



## **Expert meeting on international investment in the agricultural sector of developing countries**

22-23 November 2011, FAO HQ, Rome

REPORT<sup>1</sup>

### **I. Introduction**

FAO held an expert meeting on international investment in the agricultural sector of developing countries at its headquarters on 22-23 November 2011. The objectives were to review the current state of knowledge including recent case studies, identify good practices, determine the areas where further research is needed and plan the next steps with a view to creating synergy among the various organizations analyzing large-scale agricultural investment in developing countries. Although the main subject of the meeting was foreign investment, some relevant large-scale agricultural investment projects by domestic investors were also examined. The meeting brought together 42 experts from research and development organizations that have been analyzing the developmental aspects of agricultural investment in developing countries, including CIRAD, FAO, IFAD, IIED, ILC, KIT, ODI, UNCTAD and the World Bank. The list of participants and agenda can be found in the annexes to this report.

### **II. Summary of presentations**

*David Hallam, Director of FAO's Trade and Markets Division (EST),* opened the meeting and introduced its objectives. He gave background information on FAO's work on international investment in agriculture, including its collaboration with IFAD, UNCTAD and the World Bank to develop the Principles for Responsible Agricultural Investment and propose a related plan of action to the G20 group of countries.

### **Studies on agricultural FDI undertaken by FAO**

#### **Overview**

*Pascal Liu, Team Leader, International Investment in Agriculture, EST,* gave an overview of the research on the impacts of international agricultural investment carried out by EST. The research aims to provide better knowledge on the trends and impacts of foreign direct investment (FDI) on host communities and countries, to identify good practices and to develop guidance for host governments. He presented the objectives, scope, approach and methodology of the studies that FAO has initiated with partners in 12 developing countries. The case studies examine the trends

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<sup>1</sup> Written by Pascal Liu and Jesper Karlsson, EST, FAO

in agricultural FDI and its economic, social and environmental impacts at national and local levels. They analyze the factors determining the impacts and their relative significance. EST, FDI in agriculture for food security: <http://www.fao.org/economic/est/investments/en/>

### **Study on agricultural investment funds in developing countries**

*Calvin Miller, Senior Marketing Officer, Agriculture Department, FAO* presented a study on Agricultural Investment Funds (AIFs) in developing countries and explained the rationales behind them. The possibility to pool resources, management layer between investment project and investor, mitigation against risks by spreading investments across different projects and in different segments of the value chain are reasons to invest in AIFs. Through AIFs and direct investment, the private sector can inject capital into agriculture and hence foster the development of rural enterprises.

Rural Finance Learning Centre: <http://www.ruralfinance.org/>

FAO Rural Infrastructure and Agro-Industries Division: <http://www.fao.org/ag/ags/index/en/>

### **FDI to Agriculture: Examples of inclusive models with Smallholders in Ghana**

*Roble Sabrie, Economist, Investment Center, FAO* presented a study on inclusive business models in the rubber and sorghum sectors in Ghana. Informal and formal contract farming schemes in these sectors offer alternatives to land acquisitions and link smallholders to value chains. Government, private companies, smallholders and developing partners play a major role in ensuring mutually beneficial impacts.

Investment Centre: <http://www.fao.org/tc/tci/en/>

### **Ensuring Inclusion of Smallholders in Global Bioenergy Value Chains and Certification – Results from Three Case Studies**

*Elizabeth Beall, Consultant, Bioenergy and Food Security Criteria and Indicators Project, FAO* presented results from three case studies on three bioenergy projects in three different regions, each using different feedstocks and involving different certification schemes. She presented various ways to include smallholders in global bioenergy value chains and certification schemes for different crops and in varying country contexts.

BEFSCI: <http://www.fao.org/bioenergy/foodsecurity/befsci/en/>

### **IIED/FAO/IFAD case studies of agricultural investments in developing countries**

#### **Overview on case studies**

*Lorenzo Cotula, Senior Researcher, IIED* gave an overview of the preliminary findings of studies on agricultural investment undertaken by IIED in collaboration with FAO and IFAD. A key objective of the studies was to examine business models and contextual factors that can create shared value with farmers. Such evidence can catalyze and inform policies. He also presented IIED's analytical framework that examines ownership, voice, risk and reward of different stakeholder groups. After a general presentation he gave more detailed information on the findings of case studies in Mali, Malaysia and Zambia.

#### **Case studies in Ghana**

*John Bugri, Lecturer, Kwame Nkrumah University of Science & Technology (KNUST), Ghana* presented two agricultural investment projects in Ghana with different characteristics and outcomes. The first project was presented as a win-win example worth replicating and in which outgrowers reaped social and economic benefits. The second project was a top-down large-scale

land acquisition for bioenergy production that posed significant threats and no tangible benefits for a majority of the impacted communities.

### **Case studies in South Africa**

*Edward Lahiff, University College Cork, Ireland* presented a case study of strategic partnerships between land holding communities and business partners in the Limpopo province in the context of South Africa's land restitution process. The study suggests that although communities had regained land stolen from them during apartheid, the reviewed cases of joint ventures had largely failed due to e.g. fallacious policies, non-viable business models and weak governance.

### **CDRI/FAO case study of agricultural investment in Cambodia**

*Chan Hang Saing, Research Associate, CDRI, Cambodia* presented a study on FDI in agriculture in Cambodia which includes field surveys of foreign investment in *Economic Land Concessions*. Although general conclusions cannot be drawn on the limited project sample, the case studies suggest that negative impacts of the surveyed projects in Cambodia, including land conflicts, clearing of forests and loss of livelihood opportunities tend to outweigh the benefits, including job creation.

### **Review of other studies on agricultural investment in developing countries**

*Grahame Dixie, Agribusiness Unit Team Leader, World Bank* presented a study of large-scale agricultural investment projects funded by the Commonwealth Development Corporation (CDC) from 1949 to 2000 with the aim to draw lessons from the past. Only one third of CDC's investments generated moderately attractive internal rates of return (>12%). But a substantial share of the businesses that initially failed were taken over by another investor later and did deliver developmental benefits in the long term. Out of the four models used within the projects funded by the CDC, the most viable was the nucleus estate with outgrowers, followed by the facility dedicated to processing only. Finally, the study demonstrated that new ventures are the most risky and returns to projects were usually higher where investments built on existing businesses with a gradual approach.

### **Introduction to the Investment Development Indicators Framework**

*Hafiz Mirza, Chief, Investment Issues Section, UNCTAD* presented an analytical framework developed by UNCTAD for assessing the development impacts of investment. The *Investment Development Indicators 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.

### **Studies on contract farming**

*Pierre-Marie Bosc, CIRAD* summarized the CIRAD studies of 9 contract farming cases in developing countries with a long-term time frame which allows to capture the direct and indirect effects of contract farming analyzed in their institutional and policy context. The study suggests that land purchase and sales tend to exclude the poorest farmers, while the land rental market may be more inclusive. In order to be effective, contract farming schemes require strong institutions and policy measures to support the schemes with public goods provision. Therefore, public policies and development agencies have a critical role in making contract farming

successful. In addition, 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.

### **Studies on domestic investment**

*Anna Locke, Head of Programme - Agricultural Development and Policy, ODI* presented a study that showed that domestic capital flows in the agriculture sector are much larger than FDI, that off farm incomes are important for rural transformation, and that domestic public and private investments generate a large share of the value added.

## **III. Summary of discussions**

### **Current limitations and areas for further research**

As many of the projects analyzed by the case studies were initiated in recent years, it is premature to draw conclusions on their impacts. Although it is possible to make estimates by analyzing how they were designed and how they are implemented, it is too early to draw general conclusions due to lack of hindsight, comparability and the inherent limitations of the case-study approach. There is a need for different study approaches and triangulation of different research, e.g. participatory case studies and meta-analysis. A few research questions that can inform policy and industrial decisions were suggested, including “What are the various ways in which operators can meet (a) industrial, (b) MDG, and (c) food security objectives? What are the alternative business models and what are their likely impacts? Which incentive structures shape and encourage different business models?”

There is a need for further macro-economic analysis (including input-output analysis) and analysis of political-economic factors to gain an understanding of structural changes over the short and long term, at both micro- and macro-economic levels. Further research is needed to disentangle the impacts of foreign investment according to business models and other determinants. The various organizations analyzing investment in agriculture should develop a common analytical framework and a typology for business models. This could build on UNCTAD’s Investment Development Indicators Framework (see section II) among others.

Six general challenges were raised in regard to FDI in agriculture: (1) inadequate consultation with local communities; (2) informal and inadequately recognized land rights and how to compensate so called “squatters”; (3) lack of transparency on the part of the investor; (4) alternative conflict resolution; (5) environmental problems, and (6) economically nonviable projects resulting in lose-lose situations.

### **The attribution problem**

It can be difficult to assess if indirect impacts and multiplier effects are linked to individual investments even if they have been going on for a long time. Tangible impacts such as job creation and numbers of involved outgrowers are easier to measure. One of the reviewed cases, a

big sugarcane project involving a large-scale irrigation system had been initiated over 30 years ago and the main observable positive impact had been job creation. It was discussed whether a “no investment scenario” would have been preferable to the actual situation. Many jobs had been created, but not in comparison with the total workforce within the impacted region. A participant reckoned that the view that “intervention may not be perfect but better than before,” i.e. “either or” was a narrow approach. It was important to consider different options and find ways to provide communities with choices about land use, including other uses than external investment. To this end, proper debate at the local level and land use planning that considers opportunity costs were seen as important. Empowerment of farmers to strengthen their bargaining power and enhanced capacity of public institutions were seen as necessary for such a debate. An open and broad-based debate on these issues could help communities and countries to make choices on business models and determine which agricultural model is most appropriate.

### **Defining progress**

The meeting discussed the ultimate objectives of investments, what constitutes progress (e.g. food security and improved human wellbeing, improved balance of trade, profit and various spillover impacts) and for who (e.g. source and host countries, companies, communities, the poor and better-off people). It was agreed that there is a need to reach a common understanding of the desirable outcomes of investment and adopt a more precise definition of key terms.

A participant argued that in Peru, for example, some large projects may have created better material standards, but companies have become *de facto* feudal governments and local inhabitants have become worse positioned to make decisions. In India, large private investments in the poultry sector have reportedly improved the wellbeing of the involved rural people. Large-scale agriculture can induce a fundamental change of societies for better and for worse.

### **Business models**

It was agreed that some business models are more likely to achieve developmental objectives than others. There was an agreement among the participants that mega-farms and the ongoing trend of large-scale land acquisitions are unlikely to provide benefits for host countries and impacted communities. In many cases, such projects start with loose promises of broad-based developmental benefits that are not delivered once the project is implemented.

Some participants argued that large-scale land acquisitions accounted for a majority of FDI in agriculture since the food crisis of 2006-08. Others said that they accounted for a smaller part of FDI in agriculture in total and that there is also a significant trend to decouple activities from production (and leave production risks to farmers) while focusing on marketing and other segments of the value chain. However, considering the size and number of reported (although not always materialized) large-scale land acquisitions during recent years, it was agreed that it is a significant trend with large potential ramifications.

Employment generation was one of the few observed benefits of large-scale land acquisitions, but the number of jobs created might not compensate for the involved risks, including lost livelihood opportunities as a consequence of land transfers and initiation of large-scale farming.

The generated jobs are often volatile and poorly paid. It was also mentioned that the bulk of the transnational large-scale land acquisitions over recent years had been negotiated in a secretive manner and in countries with poorly defined or enforced land rights and weak institutions. The well-known risks of transfers of land and associated resources under such conditions, including displacement, loss of rural livelihoods, environmental degradation and social conflict, were mentioned. Some participants argued that in the absence of enforcement of land rights and strong legal and institutional framework, the emphasis could be put on convincing investors to behave responsibly.

Overall, there is a downward trend in wages for agricultural workers. Farmers involved in outgrower schemes often earn much more than agricultural workers. They also enjoy the non-monetary satisfaction of having land. Alternatives to land acquisitions, in which farmers keep or strengthen their control over land and that may create linkages to the surrounding economy are seen as more likely to provide benefits for all stakeholders. However, there is no perfect model and there is also a large variety of situations, approaches and impacts within each business model. Whether a given business model benefits local development or not depends on many factors, including the local context.

### **Other determinants of impacts**

Land rights for local inhabitants and investors, involvement of government, legal and institutional framework and presence or absence of farmers' organizations are examples of important determinants of investment impacts. There is a need to cluster the many factors that determine the impact and assess their respective importance in different contexts.

Weakly enforced land tenure systems and inadequate community consultation are important causes of negative impacts of FDI in agriculture in many places. In many places the *de jure* land rights may be strong, but they are not being enforced.

From the perspective of the interviewed local community members in Cambodia, the negative impacts of land loss outweigh the positive effects of job creation. Rural community members have a socio-cultural preference for working on their own lands and sometimes consider themselves as slaves if they lose land ownership.

More analysis on the roles of technology and markets was requested. The ability to take advantage of markets and technology to attract FDI and at the same time involve farmers are key factors in Brazil's agricultural success.

The type of crops selected by the investor is another determinant of the impacts. Feedstock crops for biofuel production have raised concerns about the food security of the host country. A forthcoming report by the ILC shows that investment in biofuel production is now larger than investment in food crops. The difference between cash-crops and food crops is less obvious today than it used to be, as many recent investments aim at production of food crops for export or conversion of food crops into biofuel for export. But there is a trend towards "flex-crops" (i.e. edible crops that can be used either as food or for biofuel production).

### **Long-term viability**

Long-term economic viability is important to avoid “lose-lose” outcomes of investment. In the long term, most large projects analyzed by the World Bank study (see section II) had benign developmental impacts, even though many projects, especially greenfield operations, failed initially. It takes many years before large-scale agriculture investments bring economic returns so there is a need for a long-term perspective and patient capital. In many cases new investors bringing new capital to previously non-viable projects managed to turn them into profitable ventures. This suggests that efficient mechanisms to attract new investors can help to avoid “lose-lose” outcomes. It was argued that overall, many investment risks can be avoided by investing in already existing projects and in well-known business models. At an aggregate level, early and risky private sector investments have sometimes created critical mass, new market opportunities and a safe place for other investors to enter. According to the World Bank study, hybrid models based on nucleus estates and outgrower arrangements with surrounding farmers is the primary production model that is most likely to succeed economically. Nevertheless, innovative models are also needed.

### **The importance of investment made by farmers**

There was an agreement that investment in developing-country agriculture is strongly needed, but not all forms of investments are desirable. The meaning of the term FDI was discussed, as it is often used for many different types of foreign and mixes of foreign and domestic, public and private investments. The share of FDI going into agriculture is also small in comparison to private domestic investment, including farmers’ own investments. There was consensus on the fact that smallholders play a crucial role for rural development in developing countries. Smallholder farmers’ investments in their own fixed assets account for the majority of investments in agriculture in developing countries, and despite harsh conditions smallholders produce the bulk of the food consumed domestically. At the same time, smallholders account for a majority of the poor and food insecure. Strategies in which foreign and public investments can increase smallholders’ investment should therefore be examined. Participants emphasized the importance of determining how FDI can be oriented so that it enhances smallholder family farm investments and livelihoods and national food security. Public policies and investment were felt to be critical in this respect. FAO was seen to have an important technical assistance role in helping governments to discuss with stakeholders, in particular small-scale producers, on the range of policy options before them and their potential effects.

Some participants argued that the idea that large-scale agriculture is more effective than small-scale production is flawed and that there is a need to shift away from a modern, large-scale and technology-intensive agriculture paradigm. An enabling environment for smallholders can significantly improve food security, livelihood generation and social peace. Yet, it was argued that there is a big difference between political rhetoric on the importance of smallholders and the reality in which governments find it easier to deal with a few investors than with thousands of smallholders.

It was discussed whether smallholder family farming was to be considered as a business model among others or something significantly different. Some participants stated that smallholders and farmer organizations could benefit from approaching agriculture as an enterprise and not only as a source of subsistence.

### **Reconciling developmental and profit objectives**

It was asked whether it was in the interest of profit-oriented investors to use models with large potential social benefits and if it is possible to utilize the financial capital existing in the private sector to create “win-win-win” outcomes that benefit investors, governments and local communities. Bad governance including poorly enforced land rights, and fallacious incentives such as cheap land discourage participatory investment models and attract large-scale land acquisitions or other investments that lead to negative feedbacks. For example, a participant argued that in Cambodia, most FDI in agriculture in the country goes to primary production rather than processing. This can partly be explained by possibilities for speculative investments in land and opportunities to clear forests and sell timber. Interventions from governments and development cooperation partners (such as laws, incentives, subsidies, public-private-partnerships) may help to make it in the interest of investors to participate in “win-win” scenarios.

### **Harmonizing investment and development strategies**

It was argued that there is currently a divide between strategies to promote FDI in agriculture and agricultural development strategies; LDCs could become middle-income countries if food security strategies and smallholder inclusion were linked to FDI policies. In practice, the formulation of more development-oriented investment strategies would benefit from clarification and harmonization of the respective roles of investment agencies and institutions with other objectives (social or environmental). Civil society must also be an integral part of policy formulation, and multilateral donors could play the role of active broker between government and civil society organizations.

Some participants stated that even if efforts must be directed towards improving the conditions for smallholders, many smallholders are farming out of necessity rather than out of personal aspiration. Thus, it was argued that minimizing transaction costs for the urban poor must complement maximizing incomes of smallholders and creation of alternative livelihoods for smallholders. As the agricultural sector develops, some smallholders may engage in very successful small or medium-scale farming while others find new off-farm income opportunities.

### **Prior assessment of investment proposals**

The World Bank’s review of CDC investments (see section II) estimates that up to 2/3 of failure of large-scale agricultural projects could have been avoided if proper economic viability analysis had been made before approval. Many investors and governments lack the capacity to assess economic and other risks. One of the main purposes of the RAI principles is to provide guidance to governments and other stakeholders to make informed decisions on investments.

It was recommended that the “in-house capacity” of governments to analyze local contexts be strengthened while other actors such as an international technical facility could provide structured advice on markets, new crops, information on companies, land evaluation and compensation, etc. A broad manual and directions to specific advice is an option.

It was suggested that FAO’s Investment Centre could be requested to review large-scale business proposals. Given the rising interest in agriculture investments it was argued that governments can afford to be more selective in their choices of investors and demand provisions for developmental impacts. Advisory facilities could help them to spot winners.

Pooling of knowledge is important and the various organizations that work on investment in agriculture (including ministries and governmental agencies) should coordinate their work more. Participants suggested that the divisions of FAO that work on the various aspects of investment should also benefit from greater coordination. All organizations need to understand relevant issues including the dynamics of negotiations processes and land access, and then provide advice on demand.

The relative importance of social and environmental Impact Assessments (IAs) prior to project approval and follow up measures like Monitoring and Evaluation was discussed. IAs can help to design projects in ways that maximize social and environmental benefits and mitigate risks. In some of the cases presented on Zambia, no IAs had been performed prior to project approval since the projects were initiated in the 1970s. In later projects, lenders or national legislation have demanded the performance IAs. The nature of players involved in investments is important for the genuineness of IAs since developing-country governments seldom have the capacity to appraise them or ensure compliance with the recommendations of IAs.

### **Asymmetry of power**

It was mentioned that local communities are not homogenous and the benefits of investments may be spread unequally within them. For example, better-off farmers with larger land plots are often engaged in a higher degree in contract farming than landless people, including women and the youth, who have difficulties to participate. But it was stated that the poorest of the poor could benefit indirectly if the value added were spread evenly and if tax revenues resulting from the project were used for social development purposes. Governance was seen as an important determinant in this regard. For example, decentralization can be empowering for communities, but on the other hand devolution of bad governance may result in local elites capturing control over land and resources.

Due to asymmetric relationships between investors and governments, there is also a need to support governments in negotiations with investors. However, a participant mentioned that governments and public officials sometimes know that an investment deal will not deliver developmental benefits and carries significant threats but they support the deal for other reasons. Cash-rich source country governments of investments may also be aware of the risks but may not

care since they do not trust that international markets can guarantee food security. That being said, more progressive people within governments welcome guidelines, advice and empirical evidence on appropriate investment strategies. ILC proposed that a simple announcement by FAO on which business models work and which ones do not and that large-scale land acquisitions are not viable could play a significant role.

Advice and support must also be given to civil society groups, especially farmers' organizations. Processes for participation and consultation of rural people including women and other underprivileged groups (such as free prior and informed consent) must be strengthened.

The importance of clearly defined contracts including provisions for benefits for the host country and impacted communities was emphasized. The process by which contracts are formulated is also of central importance. To ensure that local populations' interests and rights are considered, contracts should be formulated in a truly participatory and open manner. Unfortunately, contracts involving large tracts of land are often negotiated in a secretive manner and written vaguely or to the benefit of the investor vis-à-vis the impacted population.

#### **IV. Synthesis of findings**

The preliminary findings of the studies reviewed by the meeting confirm the increasing trend of foreign investment into the agricultural sector of surveyed countries. Resource-seeking investment accounts for a substantial share of the increase, although it was not possible to quantify it more precisely. In spite of the increasing trend, the share of total FDI that is directed to agriculture remains low with respect to other sectors. In most surveyed countries it was under 5 percent of total FDI inflow.

The case studies provide indications on the various types of impacts (economic, social and environmental) of foreign agricultural investment at national and local levels in the host country, although it is premature to draw general conclusions. The observed impacts were very diverse and depended on a range of factors as discussed below. At the national level, the studies found some evidence of increase in agricultural production and yields and diversification of crops. In the cases where the investment successfully targeted export markets, FDI contributed to an increase in value added, and in some cases, led to the adoption of higher standards. The standards regarded the product, the production/processing process or both. Evidence of higher export earnings was found for some countries.

At the local level, the studies suggest that one of the main short-term effects of FDI is the generation of employment, although there are limitations. First, the newly created jobs do not always last long, as various factors (e.g. mechanization of production or change in crop mix) may reduce their number. Second, the new jobs are not always taken up by local people (labourers may come from other areas or even from abroad). Third, the net employment creation effect may be limited if the new jobs replace former ones or self-employment.

The studies show mixed results on technology transfer. There are some positive examples of adoption of new production technology, such as in the fresh vegetables export industry in Morocco. In some investment projects involving outgrower schemes and contract farming, small farmers have acquired new skills through either formal training organized by the project's promoters or by working on the nucleus farm (learning by doing). However, the studies suggest that the actual transfer of technology is seldom up to the level announced by the investors.

Some investments led to the development of new infrastructure or improvement in existing ones (e.g. roads, storage facilities, cold stores), either directly by the investor or indirectly, when the government builds the infrastructure as part of the investment contract. Yet, in a few cases access to the new infrastructure was restricted to the investor's operations only and local people could not use it.

The studies found some evidence of other positive effects on the local economy when the investment project involved local farmers actively (for example through outgrower schemes, contract farming or joint ventures). These effects include value addition for outgrowers and higher incomes by selling to the nucleus farm, as well as income generation when the nucleus farm outsources services (e.g. soil preparation, weeding) to local residents. In addition, small farmers who worked for the investment project as wage earners have reinvested the earnings to increase the productivity in their own farm.

However, the studies suggest that these benefits are neither automatic nor immediate. Many of the inclusive investment models were facing various types of constraints and needed substantial external support (public and private) initially to ensure that the expected benefits materialized.

Moreover, the studies suggest that the above positive effects are unlikely to arise when the investment involves large-scale land acquisition, especially when the land was previously utilized in some ways (including informally). Then, the evidence suggests that the disadvantages far outweigh the benefits. The only economic benefits found were job creation (although there were some limitations as explained above). On the other hand, there is ample evidence of the risks of large-scale land acquisition in countries where local land rights are not clearly defined and governance is weak. The negative social impacts found include the displacement of local smallholders (often with inadequate or no compensation at all), the loss of grazing land for pastoralists, the loss of income for local communities, and in general, negative impacts on livelihoods due to reduced access to resources, which may lead to social fragmentation. Not surprisingly, these negative effects generate opposition by the local community and may even result in civil conflict. The findings suggest that investment projects that do not involve the local community actively tend to be ill-designed and are likely to fail.

The studies found evidence of negative environmental impacts, mainly due to the intensification of production generated by the investment which puts higher pressure on natural resources. The intensive use of land and water may result in degradation and even depletion of these resources. There is some local evidence of reduction in forest cover and biodiversity as a result of the investor's activities. These adverse effects are often due to the lack of proper environmental

impact assessment (EIA) prior to the investment and the absence of effective environmental management system (EMS) during its implementation. Nevertheless, some investment projects led to the adoption of environment-friendly technology (e.g. drip irrigation, fertigation).

Finally, the data suggest that returns to investment tend to be higher where the investor builds on existing ventures in a gradual approach, as opposed to new ventures which are the most risky type of investment. Greenfield investments to develop mega farms in unknown areas and relatively new industries (such as biofuels) are probably too risky to be recommended as a strategy for agricultural development.

Ultimately the studies suggest that the impacts on the local economy depend on a wide array of factors that include:

- the policy/legal/institutional framework in the host country (including conditions that ensure secure access to land for investors and local people)
- the capacity of host governments to monitor and enforce contract, including the capability of local governmental institutions (conflict resolution mechanisms/mediation)
- the social and economic conditions in the area where the investment is made
- the capacity of local civil society organizations (CSOs), in particular farmer organizations
- the terms and conditions of the contracts (there is a need for specified and enforceable terms)
- the type of business model implemented (the success cases were those where farmers kept control over land)
- the capability of local civil society organizations and their involvement in the project
- the process through which the investment project was negotiated, designed and planned (it needs to be transparent, inclusive, participatory, bottom-up, democratic and documented)
- the profile of the investor and its priority objectives (e.g. speculation vs. long-term development)
- the ability of local project managers to forge partnerships with the local community
- the presence of impartial and effective external support from third parties

## **V. Conclusions and recommendations of the meeting**

The case studies provide some evidence on the various types of impacts (economic, social and environmental) of foreign agricultural investment at national and local levels in the host country, although it is premature to draw general conclusions. The observed impacts were very diverse and depended on a range of factors as discussed above. The preliminary results of the reviewed studies suggest that investment projects which involve local farmers actively and leave them in control of their land tend to have positive effects on the local economy. However, these benefits are neither automatic nor immediate. To be successful, agricultural businesses require capital, high technical expertise, local knowledge and a long time horizon. In inclusive business models the investor can provide capital and technical expertise while farmers provide local knowledge. However, the high transaction costs inherent in such models and the necessary long time before returns materialize imply a need for substantial public support and ‘patient capital’ initially to

ensure that the expected benefits materialize. Preliminary results suggest that for investment involving large-scale land acquisitions the disadvantages often outweigh the few benefits to the local community, which tend to be limited to job creation.

The studies found that the impacts on the local economy depend on a wide array of factors that include among others the local legal and institutional framework (including land rights), the business model, the objectives of the investor and the terms of the contract. Among these, the domestic laws and institutions governing agricultural investment and land tenure are critical, but in developing countries they are often inadequate to ensure sustainable agricultural development. Developing country governments and local institutions need support in the form of capacity building, policy advice and technical assistance.

While these preliminary findings indicate useful directions, one should refrain to draw general conclusions for a variety of reasons. First of all, the case study approach 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 analyze recent investments, while the full effects may materialize many years after the investment has taken place. With hindsight, the evaluation of a project may change drastically, as illustrated by the study of CDC investments presented in section II. Finally, it is difficult to compare the results, not only because of the differences in local context but also because the studies use different analytical frameworks. There is a need for normalizing the approaches. Systematic meta-analysis is needed.

### **Areas where further research is needed**

The studies have not found much evidence on several critical aspects of agricultural investments that were highlighted in the terms of reference. In particular, there is insufficient evidence on the impacts on food security, although this is a fundamental issue in the current debates on resource-seeking investment. More analysis is also needed on the environmental impacts of investment projects. More gender-disaggregated analysis is also necessary to assess the differential effects on men and women. It is recommended that the authors of the ongoing studies undertake further research on these aspects.

### **Recommendations for future research on the impacts of agricultural investment**

1. The meeting stressed the need for normalization of the various research activities on the impacts of agricultural. It is recommended that the organizations working in this area 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 UNCTAD's Investment Development Indicators Framework. The UNCTAD model might be complemented as appropriate, e.g. at the farm/area level by World Agricultural Watch's

analytical tool. More meta-analysis is necessary. The approach should consider the counterfactual.

2. 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.
3. The development organizations working in this area should reach a common understanding on the desirable outcomes of agricultural investment. They should adopt a more précised definition of terms such as “progress” and “development” with respect to this research.
4. 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.
5. The main topic of the expert meeting was foreign agricultural investment. However, it is difficult to dissociate foreign and domestic investment, as they are often intertwined and complementary. The current discussion and analyses should be broadened to all forms and source of agricultural investment, including domestic investment, which is far greater than foreign investment. In particular, investments by farmers account for the bulk of agricultural investment and play an essential role in ensuring food security in developing countries. Several participants recommended that investment by family farms should be the focus of the debate on increasing agricultural investment in low-income food deficit countries.
6. A practical implication for FAO is that it should strengthen the collaboration between divisions working on FDI and those working on domestic investment. This collaboration already exists in an informal manner between FAO experts, but it could be formalized through the creation of a mechanism such as an interdepartmental working group.
7. Another implication is the need for more regular interaction among researchers and analysts beyond one-off meetings. It is recommended to create an electronic discussion group to facilitate regular information sharing and collaboration. The group should start with the meeting participants and should be gradually extended to other relevant organizations that could not attend this meeting.

## **Recommendations to increase the effectiveness of support**

The expert meeting made the following recommendations to the organizations that provide support to governments, farmer organizations and other stakeholders in developing countries.

1. Analyze the needs of governments and local civil society organizations in terms of capacity building, policy advice and technical support.
2. Provide developing country governments with guidance, including practical assistance in analyzing investment proposals and making informed decisions. To this end, FAO and its partners 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. FAO could help governments formulate policies that orient FDI in directions that enhance smallholder family farm investments and livelihoods and national food security. It could support consultations between governments and major actors, in particular small-scale producers, for developing such policies.
3. Strengthen the capacity of local communities, farmer groups and other civil society organizations to analyze and negotiate projects with investors and governments. There is a need for training, capacity building, technical advice and assistance at different levels.
4. Support inclusive negotiation processes at various levels: government-investor, government-local community, investor-local community, and between stakeholders within the local community.
5. Assist developing country governments in developing agricultural development strategies that focus on sustainable food security and support to family farming.
6. Identify schemes that reconcile the development objectives of host countries and local communities with the commercial objectives of investors. Bridge the gap by providing investors with incentives to design and implement projects that yield sustainable benefits to the local community as a whole.
7. Raise the awareness of key investors (industry leaders, business champions) on the importance of a responsible approach to agricultural investment to their own business interests. Engage them in the development and implementation of guidance tools such as the principles for responsible agricultural investment.

## ANNEXES

### **Expert meeting on international investment in the agricultural sector of developing countries**

#### **LIST OF PARTICIPANTS**

1. Mr Brian Baldwin, International Fund for Agricultural Development (IFAD)
2. Mr John Belt, Royal Tropical Institute (KIT), Netherlands
3. Mr Pierre-Marie Bosc, Agriculture Research for Development (CIRAD), France
4. Mr John Bugri, Kwame Nkrumah University of Science and Technology (KNUST), Ghana
5. Mr Lorenzo Cotula, International Institute for Environment and Development (IIED)
6. Mr Grahame Dixie, World Bank
7. Mr Alain Durand-Lasserre, Centre National de la Recherche Scientifique (CNRS), France
8. Mr Chan Hang Saing, Cambodia Development Resource Institute (CDRI), Cambodia
9. Mr Ibrahima Hathie, Initiative prospective agricole et rurale (IPAR), Senegal
10. Mr Steven Jonckheere, International Fund for Agricultural Development (IFAD)
11. Ms Anna Locke, Overseas Development Institute (ODI), UK
12. Ms Nora McKeon, Observer
13. Mr Hafiz Mirza, United Nations Conference on Trade and Development (UNCTAD)
14. Mr Michael Taylor, International Land Coalition (ILC) Secretariat
15. Mr Pedro Arias, FAO, Trade and Markets Division
16. Ms Concepción Calpe, FAO, Trade and Markets Division

17. Mr Denis Drechsler, FAO, Trade and Markets Division
18. Mr David Hallam, FAO, Trade and Markets Division
19. Ms Kirsten Hayes, FAO, Trade and Markets Division
20. Mr Jesper Karlsson, FAO, Trade and Markets Division
21. Mr Suffyan Koroma, FAO, Trade and Markets Division
22. Mr Pascal Liu, FAO, Trade and Markets Division
23. Mr Víctor Lopez, FAO, Trade and Markets Division
24. Ms Anni Arial, FAO, Climate Change, Energy and Tenure Division
25. Ms Elizabeth Beall, FAO, Climate Change, Energy and Tenure Division
26. Ms Paola Cadoni, FAO, Climate Change, Energy and Tenure Division
27. Mr Paul Mathieu, FAO, Climate Change, Energy and Tenure Division
28. Ms Francesca Romano, FAO, Climate Change, Energy and Tenure Division
29. Ms Ana Paula De Lao, FAO, Gender, Equity and Rural Employment Division
30. Ms Kirsten Mathieson, FAO, Gender Equity and Rural Employment Division
31. Ms Astrid Agostini, FAO, Investment Centre Division
32. Ms Jennifer Brown, FAO, Investment Centre Division
33. Ms Charlotta Jull, FAO, Investment Centre Division
34. Mr Mohamed Manssouri, FAO, Investment Centre Division
35. Ms Lisa Paglietti, FAO, Investment Centre Division
36. Mr Roble Sabrie, FAO, Investment Centre Division
37. Mr Masahiro Miyazako, FAO, Policy and Programme Development Support Division

38. Ms Giang Duong, FAO, Rural Infrastructure and Agro-Industries Division
39. Mr Emilio Hernandez, FAO, Rural Infrastructure and Agro-Industries Division
40. Ms Nomathemba Mhlanga, FAO, Rural Infrastructure and Agro-Industries Division
41. Mr Calvin Miller, FAO, Rural Infrastructure and Agro-Industries Division
42. Ms Astrid von Preussen, FAO, Rural Infrastructure and Agro-Industries Division
43. Ms Caterina Pultrone, FAO, Rural Infrastructure and Agro-Industries Division

## **Preliminary agenda**

### **Tuesday 22 November**

- 9.15      **Welcome and introduction to the objectives of the expert meeting**  
*David Hallam, Director of Trade and Markets Division (EST), FAO*
- 9.25      **Studies on agricultural FDI undertaken by FAO**  
Overview  
*Pascal Liu, Team Leader, International Investment in Agriculture, EST, FAO*  
Study on Agricultural investment funds in developing countries  
*Calvin Miller, Senior Marketing Officer, Agriculture Department, FAO*  
FDI to Agriculture: Examples of inclusive models with Smallholders in Ghana  
*Roble Sabrie, Economist, Investment Center, FAO*  
Ensuring Inclusion of Smallholders in Global Bioenergy Value Chains and Certification – Results from Three Case Studies  
*Elizabeth Beall, Consultant, Bioenergy and Food Security Criteria and Indicators Project, FAO*
- 10.15     **IIED/FAO/IFAD case studies of agricultural investments in developing countries**  
Overview on case studies  
*Lorenzo Cotula, Senior Researcher, IIED*
- 11.00     **Coffee break**
- 11.15     **IIED/FAO/IFAD case studies of agricultural investments in developing countries (cont.)**  
Case studies in Ghana  
*John Bugri, Lecturer, Kwame Nkrumah University of Science & technology (KNUST), Ghana*  
Case studies in South Africa  
*Edward Lahiff, University College Cork, Ireland, formerly at PLAAS, University of Western Cape, South Africa*
- 12.00     **Discussion of findings**
- 13.00     **Lunch break**
- 14.00     **CDRI/FAO case study of agricultural investments in Cambodia**  
*Chan Hang Saing, Research Associate, CDRI, Cambodia*
- 14.15     **Discussion of findings**
- 15.30     **Coffee break**

- 15.45     **Review of studies on agricultural investment in developing countries**  
**Presentation of findings by other organizations, including:**  
- World Bank (*Grahame Dixie, Agribusiness Unit Team Leader*)  
- UNCTAD (*Hafiz Mirza, Chief, Investment Issues Section*)  
- CIRAD (*Pierre-Marie Bosc*)  
- ODI (*Anna Locke, Head of Programme - Agricultural Development and Policy*)  
- *Other speakers TBC*
- 17.30     **Close**

### **Wednesday 23 November**

- 9.15     **Synthesis of evidence:**  
**What are the good practices?**  
**What recommendations for the various categories of actors?**  
**Areas for further research**
- 11.00     **Coffee break**
- 11.15     **Planning further research on agricultural investment**  
Discussion of ongoing activities and possible collaboration  
How to link up with existing initiatives
- 12.30     **Lunch break**
- 14.00     **Planning further research on agricultural investment** (continued)
- 15.00     **Promotion of good practices, policy advice and capacity building**  
Discussion of possible collaborative activities  
Sharing of roles and information
- 16.15     **Coffee break**
- 16.30     **Conclusions – summary of findings and the next steps**  
*David Hallam*
- 17.00     **Close**