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Item 5: Investment in the agricultural sector with a view to building productive capacities

Introduction to the 'principles for responsible agricultural investment'

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As prepared for delivery

Excellencies,
Distinguished Delegates,
Ladies and Gentlemen:

It is a great pleasure for me to continue the discussion on "investment in the agricultural sector with a view to building productive capacities". More specifically, I will present an overview of the "principles for responsible agricultural investment" as a preliminary to an expression of views by our distinguished panellists - and the interactive debate to follow.

As the Secretary General and Professor De Schutter have already indicated, private investment - including foreign direct investment - can play a significant role in complementing public investment in developing countries, in order to boost agricultural production, strengthen supply chains and assure food security. However, as shown in the *World Investment Report 2009,* as well as studies by our sister agencies such as the FAO and the World Bank, the maximization of gains and the minimization of risks from such investments have to be founded on certain prerequisites. Much of our efforts over the last year have been to effectively refine these prerequisites into a set of coherent principles - through a process of consultation. The current draft of principles is a jont output of UNCTAD, FAO, IFAD and the World Bank. The overall objective is to promote sustainable development in agriculture through economically, socially and environmentally responsible investment. These principles are aimed particularly at international investment, albeit they can be applied to all investment from all sources.

Now, I would like to elaborate the "Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources". Since you already have a copy with you, I will not go through them in a tedious manner. Rather, in each case I will briefly explain why the principle matters and what the principle entails.

Principle 1

Existing rights to land and associated natural resources are recognized and respected

- Proper identification of holders' rights
- Legal recognition, demarcation and registration/recording of rights
- Negotiations with land holders/users based on informed and free choice (including identifying the types of rights to be transferred and the modalities for doing so)
- Fair and prompt payment for all acquired rights
- Independent avenues for revolving disputes and grievances

The **first principle** is on land (and associated resource rights). It is important because in most developing countries, land is not only a key productive asset but also serves as a source of drinking or irrigation water, a safety net, old age insurance, and determinant of social status. In most of the relatively land-abundant countries of interest to investors, even land that outsiders would consider as unused, and to which no formal records exist, is often subject to long-standing traditional uses or common property claims. This is why the first principle argues that land-related rights should be properly recognized and demarcated; that procedures for transferring such rights are clearly defined and applied in a transparent manner; that expropriation of land is conducted in a transparent and fair manner; and independent avenues for resolving disputes are put in place.

Principle 2

Investments do not jeopardize food security,
but rather strengthen it

- Assure continuing access to food
- Consider impacts on national food security in design and approval of investments
- Adopt strategies to prevent food shortages/reduce risks
- Expand opportunities for outgrower involvement and off-farm employment

The **second principle aims to ensure** food security. While many benefits from international investment are possible, there are a also a number of possible areas for concern, including (a) tracts of land being shifted from production of food crops to non-food crops; (b) that the food produced is destined mainly for export, even from areas that suffer chronic or intermittent food shortage; and (c) the conversion to monoculture affecting resilience to adverse weather, pests and disease. A methodical way to address these issues is to first clarify the concerns of different stakeholders upfront, then to identify competing objectives and evaluate alternative strategies for meeting them, and then to assess potential interventions and associated impacts, and lastly to prioritize and adopt risk mitigation measures. If this due diligence and collaborative planning is carried out well, then the potential for using large-scale agro-investment as a force to improve food security can be realized.

Principle 3

Processes relating to investment in agriculture are transparent, monitored, and ensure accountability by all stakeholders, within a proper business, legal and regulatory environment

- All relevant information is publicly available
  - such as land potential and availability, core aspects of prospective investments, and resource flows or tax revenues
- Ensure institutions have capacity to operate efficiently and transparently, practice good governance and are audited
- Independent system to monitor progress to be in place.

The **third principle** promotes good governance. If done well, international investment in agriculture can generate new and higher paying jobs, upgrade the skills of the labor force, facilitate technology transfer, open new and better markets, and generate complementary infrastructure. Yet there are many examples where poor design or oversight of programs and project has led to delays, non-performance, or diversion of rents and benefits. The lack of transparency particularly has led to allegations of corruption and distrust that in the end either reduced these benefits or prevented them from being realized. The third principle, on transparency, good governance and an effective enabling environment is therefore crucial. That is why a stress is laid on ensuring availability of relevant information, independent monitoring and ensuring the efficiency of relevant organizations.

Principle 4

All those materially affected are consulted, and agreements from consultations are recorded and enforced

- Effective consultative processes require:
  - Procedural clarity: e.g. who represents stakeholders, quorum for attendance etc.
  - Documentation of agreements reached and signed-off by all parties
  - Specification of methods for enforcement (and sanctions) for non-compliance

The **fourth principle** advocates effective consultations with all stakeholders concerned. It matters because lack of consultation is likely to result in projects having a harmful impact on some individuals and groups who may lose rights or livelihoods without due compensation, whose surrounding environment is degraded, or who are excluded in other ways. On the other hand, full and open consultation during project preparation can lead to strategies that spread benefits, mitigate potentially negative social, environmental or economic impacts, and that in the end enhance sustainability in every sense. The principle therefore promotes consultation of materially affected stakeholders as a prerequisite for successful investment outcomes. Moreover, such consultation should not be considered a one-time event but instead involve ongoing interaction with community representatives, as well as local governments.

Principle 5

Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value

- Compliance with relevant laws and international treaties is expected
- Adherence to global best practices
- Investors should strive to generate significant and tangible benefits for the project area, affected communities and the haste country (not only shareholder value)
- At the same time, governments must also assess economic viability of proposed projects in a cost-effective way and integrate major projects into broader development strategies

The **fifth principal** emphasizes the economic responsibility of investment projects. It recognizes that ascertaining a project‘s technical and financial feasibility is largely the responsibility of investors whose capital is at risk. Yet, it is prudent for counterpart entities to carefully examine assumptions and the quality of the analysis. Numerous case studies of the on-going phenomenon have shown that some projects were/are in fact speculative, and not likely to go ahead or prosper under more ―normal conditions. Both sides need to recognize that proposals precipitated by high food and energy prices may not be viable under changing economic conditions. The principle therefore draws attention to a number of key issues, from compliance with national laws and international treaties to reminding both investors and governments about their duties in ensuring the economic viability of agricultural projects.

Principle 6

Investments generate desirable social and distributional impacts and do not increase vulnerability

- Governments and investors should:
  - Identify social issues and risks at the outset – and prepare strategies to mitigate these, while increasing social benefits
  - Consider the interests of vulnerable groups and women
  - Include the provision of local public goods in project design

The **sixth principle is on social sustainability**. Large-scale investments in land have the potential to transform communities. They can affect the sources of people's livelihoods, the resources available to them, and the relationship between groups. Whether results are positive or negative depends on, among others, a country's policy, legal and institutional framework and its implementation capacity; the intrinsic design of the project and how it executed; and on the arrangements made by and with investors. Therefore, an overriding objective should be that benefits from investments be shared in a way that fosters equitable, sustainable social development. To make sure that this happens, individuals materially affected by the investment –whether directly or indirectly– should be involved in making decisions about investment arrangements. They need to be adequately and fairly compensated for any losses. This requires a common understanding among stakeholders of the cultural context, gender issues, sources of vulnerability, potential for conflict, and livelihood and food security strategies.

Principle 7

Environmental impacts of a project are quantified and measures are taken to encourage sustainable resource use, while minimizing the risk/magnitude of negative impacts

- Conduct of independent environmental impact prior to approval of projects
- Promote the reclaiming of resources or increasing productivity of those already in use
- Ensure that good relevant practices in agriculture, processing and manufacture are followed
- Encourage beneficial ecosystem services
- Address negative impacts via environment management plans

Finally, the **seventh principle is on environmental sustainability. It** reflects a key concern that large-scale investments intended to increase agricultural production in the short term could lead to longer term land degradation or reductions in ecosystem sustainability, including water resource depletion and potentially significant losses of pristine forests, biodiversity, and other natural habitats. On the other hand, clearly, well-managed agricultural investments can enhance ecosystems if, for example, land management techniques are employed that conserve soil and moisture, protect watersheds and restore vegetation. The way to address concerns is thus to ensure that effective measures are in place to ensure that good practices are brought to the fore and put in place.

Excellencies,
Distinguished Delegates,
Ladies and Gentlemen:

Allow me to take this opportunity to express UNCTAD's great appreciation to our FAO, World Bank and IFAD partners for their excellent cooperation in formulating the set of principles. As you can see, a lot of thought, consideration and inputs from stakeholders have gone into the development of these principles. We would not claim they are perfect and we do not expect Member States to endorse the principles at the current session of the Commission. We look forward to the discussion and feedback, in order to further improve and enhance them.