

The State of Food and Agriculture (SOFA) 2012

Investing in agriculture for food security

Proposed contents

Global agriculture over the coming decades faces the challenge of: 1) feeding a growing world population with rising incomes and changing patterns of nutrition; 2) contributing to eradicate poverty and food insecurity; 3) ensuring environmental sustainability. To meet this objective, investments in agriculture are necessary. However, investments are not sufficient; the policy environment is equally important and will affect both the volume and the effectiveness of investments.

The SOFA 2012 represents an opportunity to redefine FAO's position on the issue of agricultural investments. Hitherto, FAO has been vocal in calling for increased levels of ODA to agriculture; the SOFA 2012 would put the key focus on the role of domestic investments. It would make the case that private and domestically-financed agricultural investments form the bulk of the investments needed to promote agricultural development and poverty alleviation. It would argue that the level and effectiveness of private investments depend critically on the overall policy and regulatory environment along with the necessary public investments in key public goods.

The SOFA 2012 would attempt to convey the following set of basic messages:

- Most investment in agriculture is and will remain private
- The bulk of it will have to be financed from domestic resources
- The overall policy and regulatory environment are driving private investments
- Public investments are crucial as a catalyst for private investments
- Governments have a responsibility to
 - Ensure a policy environment that promotes private investments conducive to poverty alleviation
 - Ensure efficient use of public funds to invest in provision of key public goods

Some key features of the report:

- The main focus will be on investments in agriculture (including up-stream and down-stream sectors, research and development, extension and rural institutions). However, it will recognize the synergies with investments in other sectors (education, health, sanitation, safety nets, communication, transportation).
- The primary focus will not be on the assessment of investment needs, overall or sectorwise, but rather on the policy framework to promote agricultural investments, prioritize public investments and make them effective.
- For public investments, the report will not propose a shopping list of investment needs but will discuss modalities and principles for making decisions on public investments and setting priorities, possibly based on typologies of countries.
- Throughout the report, country case studies and country examples will be used to illustrate the arguments made and draw conclusions

The report will contain the following key sections (not necessarily corresponding to the exact sequence in terms of the outline of the report).

I. Trends and situation in agricultural investments.

This section will review empirical evidence on trends in and levels of agricultural investments. It will also analyse links between investments in agriculture and socio-economic outcomes: poverty, food security, agricultural production and productivity.

Key messages:

- Evidence on investments in agriculture is limited and many gaps remain to be filled.
- The limited evidence shows a declining trend in levels of agricultural investments in developing countries over the last decades.
- There is a positive relationship between levels of investment/capital stock in agriculture and food security, agricultural production and productivity.

II. The role of policies for investments

This section will discuss the importance of the overall policy environment for the level and effectiveness of agricultural investments. It will look at major studies assessing the overall policy framework for agriculture (especially degree of taxation and protection of the sector). It will attempt to associate levels of protection/taxation of agriculture with levels of investment in the sector. Case studies will attempt to illustrate the relationship between policy framework and agricultural investments.

Key messages:

- The overall agricultural policy framework is critical for the level of private investment and for the effectiveness of both private and public investments in agriculture.
- In the developing world, the overall policy framework for agriculture has been improving over time.

III. Investment requirements: is there underinvestment in agriculture?

This will discuss the claim that there has been underinvestment in agriculture. It will look into meaningful ways of addressing the question. This may include looking at: rates of return, trends in agricultural productivity growth; required investments to reach specified objectives (for instance, eradicating hunger by xxx). It will also provide an overview of existing assessments of agricultural investment requirements based on different methodologies and different assumptions.

Key messages:

- Assessing investment needs in quantitative terms is of limited relevance per se if not seen in the context of the policy environment.
- Investment requirements – in terms of volumes, sectors and balance public private – depend on country characteristics, development objectives and development strategies.

IV. Role of private investments

This section will discuss the role of private investments in terms of areas of investments and their contribution to poverty alleviation. It will discuss the determinants of private investments and factors constraining them. A key component will be the importance of on-farm investments by smallholders. Much recent attention has focused on large-scale land-based investment programmes, especially in the form of FDI. The potential role of this type of investment as well as the problems and challenges they present will also be discussed.

Key messages:

- Most agricultural investments are and will remain private.
- On-farm investments by smallholders are the most critical component of agricultural investments for ensuring food security and poverty alleviation.
- Investments by smallholders are constrained by several factors, including low savings rate, access to credit, unclear property rights.
- Large-scale land-based investments – including FDI - will not necessarily contribute to poverty alleviation unless specific steps are undertaken to ensure this.
- Public policies need to remove constraints to smallholder investments and ensure that large-scale investments are conducive to poverty alleviation and food security.

V. Role of public investments

The section will discuss the role of public investments: as a catalyst for private investments and as a provider of key public goods. It will also highlight the complementarities and synergies between investments in agriculture and other areas such as education, health, sanitation etc.

Key messages:

- Public sector investments are and will remain quantitatively less important than private investments, but they are fundamental because of their catalytic role for private investments and for provision of key public goods.
- Agriculture competes with other sectors for public investment funds. It is important to ensure a more efficient use of scarce public funds to promote agricultural growth, poverty alleviation and food security.
- Political economy factors may affect public investment and expenditure patterns, diverting resources from delivery of public goods toward private goods and subsidies. This may have negative implications for poverty alleviation and food security
- Agricultural investments cannot be seen in isolation. The effectiveness of agricultural investments relies on the availability of a bundle of different assets, that is the concurrent investments in other areas (transport infrastructure, education, health, sanitation, safety nets, etc.)

VI. Improving investments for agriculture

This will discuss ways of improving investments in agriculture, mobilizing resources for investments and making investments more effective. This includes a discussion of key components of an improved climate for private investments, the financing of on-farm investments by small-holders as well as mobilizing resources – including FDI – for large-

scale land-based investments and making them conducive to food security and poverty alleviation. Also the role of public-private partnerships will be addressed. The section will also discuss key steps at the national level to ensure an improved prioritization of public investments and a pattern of investments that is more conducive to sustainable agricultural development and poverty alleviation. The discussion will be based on typologies of countries with different investment needs as well as a review of concrete national and international efforts to improve the planning of public investments. The discussion should also include ways to overcome some of the political economy factors that lead to misallocation of public resources.

Key messages:

- Governments and the international community need bring into place improved principles for guiding investments in agriculture.
- Several efforts are being made by governments and the international community to
 - improve the climate for private investments and ensure that private investments support food security and poverty alleviation objectives;
 - improve the planning and implementation of public investment programmes.
- Lessons can be learnt from these experiences.