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World Food Security and Agricultural Investment

Excellencies,
Distinguished Delegates,
Ladies and Gentlemen:

Thank you for honouring me with the invitation to address this important gathering. I commend FAO and the Government of Japan, both of which have been at the forefront of international efforts to address the food crisis, for organizing this symposium.

As many of you may know, the United Nations Conference on Trade and Development (UNCTAD) is the sole UN agency mandated to help developing countries use investment for development. Every year we produce a major publication on world investment - the World Investment Report - which, in addition to presenting the key trends in FDI, each year focuses on a specific aspect of investment as it relates to development. The 2009 edition of this report is especially pertinent to your discussions, as it explored the topic of "transnational corporations, agricultural production and development", and I will draw heavily on its findings in my speech to you today.

This topic was originally chosen against the background of the food crisis, and concerns within UNCTAD and other agencies about agricultural productivity and its impact on food security and development. The subsequent financial and economic crises drew attention away from the food crisis, but it still remains a threat to the achievement of the MDGs and sends a warning of the dangers of low investment and poor policies in the agricultural sector. At this point it is appropriate to consider what caused the crisis and how understanding the causes can point the way to a solution.

The causes of the food crisis lie partially, of course, in the specific conditions of the 2008 price spike, which included climatic conditions, such as drought, and widespread speculation in commodity markets. But these are hardly the sole causes. UNCTAD has consistently drawn attention to the long-term causes of both the financial crisis and the food crisis. As has often been said - but bears frequently repeating - the food crisis reveals an underlying and persistent crisis of development in some countries´ agricultural sectors. Addressing the long-term threat of food insecurity will require nothing short of a Green Revolution.

Using Africa as a case study, growth in the continent´s agricultural sector overall has averaged 2-to-2.5% per annum since the late 1970s, with serious implications for its ability to feed itself: it is a well-known fact that having been a net food exporter until as recently as 1988, the continent is now a net food importer. The situation is compounded by price increases, which have meant that a growing proportion of export earnings are used to feed rapidly expanding populations. However, higher prices also provide opportunities and incentives for producers and for investment in agriculture, which I will come to later.

It is true that prices of basic food and agricultural products have dropped significantly since their peak in June 2008. However, world food prices are still almost 50% higher than what they were in the late 1990s and the earlier part of the 2000s, thus continuing to pose challenges for the most vulnerable. As pressures on land availability grow, countries will have to depend more on yield gains than on the expansion of cultivated land. Yet there is also the potential for rapid increases in yields if better access can be provided to fertilizers and technology - not necessarily sophisticated biotech solutions, such as genetically manipulated plant varieties, but new crop varieties, tractors, ploughs and irrigation systems. Additionally, the latitude and soil quality of some agricultural regions can potentially produce two or more harvests a year, using a crop rotation system.

As is now widely accepted, the relative neglect of the agricultural sector in many developing countries has led to disinvestment in supply capacities, such as extension services and infrastructure. In the past, market reforms, including Structural Adjustment Programmes, have also played a role in undermining agricultural productivity: SAPs encouraged the dismantling of extension services, marketing boards, special agricultural banks and caisses de stabilisation. The role of the State in agricultural development was significantly reduced. The result: private investment, both domestic and foreign, was diverted more into cash crops for export than into food production for local consumption.

In poorer economies where domestic investment in agriculture is limited, the potential for increased investment in agriculture relies on either ODA or the attraction of FDI. Yet, multilateral and bilateral ODA

for agriculture declined dramatically between 1980 and 2002, by 85% and 39%, respectively. And while the greater emphasis now being placed on social and humanitarian aid is clearly justified, it has also resulted in less aid going to the productive sectors and to agriculture, with potentially disastrous consequences. We therefore welcome the $20 billion committed by the G8 for African agriculture at its L´Aquila meeting last year, especially in view of the uncertainty of ODA trends following the global economic crisis.

Regarding the attraction of FDI, UNCTAD research has shown that FDI in agriculture (including forestry and fisheries) and food processing (including tobacco) grew more slowly than in other industries from 1990 to 2006, in both flows and stocks. Thus the shares of these industries in total FDI inflows declined during this period by nearly half, and are now insignificant both in developed and developing host countries. The agricultural sector accounted for 0.2% of world FDI inward stock in 2006, while the food processing sector attracted less than 3%. Given the very healthy long-term prospects for the agricultural sector, these small proportions are quite surprising.

The World Investment Report 2009 therefore explores the role that FDI can play in helping developing countries fight hunger and develop their agricultural sectors to meet the needs of their people. UNCTAD´s main message is that TNCs have the potential to play a more significant role in agricultural production in developing countries than they have done so far, but that care should be taken to avoid any negative impact of foreign investment. Under the right conditions, foreign investment can help boost productivity and support economic development and modernization, as I will explain.

Between 1990 and 2007, FDI flows into agricultural production tripled from $1 billion to $3 billion a year. There were three main factors driving this growth: first, populous and expanding emerging markets increased their food import needs; second, demand for biofuel products rose; and third, land and water shortages in some developing countries pushed them to seek food production opportunities in other countries.

As I have mentioned, although these flows are quite small in proportion to overall FDI flows, they represent a huge source of finance for many low-income countries where agriculture accounts for a relatively high share of FDI inflows. Examples include such countries as Cambodia, Ecuador and Tanzania. Moreover, FDI in the entire agricultural value chain - from the farm to the supermarket shelf - is much higher, with food and beverages alone accounting for more than $40 billion in annual flows between 2005 and 2007.

TNC participation in agriculture can have both positive and negative effects in developing countries. On the negative side, governments should be especially sensitive to environmental and social concerns associated with TNC involvement, such as the crowding-out of small farmers that might create job losses, land grab, dispossession of indigenous peoples and an overdependence on TNCs.

On the positive side, TNC involvement can result in the transfer of technology, standards and skills, along with jobs and market access - all of which can improve the productivity of the industry, including the farming of staple foods, and the economy as a whole. The contribution of TNCs to food security is not just about food supply: They can exploit potential economies of scale that can make food more affordable, and their higher level of conformity with food standards enhances food safety. All of these factors depend, however, on host countries adopting the right policies that will maximize benefits and minimize the costs of TNC participation.

Governments therefore need to formulate an integrated strategic policy and regulatory framework for TNC activities in agricultural production. The policy framework also needs to include other vital policy areas, such as infrastructure development, competition, R&D, trade and trade facilitation, both to attract investment and to ensure the maximum development benefits from it.

FDI, however, is only one mode through which foreign investors reach into developing countries: another is contract farming, whereby TNCs contract small farms to produce according to their needs and specifications. One of UNCTAD´s key recommendations is that governments should seek to promote contract farming arrangements between TNCs and local farmers. Contract farming is a worldwide phenomenon, present in over 110 developing and transition economies and spanning a wide range of commodities, such as soya beans, cotton, sugar and tea. Nestlé, for example, contracts 600,000 farmers in more than 80 countries. In some cases, contract farming accounts for a high share of output: in Brazil, for example, 75% of poultry production is farmed under contract, while in Viet Nam, 90% of all cotton and milk production is done under contract.

Contract farming may also be politically less controversial than FDI. There is considerable further potential for contract farming involving TNCs, but local farmers need to be better prepared for this form of cooperation. We suggest that governments should actively promote contract farming between TNCs and local farmers to increase or upgrade the productive capacity of agriculture, and to enable farmers to benefit from global value chains. The World Investment Report recommends developing model contracts that local farmers can use when negotiating such arrangements with TNCs.

Another core issue is how to deal with the recent phenomenon of inward FDI in staple food production for the purpose of exporting food to the home country. Indeed, with the growing interest of some sovereign

wealth funds in investing in other developing countries where land capacity is less of a constraint and the climate is conducive for growing food crops, concerns are being raised about land ownership. It is understandable that foreign acquisition of land generates serious political concern in some countries, and this sensitivity must be taken into consideration when advising countries on investment policies in agriculture.

That said, previously, a large quantity of FDI to the agriculture sector was directed to cash crops in order to generate export revenues. This new form of FDI has the potential of making a direct contribution to alleviating the food crisis in both home and host countries. Developing countries should therefore view such inward FDI as an opportunity, rather than a potential threat to their own food security.

In order to share the benefits of production, we suggest that home and host countries consider negotiating agreements to share the eventual agricultural output, called "output-sharing arrangements". In addition, it is important that the international community devise a set of core principles for large-scale land acquisitions in agriculture that deal in particular with transparency, respect for existing land rights, the right to food, protection of indigenous people, and social and environmental sustainability.

In this context we are pleased that UNCTAD, in cooperation with FAO, IFAD and the World Bank, is a leading player in the initiative on "Promoting Responsible International Investment in Agriculture", pioneered by the Government of Japan. We look forward to working with our counterparts on further consultations and, eventually, the development of international principles or guidelines to govern such investment.

A further tool for boosting productivity is public-private partnerships. One initiative in this regard is seed and technology centres that adapt seeds and related farming technologies to local needs and conditions, distribute them to local farmers, and build long-term indigenous capacities. Ultimately, such partnerships can facilitate the start of a green revolution in areas that have yet to benefit fully from seed and fertilizer technology.

Last but not least, let me underline that stronger involvement of TNCs in agricultural production also requires more effort from developed countries. One key problem has to do with tariff and non-tariff trade barriers in developed countries for agricultural exports from developing countries, as well as high agricultural subsidies in developed countries. A successful conclusion of the Doha Round that would reduce these barriers and subsidies could encourage FDI into poor countries.

In conclusion, let me say that the "real" question for most developing countries is not whether to involve TNCs in agriculture and agribusiness value chains, but how to establish a framework and develop national capabilities to best harness their involvement in agriculture. TNCs can potentially offer a valuable source of external finance as well as access to technology and expertise that contributes not only to food security but also to the creation of productive capacities and economic development in general.