

28 January 2013

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



Pascal Liu
TRADE AND MARKETS DIVISION, FAO



New FAO report on FDI in agriculture

Review of regional trends of agricultural FDI

Country case studies in Africa, Asia, Lat. Am.

Goals:

- Better knowledge of trends, impacts on host countries
- Examine different types of business models (e.g. contract farming, land acquisition...)
- Identify good practices, provide guidance

Scope:

- Foreign investment in primary production
- Land acquisitions & alternative models (e.g. contract farming, outgrower schemes...)
- Impacts at two levels: national & local



Economic impacts

Macroeconomic level

- Generation of employment (some limitations)
- Increase of production and yields
- Higher export earnings
- Diversification, value-added production, standards
- Development of infrastructure
- Technology transfer: mixed evidence
 - Some positive examples
 - Actual transfer usually not up to announced level



Impacts on the local economy

For inclusive business models:

- Job creation
- Value addition for outgrowers & higher incomes (sales to nucleus farm)
- Higher productivity of small farmers (reinvesting earned wages in their farm)
- Income generation (outsourcing of services to local residents)
- Building of institutional capital = a key asset for LED



For large-scale land acquisition: very few positive local economic impacts

Social impacts

Risks where local land rights are not clearly defined & governance is weak:

- reduced access to resources for local community
 - loss of land for grazing, collection of timber & NWFP
 - negative impacts on rural livelihoods
 - displacement of local smallholders
 - no compensation (or insufficient)
- => risks of social fragmentation, civil conflict
- => local opposition reduces profitability of investment



Environmental impacts

- Pressure on natural resources
 - Intensive use of land and water => depletion, degradation
 - Reduction in forest cover and biodiversity

Often due to lack of proper EIA and EMS

- In some cases, adoption of environment-friendly technology (e.g. drip irrigation) and approach (e.g. OA)



Conclusions

1. Case studies => **caution in interpretation**
2. **High variability of impact** (see below)
3. **Large-scale land acquisitions**: **disadvantages** often outweigh the few benefits (job creation)
4. **Positive effects of inclusive business models** on local economy
(when farmers keep control of land and are involved early)
5. **But effects will take time to emerge** due to high transaction costs, asymmetry investor/local farmers, learning needs, ...



Conclusions (cont'd)

6. Incl. models need strong external support (patient capital & PPP)
7. No ideal business model for all contexts
8. FDI impacts depend on many other factors: contract terms, location, social & economic conditions, capacity of local institutions, negotiation process, investor, policy/legal framework...
9. Domestic laws & institutions governing investment are key, but often inadequate in DCs (inconsistent, fragmented, no coordination)



Recommendations

- **Strengthen policies, laws and regulations** (more consistent & supportive, reduce loopholes, clarify & protect rights). VGGT can help.
- **Improve governance** (transparency, accountability, rule of law, participation)
- **Support DC governments & institutions** (capacity building, policy advice, ...) **in all policy areas** relevant to ag. investment
- Strengthen **local organizations**, esp. farmer groups
- **Sensitize investors** to interest of good investment practices



Thank you

For more information and to download the publication:

<http://www.fao.org/economic/est/investments/en/>



Annex: Determinants of impacts

- terms & conditions of contract
- business model/profitability/enterprise
- policy/legal/institutional framework in host country
- conflict resolution mechanisms/mediation
- secure access to land for investors and local people
- social & economic conditions at location
- capacity of local institutions
- capacity of local CSOs, farmer org.
- negotiation process
- external support
- profile of investor