



Effectiveness of EU biofuels sustainability criteria in the context of land acquisitions in Africa



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ABSTRACT

In recent years, land is becoming an important commodity and the land sector in many developing countries has been object of growing foreign acquisitions. The aim of the paper is to analyze whether the requirements set by the EU Renewable Energy Directive introducing biofuels sustainability criteria has induced the European investors acquiring land for producing biofuel feedstocks to adopt more sustainable strategies. First, we review the factors that may induce a corporation to adopt sustainable behavior and corporate social responsibility (CSR) strategies in the context of land acquisitions. Second, the paper illustrates our original evidence on European land acquisitions in Africa and on the behavior of the investors involved. Then, we use a logistic model to estimate the variables affecting the investor's choice to certify its actions and to adopt CSR strategies. Our evidence shows that the main factors influencing the probability that an investor chooses to certify the sustainability of its actions are: the sector in which it operates, the fact of acquiring land in more than one foreign country and the characteristics of origin and destination country. Interestingly, the European economic operators involved in acquisitions for biofuel crops show significantly lower probability of being certified. Therefore, the EU sustainability criteria seem to be ineffective in guaranteeing and verifying the sustainability of the European land investments in Africa. Joint efforts by European Union, Member States, target Countries and private sector operators are necessary to prevent the negative effects of land acquisitions on local stakeholders and the environment.

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1. Introduction

In recent years, land is becoming an important commodity and the land sector in many developing countries has been object of growing foreign acquisitions. International land investments are

increasingly attracting interest from media, but the data on this phenomenon are few and fragmented. Large-scale land acquisitions (LSLAs) are often connected to policy-induced biofuels production by many OECD countries, such as in particular the European Union. In fact, the EU Renewable Energy Directive (RED) sets a target of 20 percent of all EU energy coming from renewable sources by 2020, with 10 percent of transport fuels coming from renewable sources, mainly biofuels [1].

While the new interest in land and agriculture may potentially reverse long-time underinvestment in agriculture and increase

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productivity in the sector, large-scale investments by foreign actors can fail to develop and improve rural local incomes and conditions, and might instead worsen rural wages and livelihood. In regions with weak land tenure and rights, such as Africa, large-scale land acquisitions (LSLAs) often displace and take away resources important for smallholders' food production, without compensating them properly; so threatening livelihood and food security of local communities. Moreover, land acquisitions should take into account the greenhouse gases balance and other environmental impacts of the land use change, such as soil erosion and deforestation.

For these reasons, the European Union has balanced its commitment to biofuels as one option for meeting its renewable energy targets with sustainability criteria for economic operators supplying biofuels to Member States (MS). In the EU Renewable Energy Directive, the European Commission (EC) has demanded that the biofuels in its market meet environmental and social standards, named 'European Union Biofuels Sustainability Criteria' ([1]: Article 1, Paragraph 9; Article 23, Paragraph 1 & 2; Article 17, Paragraph 7). All the biofuels used in the EU, whether locally produced or imported, have to conform to sustainability criteria in order to receive government support or count towards mandatory national renewable energy targets.

This paper aims to understand the effectiveness of the EU policy in matching energy and sustainability targets. It is a first and unique attempt to measure the impact of EU sustainability criteria in the context of foreign land acquisitions for biofuels' purpose. It provides original evidence on the voluntary schemes (vs) and certification adopted by the European investors acquiring land in Africa, in order to analyze whether the EU sustainability criteria have changed their behavior. These economic operators are involved in a wide range of standard, certification and labeling schemes, which have the potential to influence their corporate social responsibility (CSR) strategy; improve business efficiency; reduce risks and increase control on the supply chain [3].

Standards and sustainability certifications in the biofuel industry have been neglected by social science work (for exceptions, see [4–8]). The paper advances knowledge both on the pattern of EU land acquisitions and on the necessary steps to guarantee responsible land investment. First, it provides a detailed analysis based on evidence of the EU investors acquiring land in Africa, categorizing them and examining their CSR strategies. Second, the paper investigates the main determinants of Corporate Social Responsibility and sustainability certification in the context of land acquisitions. Looking at which voluntary scheme each investor follows, this work tries to estimate which factors affect the investor's choice to certify the sustainability of its actions, and whether the EU Sustainability Criteria have affected it.

The study is structured as follows. The next Section describes the main determinants of Corporate Social Responsibility strategy in the literature and in the case of land investment. Section 3 analyses the phenomenon of EU land acquisitions in Africa, and our evidence on the behavior of the investors from the perspective of responsible investment. In Section 4, we adopt a logistic model to estimate the main determinants of the investor choice to adopt standards and certification schemes or to claim sustainability, and we investigate the impact of EU sustainability criteria for biofuels on the probability to make these choices. Section 5 concludes providing some policy implications of our results.

2. Conceptual framework and literature review on the determinants of corporate social responsibility

When environmental and social interests for the society differ from the corporate private interests, markets do not work well.

Large-scale land acquisitions in Africa are an example of economic activity whose external costs are not directly identified with private corporation interests. Environmental and social negative impacts of large-scale land acquisition are relevant but scarcely taken into account by the entrepreneurs. In this situation, there is a role for corporate social responsibility to reduce the conflict between social and private interest [9]. The environmental and social negative spillovers associated with land acquisitions create space for responsible investment initiatives to internalize these externalities in a corporate strategy. We link CSR to sustainability and define it as corporate strategy to internalize (economic, social and environmental) sustainability costs and benefits of its actions. Adopting unsustainable strategies, investors encounter potential costs in terms of conflict with local communities and/or NGOs, reputational and credit risk and financial losses. Hence, in many cases they have incentives to adopt sustainability criteria into corporate social responsibility (CSR) strategies. Behaving in a responsible way can also be a corporate strategy to ensure profits, at least in the medium and long term.

In the traditional literature on Corporate Social Responsibility, several factors have been identified to affect the company choice to act responsible and adopt CSR strategy. Firm size and visibility; market competitiveness; Countries' levels of legal enforcement; relationship with the stakeholders; and self-regulation within the industry (employer–employee relations, macroeconomic environment, industry membership) have been recognized by the literature as factors affecting a firm's decision to behaving well (see for instance [10–13]). Weber [14] identifies five main areas of CSR business benefits: positive effects on company image and reputation; positive effects on employee motivation, retention, and recruitment; cost savings; increased revenue from higher sales and market share; risk reduction. Zezza [15] confirms that factors affecting the effectiveness of certification processes in the context of biofuels production are governance structure of partnerships, demand for certified production, legislation and policy in place, level of enforcement, land tenure and structure of the industry (p. vii).

Several studies demonstrate a link between the corporation's financial performance on the one hand and its environmental or social performance (ESP) on the other. In fact, adopting responsible behavior is often a positive strategy for a company to perform well and to ensure its profits, at least in the long run [9,16,17]. For instance, the Munden project on the financial risks of insecure land tenure finds that 'disregarding customary property rights systems, overlooking the need for consultation, denying adequate compensation, or ignoring dispute resolution may save time and money in the short-term, but it can lead to sizeable expenses down the line' ([18], p. 8). This contributes to create a business case for the company to adopt sustainability requirements in its CSR strategy. The business case for sustainability (BCS) induces a corporation to take into account external and distributional effects of the acquisition and to make its actions sustainable. The sustainability of investment is measured in three dimensions: economic, social and environmental. Hence, from the perspective of sustainability, the first objective is to ensure the long-term economic viability of the productive system. Economic sustainability requires profitability, efficiency and equity. Moreover, the social dimension of biofuel sustainability relates to the potential for rural development, poverty reduction and inclusive growth [3]. Environmental sustainability requires measures such as conservation of areas that provide, in critical situations, basic ecosystem services (such as watershed protection and erosion control); protection of soil, water and air; restoration of degraded land; avoidance of excessive water consumption in areas where water is scarce [19].

In order to discuss the role of Corporate Social Responsibility strategies in land acquisitions, we must identify a 'business case' for acting responsibly for different categories of economic operators. In the context of land acquisition, there are several mechanisms which

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