Centre d'analyse stratégique

La note de veille

ANALYSIS

Ensuring responsible agricultural investments in the least developed countries and developing countries

While the food riots of 2008 are still in our minds, the increasing importance of foreign investors in the agricultural sector of developing countries may seem worrying. In Africa, Latin America, Asia and Eastern Europe, governments are choosing to sell or let land, farms and harvests. Pakistan also intends to allocate a tenth of its arable area in this way, a strategy that is criticised by those who recall that a quarter of the Pakistani population suffers from malnutrition. These transactions have taken an unprecedented size with the increasing involvement of the States that are most dependent on food imports and new investors. Their awareness raised by the media, international institutions are currently debating several regulatory principles. Badly prepared and badly managed installations can indeed cause serious social and environmental damages. They can also impoverish part of the rural population, and compromise the food security in the host country. However, one thing is certain: a massive capital input into the agricultural sector in the Southern countries is essential to feed eight billion human beings in 2030. These investments are thus necessary and need to benefit from an environment that is propitious for their implementation. However, these transactions will only be acceptable if they are made in a responsible and sustainable way.

Consequently, it is the responsibility of: i) international institutions to contribute to increasing public and private investment in agriculture in developing countries by encouraging 'responsible' projects and offering to help host countries in their negotiations with investors; ii) France and the European Union to sign partnership agreements with the countries that will be accepting European investors with the aim of developing their agricultural sector and securing their investments; iii) France, given its own experience in this area, to support land reform processes that respect local customs; iv) investors to commit to 'responsible and sustainable' initiatives, involving impact studies and a transparent dialogue with local stakeholders; v) the financial sector, and notably sovereign funds, to apply the Ecuador Principles when contributing to agricultural asset transactions ; vi) the World Trade Organization to allow the least developed countries and their regional economic unions to create regional markets protected by a combination of minimum prices and customs barriers, in which redistributive measures can be implemented; vii) France to monitor and record these principles in the regulation currently designed by the different international organizations.

The transfer of land, and more generally of agricultural production factors, to foreign investors in developing countries, leads to an ethical dilemma: how can one analyse the decision by the Sudanese government to allocate the use of 200,000 hectares to a Qatari company when the country is the leading destination for international food aid? These decisions, which in principle aim to contribute to the development of the country, cannot be condemned *a priori*, without thorough examination: indeed, only 15 % of the Sudanese arable area is currently under crops, leaving some 68 million hectares of 'good land' unused. Meanwhile, investment in the agricultural sector has become the new spearhead of the world food security strategy: in answer to the call of the Food and Agriculture Organization (FAO), the G8 countries have offered a 20 billion dollars envelope in order to increase the agricultural production of the Developed Countries (DCs).

Are local populations doomed to be excluded from the agrarian development derived from these transactions? Or can investors contribute to food security in the host countries? After setting out a panorama of the phenomenon in the current state of knowledge, the present note addresses the question of the consequences of these projects and proposes a series of recommendations aimed at French and European public bodies, at investors and at the banking sector.

International transactions of agricultural assets will be a major trend in the coming decades

Transactions of agricultural assets (land, production units, logistic infrastructure, harvests...) are bound to increase in the future

Feeding 8 billion people by 2030 is possible but requires the resolution of inequalities in the access to food and a large increase in the global agricultural production. These challenges assume considerable investments in agriculture and a development of international trade[1]. Given their available arable area, some countries cannot, and will not, be able to satisfy the food needs of their inhabitants in the future. From today, feeding the current world population implies a 30 % increase in agricultural production.

In this context, certain investors are logically led to move into developing countries: the comparative advantages of certain countries (cheap labour, fertile land, suitable climate for certain crops, etc.) allow production at more competitive costs, the ambitious European Union objectives for the development of the bio-fuel industry indirectly encourage production outside community frontiers, commercial agreements institute preferential customs tariffs for agricultural products from the DCs, and international demand for tropical forest products in increasing. The current increase in direct foreign investments in the food industry, notably from European companies, is thus likely to persist.

In parallel, some countries that have comparative advantages in agricultural production and large arable expanses are calling on foreign investors in order to support their agrarian development or increase agricultural production to ensure their own food security.

New players will now wish to secure their access to agricultural assets and production factors. The purchase or long term leasing of agricultural assets is not a new item in international trade: at the start of the 20th century, the *American United Fruit Company* owned nearly a quarter of the agricultural land in Honduras. However, whereas these transactions were essentially acts of private companies whose core business was export, **some States are now seeking to ensure their food security by direct investments in countries where part of the agricultural potential (such as available arable land, a favourable climate, etc.) is idle**: Japan, South Korea, and the Gulf States confront a structural deficit in land and water resources to ensure a minimum degree of food autonomy. Some have definitively stopped encouraging the development of domestic agricultural production industries: Saudi Arabia, which imports 96 % of its food consumption, thus envisages the end of cereal crops on its soil within six years.

Box 1.Middle Eastern States are implementing well-chosen strategies

In the Middle East, the choice of importing or outsourcing abroad part of the agricultural production was until now essentially that of private companies. Threats to food security have decided certain governments to take over. The United Arab Emirates is thus encouraging public and private players to invest in Pakistani and Sudanese land. Next, it has turned towards setting up strategic reserves to protect against episodes of rises in world prices by ensuring the availability of foodstuffs, and, according to certain observers, by influencing international prices. So the storage of three months consumption for fifteen 'vital' foodstuffs, whose price should increase during the next two years, has been decided on. Eventually, the Emirates sovereign fund should become the main operator in a new purchasing policy, now aiming at logistic units.

Governments use different investment vehicles. Some conclude bilateral treaties with host countries: Libya has agreements with its neighbours to ensure agricultural imports in the event of drought, the *Qatar National Food Security Program* (QNFSP) is setting up reciprocal agreements with oil and gas purchasing countries resembling the UN 'oil for food' strategy. Many are relying more and more on sovereign funds with sophisticated strategies: at least two subsidiaries of the Libyan fund are operating, one in Africa, the other in North Africa, Europe and Ukraine. Public/private consortia are also currently under constitution: the QNFSP operates in collaboration with ministerial institutions, the national electricity and water company, a subsidiary of the sovereign fund in the food industry subsidiary, agricultural multinationals and a food distribution chain.

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[1] The two scenarios in foresight study now known as "*Agrimonde*" *in which the* French National Institute for Agricultural Research and the Centre de coopération internationale en recherche agronomique pour le développement (CIRAD) explore the possible futures of farming and food systems conclude that it is possible to ensure world food security in 2050 by increasing agricultural areas, yields and commercial trade to varying degrees depending on regions: in particular, North Africa, the Middle East, Sub-Saharan Africa and Asia must resort to imports. Source: Agrimonde (2009), http://www.international.inra.fr/the_institute/foresight/agrimonde_12_page_synopsis

Two motives have decided States to get involved: on the one hand, they are faced with a **worsening lack of land and water resources:** the search for new food security strategies has thus become a priority for political and economic action. So, since 2007, Beijing has chosen agricultural production *'outside the borders*: in Africa, the land investments of Chinese state enterprises are now playing an equal part with Korean companies, ahead of Saudi and Emirate interests[2]. On the other hand, **the price volatility episode in 2007 and the 2008 food crisis** have also encouraged States and private companies to secure their supply, even more so as some countries have erected barriers to the export of food products: this was notably the choice of Egypt, China, Brazil, India Argentina and Ukraine for rice and some cereals. From now on, countries depending on imports are seeking to invest directly in production factors outside their borders.

State investments can either be made by public bodies, with some operating through sovereign funds, or by private enterprises. Currently, Saudi investments abroad remain essentially due to private players, whose production can serve the local market or be exported to third countries. Though these industrial companies are often close to the political power, they only partially support the kingdom's food security, because Saudi Arabia is not their main outlet. The Saudi state has thus recently decided to manage these activities: *The King Abdullah Initiative for food security* has created a public fund dedicated to investment in agricultural assets, held by the ministry of finance: the *Saudi Company for Agricultural Investment and Animal Production* (SCAIAP) offers support to private investors who want it. The government eventually wishes to invest its own funds and to allocate SCAIAP an envelope so that it directly supports private investments.

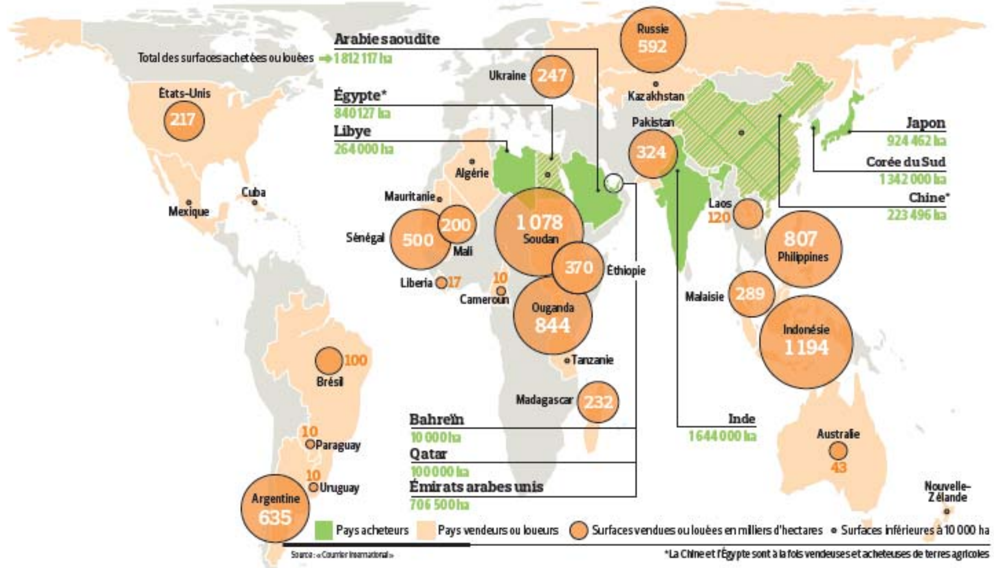
Moreover it must be emphasised that certain investments can also derive from financial or speculative logics, without considering food provision. The 2008 credit crisis has made land a safe investment: whereas land prices have not fallen, the stability of the dollar, the world reserve currency, was damaged. Among the existing investors, it is still difficult to distinguish players driven by financial market profitability from "real" entrepreneurs, and their importance at a global level remains unevaluated.

The estimates of the sizes of transfers are improving but are still far from perfect

Generally speaking, countries with high agricultural potential (climate, water, fertile soils, etc.), a cheap labour force or even a fiscal system favourable to the re-import of agricultural goods are potential destinations.

Though the majority of the host countries are located in Africa (Sudan, Senegal, Uganda, Ethiopia, Democratic Republic of Congo, etc.) it is not the exclusive destination[3]: whilst half of the projects concern Africa, more than 20% are located in the Eastern Asia-Pacific region, less than a quarter in the Europe-Central Asia zone and about 10% in Latin America.[4]

The main countries hosting foreign agricultural investment (land transfers)



Source: Courrier International

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[2] Source: Direction Générale du Trésor, after GRAIN (2008) data: Chinese interests represent 2.1 million hectares; Korean, Saudi and Emirates investments are estimated to be 2.3 millions hectares, 1.6 million hectares and 1.3 million hectares respectively.

[3] De Schutter O. (2009), *Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge*, June 2009

[4] Data from the press review elaborated by GRAIN, between October 2008 and June 2009.

We also know that investors are prospecting further and further afield from their traditional "granaries". Chinese projects are cropping up not only in Africa but also in Pakistan, via bilateral agreements. The Gulf countries are turning away from Sudan and Pakistan and towards Central Europe (in 2009 the Libyan sovereign fund signed an agreement to produce wheat in the Ukraine), Oceania (case of Qatar) and Asia (*Qatar Investment Authority* partnership in Vietnam). Due **to the worsening of their food security situation, some countries that previously hosted investment have become investors themselves.** Egypt, one of the world's largest wheat importers, now intends to produce this cereal, which is central to the national diet, in Sudan and Uganda.

Nevertheless, the confidential or sibylline nature of the contracts[5], as well as the multiplicity of types of contracts and assets targeted (sales of land, crops or agricultural holdings, long leases – up to 99 years in some countries –, *joint ventures* or acquisitions of substantial holdings in the capital of local companies, etc.) make the estimates uncertain.

True, the property transfers have been of an unprecedented size: from 2006 to 2009, a number of those that have been disclosed concerned areas of 400,000 to 600,000 hectares, four to six times larger than the contracts that governed the large tropical plantations in the XIX[th] century. Nevertheless, we should get this phenomenon into proportion: from 2006 to 2009, it involved 15 to 20 million hectares of land in developing countries[6]. It is true that this area represents the equivalent of the French usable farmland, but it is only 1% of the cultivated land at world level. Furthermore, conventional estimates based on current climate conditions, without consideration of socio-economic constraints[7], reckon that 2.7 billion hectares of usable land is not cultivated in the world, half of this arable potential being located in developing countries. In these, 34 % of the farmable land is actually dedicated to agriculture: 1.8 billion potential hectares are therefore set aside.

Although these figures can be disputed, their size suggests that the phenomenon should be assessed at a local rather than at a global level, given the consequences that these investments can represent for the host country population.

Box 2. The media can induce a distorting effect

The United Nations Conference on Trade and Development (UNCTD) has established that direct foreign investment in the agriculture, forestry and fishing sectors in the developing countries has increased by a multiple of five since the 1990s to reach 3 billion dollars between 2005 and 2007. The phenomenon can indeed be deemed a major future global trend, but we should take account of a certain degree of media exaggeration since a controversy has risen after the failure of Daewoo company's projects in Madagascar. The first conclusions of the comparison made by the World Bank[8] between the data published by the media and the projects officially listed by the land registries of 80 countries bear witness to an inflationary tendency in the estimates of areas quoted in the media in relation to the reality of investments: it may be that many projects are larger than 25,000 ha, but the notion of "large scale investment" repeated by media varies significantly in reality from one national context to another (more than 2,000 ha in the Ukraine; starting from 500 ha in Mozambique). Furthermore, the study reveals that a large number of investments come from domestic sources, even if some national players may act as a screen for a foreign principal. Finally, projects can be announced without being concretely implemented: out of all the African projects mentioned in the press only a quarter is in the process of strategic definition, less than 30% is at the initial production stage and a very low number is in full production.

Source: CAS report

These capital flows are a source of both risks and opportunities for the food security and the economic development in the host countries

Are foreign investments in the agricultural sector a new manifestation of the "curse of natural resources"? Many projects are still too recent for their consequences to be determined. Only the degree of compatibility between the installation and operating methods and the local economic and agrarian contexts[9] will eventually determine the consequences of the model chosen. Nevertheless, ill-prepared installations or investments exclusively motivated by the prospect of short term financial profitability can have strongly negative socio-economic impacts.

[5] Cotula L., Sonja V. Leonard R., Keeley J. (2009), *Land grab or development opportunity? Agricultural investment and international land deals in Africa*, IIED/FAO/IFAD joint report.
[6] IFPRI (2009), « *Land Grabbing » by Foreign Investors in Developing Countries: Risks and Opportunities*, 04/09.
[7] For instance, conservation of the forest cover over 10 % to 20 % of the land that could be cultivated could involve a reduction of the arable potential to 3 % to 25 % of the areas currently cultivated. See IAASA (2002), *Global agro-ecological zones assessment,* et Young A. (1999) *Is there really spare land? A critique of estimates of available cultivable land in developing countries*, *Environment, Development and Sustainability.*
[8] World Bank (2010), *Large-Scale Land acquisitions* (to be published).
[9] On this point, see Carter, M., Bradford, L & Mesbah, D. (1996), "Agricultural Export Booms and the Rural Poor in Chile, Guatemala, and Paraguay", *Latin American Research Review*, vol. 31, n° 1 (1996), p. 33-65.

The first of the risks is to ignore the local population's rights to use and access the land and natural resources (pastures, forests, water, etc.) in countries where nomadism and communal property are a tradition.

In Sub-Saharan Africa the land ownership system is still mainly made of customary norms with which European investors have little familiarity and the principle of public ownership leaves the States with the power to allocate the right to use the land. This centralised management exposes some populations to the **threat of eviction or expropriation.** The **risk of despoliation** is all the greater because compensation procedures, even if they are sometimes contractually agreed, are not systematically respected or only result in a one-off and insufficient indemnity supposed to compensate local populations for access to durable resources. The arrival of investors can also lead to an increase in prices on the property market. Finally, even when the project has positive consequences for a part of the community concerned, it may not benefit all of the local populations (a phenomenon known as the "*oasis effect*"). There remain questions about the type and long term nature of the jobs created and the scale of technology transfers.

Political risks[10] are also at stake, projects backed by the government in place, but opposed by the population can lead to political instability caused by or exacerbate tensions between landowning elites and small farmers.

Massive deforestation, reduction of water resources and pollution of groundwater by chemical inputs are some of the consequences of installations focusing on a very short term return on investment, that do not consider natural agricultural yields. In Egypt, where agriculture is strongly dependent on irrigation systems, the government has recently increased custom duties on the export of alfalfa in order to limit foreign animal fodder crop projects[11] reckoned to be too thirsty.

The economic risk for the investor or for the host country should not be neglected either: **some projects are know to have failed due to inadequate planning.** Additionally, If the installation proves unsuited to the rural context (*see below*), **the production cannot reach the expected levels.** The giving up of an investment programme in Pakistan by the United Arab Emirates can thus be explained by technical, political and economic difficulties: given these constraints, the planned agricultural production was too costly and its output would not have been large enough to significantly reduce the import bill..

Finally, the negative consequences of projects on food security can affect the whole population of the host country, over and above the people directly concerned. When their economic benefits prove insufficient (development of infrastructures, services and paid jobs in the rural sector), the disadvantages of holdings exclusively devoted to non food crops or entirely devoted to exports may outweigh the advantages: **in the host countries, they may reduce the surfaces dedicated to food crops, increase in the price of foodstuffs on the local markets and threaten consumers' access to the food rations.** But, even in the case where the crops supply the local market, the arrival of more competitive operating models may, in the absence of regulation, **lower the price of foodstuffs on the local market and reduce the incomes of local farmers.**

Therefore, if host countries and investors do not guarantee to respect the local people's land, economic and social rights and set up sufficient redistributive mechanisms, the transfer of agricultural assets to international investors may result in damaging consequences for the host country in the social, environmental and economic fields as well as on the food security.

The future global food security requires investments in the agricultural sector

International investment is an opportunity to make up for the capital deficit of developing countries in the agricultural sector

According to the FAO[12], **global food production would need to increase by 70% by the middle of the century to feed the human population**, which would then include 2.3 billion more people. The high proportion of rural communities within those who are currently suffering from malnutrition (some 75% of the poor across the world) makes it a priority to improve access to food for these populations. For poor farming people, food security entails profitable prices for agricultural products and improving access to the production factors. **Therefore, increasing the offer must be combined with a better consumer access to food, especially for farmers.**

[10] In 2009, the government of Madagascar was overthrown by the rebellion caused by a leasing project that would have, according to the data available, granted 1, 3 million hectares to Daewoo for 99 years for the production of export crops.
[11] Since last year, exports of alfalfa have been subject to a dissuasive tax of 300 EGP/Ton.
[12] FAO (2009), *How to feed the world in 2050*, report by the High-Level Expert Forum published 23rd of September 2009.

Public spending on agriculture has gone down in the majority of developing countries: in Africa, it has decreased to only 4% of GDP since 1990. **Support for agricultural development from the World Bank and regional banks has also declined over the last twenty years:** the share of development aid they dedicate to agriculture has fallen from 17% to 3%[13], whilst the FAO has seen its budget drop by 30% since 1994. According to the UN Special Rapporteur on the Right to Food, "*We have failed in the past to adequately invest in agriculture and rural development in developing countries, particularly sub-Saharan Africa*"[14]. This tally with the latest the United Nations Conference on Trade and Development (UNCTAD) report, which states that direct foreign investment in the agricultural sector is still not high enough.

The World Bank recommends increasing investment in agriculture in developing countries as a priority in order to reach the Millennium development Goal, which consists of reducing the proportion of the population living in extreme poverty and suffering from hunger by half by 2015[15]. The **FAO estimates the average net annual global investment required for agriculture in developing countries in order to assure global food security by 2050 represents 83 billion USD. In 2009, the G8 Summit addressed the need to remedy "*The combined effect of longstanding underinvestment in agriculture and food security, price trends and the economic crisis*"** in order to put a stop to the *"increased hunger and poverty in developing countries"*[16]. **Investment is needed to increase agricultural production** in these countries and ensure access to food for people suffering from hunger.

This is the reason why host countries are expecting positive spin offs from the presence of foreign investors: governments are looking for an improvement in employment rates and income levels in rural areas; they are also expecting a significant rise in agricultural productivity and production volumes.

Contract farming can dovetail the interests of investors with those of the host communities

There is no ideal model for agricultural operations[17]: the local context will determine the structure of production costs (expenditure on equipment and land development – especially in terms of irrigation –, salary levels and use of labour etc.) and, by the same token, which organization is the more competitive, between the "small-scale" and the "large-scale" operation models.

A number of foreign investments are based on large-scale "intensive agriculture" operations, which are mechanised and organised around a salaried workforce and major financial capability. **Therefore, this model of industrial agriculture must be reconciled with the development of traditional domestic agriculture, which is of major importance in a large number of developing countries**[18].

Box 3. In Kenya, contract farming forges a link between export cultures and local economic development

For around forty years now, the Aga Khan Fund for Economic Development has managed a massive "extra fine" green bean production operation on the plateaux of Kenya: 15,000 MT of processed beans are exported to Europe every year. This business has created a pool of employment: production is based on partnerships with around 60,000 small-scale operators, and also employs 3,000 factory workers and 600 farm workers. The price of the production is fixed jointly by contract in advance with the European customer and the Kenyan suppliers. This means that the harvest is not valued directly on the international markets, and therefore escapes the impacts of any exchange rate volatility. The effectiveness of this business model explains why a competitive price can be contracted with the European buyer beforehand: it is based on the comparative advantages of the Kenyan agriculture (climate, labour costs), the integration of a major part of the production chain (production, conversion, storage etc.), and a large production volume. The contract farming model based on small operations (notably the "outgrower scheme" model) delivers benefits in terms of cost (risks covered due to large number of suppliers, absence of so-called "sunk" costs etc.). It is founded on a relationship of trust: consultations with the authorities and implementation of "pilot projects" proving their viability have therefore proved indispensable. Kenyan farmers benefit from guaranteed income, access to production inputs, agricultural training and technical support. Additionally, the company requires its suppliers dedicate more than 75% of their land to food crops, making it possible to export the main production of the company whilst still promoting the development of local agriculture.

Agricultural partnership models can be used to organise the set up that is suited to the local context local in consultation with local populations: joint ventures between agrifoods businesses and national/overseas operations, inclusion of local workers in the capital, contract sales based on outgrowers schemes…[19] In

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[13] Development aid allocated to agriculture has been in marked decline over the last two decades: it has dropped from 8 billion (USD 2004) in 1984 to 3.4 billion in 2004.

[14] De Schutter O. (2009), *op cit*.

[15] World Bank (2007), *World Development Report 2008: Agriculture for Development*

[16] "L'Aquila" Joint Statement on Global Food Security L'Aquila Food Security Initiative (AFSI), L'Aquila 10 July 2009. See also the final declaration of the Ministers of Agriculture of the G8 Countries, in Cison di Valmarino, 20th April 2009 : "*We underline the importance of increasing public and private investment in sustainable agriculture, rural development and environmental protection in cooperation with international organisations.*".

[17] World Bank, collection entitled *Agriculture and Rural Development Notes*, n° 45, January 2009 and n° 48, June 2009. See also the *World Development Report 2008: Agriculture for Development*

[18] In developing countries, 1.3 billion farmers make their living on small operations or are considered as landless farmers

[19] See the FAO definition: http ://www.fao.org/docrep/005/y4803e/y4803e10.htm.

these models, **the negotiating power of local farmers is the determining factor** to include production price flexibility in contracts in case of changes in the markets, give them a role in managing the project and provide for legal recourse in case there is a dispute with the investor.

International transactions involving agricultural assets are an opportunity to realize the investments required to feed the world population. There is no such thing as an ideal production model that could be replicated on every region, but contract farming offers interesting avenues for exploration.

Seven recommendations to the French and European stakeholders involved in international transactions of agricultural assets

Feeding 9 billion people by 2050 will require a considerable increase in investment in agriculture, but these supplementary capital flows will also need to be appropriately regulated. The outcome of the Copenhagen Conference was a reminder that global governance is not presently in a position to generate regulatory constraints, but was rather prone to set rules for good practice that countries would voluntarily undertake to apply. In the short term, it is realistic to envisage the implementation of soft laws (such as charters, guides to good practice, voluntary directives etc.) and special agreements (e.g. principles of conditionality, contractual commitments etc.).

The World Bank, the UNCTAD, the FAO, the International Fund for Agricultural Development (IFAD) and the UN Special Rapporteur on the Right to Food have opened the discussion on good practice concerning large-scale agricultural investment[20]. The ensuing proposals therefore follow along the lines of this work, and aim to identify ways to regulate French and European stakeholders' operations in a more pragmatic way.

The following recommendations are primarily addressed to French and European authorities, which have the capability of holding a dialogue with international institutions, host countries and private investors. On a more general level, these proposals also concern other players, including host nations, investors and the financial sector participating in the asset transfers.

Some of these proposals will only become reality in the long term, whereas others can be applied right now.

Responsible investment in the agricultural sector needs to be encouraged

In order to feed the global population in the future, it will be necessary to increase capital contributions to agrifood networks in developing countries by 60%[21].

As a consequence, international institutions need to encourage investment in the agricultural sector in developing countries, including asset transfers, as soon as they can be considered as responsible in the meaning detailed above.

Box 4. Japan has taken the lead in managing asset transactions

The controversy around large-scale foreign investment has attracted public attention on the governments which traditionally use external supplies to ensure national food security. Production in Japan only covers 40% of the calorie requirements of the population: the government has therefore tried to protect itself against any controversy arising from its foreign operations. A directive that specifically governs the promotion of investment in foreign agricultural assets was published in August 2009: the attribution of public support for private investment operating abroad comes with some strings attached, and involves agreeing with a good practice charter. This charter aims at committing to developing countries that agricultural production will be maintained in the long term, that transfers will be transparent, that local regulations will be adhered to, and that the investor will keep to the commitments he has made to the local population, respect the local environment and take account of the local economic context. Japan has also helped to launch the work carried out by international organisations in order to develop a framework for regulating international investment in the agricultural sector in developing countries: it has organised two round table discussions with the relevant organisations since last September.

Moreover, the **work carried out by the UN Special Rapporteur on the Right to Food and the FAO show that a host country with a clear framework and strategy for investments in the agricultural sector, and recourses in the event of a threat to food security or to the principles of sustainable development, maximises its chances of benefiting from the positive spin offs of direct foreign investments.**

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[20] See World Bank (2009), *Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources*, November 2009; De Schutter O. (2009), op.cit.; FAO (2009), Towards v*oluntary Guidelines to support the progressive realization of the right to adequate food in the context of national food security* – discussion document, January 2009 ; FAO (November 2009); *Foreign Direct Investment –win-win or land grab?*, (Paper published for the Word Summit on Food Security 16-18 November 2009); FAO, Rome..

[21] FAO (2008), *op.cit.*

These strategic choices relate to national sovereignty, and therefore belong to host countries. **However, international institutions could provide these countries with support to increase their negotiating powers** with investors: it would enable them to ensure that authorised investment is sustained, and that it is compatible with financial and agricultural policies and food security strategies implemented by the States.

France and the European Union could offer partnerships to host countries of European investments to develop their farming sector and make investments secure

Cooperation agreements could be signed with the host countries of European investors, containing clauses aimed at reinforcing the farming sector of the developing countries concerned and making investments secure by strengthening guarantees for lenders[22].

Box 5. In Pakistan, investment needs to be made secure to develop
Pakistan could be a particularly attractive destination for major agricultural projects. Thanks to its fertile land, there are high yield production prospects. In addition to low labour costs, the provincial tax system favours large-scale farms. The State has implemented a policy to attract FDI: it buys up arable land from small local farmers to rent it to foreign investors. Between 400,000 and 2,800,000 ha of arable land have been identified for sale or rent to foreign investors in three provinces. A 2004 act authorises the acquisition of the entire capital of Pakistani companies by foreigners and develops incentives for the purchase and operation of farms and land for these investors: elimination of export duties, removal of sales taxes on imported equipment, exemption from duty on land transfers, exemption from tax on dividends, etc. Despite these explicit offers, the government has so far only received expressions of interest. The structural weaknesses of the farming sector in a country which is in the process of rebuilding itself provide little incentive to implement projects. Investors are thus facing very high fixed costs: training a low-skilled labour force, finding alternatives to cope with the absence of river and rail transport or the lack of storage infrastructures, facing difficulties in registering inputs (varieties, seed, fertilisers, pesticides, etc.) and a relatively unforeseeable nature of government decisions in terms of bans and taxation on harvest exports or imports of inputs. The absence of infrastructure has thus discouraged Emirate-funded projects. Although unsuccessful up to now, the government's strategy does aim at developing productivity by technology transfer: experiments in the Punjab have shown that mechanised intensive rice-growing systems could increase productivity, saving on water and inputs. Foreign investment could also give a boost to employment in the farming sector: while 68% of Pakistanis still live in rural areas, farming only employed 47% of the working population in 2006, against 66% in the early 1950s, a fall largely due to a drop in investment in the farming sector.

These agreements could contain financial and technical aid for:

- **establishing land, farming and food security policies, as well as governance suited to hosting FDIs;**
- **education and training in the farming sector;**
- **agricultural innovation,** in order to extend access to appropriate production factors: drawing on French expertise on these matters, cooperations could contribute to create improved varieties, meeting the necessity of producing "more" and "better", in a way more suited to specific regional features, not only for big farm crops but also, and particularly, for small-scale food production;
- **setting up agribusiness channels**: "downstream" activities and logistics infrastructures (transport, storage capacity, etc.).

These agreements could include provisions on **energy production** designed to encourage industrial manufacturers to develop renewable energy for their own needs and for local communities.

French and European authorities should support the introduction of alternative, effective land policies by host countries

In accordance with the guidelines it has proposed[23], France should support land reform processes which respect local users' land rights.

The implementation of the land reforms under way in a large number of developing countries, which generally aim at making both land rights and local population user rights secure, remains problematic because many local populations do not have the resources and tools necessary to defend their rights.

A land management policy which recognises the diversity of local uses and rights is an important condition for the success of an agricultural project. While investors are primarily responsible for

[22] Since the Treaty of Lisbon came into force on 1st December 2009, agreements on securing investments abroad come under European governance.

[23] See the white paper "Land governance and security of tenure in developing countries" (http://www.foncier-developpement.org/vie-des-reseaux/le-projet-appui-a-lelaboration-des-politiques-foncieres/le-livre-blanc-sur-les-politiques-foncieres-des-acteurs-francais-de-la-cooperation/version-integrale-du-livre-blanc/land-governance-and-security-of-tenure-in-developing-countries/view) by the French Development Cooperation (2009) and French position defined by the food security inter-ministerial group intended for the Minister for Foreign and European affairs.

respecting users' local rights, for avoiding conflicts and for providing a secure environment for their firms, **it is up to France and the European Union to propose to countries who so desire some asisstancel in defining such a policy. This help could lead them to establish** debate on land policies at the level of each country, provide support for a concerted effort to draw up land policies and support any experiments.

Whatever the legal framework locally in force, investors should also be responsible for the respect of local users' rights to avoid conflicts and make their investments secure.

Investors must commit to a responsible approach

It is essential that before investing in agricultural assets in developing countries, the project initiator commits to best practice principles and provides proof of adherence to these precepts. This practice should **comply with international law on economic, social and environmental resource protection rights**[24]**, as well as the general provisions currently defined by the World Bank and the UN institutions to govern asset transfers.**

To this end, investors will have to conduct **ex-ante impact assessments** on consequences of their operations on the environment, the social framework and food security (in terms of production and access to food).

These assessments, certified by an independent organisation and giving rise to monitoring during the project, will demonstrate how the project is fruitful for the host country in terms of added value for the local rural sector and improved food security, either directly through increased production, or indirectly through growth in jobs and income for local populations. This approach should lead investors to engage in a threefold dialogue, as transparent as possible, with national authorities, local government and the local population. The use of sustainable development practices should reduce the long-term risks associated to the project and enable investors to obtain better borrowing rates.

The European Union and France could create a **"responsible agro-investment"** quality label awarded by themselves or by the FAO, which would recognise and showcase an approach of this kind. **This quality label should be perceived as a guarantee of security, both for investors** who would see their investments recognised as legitimate and ethical, and for the host State. In addition, publicising the quality label among consumers could encourage sales of the corresponding products.

When they finance agricultural asset transactions, the financial sector, as well as sovereign wealth funds, should apply the Equator Principles

In 2003, ten banks signed the Equator Principles (EPs) ; today some sixty institutions have engaged in a voluntary commitment to principles of sustainable development. This code of good conduct applies to any investment above USD10 million. It could be applied to agricultural asset transactionsas a whole.

These principles could be usefully adapted and extended to all agricultural asset transactions beyond a certain threshold, whether they correspond to new projects or mere transfers of assets.

Under these principles, the conclusions of the preliminary impact assessment, which is compulsory and carried out according to International Finance Corporation environmental and social rating criteria, determine the assessment and the stringency of the project monitoring, as well as corrective actions or compensations the investor proposes in his *ad hoc* action plan. Impact assessment should be systematically published and communicated to local populations. Given the extent of their involvement in international transfers of agricultural assets, especially in countries of the Near East, **it would be particularly desirable for sovereign wealth funds to sign up to the Equator Principles in the case of projects involving transactions of agricultural assets. A second option would be to incorporate the Equator Principles into the Santiago Principles** drawn up in October 2008 under the International Monetary Fund, by 26 states owning or hosting this type of fund.

Box 6. The 10 Equator Principles

1: **Review and categorisation**. Projects are ranked (A, B, C) depending on their sensitivity to environmental and social questions in terms of the International Finance Corporation (IFC) screening criteria.

2: **Social and Environmental Assessment**. For each project classified as category A or category B, the borrower must conduct a social and environmental assessment and propose appropriate measures to mitigate impacts .

3: **Applicable Social and Environmental Standards**. The assessment process should aim at complying with the IFC social and environmental sustainability standards as well as host country laws and regulations.

4: **Action Plan and Management System**. An action plan will describe and prioritise the actions needed to implement the mitigation and monitoring measures necessary to manage the impacts and risks identified in the assessment. Borrowers will establish or maintain a social and environmental management system.

5: **Consultation and Disclosure**. For projects involving significant adverse impacts on affected communities, the process will ensure their free, prior consultation and facilitate their participation

[24] See the references listed by the United Nations Special Rapporteur on the right to food: De Schutter O. (2009), *op cit.*

6: **Grievance Mechanism.** This will allow the borrower to receive and facilitate resolution of concerns and grievances raised by individuals or groups affected by the project.

7: **Independent Review**. An independent social or environmental expert will review the assessment, action plan and consultation process documentation in order to assess Equator Principles compliance.

8: **Covenants**. Details of the borrower's covenants will be included in the financial description of the project.

9: **Independent Monitoring and Reporting** for Category A projects, and as appropriate, for Category B projects

10: Equator Principles Financial Institutions (**EPFI) Reporting**. Each EPFI adopting the Equator Principles will publish an annual report on its implementation processes and experience, taking into account appropriate confidentiality considerations.

In addition, "sustainable" investment funds, with the priority aim of supporting local industries in the host country, or only financing so-called "socially responsible" projects, could be constituted. the recent initiatives taken by the FAO (the Global Agriculture and Food Security Programme launched in April)[25] and the United States Agency for International Development (UsAid)[26]could serve as models : both aim at giving priority support to farming action plans or programmes, particularly those involving the local private sector.

France and the European Union should support the LDCs which request more flexible rules in international trade of agricultural products

Box 7. In Egypt, the food security policy remains greatly hampered by the mechanics of price volatility

The Spring 2008 food crisis revived the memory of the lethal 1977 "bread riots" in Egypt. Demographic projections, the extent of under-nourishment and the population's dependence on food subsidies presage further crises. However, the public authorities are coping with the challenge of malnutrition by combining consumer support mechanisms, imports (Egyptian import duties on foodstuffs were reduced in 2008), rice export control and strategies designed to increase farming production – by attracting foreign operators. In addition, the government has a long term agricultural programme (up to 2030). But the resurgence of food crises and the increasing dependence on imports, which have encouraged Egypt to invest directly abroad to ensure its food security, demonstrate the mixed results of these policies. Until 1973, Egypt was self-sufficient in sugar; it must now use imports to cover a third of its needs. This failure is partially due to the scarcity of arable areas and to the limits of water resources, which restrict production capacities. However, the 2008 crisis is to a large extent related to the volatility of wheat prices: the Egyptian food security is therefore mostly undermined by the population's vulnerability to foodstuff price levels and by the dependence of certain segments (wheat, sugar and oil) on the supply situation on international markets. The country is still dependent on imports for over 42% of its supplies.

Source: CAS analysis, after DGT data

The liberalisation of the world agricultural trade, initiated at the end of the Uruguay round, was designed to reduce the cost of the agricultural products exchanged between different countries and to decrease price volatility.

In fact, it tends to align prices on the global market prices. However, **far from stabilising the prices of agricultural products, trade liberalisation has, on the contrary, led to a great volatility, with considerable adverse effects: too low a price means that farmers cannot earn a living from their crops and too high a price means that poor consumers cannot feed themselves.**

Recognising the importance of the food security challenge represented, France and the European Union should support requests from LDCs and their regional economic unions – which sometimes include developing countries – to the WTO to allow for greater flexibility in rules governing international trade of agricultural products.

Beyond necessary vigorous national policies, the agricultural growth of developing countries and the world food security also requires new worldwide systems of regulation:

- an **increase in public aid for agriculture in developing countries,** in order to curb the constant decline recorded since 1980. While private investments can contribute to develop the farming potential of certain countries, foster local economic development and help improve the productivity of small farmers, this inflow of capital cannot replace public support which has distinct aims;

[25] 880 million dollars has been allocated to this programme designed to support public and private investments aimed at improving food security and the level of incomes in poor countries by investing directly in the farming sector.
[26] A project meant to generate an "accelerated growth" in Senegal was launched in April by the Agency and a group of American investors.

- **provision in world agricultural trade rules allowing non-reciprocal preferences for LDCs** with OECD countries as a whole and the major emerging countries*,* **as well as the possibility for regional unions to create markets protected by customs barriers.** Countries and regional organizations should thus be allowed to set up minimum prices and, where applicable, customs instruments, while helping poor consumers, if floor prices result in them having difficulty in buying foodstuffs[27];
- **an improvement in weather insurances** for farmers.

French authorities should ensure that these principles are included in the regulations currently drafted by international organizations

France and the European Union cannot adopt unilateral rules on a worldwide phenomenon: any national or community regulation would be of limited effectiveness and would raise the problem of the constraints to the competitiveness of regulated operators compared with their non-restricted competitors.

At present, the UN doctrine on international transactions of agricultural assets in DCs is changing. The FAO position was initially critical: J. Diouf openly referred to these agricultural relocation strategies as "*neo-colonial*"[28]. The Organisation has now identified room for a "*win-win partnership potential*". In line with the recommendations of the United Nations Special Rapporteur on the right to food, the **World Bank, UNCTAD, FAO and IFAD are working together to define a framework of voluntary regulation principles to govern these investments.**

France and the European Union should ensure that these texts take account of the recommendations previously detailled. **In particular, they should stipulate that sovereign wealth funds from signatory countries should comply with the Equator Principles.**

* * *

Transfers of agricultural assets by LDCs to foreign investors will continue to develop in the next few decades. Above and beyond the concerns its growth has raised, this phenomenon can increase capital inflows to the farming sector to the host countries. It can therefore contribute to the investment effort required between now and 2050 to ensure the global food security, assessed at 83 billion USD. However, in order to achieve such outcomes, investors will have to define socially responsible projects and to enjoy an environment propitious for the development of sustainable operations in the long run: this is the substance of the recommendations made in this report.

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[27] The change in the World Bank's position on the liberalisation of farming produce markets in developing and least developed countries is revealing in this respect. See Alary P., Blein R., Faivre-Dupaigre B., Soulé P. and Yérima B. (2008), *Potentialités agricoles de l'Afrique de l'Ouest, améliorer le fonctionnement des marchés agricoles en Afrique de l'Ouest*, Fondation pour l'Agriculture et la ruralité dans le monde.

[28] Statement reported in *Le Monde,* "*Le "néocolonialisme agraire" gagne du terrain dans le monde*", L. Clavreul, 24 September 2008.