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Large scale land acquisitions – the opportunity or threat for the developing world?

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ABSTRACT

The purpose of this article is to analyze the new phenomenon in the global economy-large scale land acquisitions, new kind of FDI in agricultural sector, namely in farmland, and to answer the question if it constitutes rather the opportunity or threat for the developing countries. The paper is based on the study carried out on the review of the literature.

Keywords: developing countries; agriculture; development; large scale land acquisitions; land grabbing

1. RISING INTEREST IN THE GLOBAL FARMLAND

'*Buy land, they are not making it anymore'*
(Mark Twain)

English famous aphorism has recently been often citied as investors across the world have found a new investment target, namely, farmland. For a very long period the agriculture was considered a 'sunset industry', and commodity prices were stagnant or declining (R. Arezki, K. Deininger, H. Selod, 2011). Over the past several years, however, the convergence of global crises in food, energy, finance, and the environment has driven the rise in investment in the farmland (S. M. Borras Jr., R. Hall, I. Scoones, B. White and

W. Wolford, 2011). Due to mainly the globalization process, previously non -movable production factor has easily become transferable. In some cases, this phenomenon creates *win –win* situations, whereas sometimes it is not mutually beneficial investment for both sides of the contract, and in this case it is often called *–land grabbing*.

2. FDI IN AGRICULTURAL SECTOR

Foreign investments in agriculture *per se* are beneficial for the developing countries. They expand and diversify agricultural production opportunities and activities, and create employment particularly for rural populations. Besides, these investments may benefit local farmers by giving them access to technology and know-how connecting them to market opportunities, and enabling them to benefit from foreign experience (AfDB, 2009). Furthermore, they help to gain both more revenues for the state budget and more earnings from the international trade. The potential availability of uncultivated land is estimated to 445, 624 ha in the world, mainly in Sub-Saharan Africa (World Bank, 2011). Moreover, many countries have suitable land available that is either not cultivated or produces well below its potential, thus investments possibilities are huge around the world. Investing in developing countries' agricultural sector is among the most efficient ways to reduce poverty and hunger. This is especially true as a majority of the world's poor and food insecure live in rural areas of developing countries and depend on agriculture for a significant share of their livelihood. According to FAO estimates additional investments of over USD 80 billion every year are needed to meet targets for decreasing the number of malnourished (FAO, 2014) and for feeding 9 billion people in 2050. However, not all investments create *win –win* situations and some of them are detrimental for local communities.

2. 1. Land grabbing

No specific official definition for FDI in land exists. GTZ (2009) provides the following characteristics: 'FDI in land by a foreign company or state is based on a lasting interest in taking control over land use rights. The transaction includes either rights of land-use or land-ownership. The land-use rights are generally valid for a limited period and can possibly be extended'.

There is also no single internationally recognised definition of *land grabbing*. As states S.M. Borras and J.C. Franco (2012) global land grab' has emerged as a catch-all phrase to refer to the explosion of (trans)national commercial land transactions and land speculation in recent years mainly, but not solely, around the large-scale production and export of food and biofuels. According to the definition provided by European Economic and Social Committee, 'land grabbing is generally understood to mean a process of large-scale acquisition of agricultural land without consulting the local population beforehand or obtaining its consent. Ultimately, this diminishes the scope of the local population to manage a farm independently and to produce food. The owner also has the right to use the resources (land, water, forest) and the profits arising from their use. This can lead to a situation in which established agricultural land use is abandoned in favour of other activities' (EKES, 2015). After F. Pearse (2012), land grabber is the physical or legal entity investing in land on a huge scale, coming from abroad or outside the agricultural sector that is interested only in industrial - scale farming. We may state that the characteristic features of this transactions are as follows:

- big size of the transactions (200ha or more),
- asymmetry between parties (in terms of power- political, economic and symbolic one, knowledge and information, and also resources ownership),
- land in most cases is purchased or leased for longer periods, or 100% production is contracted,
- the countries hosting this kind of investment have their home food security in danger and/or depend on regular food aid,
- the investors don't care about environment and social situation of the vulnerable rural poor,
- the transaction is often connected to water grabbing when investors are guaranteed to use as the first ones water resources and local people have to pay a fee to use the wells.

The recent interest in large scale land acquisitions by foreign investors in developing countries is not attributed to a single factor. The following issues encourage *land grabbing* (EKES, 2015): increasing globalisation and the associated principle of free movement of capital and ideas; population growth and urbanisation; the ever increasing demand for food; rising demand for bio-energy; growing demand for natural resources (fibres and other wood products); the negative side of agricultural and environmental policy; the possibility of being able to speculate on food products on the international market; the potential to speculate on the rising value of farmland and future state aid; the efforts of big investors to put capital released in the wake of the 2008 financial crisis into agricultural land as a safe investment. Besides, the expansion of the emerging economies and their search for new resources and food with the aim to adjust to current and future development needs are also the important causes.

2. 2. Problems connected with land grabbing

The main problem of *land grabbing* phenomenon is that land property rights are neither properly regulated nor secured. For instance formal tenure covers only 2 to 10 percent of land in Africa (World Bank, 2003); in Madagascar, for example, only 15 percent of the plots are titled. About 49 percent of the farmers are not conversant with land titling procedures (AfDB, 2009). Moreover, the land fees are either minuscule or missing altogether. For instance, land fees are in the range of USD 4,8-7,1/ha in Sudan, USD 6-12/ha in Mali, and USD 6,5-10/ha in Ethiopia whereas the comparable figures in Peru is USD 300/ha (AfDB, 2012).

The other problem is that these transactions are concluded in the shadow market[1], by institutionally weak and corrupted, usually failing, states. In majority of cases there are looking for extra profits for their elites. But they may be other reasons as well. The first is the fascination of many government officials with large – scale, mechanized agriculture. The second factor facilitating the *land rush* is widespread perception that much land,

[1] E.J. Weiner describes the shadow market as the invisible and ever-shifting global nexus where money mixes with geopolitical power. In specific terms, (...) 'it is a collection of unaffiliated, extremly wealthy nations and investors that effecively run the international economy through their prodigious holdings of stocks, bonds, real estate, currencies, and other financial instruments, which they keep in largerly unregulated investment vehicles, such as government-run sovereign wealth funds, state-owned holding companies, hedge funds, and private equity funds'. (Compare: E.J. Weiner, *The Shadow Market*, New York, 2010).

especially in Africa, is empty. Last but not least, fast growing number of people implies the need for urbanization process (L. Cotula, 2013).

The investors, in general, may be divided into two groups: foreign countries and private entities such as sovereign wealth funds, hedge funds, pensions funds or other financial institutions. However, the boundaries between public and private investors are not clear-cut. The reasons of investments are also different. The main aim for the former is to assure their home countries with the overseas food production, and to guarantee their citizens with adequate food supply. Importantly, the new investment strategy is more strongly driven by food, water and energy security than a notion of comparative advantage in the large scale production of indigenous crops for global markets, which has been more characteristic of foreign-owned plantations since the end of the colonial era (Sustainable Development, Innovation Briefs, United Nations, 2010). Thus, pattern of these investments is more resource-seeking rather than market seeking. In the same time, the major goal of the latter is to make profits, diversify the portfolio of their investments and seek new investment opportunities. One of the Polish economists, A. Łukaszewicz (2012), states that ‘investments in land seem to be optimal in the time of huge volatility and uncertainty. Prices of agricultural products don’t fluctuate that much as prices of other goods. They are not correlated with such assets like gold or currencies. Food demand is steadily increasing. Besides, land and water resources are limited as never before’. Dow Jones’ global equity index and commodity sub-indices illustrate that returns from agricultural commodities and softs (sugar, coffee and cotton) are significantly higher than that of equity, metals, and energy over the past five years (AfDB, 2012).

Some researchers (for instance J. Clapp, S. Ryan Isakson) write about financialization of food. J. Clapp (2012) finds that increased influence of financial actors has contributed to a new kind of ‘distancing’ within the food system. Greater distance in the food system, not just in terms of geography but also in terms of knowledge about the food’s production and impact, typically translates into less agency, or influence, for both consumers and for producers. Distance allows power to concentrate in the middle spaces of commodity chains. A second key dimension of the process is the biophysical impact of the growth of investment in agriculture-based financial products. By exacerbating price volatility, financialization affects both access to food and farmer livelihoods, with the effects especially pronounced in developing countries. Financialization has also made it much easier for investors to spend billions of dollars on new financial products that are based on foreign land acquisition and biofuel production, both of which have negative implications for poverty, hunger, and the environment.

Some sociologists (K. Jasikowska, K. Gorlach, 2012) point out the process of hyper-commodification of land which leads to the marginalization and exclusion of many rural and agricultural communities. ‘Don’t ask question, just make deal’ approach leads to the moral hazard. M.E. Margulis, N. McKeon and S.M. Borras Jr. (2014) indicate that land grabbing ‘is an important site of new transnational political struggles for authority and control over resources and governance. These struggles go beyond who should control the land, and are contests largely about what should be grown on it, how, by whom, for what markets, hence the future of global agriculture’.

From the legal point of view, *land grabbing* is the violation of human rights; especially art 17 of the Universal Declaration of Human Rights stating that: ‘Everyone has the right to own property alone as well as in association with others. No one shall be arbitrarily deprived of his property', and art 25: 'Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing (…).' Moreover, it is also the violation of legal rule called in Latin *usus fructus* meaning the legal right of using and enjoying the fruits or profits of something (in this case- land) belonging to another, together with the violation of the rule *salva rei substantia* (keeping the right value of the possessing thing).

2. 3. The alternatives to land grabbing

FAO studies show that investments that involve local farmers as equal business partners, giving them an active role and leaving them in control of their land, have the most positive and sustainable effects on local economies and social development (P. Liu, FAO, 2014). So called inclusive business models combine the strengths of the investors (capital, technology, and expertise in management and marketing) with those of local farmers (labour, land, traditional know –how and knowledge of the local conditions). There is a great variety inclusive business models, and different situations will require different models, there is no one-size-fits-all. The important factors determining the kind of model embrace: the level of organization of the community, the strength of local institutions, the technical level of framers and the effectiveness of their organizations. As FAO researches suggest (J. Karlsson, FAO 2014, and P. Liu, FAO 2014) in cases where farmers are unable or reluctant to create an organization, the solution may be to organize contract farming. In communities where there is a strong tradition of collaboration and effective farmer organizations, an outgrowing scheme giving farmers a share of the capital, or possibly a joint-venture between the investing company and a farmer cooperative, may be the most appropriate option.

In the inclusive models there is a need for 'patient capital', provided by investors with a longer time horizon (P. Liu, FAO, 2014), as transaction costs are high, especially in the initial phase. Building consensus on the project requires time and decision-making is slower, as such models of cooperation involve more stakeholders.

To guarantee shared benefits for both parties of the contract, there is necessary to ensure good governance of land tenure and securing the rights both of customary landholders and those of investors.

3. CONCLUSIONS

Large scale land acquisitions are the new kind of transnational land-transactions in the global economy. Many of them may be called and regarded as *land grabbing*, as they are not neither beneficial for local communities livelihoods nor for their food security. However, there exist alternative business models, such as outgrowing scheme or contract farming, that provide needed investments in the neglected for years and underinvested agricultural sector.

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