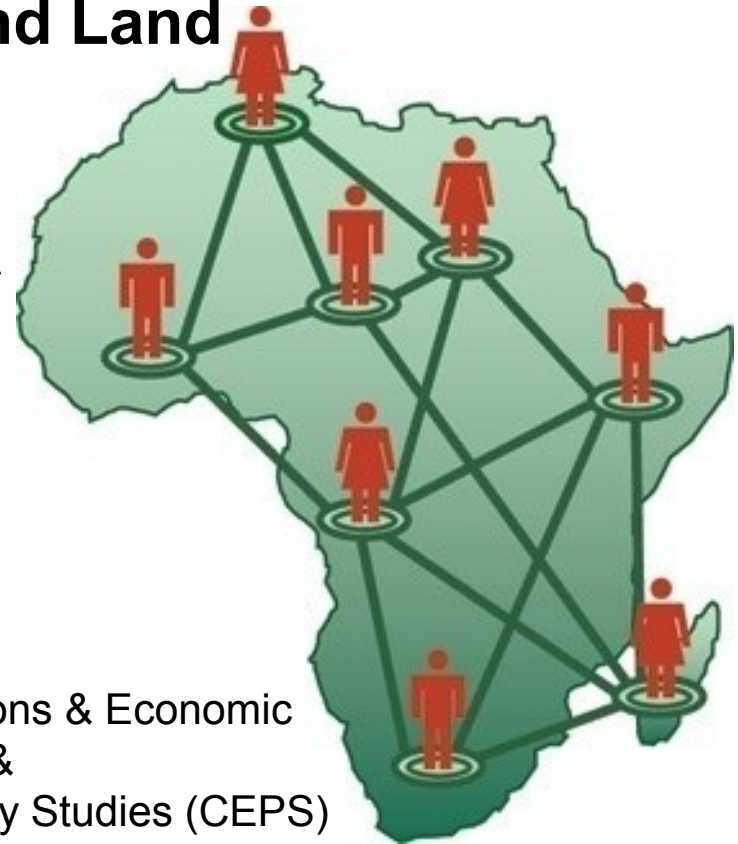


Foreign Investment and Land Acquisitions in Eastern Europe: Implications for Africa



Presented by:

Jo Swinnen

LICOS Centre for Institutions & Economic
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**AGRODEP Workshop on Foreign Direct Investment and
Land Markets: Challenges and Opportunities for Africa**

June 8, 2011 • Dakar, Senegal

***Please check the latest version of this presentation on:
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LICOS Centre for Institutional Change & Economic Performance

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Foreign Investment and Land Acquisitions in Eastern Europe : Implications for Africa

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&

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AGRODEP - IFPRI Conference, June 2011, Dakar Senegal

outline

- CEE vs SSA : similarities & differences
- Land FDI in CEE, concerns & policies
- FDI Spillovers (capital, technology & productivity)
- An Example of “Land Grabbing” from Senegal

Similarities between CEE & SSA

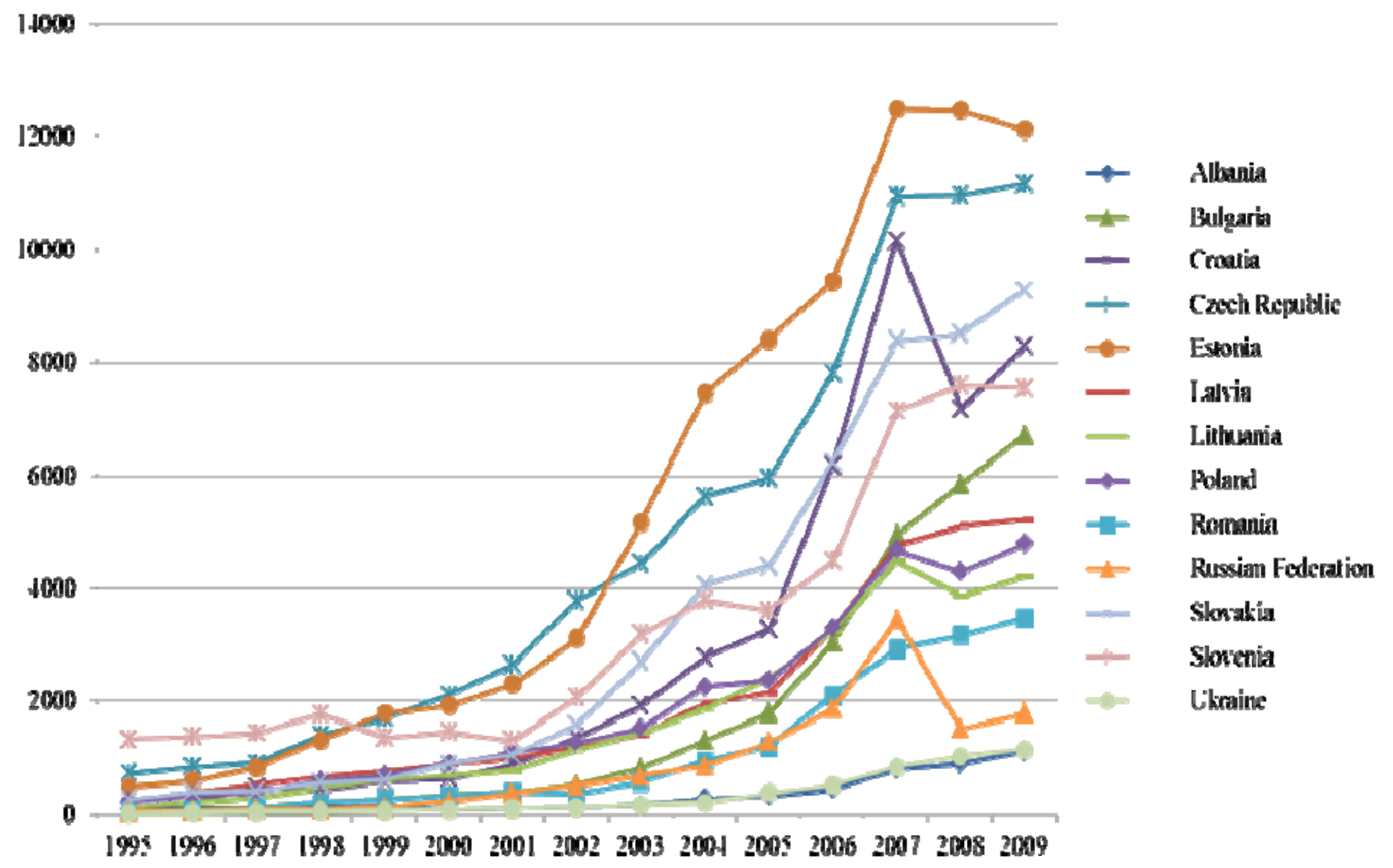
- Major shock induces rapid FDI inflow
- Major income gaps with “FDI source countries”
- Underperforming agri-food system
- Undercapitalized, low technology, know-how, ...
- Need for integration in international markets
- Poorly developed land rights
- Poor/not functioning land markets

Differences

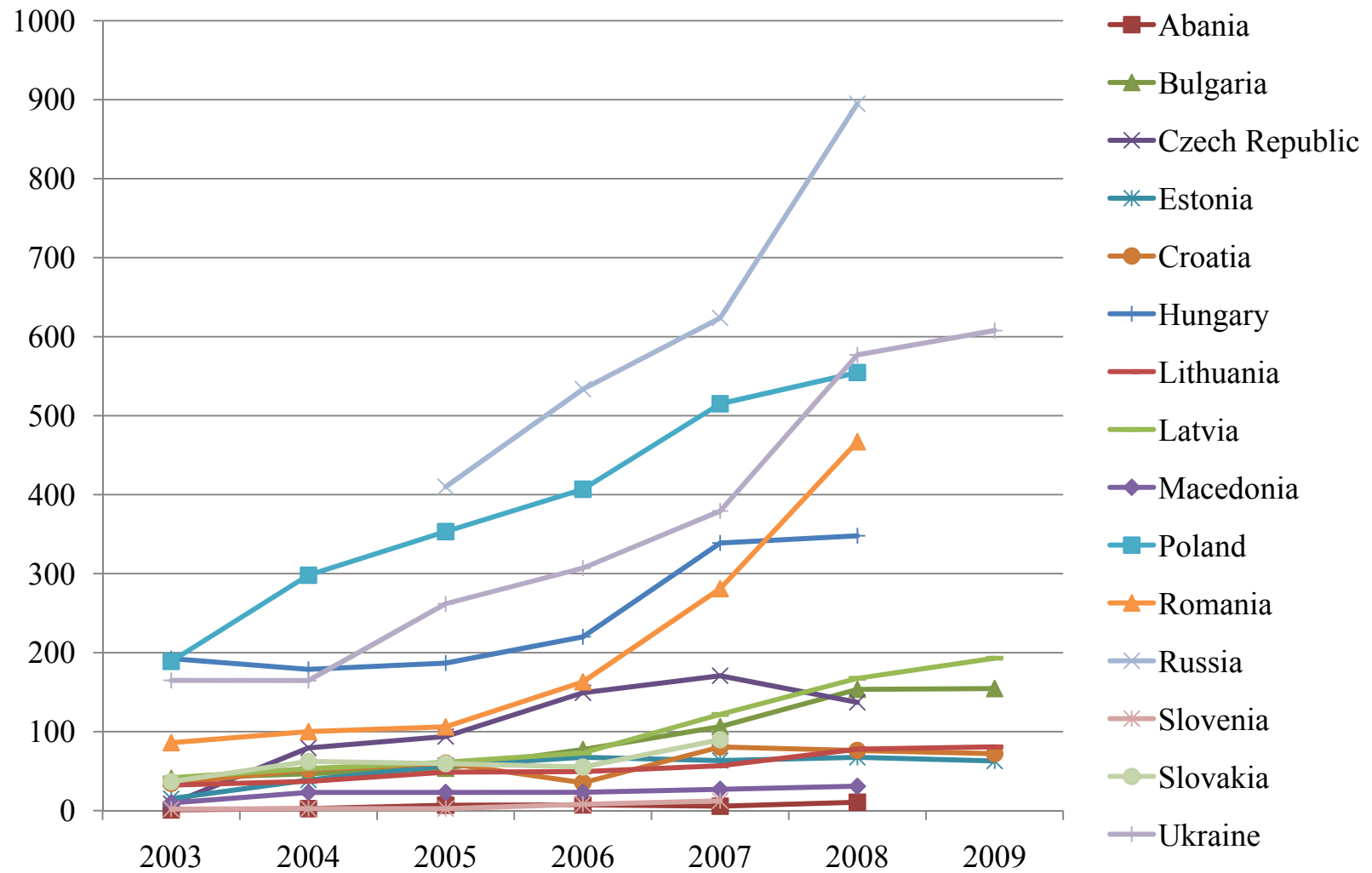
CEE :

- higher incomes;
- Better infrastructure & human capital
- FDI to (also) supply local markets
- FDI primarily in food industry and agribusiness
- Objections from farmers and land owners
- Objections initially driven by ethnic/border disputes

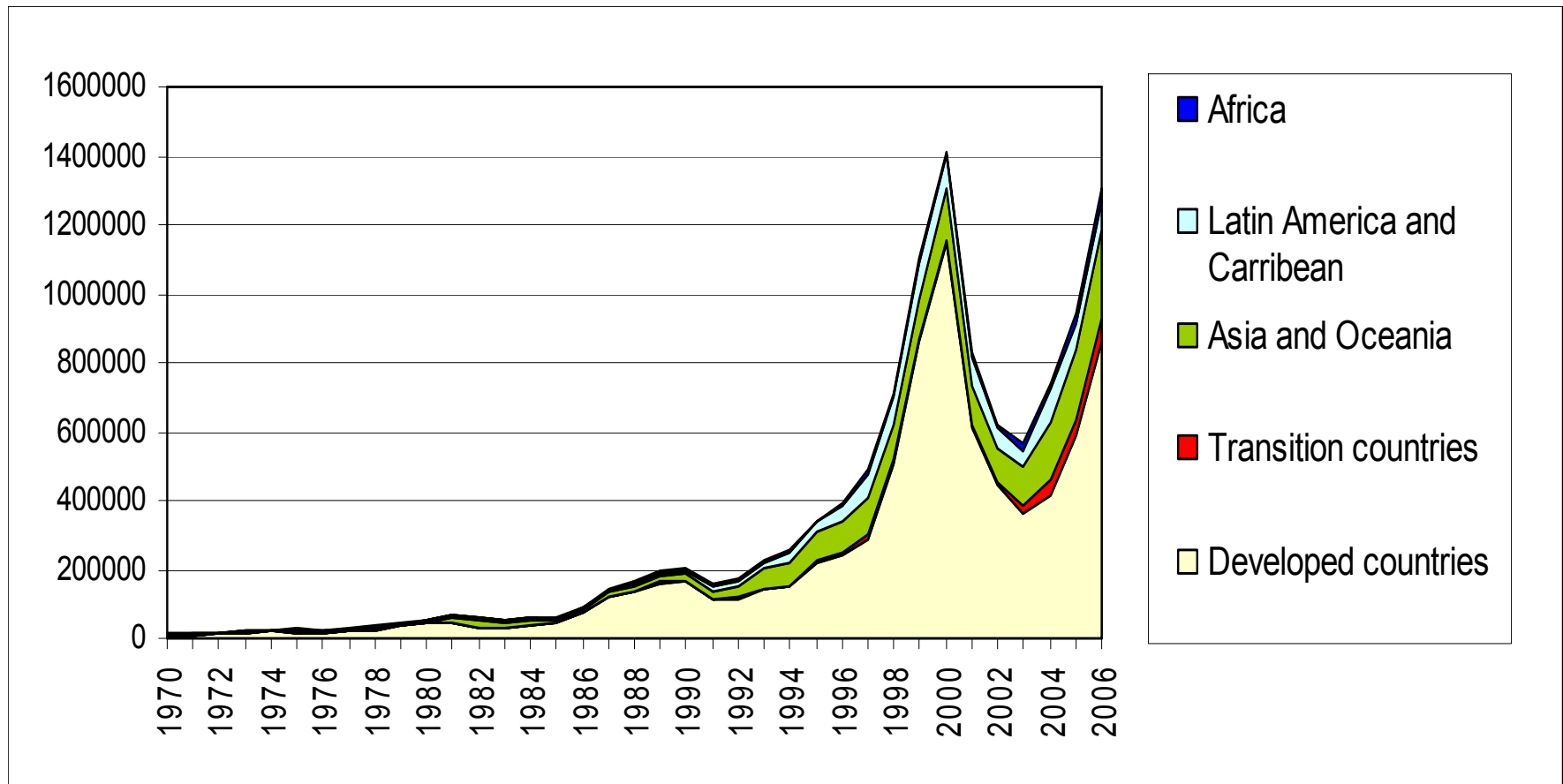
Total FDI per capita (stock, USD\$)



FDI in agriculture (EURO MN)

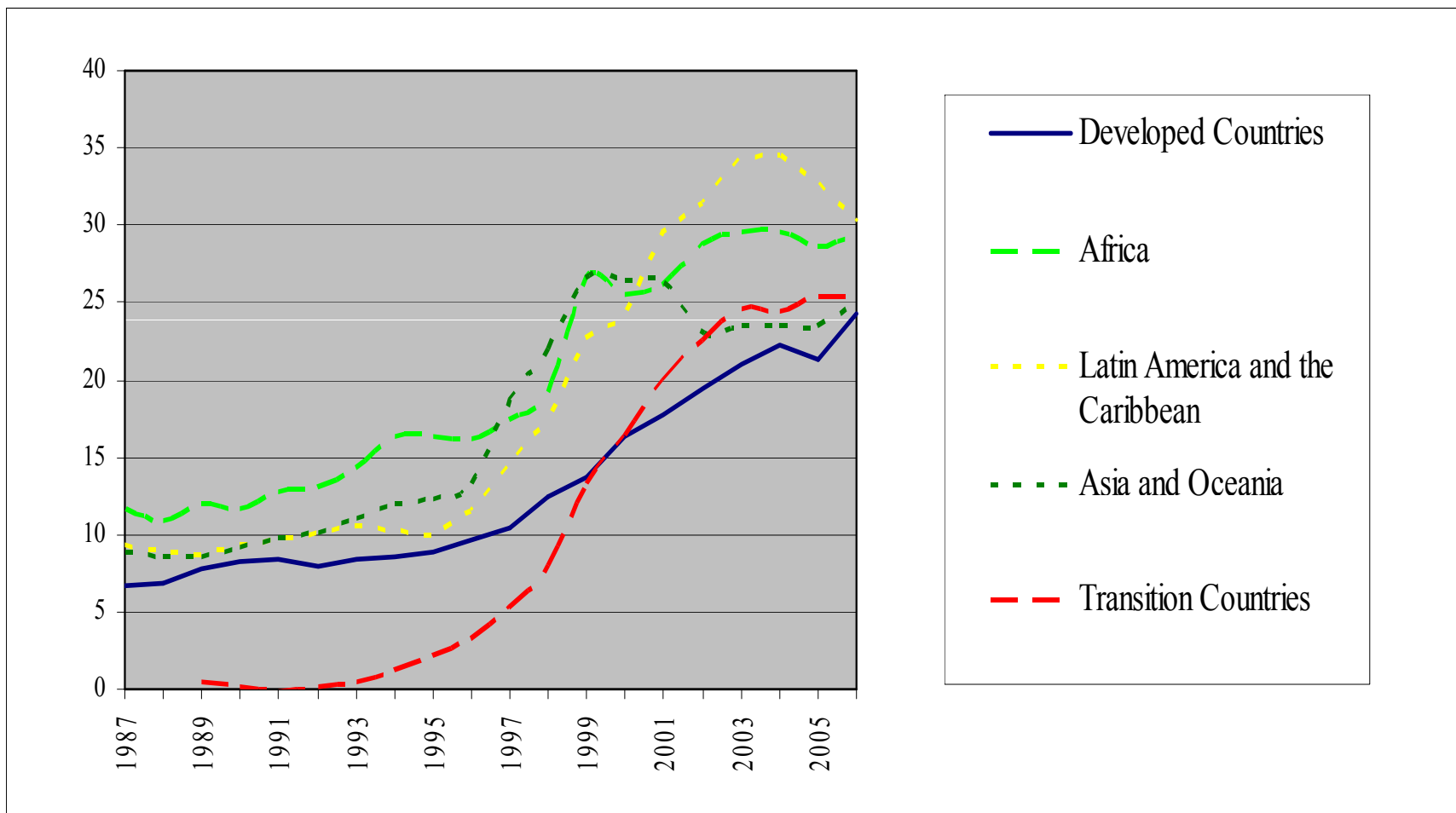


Yearly inflows of FDI (million US \$) per region, 1970 – 2006



Source: Calculated from UNCTAD

FDI stocks as percentage of GDP, 1980 – 2006



Source: Calculated from UNCTAD

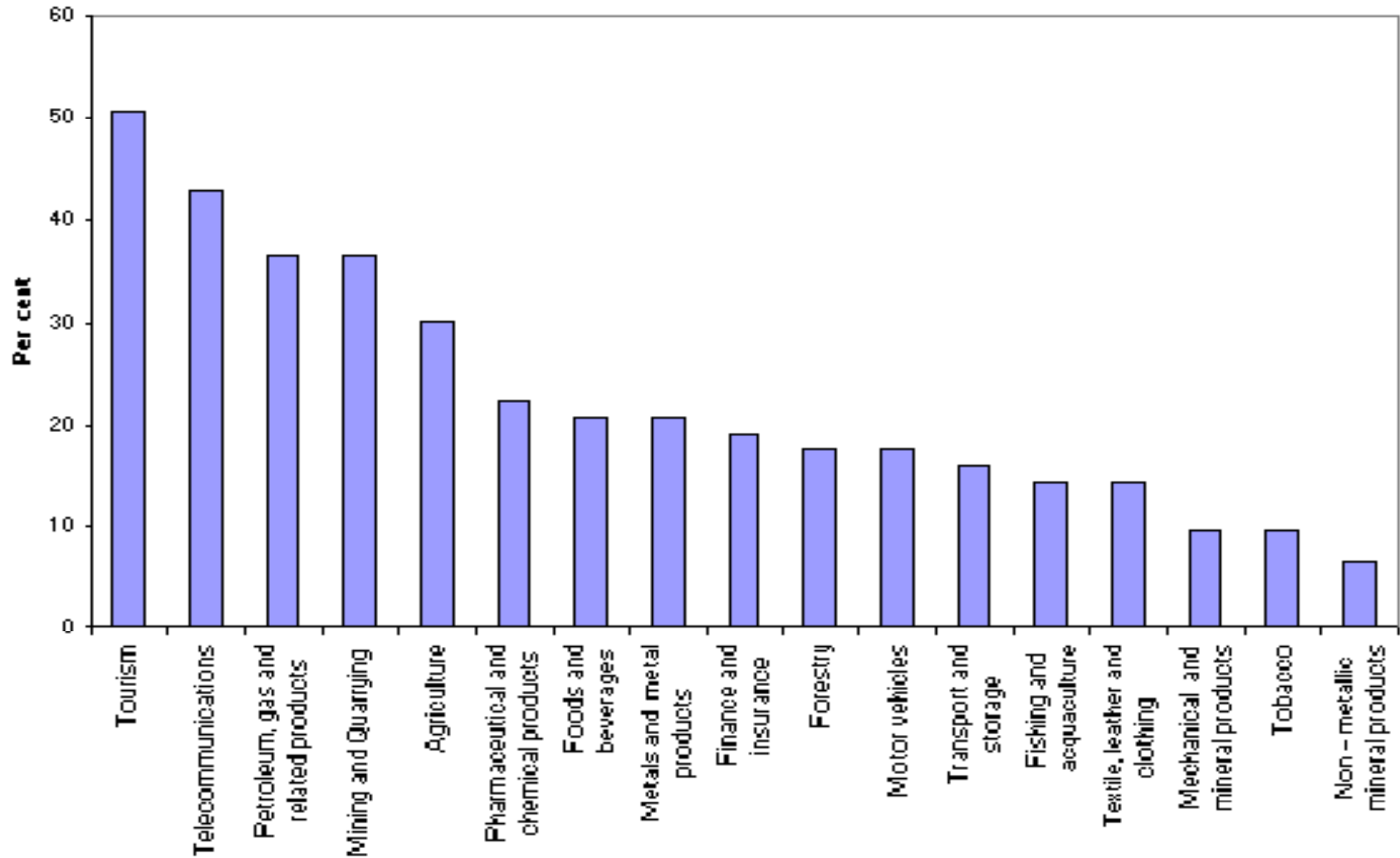
FDI flows compared to ODA flows to developing countries

1970 - 2006

Resource flows to developing countries (US \$ billion)									
	1970	1975	1980	1985	1990	1995	2000	2003	2006
FDI	3.9	9.7	7.7	14.2	35.9	116.0	256.1	178.7	379.1
ODA	5.4	9.2	17.0	21.2	38.5	40.5	36.1	49.7	77.0

Source: Calculated from UNCTAD

Industries offering the best opportunities for FDI in SSA



Source: UNCTAD

Foreign acquisition of land in CEE

- Objections particularly strong where ethnic/border disputes
- Not a major issue, until EU Accession:
 - Single market regulation since 1992 in EU
 - In principle, removes any objection against foreign ownership of land (part of capital market regulations !)
- => temporary derogations

Legal restrictions

1. After EU accession, foreigners can not **purchase** agricultural land for a transitional period in the NMS7.
2. The transitional period is 7 years (12 years for Poland).
3. There are **differences between the NMS7 in the implementation** of these restrictions
 1. in the way 'foreigners' are defined
 2. in conditions for foreigners to acquire land
4. There are generally **no restrictions on renting** agricultural land to foreigners.

Conceptual issues

- Land transactions stimulate development by:
 - Shifting land to most productive users
 - Allow the exchange of land when the off-farm economy develops
 - Facilitate the use of land as collateral
- Hence, in principle, any restrictions that constrain land exchanges and the optimal development of the land market would also negatively affect development.

- **To what extent is the restrictions on foreign ownership really affecting the efficiency of land exchanges and of land allocations, and productivity growth?**
 - Look at broader perspective of a variety of factors that affect the functioning of land markets, in general and in the NMS7 more specifically.
- Restrictions on foreign OWNERSHIP, not on USE
- Other factors affect land transactions
 - ✓ Constraints in other markets (eg credit)
 - ✓ Transaction costs
 - ✓ Imperfect property rights
- ✓ Spill-over effects !!

Land sales versus land rental

- Are restrictions on ownership important for land use ?
- How important is land ownership in land use?

Share of rented land (%)

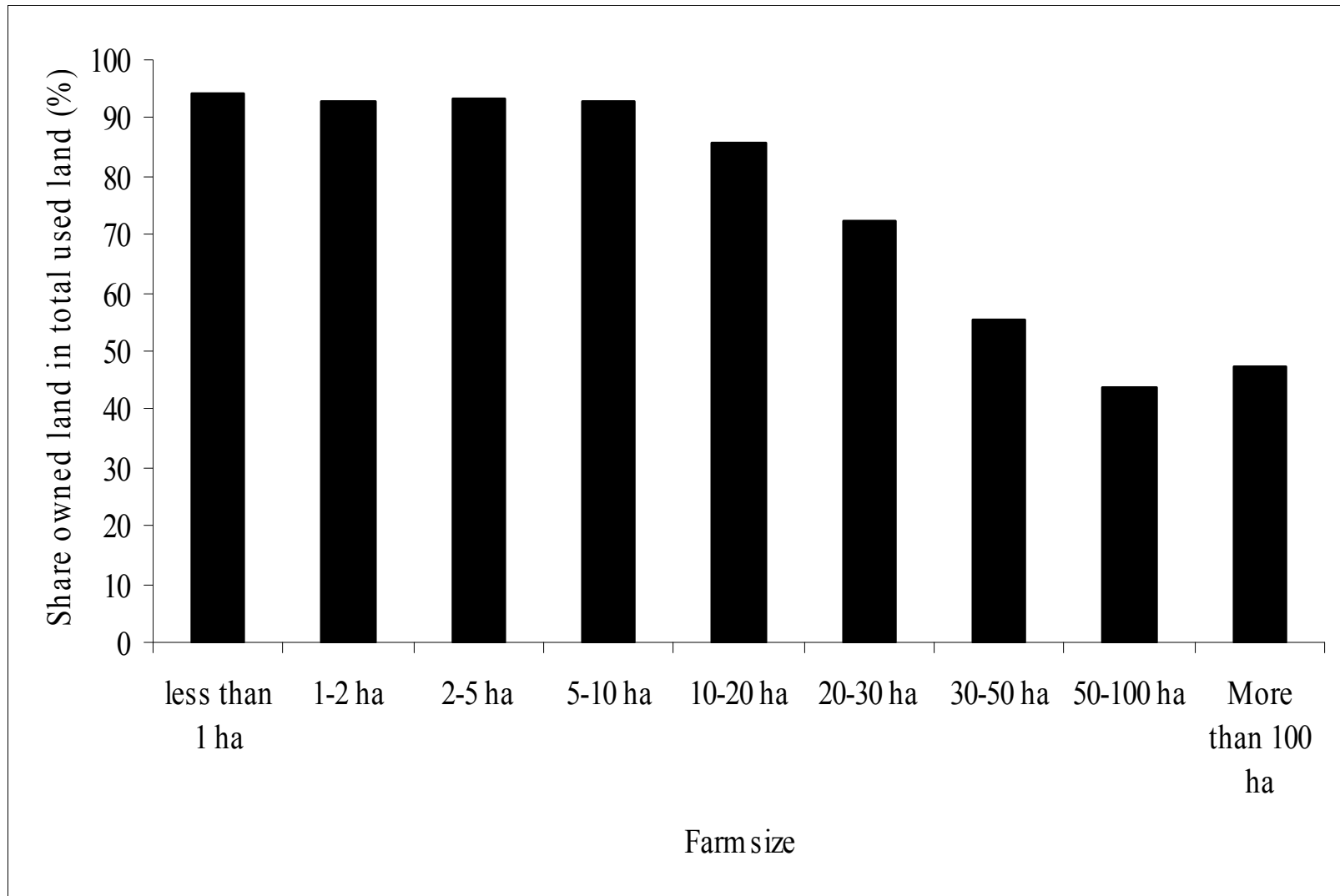
	2005	2007
Slovakia	91	89
Czech Republic	86	83
Malta	80	81
Bulgaria	76	79
France	72	74
Belgium	67	67
Germany	62	62
Luxembourg	54	57
Hungary	57	56
Cyprus	50	54
Estonia	48	50
Lithuania	53	48
Sweden	40	39
Finland	34	34
Greece	32	32
United Kingdom	31	32
Denmark	25	29
Slovenia	30	29
Italy	23	28
Austria	26	27
Spain	28	27
Latvia	24	27
Netherlands	26	25
Portugal	24	23
Poland	20	20
Ireland	18	18
Romania	14	17

Land Tenure and Farm Structures

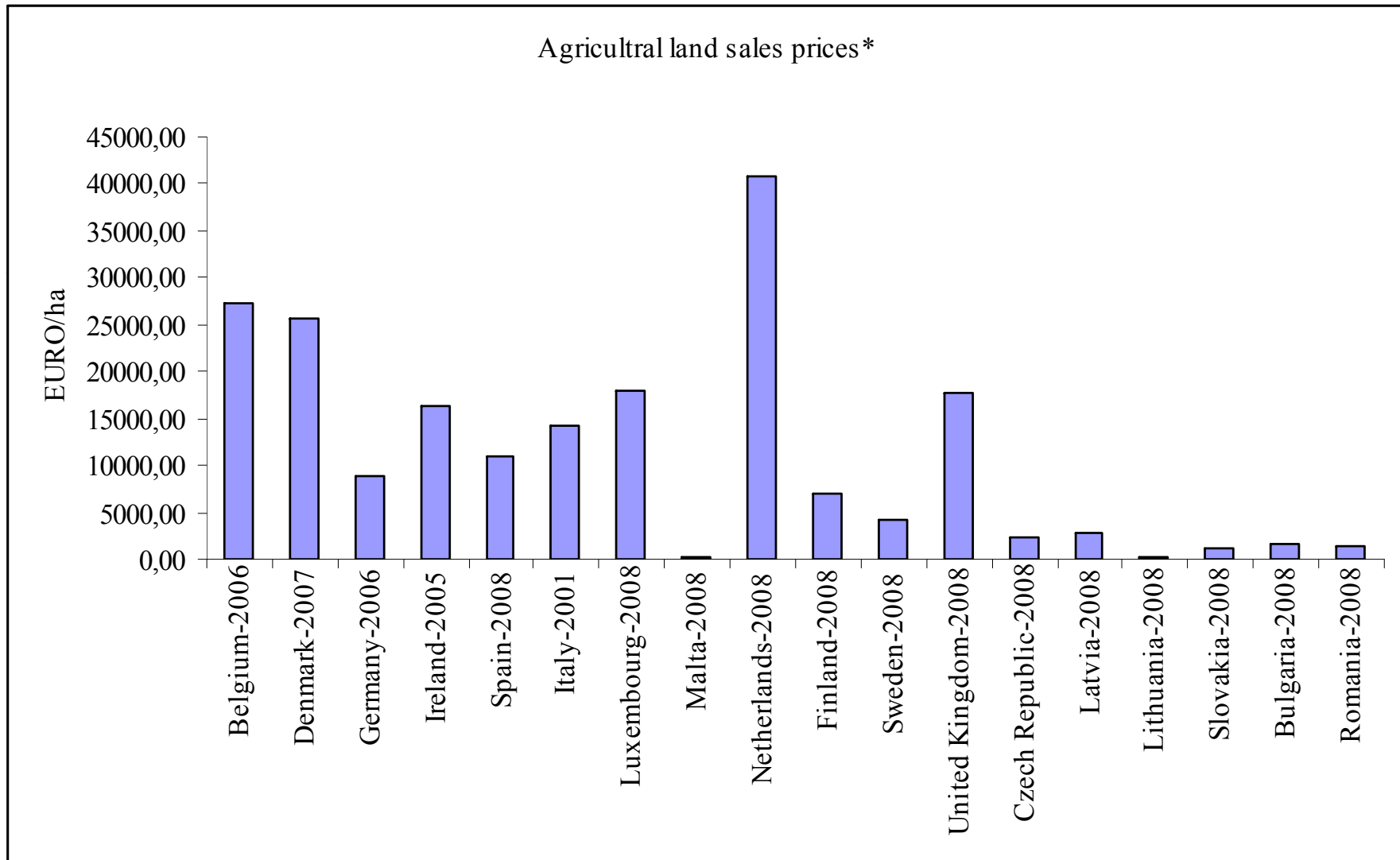
(% single holder in land use)

	2003	2005	2007
Ireland	100	100	100
Greece	100	100	100
Luxembourg	100	100	100
Denmark	97	98	95
Slovenia	94	95	95
Norway	96	95	94
Malta	92	93	93
Netherlands	92	92	93
Cyprus	93	93	92
Finland	93	92	91
Latvia	89	90	91
Belgium	92	92	90
Poland	88	90	90
United Kingdom	89	85	87
Italy	88	82	87
Lithuania	88	88	86
Sweden	81	82	81
Austria	83	83	81
Portugal	77	75	72
Germany	69	69	68
Spain	69	69	68
Romania	55	65	65
Estonia	59	56	52
Hungary	50	49	48
Bulgaria	42	47	47
France	54	50	46
Czech Republic	28	29	29
Slovakia	15	18	20

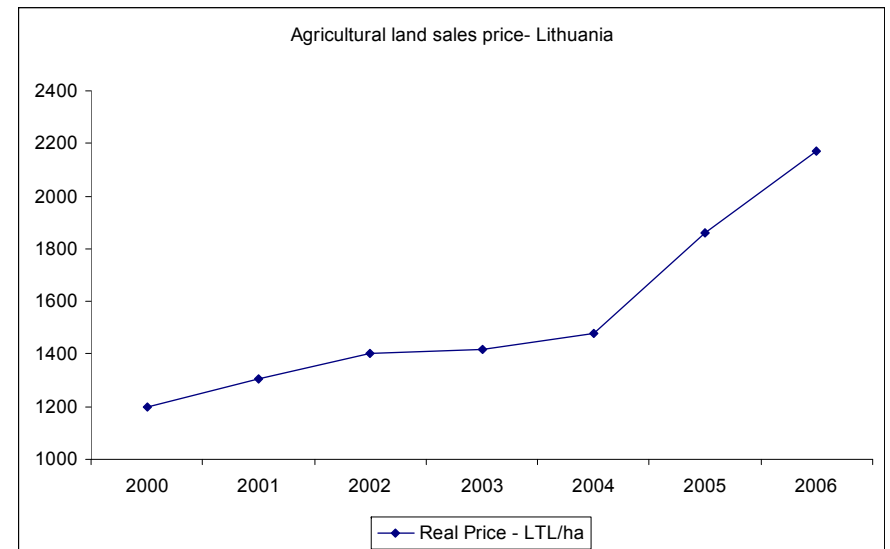
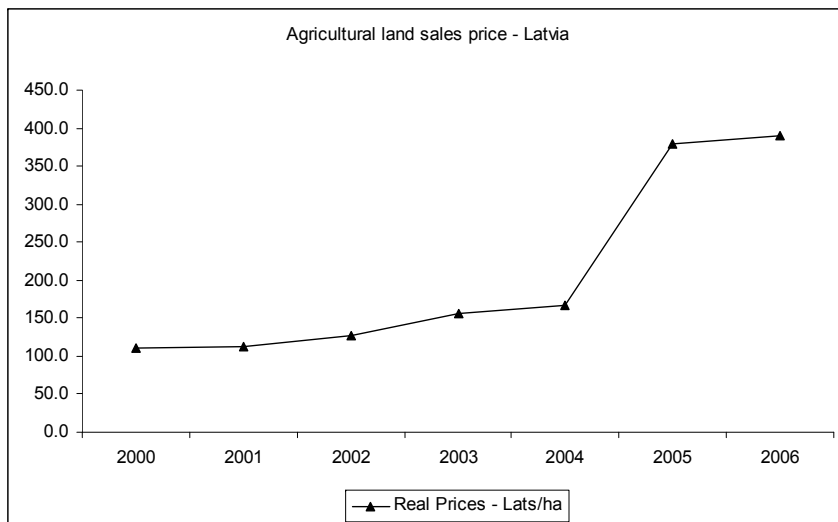
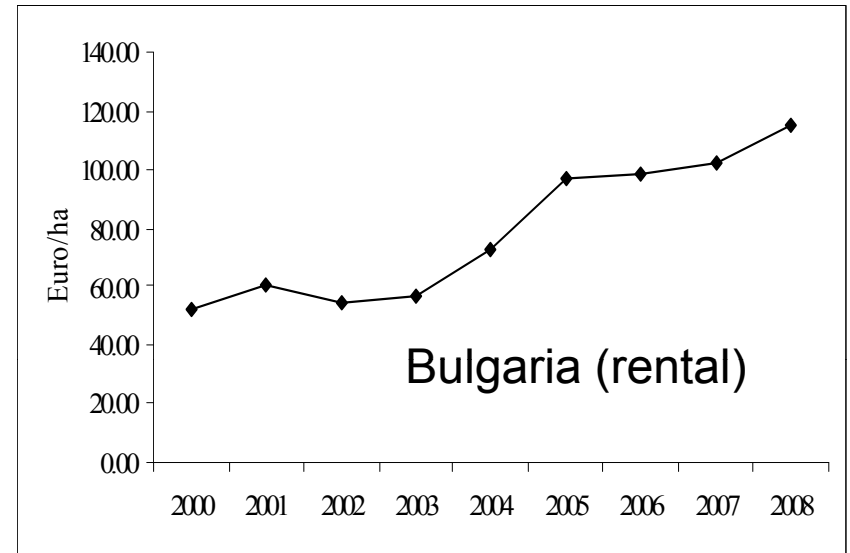
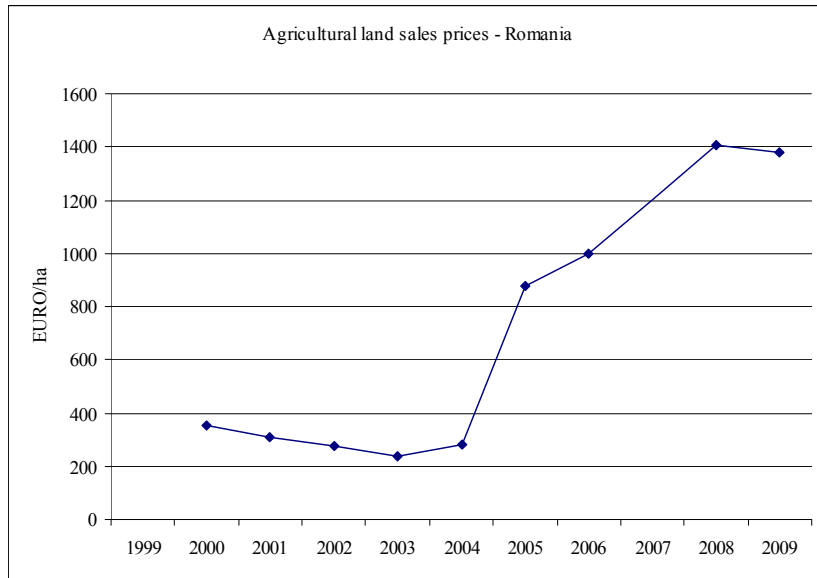
Land Tenure and Farm Structures in Romania



Land sales prices in the EU-27



CEE land prices and EU Accession



Our conclusion

- Nature of land contracts:
 - equilibrium between security of operation and allowing for adjustments to reflect changes in market conditions
 - Multiple equilibria ? May depend on local institutions etc

Our conclusion

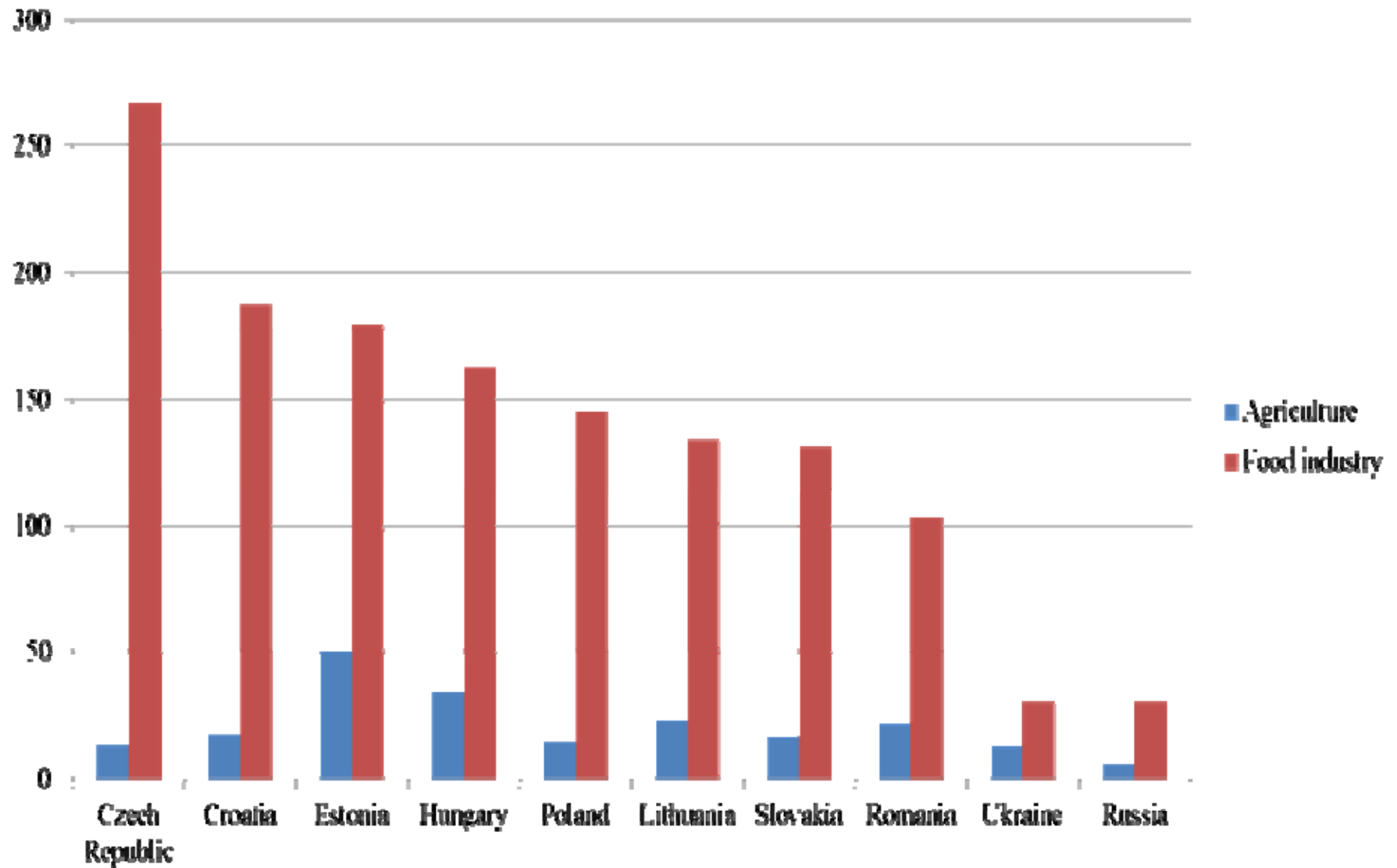
If political/social opposition too strong for full liberalization:

- Propose moderate changes
 - Politically least sensitive
 - Economically most effective
- Examples:
 - Increase minimal size which one can easily acquire (Estonian model)
 - Allow non-land operation to be purchased
 - Establish transparent (and enforceable) medium term rental contracts for rest of the land...
- Both cases would avoid issue of “foreign take-over” of rural areas, but would allow foreign farms to develop based on more efficient “owned/rented” balance

Major difference between SSA and CEE

- Spill-over effects of FDI and technology transfer etc occur via FDI in Agribusiness and Food Industry
- Huge in agribusiness and food industry FDI in CEE through supply chain restructuring & VC
- => may affect optimal policies !

FDI per capita (stock in 2008; EUR)



FDI & Supply Chain Restructuring (Vertical Coordination)

- **Problem:** processors/traders/retailers face lack of supplies, because farms are not able to supply the type/quality of products required
 - **Reason:** factor(*) market constraints (inputs, credit, technology, ...)
 - **Solution** requires some form of contracting :
 - Price/quality
 - Supplier assistance : inputs, technology, extension services, management, ...
- » (*) output market with agribusiness

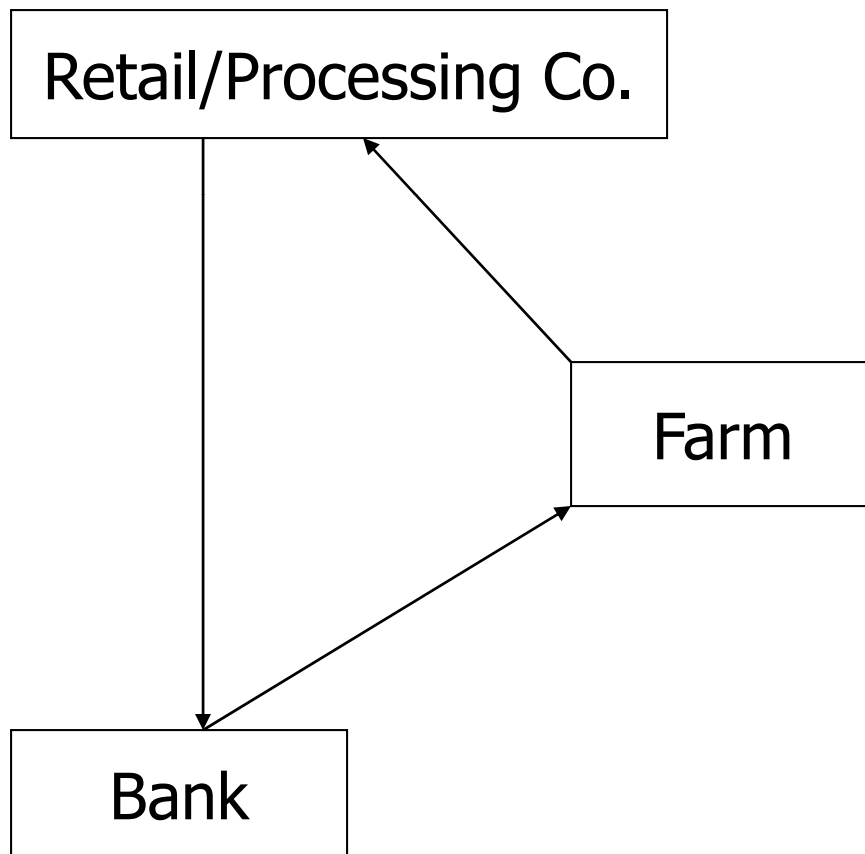
“Vertical coordination” includes :

- Input supply programs
- Trade credit
- Investment assistance program
- Bank loan guarantee programs
- Extension services (technology and management)
-

Variations reflect market imperfections, investment security, ...

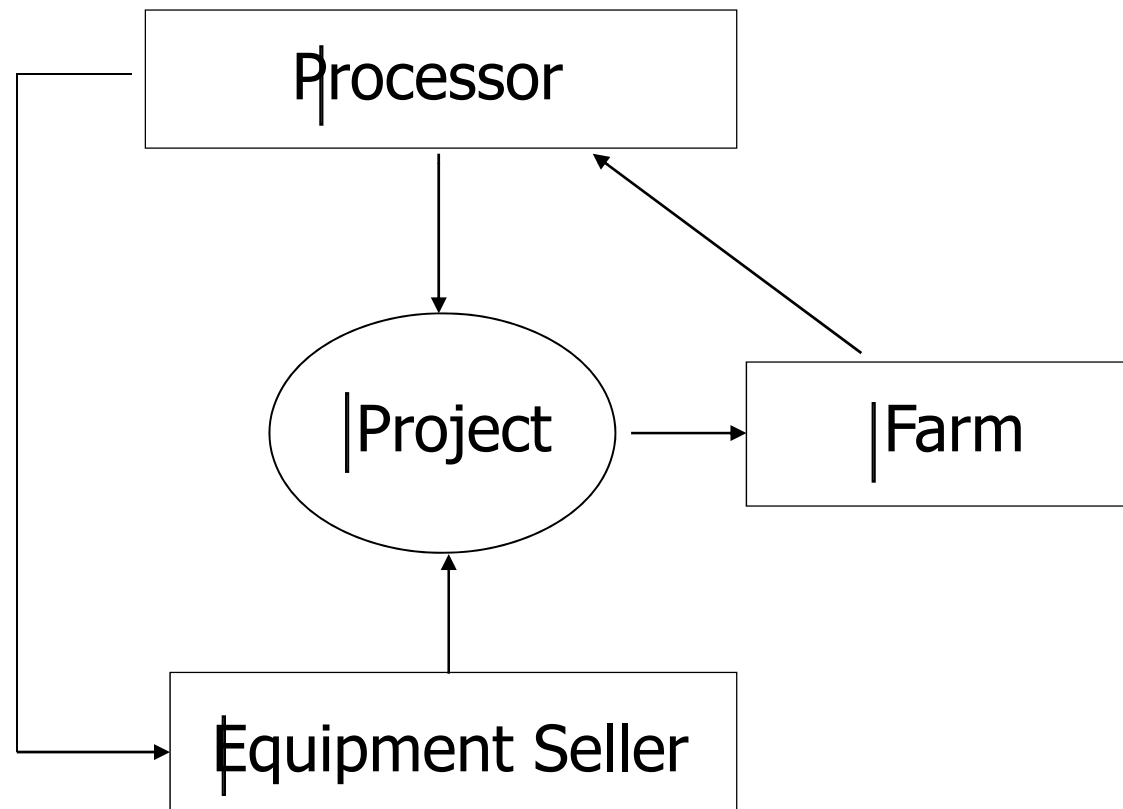
Some Examples of Contracting Models

Proces./Retail – guaranteed supplier loans: JUHOSUKOR in Slovakia & KONZUM in Croatia

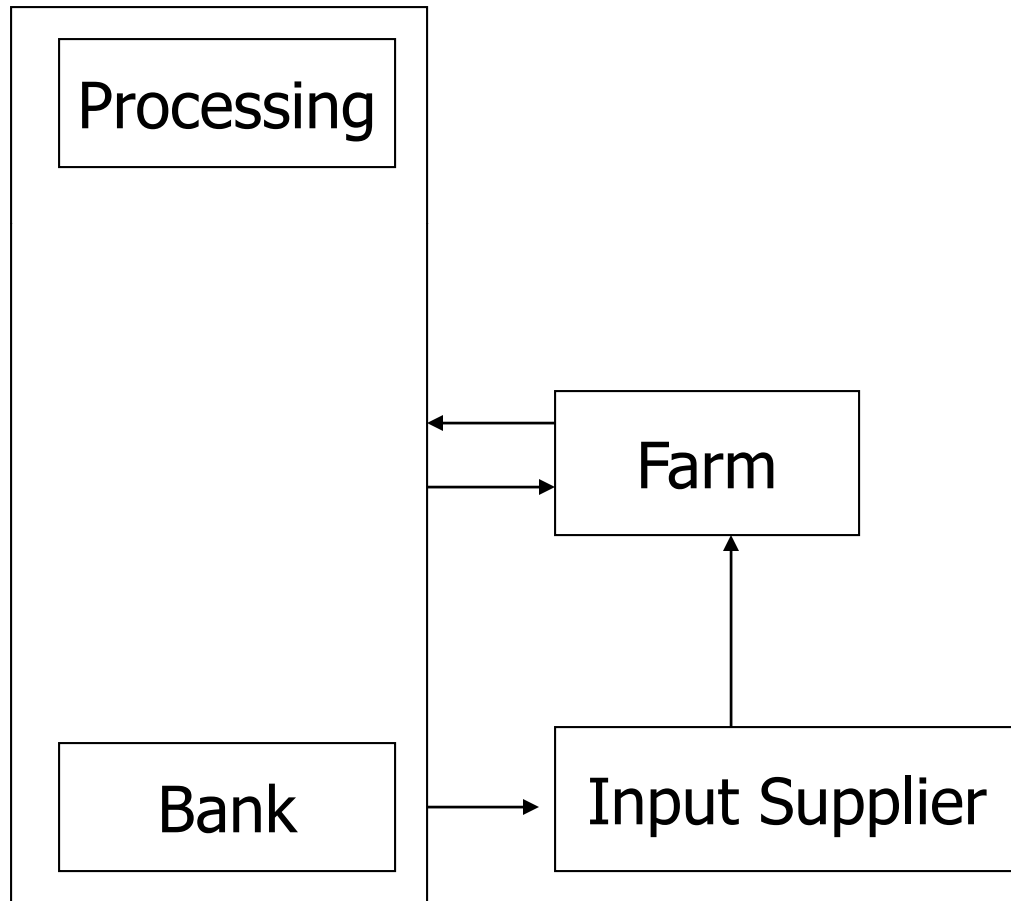


- Retailer/processor provides loan guarantees for bank loans to suppliers

Leasing dairy equipment by joint project Wimm Bill Dann -- De Laval in Russia



Dairy Processor Becomes Financial Institution: DANONE in Romania



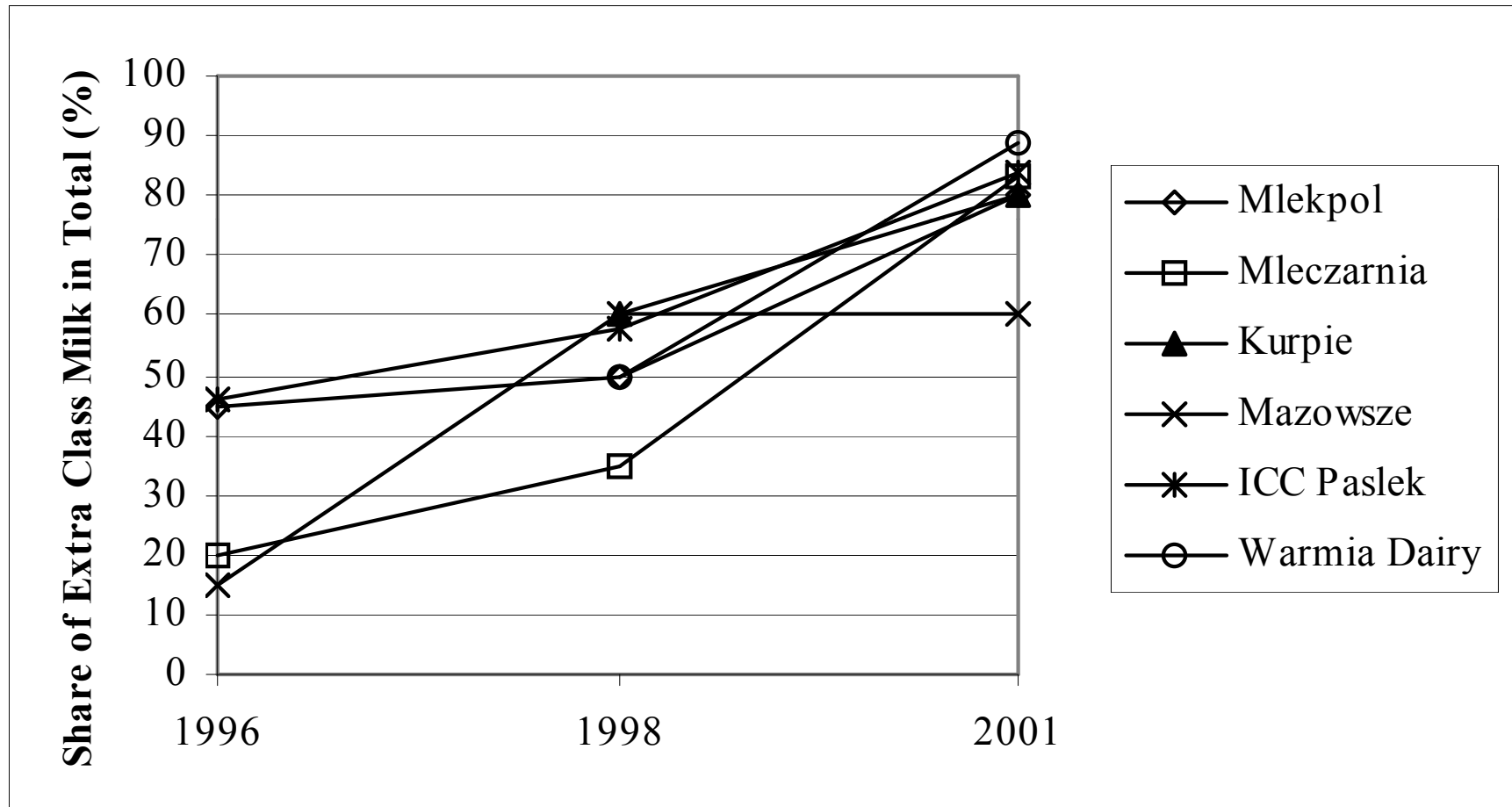
- Processor takes on banking function:
 - provides loans to farms
 - based on business plans
 - takes collateral
- Provides payment guarantee for input suppliers

Efficiency Effects

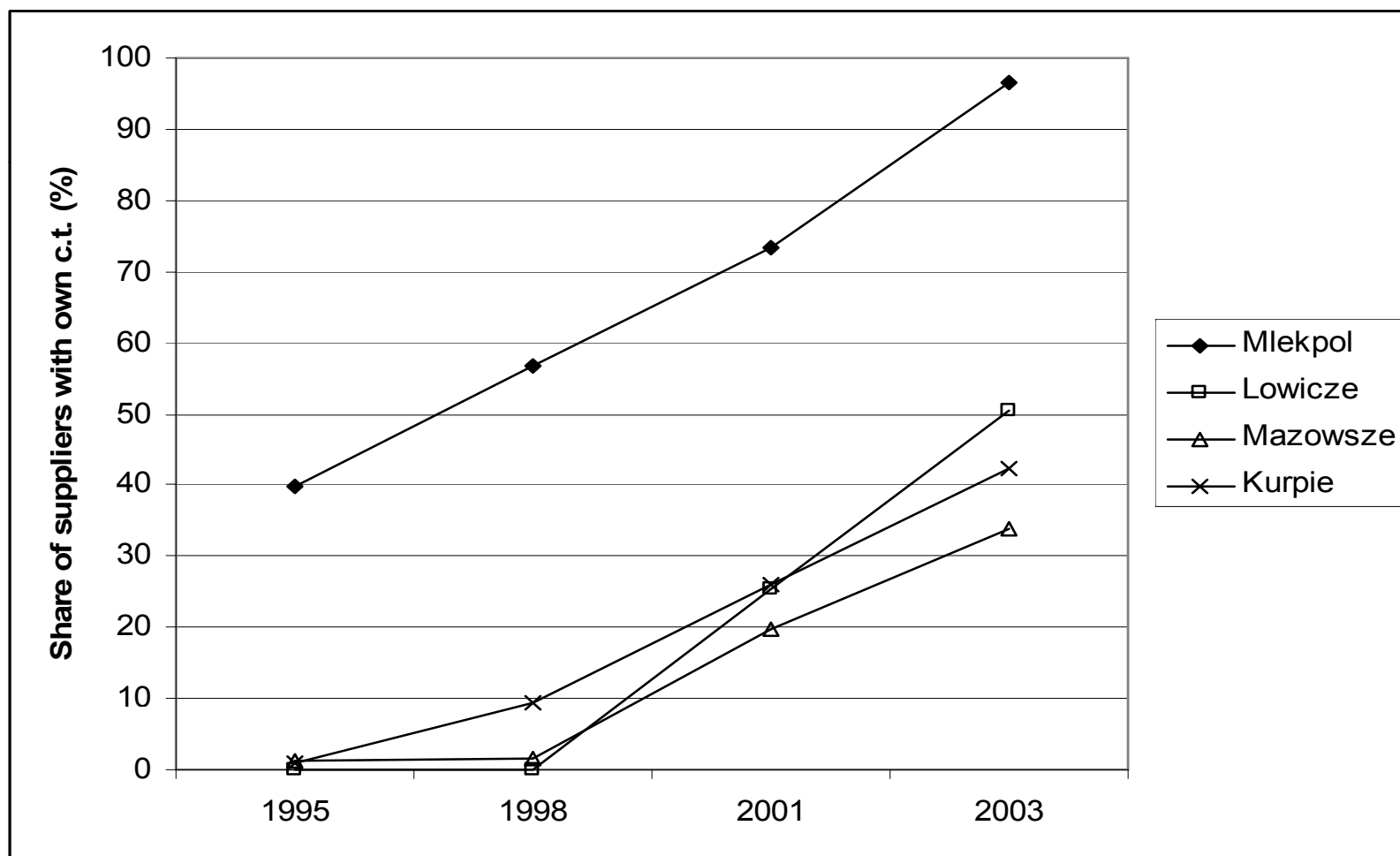
- Important **Direct** Effects :
 - Enhanced QUALITY (& higher PRICES)
 - Increased PRODUCTIVITY
 - Increased INVESTMENTS
- Important **Indirect** Effects: **Spillovers**
 - Contract replication by other companies
 - Farm assistance replication
 - Household level spillovers

Change in Quality

Dairy in Poland 1996-2001



Effect on Investment : Farm cooling equipment in Poland 1995-2003



Impact on LOANS and Investment

Small farms in Polish Dairy sector

Size (# of cows)	Invests (% of total) <i>A</i>	Uses loan to invest (% of A) <i>B</i>	Uses dairy loan (% of B) <i>C</i>	Uses bank loan (% of B) <i>D</i>
1-5	52	54	41	50
6-10	78	51	43	70
>10	92	74	43	75
ALL	76	58	43	69

VC farm assistance : Dairy companies in CEE (Bulgaria, Slovakia, Poland)

		Credit	Inputs	Extension	Vet.	Bank	Total
1994	PL	50	67	50	0	50	43
	SK	0	0	83	17	17	23
	BG	9	18	9	0	0	7
1998	PL	83	100	83	17	83	73
	SK	17	17	83	17	33	33
	BG	45	64	18	18	18	33
2002	PL	83	100	83	17	83	73
	SK	100	33	83	17	50	57
	BG	82	91	73	18	36	60

Farm assistance by food companies in CIS

(Armenia, Georgia, Moldova, Russia, & Ukraine)

	% of firms	% of farms
Credit	43	51
Prompt payments	42	87
Physical inputs	36	53
Quality control	34	78
Agronomic Support	21	81
Farm loan guarantees	21	15
Investment loans	6	0

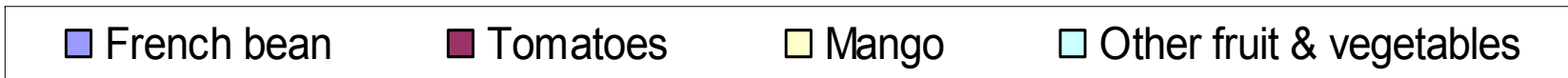
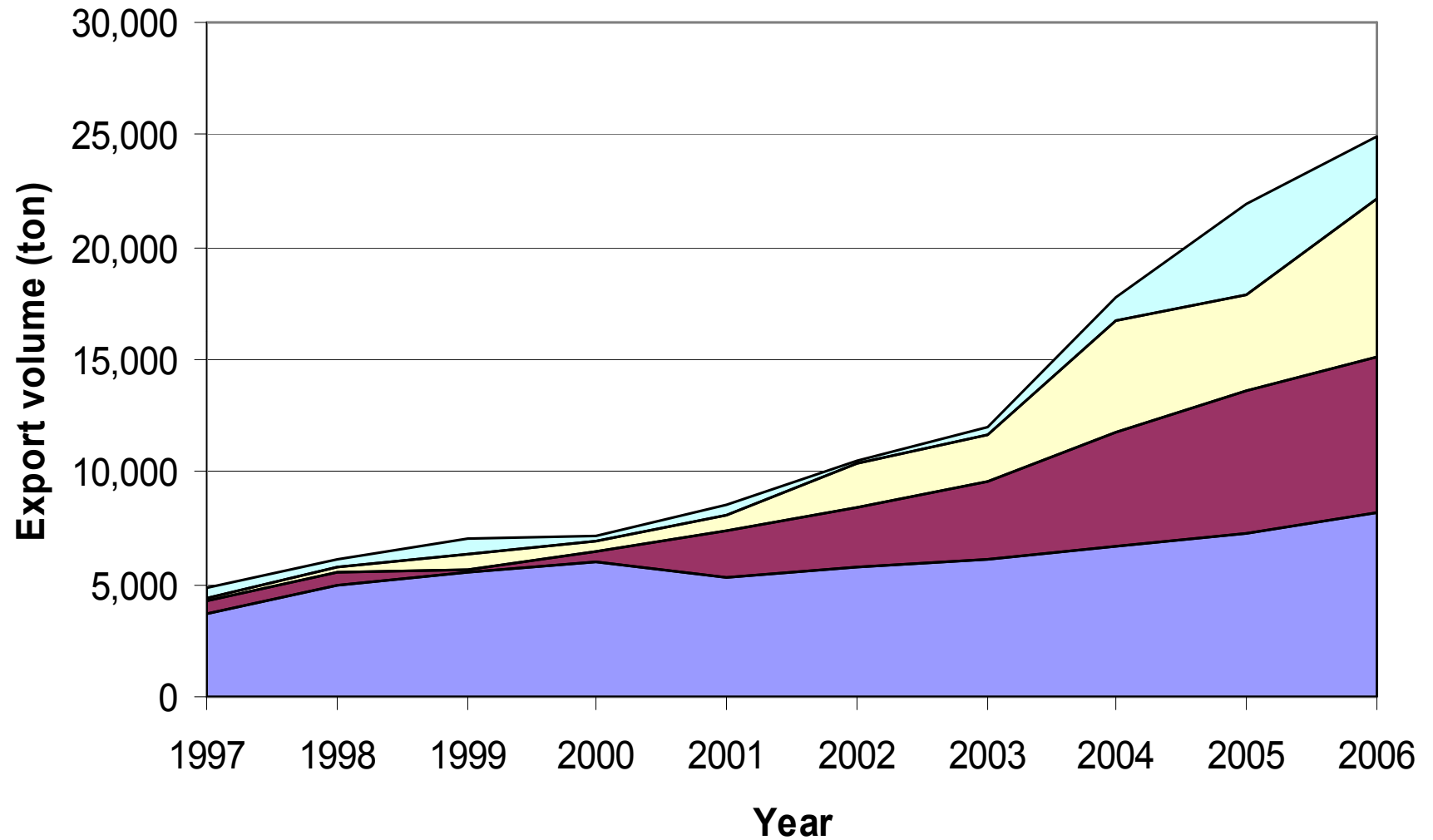
FDI in SSA Agric & Land :

A case from Senegal

Comparative Analysis: 3 Cases

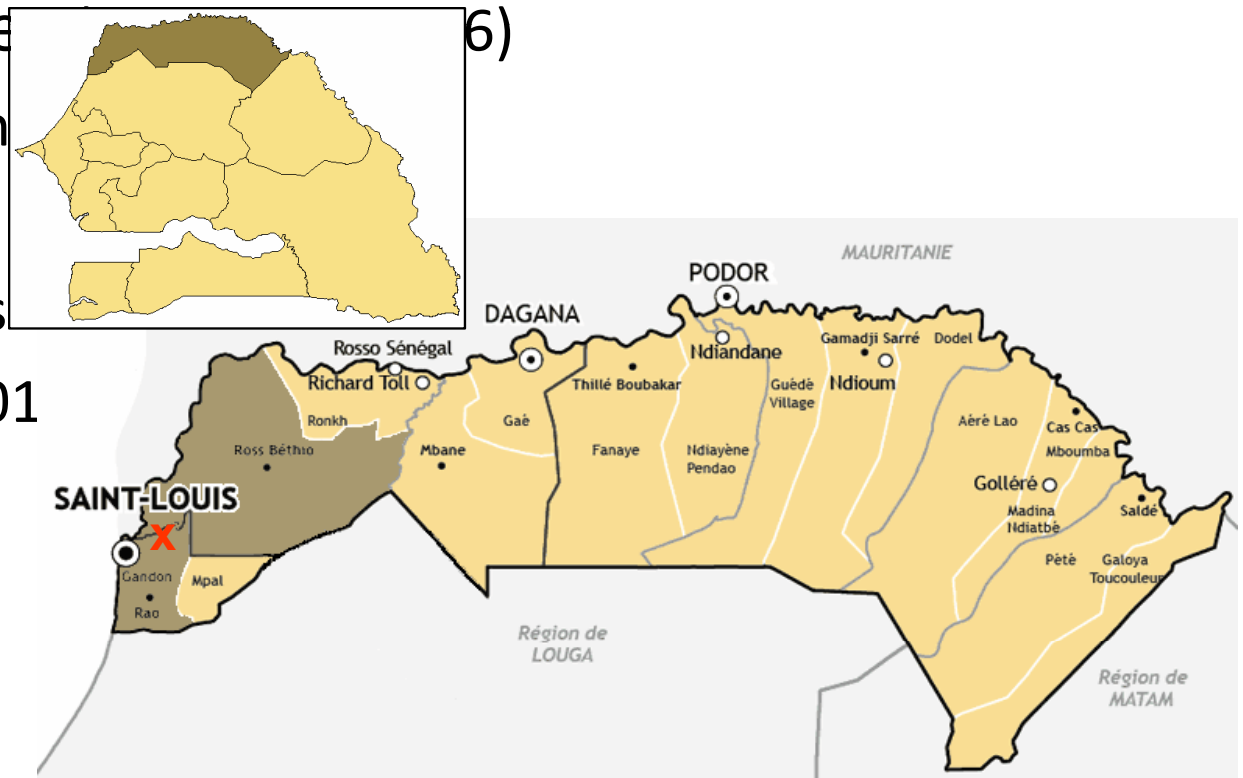
	Small-holders	Industry structure	High value exports to EU
Madagascar green beans	100% contract	Monopoly	yes
Senegal green beans	Mixed & changing	Competition	yes
Senegal cherry tomatoes	0%	Monopoly	yes

Senegal horticultural exports



Data

- Research area: Senegal River Delta
- Firm level interviews (Sept 2005 and March 2006)
- Household survey (2005 and 2006)
 - 2 rural communities
 - 18 villages
 - 299 households
 - Recall data (2001)











Worst Case Scenario ?

tomato export in Senegal

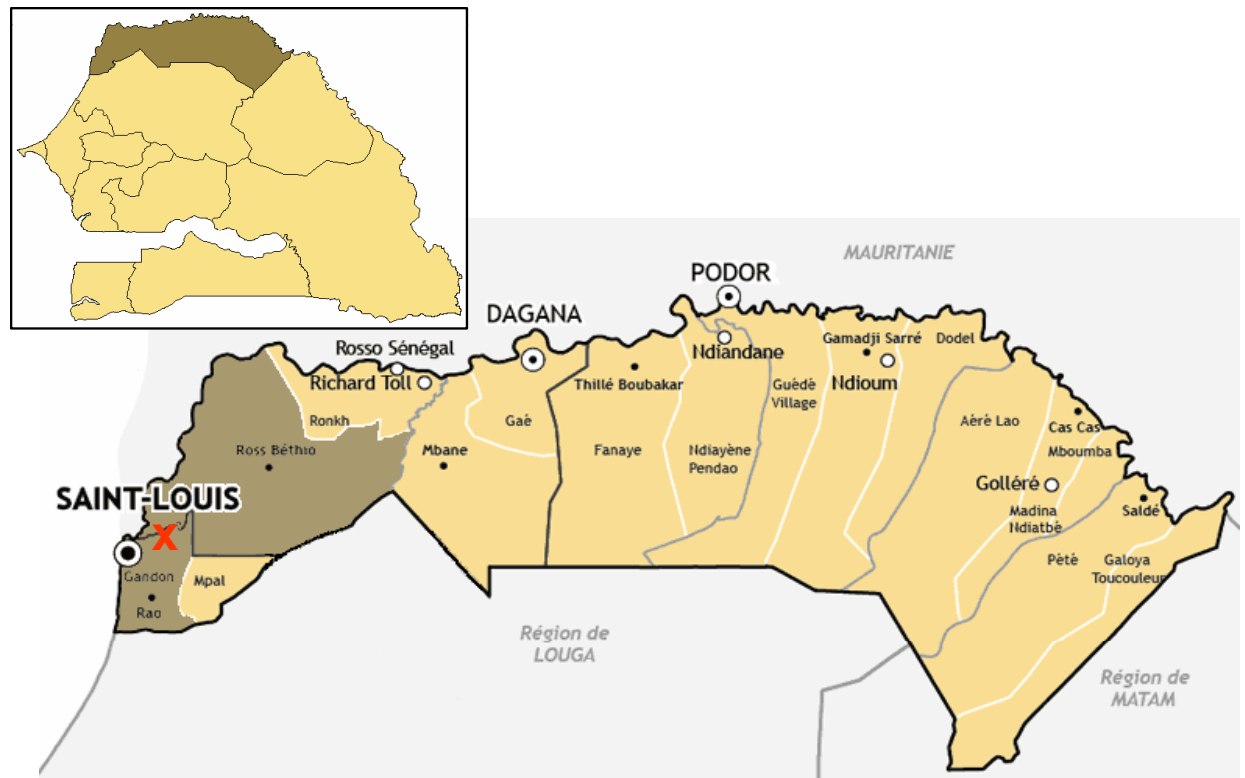
1. Poor country
2. FFV sector: Increasing standards (private and public)
3. Extreme consolidation
4. Foreign owned multinational company
5. Full vertical integration
6. Complete exclusion of smallholders
7. FDI of land (“Land grabbing”)

Definition of “Land Grabbing”

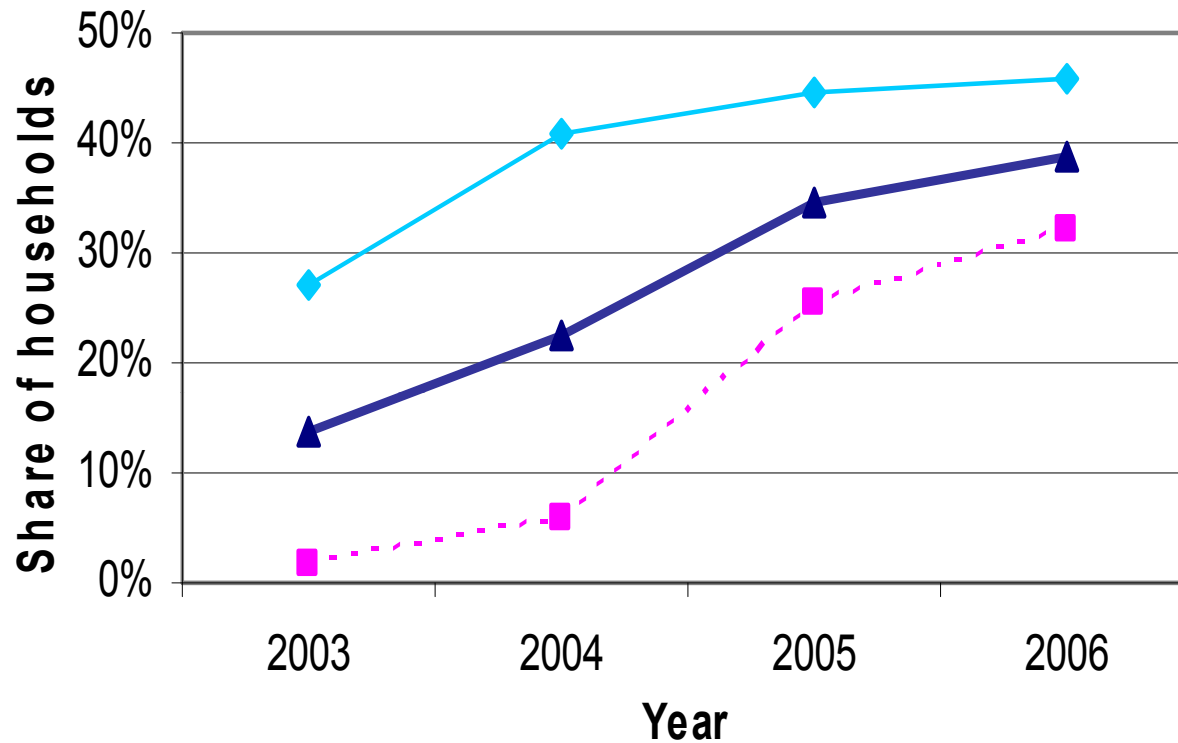
1. Large scale land acquisition (purchase or lease) by foreign investor for agricultural prod.
2. Transnational commercial land transaction focusing on commercial nature
3. Taking possession/control of scale of land which is disproportionate in size to average land holdings in the region

Data

- Research area: Senegal River Delta
- Firm level interviews (Sept 2005 and March 2006)
- Household survey (Febr-April 2006)
 - 2 rural communities
 - 18 villages
 - 299 households
 - Recall data (2001)



Employment

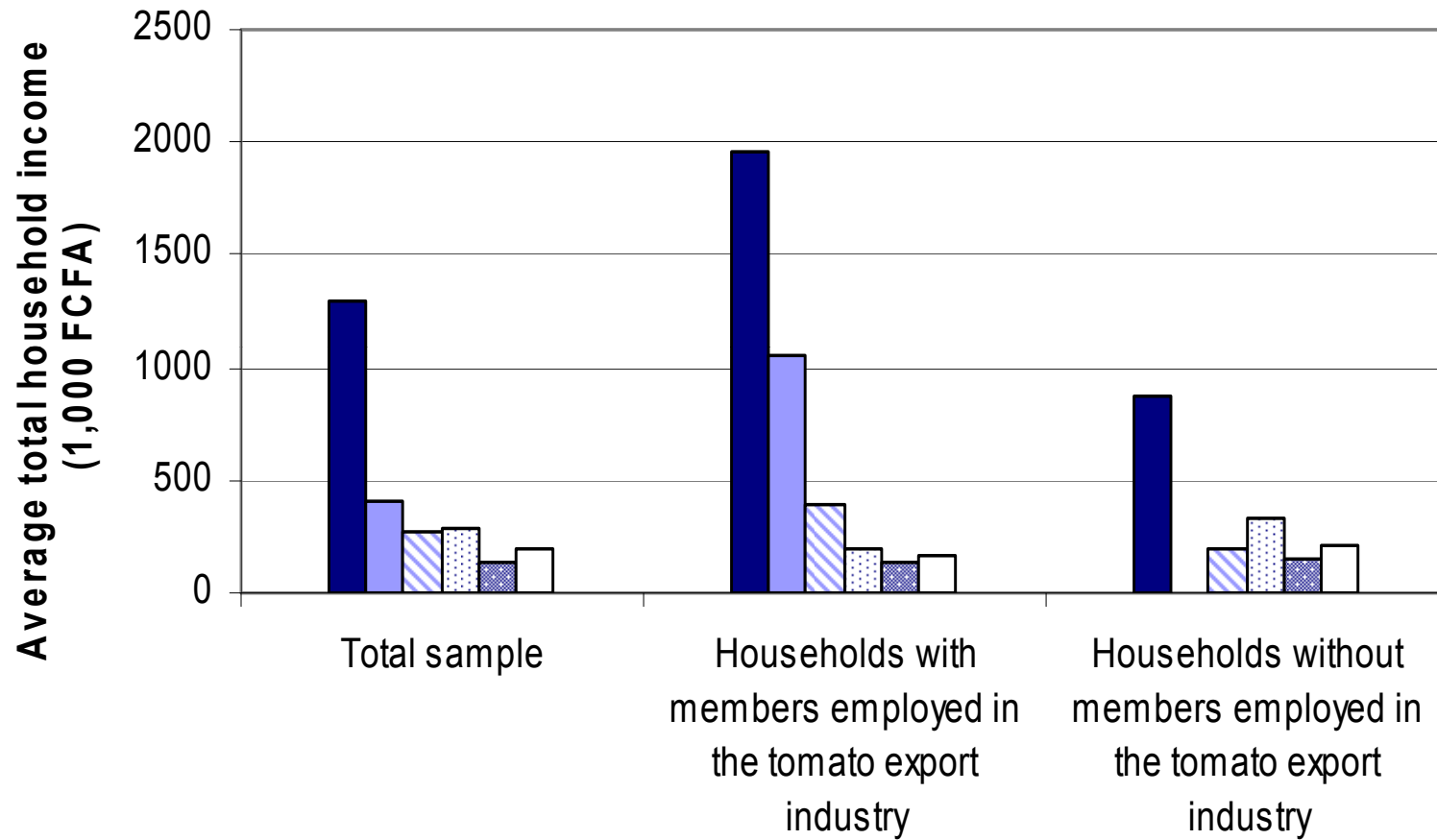


- More than 3000 workers employed in 2006
- Almost 40% of households in the region have at least one member employed by GDS

Household participation

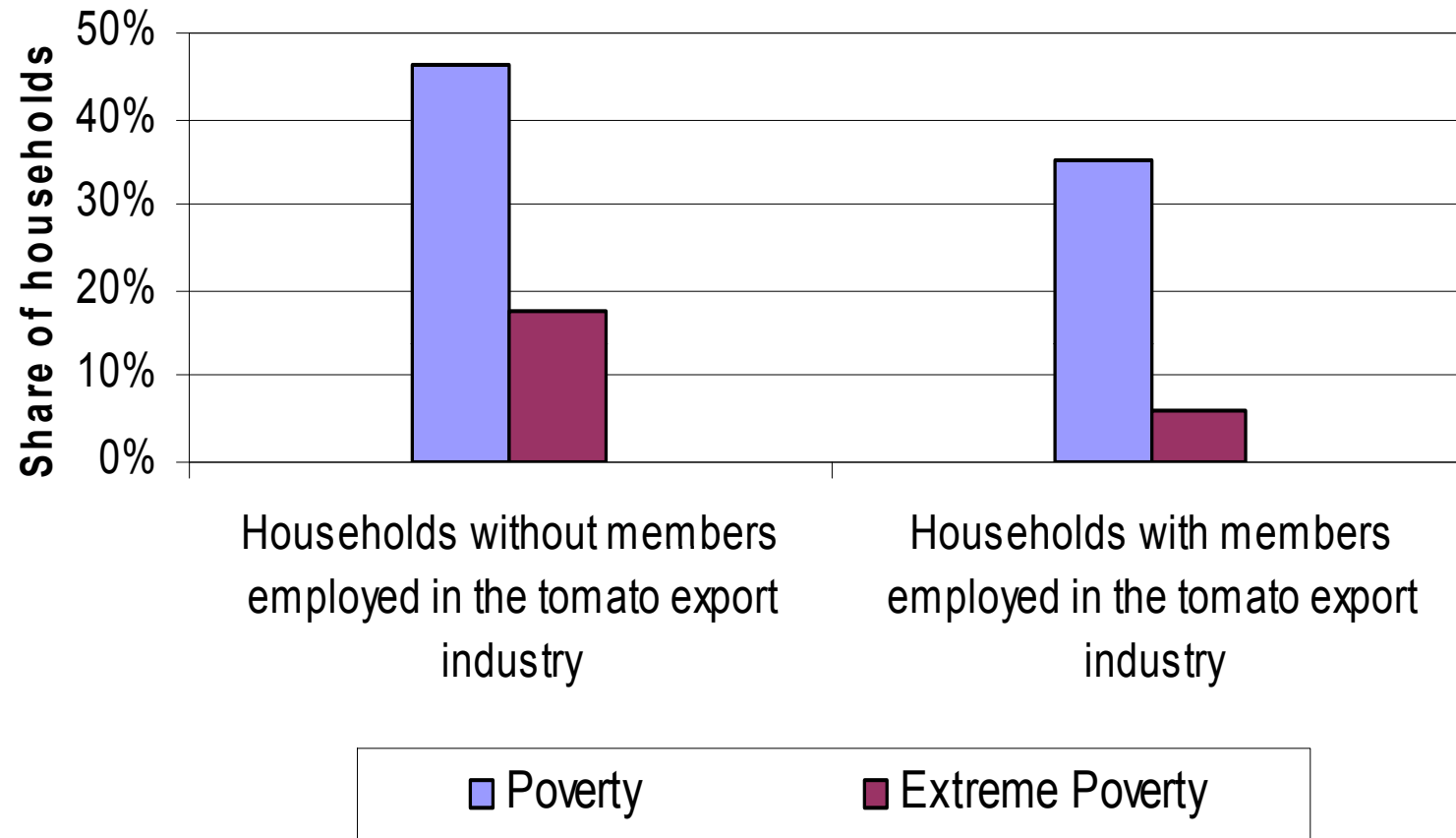
- No bias of employment towards better-off or more educated households
- Bias towards households with smaller per capita landholdings

Income effects



- Total income
- Income from tomato export industry wages
- ▨ Income from farming
- ▨ Income from self-employment
- ▨ Income from other wages
- Non-labour income

Poverty effects



- Poverty: 35% with vs. 46% without employment
- Extreme poverty: 6% with vs. 18% without employment

Comparative Analysis: 3 Cases

	Small-holders	Industry structure	High value exports to EU
Madagascar green beans	100% contract	Monopoly	yes
Senegal green beans	Mixed & changing	Competition	yes
Senegal cherry tomatoes	0%	Monopoly	yes

Contract motivations for farmers

Sub Sahara Africa

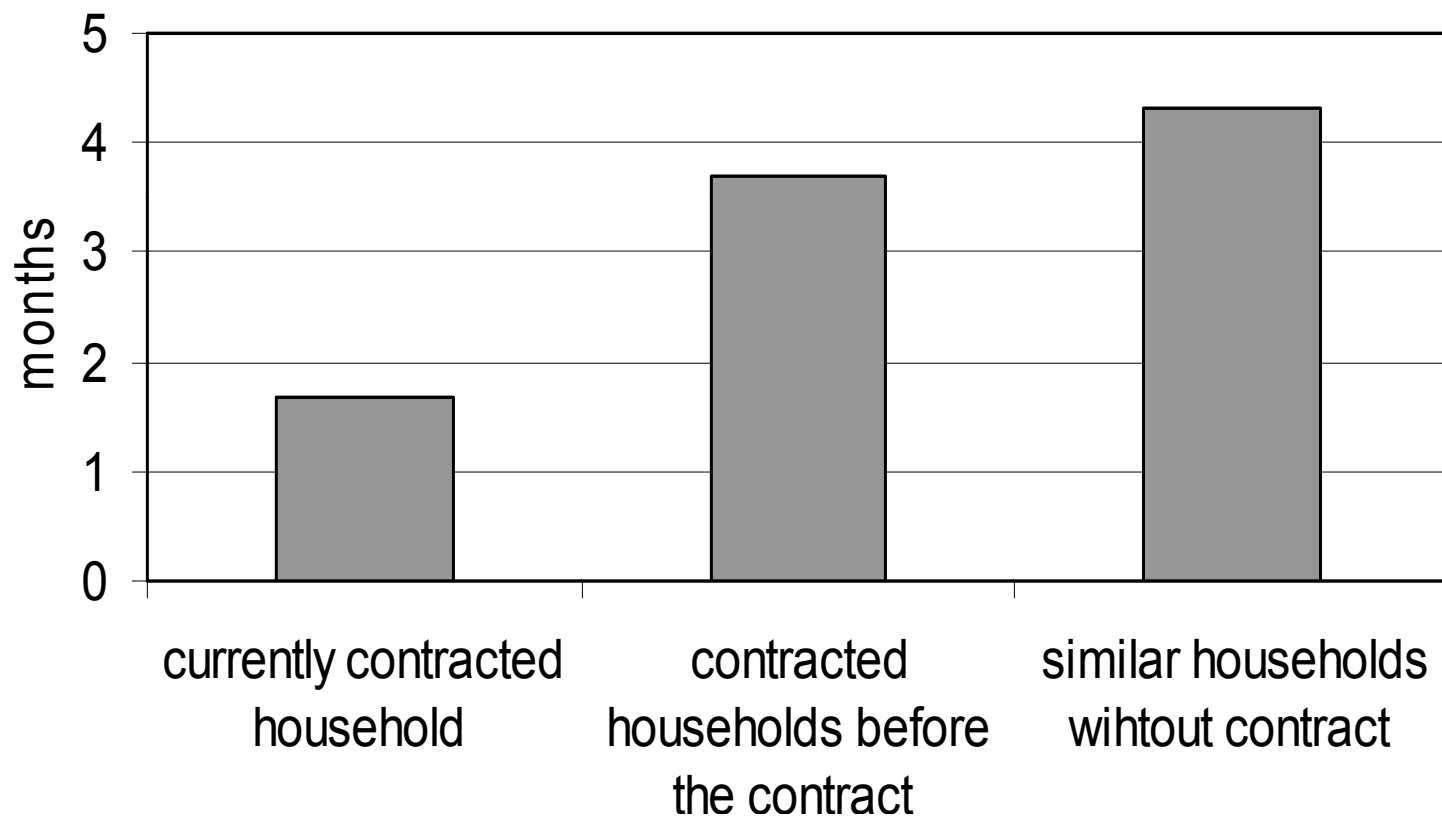
	Madagasc.	Senegal
Reasons for contracting (%)	2004	2005
Stable prices	19	45
Higher income	17	15
Higher prices		11
Guaranteed sales		66
Access to inputs & credit	60	63
Access new technologies	55	17
Stable income	66	30
Income during lean period	72	37

Source: Maertens et al., 2006; Minten et al., 2006

Effects on technology adoption, income & land use (biodiversity)

- Land use in the off-season on rice fields
- Vegetable export contributes for 47% to household income
- Additional positive effect on hh income through
 - technology spillovers
 - increased rice productivity (with 64%)
- Sharp improvement in food security
- Reduced pressure on forests

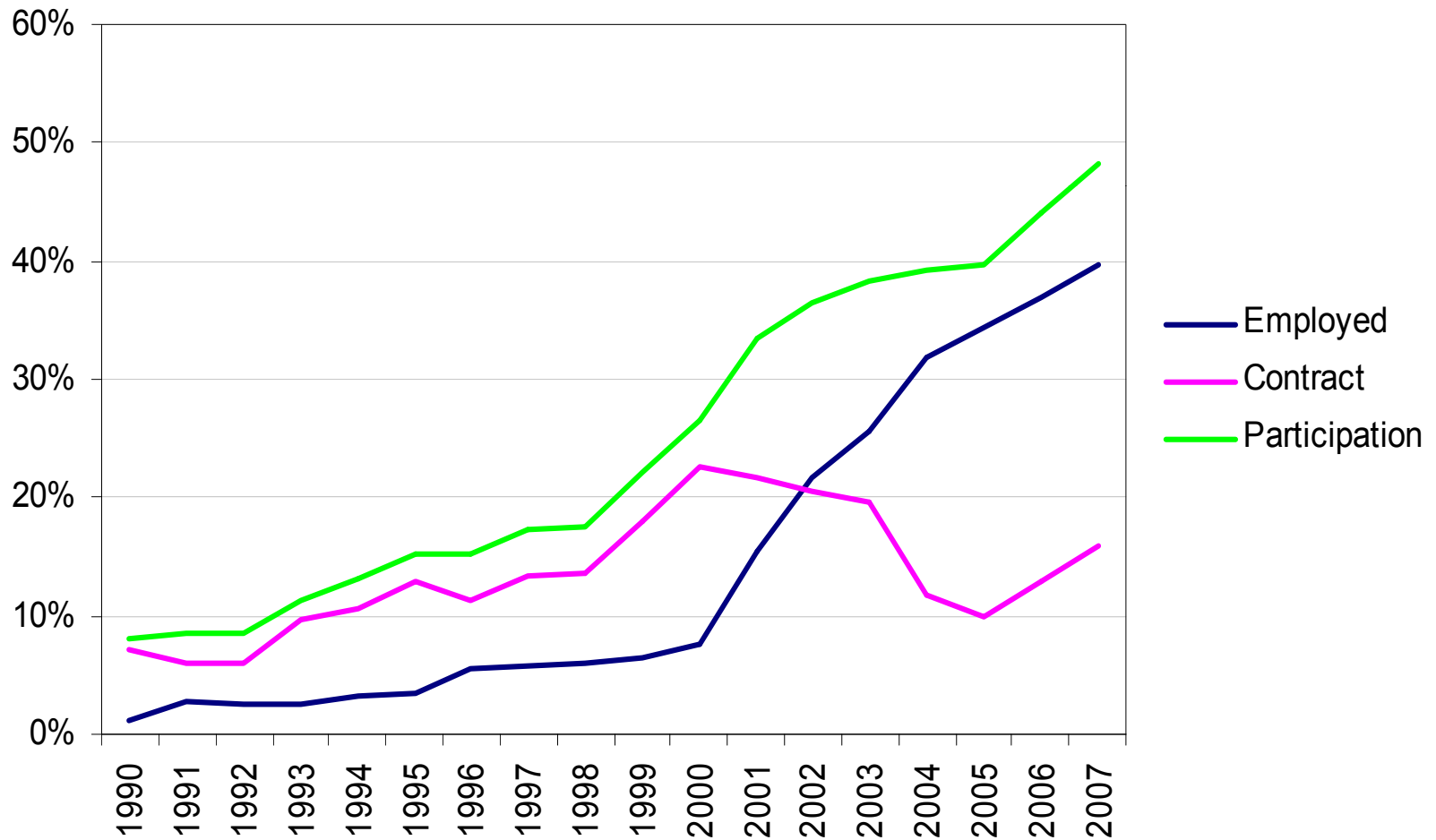
Table: Impact of vegetable contract-farming on the length of the “hungry” season in Madagascar



Source: Minten et al., 2009

Green beans in Senegal

- % rural household participation

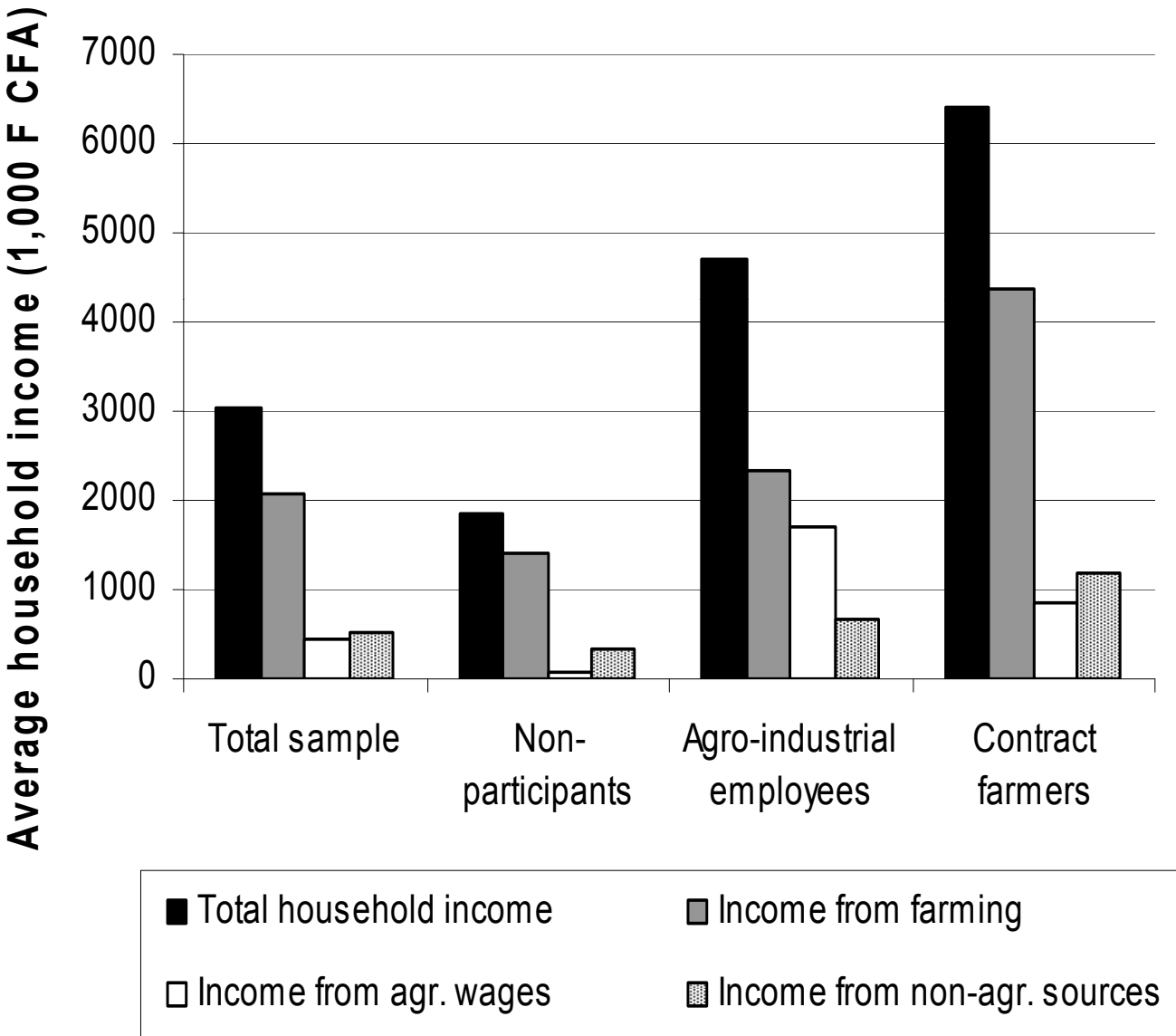






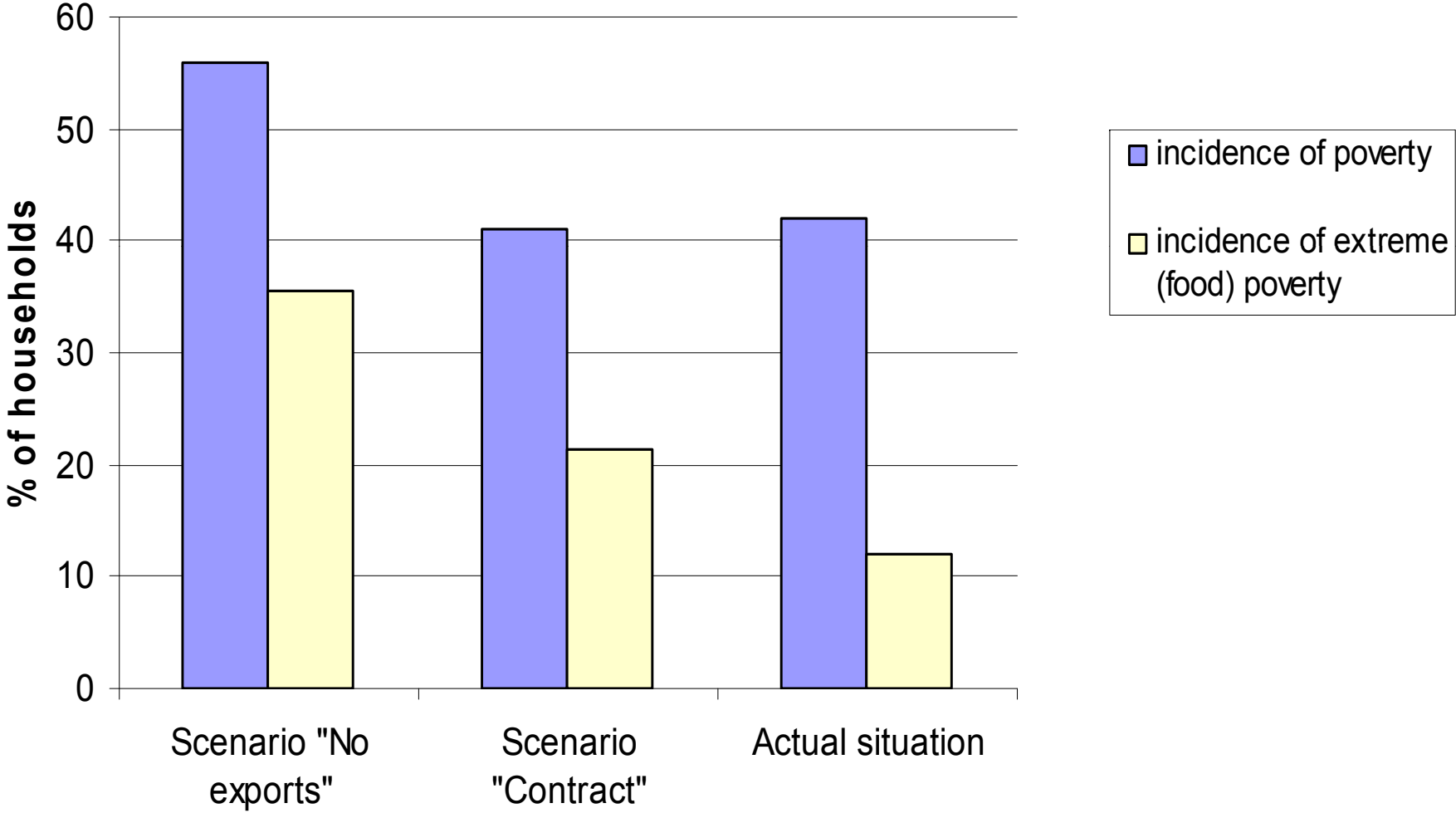


Income effects



Poverty effects

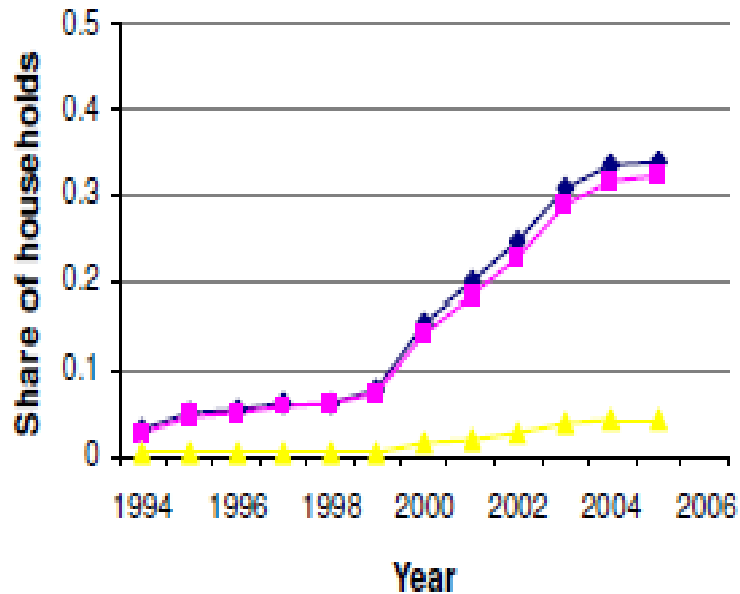
(Green beans in Senegal)



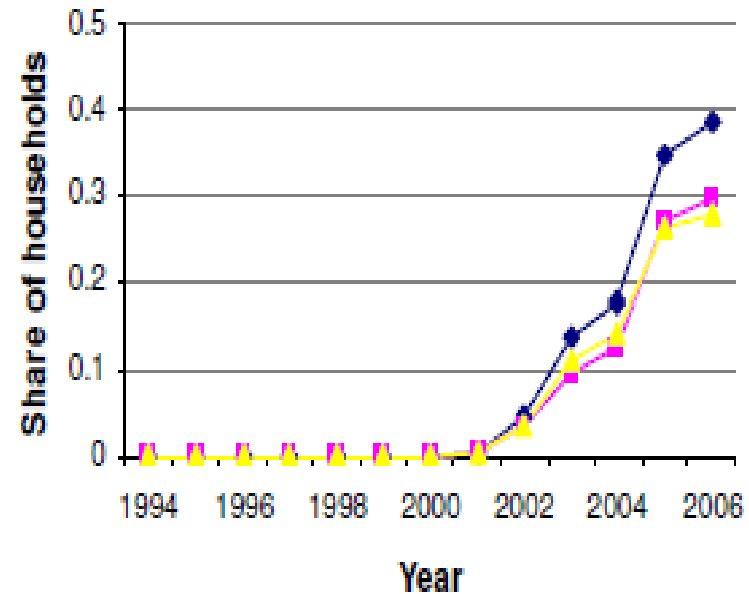
Gender effects

Female employment in Senegal horticulture export sector

Case-study "Les Niayes"



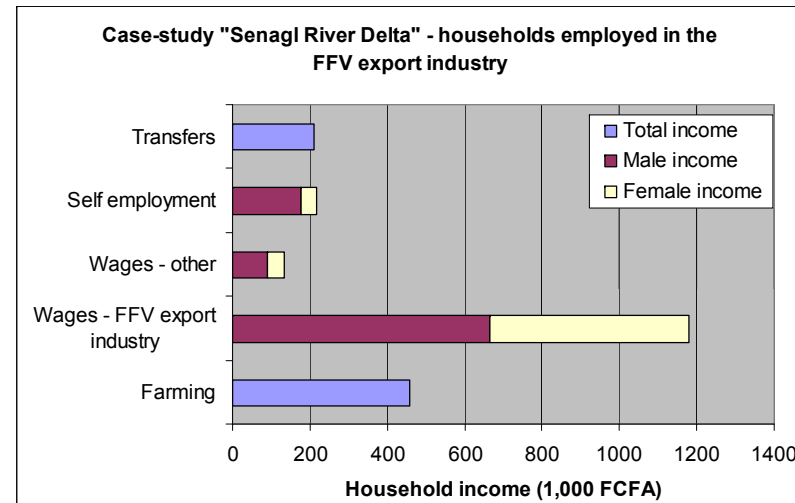
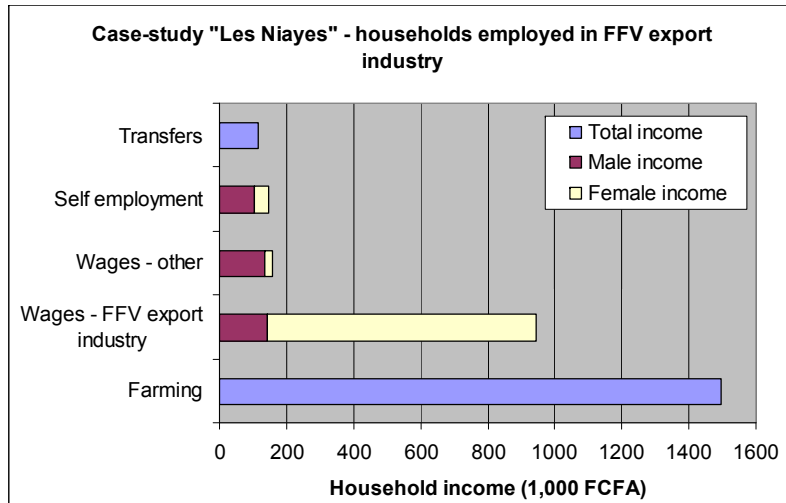
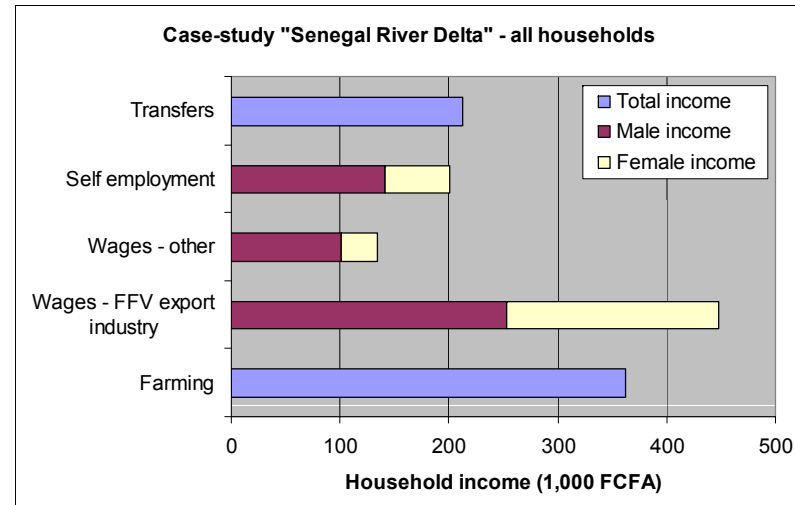
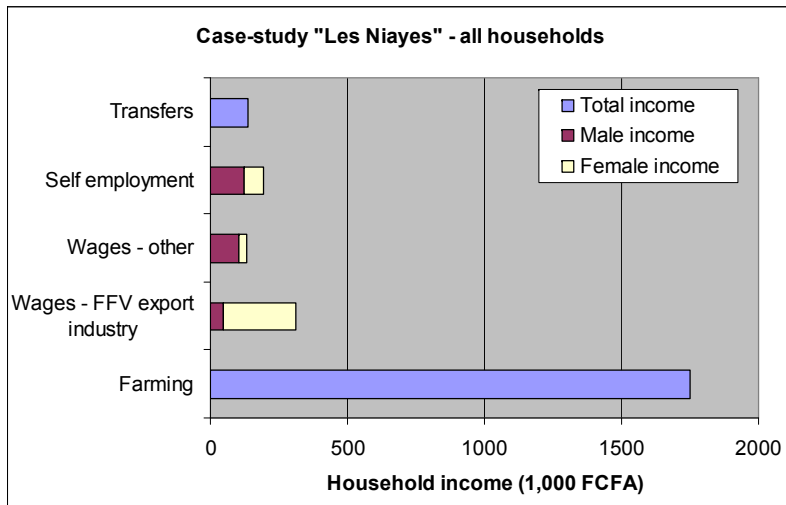
Case-study "Senegal River Delta"



● Employees ■ Female employees ▲ Male employees

Source: Maertens and Swinnen, 2009

Importance of female income in total household income



Source: Maertens and Swinnen, 2009

In conclusion

- FDI is potentially major force for growth
- Large-scale foreign acquisition of land:
 - Serious concerns and important opportunities
 - Efficiency and rent distribution
- Nature of land contracts:
 - equilibrium between security of operation and allowing for adjustments to reflect changes in market conditions
 - Multiple equilibria ? May depend on local institutions etc
- Very little careful research – and hard to do it right
- Beware of the simplistic arguments

More info

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