

4. Promoting equitable and efficient private investment in agriculture

A favourable investment climate – consisting of an enabling environment for agriculture and appropriate economic incentives – is a necessary condition for stimulating and promoting more and better private investment in agriculture. However, a favourable investment climate is not sufficient to ensure that private decisions will achieve critical social goals such as greater equity and the eradication of poverty and hunger. Promoting socially equitable investment in agriculture requires additional measures to address the challenges faced by smallholders and to govern large-scale investment, thereby ensuring that the rights of local populations are protected and that they have the opportunity to benefit.

Low- and lower-middle-income countries typically have a large number of smallholder agricultural producers. These farmers are a crucial component of the agricultural economies of their countries. Some operate as commercial or semi-commercial enterprises, but many are subsistence or near-subsistence farmers who exist on the margins of survival. Smallholders can be more productive than larger farmers, but they often face particularly serious constraints that prevent them from effectively responding to better incentives for investment.

At the other end of the spectrum, large-scale corporate investors, including domestic and foreign corporations and sovereign investors, pose special challenges in low- and middle-income countries. Large-scale land acquisitions by foreign investors have received considerable recent attention, although large-scale domestic investors may be equally or more important. These large land acquisitions may represent a relatively minor share of total investment in agriculture or of total FDI, but they can have major impacts in the locations where they occur. Such investments may offer opportunities for employment, technology transfer and capital accumulation,

but significant challenges exist in ensuring that they are respectful of the rights of local populations and offer real opportunities for smallholders to share in the benefits.

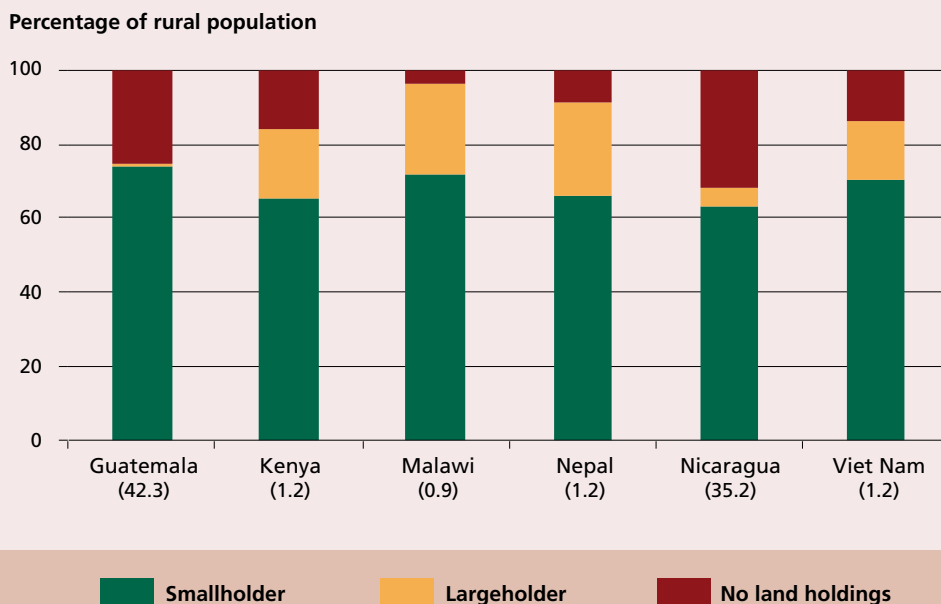
This chapter reviews some of the special issues involved in promoting and ensuring socially desirable outcomes of agricultural investment at these two ends of the spectrum of agricultural investors. It first discusses the importance of investments by smallholders and the specific constraints they face. This is followed by a discussion of the trend towards large-scale land-based investment and the issues involved.

Addressing the constraints to smallholder investors

Many factors justify a strong focus on better enabling smallholders to invest in agriculture, starting with their sheer numbers and economic importance and their relative productivity.¹⁹ An estimated 85 percent of the 525 million farms worldwide are operated by smallholders on plots measuring less than 2 hectares (Nagayets, 2005). The evidence from a sample of six developing countries shows that more than 60 percent of rural people live on farms of less than the median size (Figure 22). In the same six countries, smallholder farms generate between 60 and 70 percent of total rural income through participation in farm and non-farm activities (Figure 23).

¹⁹ While there is no unique and unambiguous definition of a smallholder, the most common approach is based on scale, measured either in absolute terms (2 hectares is standard) or relative to a country-specific threshold that takes into account agro-ecological, economic and technological factors. Definitions based on farm size ignore a number of other characteristics that are generally associated with smallholders, such as limited access to resources, reliance on family labour and less integration into markets.

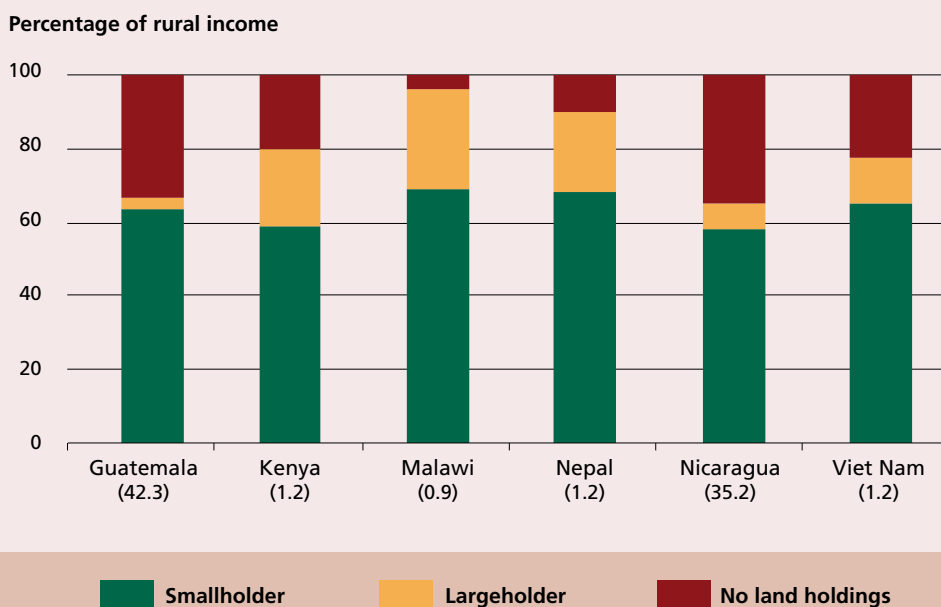
FIGURE 22
Share of rural population by size of land holdings in selected low- and middle-income countries



Notes: Farm size threshold indicated in parentheses (in hectares). The hectare-weighted median (suggested by Key and Roberts, 2007a and b) was employed as a threshold to classify smallholders and large farmers. The hectare-weighted median is calculated by ordering farms from smallest to largest and choosing the farm size at the middle hectare. Thus, half of all land (rather than half of all farms) is on farms smaller than the median.

Source: FAO, 2010b.

FIGURE 23
Share of rural income by size of land holdings in selected low- and middle-income countries



Notes: Farm size threshold in parentheses (in hectares); see also Figure 22.

Source: FAO, 2010b.

The contribution of smallholders to incomes in rural areas underlines their potential role as an engine of growth and poverty reduction. Smallholder income growth is directly linked to other sectors of the economy through the agro-processing and input supply sectors, and through increased demand for non-agricultural consumption goods, thus stimulating production across economic sectors (Christiaensen, Demery and Kuhl, 2010). Agriculture has been shown to be significantly more effective in reducing poverty among the poorest of the poor; agriculture is up to 3.2 times more effective than growth in other sectors in reducing headcount poverty of those living on below one US dollar a day (Christiaensen, Demery and Kuhl, 2010).

In comparison with large-scale farmers, smallholders can have significant advantages, especially in terms of land productivity. There is a rich empirical literature showing that the output per unit area on small farms is higher than on larger farms in many contexts (Eastwood, Lipton and Newell, 2010; Barrett, Bellemare and Hou, 2010). This results from greater intensity in the use of inputs, especially of family labour, and has positive consequences for food security. In general, the use of family labour when it is required offers flexibility denied to larger farms that depend on wage labour and it can reduce labour-supervision costs. Smallholder production is also more suitable for labour-intensive products, such as vegetables, that require transplanting or multiple harvests by hand and for other products that require attention to detail.

Constraints to agricultural investment by smallholders

In spite of their numerical and economic importance and relative efficiency, smallholders often face disadvantages in access to land, markets, inputs, credit, insurance and technology, and in some instances government policies actively discriminate against them. This severely affects their incentives and ability to invest in agriculture. In addition, smallholders are often both more exposed to and averse to risk, which has implications for their investment patterns and their ability to adopt investment strategies that may have higher returns, while also involving higher risk.

Many smallholders are women, for whom these constraints are, almost everywhere, even more severe (FAO, 2011d). Women's productivity and economic potential – including their ability to invest in their productive activities – is hindered by deeply rooted discrimination that affects access to resources and assets such as land, technology and education. Based on household data for 15 villages in Ethiopia, Dercon and Singh (2012) found that female-headed households invested less in agricultural assets than male-headed households. Closing the gender gap and ensuring equal access by women to resources and assets is indispensable for accelerating agricultural and rural development and poverty alleviation (Box 16).

Market linkages to facilitate smallholder investment

Promoting investment by smallholders requires consideration of how they are linked to markets. The extent to which smallholders produce for the market varies within the category, with the smallest farms producing primarily for home consumption and larger farms producing more for the market. Improving access to input and output markets can enhance the incentives for smallholders to invest and reduce their perception of risk. Increased investment, in turn, may boost their productivity and competitiveness. Even for farmers who produce primarily for home consumption, enhancing on-farm investment can be critical for improving their livelihoods and food security in the short and medium term.

Improving access to markets depends largely on publicly funded investments in rural infrastructure, market institutions and education. Human capacity development through investment in education and training in rural areas can provide farmers with the abilities and skills they need to participate in more commercially oriented activities. Better rural infrastructure, such as roads, physical markets, storage facilities and communication services, can reduce the transaction costs associated with linking up to markets. Dercon and Singh (2012) and Böber (2012) found that good access to roads and proximity to markets were significant determinants of levels of agricultural investment by smallholders in Ethiopia and Nepal, respectively.

BOX 16

Women are more constrained in agriculture

Women comprise on average 43 percent of the agricultural labour force in developing countries. The female share of the labour force ranges from about 20 percent in Latin America to almost 50 percent in Eastern and Southeastern Asia and sub-Saharan Africa. The share of rural household heads who are female, many of whom are farmers, ranges from about 15–40 percent in Latin America, 10–25 percent in Asia, and 20–45 percent in sub-Saharan Africa (FAO, 2011d).

Women farmers consistently have less access to the productive resources and services needed for farming than men: they are less likely than men to own land or livestock, adopt new technologies, use credit or other financial services or receive extension advice. For land, the most important asset for agricultural households, the available evidence shows that women represent fewer than 5 percent of all agricultural land holders in the countries of North Africa and West Asia for which data are available. In Southern Asia and Southeastern Asia,

sub-Saharan Africa and Latin America the average is 12, 15 and 19 percent respectively.

Women are not only less likely to hold land; they also typically control smaller land holdings than men. Female-headed households have been found to own much less machinery than male-headed households. Livestock holdings of female farmers are also much smaller than those of men, and women are much less likely to own large animals, such as cattle and oxen, that are useful as draught animals. To this must be added significant differences in the education levels of female and male farmers, although access to education is one area where the gender gap has clearly narrowed in recent decades. The size of the gender asset gap differs by resource and location, but its underlying causes are repeated across regions: social norms systematically limit the options available to women.

Source: FAO, 2011d.

Governments also have an important role to play in addressing other key constraints to market participation. This can entail the delivery of important public goods and services that are not adequately provided by the private sector, such as research, development and extension, and market intelligence. Some of these can be provided by private agents, but will mostly require public funding. (See Chapter 5 for further discussion of public investment and expenditures).

Governments can play a more active role in leveraging private-sector participation in value chain development for export and domestic markets to the benefit of smallholders. Many mechanisms for alleviating the high transaction costs of market participation focus on the organization of smallholders into formal and informal groupings (see below for a discussion of the role of farmers' organizations).

Securing property rights and facilitating access to financial services

Insecure property rights, inadequate savings and limited access to financial services are critical constraints to smallholder investment. Insecure tenure for land, water and other resources can constitute a serious disincentive to invest in agriculture. This is particularly serious for women and other marginalized groups such as pastoralists and indigenous people. Secure property or tenure rights are necessary to provide incentives for longer-term investment, such as in land improvements. Clarity of tenure is necessary for landholders to make optimal investment decisions. Where rights are insecure, the balance of incentives to invest may be tilted away from agriculture towards other sectors. In addition to reducing the incentive to invest in agriculture, insecure property or tenure rights can also constrain access to financial services such as credit and insurance.

Limited access to financial services can severely constrain smallholder investment. Böber (2012), Dercon and Singh (2012) and Dias (2012) all found evidence of access to and/or cost of credit as a major factors conditioning on-farm investment by farm households (in Nepal, Ethiopia and Nicaragua, respectively, see Box 17). In many developing countries, the banking sector is oriented towards financing industry and trade, because the provision of financial services to regions with low population density and poor infrastructure is not profitable, due to high start-up costs, limited economies of scale and high transaction costs associated with the many small transactions typical of rural households when they save

and borrow. The scarcity of financial services means that many rural households have very low saving rates and thus low levels of private investment.

In the past, governments have used subsidies to offset part of the fixed costs of providing rural financial services to producers; however, whereas specific one-time subsidies to financial institutions can be effective in overcoming the high start-up costs of financial operations in rural areas, generalized and continuing subsidies can be distorting and costly. Evidence suggests that subsidies to financial institutions in developing countries are often captured by middle-income households that already have access to banks, rather than benefiting

BOX 17

Empirical evidence on determinants of smallholder investment

There is a substantial theoretical and empirical literature on factors affecting smallholder productivity, but limited empirical evidence on how various factors specifically affect smallholders' investment decisions and their ability to invest. Three empirical case studies, were prepared for this report on Ethiopia (Dercon and Singh, 2012), Nepal (Böber, 2012) and Nicaragua (Dias, 2012). The studies looked at the relationship between farm investment and a range of other factors likely to affect investment. The conclusions emerging from the limited evidence of the case studies largely mirror findings relating to productivity and production.

One main conclusion confirms the local and context specificity of a range of factors affecting investment by farm households. A second important conclusion relates to the significance of community-specific factors determining overall investment by the community, while within communities a series of household characteristics determine how individual households respond to the overall local framework determined by the community characteristics. Among the community characteristics, the studies confirmed the importance of proximity to markets and access to transport infrastructure and credit. In terms of household

characteristics, in general, wealthier and socially advantaged households were found to invest more than poorer and more disadvantaged households. Also, in some cases, male-headed households were seen to invest more than female-headed households. The studies suggest that providing infrastructure and promoting availability of credit are key contributors to promoting agricultural investment by relatively wealthier farmers. For poorer farmers in high-potential areas, however, this may be inadequate and further measures may be needed to help them escape the poverty traps that preclude them from expanding their assets.

In any case, the empirical evidence on determinants of farm household investment remains limited. More analysis is needed of constraints to smallholder investment and policy options to overcome them. In this context it should be noted that CFS at its 37th session in October 2011 requested the High Level Panel of Experts on food security and nutrition to undertake a comparative study of constraints to smallholder investment in agriculture in different contexts with policy options for addressing these constraints. Findings of the study are expected to be presented to CFS at its plenary session in October 2013.

BOX 18

Value chain financing for smallholders

There is growing interest in addressing finance through a value-chain finance approach. Agricultural value chain financing offers an opportunity to reduce cost and risk in financing and to reach out to smallholder farmers. Rather than assessing the potential borrower or investee, this approach takes a systemic viewpoint – looking at the collective set of actors, processes and markets of the chain. It is a transactions- and relationships-based assessment in which decisions about financing are based on the health of the entire system, including market demand, and not just on the individual borrower. A variety of potential financing

mechanisms can then be applied according to the characteristics of the chain and its actors to ensure efficiency of financing, taking into consideration the costs, risks and investment capacity of the value chain actors. These in turn may pass financing up and down the value chain. In this way, many smallholders are able to secure funds that would otherwise not be available through conventional financing institutions, and agribusinesses are able to secure products and client loyalty that would likewise be difficult without the financing.

Source: Miller and Jones, 2010.

poorer rural households (Meyer, 2011; Claessens, 2005; Hoff and Stiglitz, 1997)

More effective approaches can be directed towards the development of value chains and the competitiveness of smallholders, allowing them more secure incomes and access to finance in kind or in cash through their value chain linkages (Box 18). Other instruments to be considered to enhance rural finance and investment may include support to new technologies to lower transaction costs of saving or borrowing, capacity building to both producers and financial service providers, tax breaks to financial institutions which provide services in rural areas and improvements in basic infrastructure.

Another aspect of financial services is related to risk insurance. Governments may intervene to assist in the provision of commodity price insurance because self-insurance strategies, such as crop and income diversification and consumption smoothing, may hinder investment and be inadequate to reduce income uncertainty. Market-based derivative instruments that provide insurance for internationally traded commodities are an important policy option (Larson, Anderson and Varangis, 2004). Market-based weather insurance that covers yield risks has also been suggested (Skees, 2008). Financial instruments such as futures prices and options allow producers to hedge against unforeseen price declines and reduce their exposure to income

risk. In developing countries, risk management based on the use of such instruments will often require the involvement of marketing and financial intermediaries.

Building social capital to overcome constraints to investment

Smallholders need to build social capital if they are to take advantage of economic opportunities and incentives to invest and to overcome other constraints. Social capital can allow smallholders to engage more effectively in markets and with other economic actors and policy-makers, and can help compensate for lack of other assets such as land or financial capital. Effective and inclusive producer organizations can play an important role in this regard.

Rural producer organizations such as cooperatives can play a key role in strengthening the capacity of smallholders to invest in their agricultural activities. Depending on their mandate, their capacity and the specific context they operate in, they can take on different functions and forms, as well as provide a range of different services, thereby helping women and men producers overcome some of the critical constraints they face. They can also improve their incentives to invest and reduce and mitigate risk.

A broad variety of institutional arrangements have emerged in recent years. They provide smallholders with an

array of services, ranging from enhancing management of natural resources, facilitating access to productive assets, markets and financial services and providing information and technologies to facilitating participation in policy-making.

Arrangements such as input shops (to collectively purchase inputs) and warehouse receipt systems (to collectively access credit) have increased smallholders' access to markets and productive assets, while reducing transaction costs. Mediation committees have improved smallholders' access to and management of natural resources. Producer organizations can be central in building small-scale producers' skills, providing them with appropriate information and knowledge and helping them to innovate and to adapt to changing markets.

Producer organizations can also help smallholders voice their concerns and interests and increase their negotiation power and influence on policy-making processes. Multi-stakeholder platforms and consultative forums are examples of mechanisms for smallholders to discuss the design and implementation of public policies.

Some key ingredients are needed for organizations to become effective and fully representative of the interests of smallholders. A recent collection of good practices (Herbel *et al.*, 2012) shows that successful organizations and institutional arrangements are the result of interdependent relations that smallholders develop and engage in:

- among themselves within the same organization (bonding);
- with similar organizations (bridging);
- through their organizations, with external actors (market actors, policy-makers, researchers, non-governmental organizations [NGOs]) within institutional arrangements (linking).

Through bonding relations, smallholders build close ties of solidarity at the grass-roots level. While bonding can be initiated by external support, evidence shows that such initiatives are more sustainable if initiated by the actors themselves. Bridging relations connect these groups together to form larger networks in the form of unions and federations of producer organizations and networks. Through bridging relations, smallholders enhance their access to assets and increase market and bargaining power.

To be fully effective, these organizations must also link with more powerful economic and policy actors, such as business corporations and the government. Relations with economic actors are important for smallholders not only to access markets but also to negotiate fairer commercial conditions. Collaboration with policy-makers is important to allow small-producers to participate in policy making and influence policy decisions.

In both developed and developing countries, there are examples of innovative producer organizations and institutional arrangements that have been successful in helping smallholders overcome different constraints. However, they too often remain limited in scale and scope. The main challenge is to build on these success stories in order to catalyse sustainable rural and agricultural development.

In order to scale up these successful initiatives, stakeholders must come together with clear roles and responsibilities to define the enabling environment for producer organizations to develop. The donor community and NGOs must focus on facilitating the development of existing producer organizations and cooperatives rather than on the introduction of new ones. Governments need to address the needs of existing smallholders and their organizations. Their support must be responsive rather than directive, investing in supporting these organizations to become effective.

In particular governments can provide the enabling conditions, which include policy, legal frameworks and economic incentives. Proactive measures are needed to promote the effective participation of women in mixed producer organizations and cooperatives by encouraging their leadership in these organizations. In addition, measures to support existing "women-only" producer organizations and cooperatives have proved to be a valuable strategy for women producers to develop their own producer organizations and cooperatives, based on their economic and social needs.²⁰ Consultative mechanisms for dialogue

²⁰ The Self Employed Women's Association in India provides an excellent example of a "women-only" organization that supports its members in achieving self-reliance through collective provision of a range of key services and building social capital (see FAO, 2011d).

between the government and producer organizations, allowing smallholders to fully participate in policy formulation, implementation and evaluation, are of utmost importance.

Social protection and smallholder investment in agriculture

Well-targeted social transfers can help many smallholders escape the poverty traps that prevent them from building assets. Social transfers are transfers of money designed to reach the most poor and vulnerable on a regular basis or in response to emergencies. For some poor households, transfers can represent a significant share of income and can help overcome or reduce the impact of two of the most serious constraints to investing and expanding household assets: lack of access to savings and credit and to insurance against risk (Barrientos, 2011). By providing liquidity, cash transfers can allow poor households to acquire different assets, including productive assets in agriculture (such as farm implements, land or livestock), as well as to invest in human capital through education. This can occur through an increase in the savings of poor households and/or by facilitating their access to credit. Programmes aimed at female household members can particularly help the acquisition of assets on the part of women, who tend to face even greater investment constraints than men.

Poor households in rural areas depend heavily on subsistence agriculture and have limited access to financial services such as credit and insurance. Social transfers to households can help them overcome this constraint and allow them to invest in productive assets. There is growing evidence of the positive impact of such programmes on growth and the productive and income-generating capacity of poor recipients (see Barrientos, 2011 for a review of some of the evidence). Social transfers can promote asset creation by households, protect against asset depletion in case of shocks and lead to improved investment decisions or resource allocation in general by providing some protection against risks (Hoddinott, 2008).

Evidence shows that participants in the Mexican *Oportunidades* social assistance programme invested 14 percent of their transfer payments during the first eight months – notably in farm animals, land for

agricultural production and micro-enterprises, the latter mostly women-run – and after nine years beneficiary households had increased their consumption by 48 percent (Gertler, Martinez and Rubio-Codina, 2012). In Nicaragua, participants in the *Red de Protección Social* made fewer investments of this type, possibly because they were instructed to focus on food and education and possibly because of a lack of alternative economic opportunities in the region where the programme operated (Maluccio, 2010). Additional evidence regarding investment in productive assets by recipients of social transfers is found for the Bangladesh Rural Advancement Committee's *Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor* programme (Ahmed *et al.*, 2009; Barrientos, 2011). Also, Delgado and Cardoso (2000) found a high incidence of investment in productive capital among beneficiaries of the *Previdencia Social* Programme in Brazil.

Cash transfers can also help poor households tolerate risk and make more profitable investment decisions. Poor households often use productive assets as a buffer against shocks, which may lead them to prefer assets that can easily be converted to cash (Banerjee and Duflo, 2004). A high degree of risk aversion may also lead poor households to prefer types of investment with low risks but low returns over potentially more profitable but higher-risk activities. Cash transfers can give households more security and thus reduce their aversion to risk; they can also help households avoid detrimental strategies for dealing with shocks, such as selling productive assets or curtailing human capital formation by taking children out of school. In Nicaragua, where the *Red de Protección Social* operated during a severe economic downturn due to a record 30-year low worldwide price for coffee, Maluccio (2005) showed that programme beneficiaries were better able than non-beneficiaries to protect their income and human capital (by keeping children in school and maintaining access to basic health services). Sabates-Wheeler and Devereux (2010) report the same type of effects in Ethiopia as long as the shocks were not too severe relative to the size of the transfer.

Transfer programmes can have effects on the local economy beyond the immediate beneficiaries. Through the injection of a

significant amount of cash into the local economy they can stimulate local product and labour markets through multiplier effects, thus also facilitating the creation of assets by non-participating households. Studies of rural pensions in South Africa (Møller and Ferreira, 2003) or in Brazil (Delgado and Cardoso, 2000; Schwarzer, 2000; Augusto and Ribeiro, 2006) strongly suggest such local-economy effects (Barrientos *et al.*, 2003). Similarly, at the community level, if transfers are provided through public works programmes, they can contribute to the creation of a series of productivity-enhancing public goods assets of importance for the local community.

A common question concerning transfer programmes is the potential reduction in household labour supply. Evidence from developing countries suggests that transfer programmes can reduce child labour, but there is little evidence to suggest that adult beneficiaries reduce their overall labour supply (Barrientos, 2011). From sub-Saharan Africa, Covarrubias, Davis and Winters (2012) and Boone *et al.* (2012) found that the Malawi transfer programme led to increased investment in agricultural assets, including crop implements and livestock, increased satisfaction of household consumption by own production, reduced agricultural wage labour and child work off-farm, and increased labour allocation to on-farm activities by both adults and children. For Ethiopian households with access to both the Productive Safety Net Programme (PSNP) and complementary packages of agricultural support, Gilligan, Hoddinott and Taffesse (2009) found no indication of disincentive effects on labour supply, but found that beneficiaries were more likely to be food-secure, borrow for productive purposes, use improved agricultural technologies and operate their own non-farm business activities. In a later study, Berhane *et al.* (2011) found that the PSNP has led to a notable improvement in food security status for those that had participated in the programme for five years versus those who only received one year of benefits.

Social transfer programmes thus seem to be a promising avenue to facilitate savings and investment by poor rural households, but there is a need for more research to understand more clearly the impact of transfer programmes – *inter*

alia, on household asset accumulation and agricultural investment – and the implications for programme design.

Private cash transfers: the impact of remittances on farm investment

Emigration and remittances are significant phenomena in many countries. In Egypt, Morocco, Nigeria and Ethiopia, remittances account for between 5 and 10 percent of GDP (FAO, 2009b). The affinity of many migrants with agriculture often makes them more willing to invest in agriculture than in other areas. The emotional link of members of the diaspora with their communities of origin may imply a greater tolerance for investment risk. Furthermore, migration itself often results in lucrative export opportunities in the form of captured markets for “nostalgic goods” in diaspora communities. Migrants thus represent an innovative source of financing for agriculture specifically at the local level. Even when not invested directly in agriculture, remittances help mitigate risk, which facilitates adoption of new technologies and practices.

The exact impact of remittances on agriculture and smallholder farmers depends on the particular context. For example, in some rural areas of Morocco, emigration causes production to fall in the short term because of the withdrawal of labour from agriculture, while the long-term effects are positive as remittances are invested in agriculture (de Haas, 2007). Similar results were found in five Southern African countries; although domestic crop production falls initially, in the longer term crop productivity and cattle ownership are boosted by the inflow of remittances and higher domestic plantation wages (Lucas, 1987). In Ghana, the initial negative impacts of migration were completely compensated over time by remittances that stimulated both farm and non-farm production (Tsegai, 2004).

Evidence from Asia also shows positive longer-run effects of remittances. In the Philippines, Gonzalez-Velosa (2011) found that remittances were invested in working capital and also served as insurance. Farmers who received remittances were more likely to grow high-value crops, adopt hand tractors and threshers and invest in irrigation. There was no negative impact on production as there was no labour constraint to production. Overall, remittances have been

found to facilitate agricultural development. In Bangladesh, Sen (2003) found evidence that off-farm labour, including migration, in combination with other diversification strategies, has allowed poor rural households to accumulate assets. Also for Bangladesh, Mendola (2008) shows that farmers with an international migrant in the family are more likely to adopt rice varieties with greater yield variability.

However, remittances do not always flow into productive investment in agriculture. In China, for example, de Brauw and Rozelle (2008) found that total grain output over 1986–99 fell about 2 percent as a result of migration, yet household disposable income rose by 16 percent. They reported that remittances were more often used for consumption rather than for productive investment. There is also substantial evidence that Mexican migrants are more likely to invest in housing than in productive activities (see references in de Brauw and Rozelle, 2008).

What determines whether remittances are invested in agriculture? A well-known study on Pakistan by Ballard (1987) concluded that unfavourable policies, such as central pricing, as well as poor infrastructure made investing remittances in agriculture unprofitable. Rather, remittances went into consumption and non-farm activities.²¹ More recently, Miluka *et al.* (2007) found that Albanian households did not use remittances to invest in productivity-enhancing and time-saving farm technologies. As in Ballard's findings for Pakistani households, Albanian farm households expressed a desire to move out of agriculture, finding the policy context unsupportive.

Evidence from India supports the argument that agriculture attracts remittances for investment when farming is profitable. For example, Oberai and Singh (1983) found that in Punjab, a fertile area of India, remittances were invested in agriculture. On the other hand, evidence from Jharkhand, where only 30 percent of the land is cultivable, shows that only 13 percent of those owning 5–20 acres of land spent their additional income on farm productive uses (Dayal and Karan, 2003).

²¹ More recent research by Mansuri (2007) found that remittances are being invested in farm machinery, agricultural land, tractors and tube wells as well as human capital.

Making large-scale agricultural investment smallholder-sensitive

Trend towards large-scale land acquisitions

Large-scale private investment poses significant challenges for governments. Recent years have seen a surge of foreign acquisitions of land for agricultural use in developing countries. Land acquisition represents a transfer of ownership, but it does not necessarily add to agricultural capital in a country. Only if land acquisition is accompanied by additional capital assets such as land improvements, infrastructure, equipment or knowledge would it be considered investment from society's perspective. Thus, while land acquisition may offer opportunities for low- and middle-income countries to attract much-needed agricultural capital, the mere transfer of land is not sufficient. Such acquisitions can have serious implications for the affected communities, but the scale and impacts of such transactions are not always evident from media reports.

Data on land acquisitions based on in-country empirical research tend to show that the volume of officially recorded deals is well below that asserted in media reports, although the amount of land transferred can be large, and foreign entities typically constitute minority investors (Table 11). As an extreme case, more than half of all agricultural land in Liberia was involved in large-scale acquisitions between 2004 and 2009, but only about 30 percent involved foreign investors and much of it represented the continuation of long-standing concessions (Deininger and Byerlee, 2011). Significant shares of all agricultural land were involved in acquisitions in Cambodia (18 percent) and Ethiopia (10 percent), but domestic investors were responsible for the majority especially in recent years (Deininger and Byerlee, 2011; Horne, 2011). In most other countries the share of agricultural land involved in large-scale acquisitions was about 1–3 percent and foreigners were minority investors. Nevertheless, individual acquisitions can be very large. For example, Cotula *et al.* (2009) report that the maximum size of approved projects in the period 2004–09 in five African countries (Ethiopia,

TABLE 11
Inventories of areas involved in large-scale land acquisitions

COVERAGE	LAND ACQUISITION	TOTAL AGRICULTURAL LAND, 2009	FOREIGN SHARE OF ACQUIRED LAND	TIME PERIOD
	(Million ha)		(Percentage)	
Country case studies				
Brazil ¹	4.3	265	..	Until 2008
Cambodia ²	1.0	5.5	30	2004–09
Ethiopia ²	1.2	35	51	2004–09
Ethiopia ³	3.6	35	minority	2008–11
Liberia ²	1.6	2.6	30	2004–09
Mali ⁴	0.5	41	..	By end 2010
Mozambique ²	2.7	49	47	2004–09
Nigeria ²	0.8	75	3	2004–09
Sudan ²	4.0	137	22	2004–09
Multiple countries				
Ethiopia, Ghana, Madagascar, Mali and Sudan ⁵	2.5	270	..	2004–09
Mali, Lao People's Democratic Republic, Cambodia ⁶	1.5	49	..	Until 2009
Kazakhstan, Ukraine, Russian Federation ⁷	> 3.5	482	..	2006–11
25 countries in Africa ⁸	51–63	800	..	Until April 2010
81 countries ⁹	56.6	2008–2009
"Poor countries" ¹⁰	15–20	2006–2009
Global studies				
Global ¹¹	15–20	4 900	..	Since 2000
Global ¹²	70–200	4 900	..	2000–Nov. 2011

Notes: Studies use various methods for estimating the size of land acquisitions, including field visits, government documents, media reports and in-country research.

.. = data not available.

Sources: Hectares of agricultural land reported by FAO, 2012a. 1 FAO, 2011; 2 Deininger and Byerlee, 2011; 3 Horne, 2011; 4 Baxter, 2011; 5 Cotula *et al.*, 2009; 6 GÖrgen *et al.*, 2009; 7 Visser and Spoor, 2011; 8 Friis and Reenberg, 2010; 9 Deininger and Byerlee, 2011; 10 IFPRI, 2009; 11 von Braun and Meinzen-Dick, 2009; 12 Anseeuw *et al.*, 2012.

Ghana, Madagascar, Mali and Sudan) ranged from 100 000 ha in Mali to 425 000 ha in Madagascar.²²

Recent land acquisitions have several distinctive characteristics, including (i) the involvement of international investors other than "traditional" multinational companies, (ii) their geographical origin, (iii) the large amount of land involved, (iv) the frequent lack of transparency and incompleteness of contracts and (v) the emergence of resource-seeking investors oriented to the production of food for export to their home markets (Cuffaro and Hallam, 2011).

In host countries, governments are generally engaged in negotiating investment deals (Deininger and Byerlee, 2011; Hallam, 2010). Agribusiness and industry account for the largest share of investors in land acquisitions, but foreign governments and sovereign wealth funds are increasingly involved in buying and/or leasing large tracts of farmland in the developing world.²³ Other investors expanding their exposure

²² For an overview of land deals see the newly developed Land Matrix (<http://landportal.info/landmatrix/index.php#pages-about>).

²³ Sovereign wealth funds of China and the Republic of Korea along with the Gulf States of Qatar, Saudi Arabia and the United Arab Emirates appear to be emerging as key investors in these land purchases. Direct investment in foreign land at times occurs directly from government to government. In other occasions, the sovereign wealth funds work in conjunction with private sector intermediaries, their "private" subsidiaries or state-owned enterprises (McNellis, 2009).

in developing country agriculture include international private equity groups and international pension funds (McNellis, 2009; Anseeuw, Ducastel and Gabas, 2011; Davies, 2011; Wall Street Journal, 2010).

The drivers of large-scale land acquisitions seem to be different from those typical of foreign direct investment (Arezki, Deininger and Selod, 2011). The authors analysed the determinants of foreign land acquisition for large-scale agriculture from the perspective of both the country origin and the host country. From the side of the countries of origin, a main driving force is high dependence on food imports; from that of the host country, agro-ecological conditions are a main determining factor, with land acquisition more likely to occur in countries with ample supply of suitable land. In contrast with the general literature on FDI, the study finds a statistically insignificant relation between standard indicators of governance and land acquisition, indicating that overall levels of governance in the host country are not a strong determinant of such flows. Finally, and importantly, the authors find a significant *negative* correlation between an indicator of land governance and land acquisitions. Key variables included in the indicator are tenure security and recognition of existing land rights, the existence of a land policy and levels of land-related conflict. The implication is that weak land governance and poor protection of existing land rights in the host country may be a determinant of land acquisitions, either because investors favour countries with weak protection of land rights or because those are indeed the countries where such deals have been possible.

Currently, flows are unlikely to be large enough to have a marked impact at the global level. However, the impact – positive or negative – in some countries and localities can be considerable and warrants attention. A further factor calling for attention is the possibility of future growth in such flows; this, however, remains uncertain. At the same time, it should be noted that not all large-scale land acquisitions are financed from foreign sources. What is reported as a foreign acquisition is often partly domestic, frequently with more than half of the land acquired being owned by domestic investors.

The impact of large-scale agricultural investment

Land acquisition (and subsequent investment on the acquired land) represents one form of investment by large-scale corporate investors. Other forms may not involve direct control of land. The impact of such investment on recipient countries and affected local communities can be diverse, depending on the investment model chosen. On the one hand, large-scale corporate investment in agriculture can represent an opportunity. It can contribute to filling large investment gaps in poor countries with abundant natural resources but without the capacity to invest heavily in enhancing productivity. It can support the creation of infrastructure as well as the transfer of technology and know-how. Other potential benefits include the generation of employment and incomes as well as export earnings. However, investment involving acquisition of land can also be associated with major risks, including the possible neglect of rights of existing users of land, especially in the absence of strong governance and institutions for the protection of existing rights. Negative environmental impacts, *inter alia*, depletion of natural resources such as soil, water, forests and biodiversity, may also be significant threats.

Various recent initiatives aim to produce evidence on the implications for smallholders of large-scale agricultural investment. Within this context, an expert meeting on international investment in the agriculture sector of developing countries convened in November 2011 by FAO reviewed the current state of knowledge, including a series of case studies (see Box 19 for key results from one of these), on large-scale agricultural investment projects by both foreign and domestic investors (FAO, 2011f; FAO, 2012). These included different types of business models and different degrees of, and modalities for, involvement of local populations. Some involved acquisition of land by investors; others did not. The observed impacts were very diverse and depended on a range of factors.

Positive impacts at the national level included increases in agricultural production and yields, diversification of crops and, in some cases, higher export earnings as well as the adoption of higher standards where the investment targeted export markets.

BOX 19

Large-scale land acquisitions in Cambodia

Agriculture in Cambodia generates about 35 percent of the country's GDP (World Bank, 2012) and 65 percent of its employment (FAO, 2012a). Inflows of FDI have grown significantly, both overall and to agriculture. FDI to agriculture increased from an annual average of US\$1 million in the period 2000–03 to an average of 53 million US\$ in 2007–10.

Large economic land concessions (ELC), both foreign and domestic, have also been made, typically on 99-year lease contracts to enterprises for agricultural and/or agro-processing activities. Large tracts of land were leased already in the late 1990s and early 2000s (435 000 ha from 1999 to 2001), before the Land Law of 2001 and the Sub-decree on Economic Land Concessions in 2005 established a formal framework to regulate ELCs (including mandating environmental and social impact assessments and limits on the size of the land involved).

From 1995 to 2009, land involved in approved ELCs totalled about 1 million ha, a vast amount for a country with a total land area of about 17.5 million ha, 5.5 million of which are considered agricultural land (FAO, 2012a). The majority of conceded land involves domestically owned enterprises, with 35 percent going to foreign investors, mostly Chinese enterprises, followed in descending order by investors from Viet Nam, Thailand, the Republic of Korea and others.¹

Preliminary impact analysis of seven agricultural projects active in 2010,

each covering an area of agricultural land ranging from 4 000 to 10 000 ha, provided evidence of both benefits and costs. However, it is clearly not possible to ascertain to which extent the case study projects are representative of broader patterns in the country. All projects generated a large number of jobs and reported wages for unskilled workers far above the minimum wage for Cambodian garment workers. However, the benefits came at the expense of loss of land holdings and associated livelihoods by local communities. In some cases, there was evidence of environmental problems such as pollution or deforestation, although more in depth and comprehensive impact analysis would be necessary in order to draw firm conclusions.

One of the projects, a 4 000 ha rubber tree plantation, appeared to have been more successful in ensuring inclusiveness. It was characterized by a high degree of participation by the local community, continued ownership of much of the land by the local community and successful conflict resolution.

¹ The economic land concessions in Cambodia have come under severe criticism from civil society because of their impact on local populations and their environmental impact. According to a BBC report of 7 May 2012, the Government of Cambodia suspended the granting of land in order to curb eviction of local populations and illegal logging (BBC, 2012).

Source: Based on CDRI, 2011.

At the local level, one effect of FDI was the generation of employment. However, newly created jobs were often of limited duration and numbers. They were not always taken up by local people, and the net employment creation was limited when new jobs replaced former ones or self-employment. Some positive examples were also found of technology adoption and skills acquisition – in the case of outgrower schemes – as well as new or improved infrastructure.

Positive effects on the local economy were especially found in cases where the investment project was inclusive and actively involved local farmers, for example through outgrower schemes, contract farming or joint ventures. These include higher incomes for outgrowers selling products and services to the nucleus farm and the on-farm reinvestment of earnings by smallholders who have gained access to wage incomes.

On the other hand, the studies provided ample evidence of the possible negative impacts of large-scale land acquisition in countries where local land rights are not clearly defined and governance is weak. Negative social impacts included the displacement of local smallholders (often with inadequate or no compensation), 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.

Also some evidence of negative environmental impacts was found, mainly higher pressure on natural resources due to intensification and reduction in forest cover and biodiversity. This was often due to the absence of proper prior environmental impact assessment and of effective environmental management systems during implementation. Nevertheless, some investment projects were found to have led to the adoption of environment-friendly technology.

Ultimately the studies indicate that the impacts on the local economy depend on a wide array of factors. Very importantly, they suggest that positive effects for local communities are unlikely to materialize when the investment involves land acquisition, especially when the land was previously utilized (including informally) by local communities. Other business models are much more likely to generate benefits for local populations.

Critical factors determining the impact – as opposed to the occurrence – are the policy, legal, and institutional framework in the host country and the capacity of host governments and local institutions to monitor and enforce contracts. At the local level, socio-economic conditions and the capacities of local civil society organizations, in particular farmers' organizations, are important. Impacts also depend crucially on the type of business model implemented, the terms and conditions of the contracts and the process of negotiation, design and planning of the investment project. From the side of the investor, important dimensions are the profile and priority objectives (e.g. speculation vs. long-term development) of the investor as well as the ability of local project managers to forge partnerships with the local community. A final key finding was

the need for the presence of impartial and effective external support from third parties to ensure success.

Evidence also suggests that land-related agricultural investments have gender-differentiated implications (Box 20). Therefore, governments and international organizations that promote investment in agriculture need to specifically address gender – along with other social equity concerns – in policies and programmes relating to such investments.

Alternatives to land acquisition – more inclusive business models

Large-scale corporate investment in agriculture need not necessarily lead to the conversion of small-scale farming into large-scale agriculture. As suggested by the case-study evidence discussed above, other more inclusive partnership models exist that are more likely to achieve desirable developmental objectives by successfully combining assets of local farmers and investing companies. In such models, local farmers would provide land, labour and local knowledge, while corporate investors would provide capital, access to markets and technology and specialized knowledge. They would allow smallholders to make productivity-enhancing investment on their own farms.

A new trend offering opportunities in this respect is the fast-emerging development of investment funds for agriculture. Many of these focus their activities on agribusinesses and small and medium rural enterprises, with an emphasis on value addition through processing, logistics services, wholesaling, etc. Miller *et al.* (2010) analyse 31 investment funds and note the potential of such funds for increasing private sector interest in an area often considered too risky for many investors. Such funds can reduce the risk and difficulties faced by individual investors by pooling resources, diversifying across an array of agribusinesses and entrusting the portfolio to a professional fund manager. Many development agencies have also invested in these agricultural investment funds and commonly sponsor a parallel technical assistance facility to help ensure that investments can benefit small and medium enterprises and smallholders.

BOX 20

Gender implications of land-related investments in the United Republic of Tanzania

A case study of northern United Republic of Tanzania analysed gender-differentiated impacts and implications of corporate investments in jatropha production and horticulture.¹ The emphasis was on investments that were not based on large-scale land acquisition but adopted other business models involving farmers: group-based outgrower arrangements, individual informal and formal outgrower arrangements and permanent wage work.

The study found that the businesses examined were indeed creating new employment and income-generating opportunities for the rural population in the regions studied. It also found that there were gender-differentiated implications with respect to labour and income-generating opportunities for smallholders and wage workers. Some key findings were:

- Married women who were not outgrowers in their own right tended to see increased workload without benefiting equally from the investments, suggesting the need for income-generating opportunities targeted at women.
- The possibility for income generation of women outgrowers tended to be limited by their having fewer resources than men.
- On the other hand, women had equal and sometimes better access than men to formal wage employment in horticulture, but gender divisions of roles tended to lead to segregation between “men’s” and “women’s” work.
- Group-based outgrower arrangements in vegetable production offered both women and men better possibilities for income generation than casual labour on horticultural plantations and provided women in particular with a potentially expanding source of cash income to supplement existing income-generating activities and food production.
- Different types of crops may have different gender implications: indeed, women were found to have better opportunities than men for earning

cash income from collection of jatropha seed, which has low profitability and is considered a “women’s crop”. Fewer women were able to access the more lucrative opportunities such as vegetable seeds, which requires more start-up capital.

Land-related investments were found to affect poor rural women and men differently in their access, use and control of land, *inter alia*:

- Contracting as outgrowers did not improve women’s intra-household control and decision-making powers over use of land and income from it.
- Women contracting as outgrowers could generate supplementary income by renting-in additional land. However, this required availability of resources to start up the business.
- Women farming as wives of contracted outgrowers had enhanced decision-making power over land use, but for access and control they still depended on their husbands.
- Women involved in outgrower groups saw improved access to land and could avoid shifting land from own-food production to the outgrower crop.

The research also identified a series of specific good practices associated with each of the business models which can be incorporated into regulatory practices. The study pointed to the need to address constraints to women’s access to outgrower activities and to the importance of special support to women outgrowers, including training and capacity building. It also concluded that group-based outgrower arrangements offered the significant benefit of self-employment, which participants in the study – especially women – valued above occasional employment opportunities on the horticultural plantations.

¹ The case study on the United Republic of Tanzania is the first in a series of case studies on the topic commissioned by FAO.

Source: Based on Daley and Park, 2011.

Vermeulen and Cotula (2010) provide a framework for analysing the nature of involvement of smallholders, operators and large investors in business models, consisting of the following four interlinked dimensions:

- **Ownership:** which stakeholders own the business and its key assets?
- **Voice:** who makes decisions in project design and execution?
- **Risk:** which groups bear the production, marketing and other risks?
- **Reward:** how are the costs and benefits distributed?

They describe six types of business models involving small-scale farmers in different ways (Box 21). In any case, there is no one

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.

The limited evidence on large-scale corporate investment reviewed above indicates that alternatives to land acquisitions, in which farmers keep or strengthen their control over land and which may create linkages to the surrounding economy, are more likely to provide benefits for all stakeholders. However, these benefits appeared to be neither automatic nor immediate. Many of the inclusive

BOX 21

Inclusive business models for corporate investment in agriculture

Alternatives to large-scale land acquisition, while not necessarily beneficial for all participants, include the following.

- **Contract farming** allows local farmers (or groups) to work their own land and enter a contract with a larger company to produce a given quality and quantity of agricultural produce by a certain date. The price is either agreed upon in advance or is based on a spot market. The company often provides up-front inputs to the farmers (seed, fertilizer, technical assistance, etc.).
- **Lease and management contracts** allow an agribusiness to lease land from small or medium scale landholders either for a fee or through a product or profit sharing agreement.
- **Tenant farming and sharecropping** arrangements involve small- or medium-scale farmers who lease land from large scale agribusinesses; in the former arrangement the farmer pays rent to the agribusiness and in the latter arrangement the farmer and the agribusiness agree on the fixed percentage of either profit or product which accrues to each party.
- **Joint ventures** include a very diverse set of arrangements whereby two or more stakeholders run the business. The partners share ownership, decision-

making powers, risks and rewards, but they retain their individual legal status.

- **Farmers' organizations or cooperatives** are created by groups of farmers who form a jointly owned and democratically governed association to take advantage of economies of scale in business activities such as processing, storing or marketing products, as well as signing contracts and accessing finance. A response to the frequent criticism of slow decision-making is the incorporation of groups of farmers into – less democratic – farmer-owned companies, which – on the other hand – are able to make decisions more quickly.
- **Upstream and downstream business links** is a general term referring to arrangements that facilitate smallholders', operators' and agribusinesses' engagement in the manufacture of, procurement and or distribution of inputs to farming such as fertilizer, seeds, etc. (upstream activities) and/or the processing of agricultural products (downstream activities). Often they can facilitate international standards certification or other opportunities that are often not available to smallholders.

Source: Based on Vermeulen and Cotula, 2010.

investment models had faced various types of constraints and needed substantial initial external support (public and private). Such models may also imply higher transactions costs.

Experience with promoting win-win business arrangements in agricultural value chains shows the importance of intermediaries in bringing together smallholders and corporate investors. Intermediaries may be civil society organizations, specialized technical service providers, donors, but also government actors. According to the findings of the *Regoverning Markets* initiative, a facilitating and catalytic public sector is essential for the development of inclusive business models in modern agricultural markets, alongside a “receptive business sector” and organized farmers (Vorley and Proctor, 2008).

All stakeholders (governments, the international community, civil society and local communities) have an important role to play in helping to ensure the inclusiveness of agricultural business ventures. Governments, the international community and civil society can help address the power imbalances between local smallholders and large agribusinesses. Key actions in order to ensure socially and environmentally desirable outcomes for all stakeholders, especially smallholders, include (FAO, 2011e; Vermeulen and Cotula, 2010):

- Ensure that contracts are well developed, defined and enforced;
- Provide secure land tenure and fair compensation;
- Facilitate the recognition of land as equity for credit;
- Improve access to banks, insurers, law firms and courts;
- Educate and raise awareness regarding business operations and access to market information;
- Facilitate a participatory process that empowers smallholders and locals;
- Empower locals to form farmers’ organizations;
- Increase transparency and information (including documentation) regarding FDI and land acquisition;
- Encourage *ex-ante* and *ex-post* monitoring and evaluation of social, gender and environmental impacts.

Governance to improve the social and environmental impact of investment in agriculture

With a view to providing guidance on how to ensure more desirable agricultural investment, together with other stakeholders (including the international community, governments, private sector, civil society and academia), FAO has pursued mutually supporting frameworks such as *The Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security* (VGGT) and *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources* (PRAI).

The VGGT are intended to serve as a reference by setting out principles and internationally accepted standards for responsible practices for tenure and its governance (FAO, 2012b). They provide guidance on a wide range of areas, including the development and implementation of policies and laws, the administration of tenure, and environmental issues such as climate change and natural disasters.

The VGGT set out ways in which governments and other stakeholders might best ensure that FDI and other investment have socially and environmentally desirable impacts. They encourage responsible investment where tenure is affected, with a view to improving food security. They identify safeguards that should be in place so that investment, particularly deals involving large-scale acquisition of land, recognize and protect the existing tenure rights of potentially affected people and communities. They provide guidance on areas such as ensuring a consultative and participatory process of negotiations among investors and other stakeholders.

The VGGT are based on an inclusive process of consultation, where government officials, and representatives of civil society, private sector, research organizations, UN bodies with a mandate in the field of food security and nutrition and academia identified and assessed issues and actions. The Guidelines were finalized through inclusive consultations and intergovernmental negotiations led by CFS and officially endorsed by a Special Session of CFS on 11 May 2012.

In addition, FAO, IFAD, UNCTAD and the World Bank have also formulated seven key principles for what constitutes *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources* (PRAI) (FAO, 2011g, FAO *et al.*, 2012).

The overriding objective is to ensure that investment in agro-enterprises results in a mutually beneficial outcome for all. They offer a framework that can be used as a basis for formulating laws, regulations, investment contracts, international agreements or corporate codes of conduct but do not define a specific monitoring system. However, some civil society groups have publicly criticized the RAI principles as being too weak (FIAN, 2010 and Transnational Institute, 2011), in particular due to their limited link to human rights.

The broad principles for responsible agricultural investment formulated by the four agencies are:

- **Land and resource rights.** Existing rights to land and natural resources are recognized and respected.
- **Food security.** Investments do not jeopardize food security but rather strengthen it.
- **Transparency, good governance and enabling environment.** Processes for accessing land and making associated investments are transparent and monitored and ensure accountability.
- **Consultation and participation.** Those materially affected are consulted, and agreements from consultations are recorded and enforced.
- **Economic viability and responsible agro-enterprise investing.** Projects are viable in every sense, respect the rule of law, reflect industry best practice and result in durable shared value.
- **Social sustainability.** Investments generate desirable social and distributional impacts and do not increase vulnerability.
- **Environmental sustainability.** Environmental impacts are quantified and measures taken to encourage sustainable resource use, while minimizing and mitigating their negative impact.

The CFS Bureau and its Advisory Group supported by the joint Secretariat has

begun an inclusive multi-stakeholder consultation process for the development and broader ownership of principles for responsible agricultural investment that enhance food security and nutrition. The consultation process will ensure consistency and complementarity with the VGGT. The PRAI and related research outputs will be considered as inputs to this process.

Key messages

- A favourable climate to foster private investment in agriculture is indispensable for all investors, but is not sufficient to allow all farmers to invest in their productive activities and to ensure that private investment meets socially desirable goals.
- Smallholders require special attention in order to allow them to overcome the constraints they often face to invest, including poor access to markets and financial services, insecure property rights and vulnerability to risk. Supporting the formation of social capital in the form of effective producers' organizations and providing social transfer programmes allowing them to build assets can help overcome some of the constraints.
- Large-scale investment in agriculture may present opportunities but land acquisition also poses special challenges in terms of potential impacts on smallholders and the rural poor. It is important to improve the governance of large-scale investment and promote inclusive business models that allow local populations to benefit.
- Both cases underscore the indispensable role of government in ensuring an appropriate enabling environment for socially desirable private investment and in investing in essential public goods.