INTERNATIONAL INVESTMENT IN DEVELOPING COUNTRY AGRICULTURE – WHAT ARE THE ISSUES?

Food and Agriculture Organization of the United Nations

for a world without hunger
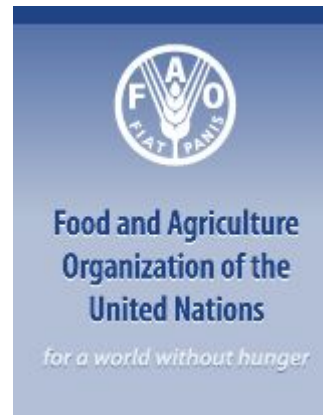
What do we know about foreign investment in developing country agriculture?

- limited information, misinformation
- increasing trend (land grab but also other forms)
- investors are private sector (banks, agribusiness, investment companies, institutional investors, trading companies, mining companies), governments (directly or indirectly), sovereign funds, domestic investors
- geographical investment flows
- differences from recent patterns of FDI

What do investors want?

- depends on investor – private sector, government, sovereign funds
- 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

What do host countries want?

- need for investment – foreign direct investment needed to supplement other sources of investment funds
- financial benefits of asset transfers small? rents low? tax revenues foregone?
- developmental benefits – technology transfer, employment creation, infrastructural developments?

What are the impacts of foreign investments?

- 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
  - social, rights issues,
  - transparency, governance issues and sovereignty
  - environmental issues
  - inappropriate economic model
  - worst case scenarios

What can be done nationally? Host country issues

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

What can be done nationally? Investing country issues

- why acquisition? alternatives to equity investments – non-equity investments; trade
- how to encourage outward investment? information and incentives
- mobilising private sector finance
- national codes of conduct

What can/should be done internationally?

- matching capital to opportunities – how to devise investment programmes to meet investment needs? information needs and systems
- international regulation, investment agreements, dispute settlement mechanisms
- global corporate social responsibility initiatives
- need for control? formulation and implementation of codes of conduct

Why a code of conduct?

- 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

- International guidelines might promote responsible agricultural investments benefiting all stakeholders

What kind of code of conduct?

- voluntary – guidelines more than code?
- possible elements would 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