



## **Current research on the impacts of investment and the Principles for Responsible Agricultural Investment on developing country agriculture**

A Side Event organized by the Inter-Agency Working Group (IAWG) during the 39th Session of the Committee on World Food Security (CFS)

18 October 2012, FAO Headquarters

### **REPORT**

#### **I. Introduction**

The Inter-Agency Working Group on the Principles of Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (PRAI), composed of FAO, IFAD, UNCTAD and the World Bank, held a Side Event entitled **Presentation of current research on the impacts of investment and the Principles for Responsible Agricultural Investment on developing country agriculture** on Thursday, 18 October, during the 39th Session of the Committee on World Food Security (CFS) at FAO Headquarters in Rome. The objectives of the Side Event were:

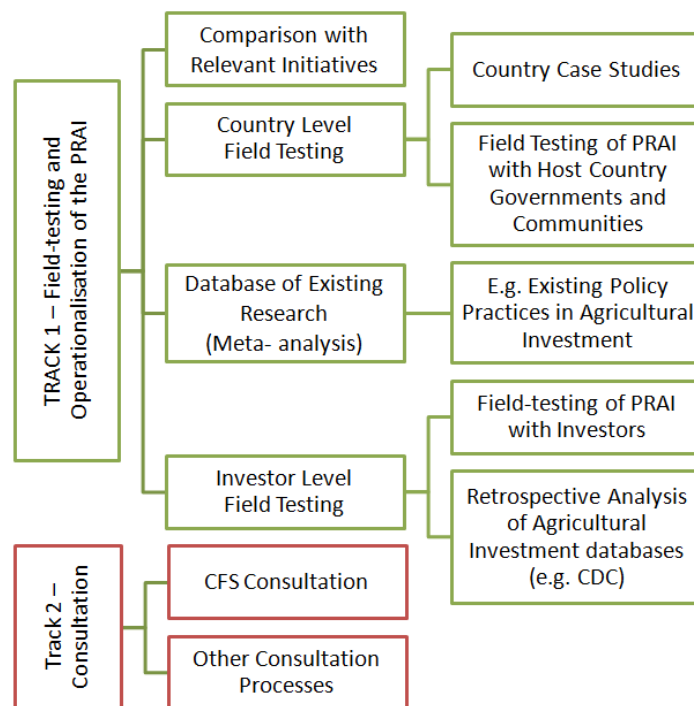
- To present empirical evidence from several streams of ongoing research on responsible agricultural investment in developing countries. More specifically the IAWG presented country case studies on foreign direct investment (FDI) and alternative business models in agriculture; a historical review of agribusiness projects; and a synthesis of the IAWG's research on agricultural investments. It also shared preliminary results of the ongoing fieldwork on the Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (PRAI) in selected developing countries.
- To discuss the implications for policy formulation and possible recommendations for foreign and domestic investors, governments, donors and international agencies.
- To provide inputs into the inclusive CFS consultation process to ensure broad ownership of principles for responsible agricultural investment that enhance food security and nutrition (rai) that the CFS plans to initiate after its 39<sup>th</sup> Session.

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

Brian Baldwin, Senior Operations Management Adviser, IFAD, opened the event and introduced its objectives. He presented the Action Plan on PRAI (see below) prepared by the IAWG and endorsed by the G20 and G8. He emphasized the urgent need for more investment in agriculture. The IAWG promotes agricultural investments that are

conducive to inclusive growth. It has proposed the PRAI as a possible tool and government and private sector actors have shown interest in using them in, for example, monitoring and evaluation of investment projects and education of farmers and managers. PRAI is a working document that can evolve based on research and experiences in the field and on consultations with stakeholders. The results of the IAWG's research on investments and field-testing of the PRAI will feed into the CFS consultations for the development and broader ownership of principles for responsible agricultural investment.

Figure 1. The PRAI Action Plan: Field Testing the Principles and Consultations



### Trends and Impacts of Foreign Investment in Developing Country Agriculture – Evidence from case studies

Pascal Liu, International Agricultural Investment Team Leader, Trade and Markets Division, presented FAO's research on Foreign Direct Investment (FDI) in developing country agriculture and the new report *Trends and Impacts of Foreign Investment in Developing Country Agriculture – Evidence from case studies*. The report provides knowledge on the trends and impacts of FDI on host communities and countries. It contains case studies in nine developing countries in Africa, Asia and Latin America and examines the trends in agricultural FDI and its economic, social and environmental impacts at national and local levels. Factors determining the impacts of FDI and their relative significance are also analysed. The study can be found at <http://www.fao.org/economic/est/issues/investments/en/>

## **What does the past teach us about agribusiness investments?**

Grahame Dixie, Agribusiness Unit Team Leader, World Bank, presented the report *Investment in Agribusiness: A Retrospective View of a Development Bank's Investments in Agribusiness in Africa and East Asia*. The report is based on an analysis of 179 agribusiness investments in Africa and Asia by Commonwealth Development Corporation (CDC) between 1949 and 2000. Only one-third of CDC's investments generated attractive internal rates of return (>12 percent). Interestingly the cause of failure for up to 27 percent of the projects was the use of a "flawed concept" that, in most cases, could have been detected prior to implementation. Of the four models used within the projects funded by the CDC, the most viable was the nucleus estate with out-growers, followed by the facility dedicated to processing only. That said, the success of the Nucleus Estates was built on a foundation of a successful large scale farming model. This is important as it shelters smaller scale producers from the high initial risks of such operations.

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 more gradual approach. A substantial share of businesses that initially failed was taken over by another investor later and became financially viable and provided developmental impacts in the long run. The report can be found at [http://www.responsibleagroinvestment.org/rai/sites/responsibleagroinvestment.org/files/features/Findings\\_Agribusiness\\_CDC.pdf](http://www.responsibleagroinvestment.org/rai/sites/responsibleagroinvestment.org/files/features/Findings_Agribusiness_CDC.pdf)

## **Field Survey of the PRAI with investors and local communities**

Hafiz Mirza, Chief, Investment Issues Research, UNCTAD, presented the methodology for preliminary findings from field surveys of agricultural investments across Africa and South East Asia intended to: (a) examine the extent to which existing investor operations and practices are consistent with the PRAI; (b) assess the impact of these investments on local communities; and (c) uncover both good and bad practices and learn from them. So far, field studies of 25 investments/local communities in African countries have been undertaken, with up to 15 in South East Asia to follow. This will provide systematic, normalized, and triangulated evidence for decision-making, based on a quota-based sample of a balanced mix of investors and communities. In addition, the studies will assess what investors are doing to promote economic, social and environmental gains and sustainability in local communities.

The ultimate aims of this research project are: to understand what the main issues are on the ground; test the feasibility of the PRAI; translate the principles into actions for investors, governments, donors and international agencies; and explore how differences in factors (such as size, business model, type of investor, local capacities and circumstances) can influence the impacts of an agricultural investment.

### **III. Discussion**

#### **Assessing the outcomes of agricultural investments**

The side event discussed how to define the success of agricultural investments (e.g. financial returns to investments as well as developmental impacts such as increased food security). Participants asked how success and failure of investments were measured in the research of the IAWG.

It is important to make agriculture attractive for young people in order to spur rural development. Increased employment, whether as a wage worker or as a self-employed smallholder farmer, is an important factor for the success of large investments. Different types of investments have the possibility to contribute to decent job generation. However, a representative from ILO warned that some investment projects might provide incentives to use child labour. There is also a need to focus on gender issues and other differentiating factors. For example, research has shown that an investment project can affect women and men differently, not least in relation to employment and livelihood opportunities. Differentiated impacts of investments on different groups, such as women, men and youth should be measured. Apart from immediate impacts, it is also important to analyse long-term impact on, for example, food security and the environment. It is difficult for historical analyses of agribusiness investments to evaluate environmental impacts since awareness, and thereby data, of such impacts were limited in the early post World War II era. Today, quantifiable environmental impacts must be considered an important criterion for determining failure or success of investments. Indirect social, environmental and economic impacts and multiplier effects must also be considered.

#### **Smallholders and investments**

Much of the current discussions on agricultural investments evolve around FDI and large-scale agriculture and in particular large-scale land acquisitions. The work of the IAWG is not limited to FDI in large-scale agriculture, but takes into account domestic and international as well as small-scale and large-scale, private and public investments. Domestic investments account for the bulk of agricultural investments; and most foreign investments in agriculture are small, although a few very large deals leasing/acquiring land skew the average upwards. In developing countries, investments made by smallholders in their own fixed assets, human capital etc., are crucially important. More research on this topic was requested.

It was asked if the IAWG considers the inclusion of smallholders a criterion of success of commercial and large-scale investment projects. The IAWG advocates business models that include smallholders. Research and experiences from various stakeholders have shown that business models in which farmers keep or strengthen their rights to land and natural resources and play an active role in management and production have the most positive impacts on development.

The views and perspectives of smallholders and other community members affected by investment projects are also surveyed in field testing of the PRAI. One participant stated that large-scale plantation projects may compete for resources with surrounding smallholder farmers while at the same time smallholders are often excluded from involvement in such projects. He argued that it was wrong to talk about success in such cases even if the investment was economically viable.

The IAWG recognizes the crucial importance that smallholder investments can have for poverty reduction and development and this is reflected in the work of the respective organizations. As one example, smallholder agriculture is the first priority for IFAD and over 95 percent of the World Bank's support to agriculture goes to smallholder agriculture. The World Bank's support to large-scale ventures focuses on embedding smaller-scale producers into modern supply chains, production systems and market opportunities that these larger-scale agribusinesses can bring.

### **Large-scale land acquisitions**

A participant argued that the impacts of "land grabbing" were ever worsening in some countries; and another participant said that it was important to consider broader impacts of investments beyond the project level with regards to democracy, high-level corruption and systematic human rights abuses. A panellist answered that the field-testing of PRAI takes these problems seriously and involves vulnerable and negatively impacted people in the surveys. When particular problems are known, such as conflicts concerning resettlement issues, resettled people are interviewed where possible. The IAWG considers that large-scale acquisition of land without the prior informed consent of affected communities, or for the purpose of socially, environmentally or economically unsustainable projects or speculation on land value is totally unacceptable.

### **Productivity gains**

Many negative impacts of land investments as well as factors that determined beneficial economic and developmental impacts of investments were discussed. One participant requested measures on net impacts on agricultural productivity among various business models. He said that increased productivity was often used to legitimize large-scale farming operations and asked if increased productivity in relation to use of natural resources, labour and inputs could be seen as a criterion for success (as a complement to returns to investments and employment). Small-scale mixed farming can be as productive as large-scale mono-crop agriculture. However, there are also examples where wage working on a large farm have increased productivity on the home farm. There are cases where agricultural workers can apply skills learnt in the commercial farm to their home farm. Agricultural workers with decent salaries may also re-invest part of their incomes in education or fixed assets on their home farm.

### **Investments along the value chain**

It was stated that domestic marketing can improve opportunities for primary production of food crops and that options for increased investments to support this should be explored. In regards to FDI, a participant asked for more data on

determinants and impacts along the entire value chain. The delivery system is weak in developing regions such as sub-Saharan Africa where gaps in processing and marketing are big. FDI in storage and marketing could potentially strengthen domestic and regional trade of agricultural products. However, it was asked if lack of FDI in downstream activities targeting domestic and regional markets could be explained by lack of profit opportunities there. That being said, in monetary terms a major share of agricultural FDI is in fact going to downstream activities, but the bulk of this is aimed for export.

Panellists supported the value chain approach to agricultural investments. Investment in the bottlenecks is highly cost-effective. In this regard, governments, international organizations and others must work with local organizations, including NGOs and farmer associations, to identify problems and priority areas for investments. The current debate on agricultural investments focuses on large-scale land acquisitions, but there are also many positive examples of domestic as well as foreign commercial investments at the local level that create durable shared value. Many private sector investors have also realized the benefits of working with reliable local partners such as cooperatives, local shop keepers and NGOs. There is a quiet revolution occurring in informal and formal agricultural marketing at local level, partly enhanced by the dissemination of cheap ICT technology such as mobile phones. More research beyond large-scale agriculture and the expansion of supermarket chains are needed.

### **The need for international guidance on responsible agricultural investments**

One participant asked how aware private companies were of the PRAI or similar initiatives. She asked how the IAWG intended to feed the results of their research into the CFS consultations on principles for responsible agricultural investments. A panellist pointed out that "track 2" of the IAWG's work is precisely to support consultations, and moreover, since CFS members own the consultation process, asked in turn how CFS members, governments, civil society and the private sector, would utilize the results of IAWG's research in the consultation process.

The role of development cooperation for increased investments was discussed. A representative of a bilateral finance institution said that they planned to support investment projects that included smallholders and could help to enhance the diversification of rural economies. He believed that the development of international soft law such as the PRAI and CFS principles for agricultural investments that enhance food security and nutrition could provide direction. Implementation guidance for particular issues such as investments in agricultural cooperatives and mixed farming was also requested.

The IAWG will continue to bring to the stakeholders robust empirical data on agricultural investment and experiences from the field testing of the PRAI.