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Proceedings of the FAO Symposium on Poverty Reduction and Promotion of Agricultural Investment

10 March 2010, Tokyo, Japan

STUDY ON APPROPRIATE POLICY MEASURES TO INCREASE AGRICULTURAL INVESTMENTS FOR FOOD SECURITY

GCP/GLO/267/JPN

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Proceedings of the FAO Symposium on Poverty Reduction and Promotion of Agricultural Investment

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Food and Agriculture Organization of the United Nations

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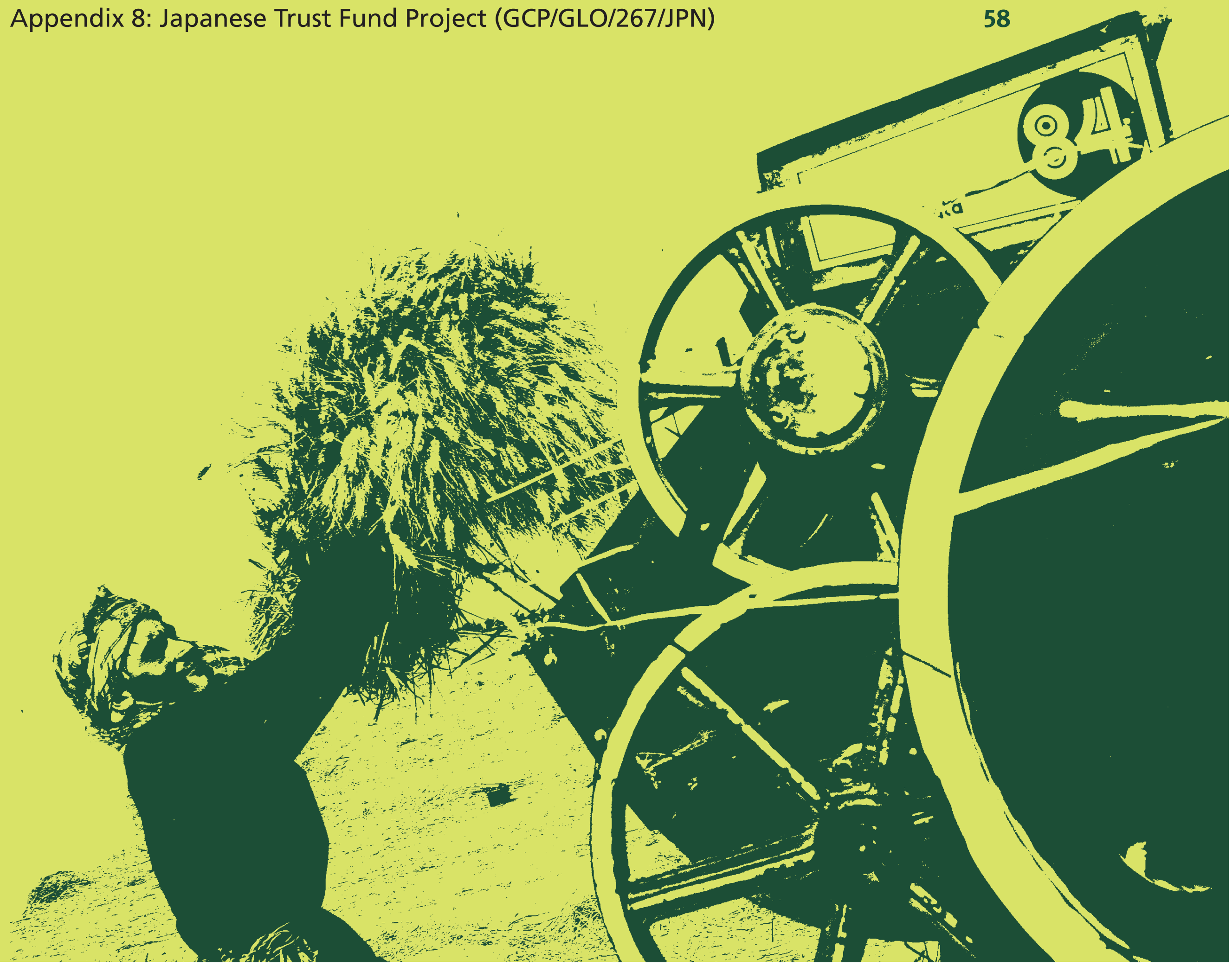


Preface

The Food and Agriculture Organization of the United Nations (FAO), with additional financial support from the Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF), has initiated the project, "*Support to study [on] appropriate policy measures to increase investments in agriculture and to stimulate food production*" (GCP/GLO/267/JPN). The aim of the project is to identify a policy framework for promoting, facilitating and supporting acceleration of investment by the public and private sectors to achieve domestic capital formation for stimulating sustainable food production. As one of the project's activities, FAO, in collaboration with MAFF, organized a Symposium on *Poverty Reduction and Promotion of Agricultural Investment*, in Tokyo on 10 March 2010.

The purpose of the Symposium was to engage the stakeholders, including the private sector, public sector and NGOs, in discussions about their contribution and roles in promoting investment and to find practical ways to mobilize investment in agriculture for increasing food production and reducing the number of undernourished populations in the world. Approximately 230 participants attended the Symposium. Speakers and panelists included senior policy makers from selected countries; experts from agribusiness and agro-industries and NGOs; representatives from MAFF; the Ministry of Foreign Affairs of Japan; FAO, the United Nations Conference on Trade and Development (UNCTAD); the World Bank and the African Union's New Partnership for Africa's Development Secretariat. Dr Supachai Panitchpakdi, Secretary-General, UNCTAD, was the keynote speaker for the Symposium.

The discussion focused on two themes: Private Sector Approach to Poverty Reduction; and Promotion of International Agricultural Investments. It highlighted the importance of enhancing agricultural investments to increase production and suggested various pragmatic approaches to induce different sectors and stakeholders to invest in agriculture. It also provided suggestions for the future direction of the project.

These Proceedings comprise the summary report, papers presented, presentations shown at the Symposium and other related materials.

Acknowledgements

We are pleased to acknowledge all the speakers, moderators and panelists of the Symposium for their involvement and contribution. The Symposium would not have been successful without their willingness to participate and invaluable contributions. We are particularly thankful to Dr Supachai Panitchpakdi, Secretary General, UNCTAD, for giving the key note speech, sharing his valuable experience and his inputs to the discussion. We would also like to thank all the public attendees for their participation and contribution to the discussions. Their interest in the issues discussed at the Symposium made it a worthwhile exercise.

We express our gratitude to the Ministry of Agriculture, Forestry and Fisheries of Japan, which co-organized the Symposium, for its assistance in developing the programme and organizing the Symposium.

The support of the FAO Liaison Office in Japan for arranging the venue, organizing the travel and accommodation for the participants and publicizing this event is gratefully acknowledged.

We are also grateful to Ms Sylvaine Thomas, Ms Elisabetta Robinson and Ms Ana Maria Galvan of FAO, for handling all the administrative and logistical arrangements during the lead-up to the Symposium and for helping with the publication process.

Summary Report[1]

1. OPENING

Mr Richard China, Director, Policy and Programme Development Support Division, Food and Agriculture Organization of the United Nations (FAO), opened the Symposium on behalf of FAO. He welcomed the invited speakers and panelists as well as the public audience and thanked the speakers and panelists for accepting the invitation to participate. He expressed special thanks to Mr Supachai Panitchpakdi, Secretary-General, United Nations Conference on Trade and Development (UNCTAD), for accepting the invitation to be the keynote speaker. He conveyed to the Ministry of Agriculture Forestry and Fisheries of Japan (MAFF) FAO's appreciation for the approval of the Project GCP/GLO/267/JPN and facilitation of the organization of the Symposium which he emphasized would contribute to increasing agricultural investment, enhancing food production and reducing food insecurity and poverty. He stressed the need to promote proper investment in agriculture and strengthen involvement of all stakeholders including the private sector and non-governmental organizations (NGOs).

Mr Akira Gunji, Senior Vice-Minister of Agriculture, Forestry and Fisheries, Japan, delivered welcome remarks on behalf of MAFF (Appendix 2). He stressed that it was vital for various types of agriculture matching different local farming conditions to co-exist as well as for each country to enhance its agriculture production capacity with a view to enhancing global food security. He further stated that, in order to increase agricultural investment and reduce poverty, it was necessary to facilitate dialogue involving all stakeholders to discuss their respective roles and that MAFF would continue to actively engage in such dialogue.

2. KEYNOTE SPEECH

Mr Supachai Panitchpakdi, Secretary-General, UNCTAD, gave a keynote speech (Appendix 3). In his speech, he emphasized that given the ongoing food security crisis and the urgent need for increased investment in agriculture in developing countries, the involvement of transnational corporations (TNCs) was inevitable and the real question for most developing countries was not whether to involve TNCs in agriculture and agribusiness value chains, but how to establish a framework and develop national capabilities to best harness their involvement so that the host country benefits. He further highlighted that TNCs could potentially offer a valuable source of external finance as well as access to technology and expertise that contributed not only to food security but also to the creation of productive capacities and economic development in general.

3. PANEL DISCUSSION

There were two themes for discussion at this symposium. The first was how to promote engagement of non-public sectors such as the private sector and NGOs with poverty reduction (Session One). The second was how to promote desirable international investment in agriculture (Session Two).

1 This summary report is prepared under the responsibility of the Policy and Programme Development Support Division, FAO. It does not necessarily cover all points made during the Symposium, nor it is endorsed by its participants.

3.1 **Session One**: Private Sector Approach to Poverty Reduction

(Moderator: Mr Masaru Iwanaga, Director General, National Institute of Crop Science)

Mr Keith Wiebe, Deputy Director, Agricultural Development Economics Division, FAO, presented an issue paper (Appendix 4). He provided an overview of world poverty in which the number of undernourished populations recently increased dramatically to more than one billion and stated that agriculture was the key to poverty reduction. Regarding this, he noted that opportunities were not equal, which made it necessary to invest more in agriculture in developing countries so that many vulnerable small scale farmers could respond to market conditions and meet future demand. Furthermore, he emphasized that stronger collaboration between governments and the civil society would be essential for that purpose.

Subsequently, panelists provided comments on the first discussion point:

- **What is the potential of poverty reduction activities by the private sector?**

Mr Ryoichi Udagawa, Executive Managing Director, Tree of Life Co. Ltd., presented the company's schemes assisting farmers in producing shea butter in Ghana, coffee in Ethiopia and honey in Kenya. He emphasized that the key to success was to pursue value addition to products for business purposes, as well as for poverty reduction purposes.

Ms Michiko Ando, Table for Two International, presented their scheme of collecting a proportion of the meal fees in cafeterias at private companies, public organizations and others and donating it to developing countries. She mentioned that, responding to growing consumer demand for products contributing to social responsibility, private companies are expected to increase their engagement in poverty reduction activities as part of their marketing strategy.

Mr Josef Schmidhuber, Head, Global Perspective Studies Unit, FAO, commented on the importance of the Public Private Partnership (PPP) in order for developing countries to benefit from modern technologies and increase agricultural productivity. He stated that the public sector needs to understand liability, create a focal point for communication, understand IP issues and prepare exit strategies to proceed with PPP.

The panelists answered questions from the public audience.

Responding to a question regarding a long-term perspective on food demand and agricultural production, **Mr Wiebe** replied that in order to forecast a long term trend, they needed to reflect various factors such as foreseeable population increase in developing countries, consequent increase in food consumption and changes in agricultural structure.

To a question about factors outside agriculture that impact on food prices, **Mr Wiebe** responded that energy prices have close links with food prices and in this connection biofuel production is also said to have an influence. Other factors such as change in demand in developing countries, exchange rate fluctuations and export restrictions also have an impact on food prices.

To a question concerning the grassroots level assistance, including assistance from Japanese farmers to African farmers, **Mr Udagawa** responded that those who are capable of carrying out necessary tasks or providing supplies or equipment which match the level of recipients' needs should do so. **Ms Ando** replied that there were already activities at the grassroots level; for example, funding was provided to create farming gardens in schools in Africa and local farmers were invited to provide teaching on the cultivation of crops in school gardens.

Next, panelists provided comments on the second discussion point:

- **How can cooperation among the public sector, the private sector and NGOs be facilitated?**

Mr Martin Bwalya, Senior Specialist, Sustainable Land and Water Management, New Partnership for Africa's Development (NEPAD) secretariat of the African Union, commented that issues on food and nutrition are development issues and central to Africa; it is important to harness quality private investment in African agriculture. Public-Private-NGOs' collaboration is a must for wealth creation, poverty reduction and growth in Africa and it is necessary to combine the strengths of each sector in order to create greater economic value than when they are acting individually.

Mr Kamalesh Adhikari, Research Director, South Asia Watch on Trade, Economics and Environment (SAWTEE), reported on his experience of working on plant breeding and seed systems in Nepal, Bangladesh and India and stated that, in order to enhance the Public-Private-NGOs collaboration, each sector needs to understand the social and economic interests of the other sectors. He also said that such cooperation would be facilitated through collaborative research and development, addressing IP related issues and market development. He further emphasized the necessity of establishing a code of conduct to facilitate the partnership and policy reform for greater involvement of local people.

Mr Wiebe commented that it is important that the public sector fulfils its basic functions including ensuring security of property: such as intellectual property rights and natural resources, and building capacity. He also noted that the interests of different segments should be represented.

Following their presentations, the panelists answered questions from the public audience.

Responding to a question on budget allocation of African countries to the agriculture sector and its comparison to military budget, **Mr Bwalya** answered that in 2003, the heads of the African Union member countries committed themselves to allocating at least 10% of national budgetary resources to the agriculture sector. As compliance with this commitment is closely monitored, a great deal of pressure is on member countries to fulfil this commitment. As for budget allocation to the military, it is getting increasingly difficult to allocate more resources, because governments are required to be more accountable and transparent.

Responding to a question on equity between multinational enterprises and farmers, **Mr Bwalya** replied that multinational enterprises have to be more socially responsible and contribute to the social and economic agenda. **Mr Schmidhuber** said that in many cases farmers do not have enough legal and contractual knowledge compared to their private sector counterparts; therefore they need to ask for professional advice, form cooperatives or involve relevant NGOs.

Responding to a question on genetically modified foods, **Mr Schmidhuber** indicated that food insecurity could be eliminated even with the currently available technology. While there has been no health and environmental problems with the technology, a problem is its exclusivity to industry which limits access to the technology.

Answering a question on the protection of intellectual property rights for seeds, **Mr Adhikari** commented that because there is no effective legislation for this in Nepal, SAWTEE is trying to identify options to balance the protection of breeders' and farmers' rights regarding seeds; and they are working with the government and private companies.

At the end of session one, **Mr Iwanaga** summarized that problems on food and poverty are very complicated. While partnerships among the public, private and other sectors such as NGOs are necessary, successful examples are limited; and it is necessary to set up a framework where all stakeholders with different capabilities and interests can work together in order to enhance economic and social development and address local needs.

3.2 **Session Two:** For the Promotion of International Agricultural Investments

(Moderator: Mr Mikio Ikuma, Senior Editor, Yomiuri Shimbun)

Mr David Hallam, Deputy Director, Trade and Markets Division, FAO, presented an issue paper (Appendix 5). He provided an overview of international investment in agriculture encompassing background information, recent trends, characteristics and positive and negative impacts including concerns about recent large-scale farm land acquisition. He highlighted that international investment should bring development benefits to receiving countries in terms of technology transfer, employment creation, upstream and downstream linkages and so on. In this context FAO, together with UNCTAD, International Fund for Agricultural Development (IFAD) and the World Bank, is developing a code of conduct which highlights the need for transparency, sustainability, involvement of local stakeholders and recognition of their interests and highlights concerns for domestic food security and rural development.

Then, **Mr Chimimba David Phiri**, Chief, Policy Assistance Support Service, FAO, presented an issue paper (Appendix 6). He stressed that the experiences of developing countries with agricultural development strongly suggests that making a transition from stagnation to self-sustaining growth in agriculture - and subsequently the overall economy - requires a sustained increase in investment for domestic capital formation in agriculture. He also highlighted the importance of international investment: stating that one of the primary reasons for foreign assistance and international investment is to support the developing countries that are not in a position themselves to generate the savings needed for investing in capital formation for sustainable growth and development. He further stressed the need for appropriate domestic agricultural and rural development policies to enhance appropriate investment in agriculture.

Subsequently, each panelist made initial comments.

Mr **Martin Bwalya** commented that investments to Africa return high profits; agricultural investment has the highest potential to benefit the poorest; and in order to make agriculture the best investment destination in Africa it is necessary to trigger the demand side through investment in basic infrastructure, services and off-farm facilities such as storage and processing as well as supporting regional and local trade and to improve complementarity among the private and public investment and ODA.

Mr **Abdullah Al-Obaid**, Vice-Minister of Agriculture, Kingdom of Saudi Arabia, related the experience of his country that there was limited domestic agricultural production due to water availability constraints. Saudi Arabia depends on imports for its food supply and with the growing concern about food security after the food crisis in 2008, the King Abdullah's Initiative for Agricultural Investment Abroad started to secure food supply and enhance international food security. When investment potential is assessed, factors such as political stability, transparency, investment attracting measures, resource availability and infrastructure availability are considered. Whereas the government is involved in concluding investment agreements or treaties with recipient country governments and in establishing a holding company which provides funding to investors, investors are mainly private companies.

Mr **Tomohiro Nakada**, President, GIALINKS Co., Ltd., commented that his business is aimed at ensuring food supply to Gifu prefecture and Japan in emergencies and supporting farmers in South America that have emigrated from Japan. As a private company it is necessary to make a profit.

Mr **Masataka Fujita**, Officer-In-Charge, Investment Trends and Issues Branch, UNCTAD, commented that investment in agriculture is a development challenge and it should be considered in the context of development.

Mr J**ohn Lamb**, Agribusiness Team Leader, Agriculture and Rural Development, the World Bank, expressed his gratitude to Japan for their support of the activities of the World Bank and stated that because responsible agro-investment is related to 50% of activities in the World Bank it is important that recommendations and guidelines for this are appropriate and supported broadly.

Mr **Kenji Hiramatsu**, Deputy Director-General, Economic Affairs Bureau, Ministry of Foreign Affairs of Japan, commented that the Japanese Government has been playing a leading role in promoting responsible agricultural investment. It has been addressing this issue from both the international point of view and promoting Japanese private sector investment; and it will continue to promote discussion on this issue in various international fora, including the Asia-Pacific Economic Cooperation (APEC).

Mr **Akihito Miyahara**, Deputy Director-General for International Affairs, MAFF, commented that in order to ensure stable food supply globally, it is necessary to increase food production by making full use of available resources in each country. In this sense the Japanese Government is making efforts to raise self-sufficiency in Japan and enhance foreign investment in agriculture. To address this issue, the Japanese Government established the Inter-Agency Meeting on Promotion of Foreign Direct Investment in Agriculture and this Meeting prepared Principles for promoting foreign direct investment in agriculture.

Next, panelists provided comments on the first discussion point:

- **What are the advantages and disadvantages of international investment in agriculture for investing countries and recipient countries?**

Mr Al-Obaid commented that advantages for investing countries include potential return to investors, enhancement of food security, low production costs and establishment of economic ties with recipient countries. At the same time, investors have to fulfil a social obligation to increase local food production. Disadvantages include political instability, problems arising from local communities, high infrastructure costs, changes in internal regulations and commitments, government corruption and lack of transparency.

Mr Nakada reported that in order to improve the food security of Gifu prefecture where the self-sufficiency rate is 25%, he started contract farming with farmers in Argentina who emigrated from Japan. The collaboration between the small farmers and the small trading company is making a good contribution to food security although it is at small scale. He also presented his business of contract farming of soybean in Argentina whereby his company purchases the crop at a price higher than local prices and absorbs the higher costs by reducing distribution costs to justify this business economically.

Mr Miyahara said that when agricultural investment is considered, contribution to strengthening global food supply as well as food security in Japan must be taken into account. Investment has to create a win-win situation and with regard to this the Japanese Government established the Principles for promoting foreign direct investment in agriculture in 2009. In the interest of food security, support will be provided to investments to be made in countries which have production capacity and export capacity.

Mr Hiramatsu commented that if investment were to be conducted in line with the Japanese Principles, the recipients' concerns would be alleviated. He also mentioned that the Japanese Government would consider how to facilitate foreign investment and establish an environment where the private sector can make investment in a secure manner.

Then, panelists provided comments on the second discussion point:

- **What is necessary to promote responsible international investment in agriculture?**

Mr Fujita commented that international agricultural investment should be placed in the overall context of development and the following should be considered how to attract more foreign direct investment (FDI); how to enhance transnational corporations' (TNCs) involvement in agriculture and how to benefit more from them. To this end, recipient countries need to establish a policy to promote and facilitate investments and strengthen interactions between foreign investors and farmers. In addition, international guidelines on TNCs' involvement should be promoted.

Mr Lamb commented that as the World Development Report 2008 pointed out, agricultural investment needs to be increased; study results on the current situation of agricultural investment in 21 countries would be published at the World Bank/International Monetary Fund (IMF) assembly in April; and the Knowledge Exchange Platform, which provides a range of information, tools for promoting agricultural investment and a forum for exchanging views to all stakeholders, would also be available in April. Principles have been generated and will move to guidelines and codes of conduct. What is important is not only to generate but also to implement them by operationalizing and having them adopted by both investing and recipient countries.

Mr Roosevelt Gondwe, Ambassador of Malawi to Japan, provided comments in the place of Ms Brave R. Ndisale, Ambassador of Malawi to European Union, who was expected to participate in the Symposium as one of the panelists but could not do so.

Mr Gondwe reported that President Mutharika of Malawi, in his acceptance speech as Chairperson of the African Union in January 2010, proposed to embark on regional food security programmes to ensure food security for all in Africa by injecting financial resources in science, technology, capacity building and agricultural inputs. He then introduced the experience of Malawi, which allocates national budgetary resources to support small farmers, resulting in an approximate threefold increase in maize production. He highlighted that appropriate policy framework is required to enhance investments.

After the presentations, panelists responded to questions posed by the public audience.

Responding to a question regarding the Japanese Government's support to Africa, **Mr Hiramatsu** answered that at the Tokyo International Conference on African Development in 2008 the Japanese

Government committed to provide as much support as possible and it has since been implementing the commitment. He also said that in terms of agricultural development, it was very important to increase investment and the Japanese Government intended to promote investment, not suppress it. Investment has to benefit recipients and local community and environment issues have to be considered. For this reason, the Japanese Government is formulating the Principles in collaboration with partner governments and organizations.

To a question expressing concern that purchasing crops at a higher price would result in higher food prices, **Mr Nakada** replied that the farmers in Argentina who emigrated from Japan used only to be able to survive but not pay back their debt with a lower crop price; his company can offer a higher price because in addition to the reduction of distribution costs they found buyers who accepted a higher crop price as they discovered the better taste of deep-fried tofu can be produced at a lower cost with their soybean.

To a question on prospects of global poverty reduction, **Mr Lamb** responded that it is possible to reduce poverty, if not eliminate it, with sufficiently unified actions as well as collaboration with the private sector. Mr Phiri commented that eliminating absolute poverty is achievable if there is political will and commitment, although it is not possible to eliminate relative poverty.

To a question on whether investments from Saudi Arabia are made by private or public sector, **Mr Al-Obaid** replied that all international investments from Saudi Arabia are made by the private sector and the government provides support such as credit, logistics and investment agreement.

Responding to a question on how the international community should respond to so-called "land grabbing", **Mr Hallam** answered that many concerns have been raised on land grabbing including disrespect for the rights of local people and lack of consultation. The Principles for Responsible Agricultural Investment, developed by FAO and other partners, are addressing these concerns. However, large scale land acquisition is only one form of investment. There are other forms of investments such as contract farming and outgrower schemes which seem to be more beneficial to and more easily assimilated by local communities. FAO is undertaking studies to identify what kinds of models are more promising in delivering what investors want and in fulfilling food security and poverty reduction needs.

To a question on how Japan will proceed with international agricultural investment, **Mr Hiramatsu** responded that the Japanese Government is making efforts to promote agricultural investment through the private sector. It established the Public Private Partnership model where the government provides the private sector with support, ranging from production to transportation and exportation, such as investment environment improvement, ODA and provision of information. In this regard, investments have to benefit recipients in the medium and long term and create a win-win situation. For this purpose, the Japanese Government is working on establishing the Principles which should be accepted not only in Japan but also internationally.

At the end of session two, **Mr Miyahara** commented that the Japanese Government intends to create an environment conducive to responsible investment in agriculture from a long term perspective and expressed his gratitude to FAO for holding this timely event. In this regard, MAFF is making a budgetary contribution to FAO for a study of a framework to contribute to strengthening global food supply. The aim is to collect information to facilitate agricultural investment and establish databases as well as develop policy guidelines to be used by investors and recipients and by public and private sectors.

4. CLOSING

At the end of the Symposium, **Mr Masahiko Suneya**, Director, International Cooperation Division, MAFF, expressed his appreciation to all the speakers as well as the public attendees and stated that MAFF would make best use of the valuable information which was presented in the Symposium to deepen cooperation with all stakeholders domestically and internationally towards further progress in the agriculture sector.

Appendixes[1]

1 The papers contained in Appendix 2 to 7 have been reproduced as submitted by the participants, without editorial intervention by FAO.

APPENDIX 1: Symposium Programme

FAO International Symposium on Poverty Reduction and Promotion of Agricultural Investment

1300-1800 Wednesday 10 March 2010
Tsuru East, Hotel New Otani (Akasaka, Tokyo)

1. **Welcome Remark:**
   Mr Richard China (Director, Policy and Programme Development Support Division, FAO)

2. **Opening Remark:**
   Mr Akira Gunji (Senior Vice-Minister of Agriculture, Forestry and Fisheries, Japan)

3. **Keynote Address: World Food Security and Agricultural Investment**
   Dr Supachai Panitchpakdi (Secretary General, UNCTAD)

4. **Session 1: Private Sector Approach To Poverty Reduction**
   (Moderator)
   - Dr Masaru Iwanaga (Director General, National Crop Research Institute of Japan)

   (Panelists)
   - Mr Kamalesh Adhikari (Research Director, South Asia Watch on Trade, Economics and Environment)
   - Ms Michiko Ando (TABLE FOR TWO International)
   - Mr Martin Bwalya (Senior Specialist, Sustainable Land and Water Management, NEPAD)
   - Dr Josef Schmidhuber (Head, Global Perspective Studies Unit, FAO)
   - Mr Ryoichi Udagawa (Executive Managing Director, Tree of Life Co., Ltd.)
   - Dr Keith Wiebe (Deputy Director, Agricultural Development Economics Division, FAO)

5. **Session 2: For The Promotion of International Agricultural Investments**
   (Moderator)
   - Mr Mikio Ikuma (Senior Editor, The Yomiuri Shimbun)

   (Panelists)
   - H.E. Dr Abdullah Al-Obaid (Vice-Minister of Agriculture, Kingdom of Saudi Arabia)
   - Mr Martin Bwalya (Senior Specialist, Sustainable Land and Water Management, NEPAD)
   - Mr Masataka Fujita (Officer-In-Charge, Investment Trends and Issues Branch, UNCTAD)
   - Dr David Hallam (Deputy Director, Trade and Markets Division, FAO)
   - Mr Kenji Hiramatsu (Deputy Director-General, Economic Affairs Bureau, MOFA)
   - Mr John Lamb (Agribusiness Team Leader, Agriculture and Rural Development Department, World Bank)
   - Mr Akihito Miyahara (Deputy Director-General for International Affaires, MAFF)
   - Mr Tomohiro Nakada (President, GIALINKS Co., Ltd.)
   - Dr Chimimba David Phiri (Chief, Policy Assistance Support Service, FAO)

6. **Closing Remark:**
   Mr Masahiko Suneya (Director, International Cooperation Division, MAFF)

APPENDIX 2: Opening Remark

Akira Gunji, Senior Vice-Minister,
Ministry of Agriculture, Forestry and Fisheries

I would like to extend my heartfelt gratitude to each everyone of you for the large turnout to today's FAO's International Symposium on Poverty Reduction / Promotion of Agricultural Investment. It is my greatest pleasure to be able to deliver some opening remarks on behalf of the Ministry of Agriculture, Forestry and Fisheries (MAFF), which is one of the core organizers of today's symposium

First of all, I would like to express my heartfelt appreciation to Dr. Supachai Panitchpakdi Secretary General of UNCTAD, His Excellcy Dr. Abdullah Al Obaid, Vice Minister of Ministry of Agriculture, Kingdom of Saudi Arabia, moderators and panelists who have taken time out of their busy schedules to join us into today's symposium, and my thanks also go to the members of FAO who had made tremendous efforts in preparation for holding the symposium.

FAO has announced that the global population suffering from hunger has exceeded 1 billion in the Year 2009, and there is also a need to increase global food production by roughly 70% in order to feed the global population which is to reach 9.1 billion in the Year 2050.

The Ministry of Agriculture, Forestry and Fisheries has published Global Food Supply and Demand Outlook for the Year 2019 in February of this year.

It is expected that the economic growth of developing countries will remain high in the future years to come, and under this premise, we expect the demand for cereals to exceed due to population increase and enhancement of income levels, and therefore, in the medium and long terms we expect demand-supply of food to remain tight. The food price is projected to remain at a high level, compared to the levels prior to 2007, and will continue to increase.

At the G8 L'Aquila Summit in July of last year as well as the World Food Security Summit convened by FAO in November of last year, serious attention was paid to this situation, and it was agreed to expand agricultural investment, and also to increase the share of agriculture and food security in the overall ODA based on the requests of the developing countries.

In the future, it is expected that the demand of food in the world will increase and also levels of uncertainty in food production due to impacts on climate changes will increase. Therefore, I feel strongly coexistence of various types of agriculture matching local conditions is necessary for the sake of global food security. And I also feel that respective countries need to step up agricultural production capacity and also essentially resolve the food questions.

Agriculture is indeed the basic industry in a large number of developing countries.

According to the World Bank, GDP growth deriving from agriculture has at least twice as much effect in terms of poverty reduction, compared to GDP growth deriving from sectors other than agriculture. Therefore, we can see the growth of agricultural sector is indeed a driving force for reducing poverty.

Japan has been taking the initiatives in terms of assistance because Japan is the second largest donor country in the world in agricultural sector. In order to contribute to increasing global food production, we have been assisting research and development in developing countries, such as establishing rice production in Africa, organizing farmers, developing human resources, and also to develop agricultural rural infrastructure. Therefore, Japan has taken initiatives in providing assistance, improving agricultural productivity in developing countries.

In order to contribute to global food security, we are to promote overseas agricultural investment, and in April of last year, we have established the inter-agency meeting of promotion of foreign direct investment (FDI) in agriculture. In August, we came up the guideline to step up our effort to assist overseas agricultural investment.

So, in that context, based on concerns regarding competitions of agricultural lands, we have formulated principles to promote investment in which both investor sides and recipient sides are able to benefit. And along with international organizations, we are supporting formulation of principles for promoting responsible international investment in agriculture in order to enhance such investment.

As I have said so far, since global population suffering from hunger has exceeded 1 billion, an urgent solution is sought to agricultural and food questions.

Therefore, various stakeholders, including the public sector, the private sector and NGOs, need to hold a discussion on what each actor can do in order to contribute to reduction of hungry population as well as increasing agricultural investment. As a part of FAO's trust fund project funded by MAFF, we have decided to convene this symposium today.

Dr. Supachai is Secretary General of UNCTAD, who will be making a keynote speech afterwards. UNCTAD has published that direct investment in agriculture in 2007 was US$3 billion per year which was tripling the level from 1990. However, the proportion within the overall direct investment still remains to be low, and disappointment was made in the World Investment Report of last year. In his keynote speech, we look forward to hearing detailed explanation with regards to agricultural investment.

With regards to two subsequent panel discussions, I have high expectations that we will be able to hear from the experts of each area with regards to various suggestions.

The last but not at least, Japan will be hosting the first-ever APEC Ministerial Meeting on Food Security in October of this year in Niigata prefecture. In this conference, taking account of today's symposium outcome, we look forward to holding discussions on agriculture as well as food questions, aiming for establishment of food security in Asia and the Pacific regions.

I would like to conclude my opening remarks with my sincere prayer that today's symposium will be a fruitful one.

Thank you very much for your kind attention.

APPENDIX 3: Keynote Speech

Supachai Panitchpakdi,
Secretary-General of UNCTAD,
to the International Symposium on Investment in Agriculture

Tokyo, 10 March 2010

Excellencies,

Distinguished Delegates,

Ladies and Gentlemen,

Thank you for honouring me with the invitation to address this important gathering. I commend FAO and the Government of Japan, both of which have been at the forefront of international efforts to address the food crisis, for organizing this symposium.

As many of you may know, the United Nations Conference on Trade and Development (UNCTAD) is the sole UN agency mandated to help developing countries use investment for development. Every year we produce a major publication on world investment – the World Investment Report – which, in addition to presenting the key trends in FDI, each year focuses on a specific aspect of investment as it relates to development. The 2009 edition of this report is especially pertinent to your discussions, as it explored the topic of "transnational corporations, agricultural production and development", and I will draw heavily on its findings in my speech to you today.

This topic was originally chosen against the background of the food crisis, and concerns within UNCTAD and other agencies about agricultural productivity and its impact on food security and development. The subsequent financial and economic crises drew attention away from the food crisis, but it still remains a threat to the achievement of the MDGs and sends a warning of the dangers of low investment and poor policies in the agricultural sector. At this point it is appropriate to consider what caused the crisis and how understanding the causes can point the way to a solution.

The causes of the food crisis lie partially, of course, in the specific conditions of the 2008 price spike, which included climatic conditions, such as drought, and widespread speculation in commodity markets. But these are hardly the sole causes. UNCTAD has consistently drawn attention to the long-term causes of both the financial crisis and the food crisis. As has often been said – but bears frequently repeating – the food crisis reveals an underlying and persistent crisis of development in some countries' agricultural sectors. Addressing the long-term threat of food insecurity will require nothing short of a Green Revolution.

Using Africa as a case study, growth in the continent's agricultural sector overall has averaged 2-to-2.5% per annum since the late 1970s, with serious implications for its ability to feed itself: it is a well-known fact that having been a net food exporter until as recently as 1988, the continent is now a net food importer. The situation is compounded by price increases, which have meant that a growing proportion of export earnings are used to feed rapidly expanding populations. However, higher prices also provide opportunities and incentives for producers and for investment in agriculture, which I will come to later.

It is true that prices of basic food and agricultural products have dropped significantly since their peak in June 2008. However, world food prices are still almost 50% higher than what they were in the late 1990s and the earlier part of the 2000s, thus continuing to pose challenges for the most vulnerable. As pressures on land availability grow, countries will have to depend more on yield gains than on the expansion of cultivated land. Yet there is also the potential for rapid increases in yields if better access can be provided to fertilizers and technology – not necessarily sophisticated biotech solutions, such as genetically manipulated plant varieties, but new crop varieties, tractors, ploughs and irrigation systems. Additionally, the latitude and soil quality of some agricultural regions can potentially produce two or more harvests a year, using a crop rotation system.

As is now widely accepted, the relative neglect of the agricultural sector in many developing countries has led to disinvestment in supply capacities, such as extension services and infrastructure. In the past, market reforms, including Structural Adjustment Programmes, have also played a role in undermining agricultural productivity: SAPs encouraged the dismantling of extension services, marketing boards, special agricultural banks and caisses de stabilisation. The role of the State in agricultural development was significantly reduced. The result: private investment, both domestic and foreign, was diverted more into cash crops for export than into food production for local consumption.

In poorer economies where domestic investment in agriculture is limited, the potential for increased investment in agriculture relies on either ODA or the attraction of FDI. Yet, multilateral and bilateral ODA for agriculture declined dramatically between 1980 and 2002, by 85% and 39%, respectively. And while the greater emphasis now being placed on social and humanitarian aid is clearly justified, it has also resulted in less aid going to the productive sectors and to agriculture, with potentially disastrous consequences. We therefore welcome the $20 billion committed by the G8 for African agriculture at its L'Aquila meeting last year, especially in view of the uncertainty of ODA trends following the global economic crisis.

Regarding the attraction of FDI, UNCTAD research has shown that FDI in agriculture (including forestry and fisheries) and food processing (including tobacco) grew more slowly than in other industries from 1990 to 2006, in both flows and stocks. Thus the shares of these industries in total FDI inflows declined during this period by nearly half, and are now insignificant both in developed and developing host countries. The agricultural sector accounted for 0.2% of world FDI inward stock in 2006, while the food processing sector attracted less than 3%. Given the very healthy long-term prospects for the agricultural sector, these small proportions are quite surprising.

The World Investment Report 2009 therefore explores the role that FDI can play in helping developing countries fight hunger and develop their agricultural sectors to meet the needs of their people. UNCTAD's main message is that TNCs have the potential to play a more significant role in agricultural production in developing countries than they have done so far, but that care should be taken to avoid any negative impact of foreign investment. Under the right conditions, foreign investment can help boost productivity and support economic development and modernization, as I will explain.

Between 1990 and 2007, FDI flows into agricultural production tripled from $1 billion to $3 billion a year. There were three main factors driving this growth: first, populous and expanding emerging markets increased their food import needs; second, demand for biofuel products rose; and third, land and water shortages in some developing countries pushed them to seek food production opportunities in other countries.

As I have mentioned, although these flows are quite small in proportion to overall FDI flows, they represent a huge source of finance for many low-income countries where agriculture accounts for a relatively high share of FDI inflows. Examples include such countries as Cambodia, Ecuador and Tanzania. Moreover, FDI in the entire agricultural value chain – from the farm to the supermarket shelf – is much higher, with food and beverages alone accounting for more than $40 billion in annual flows between 2005 and 2007.

TNC participation in agriculture can have both positive and negative effects in developing countries. On the negative side, governments should be especially sensitive to environmental and social concerns associated with TNC involvement, such as the crowding-out of small farmers that might create job losses, land grab, dispossession of indigenous peoples and an overdependence on TNCs.

On the positive side, TNC involvement can result in the transfer of technology, standards and skills, along with jobs and market access – all of which can improve the productivity of the industry, including the farming of staple foods, and the economy as a whole. The contribution of TNCs to food security is not just about food supply: They can exploit potential economies of scale that can make food more affordable, and their higher level of conformity with food standards enhances food safety. All of these factors depend, however, on host countries adopting the right policies that will maximize benefits and minimize the costs of TNC participation.

Governments therefore need to formulate an integrated strategic policy and regulatory framework for TNC activities in agricultural production. The policy framework also needs to include other vital policy areas, such as infrastructure development, competition, R&D, trade and trade facilitation, both to attract investment and to ensure the maximum development benefits from it.

FDI, however, is only one mode through which foreign investors reach into developing countries: another is contract farming, whereby TNCs contract small farms to produce according to their needs and specifications. One of UNCTAD's key recommendations is that governments should seek to promote contract farming arrangements between TNCs and local farmers. Contract farming is a worldwide phenomenon, present in over 110 developing and transition economies and spanning a wide range of commodities, such as soya beans, cotton, sugar and tea. Nestlé, for example, contracts 600,000 farmers in more than 80 countries. In some cases, contract farming accounts for a high share of output: in Brazil, for example, 75% of poultry production is farmed under contract, while in Viet Nam, 90% of all cotton and milk production is done under contract.

Contract farming may also be politically less controversial than FDI. There is considerable further potential for contract farming involving TNCs, but local farmers need to be better prepared for this form of cooperation. We suggest that governments should actively promote contract farming between TNCs and local farmers to increase or upgrade the productive capacity of agriculture, and to enable farmers to benefit from global value chains. The World Investment Report recommends developing model contracts that local farmers can use when negotiating such arrangements with TNCs.

Another core issue is how to deal with the recent phenomenon of inward FDI in staple food production for the purpose of exporting food to the home country. Indeed, with the growing interest of some sovereign wealth funds in investing in other developing countries where land capacity is less of a constraint and the climate is conducive for growing food crops, concerns are being raised about land ownership. It is understandable that foreign acquisition of land generates serious political concern in some countries, and this sensitivity must be taken into consideration when advising countries on investment policies in agriculture.

That said, previously, a large quantity of FDI to the agriculture sector was directed to cash crops in order to generate export revenues. This new form of FDI has the potential of making a direct contribution to alleviating the food crisis in both home and host countries. Developing countries should therefore view such inward FDI as an opportunity, rather than a potential threat to their own food security.

In order to share the benefits of production, we suggest that home and host countries consider negotiating agreements to share the eventual agricultural output, called "output-sharing arrangements". In addition, it is important that the international community devise a set of core principles for large-scale land acquisitions in agriculture that deal in particular with transparency, respect for existing land rights, the right to food, protection of indigenous people, and social and environmental sustainability.

In this context we are pleased that UNCTAD, in cooperation with FAO, IFAD and the World Bank, is a leading player in the initiative on "Promoting Responsible International Investment in Agriculture", pioneered by the Government of Japan. We look forward to working with our counterparts on further consultations and, eventually, the development of international principles or guidelines to govern such investment.

A further tool for boosting productivity is public-private partnerships. One initiative in this regard is seed and technology centres that adapt seeds and related farming technologies to local needs and conditions, distribute them to local farmers, and build long-term indigenous capacities. Ultimately, such partnerships can facilitate the start of a green revolution in areas that have yet to benefit fully from seed and fertilizer technology.

Last but not least, let me underline that stronger involvement of TNCs in agricultural production also requires more effort from developed countries. One key problem has to do with tariff and non-tariff trade barriers in developed countries for agricultural exports from developing countries, as well as high agricultural subsidies in developed countries. A successful conclusion of the Doha Round that would reduce these barriers and subsidies could encourage FDI into poor countries.

In conclusion, let me say that the "real" question for most developing countries is not whether to involve TNCs in agriculture and agribusiness value chains, but how to establish a framework and develop national capabilities to best harness their involvement in agriculture. TNCs can potentially offer a valuable source of external finance as well as access to technology and expertise that contributes not only to food security but also to the creation of productive capacities and economic development in general.

APPENDIX 4: Issue Paper for Session One

International Symposium on Poverty Reduction and International Investment in Agriculture

Tokyo, 10 March 2010

Issue Paper for Session on "Toward Poverty Reduction"

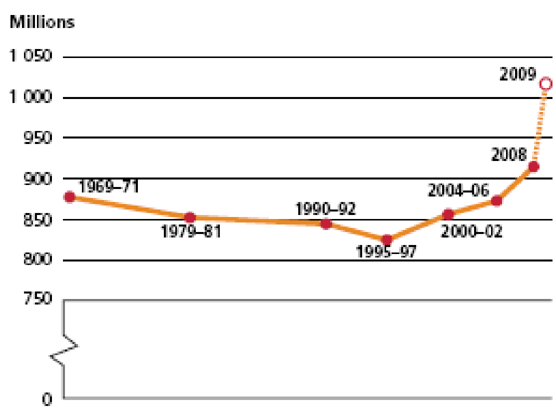
Prepared by Dr Keith Wiebe, FAO
with input from Dr Masaru Iwanaga, NARO

24 February 2010

Introduction and overview

The Food and Agriculture Organization of the United Nations (FAO) estimates that more than one billion people were chronically undernourished in 2009, representing around one sixth of the world's population. This number is estimated to have increased by about 150 million in the past several years as a result of two crises that were quite different in their nature and origins, but which have had similar impacts on food security. The first was the "food price crisis" that peaked in mid-2008, and the second was the global financial and economic crisis that began immediately thereafter. Both sharply reduced access to food, particularly for the poorest. As a result, earlier progress in reducing hunger—towards both the 1996 World Food Summit goal (reducing the *number* of hungry people in the world) and Millennium Development Goal #1 (reducing the *proportion* of hungry people in the world)—has been reversed.

The number of undernourished people in the world



Source: FAO (2009), State of Food Insecurity in the World

In the same period, the proportion of Official Development Assistance (ODA) that was devoted to agriculture declined substantially. In 2007, after adjusting for inflation, the level of ODA was 37 percent lower than in 1988.

While the recent crises and their impacts have focused public and private attention on food and agriculture after decades of neglect, that attention must look beyond these crises if hunger is to be reduced and eventually eliminated.

Looking to the future, a variety of factors affecting both demand and supply of food and other agricultural commodities will increase the challenge of feeding the world. Growth in population, income and urbanization will increase the total demand for food and change the composition of diets. Growth in demand will place increasing pressure on land, water and other natural resources. Agriculture will also be linked ever more closely with the energy sector, both as a consumer and (increasingly) as a producer of fuel. Climate change will complicate the task of increasing agricultural production—improving growing conditions in some areas, making them worse in many others, but changing them virtually everywhere in ways that are still uncertain.

Most experts agree that the world has sufficient potential to meet these demands—if appropriate investments are made and appropriate policies are introduced. FAO estimates that the investment in agriculture in developing countries will need to increase by about 50% to meet projected food demand in 2050. Increased investment is needed in primary agricultural production as well as downstream services such as storage and processing facilities, most of which will be funded from private sources (including farmers). Increased investment is also needed in essential public services and infrastructure such as agricultural research and development, transportation, communication, irrigation, rural electrification, and management of natural resources.

Perhaps the biggest challenge to reducing hunger is not meeting the demands of those with sufficient incomes to buy food, whether today or in 2050, but in meeting the needs of those who lack the income to buy enough food or the resources to produce it. This challenge is illustrated by two key facts. First, the recent increase in the number of hungry people occurred even as farmers responded to higher food prices with record global cereal production in 2008. And second, even before the recent food price and economic crises, over 800 million people were undernourished—a number that has remained stubbornly and unacceptably high for the past half century, and will remain unacceptably high over the next half century unless the poor are enabled to participate in broad-based economic growth.

What can be done?

In the short term, safety nets and social protection programmes must be created or improved to reach those most in need, including targeted nutrition programmes. Simultaneously, small-scale farmers need improved access to markets and indispensable means of production and technologies—such as high-quality seeds, fertilizers, feed and farming tools and equipments—that will allow them to boost their production and income levels. This should also lower food prices for poor consumers, both rural and urban.

In the medium and longer terms, solving the problem of hunger requires increased public and private investment in agriculture, particularly in low-income food deficit countries. This is important both as a means of increasing food production and, equally, as an engine of economic growth, since most of the world's poor depend at least in part on agriculture for their livelihoods. These countries must be assisted with the necessary technical and financial solutions and policy tools to enhance their agricultural sectors in terms of productivity and resilience in the face of crises, with special efforts to maintain soil fertility, water resources, genetic diversity and other components of the natural resource base. Stable and effective policies, regulatory and institutional mechanisms, and functional market infrastructure that promote investment in the agricultural sector are paramount. Investments in food and agricultural science and technology need to be stepped up. Improved institutions and governance at local, national and international levels are also essential.

While investment and policy improvements in agriculture are necessary to eliminate hunger, they will not be sufficient. Even though most of the world's poor live in rural areas and depend in part on agriculture for their livelihoods, many already earn significant shares of their income from non-agricultural sectors, and that process of transition will continue in the future. For the world's poor, access to food will increasingly depend—as it already does for the vast majority of world's rich—on incomes earned outside agriculture.

In sum, the recent food price and economic crises have reversed earlier progress in reducing hunger, raising the number of undernourised from 848 million before the crises began to 1.02 billion in 2009. Demands on agriculture will only increase in the coming decades, and supply will face new challenges. But most experts agree that the world has the resources and technological potential to produce enough food, if appropriate investments are made and policies put in place. The biggest challenge to reducing hunger will be to improve access to food by the poorest. Now, while public and private attention to agriculture and food security are high, it is essential to maintain and focus that attention on increased investment in agriculture, protection of vulnerable groups, and improved governance of food security at national and global scales. Enhanced partnership and stronger collaboration among governments, regional and international organizations, food producers' organizations and other private-sector organizations, NGOs, CSOs, philanthropic organizations and other relevant stakeholders will be essential. Only a healthy agricultural sector, combined with a growing non-farm economy and effective safety nets and social-protection programmes, will sustainably eradicate poverty and food insecurity, in line with the Millennium Development Goals and those of the 1996 World Food Summit.

APPENDIX 5: Issue Paper for Session Two (1)

Issue Paper on

Foreign Direct Investment in Developing Country Agriculture Issues, Policy Implications and International Response

International symposium on poverty reduction and international investment in agriculture

10 March 2010, Tokyo, Japan

David Hallam, FAO

The recent high international food prices and policy-induced supply shocks led some countries, especially those facing land and water constraints and hence dependent on imports, to seek to secure their future supplies of food and other agricultural products through investment and production abroad. These investments, particularly in developing country agricultural land, have attracted substantial international concern. Certainly, complex and controversial economic, political, institutional, legal and ethical issues are raised in relation to food security, poverty reduction, rural development, technology and access to land and water. On the other hand, lack of investment in agriculture over decades has meant continuing low productivity and stagnant production in many developing countries, especially in Sub-Saharan Africa. Lack of investment has been identified as an underlying cause of the recent food crisis and the difficulties developing countries encountered in dealing with it. FAO estimates that additional investments of $70 billion annually are needed in developing country agriculture and related downstream activities to meet global food needs in 2050. Developing countries' own capacity to fill that gap is limited. The share of public spending on agriculture in developing countries has fallen to around seven percent, even less in Africa, and the share of official development assistance going to agriculture has fallen to as little as five percent. Commercial bank lending going to agriculture in developing countries is also small – less than ten percent in Sub-Saharan Africa – while microfinance loans are in general too small and not suited to agriculture. Private investment funds targeting African agriculture are an interesting recent development but actual investments are still small. Given the limitations of alternative sources of investment finance, foreign direct investment in developing country agriculture could make a significant contribution to bridging the investment gap. Many developing countries are making strenuous efforts to attract such investments to exploit what is regarded as underutilised land, encouraging international access to land and other resources whose ownership and control in the past have typically been entirely national. The question is not whether foreign direct investment *should* contribute to meeting investment needs but how its impact can be optimised to maximise the benefits and to minimise the inherent risks for all involved.

Unfortunately, there are no detailed data on the extent, nature and impacts of these investments: international investment statistics are too aggregated and little is divulged by those involved in specific cases. The lack of transparency surrounding these investments has been widely criticised. Much information is anecdotal, probably exaggerated and difficult to verify. The weakness of the information points to the importance of country case-studies of the extent and impact of inward investments and these are being undertaken by several international organizations. The main form of recent investments is purchase or long-term leasing of agricultural land for food production. The amount of land in Africa acquired by foreign interests in the last three years is estimated at up to 20 million hectares but land under foreign control remains a relatively small proportion of total land areas in host countries. However, international investments are more likely to target good land and the local impacts of individual large investments can be significant. Investments can include infrastructural developments such as construction of road or rail links or port facilities. The major current investors are the Gulf States but also China and South Korea. The main targets for recent investment are countries in Africa but there are also investments in South-East Asia and South America. A particular pattern of bilateral investment flows emerged following established cultural, political and business ties and geographical restrictions on investment funds but the pattern is becoming more diffuse. Investors are primarily private sector but governments and sovereign wealth funds are also involved in providing finance and other support to private investors or directly including through state-owned enterprises as in much Chinese investment. Private sector investors are often investment or holding companies rather than agro-food specialists which means that necessary expertise for managing complex large-scale agricultural investments needs to be acquired. In host countries it is governments who are typically engaged in negotiating investment deals. Current investments differ from the recent pattern of foreign direct investment in several respects: they are resource-seeking (land and water) rather than market seeking; they emphasise production of basic foods, including for animal feed, for repatriation rather than tropical crops for commercial export; they involve acquisition of land and actual production rather than looser forms of joint venture.

Issues

A major underlying concern of the recent upturn in investments and which perhaps differentiates it from the normal run of foreign investments is food security. This reflects a fear arising from the recent high food prices and policy-induced supply shocks, notably the result of export controls, that dependence on world markets for foods supplies has become more risky. For those countries facing worsening land and water constraints but with increasing populations, incomes and urbanisation and hence increasingly dependent on imported food, these fears provoked a serious reassessment of their food security strategies. Investing in producing food in countries where the land and water constraints faced domestically are not present is seen as one strategic response. This offered investment opportunities to the private sector which governments have been willing to support. Investors outside countries with food security concerns or requiring flows of agricultural raw materials for processing have also seen profitable opportunities for portfolio diversification into food production investments, especially as returns on other investments became less attractive. Others have been motivated by the prospects offered by biofuel developments. While some developing countries are seeking to attract and facilitate foreign investment into their agricultural sectors, how far these investments go towards meeting their real investments needs is uncertain. The financial benefits to host countries of asset transfers appear to be small, but foreign investments are seen as potentially providing developmental benefits through for example technology transfer, employment creation and infrastructural developments. Whether these potential developmental benefits are actually likely to be realised is a key concern.

The much-publicised “land grab” involving the purchase or leasing of agricultural land in developing countries for food production is just one form of investment and one which arguably is least likely to deliver significant developmental benefits to the host country. Some countries are seeking foreign investments to exploit “surplus” land currently unused or under-utilised. One reason land may not be used to its full potential is that the infrastructural investments needed to bring it into production are so significant as to be beyond the budgetary resources of the country. International investments might bring much-needed infrastructural investments from which all can benefit. However, selling, leasing or providing concessional access to land raises the questions of how the land concerned was previously being utilised, by whom and on what tenurial basis. In many cases, the situation is unclear due to ill-defined property rights, with informal land rights based on tradition and culture. While much land in Sub-Saharan Africa may currently not be utilised to its full potential, apparently “surplus” land overall does not mean land is unused or unoccupied. Its exploitation under new investments involves reconciling different claims. Change of use and access may involve potentially negative effects on food security and raise complex economic, social and cultural issues. Such difficulties at least demand consultation with those with traditional rights to land, and favour alternative arrangements for investments.

It is also not clear that land acquisition is necessary or desirable even for investors. Acquisition of land does not necessarily provide immunity to sovereign risk and can provoke political and economic conflict. Other forms of investment such as contract farming and out-grower schemes can offer just as much security of supply. It is interesting to note that in other contexts, vertical coordination tends to be based much more on such non-equity arrangements than on the traditional acquisition of upstream or downstream stages and such looser arrangements may be more conducive to the interests of the receiving country. However, even here there are likely to be questions as to the compatibility of the needs of investors with small holder agriculture and this in turn raises questions about poverty reduction potential. Nevertheless, joint ventures might offer more spillover benefits for the host country smallholders. Under contract farming or outgrower schemes, smallholders can be offered inputs including credit, technical advice and a guaranteed market although they do sacrifice some freedom of choice over crops to be grown. Mixed models are also possible with investments in a large-scale enterprise at the centre but also involving outgrowers under contracts to supplement production. What business model is most appropriate will depend on the specific circumstances and the commodity concerned.

In any case, land investments are only one strategic response to the food security problems of countries with limited land and water. A variety of other mechanisms, including creation of regional food reserves, financial instruments to manage risk, bilateral agreements including counter-trade and improvement of international food market information systems are possible. Investment could be in much-needed infrastructure and institutions which currently constrain much developing country agriculture especially in Sub-Saharan Africa. This, together with efforts to improve the efficiency and reliability of world markets as sources of food might raise food security for all concerned more generally through expanding production and trade possibilities.

The key issue is the extent to which benefits from foreign investments spillover into the domestic sector in a synergistic and catalystic relationship including with existing smallholder production systems. Benefits should arise from capital inflows, technology transfer leading to innovation and productivity increase, upgrading domestic production, quality improvement, employment creation, backward and forward linkages and multiplier effects through local sourcing of labour and other inputs and processing of outputs and possibly an increase in food supplies for the domestic market and for export. However, these benefits will not flow if investment results in the creation of an enclave of advanced agriculture in a dualistic system with traditional smallholder agriculture and which smallholders cannot emulate. The necessary conditions for positive spillover benefits may often not be present in which case policy interventions are needed to create them. The historical evidence on the effects of foreign direct investment in agriculture suggests that the claimed benefits do not always materialise and catalogue concerns over highly mechanised production technologies with limited employment creation effects; dependence on imported inputs and hence limited domestic multiplier effects; adverse environmental impacts of production practices such as chemical contamination, land degradation and depletion of water resources; and limited labour rights and poor working conditions. At the same time, there is also evidence of longer-run benefits in terms of improved technology, upgrading of local suppliers, improved product quality and sanitary and phytosanitary standards, for example. In considering the benefits or otherwise of FDI in agriculture it is therefore important to take a dynamic perspective. However, it is also important not to overlook questions of the sustainability and longevity of investments including the possibility of exit and reversal of capital flows.

Additional political and ethical concerns are raised where the receiving country is food insecure. While there is a presumption that investments will increase aggregate food supplies this does not imply that domestic food availability will increase, notably where food produced is exported to the investing country. It could even decrease where land and water resources are commandeered by the international investment project at the expense of domestic smallholders. Extensive control of land by other countries can also raise questions of political interference and influence.

Policy implications

International investment should bring development benefits to the receiving country in terms of technology transfer, employment creation, upstream and downstream linkages and so on. In this way, these investments can be “win-win” rather than “neo-colonialism”. However, these beneficial flows are not automatic: care must be taken in the formulation of investment contracts and selection of suitable business models; appropriate legislative and policy frameworks need to be in place to ensure that development benefits are obtained and the risks minimised. However, the information base for design and implementation of effective policies and legislation is very weak. There is an urgent need to monitor the extent, nature and impacts of international investments and to catalogue best practices in law and policy to better inform both host countries and investors. Detailed impact analysis is needed to assess what policies and legislation, whether national or international, are needed and what specific measures are most appropriate.

If foreign direct investment is to play an effective role in filling the investment gap facing developing country agriculture, there is a need to reconcile the investment objectives of investors with the investment needs of developing countries. Investment priorities need to be identified in a comprehensive and coherent investment strategy and efforts made to identify the most effective measures to promote the matching-up of capital to opportunities and needs.

The onus to attract investments to where strategic needs are greatest and to ensure that those needs are met falls primarily on the host countries. Apart from the financial terms and conditions of the investment, consideration needs to be given to *inter alia* local sourcing of inputs including labour, social and environmental standards, property rights and stakeholder involvement, consistency with food security strategies, distribution of food produced between export and local markets, and distribution of revenues. Such issues might be part of an investment contract between the investor and the host government although in practice investment contracts tend to be rather short and unspecific on such issues. The actual investment contract is one element of the legal framework surrounding international investments. Domestic law and international investment agreements provide the legal context for investment contracts with the latter generally prevailing over the former. Investment contracts can also override domestic law, especially where as in many cases domestic law is not comprehensive or clear in terms of defending local stakeholder interests. In general, the legal framework tends to favour the investor rather than the host country and in particular to favour investors' rights over those of host country stakeholders. This points to the importance of strong investment contracts which reference host country concerns, although the scope for this may be limited where international investment agreements preclude so-called "performance requirements". Clear and comprehensive domestic law is essential.

Beyond policy and legal frameworks to minimise inherent risks and maximise benefits, a variety of policy measures are available to host countries to attempt to attract international investment and steer it towards priority areas in support of their food security and poverty reduction strategies. Provision of information concerning investments needs and priorities can bring opportunities to the attention of foreign investors and incentives such as tax concessions or local financing initiatives can help focus investment in priority areas. Investing countries can use similar measures to encourage outward investment. Host countries can also create a more positive investment climate through policies which reduce transactions costs and reduce investor risks. Many developing countries have introduced extensive policy reforms in this respect in recent years. Many have signed international investment agreements, although as noted above, the commitments these can entail need to be balanced in domestic law. Some countries have sought to attract and facilitate inward investment through the establishment of investment agencies and authorities which provide a one-stop shop to attract investments and steer investors through the various bureaucratic procedures involved.

Policy in a variety of other areas beyond that focused specifically on investment are also relevant in governing international investments. Trade policy is involved where investors intend to export food produced back to their own countries since this may conflict with the host country's right under the WTO rules to impose export controls in times of domestic food crises. Some host countries appear to have offered to waive their rights under WTO rules and agreed not to impose export controls even in food crises. Bilateral investment contracts may by-pass WTO rules more generally and may conflict with commitments under regional trade agreements. Consistency with the Agreement on Trade-related Investment Measures (TRIMS) may be an issue where investment incentives are offered.

No matter how successful developing countries are in attracting foreign investments, no positive developmental impacts will result if their agricultural sectors are not capable of capitalising on any spillover benefits of these investments. Appropriate domestic agricultural and rural development policy measures need to be in place to ensure that local agriculture can benefit from new technologies and the local economy can respond to new demands for inputs and services. Policy towards foreign investment needs to be an integral part of comprehensive agricultural and rural development strategies.

International response

Recent large-scale land acquisitions by foreign investors have attracted international concern and the perceived risks attached to such investments are such that there have been calls for an international code of conduct to regulate them. In the absence of strong domestic legislation and equitable investment contracts, such a code could highlight host country interests but could also be seen as a guide for investors to socially responsible investment. The case for a voluntary international code of conduct or guidelines which highlighted the need for transparency, sustainability, involvement of local stakeholders and recognition of their interests and emphasised concerns for domestic food security and rural development appears to have broad political support.

FAO, together with UNCTAD, IFAD and the World Bank is developing such a code. A voluntary code of conduct or guidelines based on detailed research concerning the nature, extent and impacts of foreign investment and best practices in law and policy could distil and encapsulate the lessons learned and provide a framework to which national regulations, international investment agreements, global corporate social responsibility initiatives and individual investment contracts might refer.

A minimum set of principles for responsible agricultural investment that respects rights, livelihoods and resources proposed by the four organizations and to be reflected in a code of conduct or guidelines would include the following.

i) *respect for land and resource rights:* existing rights to land and natural resources are recognized and respected

ii) *food security and rural development:* investments do not jeopardize food security and rural development, but rather strengthen it

iii) *transparency, good governance and enabling environment:* processes for relating to investment in agriculture are transparent, monitored, and ensure accountability by all stakeholders

iv) *consultation and participation:* all those materially affected are consulted and agreements from consultations are recorded and enforced

v) *economic viability and responsible agro-enterprise investing:* projects are viable economically, respect the rule of law, reflect industry best practice, and result in durable shared value

vi) *social sustainability:* investments generate desirable social and distributional impacts and do not increase vulnerability

vii) *environmental sustainability:* environmental impacts are quantified and measures taken to encourage sustainable resource use while minimizing and mitigating negative impacts.

However, while there appears to be broad support for a code promulgating these principles, agreement on how to operationalize and implement them is likely to prove more difficult to achieve. A rigorously enforceable international code of conduct embodying these principles is likely to be problematic. However, a voluntary code of conduct or guidelines based on detailed research concerning the nature, extent and impacts of foreign investment and best practices in law and policy could distil and encapsulate the lessons learned and provide a framework to which national regulations, international investment agreements, global corporate social responsibility initiatives and individual investment contracts might refer.

The development of a voluntary code of conduct would demand widespread consultation with all stakeholders including governments, farmers' organizations, NGOs, the private sector and civil society more generally. Such a consultative process would inevitably be lengthy but without inclusive, comprehensive and effective consultation and input it is unlikely that a workable code of conduct could be achieved. However, experience shows that the very process of developing codes or guidelines can be beneficial in terms of promoting more responsible investment behavior.

APPENDIX 6: Issue Paper for Session Two (2)

Issue Paper on

International development, food security and agriculture development

International symposium on poverty reduction and international investment in agriculture

10 March 2010, Tokyo, Japan

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1. Introduction and background

During the last 15 years the international community as well as several nations individually have taken number of initiatives towards eradicating poverty and food insecurity. Among these, the most significant were the FAO World Food Summit in 1996, which agreed on a goal to reduce the number of hungry people by half by 2015, and the United Nations Millennium Summit in September 2000, which agreed on eight Millennium Development Goals (MDGs), the first of which is that to halve the proportion of global poverty and hunger by 2015.

Many developing countries were making some progress towards meeting the MDGs, or their own regional goals, when the soaring food prices in 2007 and 2008 exposed the fragility of the world food security situation. As some traditionally food exporting countries banned exports of their staples, the situation put into doubt the belief that global food supply was sufficient to meet the global food demand, and that hunger was essentially a problem of access. In response to this critical situation, the world leaders gathered in Rome from 3-5 June 2008 for the *High-Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy* in order to, among others, find a way to address the problem of food shortage. They recognised that due to inadequate investments in agriculture, many developing countries could not produce enough food to face the crisis. They and subsequently also the G8 summit at L'Aquila, Italy in July 2009 committed themselves to increasing investments in agriculture in order to stimulate food production.

2. Increasing the quantity and quality of investments for agriculture and food security

FAO estimates that cumulative gross investment requirements of nearly USD 9.2 trillion would be required for developing countries' agriculture over the period 2005/07 to 2050 to feed the world at the expected population by 2050. Broken down by type of investment, more than USD 5.5 trillion or 60 percent of the total would be required to replace the existing capital stock (or new capital items that are being added and subsequently depreciated over the 44 year period to 2050); the rest, that is about USD 3.6 trillion, would need to be added to the existing capital stock to increase (nearly double) output and raise productivity. Broken down by activity, primary agriculture accounts for about USD 5.2 trillion of the total, while the remaining USD 4.0 trillion is absorbed by off-farm value addition (processing, transportation, storage, etc.).

The primary reason for any investment should contribute to growth and development is that it contributes to domestic capital formation. The experience of developing countries with agricultural development strongly suggests that making a transition from economic stagnation to self-sustaining economic growth in agriculture - and subsequently the overall economy - requires a sustained increase in the rate of domestic capital formation in agriculture.

The nexus between capital formation and agricultural growth, and agricultural growth and poverty alleviation are complex, but empirical analysis and calculations indicate clearly that the volume and composition of capital formation is the major determinants of agricultural productivity and output growth. Quality of investment is thus as important as the quantity of investment.

Most important is the increase in domestic capital formation in its broad sense, including thus investment in social overhead and economic infrastructure. Although such investment may yield only a small increase in income in the short term, it will create an environment necessary for more profitable and cumulative subsequent investments. The experiences in China, Thailand, Brazil and Vietnam, clearly demonstrate how the sustained increase in capital formation in agriculture generates the subsequent growth opportunities in agriculture and the economy as a whole.

3. Rationale for foreign assistance and international investment

One of the primary reasons for foreign assistance and international investment is to support the developing countries that are not in a position by themselves to generate the savings needed for investing in capital formation for sustainable growth and development. The purpose of an international aid and outside capital in a developing country should be less to directly to raise standards of living in the recipient countries in the short-term; rather to permit them to make the transition from economic stagnation to self sustaining economic growth. The principal element in this transition must be the efforts (such as savings and investments) that the citizens of the recipient countries themselves make to bring this about. Without these efforts, outside capital will be wasted. Thus the general aim of international investment and assistance are to provide the developing country a positive incentive for maximum national effort to increase the rate of domestic capital formation up to a level which could then be maintained and eventually increased without any further aid and international investment.

Hence, international capital inflow in agriculture would be more helpful and effective if directed to increase the rate of domestic capital formation in agriculture. Ideally then, international aid and investment should be directed to where it will have the maximum catalytic effect of mobilizing additional national effort or preventing a fall in national effort.

4. Commercial investment in agriculture and food production

With regard to commercial investment flow, profitability is the ultimate determinant. Private sector investment (both domestic and international) will only flow in the sectors and sub-sectors where there is profit to be made. Governments have an important role in setting a policy environment that allows this to happen, and thus ensuring that adequate investment flows to agriculture for a food secure world.

5. Critical issues for debate and discussion

In view of the above observations, the key issues underlying foreign assistance and international investment in agriculture are:

- What are the appropriate domestic agricultural and rural development policies and programmes that attracts most international investment?
- What are the most efficient ways for making a sustained increase in domestic capital formation in agriculture?
- Which forms of international investment and assistance are more effective in contributing to domestic capital formation?
- How should the various forms of investments (public, private, foreign or local) be effectively channelled to achieve maximum domestic capital formation?

These are the critical for enhancing appropriate investment to address food security, poverty and agricultural development.