FOREIGN INVESTMENT IN DEVELOPING COUNTRY AGRICULTURE (TRENDS AND IMPACTS ,POLICY AND INVESTOR MOTIVATIONS)

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Abstract
Evidence that investing in agriculture in developing countries as a way of tackling poverty and hunger is growing. Given the sheer number of people working in the agricultural sector, investments can have benefits on a large-scale but there are also risks and big investments can, in some cases, harm the rural sector, taking land and resources away from local people. Substantial increases in agricultural investments in developing countries are needed to combat poverty and realize food security and nutrition goals. There is evidence that agricultural investments can generate a wide range of developmental benefits, but these benefits cannot be expected to arise automatically and some forms of large-scale investment carry risks for host countries. Although there has been much debate about the potential benefits and risks of international investment, there is no systematic evidence on the actual impacts on the host country and their determinants. The research aims to provide better knowledge on the trends and impacts of foreign direct investment on host communities and countries, to identify good practices and to develop guidance for host governments and law and policy to better inform both host countries and investors and INVESTOR MOTIVATIONS

Methodology and scope of the studies
Although there has been much debate about the potential benefits and risks of international investment, there is no systematic conclusion on the actual impacts on the host country. More evidence is also needed on the workings and impacts of inclusive business models through the detailed analysis of projects implemented in the field. In order to acquire better knowledge on international agricultural investment, FOOD AND AGRICULTURE ORGANIZATION has undertaken a series of country case studies. The research aims to provide an in depth understanding on the trends and impacts of foreign direct investment on host communities and countries, to gather evidence on the type of business models that are more conducive to development, to identify good practices and to develop guidance for host governments. To this end, FOOD AND AGRICULTURE ORGANIZATION designed and directed case studies in selected developing countries. The studies were conducted in partnership with research institutions or through the direct recruitment of local researchers and consultants. The studies examined the trends in agricultural FDI and its economic, social and environmental impacts in host countries. They reviewed the recent trends and current situation of large scale agricultural investments and land acquisitions in the selected countries, with special attention to various types of business models, distinguishing those with and without land acquisition. They analyzed the factors determining the impacts and their relative significance. Two types of case studies were undertaken. The first type focused on national policies to attract FDI in
Introduction
Foreign Direct Investment (FDI) has contributed significantly to growth and development in many developing countries over the last three decades, although, the benefits have not been evenly distributed. The countries that have benefited the most are those (e.g. Brazil, Malaysia, Republic of Korea, etc.) in which the conditions for harnessing inflows of foreign capital were in place and the opportunities and risks associated with current and future market developments were clearly understood by both investors and host country policy makers. These include – political stability, investments-friendly regulatory and policy frameworks, skilled or easy-to-train manpower, market size or proximity to large markets with minimal trade and physical barriers, etc. However, several developing countries have seen FDI’s contribution to growth (in terms of GDP) at very high rates even without the development-friendly conditions in place. In such countries, (e.g. Nigeria, Zambia, etc.) This has been mainly due to the very high returns on investments from mainly extractive industries although the development benefits are still indeterminate. In many developing countries, FDI in the agricultural sector has been mostly concentrated in the up-stream sub-sectors – food processing, beverages and related allied sectors. However, in many developing countries, the ongoing food and financial crises have witnessed a surge in investments in large tracks of land to grow and export food and biofuel crops to investor countries.

What do we know about recent investments in developing country agriculture?
Unfortunately, there are as yet no detailed data on the extent, nature and impacts of these investments. Available foreign direct investment data lack sufficient detail and are too aggregated to determine just how much investment in agriculture there has been and what forms it takes. It is therefore difficult to say with any precision whether the recent investments are a totally new development or a continuation of existing trends. Some information is available from the investors themselves and from those developing countries receiving inward investment, although not too much detail is divulged given the sensitivity of the issues surrounding these investments and the need for confidentiality. The lack of transparency surrounding these investments has been widely criticised. Much available information is anecdotal, probably exaggerated and difficult to verify. The weakness of the information points to the importance of country case-studies of the extent and impact of inward investments and these are being undertaken by several international organizations. However, from what limited information is available, a number of observations can be made.

- Foreign investment in developing country agriculture does appear to have increased in the last two years although the number of projects actually implemented is less than the number being planned or reported in the media. Delays between finalisation of agreements and the start of actual operations can be long.
- Foreign investment in developing country agriculture and land is not a new phenomenon.
- The main form of recent investments is acquisition mostly through long-term leasing of up to 99 years of agricultural land for food production.
- Land investments can be large-scale with many involving more than 10 000 hectares and some more than 500 000 hectares.
- The amount of land in Africa acquired by foreign interests in the last three years is estimated at up to 20 million hectares but
land under foreign control remains a relatively small proportion of total land areas in host countries – around one percent of cultivable land in Ethiopia or Sudan, for example. However, international investments are more likely to target good land and the local impacts of individual large investments can be significant.

- Investments can include infrastructural developments such as construction of road or rail links or port facilities.
- The major current international investors are the Gulf States but also China and Republic of Korea.
- Investors are primarily private sector but governments and sovereign wealth funds are also involved in providing finance and other support to private investors or in some cases directly including through state-owned enterprises as in much Chinese investment.
- The current involvement of sovereign wealth funds, investment funds and institutional investors is limited but the magnitude of the funds at their disposal make them potentially important sources of investment funds in the future.
- In host countries it is governments who are engaged in negotiating investment deals.
- More traditional foreign direct investment continues but often emphasising various forms of joint ventures such as contract farming.

**Policy**

Policy options and considerations

International investment should bring development benefits to the receiving country in terms of technology transfer, employment creation, upstream and downstream linkages and so on. In this way, these investments can be “win-win” rather than “neo-colonialism”. However, these beneficial flows are not automatic: care must be taken in the formulation of investment contracts and selection of suitable business models; appropriate legislative and policy frameworks need to be in place to ensure that development benefits are obtained and the risks minimized.

However, the information base for design and implementation of effective policies and legislation is very weak. There is therefore an urgent need to monitor the extent, nature and impacts of international investments and to catalogue best practices in law and policy to better inform both host countries and investors. Detailed impact analysis is needed to assess what policies and legislation, whether national or international, are needed and what specific measures are most appropriate. If foreign direct investment is to play an effective role in filling the investment gap facing developing country agriculture, there is a need to reconcile the investment objectives of investors with the investment needs of developing countries. Investment priorities need to be identified in a comprehensive and coherent investment strategy and efforts made. Apart from the financial terms and conditions of the investment, consideration needs to be given to inter alia local sourcing of inputs including labour, social and environmental standards, property rights and stakeholder involvement, consistency with food security strategies, distribution of food produced between export and local markets, and distribution of revenues. Such issues might be part of an investment contract between the investor and the host government although in practice investment contracts tend to be rather short and unspecific on such issues. Obviously, where investments are joint ventures which include host governments as a partner local interests can be better protected, always provided that government recognizes these. The actual investment contract is one element of the legal framework surrounding international investments. Domestic law and international investment agreements provide the legal context for investment contracts with the latter generally prevailing over the former.
Investment contracts can also override domestic law, especially where as in many cases domestic law is not comprehensive or clear in terms of defending local stakeholder interests. In general, the legal framework tends to favour the investor rather than the host country and in particular to favour investors’ rights over those of host country stakeholders.

**Investor Motivations**

The motivation for these investments depends on the investor – whether private sector or government. Private sector investments can represent portfolio diversification for financial returns. Biofuel production is also an important objective. However, the main reason for the recent spate of interest and which differentiates it from more previous international investments is food security. This reflects a fear arising from the recent high food prices and policy-induced supply shocks that dependence on world markets for foods supplies has become more risky. Investors seek enhanced food security through investment in countries where the land and water constraints faced domestically are not present. However, they also require security of their investments. While the current preoccupation is to buy land since titled ownership of assets is seen as most secure, there are many arguments against this from the point of view of the receiving country. It is also not clear that it is necessary or desirable even for the investing country. Acquisition of land does not necessarily provide immunity to sovereign risk and can provoke political and economic conflict. Other forms of investment such as contract farming and out-grower schemes can offer just as much security of supply. In any case, land investments are only one strategic response to the food security problems of countries with limited land and water resources and discussion of these investments needs to be set in the wider context of broader strategic discussions of food security problems. There are a variety of other mechanisms, including creation of regional food reserves, financial instruments to manage risk, bilateral agreements including counter-trade and improvement of international food market information systems, which are under active discussion. In the limit, investment might be simply in much-needed infrastructure and institutions which currently constrain much developing country agriculture especially in sub-Saharan Africa. This, together with efforts to improve the efficiency and reliability of world markets as sources of food might raise food security for all concerned more generally through expanding production and trade possibilities.

**Impacts of International Investments**

Benefits to the receiving country are a major concern. The key question concerns the extent to which benefits from the investment spillover into the domestic sector in a synergistic relationship including with existing smallholder production systems. Benefits should arise from capital inflows, technology transfer leading to innovation and productivity increase, upgrading domestic production, quality improvement, employment creation, backward and forward linkages and multiplier effects through local sourcing of labour and other inputs and processing of outputs and possibly an increase in food supplies for the domestic market and for export. However, these benefits will not flow if investment results in the creation of an enclave of advanced agriculture in a dualistic system with traditional smallholder agriculture and which smallholders cannot emulate.

**CONCLUSIONS**

Lack of investment in agriculture over decades has meant continuing low productivity and stagnant production in many developing countries. This lack of
investment has been identified as an important underlying cause of the recent food crisis and the difficulties developing countries encountered in dealing with it. Additional investments of at least $30 billion annually are needed in developing country agriculture. Developing countries’ capacity to fill that gap is limited and the share of official development assistance going to agriculture has trended downwards over the years to as little as five percent. Foreign direct investment has an important potential role to play, therefore in financing agricultural investments in developing countries. In general terms, the apparent recent surge in interest in international investment in agriculture should be welcomed rather than condemned. The motivation for the recent spate of interest is food security and a fear on the part of certain food importing countries arising from the recent high food prices and policy-induced supply shocks that dependence on world markets for foods supplies has become more risky. The much-publicized “land grab” involving the purchase or leasing of agricultural land in developing countries for food production is just one form of investment. At the same time, a number of developing countries are making strenuous efforts to attract such investments to exploit “surplus” land. Recent developments could mark the beginning of a profound change in the pattern and nature of global food production and land use. There is an urgent need to monitor the extent, nature and impacts of international investments and to catalogue best practices in law and policy to better inform both host and investing countries. Detailed impact analysis is needed to assess whether an international code of conduct is desirable and what its content should be. The scope for forms of investment other than land acquisition – such as contract farming, out-grower schemes and other joint ventures - and which are more likely to yield development benefits to host countries needs to be evaluated and best practices promoted. If foreign direct investment is to play an effective role in filling the investment gap facing developing country agriculture, there is a need to reconcile the investment objectives of investing countries with the investment needs of developing countries.

References