide useful guidance, at a general level, for responsible investors interested in farmland investing.
Much needs to be done, however, to develop a fuller understanding of the barriers to implementation; to develop best practices and specific codes of conduct for the various types of players involved in agro-investing; and to identify legal, regulatory and institutional changes, particularly on the part of governments of host countries, that will facilitate adherence to the PRAI. These are areas to which responsible investors can make an important contribution.

Also noteworthy is the work of Olivier De Schutter, the UN Special Rapporteur on the Right to Food, who has proposed that “minimum human rights principles” be applied to large-scale land acquisitions or leases. The proposed principles set obligations based on human rights principles for both the host government and investors. His recommendation also addresses both direct and broad impacts of farmland acquisitions, and puts heavy emphasis on the obligation of the host state to apply international human rights standards in land leases. One striking feature of the proposal is the provision for the enforcement of investors’ obligations as well as sanctions for non-compliance. De Schutter’s recommendation provides more detailed guidance for implementation by way of binding obligations and enforcement.
Farmland investing in developing countries requires, among other things, transparency and increased environmental and social obligations for all stakeholders. Investors looking to invest or increase their exposure to farmlands are encouraged to undertake the following:

- **Embed farmland-specific provisions in responsible investment policies.** Farmland investing in developing countries presents novel challenges and its own specific set of risks. Farmland-specific policies will address these nuances and help investors mitigate and manage these risks more effectively.

- **Integrate ESG standards in investments.** Both passive and active investors need to have the appropriate level of ESG capacity to mitigate risks associated with farmland investing. ESG standards can be applied in different ways. Passive investors can apply ESG criteria in their selection of fund and fund manager by choosing managers with a strong ESG track record. Active investors can require that partners apply ESG standards, or can work with these partners to develop such standards along with capacity for standard implementation and monitoring.

- **Due diligence.** Investors should undertake a thorough evaluation of a potential farmland investment opportunities, factoring in criteria such as: the strength of institutions and governance in the host country; the level of corruption; political, social and economic conditions that may be impacted and/or exacerbated by land acquisition; the track record of the company that will be managing the farm; and its ESG management systems.

- **Engagement and active ownership.** Investors should, at minimum, regularly engage with fund managers about investment strategies to ensure that ESG factors are considered. Active investors should also seek opportunities to participate in community consultations and, where possible, in high-level dialogues with host governments, encouraging them to adopt sustainable farmland policies as well as incorporate international social and environmental standards into land deals.

### THE RESPONSIBLE AGRO-INVESTING PRINCIPLES:

- **LAND AND RESOURCE RIGHTS:**
  Existing rights to land and natural resources are recognized and respected.

- **FOOD SECURITY:**
  Investments do not jeopardize food security, but rather strengthen it.

- **TRANSPARENCY, GOOD GOVERNANCE AND ENABLING ENVIRONMENT:**
  Processes for accessing land and making associated investments are transparent, monitored, and ensure accountability.

- **CONSULTATION AND PARTICIPATION:**
  Those materially affected are consulted and agreements from consultations are recorded and enforced.

- **ECONOMIC VIABILITY AND RESPONSIBLE AGRO-ENTERPRISE INVESTING:**
  Projects are viable in every sense, respect the rule of law, reflect industry best practice, and result in durable shared value.

- **SOCIAL SUSTAINABILITY:**
  Investments generate desirable social and distributional impacts and do not increase vulnerability.

- **ENVIRONMENTAL SUSTAINABILITY:**
  Environmental impacts are quantified and measures taken to encourage sustainable resource use, while minimizing and mitigating them negative impact.

Source: [http://www.responsibleagroinvestment.org/rai/](http://www.responsibleagroinvestment.org/rai/)
Support appropriate regulation. Without a doubt, the momentum for regulating agricultural investing is building and tighter regulations are likely to emerge. It is in investors’ long-term interests to support regulations that promote transparency and high ESG standards as a means to reduce long-term negative impact and investor risk.

Adhere to voluntary frameworks. The PRAI as well as proposed principles by the UN Special Rapporteur on the Right to Food present opportunities for investors to align investment approaches with international standards. Both frameworks address the direct and broad impacts of land acquisitions and are a good starting point for investors.

THE BOTTOM LINE

Farmland investing in developing countries is complex and fraught with challenges. As the case of Madagascar demonstrates, investments made without due consideration of ESG factors can have a profound impact on local communities and the host country as a whole and generate substantial financial risk.

"The obligations of the investor should not be limited to the payment of rents, or – in the case of land purchases – to a monetary sum. They should include clear and verifiable commitments related to a number of issues which are relevant to the long-term sustainability of the investment and to its compliance with human rights."

Olivier De Schutter
UN Special Rapporteur on the Right to Food

Nonetheless, if structured and carried out responsibly, investments in farmland in developing countries have the potential to make a positive contribution and improve people’s lives. They must, however, be approached with caution, and they require a high level of transparency, due diligence and attention to ESG impacts. Investors alone will not resolve the challenges associated with farmland investing, but by taking steps such as those outlined above, they can leverage their influence to help bring about positive outcomes – economic, social and environmental – for themselves and for stakeholders, especially the individuals and communities most directly affected by farmland investing.
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The author interviewed Devlin Kuyek as part of the research for this paper. Mr. Kuyek is a researcher at GRAIN, an international non-profit organization that works to support small farmers and land-based social movements. He focuses on global agribusiness and is co-writer for GRAIN’s blog on hybrid rice. He has worked with civil society groups and peasant organizations in Malaysia and the Philippines. Mr. Kuyek is based in Montreal, Canada.

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About Sustainalytics

Sustainalytics
Sustainalytics is an international and independent sustainability research and services provider. Our global perspective is underpinned by nearly 20 years of experience in the responsible investment and traditional socially responsible investment markets. Sustainalytics has more than 50 analysts assessing environmental, social and governance performance, and has research methodologies for more than 40 different industries. Headquartered in Amsterdam, Sustainalytics also has local offices in Boston, Frankfurt, Paris, Madrid, Timisoara and Toronto; and representatives in Brussels and Copenhagen.

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