Recipe for disaster:
The IMF and World Bank's role in the financialisation of food and agriculture

At issue

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Past and present World Bank and IMF policies have provided key support for the financialisation of food and agriculture. This has resulted in land-grabs, exposure of small-holder farmers to high price volatility, the concentration of power in agricultural business and the expansion of climate-damaging industrial agriculture. These trends decrease policy space for states in a key area of life and the economy.

The process of financialisation has profoundly affected food systems in recent decades, as financial actors, markets and other factors have expanded their role in society and across all sectors of the economy. Even though food and agriculture are not specifically part of the World Bank Group and IMF's mandates, their policy advice and loan conditionality have helped create the 'enabling environment' for the expansion of global finance across the economy, including in agriculture. This has implications for countries' food security and the capacity of their food systems to provide livelihoods and ecological sustainability over the long term, especially in the context of a global climate emergency.

Market fundamentalism and the expansion of global finance

Since the 1980s and 1990s, policy prescriptions of the Bretton Woods Institutions (BWIs) to aid-recipient countries have been driven by a firm belief that unregulated markets would efficiently allocate economic resources in a way that maximises overall wellbeing. This has also meant that, to receive assistance from these institutions, governments must implement a package of neoliberal economic policies. These include fiscal consolidation (austerity), reduction of cross-border capital controls, trade liberalisation, elimination of agricultural subsidies, privatisation of public services such as water supply or agricultural inputs/infrastructure provision, and other measures such as allowing foreign investors' ownership of natural resources. After decades of trial and error, their strategy has failed to deliver on its promises and is far from ending extreme poverty and promoting "shared prosperity" (see Briefing, *Bretton Woods at 75. A series of critical essays*)

Yet, a new push for austerity and privatisation of previously public services, similar to the structural adjustment programmes and market liberalisation reforms advocated for by the international financial institutions in the 1990s, has gained strength since the 2008 global financial crisis. Through different mechanisms, including technical assistance and advisory services to governments, development policy lending, and its Doing Business and Enabling the Business of Agriculture rankings, the Bank has encouraged countries to enact regulatory reforms aimed at "improving the investment climate" for private investors (see *Observer* Winter 2019, Spring 2019).

As Matthew Cummins and Isabel Ortiz showed in their new report entitled *Austerity: The new normal; A renewed Washington Consensus 2010-24*, most

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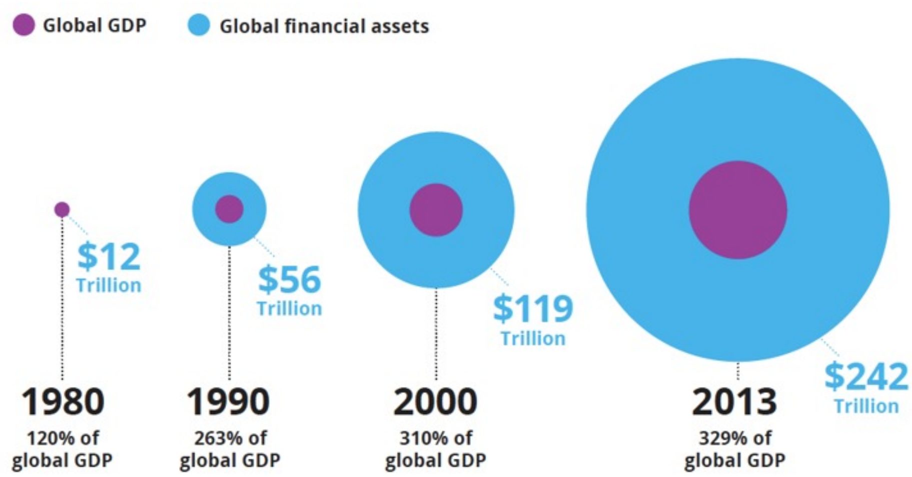
governments are on track to reduce public spending as a percentage of GDP at least until 2024. The report concluded that the world is moving from "a decade of adjustment" to an institutionalisation of austerity as "the new norm" (see *Observer* Winter 2019). In line with this trend, policy reforms promoted by the Bank and the Fund that led developing countries around the world to lift capital controls, cut corporate gains taxes, and greater access into their economies for foreign financial actors, actually made states poorer. What was sold as a win-win situation has led to unsustainable levels of sovereign and household debt, and both the reliance on, as well as vulnerability to, volatile financial markets driven by profit instead of public interest.

The agriculture sector is no stranger to this trend. Policy changes related to food and agriculture have included opening up new markets for genetically modified seeds, facilitating the approval of chemical pesticides and fertilisers, and changing countries' land tenure arrangements to enable buying or leasing by international investors to "enhance productivity of land use." However, evidence suggests these market-led reforms, which aligned the Bank's interventions on agriculture and land to the Fund's macroeconomic agenda, often lead to the loss of livelihood for local communities while benefiting agribusiness investors and financial speculators. The former UN special rapporteur on the right to food warned of the consequences of these trends as far back as 2010 in his *Food commodities speculation and food price crises* report, which found that the effects of the 2008 food price crisis were "exacerbated by excessive and insufficiently regulated speculation in commodity derivatives." These activities in turn have a direct impact on the human right to food, as well as on the rights of peasants and other people working in rural areas.

Financialisation of food and agriculture

The financialisation of food and agriculture – or the increasing role played by financial actors (private equity funds, pension funds, insurance groups, asset managers, commercial banks) and markets within food systems can be seen in two main ways. First, by the significant growth in the sale and purchase of financial products linked to food commodities, for instance derivatives based on commodity futures. Second, the transformation of agricultural resources, mainly land, but also plant genetic resources, into a new financial asset class.

Figure 1: Global financial assets vs global GDP



Sources: Deutsche Bank, 2013; Transnational Institute, 2018

The World Bank and IMF have played a pivotal role in facilitating this financialisation trend through their support for market-led land reforms and financial sector deregulations, which enabled private investors' access to large-scale land deals in developing countries and further speculation over commodity futures. First, decades of neoliberal economic reforms and structural adjustments prescribed by the BWIs facilitated an unprecedented globalisation of financial markets. The resulting proliferation of new financial instruments and increasing excess capital held by financial actors targeted land and food as profitable assets for shareholders to be able to extract high returns. Second, numerous World Bank and IMF programmes have involved the privatisation and commodification of public lands and of agriculture-related services. A 2019 study looking at IMF conditionality from 1980 to 2014 estimated that 43 per cent of IMF loan programmes include food and agriculture conditions, and that the majority of its interventions constitute a push for liberalisation of the sector by reducing the role of the State as a provider of price supports, agricultural insurance and credit provision, and further expanding the market-led development ideology.

Especially after the 2008 global financial crisis, financial speculation on food commodities brought food prices to a record high, which in turn sparked a 'global land rush'. The sharp increase in international food prices triggered a peak of cross-border land acquisitions by players not only in the agribusiness industry, but also by financial actors that had little interest in actually feeding the world – sovereign wealth funds, private equity funds, pension funds and asset managers. These actors, fuelled by volatility in international food markets and speculation on future demand for food, saw land as a profitable investment opportunity. One of the most well-known financial actors that invested into this 'new venture' is the US-based pension fund TIAA. It escalated its agricultural investment strategy by acquiring the world's largest agricultural asset managers, Westchester Group, with over 8 billion dollars and 2 million acres in farmland assets under management in the United States, Australia, South America and Europe. A major issue is that these actors buying and selling land, many times without ever setting foot in the country where the land was purchased, were being driven by metrics like risks and returns on investments, while ignoring social concerns. Under the guise of 'improving the business climate' and attracting foreign investors, decades of financial liberalisation policies and privatisation measures in the agriculture sector, guided by the Bank and Fund, helped pave the way to the current problematic relationship between big finance and food systems.

Low-income populations, are now increasingly at the mercy of volatile international food prices, which become even more unstable in the context of the global climate emergency.

Increased financialisation in recent years has thus contributed to new opportunities for capital accumulation by financial elites and the consolidation of power and wealth among financial actors working within the food system. This has had strong implications for the choice of agricultural model being developed – industrial agriculture – and who it benefits most. The prioritisation of shareholder value encouraged greater corporate concentration as agrifood corporations restructured in order to meet investor demands for higher returns. At the same time, the higher exposure of food systems to volatile financial markets has increased their inclination to economic and environmental shocks, growing insecurity for farmers and consumers. The wide-ranging implications of these trends are explored in a special issue of the *Journal of Agrarian Change* devoted to financialisation.

Implications for food security and climate change

The financialisation of food and agriculture has impacts for both people and planet. Large-scale land investments by new financial actors and speculation over food commodities have led to increased displacement and land-grabbing in the developing world, impacting land-dependent communities' capacity to provide for their own subsistence (see *Observer* Summer 2017). The case of a World Bank land regularisation project in Matopiba, Brazil, illustrates this development. Under the Bank's land titling programme active since 2015, 11,000 farmers face possible eviction as 4 million hectares of land are being privatised and purchased by international companies. While some of the companies involved in the land business in this region are still linked to industrial agricultural production (for instance SLC Agrícola, one of the biggest Brazilian soy producers), others fully concentrate on acquiring, selling, leasing or managing land. One example is the company Radar Imobiliária Agrícola, which is a joint venture between the US pension fund TIAA and Brazil's largest sugar cane producing company, Cosan. The involvement of international financial actors that channel huge amounts of capital into the land business is one expression of the financialisation of agriculture. Affected communities have recently filed a complaint with the World Bank Inspection Panel and are awaiting a response.

For people living and working in rural areas around the world, large-scale land deals and the industrialisation of agriculture mean more pressure on land and natural resources, the undermining of diverse rural economies, as well as a loss of control over what kind of food is being produced. Resources have been increasingly transferred from the production of a diversity of crops needed to feed people in the territories, to export-oriented monocultures such as corn or soy, which are largely destined to feed industrial livestock production or turned into fuel. For the global food system as a whole, it means further expansion of capital and fossil fuel-intensive agriculture, which is a major contributor to water pollution by chemical pesticides, long-term soil depletion, and one of the primary sources of greenhouse gas emissions contributing to global climate change.

The long-term food security implications of the financialisation of agriculture not only affects farmers or people directly dependent on the land. Commodity dependent and net food exporting countries, whose position in the global economy originates in no small part from the structural adjustment programmes implemented by the World Bank and IMF in the 1990s, now find themselves increasingly at the mercy of volatile international food prices, which become even more unstable in the context of the global climate emergency. As the UN Food and Agriculture Organization (FAO) noted, the number of undernourished people in Africa increased by 8 per cent after the price swings in key staple foods between 2007 and 2008. The 2019 edition of FAO's flagship publication, *The State of Food Security and Nutrition in the World*, revealed a continuously worrying scenario: "more than 820 million people in the world were still hungry in 2018", especially in low-income countries. As financialisation drives inequalities within and between countries, its relationship with rising food insecurity within lower-income countries and population groups cannot be ignored.

Maximising Finance for (Agribusiness) Development

As a response to decades of its own advice towards market liberalisation, which has reduced countries' capacity to tax corporate actors and financial transactions, the Bank developed a "new" approach to fulfil the public financing gap. The Maximising Finance for Development (MFD) approach is proposed as the best way to make up for the reduced public revenue by leveraging private finance as a means to support developing countries' economic growth. In the agriculture finance sector, the Bank focusses on "developing and implementing agriculture finance strategies and instruments to crowd-in private sector finance" and promoting market-based safety-nets. According to the Bank's own advice, public finance should be used as a last resort. However, this strategy, which essentially relies on public-private partnerships or pure privatisations to deliver on projects which should be in the public interest, ignores some of the dangerous consequences it has for communities (see page 1, *Observer* Summer 2018, Summer 2017).

The MFD approach, being implemented across the board as the main framework for the Bank's policy advice in agricultural development and beyond, suggests the use of already scarce public resources as a means to guarantee and make developing countries more 'financially attractive' for private investors. According to the Bank, implementation of MFD in agricultural value chains will require an approach that is more oriented to the private sector. Through new financial instruments such as blended finance, these measures increase the integration of countries into already hyper-globalised financial markets, instead of focusing on domestic resource mobilisation for long-term public investments.

Enough of false promises

The Bank and Fund's economic approach – where austerity is the rule and liberalisation the policy tool of choice – is leading us in the wrong direction. Too many governments have for decades extended incentives and protections to international finance and corporate actors in the hope of boosting economic growth. Instead, many states have been pulled into an unstable financial world geared towards short-term returns for shareholders and with little or no positive distributional outcomes. In the context of food and agriculture, this has created numerous negative consequences for food producers, consumers and for the environment, while enriching global financial elites. Further reliance on private finance to achieve equitable and sustainable development outcomes will likely continue to fail to deliver on its promises. There needs to be a fundamental change in the rules of the game, in order to support investment (public or private) which contributes to peoples' overall wellbeing and respects planetary boundaries.

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