

Towards Responsible Foreign Direct Investment in Developing Country Agriculture

David Hallam

United Nations Food and Agriculture Organization

Agricultural investment in the headlines

Saudi Investors to Put \$100m into Ethiopian Farm (*Fortune*, 15.4.2009)

Saudis Set Aside \$800m to Secure Overseas Food (*Financial Times*, 15.4.2009)

UAE Stepping Up Agricultural Investment in Sudan (*Sudan Tribune*, 7.8.2008)

Food Is Gold So Billions Invested in Farming (*New York Times*, 5.6.2008)

Daewoo Leases African Plantation (*BBC*, 19.11.2008)

Land Leased to Secure Crops for South Korea (*Financial Times*, 18.11.2008)

Korea's Daewoo Logistics Leases Madagascar Land for Feed, Fuel (*Bloomberg*, 18.11.2008)

Short of Food? Rent Half a Country (*New York Times*, 19.11.2008)

Pakistan Offers Farmland to Foreign Investors (*Reuters*, 20.4.2009)

UN Warns Of Neo-Colonialism (*Financial Times*, 19.8.2008)

Manufactured Famine: A New Wave of Food Colonialism Is Snatching Food from the Mouths of The Poor (*Guardian*, 26.8.2008)

Dispute Erupts Over Plans to Invest Millions in Rice Farming (*Economist*, 23.4.2009)

Outline

- What has been happening in international investments in agriculture
- Why have international investments increased
- What have been the impacts of international investments in agriculture
- What are the policy implications
- The case for international action

International agencies have been collaborating ...

Government of Japan



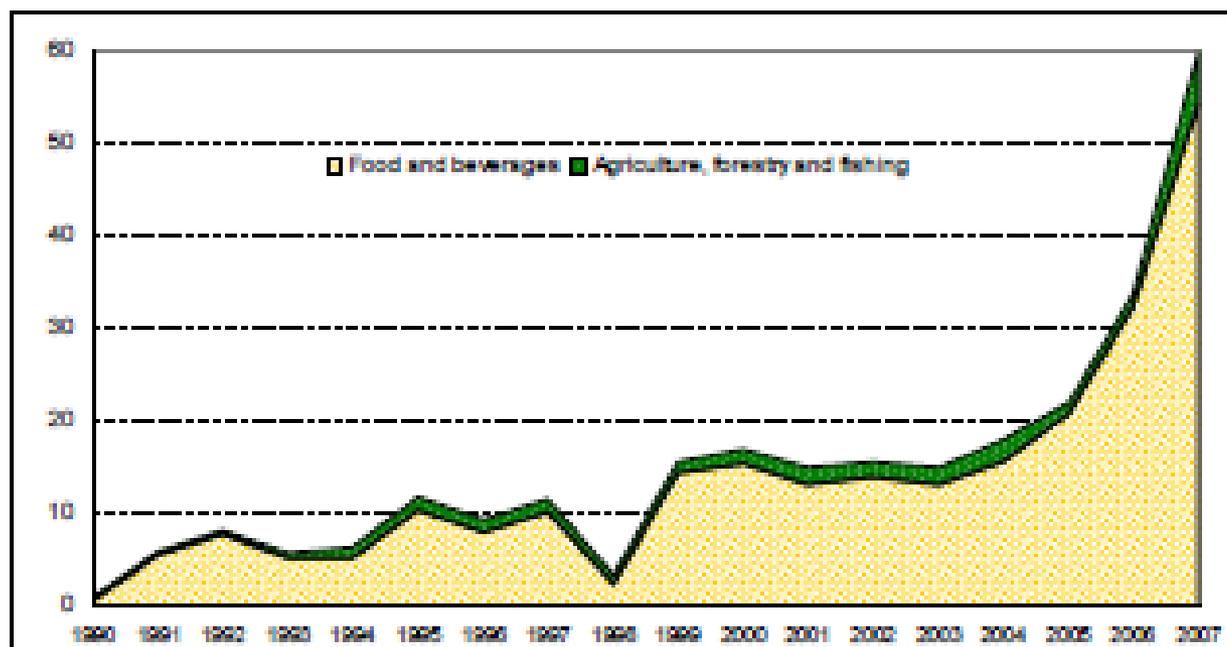
Promoting Responsible International Investment in Agriculture

Roundtable concurrent with the 64th United Nations General Assembly

Chair's Summary

FDI in agriculture and in food and beverages: rising

1990–2007, billions of dollars

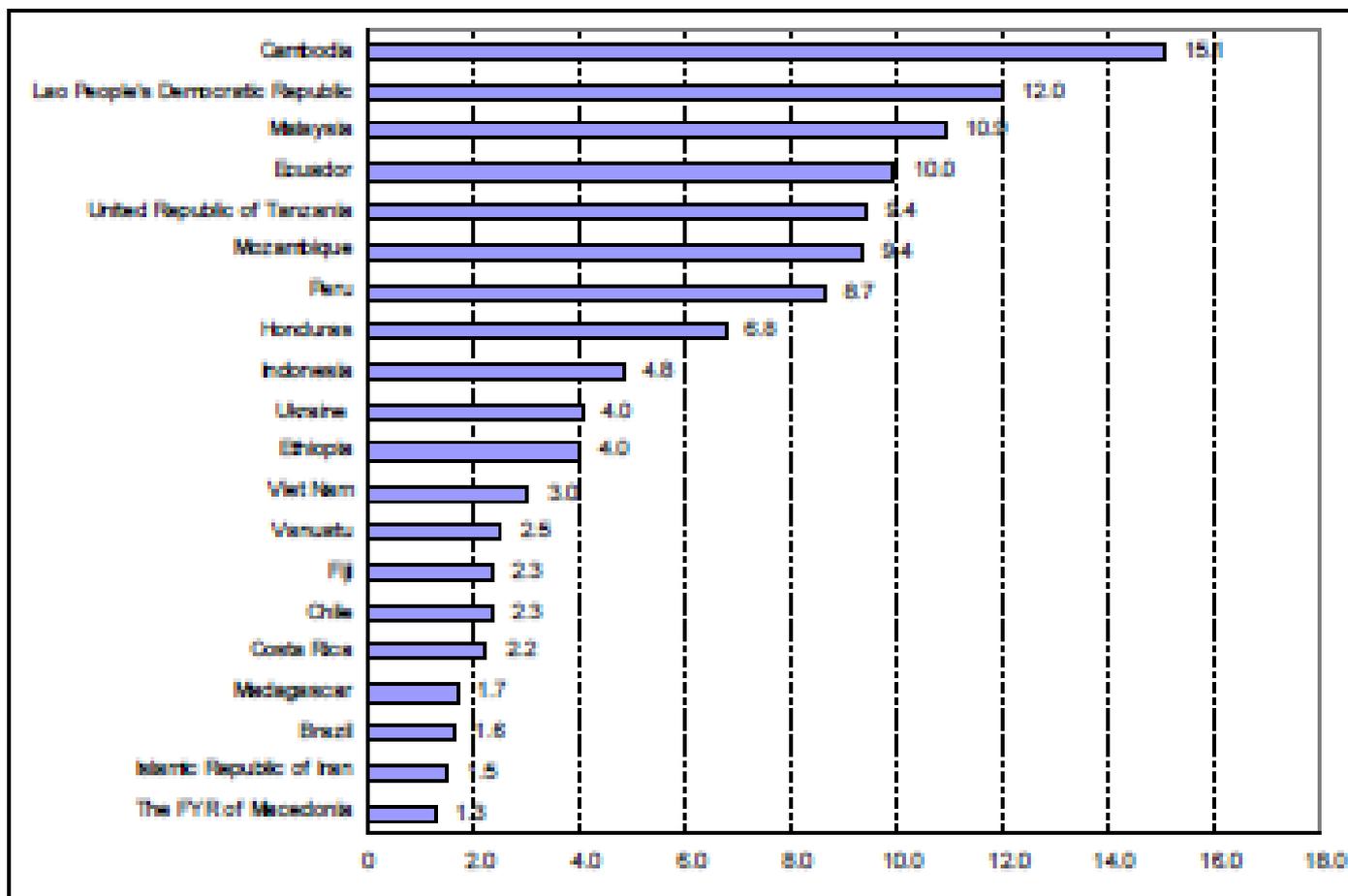


➤ World FDI flows in agriculture have exceeded \$3 billion annually, but constitute less than 1% of total world FDI.

➤ TNCs' involvement mainly concentrates in the upstream and downstream of the agricultural value-chain.

In some developing economies, the share of agriculture in FDI inflows is relatively high

% of 2005-2007 inflows



Foreign investment in developing country agriculture – broad features

- not a new phenomenon
- limited information
- increasing trend (the “land grab”)
- investors are private sector (banks, agribusiness, investment companies, institutional investors, trading companies, mining companies), governments (directly or indirectly), sovereign funds, domestic investors
- differences from recent patterns of FDI
- land acquisitions predominate but other forms too

Explanations

Investors

- food security
 - (worsening) natural resource constraints – land and water
 - international trade policies and the reliability of international markets
 - but why foreign investment and why land?
- biofuel production
- portfolio diversification – financial gain, including in land values

Hosts

- need for investment – foreign investment needed to supplement other sources
- financial benefits of asset transfers small?
- developmental benefits – technology, employment, infrastructure
- exploit “surplus” land

Impacts of foreign investment

- Positive

- technology transfer and upgrading
- employment creation, multiplier effects and poverty reduction
- food production and food security
- commercialisation and large-scale agriculture
- diversification and development of value-added production

- Negative

- food security
- impact on smallholders
- social, rights issues,
- transparency, governance issues and sovereignty
- environmental issues
- inappropriate economic models
- worst case scenarios

Large-scale land acquisition where local land rights are not clearly defined and governance is weak are problematic (case studies)

- lack of transparency in land transfers
- no consultation with local stakeholders
- no recognition of their rights
- displacement of local smallholders
- loss of grazing land for pastoralists
- negative impacts on livelihoods
- no compensation
- environmental damage arising from additional demands on local water resources caused by large-scale production
- large-scale monocultures limit biodiversity.

But also some positive findings ...

- significant employment creation (more than displacement?)
- not always environmentally damaging – new technologies
- mixed evidence on technology transfer
- some evidence of increased local food availability

National policy responses – host countries

- identification of investment needs and priorities
- consistency with food security and rural development strategies
- policy and legal frameworks to minimise risks and maximise benefits - but domestic law weak
- how to encourage targeted inward investment?
information and incentives
- creation of receptive domestic sector
- creation of positive investment climate – recent policy reforms but land raises particular issues
- land use rights, involvement and compensation of stakeholders

Investor countries policies

- incentives for outward investment
- food security initiatives
- King Abdullah Initiative
- Qatar national food security programme and investment partnerships

The case for international action

- Foreign investment could help meet investment needs and provide broader developmental benefits
- International concern over impacts on small farmers and food security of recent foreign large-scale land acquisitions
- Fears that local concerns are not emphasised in investment contracts and international investment agreements and that domestic law is inadequate
- Need for information on investment needs, impacts and best practices – “*the knowledge platform*”
- International guidelines might promote responsible agricultural investments benefiting all stakeholders

Knowledge Exchange Platform for Responsible Agro-Investment (RAI)

One stop information shop for policy-makers, practitioners and stakeholders

About RAI

Regions

Countries

Commodities

Centers of Excellence

International Institutions

Browse By Type

Stakeholder

Interest Groups

Investors

Communities

Source
Government

Host Government

Guidance

Principles

Guidelines

Codes

Standards



Principle 5: Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value.

All investors (whether private or government-linked) should:

- (i) Comply with laws, international treaties, best practices
- (ii) Adhere to global best practices
- (iii) Aim to increase shareholder value & benefit host area

[Read More >>](#)

6 of 8



INSIDE RAI

UPDATES

RESOURCES

[Quick Start Guides](#)

USEFUL LINKS

[Civil Society](#)

[Partnerships](#)

Code of conduct/ guidelines/principles on responsible international investment

- possible elements might include
 - transparency, good governance and accountability
 - social, environmental and economic sustainability
 - stakeholder involvement
 - recognition of domestic food security and rural development concerns
- based on detailed joint research concerning the nature, extent and impacts of foreign investment and best practices in law and policy
- to provide a framework to which national regulations, international investment agreements, global corporate social responsibility initiatives and individual investment contracts can refer

Roundtable on Responsible International Agricultural Investment

- sponsored by FAO, UNCTAD, IFAD and World Bank supported by Government of Japan
- held at UN General Assembly, 23 September 2009
- aimed at gauging political consensus on the case for an international code/guidelines, possible scope and the steps needed to develop
- reached consensus on the case for an international code of conduct/guidelines and on the broad elements it should include
- requested FAO, UNCTAD, IFAD and the World Bank to develop an evidence-based code/guidelines, consulting all other stakeholders including governments and civil society

FAO/UNCTAD/IFAD/World Bank *Principles for responsible agricultural investment that respects rights, livelihoods and resources*

1. respect for land and resource rights
2. food security and rural development safeguarded
3. transparency, good governance and enabling environment
4. consultation and participation
5. economic viability and responsible agro-enterprise investing
6. social sustainability
7. environmental sustainability

Need for comprehensive consultation with all stakeholders
- governments, farmers' organizations, NGOs, private sector and civil society

Need for comprehensive consultation with all stakeholders - governments, farmers' organizations, NGOs, private sector and civil society

- An inclusive and transparent process
- Commitment by leaders of all major stakeholder institutions and groups
- Sustained empirical research that is action-oriented
- Competent analysis and formulation
- Political, social, and cultural sensitivity
- Appropriate levels and types of resources

Building on existing international commitments ...

- *FAO Voluntary Guidelines on Governance of Land Tenure and other Natural Resources*
- Equator Principles address some of the social and environmental issues referenced in the last two principles
- OECD Guidelines for Multinational Enterprises
- Human rights commitments including the *Voluntary Guidelines on the Right to Food*

Next steps

- Further elaboration of the seven principles and drafting of extended commentary/annotations
- Continuing research on FDI issues and continuing development of the knowledge platform
- Consultations with all stakeholders concerning the seven principles and their elaboration
- Presentation of the principles at the Committee on World Food Security in October 2010
- Technical assistance and capacity building for application of RAI principles