

Towards Responsible Foreign Direct Investment in Developing Country Agriculture

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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)

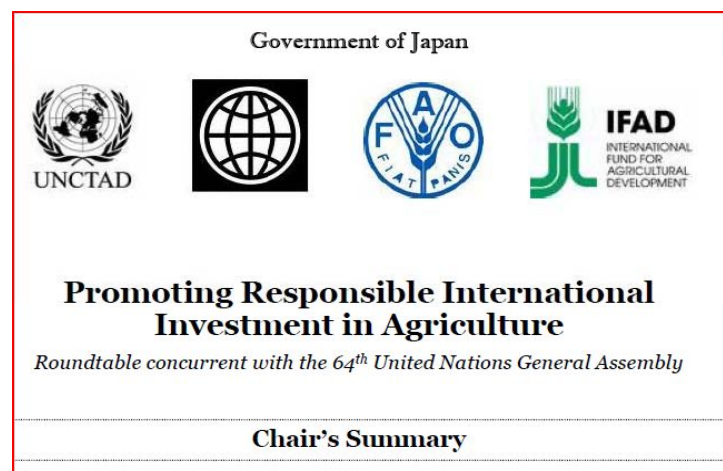
Manufactured Famine: A New Wave of Food Colonialism Is Snatching Food from the Mouths of The Poor (*Guardian*, 26.8.2008)

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

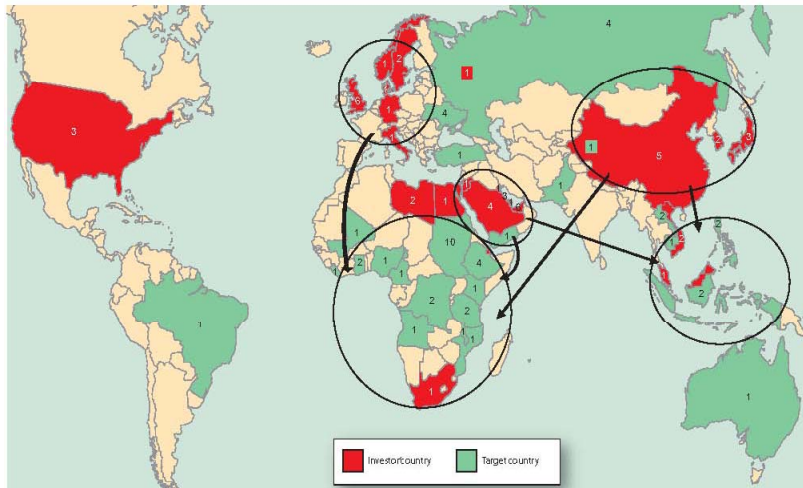
Outline

- 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 ...



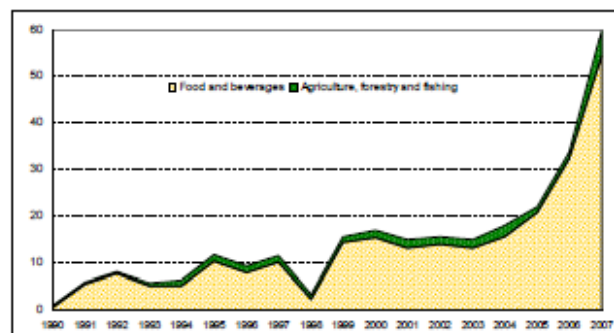
Investor and target regions/countries in land investment for agriculture, 2006–2009, number of deals (source: UNCTAD)



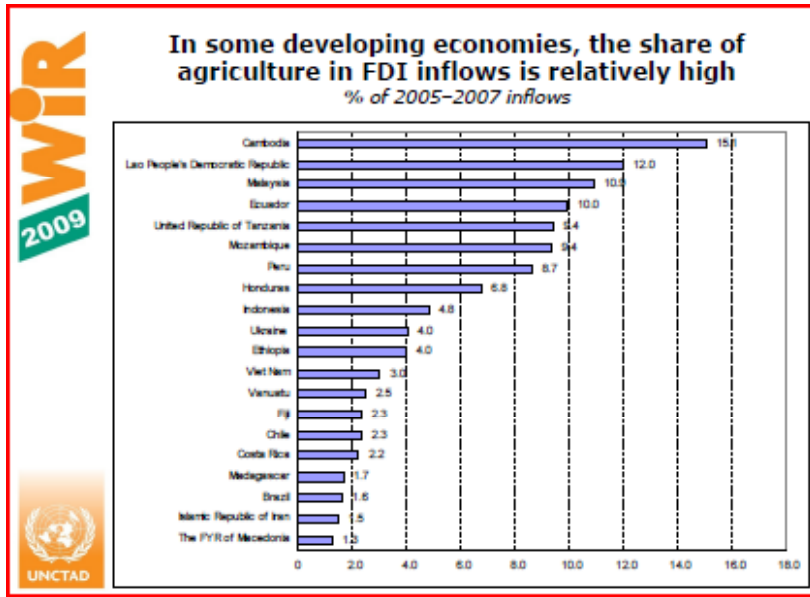
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2009

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.



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

The screenshot shows the homepage of the Knowledge Exchange Platform for Responsible Agro-Investment (RAI). The header includes navigation links: HOME, ABOUT, LOGIN, SITE MAP, INDEX, FAQ, CONTACT. Below the header is a search bar with a 'SEARCH' button. A horizontal menu contains categories: About RAI, Regions, Countries, Commodities, Centers of Excellence, and International Institutions. On the left, a 'Browse By Type' sidebar lists: Stakeholder, Interest Groups, Investors, Communities, Source Government, Host Government, Guidance, Principles, Guidelines, Codes, and Standards. The main content area features a large image of a person working in a field, with the text: 'Principle 5: Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value.' Below this, it states: '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'. A 'Read More >>' link is provided. At the bottom, there are three sections: 'INSIDE RAI' with an 'UPDATES' link, 'RESOURCES' with a 'Quick Start Guides' link, and 'USEFUL LINKS' with links to 'Civil Society' and 'Partnerships'.

<http://www.responsibleagroinvestment.org>

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

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- 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