

# C2A Notes

## Agriculture and Food in question

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### INVESTMENTS IN AGRICULTURE: A DANGER OR AN OPPORTUNITY FOR SMALLHOLDER FARMERS AND HUMANITY?

*'Increasing investments in agriculture is necessary in order to reduce hunger in the world and to speed up development'. This is an assertion we hear all the time and for which there seems to be consensus. Yet, this proposal is far from obvious. What kind of investment are we talking about? That of pension funds, transnational agribusiness firms and rich entrepreneurs from the South or the North? That of local authorities and public institutions? Or that of smallholder producers who have since time immemorial developed and improved the land, built systems of irrigation and bred plant and animal varieties? We would like to have 'responsible' investment, but what does this mean? Responsible for what? Responsible towards whom? Increasing investments implies that we are able to measure them. But on what is the unit of measurement based: money, labour time, or something else that hasn't been invented yet?*

*An enormous disinformation effort very often lies behind the use of the word 'investment'. It seeks to serve the interests of a few, by enabling them to appropriate or grab the essential resources of the planet. The word itself has become very tricky, and even more so when we tack on the moral qualifier 'responsible'. In order to be able to distinguish investments that are useful to society from pseudo-investments, which above all fall within the framework of privatisation of common goods and thus represent a certain form of theft, we must clarify the different meanings of the word very precisely and position them within an overall economic analysis. This is in no way a purely academic debate, as the stakes are very high!*

*This document partially takes up the content of an article by the same author in 2012 in the journal 'Grain de Sel', a longer version of which has also been published on the AGTER website. In the present document, several extra considerations and clarifications have been added, which may be useful for the current discussions at the Committee on World Food Security (CFS) on the Principles for Responsible Agricultural Investment (PRAI), in which the C2A is involved.*

### What is an investment?

#### The meaning of the word investment has changed over time.

In the 17th century, 'investment' meant the act of being invested with an office, right or endowment, etc. It derived from the verb 'invest', from the Latin word *investire* 'to clothe in' or to 'surround'. Different new meanings related to social relations and balances of power appeared in English and in the Romance languages using the same Latin root. In military language, to 'invest' a city means to surround the city in order to besiege it.

The word 'investment' came to have the meaning of providing an enterprise with capital for equipment purchase or means of production. This latter meaning developed within the specific context of the development of capitalism in England at the end of the 19th and beginning of the 20th centuries. It is directly related to a process of investing money for profit.

The word is nowadays used with broader meaning. We also talk about investment for non-capitalist producers (and especially for family farmers) as well as public investments, in situations in which profit is not necessarily the main objective.

« The overlap between investment and speculation has led to a considerable increase in the virtual character of the economy. »

#### Investment and speculation

An investment seeks to obtain a result that will occur at a later date. It thus always includes an aspect of speculation, in its original meaning, that of anticipation based on observation (from the Latin *speculari*). It always involves risk-taking.

If we want to evaluate the respective interests of two investments that develop over distinct periods, we must take into account that which we can anticipate today regarding the impact of time on the results. For example, profit expected in several years is worth less than the same profit obtained

right away. Discounting is a process of attributing the current value of profit hoped for in the future. The choice of a discount rate implies making hypotheses; these are always simplistic, because not everything can be quantified and many factors can change over time.

But the large-scale speculation that we observe today is no longer of the same nature. Along with the development of financial capital, the connection with production has become less and less direct. Profit can now be made by buying and selling shares – no longer by counting on their material compensation, but based on the idea of what other players think of how they will evolve. Goods that have not yet been produced can be built and resold (futures market), and investments can be made with borrowed capital. Bank loans are transformed into negotiable securities (securitisation), and financial derivatives of very diverse natures are invented. These products are called 'derivatives' because they no longer concern the assets themselves. For example, someone can undertake to purchase Product X at a given date by paying only a guarantee, and then resell this commitment to someone else. This commitment is an underlying 'derivative' of Product X. The importance of derivatives in exchanges is constantly growing.



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These evolutions were originally intended to limit the risks for companies, by transferring the risks to bodies specialised in managing them. However, this has led to a growing overlap between investment and speculation and to a considerable increase in the virtual character of the economy. The 'bubbles' that have appeared and that wind up bursting along with dramatic losses, as well as the recent successive financial crises, have shown the danger of such a situation.

## How can investment be measured?

This is not as easy as it seems. As an illustration, we will look at two different examples.

First we will take the case of an indigenous family-farming society in the Luzon Cordillera in the Philippines, which has sculpted mountain slopes with terraces over several hundred metres in height, for rice growing. This involves 500 to 1000 working days per hectare per year, as some of the terraces must be rebuilt each year following the frequent cyclones. This enormous investment in labour is not an exception in Asia. Similar examples can be found in some provinces of China. This is an investment of sweat and suffering and obviously does not correspond to the process of maximisation of profit. The result is rooted in the land and cannot be transferred towards another purpose.

In contrast, let us consider the situation of a trader who manages investments by banks and their clients directly or via high-frequency trading mechanisms. The invested funds partially come from work undertaken in earlier periods, but they are also largely the product of speculation and no longer have a directly identifiable material base. In several fractions of a second, the corresponding amounts, expressed in currency, can evaporate or multiply.

We can thus see extremely different situations behind the single word 'investment'. Without trying to go in depth into this reflection here, let us now look into how the word 'investment' can be dangerously deceiving when it used to describe the appropriation of natural resources.

## When 'investment' = appropriation of wealth

### Private interests and general interest do not necessarily coincide.

An investment, even a private one, is never detached from the society to which it belongs. Furthermore, the tools for measuring the satisfaction of private interests and that of society are not the same.

Evaluating whether an investment is of interest for a private entrepreneur takes into account only the data that have an impact on the operation's profitability within the current framework of legislation and its application. Investors are not interested in all the immediate upstream and downstream consequences, such as the impact of input purchases, of sales of products, of jobs created or made redundant, or of discharge into/extraction from the environment, as long as they do not interfere with their profits during the life of the project. The implications for future generations are not taken into account. This method of evaluation is called financial analysis. By definition, it reflects only the point of view of the investor.

If we want to take into account the repercussions of the investment on society as a whole, other tools are used. These fall under the term economic analysis. Not making

a distinction between the two implies that maximisation of investor profit always represents the most worthwhile solution for the general interest. This is a big mistake, with serious consequences.

There are two major methods of economic analysis.

- The effects method seeks to measure all the impacts of each component of the project, one after the other and upstream and downstream.
- The shadow price method is not based on observed market prices of goods and services, but on theoretical prices that are calculated so as to correct the many imperfections of markets and that are 'supposed to better represent the economic and social cost of resources committed to projects as well as how well the goods and services provided to the community provide satisfaction' (Dufumier, 1996. p.207).

These methods remain insufficient for dealing with environmental issues and with all the things and services that do not have a price at a given moment, but whose destruction could have significant consequences on the biosphere. Economic analysis nonetheless has the advantage of putting the evaluation approach into perspective, by clarifying the point of view adopted.

## Private interests and communities stripped of their possessions

'Private' comes from the Latin *privare*, which means to 'deprive' (someone of a property or a right, etc.). The private sector is formed by withdrawing goods or services from the public sphere – goods and services to which others no longer have access. It is therefore not surprising at all that private investments sometimes lead to depriving some users of access to certain resources that had previously been partially or totally public!

What we call land investment – but also more generally agricultural investment – is often part of the phenomena of appropriation of common or public land (CTF&D, AGTER 2010). In this situation, but also when land that has already been subject to private appropriation is concentrated into limited hands via purchase or long-term lease, the motivation for the investment is frequently the possibility of finding productive capacities that have not yet been exploited. This is the case, for example, when an investment fund purchases extensive livestock-farming ranches and transforms them into agricultural production units. Investors can be the first to take advantage of fertile soil, water, wood resources or minerals, because they have access to capital, technologies and/or markets to which the previous users of the land did not have access.

In doing so, they take risks, and this gives a certain legitimacy to the profits they obtain. But sticking to this interpretation is not sufficient. Behind these investments hides appropriation of revenue or ground rent, which the traditional occupiers were not able to develop because of lack of public policies and/or suitable resources. What we call revenue here expresses natural wealth that existed before the investment, which the latter did not create but only made it possible to capture. Other actors could have also taken advantage of this natural wealth, if they had been able, one way or another, to have access to the same resources.

There is currently an overabundance of capital because of the development of finance and the importance of speculative phenomena. Faced with the collapse of certain assets (property and the subprime crisis, etc.), we can see that investors want to put at least part of their profits in goods that are not virtual. This is one of the reasons why the demand for agricultural land has soared in recent years, making it one financial asset among others. But for this to work in a capitalistic framework, the expected rate of profit must be at the same level as that which would be possible to obtain in other sectors.

To understand what we mean, we must introduce the concept of (net) value added, which we define here as Gross Income – (Intermediate Consumption + Annual Consumption of Fixed Capital). The value added in reality measures the wealth created. It is used to pay labour (producer's income and workers' wages), the lease on the land, the interests on loans, the various taxes and compensation for the owners of the capital.

For return on investment to be maximised, the distribution of the value added used to compensate capital must be as high as possible. Compensation for labour, the cost of access to land and the various taxes must therefore be reduced to a minimum (Cochet and Merlet, 2011). These are the conditions that the International Financial Institutions have tried to impose since the Washington Consensus, by liberalising markets as much as possible and by decreasing the role of states.

Obtaining a high rate of profitability for the investor is often in contradiction with general interest. The international prescribers who urge states to attract direct foreign investments for their development and who praise the advantages of win-win projects forget to point out that investing is worthwhile to investors only if:

- they can appropriate a significant portion of the natural wealth (either because the land is made available for free, or because the leasing fees are extremely low and/or no tax creates redistribution later);
- the cost of the labour force is as low as possible (low daily wages and as few jobs created as possible);
- they are offered advantageous tax conditions.

This deceptive discourse is repeated by everyone who finds personal interest in promoting these practices, and especially by many members of government in countries of the North as well as the South.

## Building viable mechanisms for governance of common resources

In order to take into account societal interest as a whole, it is important to change analysis tools and to look closely at what investments we are talking about. We must be able to distinguish what represents financial speculation, land grabbing or appropriation of public wealth, and we must understand what operations can best guarantee the interests of future generations.

In order to respond to the vital interests of humanity today and tomorrow, it is essential to respect fundamental human rights and to keep watch over environmental issues. Likewise, economic matters must also be dealt with differently. We must overcome the increasingly significant illusion that only private enterprise and the spirit of enterprise will enable humanity to make progress. A world managed only by powerful transnational companies can never be a sustainable world.

It is very urgent that we definitively abandon the exclusively entrepreneurial outlook regarding investments, which currently dominates discourses and influences practices. Companies are only one form among others in organising society. The quest for profit is only one way of thinking among others.

Initially, we must use economic evaluation instead of financial valuation for all ex ante impact studies on large-scale investments, rounded out by ecological and social impact studies. This tool will not make it possible to resolve all the problems, but its advantage is that it puts society rather than companies at the heart of projects. It allows us to think through choices of society, by having people join in the process.



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It makes it possible to change the standard of measure of values, and therefore to use reasoning when there is artificially over-evaluated currency or when there is no material equivalent.

The July 2011 report by the CFS's HPLE (High Level Panel of Experts of FAO's Committee on World Food Security) proposes setting up win-win-win projects. The third 'win' refers to society. This is neither a small detail nor rhetoric: it is rather an essential issue that is brought up too rarely. A big comeback for 'public' and 'political' intervention is imperative, and it implies reinforcement of public policies and of arbitration bodies at the various local, national and global levels. It is nothing less than gradually building a new governance of natural resources.

The connection with the various conceptions of property must be emphasised. An absolutist conception of property implies that all rights be in the hands of the owner. Whoever purchases land thus simultaneously appropriates all the resources it contains – regardless of whether or not they are known – subject to the legal restrictions in force. This conception facilitates the private appropriation of natural wealth and not sustainable development. New governance of natural resources and of the land necessarily implies a new way of distributing the different types of rights to these resources among individual and collective layers.

Not only the construction of agricultural infrastructures (for irrigation or soil protection, etc.), the protection of biodiversity and the fight against global warming, but also education, research and the setting up of tax me-

chanisms that make it possible to re-socialise certain unearned incomes are also areas that require resources today and for which the fruits will be harvested tomorrow. Public investments and investments by non-capitalist smallholders must really be taken into account. Even if their financial performances are weaker, their value for society and for future generations can be significant.

Faced with each investment project, it is thus important to ask ourselves about the different possible options and about the societal choices that each of them implies.

It is thus not just about investing in family farming instead of investing in agribusiness. It is important to re-define what we call 'investment' by linking together the collective and individual aspects of society in a new way that is suitable to the current global challenges. This involves giving up the illusion of the effectiveness of private enterprise and markets to build a sustainable world society. It requires the creation of practices and standards that will be able to constantly improve the functioning of society at all levels – up to the planetary level – without falling into insurmountable crises for humanity. This cannot be done in one day – or without mistakes, which we will have to correct along the way.

We can define the process as overcoming capitalism, as moving towards governance for future humanity or as the great transition towards the Ecolocene... It doesn't matter what name we use, but we have to devote all our energy to it. We do not have a choice.

## To find out more:

- Dufumier, M. (1996) Les projets de développement agricole. Manuel d'expertise. CTA-Karthala, Paris.
- Merlet, M. (2010) Les droits sur la terre et sur les ressources naturelles. Educational sheet, Comité Technique Foncier & Développement.
- Comité Technique Foncier & Développement, AGTER. (2010) Les appropriations de terres à grande échelle. Analyse du phénomène et propositions d'orientations.
- Toulmin, C. et al. (2011). HLPE CFS. Committee on World Food Security. Land tenure and international investments in agriculture.
- Merlet, M.; Jamart, C; L'Orphelin, S.; Groppo, P. (2011) Points chauds liés au foncier et aux droits sur l'eau. SOLAW Background Thematic Report TR05a. FAO.
- Cochet, H. and Merlet, M. (2011) Land grabbing and share of the value added in agricultural processes. A new look at the distribution of land revenues. Presentation at the international conference on 'Global Land Grabbing', April 2011, Brighton UK. [http://www.agter.asso.fr/article604\\_en.html](http://www.agter.asso.fr/article604_en.html)
- Merlet, M. (2012) Investissement, mot magique mais mot piège Inter-réseaux Développement Rural, Revue Grain de Sel # 57.

As part of its mission to support the collective advocacy of its members, Coordination SUD has set up working committees. The Agriculture and Food Commission (C2A) brings together international solidarity NGOs working to realize the right to food and increase support for smallholder farming in policies that impact world food security: 4D, AGTER, Artisans du Monde, AVSF, AITEC, CARI, CCFD –Terre Solidaire, CFSI, CIDR, CRID, Gret, IRAM, MFR, Oxfam France, Peuples Solidaires in association with ActionAid, Secours Catholique, and Secours Islamique.

The aim of the Commission is to coordinate the work conducted by its participants and to facilitate consultation among its members for their advocacy work with social actors and international policy makers. The members of the Commission reach agreements on who represents Coordination SUD in a range of arenas (Concord in Europe, FAO, WTO, UNCTAD) and share information on current international issues. The Commission is mandated by Coordination SUD to formulate the positions taken by the group during the major institutional meetings on the subject of agriculture and food.

This paper was written by: Michel Merlet, Director of AGTER, 'an association to contribute to improve the Governance of Land, Water and Natural Resources'. ([www.agter.asso.fr](http://www.agter.asso.fr))

