

***IMPACTS OF FOREIGN
AGRICULTURAL INVESTMENT
ON DEVELOPING COUNTRIES:
EVIDENCE FROM CASE STUDIES***





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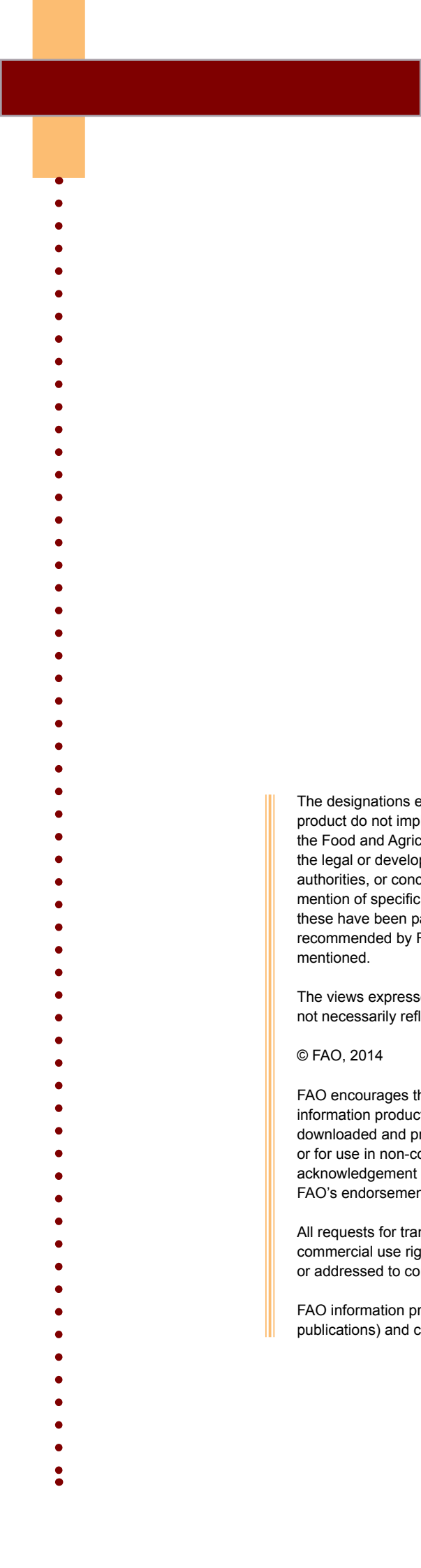
Pascal Liu

Senior Economist, Trade and Markets Division, FAO.

This paper draws on the results of FAO's research on agricultural FDI.

For more details see: <http://www.fao.org/economic/est/issues/investments>





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TABLE OF CONTENTS

ABSTRACT	iv
ACKNOWLEDGEMENTS	iv
1. INTRODUCTION	1
1.1 The contribution of agricultural investment to food security	2
1.2 The fundamental need for investments by farmers	3
1.3 A complementary role for foreign investment	3
2. METHODOLOGY AND SCOPE OF THE STUDIES	4
3. TRENDS IN AGRICULTURAL FDI IN DEVELOPING COUNTRIES	6
3.1 Investment in land	6
3.2 Destination and source countries	8
4. FACTORS UNDERPINNING THE RISE IN AGRICULTURAL FDI	9
5. NEW TYPES OF INVESTORS	10
6. IMPACTS OF LARGE-SCALE LAND ACQUISITION ON HOST COUNTRIES	11
7. THE DEVELOPMENT POTENTIAL OF INCLUSIVE BUSINESS MODELS	13
8. FACTORS DETERMINING THE IMPACTS OF FDI ON HOST COUNTRIES	15
8.1 Good governance	15
8.2 Local context	15
8.3 Involvement of local stakeholders	16
8.4 Formulation and negotiation process	16
8.5 Contents of investment contract	16
8.6 Profile of the investor	16
8.7 Support from third parties	16
8.8 Type of production system and crops	16
9. CONCLUSIONS AND RECOMMENDATIONS	17
9.1 Further research on the impacts of agricultural investment	17
9.2 Improving national policies relevant for agricultural investment	18
9.3 Strengthening capacity in developing countries	19
9.4 Supporting the development of international guidance	21
9.5 Building partnerships with non-governmental organizations	21
10. REFERENCES	22

ABSTRACT

There is growing evidence that investing in developing countries' agricultural sector is among the most efficient ways to reduce poverty and hunger. Agricultural investments can generate a wide range of developmental benefits, but these benefits cannot be expected to arise automatically and some forms of large-scale investment carry risks for host countries. Although there has been much debate about the potential benefits and risks of international investment, there is a lack of systematic evidence on the actual impacts on the host country and their determinants. This paper summarizes the results of FAO's case studies on the impacts of foreign agricultural investment on host communities and countries. The studies suggest that the disadvantages of large-scale land acquisitions often outweigh the few benefits to the local community. In countries where local land rights are not clearly defined and governance is weak, large scale land acquisition raises particularly high risks for the local community. These include reduced access to natural resources and the loss of livelihoods, which are likely to generate local opposition to the investment. Even from the perspective of the investor, land acquisition is unlikely to be the most profitable business model due to the high potential for conflict and damage to reputation. Conversely, the studies suggest that investments that involve local farmers as equal business partners, giving them an active role and leaving them in control of their land, have the most positive and sustainable effects on local economies and social development. These inclusive business models need strong external support for supporting farmers and facilitating the investor-farmers relationship in order to succeed. They also require 'patient capital', as financial returns to investment are unlikely to materialize in the first years. Beside the business model, other important factors include the legal and institutional framework in the host country, the terms and conditions of the investment contract and the social and economic conditions in the investment area. Strengthening the governance and capacity of institutions in host developing countries is essential to enhancing the developmental impacts of foreign agricultural investment.

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1. INTRODUCTION

Substantial increases in agricultural investments in developing countries are needed to combat poverty and realize food security and nutrition goals. Agricultural investment is the most important and most effective strategy for poverty reduction in rural areas, where the majority of the world's poorest people live. Investing in agriculture reduces poverty and hunger through multiple pathways. However, low investment in the agricultural sector and into smallholder farms in particular in most developing countries over the past 30 years has resulted in low productivity and stagnant production. The recent food crisis has exposed these weaknesses, as agricultural production was slow to respond to rising prices. Yet, the agricultural sector faces a considerable challenge over the next four decades. World agriculture must feed a projected population of 9 billion people by 2050, some 2.5 billion more than today, and most of the growth in population will occur in countries where hunger and natural resource degradation are already rife. Crop and livestock production systems must become more intensive to meet growing demand but they must also become more sustainable. Additional investments of over US\$80 billion every year are needed in agriculture to meet targets for reducing poverty and the numbers of malnourished. Meeting the targets in a sustainable manner that preserves natural resources and is conducive to long-term development will require even more capital.

The renewed interest in increasing investment in primary agricultural production in developing countries is therefore a positive development and has been reflected in the statements of the G8 and G20. Agricultural investments by domestic and foreign investors can generate a wide range of benefits such as higher productivity, increased food availability, employment creation, poverty reduction, technology transfer and access to capital and markets. However, these benefits cannot be expected to arise automatically. They will depend to a large extent on a wide range of factors including the investment contract, the type of business model, the linkages with smallholders, and the institutional framework in place in the host country. Further, various organizations have raised concerns on the possible adverse impacts on host countries of some new forms of foreign direct investment (FDI), in particular large-scale land acquisitions. These transactions raise particularly complex economic, social, political and environmental issues.

Although there has been much debate about the potential benefits and risks of agricultural FDI, there is no systematic evidence on the actual impacts on the host country. In order to acquire an in-depth understanding of potential benefits, risks and constraints, FAO carried out country case studies on

trends, determinants and impacts of foreign investments in agriculture. This paper presents the main findings of the studies. It starts with a brief discussion of the relationship between food security and agricultural investment in developing countries and the potential contribution of foreign investors. The second section provides an overview of the methodology used in the studies. The third section summarizes the new trends in FDI flows to the agricultural sector of developing countries. The factors driving these developments are then discussed. The paper goes on to examine the new types of investors in agricultural land (section 5). Section 6 analyses the impacts of large-scale land acquisition, while the following section discusses the benefits of business models that promote more equitable partnerships with local farmers. Section 8 examines the factors determining the local effects of FDI. The paper concludes with recommendations to foster agricultural investments that can lead to inclusive local economic development.

1.1 The contribution of agricultural investment to food security

Agricultural investment is the most important and most effective strategy for poverty reduction in rural areas, where the majority of the world's poorest people live (World Bank, 2008, FAO, 2012). Investing in agriculture reduces poverty and hunger through multiple pathways. Farmers invest to enhance their productivity and incomes. From society's point of view, this in turn generates demand for other rural goods and services and creates employment and incomes for the people who provide them, who tend to be the landless rural poor. These benefits ripple from the village to the broader economy.

Agricultural investment is also essential to eradicating hunger through all of the dimensions of food and nutrition security. Agricultural investment by farmers or the public sector that increases productivity at the farm level can also increase the availability of food on the market and help keep consumer prices low, making food more accessible to rural and urban consumers (Alston *et al.*, 2000). Lower priced staple foods enable consumers to supplement their diets with a more diverse array of foods, such as vegetables, fruit, eggs, and milk, which improves the utilization of nutrients in the diet (Bouis, Graham and Welch, 2000). Finally, agricultural investments can also reduce the vulnerability of food supplies to shocks, promoting stability in consumption.

Insufficient investment in the agricultural sector of most developing countries over the past 30 years has resulted in low productivity and stagnant production. World agriculture must meet the major challenge of feeding some 2.5 billion more people by 2050. Adding to this challenge, most of the growth in population will occur in countries where hunger and natural resource degradation are already widespread. Crop and livestock production systems must become more intensive to meet growing demand but they must also become more sustainable (FAO, 2011, Save and Grow). Sustainable intensive production systems are capital-intensive; they require more physical, human, intellectual and social capital in order to sustain and rebuild the natural capital embodied in land and water resources. Net investments of at least US\$83 billion annually are needed in agriculture to meet targets for reducing poverty and the numbers of malnourished (Schmidhuber, Bruinsma and Boedeker, 2009). Doing so in a sustainable manner that preserves natural resources and is conducive to long-term development will require even more funds.

Increased investment by the public sector in developing countries will be necessary, which implies a reversal of the declining trend observed over the past decades. The share of public spending on agriculture in developing countries has fallen to around 7 percent, and even less in Africa (Hallam, 2011). Investment is stagnant or falling in regions where hunger is most widespread (FAO, 2012). Higher and more volatile food prices have reawakened policymakers to the importance of agriculture, and they have responded by increasing commitments to supporting the sector. This renewed attention to agriculture offers an

opportunity to prepare for these challenges. Public investment by governments plays an essential role in creating the necessary conditions and enabling environment in which farmers can thrive, and in catalysing and channelling private investment towards socially beneficial outcomes. The public sector also provides public goods which benefit society but for which private incentives are lacking.

1.2 The fundamental need for investments by farmers

However, public-sector investments alone will not be sufficient. An increase in investment by the private sector is needed, in particular a rise in the investments made by farmers themselves, who account for the bulk of investment in agriculture. A recent study shows that farmers are by far the largest investors in agriculture (Lowder, Carisma and Skoet, 2012). Annual investment in on-farm agricultural capital stock exceeds government investment by more than 3 to 1 and other resource flows by a much larger margin. On-farm investments are more than twice as important as all other sources of investment combined. Particular attention must be paid to ensuring that smallholders, many of whom are women, are able to invest on their farms and benefit from other public and private investment. This requires the existence of an enabling investment climate and the provision of public goods such as research and extension, market institutions and infrastructure, training and education, and risk management tools.

1.3 A complementary role for foreign investment

However, in spite of the new priority given to agriculture, many developing countries have limited financial capacity to fill the investment gap. Commercial bank lending to agriculture is less than 10 percent in sub-Saharan Africa, while microfinance loans are usually too small and not suited to capital formation in agriculture (Da Silva and Mhlanga, 2009). It is unlikely that the solution will come from international donors either, as the share of official development assistance going to agriculture has fallen from around 10 percent to 5 percent (Hallam, 2011). Recent summits of the G8 and G20 have made strong commitments to supporting increased investment in developing country agriculture for food security. This is a positive development. Nevertheless, in view of the unfolding economic crisis in the major industrialized nations and the slowing of growth in large emerging economies, international aid is unlikely to increase sufficiently to meet the investment needs in the short and medium terms.

Given the limitations of alternative sources, foreign direct investment could make a contribution to bridging the investment gap in developing countries' agriculture. The available data show that agricultural FDI is very small compared with domestic agricultural investment. Further, the agricultural sector still accounts for a very small percentage of total FDI inflows in most developing countries. A review of case studies on sub-Saharan Africa suggests that less than 5 percent of FDI goes to agriculture (Gerlach and Liu, 2010). There is a potential for growth if more investments can be directed to the sector. While FDI cannot be expected to become the main source of capital, it can potentially generate various types of benefits for the agricultural sector of the host country such as employment creation, technology transfer and better access to capital and markets.

However, these benefits cannot be expected to arise automatically and the risks discussed above are real. Consequently, the challenge for policy makers, development agencies and local communities is to maximize the benefits of foreign agricultural investment while minimizing its risks. This requires the capacity to orient foreign investments towards the right type of projects. Whether this objective can be met will depend on a large number of factors, among which the legal and institutional framework in place in the host country and the local context are critical.



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2. METHODOLOGY AND SCOPE OF THE STUDIES

Although there has been much debate about the potential benefits and risks of international investment, there is no systematic conclusion on the actual impacts on the host country. More evidence is also needed on the workings and impacts of inclusive business models through the detailed analysis of projects implemented in the field. In order to acquire better knowledge on international agricultural investment, FAO has undertaken a series of country case studies. The research aims to provide an in-depth understanding on the trends and impacts of foreign direct investment on host communities and countries, to gather evidence on the type of business models that are more conducive to development, to identify good practices and to develop guidance for host governments. To this end, FAO designed and directed case studies in selected developing countries. The studies were conducted in partnership with research institutions or through the direct recruitment of local researchers and consultants. They covered three developing regions where foreign investment in primary agricultural production has tended to concentrate in the past six years, namely Africa, Asia and Latin America. Among these regions, the studies gave particular emphasis to Africa, as it is arguably the region where the problems raised by large-scale land acquisition are the most urgent.

The studies examined the trends in agricultural FDI and its economic, social and environmental impacts in host countries. They reviewed the recent trends and current situation of large scale agricultural investments and land acquisitions in the selected countries, with special attention to various types of business models, distinguishing those with and without land acquisition. They analysed the factors determining the impacts and their relative significance. Two types of case studies were undertaken. The first type focused on national policies to attract FDI in agriculture and their impacts on national

economic development. These studies covered Brazil, Egypt, Morocco, Sudan, Thailand, Uganda and United Republic of Tanzania. The second type also reviewed the national policy framework, but then went on to examine the business models of selected agricultural investments in five developing countries and assess their economic, environmental and social impacts at the local and, when possible, national levels. This group of studies covered Cambodia, Ghana, Mali, Senegal and Zambia. Although the main subject of the studies was foreign investment, a few relevant large-scale agricultural investment projects by domestic investors were also examined.

More specifically, the studies analysed the drivers and the main actors (national and international) in each country, as well as the institutional process and national governance context framing the process of decision resulting in investments and land allocations (or the absence of land acquisitions, where relevant). They examined the specific policy measures that had an impact on the investment project, the economic inclusion of local smallholder farmers in the business model of the large investment projects and the participation of women where relevant. Where possible, the research investigated the contextual situation prior to the investments concerning land tenure patterns (land ownership, use and control), human capital situation with respect to education, training, extension and vocational education and the employment opportunities available (farm and non-farm as well as the working conditions by gender and age). It analysed the design and implementation of different business models in each country, including land-based and non-land investments; the process that led to the choice of a particular model; the policy measures (incentives, support, constraints) that influenced the process; and the success factors, the constraints encountered and the solutions adopted to overcome them. The studies also examined the actual economic, social and environmental impacts of the business models studied. In particular, they assessed the effects on smallholder farmers and local communities within a gender and equity perspective such as income generation, improvement in welfare, employment/working conditions on



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and off farm, value addition, knowledge diffusion/spillovers, transfer of technology, skills development, forward and backward linkages, improvement in access to markets/capacity to trade and involvement of institutions such as farmers organizations.

Finally, the studies identified good practices and lessons learnt for the formulation of policies that attract foreign investments which benefit the host country, the local community and the investor.

3. TRENDS IN AGRICULTURAL FDI IN DEVELOPING COUNTRIES

It is important to bear in mind that quantitative analysis of FDI flows into agriculture is constrained by the lack of reliable detailed data. The available data confirm that there has been a marked rise in FDI into the agri-food sector of developing countries since 2007-08. Although agricultural FDI flows contracted after their peak of 2009, their level in the 2010-2011 period was still higher than the average for 2003-2007. The flows are characterized by regional patterns whereby intra-regional flows are greater than inter-regional flows except for Africa. The share of FDI that goes to the agri-food sector almost doubled between the periods 2000-2005 and 2006-2008 but is still low compared to other economic sectors, accounting for less than 5 percent over the period 2006-2008. The bulk of agricultural FDI flows are directed to the food manufacturing sector, while primary agricultural production accounted for less than 10 percent over the period 2006-2008. More recent trends for foreign investment in the primary agricultural sector are difficult to track due to the lack of recent disaggregated data.

Trends over time in FDI are difficult to monitor because the number of countries for which data are available varies from year to year. Looking at agriculture alone, comparable data are available for 44 countries. FDI to these countries more than doubled between 2005-06 and 2007-08. However, the majority of these flows went to upper-middle and high-income countries (Lowder and Carisma, 2011). These figures probably underestimate actual flows of foreign investment in agriculture, because data are missing for many countries. Furthermore, investments made by large private institutional investors, such as mutual funds, banks, pension funds, hedge funds and private equity funds are not included in estimates of FDI. A broad, though not comprehensive, recent survey of agricultural investment funds in several developing regions (excluding East Asia and the Pacific) found that such funds have increased in number and value (Miller *et al.*, 2010).

3.1 Investment in land

While foreign capital is invested in a wide array of agricultural assets, international debates and research have recently focused on foreign investments for the control of agricultural land on a large scale. This focus can be partly explained by the multifunctional characteristic of land. Beyond its economic value, land also has social, cultural and religious values in many countries. Large-scale land acquisition raises complex issues across various dimensions: legal, economic, social, environmental, ethical and cultural. Studies show that foreign investment in land takes place through purchase or long-term leases. Long-term lease of agricultural land is a more frequent arrangement than purchase in the case of foreign investment, partly due to the fact that several countries have regulations prohibiting the sale of land to foreigners. However, the economic and social implications tend to be similar as for outright sale since lease contracts are generally for a long period (typically 50 years and sometimes up to 99 years). In some cases of purchase, a local counterpart to the foreign investor is involved.

Several organizations have tried to estimate the area of land that has been the object of large-scale transactions in recent years using different sources. The non-governmental organization GRAIN has operated an online database of land acquisition mainly based on media reports (www.farmlandgrab.org 2011). Estimates that are solely based on the collection of media reports may be misleading, as a substantial share of the announced projects does not materialize in an actual transaction for various reasons (including decision by the investor not to proceed). Systematic inventories of land deals based on official government records, crosschecked with third-party sources are likely to produce more reliable estimates. The figures gathered through these national inventories are usually lower than those based on media reports. In Mozambique, for example, media sources arrived at more than 10 million hectares acquired between 2008 and 2010, whereas a national inventory for 2004–2009 calculated a figure closer to 2.7 million hectares (Cotula and Polack, 2012). The average size of individual transactions is also smaller than that suggested by media reports. The World Bank estimates that an area of 46.6 million hectares was acquired between October 2008 and August 2009 (Deininger and Beyerlee, 2011).

The Land Matrix, a partnership between the Centre for Development and Environment (CDE) at the University of Bern, the Centre de coopération Internationale en Recherche Agronomique pour le Développement (CIRAD), the German Institute of Global and Area Studies (GIGA), the German Agency for International Cooperation (GIZ) and the International Land Coalition (ILC), systematically collates and seeks to verify information on large-scale land acquisitions. The data collected by the Partnership originate from media reports, international and non-governmental organizations and academics. The Partnership has collected reports for 1 217 agricultural land deals in developing countries accounting for over 83 million hectares of land over the period 2000-2012 (Anseeuw *et al.*, 2012). However, it estimated that the area concerned by transactions that it judged as “reliable” (i.e. cross-checked with other sources) accounted for only 39.3 percent of this area (32.7 million hectares). Even this reduced figure should be treated with caution due to the generally poor quality of the available primary data.

The difference between estimates primarily derives from differences in the methods used for calculation. There are differences in the considered time periods (some surveys cover a whole decade, others only a couple of recent years), in the type of investments that is included (for example some surveys do not record transactions for establishing a tree plantation), in the status of the project (some databases include projects announced by the media while other only include approved transactions) and in the minimum area for the transaction to be recorded (for example, the Land Matrix only records transactions that cover 200 hectares or more).

While it is clear that some figures highlighted by the media are overestimated, there is also evidence that not all land transactions are reported. Investors may have various reasons for not reporting a deal, including commercial confidentiality and fear for their corporate image. Similarly, some governments may be reluctant to publicize a transaction for a variety of reasons. Consequently, the transactions that are not reported may somewhat offset those that are announced but do not materialize. Finally, it should be noted that even when agreements are signed and the transaction takes place, the share of land that is cultivated in reality is often much less than what was announced by the investor.

In conclusion, even though the real scale of foreign investment in agricultural land may be smaller than what the media suggest, the available evidence shows that it is important. The fact that most of the debates on large-scale land acquisitions has focused on foreign investments is easy to understand. Foreign investments raise a number of delicate issues related to national sovereignty and independence which are all the more sensitive in view of the colonial history of many countries. In addition, foreign investments in land can be large-scale with many involving more than 10 000 hectares and some more



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than 500 000 hectares (Hallam, 2011). Investments by foreign firms tend to cover a larger area than those made by domestic companies. For example, in the Office du Niger area in Mali, no foreign investor acquired less than 500 hectares, while local investors acquired much more modest areas (FAO, 2012).

Nevertheless, the international attention given to foreign investment should not conceal the fact that in most countries domestic investors acquire more agricultural land than foreign ones. The World Bank (2011) estimates that domestic investors were responsible for 80 percent of the land transactions in the surveyed developing countries. Even though the average area covered by the transactions was smaller than that of foreign investments, domestic investors still accounted for 60 percent of the total acquired area. Case studies have shown the critical role of national elites in land acquisition. Nationals accounted for the following percentages of the area acquired in the following countries: 97 percent in Nigeria, 70 percent in Cambodia, 53 percent in Mozambique and around 50 percent in Sudan and Ethiopia. In some cases, though, domestic companies act as an entry point for foreign investors, facilitating their access to agricultural assets (Burnod *et al.*, 2011).

3.2 Destination and source countries

Africa is the primary destination of FDI in land: the Land Matrix figures show that 754 land deals covering 56.2 million hectares are located in Africa, compared with 17.7 million hectares in Asia, and 7 million hectares in Latin America. Reported land deals in Africa concern an area equivalent to 4.8 percent of Africa's total agricultural area, or the territory of Zimbabwe (Anseeuw *et al.*, 2012). The majority of reported acquisitions are concentrated in a few countries. A large number of countries (84) are reported to be targeted by foreign investors, but only 11 of them concentrate 70 percent of the reported targeted area. Among those 11 countries, 7 are African, namely Sudan, Ethiopia, Mozambique, United Republic of Tanzania, Madagascar, Zambia and Democratic Republic of the Congo. In South-East Asia, the Philippines, Indonesia and Lao People's Democratic Republic are particularly affected.

There is a strong tendency towards intra-regional investment in Asia and South America, as local firms seek to replicate the success in their home country by investing across the national borders. In Africa, South African companies have been successfully investing in other countries of the continent. In some cases they channel investment from companies based in another continent into other African countries, such as Mozambique, United Republic of Tanzania or Zambia, taking advantage of their expertise in African agriculture (Cotula and Polack, 2012). Partnerships are important for investors, as they can

contribute to reducing the costs of complex local administration, and for legal reasons in some contexts. For example in 12 percent of the cases collected by the Land Matrix Project, foreign investors had built partnerships with domestic companies. Foreign investors also often act in partnership with each other. Investors from the United States, United Kingdom and South Africa have formed such partnerships in about a third of the deals in which there are involved (Anseeuw *et al.*, 2012).

As for inter-regional investment, a particular pattern of bilateral investment flows has emerged following established cultural, political and business ties and geographical restrictions on investment funds. Gulf countries have favoured investments in Sudan and other, mainly African, OIC member states, for example. China has favoured Southeast Asia and, in Africa, Zambia, Angola and Mozambique (von Braun and Meinzen-Dick, 2009).

4. FACTORS UNDERPINNING THE RISE IN AGRICULTURAL FDI

The surge in foreign direct investment (FDI) in primary agricultural production that has taken place since the late 2000s follows several decades of under-investment in the agricultural sector of most developing countries. The reasons for this surge are diverse and complex, but the main drivers can be linked to the steep rise in commodity prices in 2007-2008 and the realization that demand for finite natural resources is set to continue increasing significantly in the next four decades. The spike in food prices prompted countries that are heavily dependent on food imports to invest in other countries where land and other natural resources (in particular water) are abundant with a view to securing supply. They view the ownership of production and the possibility to export the harvest back home as a more reliable strategy for food security than depending on international markets. In addition, high energy prices triggered international investment in the production of feedstock crops for biofuels. Beyond causes that are linked to the current situation of markets, other drivers indicate that the trend is likely to continue in the longer term. These drivers include expectations of rising agricultural prices, population growth, growing consumption rates and market demand for food, biofuels, raw materials and carbon sequestration.

Expectations of rising prices for land and other natural resources have given rise to financial speculation. In turn, speculation on land and other natural resources has been fuelled by the poor market performance of more traditional asset classes such as equity, bonds and real estate in the wake of the financial crisis that started in 2007. According to a survey of 25 large investment firms prepared for the OECD (2010), investment in farmland and agricultural infrastructure offers the following attractions as an emerging asset class: strong long-term macroeconomic fundamentals; attractive historical returns on land investment; a mix of current income and capital appreciation; uncorrelated returns with the equities market and a strong hedge against inflation.

In previous decades, international investment in the agro-food sector traditionally aimed to provide a better access to markets or cheaper labour. The new forms of foreign investment differ from this traditional model, as investors primarily seek to gain access to natural resources, in particular land and water. Another feature is that the new forms of investment involve acquisition of land and actual production rather than looser forms of association with local producers. The new investors emphasize production of basic foods, including animal feed, for export back to the investing country rather than tropical crops for wider commercial export (Hallam, 2011). According to the OECD survey (2010), 83 percent of the farmland acquired or leased on a long-term basis by survey respondents was dedicated to the production of major row crops (soft oilseeds, corn, wheat and feed grains), with 13



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percent being invested in livestock production (typically grazing of beef cattle, dairy, sheep and swine) and 4 percent of farmland dedicated to permanent crops such as sugar cane and viticulture, agricultural infrastructure and set-asides.

5. NEW TYPES OF INVESTORS

A variety of actors from both the private and public sectors are involved in this new investment trend. Private sector actors include investment funds, pension funds, hedge funds, agricultural and agro-industrial companies, and in some cases, energy companies. Public sector actors include governments, sovereign wealth funds and other state-owned companies. Increasingly, governments prefer to support investment by their home companies rather than investing directly into agricultural land in developing countries. This results partly from a strategy of risk reduction, including financial risks and risks to their reputation in the wake of negative media coverage. This support can take the form of public private partnerships whereby the government provides or guarantees loans and provides tax rebates, technical assistance or other means of support. A recent survey suggests that investments made by public-private partnerships accounted for some 600 000 hectares in 2012 (Anseeuw *et al.*, 2012). In terms of geographical origin, recently-published data from the Land Matrix indicate that investment originates from three groups of countries: emerging economies in East Asia and South America; Gulf countries; and countries from North America and Europe (Anseeuw *et al.*, 2012). International media have highlighted the role played by Middle Eastern and East Asian countries, in particular China. However, the World Bank finds that it is only in Sudan that Middle Eastern countries account for a majority of foreign investment in agriculture (Deininger and Beyerlee, 2011). As for China, Cotula and Polack (2012) suggest that it is a key investor in Southeast Asia but has a less important contribution to investment in agricultural land in Africa. There

is evidence that companies from Southeast Asia have been investing significantly in African agriculture. Southeast Asia has become both a destination for and a source of foreign agricultural investment. South America is in a similar situation.

Although North American and European investors have attracted less media attention, there is evidence that they account for a significant share of foreign investment in developing country agriculture. According to a survey done for the OECD (2010), most investment funds investing in farmland across the world are based in Europe and North America. Schoneveld (2011) argues that European firms account for 40 percent of all land acquired in Africa, while North American companies account for 13 percent. In particular, European and North American firms dominate investments for the production of biofuels in Africa.

6. IMPACTS OF LARGE-SCALE LAND ACQUISITION ON HOST COUNTRIES

As explained in section 3, estimates of the area acquired by foreign firms vary substantially across sources due to methodological differences. The more reliable cross-checked figures are not as high as what the media headlines suggest. Nevertheless, they do show that foreign investment in agricultural land has increased markedly over the past decade in developing countries.

Various studies suggest that investors are targeting countries with weak land tenure security, although they seek countries that, at the same time, offer relatively high levels of investor protection (Anseeuw *et al.*, 2011, Deininger and Byerlee 2011). The data from the Land Matrix reveal a tendency for investors to focus on the poorest countries, and those that are also less involved in world food exchanges. The targeted countries are among the poorest, are poorly integrated into the world economy, have a high incidence of hunger, and weak land institutions. Some 66 percent of the deals reported in the Land Matrix were in countries with high prevalence of hunger.

The implications for food security are even more significant when one considers the type of land that is being acquired. In most cases these are good quality, fertile lands with irrigation. Investors have a tendency to target land with high yield gaps, good accessibility and considerable population densities. Spatial analysis of land deals reveal that they tend to target cropland where the yield gap is relatively large, and where additional inputs (water, fertilizers, seeds, infrastructure and know-how) may create greater yields. For example, land acquisitions in Mali and Senegal are heavily concentrated in the irrigable areas of the Ségou Region and the Senegal River valley, respectively (Cotula and Polack 2012). Accessibility is another criterion for choice of target area: the majority of deals may be less than three hours away from the next city. The lands targeted by investors are located near roads and markets. More than 60 percent of all land deals target areas with population densities of more than 25 persons per km² (Anseeuw *et al.*, 2012). Approximately 45 percent of the land deals included in the Land Matrix database concern cropland or crop-vegetation mosaics. Intensive competition for cropland with local communities is therefore likely. Even where national indicators may suggest large reserves of suitable land, transactions are often found within cultivated areas and farmland. This finding questions the assumption that investments are mostly focused on non-utilized land and serve to bring it into production. It has important implications for food security, especially if the crop is destined for exportation. As a majority of foreign investment projects aim at export markets or the production of biofuels, they may pose a threat to food security in low-income food-deficit countries, especially if

they replace food crops that were destined for the local market. The net effect on food security will also depend on the additional income generated by the project, its sustainability and how it is distributed in the local economy.

Large-scale acquisition of agricultural land can have other adverse impacts, especially in countries where there is a lack of good governance, rule of law, transparency and clear land tenure rights. These negative effects include the displacement of smallholder farmers, the loss of grazing land for pastoralists, the loss of incomes and livelihoods for rural people, the depletion of productive resources, and in general, negative impacts on local livelihoods due to reduced access to resources, which may lead to social fragmentation. There is also evidence of adverse environmental impacts, in particular the degradation of natural resources such as land, water, forests and biodiversity. The case studies show that when such impacts arise they generate opposition to the project by local people, which at times translate in occupation of part of the land or hostile action such as damage to the company's property. Opposition can force the investor to engage in costly and time-consuming litigation and lawsuits; it increases transaction costs and reduces the return to the investment. The negative effects are likely to be worse when the company only utilizes a small share of the land it has acquired in areas where land is high in demand.

While a number of studies document the negative impacts of large-scale land acquisition in developing countries, there is much less evidence of its benefits to the host country, especially in the short term and at local level. The main type of benefits appears to be the generation of employment, but there are questions as to the sustainability of the created jobs. In several projects the number of jobs has decreased over time and, in any case, was lower than what was initially announced by the investor. There is also the issue of the quality of the created employment and who benefits, as managerial positions tend to be occupied by expatriates or persons originating from other areas than that where the project is located.



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In some projects, even low-skilled worker jobs were mainly taken up by non-locals. Another expected advantage of FDI in developing countries is the transfer of technology. In the case of large-scale land acquisition the evidence is mixed. There is obviously a time dimension in the assessment of this effect as for other outcomes of investment. It may be that the investment was too recent for the transfer of technology to have occurred or to be observed.

In conclusion, the studies suggest that for investment involving large-scale land acquisitions in countries where land rights are unclear and insecure the disadvantages often outweigh the few benefits to the local community, especially in the short run. This outcome is even more likely when the acquired land was previously utilized by local people whether in a formal or informal manner. Consequently, acquisition of already-utilized land to establish new large farms should be avoided and other forms of investment should be considered. Even from the investor's perspective, business models that do not involve the transfer of land control are likely to be more profitable.

When customary land rights are secure and legally recognized, the risks of adverse effects (land dispossession, forced displacement with no or inadequate compensation, social conflicts) are minimized and there are incentives for investors to negotiate properly and ensure that local communities actually benefit from the investment, with or without land acquisition. In this sense, good governance of land tenure and securing the rights of customary landholders as well as those of investors, is an important condition to ensure shared benefits, namely income and livelihood improvements for local communities and a positive and stable social setting (with limited risks of conflicts) for the investors.

7. THE DEVELOPMENT POTENTIAL OF INCLUSIVE BUSINESS MODELS

In view of the risks associated with large-scale acquisition of land and a number of prominent project failures, there have been calls for the promotion of alternative business models that would involve the local community more actively. Development experts have argued that investment models that involve smallholders as equal business partners in production and other related activities have the potential to minimize the risks and maximize the benefits of agricultural investment. The studies lend support to this view. They suggest that investment projects which give local farmers an active role and leave them in control of their land tend to have positive effects on local economic and social development. Successful projects combine the strengths of the investor (capital, technology and expertise in management and marketing) with those of local farmers (labour, land, traditional know-how and knowledge of the local conditions). This combination can provide the basis for win-win outcomes. Business models that leave farmers in control of their land give them incentive to invest in the improvement of the land. Since the bulk of agricultural investment comes from farmers themselves, these models are more likely to raise the level of agricultural investment in developing countries. Also, inclusive business models empower farmers by giving them a say in the implementation of the project or even its management. In some cases, farmers are shareholders and therefore they are joint owners of the business. These characteristics make inclusive business models more conducive to sustainable development than land acquisition.

However, their benefits do not arise immediately. The time factor is essential. By their nature inclusive models involve more stakeholders, hence building consensus on the project requires time and decision-making is slower. Transaction costs are high, especially in the initial phase. They should be viewed as a necessary investment that will enable higher returns in the longer term. However, most

companies need relatively rapid returns to their investment and their time frame is not compatible with that of local economic development. There is a need for ‘patient capital’ provided by investors with a longer time horizon initially to ensure that the expected benefits materialize. Such investors are usually from the public sector (e.g. governments, development banks and sovereign-wealth funds) or the non-profit sector, but some private companies such as “impact investors” and “social investors” also have longer time frames and their number is increasing.

The high transaction costs inherent in inclusive models and their heterogeneous nature makes them very fragile in the beginning. There is a high risk that faced with high initial costs, slow progress and the absence of tangible benefits in the starting phase, both the investor and local players might become discouraged and abandon the project. This situation increases the possibility of misunderstanding, suspicion and distrust. Consequently, inclusive investment models require substantial support from an independent and competent third party which can play the role of honest broker and facilitate collaboration between the investor and the local community. The projects surveyed in this book received substantial support from a variety of institutions such as governmental agencies, foreign development agencies, NGOs and multilateral banks.

Support is also needed to strengthen the capacity of local farmer organizations so that they can become a more solid business partner for the foreign investor. The support organization can help them raise their bargaining power to create a more level playing field. Training the leaders of farmer groups will help them represent better their members in the negotiations, communicate more effectively with them, adopt effective management practices and promote democratic decision making in their organization.

There is a broad variety of inclusive business models and the studies suggest that none of them can be presented as the ideal solution to agricultural development in all contexts. There is no one-size-fits-all. Different situations will require different models. Local economic and social factors including the level of organization of the community, the strength of local institutions, the technical level of farmers and the effectiveness of their organizations will condition the type of model which is most likely to succeed. In cases where farmers are unable or reluctant to create an organization, contract farming may be the most appropriate model. Conversely, in communities where there is a strong tradition of collaboration and effective farmer organizations, an outgrower scheme giving farmers a share of the capital, or possibly a joint-venture between the investing company and a farmer cooperative, may be the most appropriate option. Other factors that condition the success of business models include the national legal and institutional framework, the specific terms and conditions of the investment contract and the experience, skills and motivations of the investor.



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Obviously there is a tradeoff between benefits and risks for local farmers. The higher their participation in the venture and their share of its benefits, the more risks they bear in case of failure. Therefore, their level of involvement in the business should be commensurate to the strength of their organization. Weak farmer organizations should avoid being directly exposed to responsibilities and risks that they do not have the capability to manage. Nevertheless, risk reduction strategies and tools (e.g. crop insurance) can be devised. External assistance can help farmer organizations develop such mechanisms. It can also take on the responsibility for some of the risks in the initial phase of the project and gradually transfer the responsibility back to the farmer organization as it becomes stronger.

8. FACTORS DETERMINING THE IMPACTS OF FDI ON HOST COUNTRIES

The previous section has shed light on the role of the business model in determining the impacts of the investment on host countries. Yet, while it is an essential factor, the studies suggest that it is not sufficient *per se* to ensure positive outcomes. Other factors have a strong influence on the impacts of agricultural FDI on the local community, its economic development and the wider economy of the host country. These factors are discussed below.

8.1 Good governance

The existence of a good governance system in the host country appears to be a key determinant, if not the most important one. The quality and adequacy of laws and regulations, their effective enforcement and the existence of grievance and redress mechanisms are extremely important factors. The land tenure system, laws and regulations and clear property rights should create conditions that ensure secure access to land for investors and local people. Also essential is the existence of adequate regulations on investment, agriculture, water, the use of natural resources and other sectors related to agricultural production and their effective implementation. Good governance, the rule of law, accountability, transparency, peace, stability, the absence of corruption and participation are conducive to more sustainable investment projects. Conversely, investment projects that fail or have negative impacts on the local community and the environment are generally the result of governance failures. The existence of effective national institutions that have the capacity to effectively review investment proposals, improve their design, involve local stakeholders and enforce regulations is essential. The capacity of the host government to monitor and enforce investment contracts is an important factor, including the capability of local governmental institutions to intervene to correct failures and develop mechanisms for mediation and conflict resolution.

8.2 Local context

The social and economic conditions in the area where the investment is made are important determinants. The presence of adequate infrastructure and an educated workforce increases the rate of success. Communities that have a good level of organization, solidarity, collaboration and where members participate actively in decision making and have a relatively high level of education and technical knowledge are likely to negotiate better deals. As a result, the agreement will be more balanced, the likelihood of opposition lower and the project will have a higher probability of success. In the local context, the capacity of civil society organizations (CSOs), in particular farmer organizations plays an important role. A well-functioning local group of farmers can be a strong asset for a foreign investor. It will complement the technology, capital

and management expertise of the investor with local assets (especially natural assets such as land and water), skills and knowledge. This may create a win-win partnership.

8.3 Involvement of local stakeholders

The active involvement of local civil society organizations in the project, in particular local farmer organizations is a critical factor. This point has been discussed in details in the above section on inclusive business models.

8.4 Formulation and negotiation process

The process through which the investment project is negotiated, designed and planned is essential. Processes that are transparent, inclusive, participatory, democratic and documented tend to lead to more successful and sustainable investment outcomes, even if these characteristics mean that delays will be likely at the initial stage.

8.5 Contents of investment contract

The terms and conditions of the investment contract will determine the relationship between the project partners, the sharing of responsibilities, decision making, benefits and risks. Investment contracts are often too general and vague. There is a need for well-specified and enforceable terms. In particular, the contract should specify the benefits that the investor will bring to the local community (e.g. number of jobs created, type of infrastructure built and training provided).

8.6 Profile of the investor

The profile of the investing company, its management and technical skills, its experience in the production of the crop and its priority objectives (e.g. speculation, long-term development, long time horizon for financial return) will have an important impact on the outcome of the investment. In one of the cases in Zambia, the investor's willingness to accept lower than average financial returns on its capital in the initial phase contributed to the success of the project. The ability of local project managers to maintain good communication with the local community and forge partnerships with its members is critical.

8.7 Support from third parties

The presence of impartial and effective external support from third parties is an important enabling factor, especially in the case of inclusive business models as detailed above. Good intentions are not sufficient; supporting organizations should have the relevant experience, skills and knowledge if they are to play an effective supportive role.

8.8 Type of production system and crops

The impacts on the local economy will also depend on the production system and crops selected by the investor. Production systems that rely on a large quantity of imported synthetic inputs and equipment are unlikely to create backward linkages with the local economy. Conversely, other systems make a large use of local inputs. This is the case of agro-ecological farming and organic agriculture. The type of crops selected by the project is also important. Crops such as coffee, fruits and vegetables are more conducive to the involvement of smallholder farmers than industrial crops.

9. CONCLUSIONS AND RECOMMENDATIONS

The studies suggest that investments that involve local farmers as equal business partners, giving them an active role and leaving them in control of their land, have the most positive effects on local economies and social development. These inclusive business models are often characterized by asymmetric relationships and high transaction costs. Consequently, external support for assisting farmers and facilitating the investor-farmers relationship will increase their chances of succeeding. They also require investors with a long-term horizon, as financial returns to investment are unlikely to materialize in the first years.

In the case of large-scale land acquisitions, the studies suggest that the disadvantages tend to outweigh the few benefits to the local community. In countries where local land rights are not clearly defined and governance is weak, large-scale land acquisition raises particularly high risks for the local community. These include reduced access to natural resources and the loss of livelihoods, which are likely to generate local opposition to the investment. Even from the perspective of the investor, land acquisition is unlikely to be the most profitable business model due to the high potential for conflict and damage to reputation.

Other factors than the business model are also significant. They include the terms and conditions of the investment contract, the social and economic conditions in the investment area, the capacity of local and national institutions, the negotiation process, the legal framework and how issues of land access and existing land rights are addressed by investors.

Based on the research findings, the following recommendations are offered.

9.1 Further research on the impacts of agricultural investment

Although the case studies provide useful insights, further research is needed to be able to draw more systematic conclusions. The use of case studies has inherent limitations and cannot fully capture the wide variety of situations. Some observed changes may be due to other factors than the considered investment. Another reason is the issue of time frame. Most studies analyse recent investments, while the full effects may materialize many years after the investment has taken place. Over the long run, the outcomes of a project may change drastically. Finally, it is difficult to compare the results due to the differences in local contexts. Several research institutes and development agencies have conducted case studies on the impacts of FDI so far. However, comparing their results and drawing general conclusions is uneasy, as the studies use different analytical frameworks. There is a need for normalizing the approaches of the various research activities on the impacts of agricultural investment.

It is recommended that researchers develop a common analytical framework that would be applied to all studies. They could develop a typology using the business model as the entry point, building on the available results of studies. The development of a common system could build on the Investment Development Indicators Framework, an analytical framework developed by UNCTAD for assessing the development impacts of investment. The Framework encompasses input-output analysis (backward and forward linkages) and a range of impact indicators in categories such as employment, economic value added and sustainable development. This instrument might be complemented as appropriate (e.g. at the level of the farm and/or of the local area) by the World Agricultural Watch's analytical tool. FAO and CIRAD collaborate on the establishment of the World Agricultural Watch to monitor structural changes at the farm/local area level and assess their effects on the three dimensions of sustainable development. More meta-analysis is necessary. The approach should consider the counterfactual. The

common analytical tool should consider different geographical scales and time frames to capture the full effects of investment over space and time. It should examine the structural changes induced by the investment project over the short, medium and long term, at both macro- and microeconomic levels.

The case studies have not found sufficient evidence on the impacts on food security, although this is a fundamental issue in the current debates on resource-seeking foreign investment in agriculture. The lack of conclusive findings is probably linked to the fact that most of the surveyed investments were made recently, hence it was too early to evaluate their effects on food security. More gender-disaggregated analysis is also necessary to assess the differential effects of investment models on men and women.

The research has identified a large number of factors that determine the impacts of investment. These factors need to be clustered in broader categories, and their respective importance in different contexts should be assessed. The financial returns of large-scale agricultural investments are seldom known. Future studies could consider analysing the financial returns of agribusiness in developing regions, especially Sub-Saharan Africa. They could include the cost of developing a large-scale farming operation. Comparative analyses of the performance of agribusinesses and firms in other sectors could also be undertaken.

The main topic of the studies was foreign agricultural investment. However, it is difficult to dissociate foreign and domestic investment, as they are often intertwined and complementary. The analysis should be broadened to all forms and source of agricultural investment, including domestic investment, which is far greater than foreign investment. In the international debate on “land grabbing”, concerns have focused on the role of foreign investors. This can be easily explained by the implications in terms of sovereignty, national food security and other politically-sensitive issues. Yet, in most developing countries large domestic investors acquire more land than foreign ones and there is no evidence that these acquisitions are more respectful of the rights and interests of local communities. The research and debate on large-scale land acquisition should therefore include domestic investors more systematically and give them similar attention to foreign ones.

More importantly, investments by farmers account for the bulk of agricultural investment and play an essential role in ensuring food security in developing countries. Small-scale farmers and their families are both a fundamental source of agricultural investment and the possible victims of food insecurity. Investment by small-scale and family farms should be the focus of the research on increasing agricultural investment in low-income food deficit countries.

9.2 Improving national policies relevant for agricultural investment

In order to take advantage of the opportunities offered by FDI while minimizing its risks, developing-country governments should ensure that the policies, laws and regulations governing land tenure and agricultural investment are consistent and mutually supportive in order to avoid loopholes and contradictions. There is a need for a coherent and comprehensive policy on agricultural investment, bringing together scattered provisions from different policies and laws. National land tenure systems must be clear and accountable. Governments should follow the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the context of National Food Security. The duration of land leases could be suited to the economics of investment projects, taking into account the area where the project is located, the size of the land to be leased, the business model and the economic activity. Governments could consider establishing a maximum area for land acquisitions. They should proactively protect the rights of the poor by ensuring that investors do not hold on to land they do not

utilize for many years. Mechanisms should be put in place to allocate to investors only the land area that they can utilize within a reasonable span of time, and to withdraw land from investors who do not comply with agreed development plans.

Land allocation contracts could be published to ensure transparency and public scrutiny of the fairness of the deal. Coordination with related sectors (such as water management) should be enhanced so that the national political and institutional framework is conducive to sustainable agricultural development.

Furthermore, measures are needed to strengthen the institutional capacity to monitor and enforce existing laws and regulations. It is necessary to strengthen the mechanisms to promote accountability in decision making related to land allocation. Land allocations should be subject to the free, prior and informed consent of local landholders. This would require going beyond generic consultation requirements already included in laws regulating impact assessment studies. Precise requirements and criteria should be set for meaningful environmental and social impact assessments. Impact assessment should be conducted with wide participation from concerned stakeholders. The reports of the assessments should be scrutinized by competent institutions where local people could have access. Investment contracts with companies should clearly specify that any land acquisition requires the consent of local landholders. More generally, improving governance, transparency, accountability and the rule of law in all sectors will increase the positive impacts of FDI at both local and national levels.

In addition to ensuring an enabling environment, governments should take active steps to enhance the participation of local landholders and farmers in the design and implementation of the investment projects. Economically-sound projects that give local actors an active role and a say in decision-making should be favoured. Their financial participation through the distribution of shares in the business can be considered in order to promote better sharing of the project's benefits. The shares could be jointly held in a collective trust to promote collaboration among local actors. Higher participation by local actors means higher benefits for them in case of success but also higher risks. Mechanisms should therefore be devised to reduce the risks, especially in the early stage of the project. Host governments could provide investors with incentives to involve local people, for example through discounts on the rent or taxes. Government authorities should monitor and enforce the implementation of the contract by the investor. They should provide independent and effective mechanisms for channelling grievance and resolving dispute. They should support the development of organizations that genuinely represent local stakeholders, in particular farmer organizations, and strengthen their capacity. More generally, governments should utilize the international guidance instruments indicated above.

Further, investments in rural infrastructure should be a priority. Governments should also invest more in the provision of education to rural communities, including vocational training and technical extension. Finally, although this is outside the scope of this publication, it is important for governments to keep in mind that FDI only accounts for a small share of total agricultural investment and that national policies should give more emphasis to increasing domestic investment, in particular by farmers, as they account for the bulk of investment in agriculture.

9.3 Strengthening capacity in developing countries

The studies suggest that good governance at both national and local levels is one of the most important conditions, if not the first one, for positive impacts of foreign investment on local development. The organizations that provide assistance to governments, farmer organizations and other stakeholders in developing countries should support efforts to strengthen the governance systems at national and local

levels. Before designing support programmes they should analyse the needs of governments and local civil society organizations in terms of capacity building, policy advice and technical support. They should provide developing country governments with guidance, including practical assistance in analysing investment proposals and making informed decisions. To this end, they could set up a specialized technical assistance facility and training programmes for government officials. The facility could train local consultants who could then act as local resources. They could help governments formulate policies that orient FDI in directions that enhance smallholder family farm investments and livelihoods and national food security. They could support consultations between governments and major actors, in particular small-scale producers, for developing such policies. The capacity of government agencies to negotiate contracts with investors should be strengthened.

In addition, it is essential to strengthen the capacity of local communities, farmer groups and other civil society organizations to analyse and negotiate projects with investors and governments. There is often an asymmetry of information and power. A more level playing field must be created. Local communities must be informed of their rights. Legal assistance should be provided when an investment project is being considered. There is a need for training, capacity building, technical advice and assistance at all levels.

Development organizations should support inclusive negotiation processes at various levels, especially in the negotiations between the government and the investor, between the government and the local community, between the investor and the local community, and between the different stakeholders within the local community. They should assist developing country governments in formulating agricultural development strategies that focus on investment that nurtures sustainable food security and supports family farming. This formulation work should be done in collaboration with farmer groups and other organization genuinely representing the various interest groups of civil society.

Support programmes should identify schemes that reconcile the development objectives of host countries and local communities with the commercial objectives of investors. Strategically targeted development aid can play an important role in promoting commercially viable and socially inclusive models of agricultural investment. It is possible to bridge the gap by providing investors with incentives to design and implement projects that yield sustainable benefits to the local community as a whole.

Development organizations should raise the awareness of key investors (e.g. industry leaders and business champions) on the importance of a responsible approach to agricultural investment to their own business interests. Engaging them in the development and implementation of guidance tools such as principles for responsible agricultural investment is likely to promote adoption and a sense of ownership. They could become the best advocates of a responsible investment approach *vis-à-vis* other companies. This would accelerate the pace of dissemination and buy-in of the guidance tools.

With the support of development organizations, governments should devise tools to reduce the risks of foreign agricultural investment for local farmer organizations. The risk management strategy should be adapted to the level of development of the local organization.

Support programmes should promote and support multi-stakeholder partnerships for sustainable development. The roles of the public and private sectors are complementary and cannot always be substituted for each other, although their respective roles may differ by location depending, among other factors, on the level of economic and institutional development of the country and the nature of the agricultural development challenges at hand. A successful strategy for agricultural investment must

be based on a partnership between governments, donors and farmers, in which each delivers in its area of responsibility.

9.4 Supporting the development of international guidance

As explained in the previous section, among the many factors that condition the impacts of foreign investment on the local economy, the domestic laws and institutions governing agricultural investment and land tenure are critical. However, they are often inadequate to ensure sustainable agricultural development, especially in terms of enforcement. Developing country governments and local institutions can obtain useful guidance from some of the international agreements that have been adopted in recent years. In particular, after three years of international consultations involving governments, civil-society organizations and companies, the Committee on World Food Security (CFS) adopted in May 2012 the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the context of National Food Security (VGGT). The VGGT serve as a reference and provide guidance to improve the governance of tenure of land, fisheries and forests with the overarching goal of achieving food security for all. Implementation guides relating to specific issues are being developed. One of them deals with agricultural investment. Another important internationally-agreed instrument is the FAO Voluntary Guidelines on the Right to Food.

In addition, the CFS has launched a consultation process for the development and broader ownership of principles for responsible agricultural investment in the context of food security and nutrition. It is expected that the principles resulting from the consultations will have international recognition and serve to guide agricultural investment. They will refer to and build on the VGGT. The consultations take into account various existing instruments, including the voluntary principles for responsible agricultural investment that respect rights, livelihoods and resources (PRAI). The PRAI were jointly formulated by the Inter-agency Working Group on responsible agricultural investment (IAWG, composed of FAO, IFAD, UNCTAD and the World Bank) to serve as a possible reference framework for governments in the development of national policies, laws and regulations, or in the negotiation of international investment agreements and individual investment contracts. The PRAI are a set of very general principles that need to be translated into more operational guidance. To this end, the IAWG implements pilot projects with governments, investors and civil-society organizations in selected developing countries. The results of the projects feed into the CFS consultations.

9.5 Building partnerships with non-governmental organizations

Agricultural investment projects are more likely to benefit local economic and social development when local farmers and landholders play an active role from the design and planning phase. In order to be successful, inclusive business models require effective local organizations. Government agencies and investors should develop effective partnerships with these organizations. They should consult them and negotiate the detailed arrangements of the project with them, including the sharing of benefits, as discussed above. Further, local NGOs should actively engage in raising community awareness regarding civil rights and how to exercise those rights. They should advocate for better recognition of community rights by investing companies and local authorities.

Local NGOs should closely monitor potential conflicts between local communities and investing companies, keep records and inform the public. They can play the role of whistle-blower and draw the attention of the local and national authorities when a project is creating hardship to the local community or damaging natural resources. In order to represent the interests of their members effectively, these

organizations should establish procedures to ensure that they function in a democratic and effective manner. Their management should be transparent and accountable to all members. Organizations aiming to be the voice of the local community must ensure that groups that tend to be underrepresented such as women, the youth, landless farmers and migrant workers are given a say in the decision-making.

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