Impacts of foreign agricultural investments in developing countries
& PRINCIPLES FOR RESPONSIBLE AGRICULTURAL INVESTMENT

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Investment in developing country agriculture
AMONG THE MOST EFFICIENT WAYS TO REDUCE POVERTY AND HUNGER

• Hunger and poverty are most prevalent in sub-Saharan Africa and South Asia

• Both regions have low levels of investment and farm capital per worker has been stagnant for 3 decades

• Many countries that have increased investment are on the way to reach the hunger target of the MDGs

• Nevertheless, at least 870 million people are still hungry, and with shifting consumption patterns, a growing world population and increased pressure on natural resources the future strains on agriculture are potentially overwhelming

Political commitment and more investments are needed to feed 9 billion people in a sustainable manner
Investment in developing country agriculture
FARMERS AT THE CENTRE

Smallholders constitute the majority of the poor, yet they are the largest agricultural investors in developing countries (SOFA 2012)

Smallholders can:

- feed growing urban populations and ensure that cash is cycled back to rural economies
- play a key role in a shift to agri-food systems to systems that produce more while using less resources and regenerates eco-system services (Save and Grow 2011)

This requires public investment in infrastructure, R&D, education and rural social services and enabling institutional environments

Domestic micro, small and medium sized enterprises dominate investment in processing and marketing and are essential for the development of value chains that benefits poor rural producers and poor urban consumers
Foreign investment in developing country agriculture

Foreign investment along the value chain can play a role in filling the gap between current and needed investment levels.

Foreign investment can bring benefits including job creation, market access, technology transfer and increased production.

In aggregate foreign investment plays a smaller role than domestic investment.

Occasionally foreign investment has had transformative impact at the local level.

But benefits of agricultural investment cannot be expected to arise automatically and some forms carry risks.

→ Regulation, knowledge and dialogue needed
The Inter-Agency Working Group (IAWG), consisting of FAO, IFAD, UNCTAD and the World Bank have committed themselves to promote responsible investment in agriculture through the generation of empirical evidence and by supporting various consultation processes.

The Principles for Responsible Agricultural Investment (PRAI), proposed jointly by the IAWG in 2010, is:

- a response to calls for international regulation of foreign large-scale land acquisitions, but they may apply to various forms of foreign and domestic investment
- a “living document” to be updated with the results of ongoing research, field-testing and dialogues
- voluntary and not a substitute to national laws and regulations, international treaties or public action
The IAWG Action Plan
ON RESPONSIBLE AGRICULTURAL INVESTMENT

**Track 1**

- Analysis of trends & impacts of large private agricultural investment
- Review of relevant standards & initiatives
- Draft guide on screening existing policy frameworks
- [Retrospective analysis of 179 agribusiness investments](#)
- Participatory field testing at project & country level

**Next step:** Pilot-use of principles on start-up investments in 10 SSA countries, 2014-2015

**Track 2**

- 5 international consultations & 15 outreach events (2010-2011)
- 2012 → [CFS rai consultation](#)
- Other consultation processes
Trends and impacts of foreign investment in developing country agriculture

- Evidence from case studies in 9 countries
- Foreign investment in primary production
- Land acquisitions & other models
- Download as PDF or e-book
What do we know about trends in agricultural FDI to developing countries?

- Difficult to quantify
- Substantial increase in recent years
- Still less than 5 percent of total inward FDI
Most agricultural FDI to developing countries are in downstream activities.
What do we know about impacts of agricultural foreign agro-investment in developing countries?

• Caution in interpretation of data

• But a growing body of empirical evidence (from IAWG and a wide array of other actors)

• High variability of impacts

• High variability of determinants including business model, aim and ambitions of farmers and investors and local, national and global governance and political economy factors
Business models: How assets of parties are combined is an important determinant of impacts

“Enabling environment”: local, national, regional & global Institutional settings
Large-scale land acquisitions in developing countries

• Negative local impacts of mega-land deals in countries with weak institutions and poorly protected land rights are well documented & often outweigh the few benefits:

→ job generation, with caveats

→ displacement, loss of livelihoods, environmental damage, conflicts…

• Outside investors with a long-term perspective need to understand complex tenure systems and respect land rights – simply holding a title of land is not enough:

→ overlapping land claims, conflicts, delays or halts in implementation & reputational damage often lead to incalculable costs
Inclusive business models for “win-win-win”

• Local benefits when small-scale farmers control land and are involved in decision making:

  ➔ Job creation (many more jobs per hectare than large-scale plantations), value addition, higher incomes, higher productivity …

• Potential benefits for outside investors:

  ➔ access to agricultural products without risks and costs of acquiring land and hiring labour, good relationships with and access to knowledge of local communities, good reputation…
A partnership between smallholders and a food processing company in Senegal

- Tomato outgrower scheme involving 12 000 small-scale farmers and a company with French origins
- The farmers use 0.2-0.3 hectares of their own land for the scheme
- Most of them also grow other crops for self-consumption or market
- A *participatory and industry-wide decision making body* involving all stakeholder groups has been key for the relative success

→ *Disagreements between parties in the past, limited technology transfer, production increases from area expansion rather than sustainable intensification putting pressure on land and water*

→ *Improved purchasing power and access to food for involved farmers and fulfillment of large domestic demand for processed tomato products*
A Nucleus Estate with Smallholder scheme for certified organic mangos in Ghana

- The Integrated Tamale Fruit Company with a mix of Dutch and domestic shareholders
- 80-90 % for export, 10-20 % for the domestic market
- 155 hectare acquired for a Nucleus Estate with 85 workers
- 486 ha under customary tenure used by 1 200 outgrowers
- 250 staff for nursery, extension services and storage activities
- Financially viable operation but made possible by strong support from the Government, NGOs & International Organizations
- An Outgrower Association gives voice to farmers

→ Strong local support, good national reputation, improved livelihoods, local processing, large production potential with organic farming techniques
No single business model for all contexts

There may be a place for some **large-scale plantations** in the context of a country’s development strategy (the upper threshold in size depends on a host of factors including land abundance/ population density, choice of crop and local tenure systems).

**Hybrid models** in which a nucleus estate expands through outgrower arrangement with surrounding smallholders rather than through more land acquisitions have been successful for a number of industrial crops.

Start-ups and innovative models carry substantial financial and social risks but occasionally have transformative positive impacts.

Investment in already existing agribusinesses is less risky and can increase sustainability of projects operating below capacity.

**BIG OR SMALL, BE RESPONSIBLE!**
“Agribusiness is not for the naïve or overconfident”

• Financial and social failures of agribusiness projects have often been caused by the application of “flawed concepts” such as wrong location, wrong crop, lack of stakeholder dialogue, over-expectations and ignorance of risks.

• In many cases, flaws could have been detected before approval or during pilot stages of a project.

• Given the risks of new investment projects, a gradual approach is recommended: start relatively small and expand only when initial financial, management, social and environmental risks are resolved.

• Proper pre-screening, impact assessments and consultation with affected populations are time-consuming and tedious exercises – but cost-effective if one considers the downsides of “lose-lose” situations.
The institutional framework
– a key determinant of volumes, quality and impacts of investment

“Enabling environment”: local, national, regional & global institutional settings

- Smallholders/local communities
  - Land
  - Labour
  - Local knowledge/technology

- Companies/outside investors
  - Financial capital
  - Market & management skills
  - Specialized knowledge/technology
National policy frameworks should encourage responsible agricultural investment

- Domestic legal and institutional frameworks are key for outcomes of investment, but often mired by political economy factors and lack of resources

- Investment strategies and incentives to investments should be applied in a predictable and fair manner and consistent with national development objectives

- Land rights of local communities, including vulnerable groups, should be identified, recognized and protected – the Voluntary Guidelines on the Responsible Governance of Tenure is useful

- Given the trend towards more socially inclusive investments, governments can afford to be picky about which types of investments they want
Be patient and supportive

Due to long gestation periods of agro-investment, asymmetries of power, learning needs etc., successful projects requires patience

PPPs, patient capital and public support, especially in early stages of a project, can help to achieve social, environmental and economic goals
Ensure that investments are inclusive and consistent with local visions of development

- Encourage involvement through e.g. participatory land use planning and multi-stakeholder dialogues on agricultural investment
- Take proactive measures to address gender and equity implications
- Support representative local organizations such as farmer groups

→ Voluntary principles for responsible agricultural investment can help
Thank you!

fao.org/economic/est/issues/investments
responsibleagroinvestment.org
Principles for Responsible Agricultural Investment
THAT RESPECT RIGHTS, LIVELIHOODS AND RESOURCES (PRAI)

Key elements

1. Respect of tenure rights
2. Do not jeopardize but rather strengthen food security
3. Governance framework ensures transparency and accountability
4. Consult & involve stakeholders
5. Investors must respect laws and ensure durable shared value
6. Generate positive social impacts
7. Ensure environmental sustainability
The CFS process to develop rai principles

• An inclusive consultation process to develop principles for responsible agricultural investment in the context of food security and nutrition (rai)

• Broad scope: “all types of investment in agricultural value chains and food systems “
  – “[...] include foreign and domestic, public and private, small, medium and large scale investments.”
  – potential users: “all stakeholders that are involved in, benefit from, or are affected by agricultural investments[...]”

• Builds on existing instruments including the Voluntary Guidelines on the Responsible Governance of Tenure, the Voluntary Guidelines on the Right to Food and PRAI.