High-level Meeting on Food Security for All

Roundtable 4:
Enhancing engagement of civil society and the private sector

Speaking points for Supachai Panitchpakdi,
Secretary-General of UNCTAD

Madrid, 26-27 January 2009

- It is a great pleasure for me to co-chair this roundtable on increasing the engagement of civil society and the private sector. I would like to begin by expressing my gratitude to His Excellency Prime Minister Zapatero and the Government of Spain for the timely initiative of hosting this meeting and driving forward, in a more concrete way, the search for short- and long-term solutions to the food crisis, which is still with us despite reductions in food prices and the escalation of the global financial crisis. It would be a mistake to conclude that the food crisis is over.

- 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 they were in the late 1990s and the earlier part of this decade, thus continuing to pose challenges for the most vulnerable. We also know that the sharp drop in prices since the crisis is not the result of corrected mistakes or better policies, but rather merely the unintended by-product of yet a different global economic crisis – a financial one – which overwhelmed the world economy, slowing global demand for commodities and leading speculative investors to flee commodities for liquidity.

- Even if, for the time being, the worst is over in terms of the prices, we have yet to fully address the root causes of the food crisis. As you know, the Comprehensive Framework for Action, which was released in July 2008, proposed action on two tracks. One was to improve access to, and availability of, food to meet the immediate needs of vulnerable populations. The second was to address the underlying factors that gave rise to the food crisis by building up longer-term resilience in the global food system and thereby contributing to long-term global food security. As the need for the former recedes, there is a danger that the crisis may be either forgotten or given lower priority. We have to make sure hard lessons are learnt from the global food crisis. If not, the next crisis is only a matter of time.

  What are these lessons?

- First, the effects of speculation in commodity markets, which is increasingly recognized as having played a major role in the build-up of the price bubble in summer 2008, must be urgently addressed,. As we learn more about the precise origins and mechanics of the global financial crisis, as well as the interrelated nature of investors' portfolio decisions, the need for greater regulation of global financial markets is increasingly well understood. Taking into account the devastating effects that speculative inflows into markets for basic commodities can have on prices and thus affordability for the poor, the need for improved regulation and protection seems even clearer in the case of commodity markets. More work is needed on how best to achieve this aim without being overly disruptive of healthy trading activities. I have no doubt that trading companies and other private sector entities can help design such a system.

- The second lesson is one that was painfully learnt by many food-importing countries during the crisis: that even if it appears that basic food products are available on world markets at low prices, it does not pay to ignore your own agricultural production capacities. As prices shot up, food-producing and exporting countries began imposing export bans, and the prevailing mood was one of "each man for himself". While this caveat is not meant as a call for self-sufficiency, it is an important thought to bear in mind, also in the context of the current thinking on policies for domestic production of essential food products.

- The third lesson that ought to be highlighted is the need for increased and sustained investments in agricultural production, extension services and infrastructure. As is now widely accepted – even if not always acted upon – it was the relative neglect of the agricultural sector in many developing countries, especially in Africa, that caused productivity to decline and supply capacities to whither away. Just consider that Africa as a whole used to be a net food exporter as late as 1988, but has since become a net food importer. UNCTAD research has also shown that in the least developed countries, the agricultural sector was actually more productive 50 years ago than it is today. The reasons for this must be sought not only in the dwindling availability of arable land, but also in the competition from subsidized food exports from developed economies; the abolition of institutional support measures, such as extension services or subsidies for farm inputs; and declining aid and investment, including for agricultural research and development.

- In recent years, assistance from both bilateral and multilateral development partners has been directed towards social-sector and emergency aid, while minimizing investment in productive sectors, such as agriculture. Between 1980 and 2002, for example, multilateral institutions cut ODA spending on agriculture from US$ 3.4 billion to US$ 0.5 billion (a decrease of 85%). Bilateral donors reduced spending from US$ 2.8 billion to US$ 1.7 billion (a decrease of 39%).

- All of these factors must be addressed if we are to help developing countries build their production and supply capacities in agriculture and guarantee not only greater resilience in crises but also improved food security in the long term.

- In short, these lessons call for increased aid and investment in agriculture. This is the challenge not only to governments in developing countries and development partners, but also to civil society and the private sector. For donors, the challenge is to live up to their commitments and recognize the importance of building economic and agricultural supply capacities in their aid disbursements. For governments in the developing countries, the main lesson is the need to implement policies that help promote investment and productivity improvement in the agricultural sector and mobilize greater domestic investment. Of course, the global financial crisis has made such measures even harder to achieve. The global credit crunch is reducing access to short-term capital and trade finance for smallholders, while a general economic slowdown is putting further pressure on fiscal budgets in many developing countries. And yet the fall-out from the financial crisis makes such "countercyclical" investment more necessary than ever before. Therefore, a concerted effort and partnership between major donors and governments in developing countries is needed to create a "stimulus package" for agriculture. Such a package could help limit the impact of the global slowdown, and also build the irrigation systems, silos and feeder roads needed to support agricultural production.

- In all of this, the role of civil society and the private sector is critical. In fact, it is difficult to imagine increased investments in the agricultural sector and improvements in productivity and distribution of food without a direct and active role for the private sector. Sadly, the contribution of private investment to agricultural production in many developing countries, in particular in the Africa, has declined over the years, as greater incentives often seemed to exist in the services and manufacturing sectors. This is true for both domestic and foreign direct investment flows. UNCTAD research has shown that FDI in agriculture (including forestry and fishery) and food processing (including tobacco) has grown more slowly than in other industries between 1990 and 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 minuscule 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 sector's very healthy long-term prospects, these small proportions are quite surprising.

- Of course, the recent food crisis and the price increases associated with it have generated renewed interest in private sector investment, both domestic and foreign, in agricultural production. 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. The uncertainty of ODA trends in view of the unfolding global recession makes it imperative that the option of increased investment in agricultural sector receives greater attention. This means that developing countries will have to redesign their investment strategies and formulate policies targeted at attracting FDI in agricultural sector, in particular food production. UNCTAD's forthcoming *World Investment Report 2009* is devoted to this particular issue, especially the role of TNCs in agricultural production and supply. The report will address FDI flows in the agricultural sector and whether the recent food crisis has in any way influenced the perception and investment decisions of TNCs. We have also observed in recent months that concern over long-term food security has led some sovereign wealth funds from developing countries to explore the possibility of investing in food production in other developing countries where the potential and comparative advantage for food production is great. This form of foreign investment could, in the near future, play a critical role in providing food security to both the investing and the producing countries.

- Foreign involvement in agricultural production often ranges from direct ownership and production through equity (FDI) to contractual farming (non-equity investment). Even if direct involvement in production is limited, foreign investors, in particular TNCs, could play an important role in processing, distribution and sales networks. Nestlé, for example, has 600,000 contractual farmers worldwide. Such investments help to generate employment opportunities and support domestic supply capacities and productivity. They are, therefore, often very welcome.

- However, 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 to 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, however, it is equally important to note that every day of every week around the world, and in both developed and developing countries, foreign investors acquire land for investment purposes. Some companies use the land to establish factories (some very large); others need it to create infrastructure facilities, such as ports and their hinter operations; in yet other cases, mining operations are impossible without a modicum or more of land in which to house ancillary activities. However, what seems to have sparked the concerns – and no little amount of hyperbole – is the scale of investment involved and the size of land required.

But in the last couple of years, a number of agricultural investment deals involving large-scale land allocations to foreign investors have been reported, which, if proven successful, could be used as models for other countries. These include:

- The putative lease for 99 years by Korea's Daewoo Logistics of about 50% of Madagascar's cultivable land to farm maize and palm oil.[1]

- A similar lease to China's Jilin Fuhua Agricultural Science and Technology Development Co. of a million hectares of the Philippine's agricultural land (roughly 10% of the country's total).[2]

- Even individual investors seem to have joined the venture: for example, Philippe Heilberg's claim to have purchased 400,000 hectares in Southern Sudan.[3]

---

[1] Widely reported; see for example www.pambazuka.org/en/category/Africa_china/52635 .
[2] www.Newsbreak.com online, 17 October 2007.
[3] Javier Blas and William Wallis, "Frontier spirit embraces risks of south Sudan", www.FT.com , 10 January 2009.

- Whether these reported deals will eventually be operational and lead to increased agricultural production remains to be seen. What is clear, however, is that there are existing arrangements and that they should be studied to identify lessons for other countries. It is moreover clear that foreign investment can be a welcome source of capital inflows for some of the poorest developing countries that have so far not been able to attract much investment in agriculture. However, it is essential that governments assess the benefits and costs associated with foreign ownership of agricultural land – too often, decisions are based on insufficient evidence, ideological notions, or whim. Often, a rational cost-benefit analysis will demonstrate the benefits of the involvement of foreign investors. But governments should also remember one of the important lessons from last year's crisis referred to earlier: In an era of food scarcity, the possibility, likelihood and actuality of starvation in many poor countries is itself one prima facie reason for thinking carefully about permitting foreign investment in agricultural land, even if the benefits appear to outweigh the costs.

- Of course, this note of caution applies to the private sector as well. International companies are very well aware that their investments and operations will not be sustainable unless they are also socially and culturally acceptable in the host countries. Just as in the case of natural resource extraction and mining, such arrangements should therefore be drafted with care so as to ensure mutual understanding and an appropriate contribution to development. Indeed, there may be scope to link such investments to existing Corporate Social/Economic Responsibility (CSR) mechanisms, such as the Global Compact or the Extractive Industries Transparency Initiative, so as to help allay possible concerns. In this context, and as I indicated earlier, I am pleased that UNCTAD's next World Investment Report will address the issue of FDI in agriculture in greater depth.

- Last year's crisis has demonstrated the misery that can be caused by a fundamentally flawed global agricultural system. We must therefore work together, including with the private sector and civil society, on the goal of food security, which must be the first step on the ladder towards the Millennium Development Goals.

Thank you very much.

* *** *