Drivers of Foreign Direct Investment in Agricultural Land are both economic and related to food security concerns. Economic agribusiness opportunities abound and the gradual removal of trade and investment barriers has made it easier for companies and countries to relocate their supply bases to areas where they can enjoy optimal tariff and other trade-related incentives.

The 2007-2008 food price crisis has led countries with limited food production assets to explore (often through private companies) new ways to secure access to food for their own populations, produced under the quality and safety standards required. The perceived need to increase biofuel feedstock generation without impacting domestic food production also led countries and investors to look abroad. Governments in recipient countries have generally welcomed Foreign Direct Investment in Agricultural Land as it provides funds, expertise, assistance and loans these countries are in direct need of and that would otherwise be unavailable.

Albeit a comprehensive picture on the current state of Foreign Direct Investment in Agricultural Land is hard to get, as reports are often contradictory and details on the contractual arrangements sketchy, two main forms of investment can be identified:

Leasing:
In many countries the easiest and most common mode by which a foreign entity can undertake overseas farmland investments is by leasing land. Governments have facilitated this investment modality by entrusting ownership of large tracts of public land to certain state agencies, which in turn lease them to foreign corporations.

Joint venture:
In this case, the foreign entity enters into a joint venture or similar business partnership with a domestic corporation. This may allow easier access to land, while potentially enabling the partnership to reap tax and other incentives normally enjoyed only by domestic enterprises.

It is further necessary to distinguish between Foreign Direct Investment in Agricultural Land aimed at producing for the domestic markets and investment aimed at exports. While the first can also be controversial it is without doubt the second form which raises most concerns as it can conflict with local food security concerns.

Common Issues Identified by Forum Participants

- While scarcity of land in investor’s countries creates the environment for economic opportunities of potentially positive impact, it also carries many risks, mostly for the rural poor and customary users of lands.

- Due to insecurity of land tenure in many countries Foreign Direct Investment in Agricultural Land can cause large-scale and long term displacement of small farmers.

- Also in the case leased land is largely public and unoccupied, farmers and landowners on adjacent private plots can be lured, through legal and illegal means, into leasing their land with negative repercussions on food security, welfare and social justice.

- A strong one-sidedness of many of the contracts by which farmers and landowners have ceded control of their land to foreign agribusiness investors has been observed. Some of the long term lease agreements exempt investors from any meaningful liability in case their agribusiness ventures prematurely fold up.

- Special accommodations given to overseas investors risk being in contradiction with domestic policies and being biased towards the foreign investor. Especially where land is converted from rice, corn, or other staple crops to biofuel, feedstock, vegetable, horticulture, and other commodities of higher value but not essential for local food security.

- Foreign Direct Investment in Agricultural Land almost inevitably leads to large scale plantations employing intensive cultivation practices which could lead to land degradation, water pollution, and long term environmental damage.

- Small farmers and landowners may not benefit from the investment as they may be enticed with low lump sum five year rental payments. Welfare increase of small farmers tends therefore to be limited and unsustainable.
Investments need to be protected over time. If the risk of a wash-out is high, high returns will be required. This will severely curtail the number of feasible projects and, through higher prices and lower wages, penalize consumers and workers.

Foreign Direct Investment in Agriculture can enhance the efficiency of a nation’s agricultural production by developing investment heavy areas such as irrigation and infrastructure. However such efficiency oriented interventions can have negative effect on the social structure and equity.

Perception depends on the net positive benefits of investment for all groups, including the improvement of social well being of marginalized people.

Foreign Direct Investment in Agriculture can generate capital in food production deficit areas. In countries with large uncultivated land reserves opposition to foreign land ownership will be less than in countries with limited or densely-populated farmland.

Well informed, well negotiated and balanced contracts between Governments, investors and communities are key to positive outcome and the minimizing of adverse effects.

There is the need for the formulation and implementation of international codes of conduct and guidelines for international investments. A framework to which national regulations, international investment agreements, global corporate social responsibility initiatives and individual investment contracts can refer should also be set up. FAO’s Voluntary Guidelines on Land Tenure currently in the development stage, could be a step in the right direction.

The Right to Food does also play an important role in preventing negative impacts of foreign investments and its application on country level should be pursued. These endeavours should be coupled with other similar initiatives, by donors and recipients alike.

International Frameworks on Foreign Direct Investment in Agricultural Land:

- FAO Voluntary Guidelines for the Right to Food
- FAO Voluntary Guidelines for Responsible Governance of Tenure of Land and other Natural Resources,
- EU Land Policy Guidelines
- WTO Agreements (TRIMs, GATTs)

Results are dependent upon externalities and pre-existing local conditions. In countries with rural small-holders and family farms must be included in planning and negotiations, and should be fairly compensated when involuntary displacement occurs.

It remains the responsibility of governments to build roads, put up irrigation, deliver health and education services, and provide other basic infrastructure and services that will enable farmers to generate profits from their farms and rear their families out of chronic poverty. Relying on Foreign Direct Investment in Agricultural Land carries the risk that the governments might feel relieved from these tasks and place the responsibility in the hands of foreign private companies.

When Foreign Direct Investment in Agricultural Land is organized and implemented as a sustainable way to inject capital into developing countries’ agricultural sector and is regulated by a code of conduct that minimizes the negative impact it can be seen as an important opportunity to solve the structural lack of capital.

For the complete proceedings of the discussion go to: http://km.fao.org/fileadmin/user_upload/fsn/docs/PROCEEDINGS_land_grab_or_development_opportunity.doc