

Sovereign Wealth Funds and Land Grabbing

Macro Overview and Some Policy Concerns

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SWFs are not a new phenomenon. The first SWF was created in Kuwait in 1956.

It is estimated that SWFs have \$3 trillion under management. SWFs would manage \$12 trillion by 2012 (Morgan Stanley). My estimates: SWFs would reach \$6 trillion by 2012.

Asia is the epicenter of SWFs.

Three quarters of assets of SWFs are in Asia.

Middle East accounts for 39 per cent.

East Asia accounts for 38 per cent.

What are SWFs?

No precise definition of SWFs.

In simple terms, SWFs are large pools of assets and investment funds owned and managed (directly or indirectly) by governments.

8 Key Characteristics of SWFs

- SWFs are state-owned funds;**
- SWFs are managed separately from official forex reserves.**
- SWFs have high foreign currency exposure;**
- Unlike pension funds, SWFs have no explicit liabilities;**
- SWFs have high-risk tolerance;**
- SWFs have long-term investment horizon (5 years +);**
- SWFs are passive investors. They do not seek control over management.**
- Much of their investments is in government bonds followed by equities. FDI component is mere 0.2% of their total assets.**

From where SWFs get money?

- **Foreign exchange reserves (e.g., China)**
- **Commodity exports (e.g., Kuwait)**
- **Proceeds of privatizations and fiscal surpluses (e.g., Malaysia, Singapore)**

Why SWFs are set up?

- **Diversify and improve the return on foreign exchange reserves or commodity revenue;**
- **Protect the domestic economy from fluctuations in commodity prices.**

SWFs and Land Purchase

Present Scenario

Most of direct investments by SWFs are related to Urban Real Estate, Commercial Property, Hotels, Resorts and Amusement Parks.

Majority of investments are in the developed world.

SWFs Investments in Real Estate (2008)

SWF	Property	Price	Stake
GIC	Westin Tokyo Hotel	\$715 m	100%
KIA	Wills Building (London)	\$785 m	100%
ADIC	Chrysler Building (US)	\$800 m	90%
ICD (UAE)	Turnberry Resort (UK)	\$100 m	100%

SWFs have yet to make direct investments in agricultural land.
Most instances are related to indirect investments.

SWFs follow 2 models of indirect investments in agricultural land.

Model 1

SWFs → private equity fund/investment fund/hedge fund/bank → entity invest in agricultural land for food supply.

Examples: CIC → Morgan Stanley (\$5 billion in 2007) → Morgan Stanley bought land in Ukraine.

CIC → Blackstone (a private equity fund) → Blackstone invested in Sub-Saharan Africa.

Temasek Holdings (Singapore) and KIA → BlackRose (US-based hedge fund) → established agriculture hedge fund which will buy land.

Model 2

SWFs launch a new investment fund in cooperation with other funds with a specific mandate for agriculture.

Example: QIA \$1 billion joint fund for agricultural investment in Vietnam, Indonesia.

SWFs and Land Grabbing Deals: Future Scenario

Favorable Factors:

- **The investment strategy of SWFs suits investments in land. SWFs are long-term, patient investors. They have a high risk tolerance. They invest in illiquid instruments. SWFs have an investment horizon of 6-7 years. Returns on land are much more than debt and equity investments provided one holds it for a longer period.**
- **SWFs want to diversify investments by moving to alternative assets such as private equity, real estate and commodities. Investment in agricultural land is a viable commercial option.**
- **There is a domestic policy support in SWF countries to invest in agriculture and food businesses. Many SWFs originate from food importing countries (e.g, Middle East). These countries want regular supply of food items. Last year, India and other countries imposed a ban on certain food item exports to Middle-East countries in order to contain domestic prices. The SWFs need domestic policy support to invest in such businesses.**

Unfavorable Factors:

- **SWFs don't have expertise, skilled manpower and fund managers to manage agricultural land. Their expertise is limited to investments in financial markets. Investing in farmlands and agriculture requires different skills which, at present, most SWFs and institutional investors lack.**
- **Already there is so much public concern and hostility over the activities of SWFs. The SWFs would prefer to keep a low profile by avoiding colonial-type land grabbing deals which has political dimensions.**
- **Control over land is a political issue. Land in our society is a symbol of power. The land issue has the potential to change the political discourse. In India and most parts of Asia and Latin America, struggles for land reforms and redistribution of land are very strong and visible. There are more struggles on land issues in India now than 10 or 20 years ago. The land grabbing model is unlikely to work in most countries where social and political movements are strong. It would lead to social and political unrest. We have already seen the negative consequences in Madagascar.**

- **The processes and mechanisms of land grabbing are very simple to understand. Land grab is very simple to understand. Even illiterate farmers can understand it. The linkages between land grabbing and dispossession are very clear.**
- **There is a legal hurdle too. In India and many Asian countries, their constitution bars foreigners to directly own land. In India, there are many states (e.g, Kashmir and HP) where even a citizen (who is not born in these states) cannot buy agricultural land. The national and local governments are unlikely to amend their constitutions/laws easily.**
- **In India, there are millions of family disputes on land titles. Some lawyers have estimated that one-thirds of civil suits in India are related to land titles. Also many small farmers don't have land titles. No foreign institutional investor would be interested in buying a disputed land.**
- **For SWFs and institutional investors, the contract farming model may work where the ownership of land remains with the farmer but they produce as per the requirements of investors. But this model has serious limitations because if a country imposes a ban on food exports, then foreign investor cannot export food items to home country.**

How to Approach SWFs?

- **SWFs are heterogeneous. They follow different governance structures and standards. Some are very transparent (e.g., GPF of Norway) but others are highly secretive and some are not even officially accountable to their national parliaments (e.g., ADIA).**
- **The Norwegian SWF follows the best standards in terms of transparency and accountability. It has disinvested in many corporations such as Walmart, Boeing Corporation, Vedanta for human rights violations, environmental damage and corruption.**
- **Potential to emulate positive features of Norwegian model with its ethical investments and accountability structures. But Saudi Arabia is not Norway so there are limitations of replicating this model in other countries.**
- **What is needed is a great democratic control over SWFs. The citizens of these countries have a legitimate right to ask where their money is being invested. Civil society, political movements and media are very weak in many Asian countries. There is a need for democratic renewal.**

- **Recently IMF, OECD and G-7 have pushed SWFs to adopt voluntary code of conducts.**
- **There is a duplicity. The West wants SWFs to be transparent but it does not want hedge funds, investment banks, private equity funds and rating agencies to be transparent.**
- **The Santiago Principles (GAPP) is an outcome of these efforts. The focus of GAPP and other initiatives is on transparency.**
- **But there are serious limitations of externally imposed codes.**
- **It is too early to judge the positive and negative outcomes of these initiatives but codes are purely voluntary mechanisms. They cannot substitute regulatory mechanisms. At best, they can complement regulatory mechanisms at both home and host countries.**
- **We need to monitor these developments closely collectively.**
- **Most of information about land grabbing deals is sketchy, largely based on news reports. Well documented case-studies are very rare. Could we carry out more in-depth investigations, field reporting, on the spot assessments of such deals?**

Thank You

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