

Finance and the privatization of rural livelihoods - The privatization of food as investment

Monday 3 November 2014, by [FERRANDO Tomaso](#), [RUSSI Luigi](#) (Date first published: 1 November 2014).

The disappearing boundaries between financial speculation and development aid are an unsettling testimony to the rapid financialization of agriculture.

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A big piece of news for food politics enthusiasts this summer was India's veto over a proposed agreement — to be concluded within the legal framework of the World Trade Organization — on 'trade facilitation measures'. The agreement was meant to regulate a number of sensitive issues, mostly related to customs infrastructure and procedures, which are liable to affect trade between WTO members. As it often happens with international agreements, however, exceptions and exemptions are as important as the rules being agreed. In Bali, which is where the 'trade facilitation' negotiations were happening, the bone of contention happened to be India's request for a permanent exemption from further trade liberalization of its public stockpiling and distribution system for food staples.

In fact, the centerpiece of India's food security infrastructure is the Food Corporation of India (FCI). This is a public body, established in 1964, that acts like a hybrid between a marketing board, a food bank and a subsidy scheme. It stockpiles grains and other food staples (which it buys at controlled prices that give farmers some protection against fluctuations). It then uses this reserve to distribute grains at times when market prices become too high, both as a way to bring those prices down (this is what a marketing board does) as well as to ensure access to essential dietary staples (the 'food bank' aspect of the FCI). In other words, the FCI is like a public insurance mechanism against the fluctuation of food prices. The issue in Bali, then, was whether India should be allowed to 'keep' the FCI indefinitely, or whether it should gradually phase it out, in order to leave free reign to private actors.

But what exactly does the free reign of private actors on matters of agriculture and rural development mean? Are there cases that can vouch for (or warn against) it as a viable substitute to publicly-administered schemes like the FCI? This line of inquiry was one I had the chance to explore in mid-September on a panel I took part in, during the course of an international conference on political economy at Naples bi-centenary "L'Orientale" university. Serendipitously, that panel fell at almost the same time as my book — *Hungry Capital: The Financialization of Food* — celebrated its first anniversary and a new Italian edition.

Food and financial markets

In the book, I make a point that I reiterated in my presentation at that conference. Namely that, when public price-control mechanisms like the FCI are taken out of the picture, this leaves many small farmers at the mercy of price fluctuations. In practice, this means that they might decide to err on the side of caution and try to sow more from one year to the next, so as to preserve their overall income even in the case of falling prices (by selling more). The sad irony of this strategy, however, is that, as many farmers simultaneously do the same, they create a glut that depresses prices even further, creating the very conditions they are trying to shelter themselves against. Desperate to secure sales for their crops, farmers will also accept whatever prices will get them an income. In other words, they will be more eager to bend to the dictates of more concentrated brokers and processors further along the food supply chain.

Moreover, in the absence of a public insurance system like the FCI, those who can will purchase private insurance. And that private insurance, when it comes to crops, is called a future. Futures are agreements for the sale or purchase of standardized commodities (like many food staples, and especially grains) at a fixed price for future delivery. They are insurance contracts because they are meant to offer the immediate security of a fixed price, despite market prices being otherwise open to fluctuations until the delivery date. Futures are traded on regulated financial exchanges and, as such, they are used by only a minority of larger farmers who can obtain access to that sort of infrastructure. What's worse is that the bulk of trading on futures markets since the year 2000 has surprisingly been conducted, as a consequence of more relaxed regulation in the United States, by financial houses like Goldman Sachs and UBS, after they have been allowed to take large positions on these markets.

This is something these large financial houses do in order to insure themselves — not against the risk of not being able to sell crops for a decent price (as is the case for farmers) — but against the financial risks entailed by their commercial offering to their customers. This includes products that require them to synthesize virtual ownership of commodities, transferring to their clients a cash flow that tracks the price of the corresponding commodity futures. The interference of financial players in a market, that of futures, which is also meant to be an insurance for farmers, causes the price of futures to reflect the spurious concerns of these investment houses, and ultimately makes such markets only nominally suited to insure farmers against the risk of price fluctuations. In fact, in order to avoid having to take delivery (because these types of transactions still require delivery, even if delayed in time), investment banks have to keep pushing their positions into the future. In doing so, they create recurring surges of 'buy' orders on more distant delivery dates, which means they make it seem as though a huge demand for a given commodity is to be expected further into the future. As a consequence, the affected commodities can end up attracting a higher price for future delivery than they do for immediate sale. A situation like this, of escalating prices as the delivery date is pushed further into the future, ultimately encourages present hoarding (because, if you can store grain and sell it tomorrow for more, you might just decide to do that).

It is precisely a dynamic of this sort that has given rise to two consecutive boom and bust cycles in the price of food staples, in 2007-'08 and, more recently, in the summer of 2012. These cycles stem from the pattern of trading I just described, paradoxically occurring on markets that are meant to insure against those very price fluctuations. Mixing farmers and investment houses, in other words, turns a simple insurance contract into an instrument of speculation, transforming the livelihoods of farmers (as well as access to food staples at affordable prices) into yet another bet for the financial casino.

The privatization of food as investment

Despite the glaring injustice and short-sightedness that transpires from mixing food security and rural development with the profit motive inherent in financial calculus, the modern-day mantra still appears to be that 'private is better'. Nowhere is the extent of the contradictions that this generates more evident than in the worrisome experiments of public-private partnerships for rural investment. These represent a new and controversial strategy, overtly aimed at lifting rural livelihoods, which I had the chance to discuss in Naples with Tomaso Ferrando, a food rights advocate currently based at the Institute for Global Law and Policy at Harvard Law School.

Tomaso has been studying the role of the European Investment Bank (EIB) in accelerating the privatization and financialization of rural development. The EIB is a financial institution established in 1958 as one of the components of the European Union's infrastructure, with the mandate to undertake investments to support the policy goals pursued by European Union members. Originally committed exclusively to projects taking place within Europe, since 1963 the Bank's mission has been extended so as to encompass the financing of operations outside the EU, whenever these would align with the Union's goals. A simpler way to think about it is as a vehicle for long-term public investments coherent with the EU's internal and external policy.

The public purpose behind the very birth of this institution is heavily tested when it comes to investment in agribusiness and agroforestry. For instance, one way investment in these sectors is currently being carried out is by allocating public money to private equity funds. Private equity funds are corporate structures that buy a stake in commercial ventures, from which they feel they will be able to make an operational profit, or to resell them at a profit. In the field of agriculture, these funds typically invest in large-scale agricultural ventures (or in the scaling up of smaller operations), by financing developments such as improved access to patented seed varieties (which in turn make farmers chronically dependent on the companies producing these), access to machinery, the scaling up of monocultural plantations, marketing, distribution and integration in the global (export) market.

In other words, most of these projects funnel money into plantation-style rural ventures that impose chronic dependence on external technological inputs or 'global' export markets. Moreover, due to the rising interest in biofuels, investment in farmland is often tantamount to diverting productivity from food crops to biofuels. If this seems anything but peasant-friendly, it should be no surprise. Private equity funds, after all, are known to have as their purpose to reap a quick buck from whatever 'investment opportunities' they see. The fact that a public-purpose institution decides to delegate to these its decision-making powers as to where to channel public funds, however, is less comforting.

Possibly worse than direct investment in private equity funds, however, is the creation of hybrid public-private institutions like the Global Energy Efficiency Renewable Energy Fund (GEEREF), which was recently established through an endowment of 112 million euros from the European Commission's Directorate for Development and Cooperation (DEVCO), the German Ministry of Environment and the Norwegian Ministry of Development. Originally set up as a public fund, GEEREF will soon become open to private capital to expand its scope and operations. Moreover, it works as a 'funds of funds', in the sense that it channels its own financial resources into still other funds. To understand what the purpose of this multilayered architecture is, it may help to think of a 'matching grant'. Matching grants are sometimes used by charities, who undertake to match any private donations with their own funds, effectively doubling the grant outlay on a given project. In much the same way, GEEREF blends private and public resources, and in turn uses these to take stakes in many other investment funds. In so doing, the public euro is 'matched' by other private

contributions to GEEREF itself as well as to the funds that GEEREF invests in, so as to amplify the impact of the initial public outlay.

The problem, however, is that this also multiplies the number of private intermediaries and therefore increases the distance between public resources (in this case provided by DEVCO alongside Germany and Norway) and the final project. The European Investment Bank, as a public institution, has a degree of accountability. GEEREF, as a fund open to private investment, is less transparent, and aptly embodies the contradiction of having to harmonize public policy with the need to earn a return for its private investors. The risk is that, to paraphrase the words of one of the people interviewed by Tomaso, a representative of one of the funds that receive resources from GEEREF, “the development aspect of the fund is secondary to the financial objective, so much that a pro-development project would be chosen only if it is equally or less risky and equally or more revenue-generating than a project with a lower development impact.” As public money trickles down to other funds, either directly from the EIB or through a vehicle like GEEREF, the final destination of the initial investment is further removed from any possibility for open scrutiny or public accountability.

What’s worse, however, is not only that this sort of investment in farmland — undertaken with public money — is often at odds with the development of a resilient tapestry of small and diverse producers (and, therefore, runs counter the needs of small farmers and their communities). It is also a poor decision from a financial standpoint. Oane Visser, a scholar from the International Institute of Social Studies in The Hague, Netherlands, offers a valid contribution to support this point. His research takes a critical look at the hiatus between the hype of financial actors about large-scale investment in farmland and concrete practices on the ground. His findings are groundbreaking as they uncover how, much like the worst back-alley seller overstating the virtues of his or her merchandise, many financial actors overstate the possibility to reap sensible returns from an investment in farmland. Except for a few countries like Romania, in fact, it is debatable that demand for farmland is actually undergoing a runaway increase all over the world, so it hardly makes financial sense to invest in something for which there might not be as much demand as expected.

When investors realize this, however, it is often too late, and they may choose to try and ‘turn around’ the productivity of the plots they invested into. The large-scale, heavily technified farms they end up building, however, are often so dependent on external inputs and on unstable markets for their final outputs that, for every ‘success story’ touted by fund managers, there are often many more bankruptcies. To think that some people’s pension money gets funneled into these gigantic Ponzi schemes is saddening but, at the same time, revealing of the fact that those profiting from the financialization of agriculture and food are rarely those either on the originating or on the receiving end of the investment. The real winners are the middlemen, whose only ‘merit’ is to be constantly on the lookout for opportunities to ignite an investment frenzy into a bubble that will burst other people’s lives.

In sum, one year after the publication of *Hungry Capital*, things do not appear to have taken a turn for the better. Despite the critical voices being raised by activists, academics, and even institutions like the UN Special Rapporteur on the Right to Food, it seems that the progressive conquest of rural development to the logic of financial calculus is ever more pervasive. Put this way, it seems an almost impossible battle to win. However, the spirit of a piece like this is not so much to elicit a further retreat into indifference, under the Thatcherian mantra that There is No Alternative to markets and commodification. Caring about food is incredibly easy. Something as small as getting involved in a communal garden can rekindle our bodily awareness of the visceral, maternal relationship we, as bodies, entertain with food as produce of the Earth. We need to multiply occasions to nurture feelings of this sort and engage with them. Because it is through them that the courage can be found to lodge ourselves in the struggle for food, and do what we can, from where we are, to make a difference, both as individuals and as active citizens.

The commons and real democracy movements in Europe have shown, for example, that there is a third way between the individualism of responsible consumption and the tiresome and frustrating pleading to political leaders for change that never comes about. Practices of direct democracy (such as the European Citizens' Initiative, that allows EU citizens to advance legislation proposals to the Commission), the democratization of market means through forms of direct producer-consumer connections (like community-supported agriculture and solidarity purchase groups), the rediscovery of participatory economic institutions as part of a 'new spring' for the co-operative movement, and the promise of collective ownership of communal assets are all ways to begin solidifying the food system that we want to see, starting here and now.

Luigi Russi with Tomaso Ferrando

P.S.

* "Finance and the privatization of rural livelihoods". Roarmag. November 1, 2014:
[http://roarmag.org/2014/11/financialization-agriculture-rural-livelihoods/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed:+roarmag+\(ROAR+Magazine\)](http://roarmag.org/2014/11/financialization-agriculture-rural-livelihoods/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed:+roarmag+(ROAR+Magazine))

* Luigi Russi is the author of *Hungry Capital: The Financialization of Food* (Zero Books, 2013).

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