Foreign Investment in Agriculture in Eastern Africa:

A General Overview of Trends and Issues

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1.0 PREAMBLE

Africa is turning into a fashionable post-crisis investment destination, and more specifically, in its agricultural sector. Although UNCTAD, in its World Investment Report 2010, positions Africa at the bottom of future investment destinations relative to the rest of the world, that could be about to change as foreign governments and private investors reset their investment horizons and start to look at Africa from a different perspective. In any case, Africa is the only continent with an abundance of one commodity that is becoming ever scarcer: agricultural land.

The rise in the levels of international investment capital in African agriculture and agribusiness has taken the investment thesis directly into the intensely political arena of global food security and land rights. But more foreign investments in agriculture in Africa should be expected as long as food security remains a top agenda item for the likes of China, India, Saudi Arabia, United Arab Emirates (UAE), South Korea and many others.

The argument that foreign investment in agriculture holds key to Africa's food security, particularly when it is aimed at supporting smallholder agriculture and sustainable farming, is a relatively straightforward one and more comforting. But, the trends in the acquisition of huge tracts of African agricultural land by foreign governments (directly or through sovereign wealth funds), and by multinationals, investment banks, hedge funds, private equity firms and speculators creates a slightly more tortuous and disturbing picture.

Discussions about large-scale African land acquisition by international purchasers have now been well documented, and the pros and cons continue to be the subject of fierce debate. Two schools of thought arise. Is it a cynical land grab that amounts to a new wave of exploitational colonialism or is it the best opportunity Africa has had in decades to generate investment inflows that will fund lasting economic benefits? What will be the likely impact on poor's livelihoods? How is this trend likely going to change the role of governments in the host nations? These questions are the subject of this brief paper.

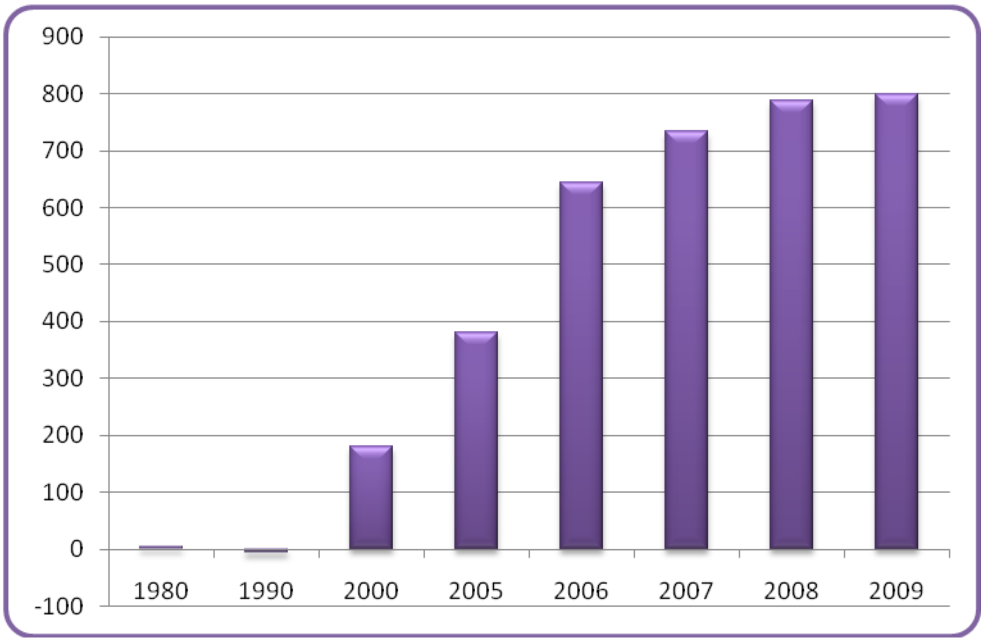
2.0 NEED FOR FOREIGN INVESTMENT IN AGRICULTURE IN EASTERN AFRICA

Uganda

The Ugandan government has undertaken various reforms to attract foreign direct investment. Through its numerous policies, plans and program frameworks such as the National Development Plan (NDP), Plan for Modernization of Agriculture (PMA), National Agricultural Advisory Services (NAADS), National Trade Policy (NTP), Agricultural Sector Development Strategy and Investment Plan 2010/11-2014/15 (DSIP), emphasis is made of the need to attract more investments into the agriculture sector including provisions for foreign investment.

While FDI has been on the increase in Uganda, rising from just about US$ 4 million in 1980s to US$ 799 in 2009 (see figure 1), less of it has been directed at the agricultural sector. Most of the FDI have been directed at telecom, mining, construction, banking and other service sectors. According to Uganda Investment Authority, only about 20 percent has been destined to agriculture mainly in a few subsectors such as floriculture which gives the most attractive return on investment (30-40 percent).

Figure 1: FDI to Uganda 1980 -2009 (USD Million)



Data Source: UNCTAD Statistical Handbook (2010).

Opportunities that have been exploited through FDI have included production and supply of propagation materials to farmers, manufacture of greenhouse construction and packaging materials and growing of flowers for export. In the textile sector, investment has focused on exploiting opportunities growing of cotton for export, establishment of ginneries, and supply to farmers and production of edible oil from cotton.

Sudan

According to IPS[1], Sudan is hoping to use foreign cash to reinvigorate its under-performing agricultural sector, but there is growing disagreement over the extent to which outsiders, rather than local farmers, should be taking control of the country's agricultural sector. In 2007, the Sudanese government established a Five Year Action Plan for agriculture. The plan highlighted the dangers of depending on a single commodity product such as oil, due to fluctuations in international prices and limited proven reserves. The potential of Sudan's agricultural sector is vast, but there are a number of challenges that can only be overcome with foreign help. Most local farmers in Sudan are familiar with traditional subsistence farming, but don't have the experience with large-scale commercial projects. Therefore, foreign investment can help improve transport infrastructure and bring down energy costs. Sudanese Ministry of Investment estimates that only 20 percent of the 7.2 million hectares of cultivated land is being farmed using modern technology and most of this is because of foreign investment.

Ethiopia

Since the food crisis in 2008, there is a growing interest on agricultural investment in Ethiopia. The crisis created a very good opportunity for Ethiopia, which has vast amount of arable land and favorable agro-climatic conditions to attract investment in the agricultural sector. There is a popular argument that foreign agricultural investment in Ethiopia should not be viewed as "neo-colonialism" or "land grab" since Ethiopia has never been colonized.

Out of the total land area of the country (111.5 million ha), 74.3 million hectare is believed to be suitable for crop production; 45 percent (50.2 million ha) of the total land area is classified as highland with high population density, while the remaining part of the country is lowland which is sparsely populated. Yet, out of the vast arable land available in Ethiopia, only 15-18 percent of the land has so far been utilized.

Although Ethiopia has abundant land and labor resource, it does not have adequate capital to develop the agricultural sector. Therefore, the Ethiopian government adopted a strategy which takes into account the country's abundant land and labor resources to spur economic growth. In this regard, massive effort has been exerted to transform the small-holder farming in Ethiopia from one of subsistence to commercialization. Accordingly, remarkable results have been achieved in raising agricultural productivity and the agricultural sector has been growing in double digits over the last seven years.

This being noted, however, the government has also made utilized land in some parts of Ethiopia, particularly in the lowlands, available for foreign investors who are interested to develop it using their massive capital and technology. This is done with a view to supplement the efforts made by the government to transform smallholder agriculture. This will also create ample employment opportunities, assists Ethiopia's effort to attain food security for its people and benefits the entire economy by generating foreign currency earning.

Tanzania

Investment policy of Tanzania emphasizes the need to develop all components of the economy that are essential in attracting private investment, such as having sufficient and reliable energy, reliable social front, investment friendly politics as well as good infrastructure. To increase investment in agriculture, the policy calls for mechanisms of fostering research and development that will encourage the adoption of new technologies and hence achieve higher agricultural productivity, which is important in enhancing competitiveness of the sector[2].

In relative terms, agriculture accounted for a low share of the total FDI stock (7 per cent) in spite of its important role in the economy, contributing to over 50 per cent of GDP and foreign exchange earnings, as well as being the largest employer. This is largely because Tanzanian government has not provided a favorable environment and complementary public investment to attract domestic and foreign investment in agriculture. According to the Tanzanian investment report, investors in the agricultural sector are discontented by the unfavorable investment environment and they feel that peculiar features of the sector are not addressed in the overall investment policy. Therefore, they have suggested the need to formulate agriculture specific investment policies.

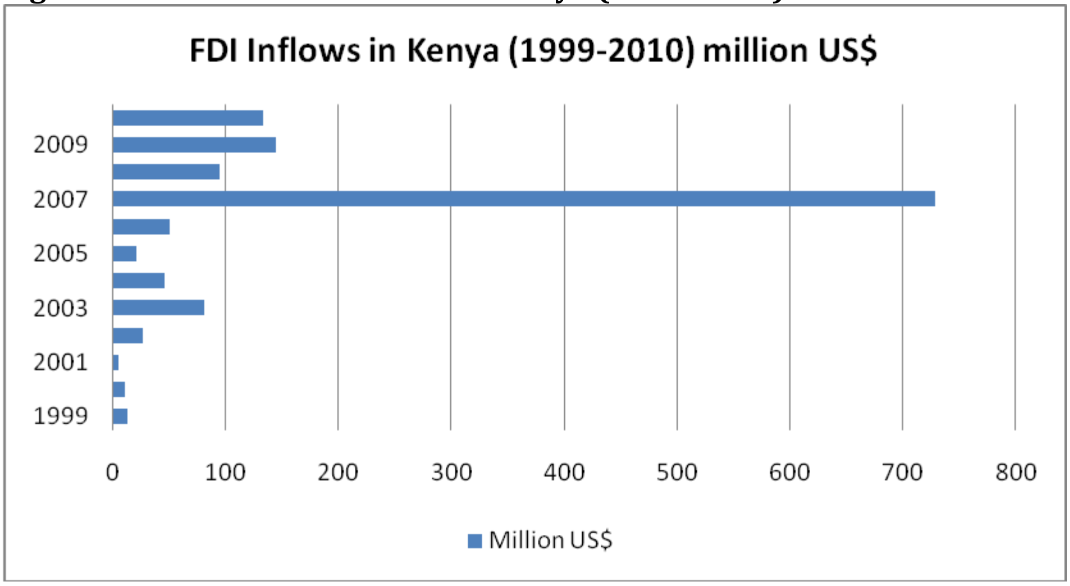
Other factors that are advocated by the policy for further improvement and development include; extension services, encouraging investment in environmentally sound irrigation and promotion of land tenure system. In order to achieve all these goals, the government of Tanzania and other stakeholders need to ensure full access to financial services and investment in numerous components.

Kenya

Kenya presents a dynamic example of the potential of foreign investments to generate multiplier effects as sources of foreign exchange, employment, and technological and managerial know-how. Kenya has recently experienced a surge in foreign direct investment (FDI) following a period of substantial declines in FDI inflows near the turn of the century.

However, FDI has played a small (though increasingly important) role in the economy. Net FDI flows to Kenya have not only been highly volatile but also generally declined in the 1980s and 1990s, despite friendly economic reforms and the progress made in improving the business environment. Kenya's total FDI as a percentage of GDP rose from 0.86 percent in 1970 to 1.22 percent in 2000 however this declined to 0.57 percent in 2003 and currently FDI as a percentage of GDP is a paltry 0.7 percent (UNCTAD, 2010). The investment wave of the 1980s dwindled in the 1990s as the institutions that had protected both the economy and the body politic from arbitrary interventions were eroded. The FDI inflows to Kenya dipped to $133 million in 2010 from $ 144 million the previous year (2009), according to a new report by the UNCTAD (see figure 2 below).

Figure 2: Trends in FDI inflows in Kenya (1999-2010)



Data Source: COMSAT

In the past decade, FDI in the agricultural sector has mainly been concentrated in the horticulture sector and the textiles and apparels sector due to the export processing zones (EPZs) that gave tax concessions to foreign companies. Although there is no available data on the exact amounts of FDI into the sector, in the last decade, there have been 12 multinational companies set base in the country and mainly in the export of flowers and other horticultural produce. These are large integrated firms who acquired land around Lake Naivasha and other areas and employing about 5,000 Kenyans on average. They initially had 10 year tax concessions and when these expired, some of them decided to acquire Kenyan citizenship and stay in the country.

3.0 KEY FORCES BEHIND THE SURGE IN FDI IN AGRICULTURE IN AFRICA

Trends of FDI in Agriculture Sector in Africa
Foreign investment in the local agricultural sector has never been unusual. However, several things about the current fashion of these investments are unusual.

i. *Scale and pace of the deals*

Ethiopia, notwithstanding being one of the hungriest countries in the world with more than 13 million people needing food aid, has paradoxically offered at least 3m ha of its most fertile land to rich countries and some of the world's most wealthy individuals to produce and export food for their own populations[3]. As part of this offer, the government has approved 815 foreign-financed agricultural projects since 2007 and any land there, which investors have not been able to buy, is being leased for up to 99 years[4].

In the neighbouring Sudan, South Korean companies in 2009 bought 700,000 ha of northern Sudan for wheat cultivation; Egypt has secured unknown size but it reportedly intends to grow 2m tonnes of wheat annually to export back home; the UAE have acquired 750,000 ha; Saudi Arabia concluded in February 2010 a 42,000-ha deal in the Nile province; and a New York firm, Jarch Capital, run by a former commodities trader, Philip Heilberg, has leased 800,000 ha in southern Sudan near Darfur.

A report by the World Bank (titled "*The Global Land Rush: Can it yield sustainable and equitable benefits?")* shows that between 2004 and 2009, land of the size 3.9m ha and 1.2m ha have been officially transferred in Sudan and Ethiopia, respectively (a total of 5.1m hectares for the two countries) to foreigners for various reasons that we shall consider shortly[5].

ii. *A shift in focus from cash crops to staples and biofuel crops*

Another thing that is new about these FDIs is the type of crops they focus. The older FDIs in agriculture mainly went to cash crops (coffee, tea, sugar or bananas). By contrast, the current ones are mostly focussing on staples or biofuel crops, such as sugar cane, castor oil plants, oil palm trees, jatropha, sweet sorghum, maize, cassava, wheat, maize, rice. Others are soybeans, sweet potatoes, peanuts, and copra.

Sweet potatoes, sorghum, maize and cassava are grown as food crops in Africa but are also considered as feedstock for ethanol production. As Brazil has shown the world, sugarcane grown for ethanol is a more lucrative business than processing it into sugar granules. Soybeans, sweet potatoes, peanuts, wheat, maize, sorghum and copra are all used as energy crops. Although sweet sorghum is a native African food crop, the high sugar content in its stems has made it an attractive crop, not for food, but for producing ethanol. The same applies to maize which is already being used as a feedstock for ethanol in the US and Latin America and is being considered as a feedstock in parts of Nigeria[6].

Castor oil plant is native to Eastern Africa and is widely grown in Ethiopia. Its seeds, called beans, contain oil. Although the oil has been used medicinally around the world, it is now more attractive if its oil is refined to produce biodiesel. Cassava has the highest starch content than maize and that makes it a suitable feedstock for ethanol. It is not surprising then that Shell (an oil firm) is investing in research for genetically modified forms of cassava in Nigeria.

The Egyptian and South Korean projects in Sudan are both for wheat; India's several hundreds of thousands of hectares acquired in Ethiopia, Kenya, Madagascar, Senegal and Mozambique are for growing rice, sugar cane, maize and lentils to feed their domestic market. In Kenya, the Qatari government has expressed interest in leasing 40,000ha of the agriculturally rich Tana River delta to grow food for itself. In Uganda, 840,127 ha (about 2% of Uganda's total land mass) has been leased variously to Egyptian investors to grow rice, wheat, and produce organic beef for export to Egypt. And, in Tanzania, a total of 640,000 ha have reportedly been leased, out of which 500,000ha to Saudi Arabia for rice and wheat production[7].

In Ethiopia, land of 1.39 m ha has been identified (irrigable and along river basins) as suitable for sugarcane plantation and circa while 23 million ha of land has been identified as suitable for Jatropha –all these crops are for biodiesel.[8] A German company Flora Eco Power has spent $77 million in land purchases in Ethiopia for biofuel production using contract farming[9]. For an elaborate list of foreign biodiesel projects going on in Ethiopia, Kenya and Tanzania see box 1 below.

Box 1: Examples of land allocated for biofuel investments in Ethiopia, Kenya and Tanzania

a) In Ethiopia

- National Biodiesel Corporation, an Ethiopia company (but 80% owned by UK Sun Biofuels) acquired 80,000 ha to grow jatropha;
- Amabasel Jatropha Project on 20,000ha and Jatropha Biofuels Agro Industry on 100,000ha –all are Ethiopian companies;
- IDC Investment, a Denmark/Ethiopia joint investment on 15,000ha for growing jatropha;
- B DFC, a Brazilian company on 18,000ha, seeking an additional 13,000[10] and 30,000 via out-growers to grow Sugarcane/sugar beet for biofuel;
- Petro Palm Corporation, an Austria/USA company on 50,000ha for castor bean and jatropha;
- VATIC International Business, an India/Ethiopia company on 20,000ha but not clear on crop;
- Global Energy, an Israeli company on 2,700 and a further 7,500 owned through out-growers for growing castor bean

Source for above: "Rapid Assessment of Biofuels Development Status in Ethiopia, MELCA Mahiber, September 2008"

- Sun Biofuels, a UK energy company acquired 5,000, of which only 1,000 planted with jatropha[11];
- Flora EcoPower, a Deluxe company, owning 56,000 ha, and have sought concessions for another 200,000ha for growing Castor bean and jatropha[12]

b) In Kenya

- A Japanese company Biwako Bio-Laboratory announced in 2007 plans to establish 30,000 ha of Jatropha circus trees, expanding them to 100,000 ha within 10 years.[13]
- Belgium company HG Consulting has taken over the financing of the Ngima-Project in

	Homa-Bay to use sugarcane from outgrowers representing 42,000 hectares.[14]
▪	Canadian company Bedford Biofuels has obtained 160,000 ha for Jatropha with another 200,000 additional hectares being secured.
c)	**In Tanzania,**
▪	Some 40 foreign-owned companies including UK Sun Biofuels (obtaining 8,000 ha of "degraded" forest to grow jatropha)[15] and UK D1 Oils had invested in agrofuel developments in Tanzania, within a context of support from international development agencies, such as the EU Energy Initiative (EUEI), the World Bank, USAID and DFID.
▪	There have been plans to start sugar cane plantations in the Wami basin, Ruipa, Kilosa and on the Usangu Plains and a palm oil project involving outgrowers in Kigoma and D1 Oils also planned out-grower schemes for jatropha and sunflower[16].
▪	However, following local and international protests, the Tanzanian government has reportedly suspended investments in biofuel projects until clear procedures and policies have been put in place[17].

iii. From private-private deals to increasingly government-government deals

In the past, foreign farming investments were usually private: private investors bought land from private owners and that still continues somehow. However, the majority of the new deals presented above have been negotiated by governments. On the one hand, the acquirers are foreign regimes or where they are companies then they are supported by their governments. On the other hand, sellers are host governments dispensing land they nominally own. In 2009, the Sudanese and Qatari governments set up a joint venture to invest in Sudan; the Kuwaiti and Sudanese ministers of finance signed what they called a "giant" strategic partnership for the same purpose; Saudi officials have also visited Ethiopia and Sudan to talk about land acquisitions.

To encourage farm investment abroad, the Saudi government earmarked $5billion to be given as loans on preferential terms to Saudi companies which wanted to invest in foreign countries with strong agricultural potential[18].

The Kenya-Qatari negotiations for a 40,000ha lease in the agriculturally rich Tana River delta is also being spearheaded by the government after a president-president negotiation where the Qatari government agreed to grant Kenya in return a loan of US$2.5bn to build a second deepwater port in (Lamu) Kenya. In Uganda, the 840,127 ha leased to Egyptian investors for growing rice, wheat, and produce organic beef was done through agreement with President Yoweri Museveni including the 10,000 acres to Chinese investors. In Tanzania, it is only after local and international protests that the government reportedly suspended all pipeline investments in biofuel projects planned for foreign investors[19].

iv. From international specialisation and trade to protectionism

The other thing that is different about this new wave of foreign investment in Africa's farmland is how it affects international trade and specialisation. In the older order, when private investors put money into cash crops, they tended to boost world trade and international economic activity. At least in theory, they encouraged farmers to switch from growing subsistence rice to harvesting rubber for cash; from growing rubber to working in a tyre factory; and from making tyres to making cars. But now, governments are investing in staple crops, not primarily to trade it, but, as a protectionist impulse to circumvent world markets.

Drivers of the increased FDI in Agriculture Sector in Africa

There are key issues that underlie the current foreign direct investments and these could be investigated. One of the major factors that differentiate foreign direct investment in agriculture from the normal run of foreign investments is food security. This reflects a fear arising from the recent high food prices and policy-induced supply shocks, notably the result of export controls, that dependence on world markets for foods supplies has become more risky. These recent volatility of international food prices has understandably provoked concerns about the cost and availability of food, particularly in those countries heavily dependent upon imports for their food security.

Secondly, for those countries facing worsening land and water constraints but with increasing populations, incomes and urbanization and hence increasingly dependent on imported food, the loss of confidence in the international food systems as a source of food supply has provoked a serious reassessment of their food security strategies. Investing in producing food in countries where the land and water constraints faced domestically are not present is seen as one strategic response. From there on, governments and financial institutions of such countries have been more than willing to support private investments in Africa.

Similar reasoning lies behind investments to produce agricultural raw materials to maintain the throughput of processing industries. Investors outside countries with food security concerns or requiring flows of agricultural raw materials for processing have seen profitable opportunities for portfolio diversification into food production investments, especially as returns on other investments become less attractive.

Other investors have been motivated by the prospects offered by biofuel developments. A number of dedicated investments funds –the Africa Transformational Agri-Fund, for example- have recently been established to invest in African agriculture with some claiming social as well as financial objectives.

Some developing countries are making strenuous efforts to attract and facilitate foreign direct investments into their agricultural sector. In the last sections of this paper, these efforts will be examined just to have a clear understanding of the parties involved, institutions as well as how these investments have impacted on agriculture in select Eastern African countries. For most of these countries, foreign direct investment is seen as a potentially important contributor to filling the investment gap, although how far these investments go towards meeting their real investments needs is uncertain. The financial benefits to host countries of asset transfers appear to be small. Land rents especially in Ethiopia and Sudan demanded are typically low and close to zero. Furthermore, the various tax concessions offered to foreign investors in these countries mean tax revenue foregone. However, foreign investments are seen as potentially providing developmental benefits through for example technology transfer, employment creation and infrastructural developments. Whether these potential developmental benefits are actually likely to be realized is a key concern. The next section interrogates these issues deeper.

4.0 NEXUS BETWEEN AGRICULTURAL FDI, PEOPLE'S LIVELIHOODS AND THE ROLE OF GOVERNMENT

That Africa has about 12 percent of the world's arable land but a whole 80 percent of it is uncultivated, and that only 7 percent is irrigated (compared to 40 percent in Asia) and production yields are low, there is the potential economic opportunities to develop and commercialise Africa's abundant agricultural land and foreign investments could really help achieve these potential benefits.

The *Comprehensive Africa Agriculture Development Programme* gives the following estimate investment requirements in Africa's agriculture over 13 years between 2002 and 2015. The CAADP requires African governments to invest at least 10 percent of their national budgets in the agriculture sector with a target annual growth rate of at least 6 percent. Both allocations and growth of the sector have been below targets and there is no doubt that foreign investments could help plug the gap.

Table 1: Required investments in African Agriculture, 2002-2015 (in $ Billions)

Activity	**Amount**
Land and water investment	37
Operations and maintenance	32
Rural infrastructure investment	89
Operations and maintenance	37
Trade-related capacities	3
National food security	6
Regional food security	1
Research and technology	5
Humanitarian safety nets	42
Total	**251**

Source: Comprehensive Africa Agriculture Development Programme

Indeed, foreign investment in agriculture in Africa ought to be a welcome idea considering the financial and technology constraints impeding agricultural development in most African countries. It ought also to be supported on the premise that it will lead to jobs in rural areas and catalyse economic development if these investments bring about macro-level benefits (GDP growth, greater government revenues), and create opportunities for raising local living standards. Investors may bring capital, technology, know-how, and infrastructure and market access –things that Africa needs so dearly to jumpstart its development. However, as governments or markets make land available to prospecting investors, local people could lose access to the resources on which they depend - not just land, but also water, wood and pasture.

The fact that more than 13 million Ethiopians need food aid at the same time as the Ethiopian government is offering large tracks of its most fertile land for the production of food for export is therefore perverse. The World Bank's report: "*The Global Land Rush: Can it yield sustainable and equitable benefits?*" finds that recent FDIs in agriculture are "always focused on countries with weak land governance." By making reference to past farmland deals, the report forewarns that no jobs or infrastructure development will be forthcoming. It says that although the investments promised jobs and infrastructure, “investors failed to follow through on their investments plans, in some cases after inflicting serious damage on the local resource base”.

Hilaire (2010) also argues that most of the purchases have remained as opaque as ever and are not open to public scrutiny or guided by any sound development targets[20]. Furthermore, according to the World Bank report, foreign private companies are resisting a global code of conduct that would ensure transparency at the same time local elites continue to benefit from deals that encourage corruption and increase food insecurity.

The World Bank’s report paints an overall picture of exploitation on past cases of foreign land acquisition, warning that investors either lacked the necessary expertise to cultivate land or were more interested in speculative gains than in using land productively. It states that “rarely if ever” were efforts made to link land investments to “countries’ broader development strategy…, consultations with local communities were often weak…, and, conflicts were common, usually over land rights.”

5.0 CONCLUSIONS AND RECOMMENDATIONS

The surge of interest in foreign investment in agricultural land has attracted substantial international concern. Certainly, complex and controversial economic, political, institutional, legal and ethical issues are raised in relation to food security, poverty reduction, rural development, technology and access to land and water. On the other hand, lack of investment in Africa's agriculture over decades has meant continuing low productivity and stagnant production in many Sub-Saharan African countries. Lack of investment has been identified as an underlying cause of the recent food crisis and the difficulties developing countries encountered in dealing with it.

FAO estimates that additional investments of $ 83 billion annually are needed if developing country agriculture is to meet food security needs in 2050. Developing countries' own capacity to fill that gap is limited. The share of public spending in agriculture in developing countries has fallen to around seven per cent, even less in Africa, and the share of official development assistance going to agriculture has fallen to as little as five per cent. Commercial bank lending going to agriculture in developing countries is also small –less than ten per cent in Sub-Saharan Africa –while microfinance loans are by definition small and not ideally suited to capital formation in agriculture.

Private investment funds targeting African agriculture are an interesting recent development but actual investments are still small. Given the limitations of alternative sources of investment finance, foreign direct investment in developing country agriculture could make a significant contribution.

With the trend in agricultural investment underway in most Eastern African countries, there are fundamental questions that need to be addressed. What measures have these governments taken to ensure that regulations, legislation and government policies for agricultural development are transparent, accessible and clear for both foreign and domestic investors? Even more importantly, what measures have been taken to ensure foreign investments in the agriculture sector will solve food security concerns, poverty and anchor industrialization in Eastern Africa.

Unfortunately, there are as yet no detailed data on the extent, nature and impacts of these investments. Available foreign direct investment data lack sufficient detail and are too aggregated to determine just how much investment in agriculture there has been and what forms it takes. It is therefore difficult to say with any prescription whether the recent investments are totally new development or a continuation of existing trends. Some information is available, although not adequate detail is divulged given the sensitivity of the issues surrounding these investments and the need for confidentiality. The lack of transparency surrounding these investments has been widely criticized. Much of the available information is anecdotal, probably exaggerated and difficult to verify. The poor availability of information on this subject points to the importance of undertaking country case-studies of the extent and impact of inward investments and these are being undertaken by several international organizations.

The Economic report on Africa by the United Nations Economic Commission for Africa advocates that Foreign Direct Investment is fundamental to solving Africa's economic problems. Bodies such as the IMF and the World Bank have suggested that attracting large inflows of FDI would result in economic development. It's without doubt that Sub-Saharan African governments are very eager to attract Foreign Direct Investments.

All Eastern African countries are keen on attracting FDI. Their reasons would differ but include: trying to overcome scarcities of resources such as capital; entrepreneurship; access to foreign markets; efficient managerial techniques; technological transfer and innovation; and employment creation. Foreign investment in the agricultural sector can potentially deliver benefits to the host country. Yet, whether these benefits will materialize or not will depend to a large extent on policies and measures implemented by the host country itself. Based on the analysis in this paper, the following recommendations can be made to governments seeking to attract investors.

First of all, the governments should verify that the existing policies, regulations and institutions are adequate in order to maximize the positive impacts of international investment while minimizing the risks. Policies should favour national interests (e.g. food security, natural resources, export earnings and employment) and those of the community where the project is located, while offering attractive conditions to foreign investors. For example, the fiscal policy should determine the appropriate tax rate that attracts investors without foregoing too much tax revenue.

Second, Eastern African governments should undertake preliminary studies to assess the economic, technical, social and environmental feasibility of the project before it is implemented. The potential impacts on the local community and the environment should be carefully appraised, as well as possible effects on food security. The various users and right holders of the land should be identified, including customary rights and use. The local community should be consulted before the government signs the contract with the investor. The whole process should be carried out in a transparent manner. The consultations should be documented and written records of decisions kept.

Third, provisions should be made to remedy the potential adverse effects or compensate for them. For example, in cases where the investment leads to the displacement of local people, a fair compensation scheme for resettled farmers should be designed, based on realistic economic analyses.

Fourth, because the transfer of land ownership generally deprives local populations of an important economic asset, governments could consider alternative business models to land acquisition. In fact, the purchase and direct use of land resources is only one strategic response to the food security concerns of countries with limited land and water. A variety of other business models can offer just as much – or even higher security of supply. These include contract farming, joint ventures and outgrower schemes. Finally, the government should provide incentives for shifting FDI into sub-sectors that have the potential to decrease poverty through job creation. Policies should give investors incentives to invest in underexploited land, in particular where substantial infrastructure construction is needed.

ENDNOTES

[1] Independent Press Service
[2] The World Bank report of 2008 has ranked Tanzania at 130th out of 176 countries which were surveyed. Within this position Tanzania is falling behind Kenya and Uganda.

[3] See Ethiopian Review http://www.ethiopianreview.com/content/27090; March 7th, 2010.
[4] See Ethiopian Review, *ibid*.
[5] http://farmlandgrab.org/cat/World%20Bank. Also posted in the Financial Times | July 27 2010 by Javier Blas in London.
[6] See proposals for Kaduna State.
[7] Figures obtained from a report commissioned by Tanzania Natural Resource Forum's Forestry Working Group (TFWG) and the International Institute for Environment and Development (IIED). Of the 640,000ha allocated, around 100,000 ha have been granted formal rights of occupancy.

[1]http://www.taz.de/taz/nf/etc/2009_04_18_S13-aus2-01.pdf.
[8] Rezene Fessehaie National Coordinator, Ethiopian Institute of Agricultural Research, IUCN Regional Workshop on Bio-fuel Production and Invasive Species 20- 22 April 2009, Nairobi Kenya
[9] http://www.reuters.com/article/marketsNews/idUSLK10422520090320?sp=true.
[10] http://www.addisfortune.com/Hiber%20Sugar%20Joins%20Forces%20for%20Convenience%20Sake.htm
[11] www.sunbiofuels.com/projects.html?projectId=4
[12] Flora EcoPower website; www.floraecopower.com/products.html
[13] http://allafrica.com/stories/200711190217.html

[14] http://www.hgconsulting.eu/Ngima-Project-at-Homa-Bay.html
[15] http://www.sunbiofuels.com/projects.html?projectId=1&page=1
[16] http://www.africanbiodiversity.org/abn_old/documents_SSL_items/ABN_Agrofuels_Africa.pdf
[17] http://www.theeastafrican.co.ke/news/-/2558/667648/-/qy9vngz/-/
[18] Ethiopian Review, *Ibid*
[19] http://www.theeastafrican.co.ke/news/-/2558/667648/-/qy9vngz/-/
[20] "Land Grabs Continue As Elites Resist Regulation", by Hilaire Avril, 13 April 2010. http://allafrica.com/africa/