Transnational Farmland Investments (TFIs)

- Transnational Farmland Investments (TFIs)
- Foreign Direct Investments (FDIs) in Farmland
- Foreign investors bring in capital from outside, lease domestic land and employ domestic workers to engage in agricultural production.
- Biofuel and Food projects

Macroeconomic Implications

- Advanced Technology + Capital Investment
- Increased GDP = Repatriation of Profits

Job Creation = Dislocation of Local Farmers

What is the effect of TFIs on the host country economy in terms of growth, income, and household welfare?

Select Facts about TFIs

- Long-term and renewable leases, rather than purchase
  - Land use compensation: fixed rent or profit sharing
- Lands under some form of use, rather than empty or abandoned lands
  - Farmland transfer, rather than farmland expansion.
- Little evidence of knowledge transfer to local farmers (Awedoi 2006, Kleeman el al. 2013)
  - No spillover of knowledge is explicitly modeled.

TFIs in Ghana

- 13% of total farmland (1,194,000 ha) transferred (August, 2014)
  - The 4th largest recipient of TFIs in sub-Saharan Africa in terms of the share of transferred farmland
- Type of TFI activities
  - biofuel (jatropha) projects for export market (8%)
  - food (grain) projects for domestic market (5%)
- Land use compensation: profit-sharing agreement
  - The ratio of profit paid to the local community: 25%
  - Usually paid to local and traditional authorities/villages

Distribution of Biofuel TFIs in Ghana

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<th>Transnational Farmland Investments (TFIs)</th>
<th>Model</th>
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<td>Multi-sector Neoclassical (Endogenous-saving): Growth Model</td>
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<td>Six Production Sectors:</td>
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<tr>
<td>- Foreign grain sector</td>
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<td>- highly capital-intensive technology with mechanized operation</td>
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| - higher yield than domestic grain sector by 18%
| - outputs sold in the domestic market |
| - perfect substitutes with grains produced by domestic farmers |
| - Biofuel sector |
| - intensive use of labor per unit land as many manual workers are hired during the harvesting time |
| - greater value added per unit land than non-grain agriculture |
| - outputs exported entirely |

The Differing Effects of Grain TFIs vs Biofuel TFIs

- Key Channel for the Long-term Effect
  - Labor intensity of TFI firms’ technology determines whether the economy effectively becomes more labor-abundant or capital-abundant, changing marginal productivity of each factor. Subsequently, wage and return to capital change over time.
  - Changes in return to capital provide households with more or less incentives to save, determining the pace of capital deepening and economic growth.

- Effects of Grain-producing TFIs
  1. Increase in productive capacity for grain
     - Grain price falls, increasing grain consumption and HH welfare.
  2. Technology: Low labor intensity
     - Less labor employed on the transferred land
     - Labor released into the labor market
     - Labor abundant and capital scarce = wage ↓ & return to capital ↑
  3. Faster K deepening
     - Stronger growth and greater long-term income
     - HH welfare improves.

- Effects of Biofuel-producing TFIs
  1. Initial increase in productive capacity of the economy
     - Initially greater GDP, GNP, HH welfare
  2. Technology: Intensive use of Labor
     - More labor employed on the transferred land
     - Labor absorbed from the labor market
     - Labor scarce and capital abundant = wage ↑ & return to capital ↓
  3. Slower K deepening
     - Weaker growth and lower long-term income
     - HH welfare deteriorates in the long run.

References

- This data is obtained from the author’s personal communication with Dr. George C. Schoneveld on 8/21/2014.
- The current state of TFIs in Ghana (share of total farmland as of August 2014)
- Foreign Direct Investments (FDIs) in Farmland & Macroeconomic Implications: Advanced Technology + Capital Investment, Increased GDP = Repatriation of Profits, Job Creation = Dislocation of Local Farmers
- The predominance of biofuel (jatropha) projects for export market (8%)
- Macroeconomic Implications: Advanced Technology + Capital Investment, Increased GDP = Repatriation of Profits, Job Creation = Dislocation of Local Farmers
- The predominance of biofuel (jatropha) projects for export market (8%)
- Structural transformation slows down.

Policy Implication

- The predominance of biofuel-producing TFIs is expected to cause weak growth due to a relative shortage of savings and investment.
- Incentives to savings and investment
  - Tax benefits for interest income and investment expenditure
  - Strengthening financial institutions
- Land use compensation in the form of infrastructure provision
  - Enhancing long-term growth potential of the economy examples: roads, irrigation facilities, etc...
'Land Grab' or Development Opportunity?
The Effect of Transnational Farmland Investments on the
Ghanaian Economy

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