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The determinants of large-scale land investments in Africa

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ABSTRACT

Available pieces of evidence have shown that there is a global rush for large-scale land acquisition and the demand for Africa's land as increased over time. However, due to the continuous land demand for economic activities, the availability of fertile land becomes increasingly difficult. It is on this basis that this study investigates the factors that determine the large-scale land investment in Africa using the selection model with firm heterogeneity. At the extensive margin of investment, the decision to acquire large-scale land is determined by the availability of arable land, economic size of the investors' countries, institution capacity, governance and security and safety in the destination countries. At the intensive margin, economic size does not stimulate land investment, so also trade, population density, institutions and security of life and property. However, the availability of arable land, good governance and adequate precipitation are investment-enhancing factors.

1. Introduction

The importance of land to the development aspirations of countries, particularly those that are resource endowed, cannot be overemphasized. The attainment of sustainable growth and development could be linked in part to this resource endowment and it optimal as well as productive utilization (Kareem, 2016a). Land ownership or otherwise indicates the status of an economic agent in the society. Majority of the people in developing countries, especially in Africa, depend on land for their economic activities and/or livelihood. More so, agriculture is the largest employer of labour and source of economic development in many of the countries (Kareem, 2014). Many of Africa's agriculture dependants are smallholder farmers, however, estate and commercial farming, as well as export-oriented agricultural production, are the relevant economic sector that contributed to aggregate economic growth and development. Thus, due to the multipurpose usage of land, there is more interest in its acquisition.

Furthermore, evidence has shown that the demand for land as increased over time and the trend is expected to continue in the future, especially for Africa (Cotula, 2012; Schoneveld, 2014; Di Matteo and Schoneveld, 2016). Anseeuw et al. (2012) report show that about 4.8% of total Africa's agricultural area has been invested, which is like the territory of Kenya. The report further finds that from 84 global targeted land investment countries, 70% of the investments are concentrated in 11 countries, of which Africa has 7. Many of these large-scale land investments (LSLI) are directed towards countries among the poorest and less globally integrated. However, because of climate change, industrialization, mineral exploration, urbanization, pollution, environmental degradation among others, the availability of fertile and arable land has become increasingly difficult (Kareem, 2016a). Many of the large-scale plantation investments caused environmental degradation without tangible rural development (Di Matteo and Schoneveld, 2016). The limited access to fertile land necessitated frequent struggle for the acquisition of land and conflicts over the best usage.

Thus, access to land has become more competitive among large-scale investors in Africa. Productive land is usually faced with stiff competition among investors, especially for agricultural and/or exploration purposes. Recent years had witnessed influx of large-scale land investors in Africa, particularly for agricultural production and exporting (Anseeuw et al., 2012; Deininger et al., 2015; Gerstter et al., 2011; Schoneveld, 2014). Besides the agricultural purposes as the main drivers of LSLI, Zoomers (2010) identifies infrastructural works, non-food agricultural commodity, nature conservation, urban expansion, retirement and residential migration, remittance for land acquisition as other drivers of the land acquisitions. Beyond this, Cotula (2012) reflects the importance of the role of biofuels and market forces such as the changing global supply and demand for agricultural commodities, 'financialization' of agricultural; and the crucial role of public policy in the global land investment. McMichael (2012) reflects on the role of food regime, financialization, political economy and global ecology as well as the new bioecology as the motivation for the LSLI. The importance of states' systematic public policy and administrative initiative

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was also emphasized by Borras et al. (2013) as LSLI enabler as well as the rise in the flex crops/commodities, changing food regimes and territorialization strategies.

Although, some African countries promote agricultural investment, the Comprehensive Africa Agricultural Development Programme of the African Union Commission specifically enjoined national agricultural investment as part of its programme (Kareem, 2016b). This cannot be the main reason for the volume of investments in land, especially LSLI. Other factors could have accounted for the investments exogenously, in which external agents such as the foreign investors are deeply involved (see McMichael, 2012; Borras et al., 2013; Di Matteo and Schoneveld, 2016; Cotula, 2012), especially during the spike in global commodity prices – foreignization of space (Zoomers, 2010). It is on this basis that this study is situated and the objective drawn, which is to empirically investigate the factors that determine the large-scale land investment in Africa.

Studies in this area of research often focus on the effects of land deals, acquisition, transaction, ownership, tenure and reform on both micro and macroeconomic variables (Deininger et al., 2015; Deininger and Byerlee, 2012) without determining the factors that motivated the investments. Gerstter et al. (2011), Cotula (2012), McMichael (2012), Di Matteo and Schoneveld, (2016) assesses the effects of ownership of land and land grab on development in developing countries and normatively reflect on the drivers of LSLI. Similarly, in the context of Africa, Cotula et al. (2009) examines agricultural investments and international land deals in Africa to determine whether the investment is land grab or development opportunity. Ogundipe et al. (2013) econometrically determines the impact of foreign land deals in Africa on agricultural trade. A critical review of the literature indicates that only scanty empirical studies exist on the determinant of LSLI in Africa. Schoneveld (2014) confirms that there are scanty studies, especially those on the precise geographical and sectoral patterns as well as underlying drivers of these investments. Majority of the related literature either apply normative, qualitative or descriptive analysis. For instance; Bruentrup (2011) examines the determinant and potential development effects of agricultural foreign direct investment in a global perspective, to determine whether they are detrimental or growth poles. A similar study was carried out by Cotula et al. (2009), Di Matteo and Schoneveld (2016), Schoneveld (2014) and Molua and Thiombiano (2015) but at a disaggregated level either focusing on Africa, Central Africa sub-region or Africa country-specific studies.

The closest studies to this present one, in terms of conceptualization and method of analysis, are Arezki et al. (2015) and Schreur (2012). Both studies empirically investigate the determinants of foreign investment in land. While Arezki et al. (2015) cover global perspective using a count model that is estimated with a Poisson regression and robustness checked using simple Tobit regression. Schreur (2012) focuses on the global south countries with three models to capture different hypotheses. However, this present study shall focus on LSLI in Africa by investigating the extensive and intensive margins of these investments through the adoption of an augmented Helpman et al. (2008) selection model with consideration for firm heterogeneity in a gravity model. The problem of selection bias and investors' heterogeneity associated with these types of data is not considered in previous studies. An augmented HMR is used in this study because of the specification of a count regression model in the second-step owing to the nature of the dependent variable –the number of concluded land deals. The extensive margin of investment in its simplified form is defined as the existence of bilateral investment relationship. In this study, it is defined as the access of new investors and/or new investments to an existing investment destination or the establishment of a new investment destination – the probability of investing in a destination – while the intensive margin of investment is the actual and/or the intensity of investment in a destination. Besides, national or domestic LSLI have not been given its due attention, which is considered in this study because national investors have been encouraged to invest in land. Thus, this study is motivated on the basis of these identified gaps, which will enhance evidence-based policy in the continent.

The structure of this study is as follow: this introductory section is followed by the context of the study in section two; the third section reviews the literature while the methodology is presented in section four; the research findings and the conclusion are presented in sections five and six, respectively.

2. The context

International investment has been identified as one of the channels in which countries can economically interact and integrate (Kaplinsky, 2008; Kareem, 2016c). The global investment in land is not an exception, as it provides the avenue for the bilateral relationship among countries. Countries, transnational firms and entrepreneurs evaluate the possibility and/or quest for the opportunity of exploring economies of scale by producing in cost-efficient locations or countries to maximize benefits. Majority of investments in developing countries, especially those that are foreign, are often found in natural resources sector (UNCTAD, 2009, 2013). Apart from investments in crude oil that often involve offshore exploration; though there is onshore, most of other natural resources' investments take place on land, which requires its acquisition. Land acquisition, especially by foreigners in Africa – this is called foreignization of space in Zoomers (2010) – usually involves legal framework, negotiations and transaction deals between the owners and the investors. Thus, land tenureship or ownership, particularly by foreigners[1] obviously cannot be illegally acquired. This study affirms that the contemporary issue of 'land grabbing' as being used by several scholars does not apply to LSLI, particularly in Africa. This is because acquisitions of land are often preceded by negotiations and the sealing of transactions, which is followed by the registration of tenureship with the government.[2] Virtually all the studies affirmed that land transactions and deals take place prior to acquisitions (see Cotula, 2012; Cotula et al., 2009; Antonelli et al., 2015; Zoomers, 2010; Schoneveld, 2014; Di Matteo and Schoneveld, 2016; OXFAM America, 2015; Kachika, 2010). Although, Borras et al. (2013) take these land investments as 'land grabbing' mainly because of its socio-economic consequences, however, they did not fail to recognize the fact that the investments were negotiated and land deals took place with the government as a key actor. Besides, the displacement and dispossession of smallholder farmers of land use is not taken as 'land grab' by McMichael (2012) but as a medium through which the development agencies attempt to renew their legitimacy in the light of rising food sovereignty movement. Hence, at best, the LSLI can be described as a 'land crowd-out' of actual and potential domestic small-scale land investors as well as smallholder farmers, rather than 'land grabbing'.

Furthermore, there had been a tremendous increase in the number and value of LSLI since the 2008 spike in food prices. Statistics from Land matrix[3] show that the total number of global concluded LSLI deals was 755 in June 2013, which later grew by about 27%, to 956 in 2014. As at April 2016, global large-scale deals have risen to 1204, which is 12% growth rate for the preceding year. The direction of these investments indicates that the global south countries are the main destinations, of which Africa got the largest investments. Although, Africa is certainly the hotspot, other regions such as South and Central America, South and Southeast Asia as well as former Soviet Eurasia got their shares. In 2013, African destinations got about 72% of the total number of concluded deals, which were 541 deals. The number of these deals increased to 606, a 63% of the total global concluded deals in 2014; but declined to 465 deals in 2015 and by 2016, it has risen to 506 (Table 1).

[1] Foreigners, in this case, means any third party, be it within or outside the country and/or community, that cannot lay claim to ownership.

[2] See Kareem (2016a) for details.

[3] Land matrix Newsletters for several periods.