Food and Agriculture Organization of the United Nations

Trade and Markets Division

FAO Economic and Social Development Department

NEW REPORT

Trends and impacts of foreign investment in developing country agriculture

Evidence from case studies

Edited by Pascal Liu, Suffyan Koroma, Pedro Arias and David Hallam

FAO estimates that net investments to the tune of more than USD 80 billion a year are needed if food production is to keep pace with rising demand as incomes grow and population exceeds 9 billion people in 2050. Investors today are keen to capitalize on current high international food prices, and actively seek investment opportunities in developing countries, notably where natural resources abound. Foreign Direct Investment (FDI) flows to developing countries doubled in 2006–08, but the share going to the agrifood sector is small – less than 5 percent of total FDI. The bulk of this goes to downstream activities (processing and distribution) and less than 10 percent to primary agricultural production.

Trends and impacts of foreign investment in developing country agriculture draws on examples of agricultural investments in nine developing countries in Africa, Asia and Latin America. It examines the trends in agricultural FDI and its economic, social and environmental impacts at national and local levels, as well as the factors determining these impacts. In seeking universal blueprints for making investments that are 'win-win' rather than 'neo-colonialist', the report provides instead a compelling argument that no 'one size-fits all'. A wide spectrum of inclusive business models with varying levels of involvement of local farmers show how different contexts require different business models.

Though no single solution for 'win-win' investments is identified, foreign investment projects that combine the strengths of the investor (capital, management and marketing expertise and technology) with those of local farmers (labour, land, local knowledge) are shown to have good chances of success. Moreover, investments that give local farmers an active role and leave them in control of their land – contract farming, out-grower schemes, for example – are particularly promising.

Conversely, case studies on large-scale land acquisitions show how little the local communities benefit from these deals, except perhaps in the generation of employment in some cases. They also found some evidence of negative impacts on the stock of natural resources including land, water, forests and biodiversity.

While the business model plays a role in the degree of penetration of FDI and its impacts on farmers and the local economy, other factors can be equally significant. These include the social and economic conditions in the investment area, the profile and motivations of farmers and investors, the legal framework and, ultimately, the capacity of local and national institutions to effectively implement the rule of law.

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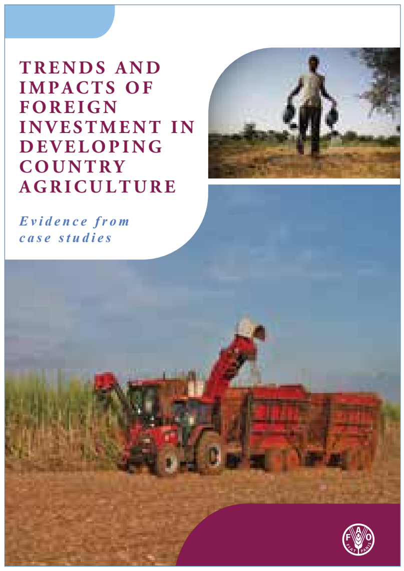

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The FAO Trade and Markets Division keeps under review global issues that affect trade in agriculture, provides analytical and policy-relevant information, maintains a comprehensive market intelligence service of the main agricultural commodities.