

Global Forum for Food and Agriculture 2013
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**Responsible investment in the food and agriculture industry:
A key factor for food security and rural development**

Keynote Speech by the Deputy Secretary-General of UNCTAD

AS PREPARED FOR DELIVERY

Honourable Ms. Aigner, Minister for Agriculture,
Distinguished Panellists,
Excellencies,
Ladies and Gentlemen,

It is a great pleasure for me to be here and to address the 2013 Global Forum for Food and Agriculture. The Secretary-General of UNCTAD, Dr. Supachai Panitchpakdi, has asked me to convey his apologies for not being able to address you in person, due to a last-minute emergency.

Ladies and Gentlemen,

More than any other sector of the economy, a healthy agricultural sector is essential for global food security, poverty reduction, environmental sustainability, and even national security. Productivity in the agriculture sector lies at the heart of economic development, and promoting growth in rural areas. It can also help advance the cause of gender equality. Indeed, it is hard to overstate the importance of the agricultural sector, particularly in developing countries. You will all be familiar with the stylized facts: Agriculture accounts for almost 70% of employment in the world's 49 poorest countries, and more than 50% in many other developing countries. And, a large part of agricultural labour in LDCs is performed by women. It is for this

reason that the agricultural sector has often been seen as the key to poverty reduction.

And yet, despite its central importance, the sector has suffered from decades of relative neglect. Between 1980 and 2002, multilateral institutions slashed ODA to agriculture by 85%, from US\$ 3.4 billion to US\$ 500 million. Similarly, farmers in developing countries often get little support from their own Governments. African countries spend only an average of 3% of their budget on agriculture - a number greatly disproportionate to the size of the sector in terms of employment and economic activity. In addition, twenty years ago, most LDCs dismantled marketing boards, extension services and credit support and opened up agricultural markets to subsidized exports from developed countries. So, the relative neglect of the sector combined with the export subsidies on agricultural products by some advanced countries have created distortions in the global agricultural production system. Together, these factors decimated agricultural sectors in many LDCs, and several turned from net food exporters to net food importers within a decade. Perhaps most worryingly, as UNCTAD research has found, productivity in the agricultural sector in least-developed countries has been stagnant, and in several cases productivity today is even lower than it was half a century ago. This is mostly due to lack of infrastructure, new technologies and investment.

These challenges are likely to be compounded by climate change, population growth, changing consumption patterns and growing demand for biofuels. By 2050, the projected global population will be some 2 billion more than today. According to the FAO, creating the necessary productive capacity to feed 9 billion people will require additional investments of at least \$80

billion annually. And doing this in a manner that would preserve natural resources, go beyond minimal targets, and foster long-term growth and development will require way more funds.

While some of this investment may come from the public sector, it is clear that the bulk must come from the private sector, including foreign investors. So far, such Foreign Direct Investment (FDI) flows into agriculture have been limited. Total FDI stocks in agriculture accounted for a mere 0.2% of total world FDI stock in 2007. Nevertheless, prior to the food crisis in 2008, rising commodity prices, the strategic concerns of food-importing countries and the commercial opportunities arising from demand in the biofuel industry have meant that FDI flows into agriculture have increased from about 1 billion per year in 1990 to about 3 billion in 2007. However, total FDI flows to agriculture and food production never exceeded 7%¹ of global flows.

Thus, the need for greater investment is evident, and foreign investment in agriculture holds great potential. It can provide funds and knowledge to improve productivity (especially through the modernization of equipment and processes), build infrastructure to make it more accessible, boost rural employment in areas which might not otherwise see economic growth. The involvement of foreign investors can also create new market access opportunities and help integrate local farmers into Global Supply Chains.

However, the involvement of Transnational Companies in agriculture also bears risks, such as the disruption to rural communities and environmental

¹ This includes FDI in the food and beverage manufacturing industries (as well as agriculture, fisheries and forestry).

degradation. Concerns have been rising over long-term land leases by foreign investors. Questions are being asked not only about whether the rights of the current landowners are being respected and whether local communities are consulted, but also over the implications of such investments for food security in the country. In particular, there are fears that in times of shortage, foreign-owned firms could be producing food for export, while the local population may be deprived of access to food.

The key challenge for policy-makers is therefore to create an environment that facilitates greater investment in the agricultural sector, so as to raise productivity and reduce poverty, while at the same time minimizing the risks. Allow me therefore to use my statement to share with you some of our thinking on how governments can achieve this.

One of UNCTAD's major responses to the challenge - in partnership with FAO, IFAD and the World Bank - is through our work on a set of *Principles for Responsible Agricultural Investment (PRAI)*. The Principles are aimed at sustainable investment in agriculture by drawing attention to specific areas - such as land degradation and the environment, water use, poverty alleviation and human rights - that need to be addressed by both governments and investors, be this in policies, project design, implementation or monitoring. The application of the Principles to agricultural investments is intended to reduce the level of negative externalities and raise the likelihood of positive impacts. Jointly with the World Bank, UNCTAD is currently leading a project to test these Principles in the field, and see to what extent existing agricultural operations on the ground are consistent with responsible agricultural investment. We have visited more than 25 operations in Cote d'Ivoire,

Ethiopia, Ghana, Liberia, Mozambique, South Africa, Tanzania and Zambia. To give you one example, in Zambia, we have observed a company that is successfully providing its cotton farmers with sustainable credit schemes as well as training in conservation and enhancing soil fertility. This has had a positive impact on smallholder incomes - and on the country's economic development.

Drawing on our work, there are a number of recommendations that can be made to promote more sustainable investment in agriculture.

Firstly, governments must provide reliable infrastructure services such as roads, water and irrigation systems, electricity and communications. The lack of quality infrastructure has been noted as a crucial obstacle to the improvement of smallholders' living standards, and the main impediment to attracting foreign investors into agriculture. While governments and donors represent the major sources of funding for infrastructure in most cases, private investors (both foreign and domestic) can also play a significant role, for instance, through "build-operate-transfer" concessionary schemes.

Secondly, it is critically important that Governments involve all stakeholders, including smallholders, farmer's organizations and civil society in deciding future land use and supply chain strategies. Recognizing and respecting the rights of smallholders is key for sustainable investment strategies. In particular, governments - and the private sector - must recognize and respect all legitimate tenure rights. The security of land rights enables smallholders to engage with agribusinesses, as land is their key asset in negotiations. Similarly, governments should implement effective competition

policies to protect smallholders against monopoly-based asymmetries vis-à-vis foreign investors. Governments should support the interests of smallholders through the encouragement of farmer's organizations, the development of model contracts and ensuring that certain key provisions are included in all contracts.

Thirdly, measures should be taken to support the capacity development of smallholders through the re-establishment of public agricultural research and extension services. These could include training in the requirements and certifications to meet market demands and enter niche markets, such as fair trade and organic agriculture. In Brazil, for instance, the Government sponsors a television programme aimed at informing and educating farmers. There is a significant role for the Private Sector (both foreign and local) and Civil Society in these capacity building initiatives. The government could also support smallholder's access to information on market trends, so as to strengthen their relative position as sellers.

Fourthly, governments should require foreign investors to develop supply chains that explicitly integrate smallholders. These firms have the financial and technical resources to engage in the necessary capacity building and infrastructure development to make such supply chains possible. They can also help domestic companies and government trainers to develop the skills necessary to integrate smallholders.

These are only some of the measures that may support more sustainable and responsible investment flows into the agricultural sector in the developing world. In addition to our work on the Principles, UNCTAD has a number of

technical assistance programs aimed at supporting the agricultural sector, including providing agricultural producers with updated information on commodity prices in local and international markets, capacity-building on agri-food standards, as well as assistance in setting up commodity exchanges.

Ladies and Gentlemen,

The need for larger and more responsible investments in agriculture is pressing and undeniable. Both governments and the private sector have a shared interest and responsibility to work towards this goal in a manner that will not only bring about food security, but also help preserve the planet, fight poverty and achieve sustainable development. Gatherings like this one can make a contribution.

Thank you very much.