

FDI in Agriculture – Regional Impacts and Policy Responses

Concept note for a conference organized by EALA and FES

Due to its huge and still growing volume as well as its ambiguous impact, large-scale investments in agriculture have gained global attention. Africa turned out as a major destination of foreign investment interests, based on the assumption of abundant fallow land and high yield potentials. According to estimates by the FAO twenty million hectares have been acquired by foreign investors during 2006 to 2009. Although a significant portion of these land acquisitions have not yet been converted to commercial use, foreign and domestic investments are already making their impact felt on the local, regional and global level. Large injections of capital and technology into a sector characterized by low productivity, precarious livelihoods and severe environmental constraints are bound to raise concerns about negative external effects. The current debate revolves around the evaluation of costs and benefits of host countries, particularly to communities directly affected by land transfers (“land grabs”), and modalities of regulating access to land and management of large-scale farming aimed at safeguarding local interests.

Government of host countries used to offer favorable conditions to foreign investors in a bid to revitalize agricultural production, attract foreign capital, and raise export revenues. These objectives are, however, not necessarily compatible with policies aimed at attaining domestic food security, promoting labour-intensive sectors, and eradicating poverty, particularly food poverty. Much depends on the motivation of foreign investments. It is mainly the expectation of further price increases on international markets of food, energy plants and raw materials for industrial processing, which drives private investors into agricultural engagements. Global financial speculation has taken control of international price movements and triggered investments in companies which are active in international commodity sourcing. Additionally, public corporations, mainly of Arab and Asian origins, pursue the aim of national food security by ascertaining access to land and water in African host countries.

There are undoubtedly potential benefits a host country can harvest from FDI in agriculture. Africa has as yet not witnessed a “green revolution”. Food production per capita has deteriorated over the last 40 years. The yield gap is higher than in any other region of the world, indicating a vast scope of raising productivity per head and per hectare. It is, however, contentious whether technical innovation in agriculture is tied to farm size and high injections of capital and external inputs. Asian experience points to the fact that small holders, too, are able to adopt new technologies efficiently. Considering access to foreign markets, foreign companies, indeed, command a bigger leverage and effectively secured market gains of African commodities, as e.g. in horticulture sectors. This is, however, not necessarily linked to land transfers, but can be achieved through contract farming and outgrower schemes without affecting traditional land use rights.

Negative social and economic external effects of FDI have been observed in many countries in Africa and other host regions. Land transfers can affect traditional farming communities which are in possession of vaguely defined land use rights. The bulk of farmable area is yet to be registered, land titles are not common, customary rights are not enforceable, and often the state is sole proprietor of land. Hence peasant’s communities are highly exposed to risks of

dispossession of land. Although pastoralism and shifting agriculture may nurture the perception of abundance of idle land, there is barely land which is left entirely unused. Traditional livelihoods, precarious as they may be, could easily be eliminated, causing poverty and food insecurity for the ones directly affected and undermining food supplies on local markets. Large-scale mono-cropping is prone to reduce biodiversity and harm the environment, while capital-intensive and high external input methods of farming limit employment effects. The usually high land concentration will get a further boost, rendering access to land for small farmers and their transition to higher levels of productivity ever more difficult.

Considering the obvious conflict of objectives and interests, it is incumbent mainly on host countries to evaluate the potential contribution of FDI to national agricultural development and food security policies, and to set up standards and conditions for foreign engagements. As much as this is a genuine developmental function of the national state, such effort needs to be embedded into a regional and global approach in order to prevent a “race to the bottom” benefiting investors in search of preferences and relaxed requirements. This could easily happen, as the general international investment regime is geared mainly to investors’ security in terms of property guarantee and repatriation of capital, but mute on investors’ obligations.

Most states in the region have ratified bilateral as well as multilateral agreements with foreign governments and trade communities respectively regarding the use of land in the region to either grow food or bio-fuel crops for their (foreign countries) markets. As such, there is need to ensure that the region is fully concerned of land ownership and use, land degradation, access to genetic resources and benefit sharing, technology transfer and protection of intellectual property rights and how they all affect food security as reflected in the locally ratified international agreements and treaties on agriculture, biotechnology and intellectual property rights.

Such agreements include the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from the Utilization of the Convention on Biological Diversity (CBD), the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) administered by WTO, and the African Agro-Industry and Agro-processing programme (3ADP). The African Union and the EAC have both put in place the 3ADP and the E3ADP (East African Agro-processing and Agro-industry development project) launched in 2009 and 2011 respectively in a bid to boost food security and encourage public and private engagement in agriculture as a profitable sector through value addition. The EAC member states are therefore expected to use these instruments to negotiate for maximum but people-centred benefits of FDI in agriculture with a view to alleviating food insecurity in the region.

The global debate on pros and cons of FDI in agriculture is characterized by two opposing positions. The World Bank, FAO, IFAD and UNCTAD presented seven principles of responsible investments, the enforcement of which allegedly ensures mutual benefits to investors and host countries. The generation of a “win-win” situation is contingent on the voluntary adoption of standards which prescribe respect of existing rights to land, ensure food security, involve all stakeholders in a transparent and participatory manner, do no harm to food provision and share benefits fairly. In principle FDI are considered a potential boon to host countries and communities, provided they are embedded in national development

strategies, host government have established a proper legal and regulatory framework, and investors have taken aboard social and environmental concerns.

It is, however, questionable whether voluntary standards of self-regulation will be implemented, considering the skewed balance of negotiation powers and the collusion of interests of foreign investors and national elites. Conspicuously absent in the set of principles is a strong reference to economic and social human rights, binding investors and governments as well. What is needed in the view of FIAN, La Via Campesina and many associated organisations are mandatory regulations guiding investors in agriculture and financial markets. Long-term takeover of farmland should be prohibited outright, based on an intergovernmental understanding on state regulation of investments in areas affecting food security. In addition, prohibition on the commercial access to and use of biotechnological seeds by farmers as protected by the international regimes governing intellectual property rights and patents need clearer regional focus.

In East Africa three EAC member states have signed bilateral agreements with foreign private and public investors on the sale or lease of land for the production of biofuel plants or food destined for export. Besides EAC members, neighbouring countries such as the Sudan and Ethiopia have become major target areas of foreign investment interests. The implications for food security and socio-economic development of host countries and communities are yet to be explored. Therefore the EALA Committee of Agriculture, Tourism and Natural Resources intends to launch a regional exchange in order to evaluate the impacts of FDI in agriculture and arrive at a common understanding on the need and scope of regulation.

As a joint effort by Friedrich Ebert/Stiftung and EALA a regional conference will be organised to serve as a platform to interrogate policy implications and strategies regarding FDI in agriculture. This activity seeks to achieve the following objectives:

- Interrogate the implications of the country specific policy/legal frameworks governing FDI in Agriculture on the livelihoods of local poor people in the region
- Seek viable options within which local legal instruments can be strengthened to safeguard the best interests of the local communities vis-a-vis international standards and their protection of investors
- Interrogate the extent to which food security can be enhanced by local people-friendly FDI in agriculture policies
- Contribute to the development of policy and legal frameworks that seek to enhance mutual benefits from investments in agriculture
- Review the role of regional institutions in the enhancement of people friendly FDIs in agriculture in the respective countries as well as the region

The conference targeted at national and regional policy makers, law makers, senior policy implementers within line ministries of agriculture, land and trade, regional and country specific research and academic institutions, academicians and CSOs working in the areas of integration, agriculture, land and trade.