Consultation for the private sector on Responsible Agricultural Investment

German Room (C269)

FAO Headquarters, Rome, Italy

2 March 2011

REPORT

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1. Introduction

The objective of the consultation was to exchange views on how to promote responsible international investment in the agricultural sector of developing countries. In particular, the meeting sought the opinions of representatives from companies on the Principles for Responsible Agricultural Investment (RAI) that Respects Rights, Livelihoods and Resources[1]. While the primary goal of companies that invest in the agricultural sector of developing countries is to make profit, many of them also want their investment to benefit the host country and the local community as much as possible. However, they often lack the tools to ensure that these benefits materialize. The RAI principles could provide such a tool. This is one of the reasons that have led FAO, the World Bank, the International Fund for Agricultural Development (IFAD) and the United Nations Conference on Trade and Development (UNCTAD) to develop the principles. Obviously there are other potential users, in particular governments. FAO has organized a series of regional consultations for national governments[2], but this consultation was specifically aimed at the private sector.

The consultation was attended by representatives from investment funds, agrifood companies, biofuel production firms, pension funds, financial service enterprises, consulting firms, technical cooperation agencies, intergovernmental organizations (in particular the World Bank and IFAD) and non-governmental organizations. A few government representatives and several experts from various divisions of FAO were also present. The list of participants is available in the annex of this report.

2. Summary of presentations

The meeting was opened by the Chair, David Hallam, Director, Trade and Markets Division of FAO who welcomed the participants and explained the objectives of the side-event. He summarized the history of the RAI principles and underscored that it is a collective initiative by FAO, IFAD, UNCTAD and the World Bank that started two years earlier. There are other interrelated consultation processes going on such as the G-20 and the FAO consultations on the voluntary guidelines for land tenure. Pascal Liu, Team Leader, International Investment in Agriculture, FAO, gave a summary of the main issues raised by foreign direct investment in the agricultural sector of developing countries. He then presented the principles for responsible international investment in agriculture (RAI). They are one of the available instruments to respond to these issues and can be a useful reference for government, investors and civil-society organizations. Mika Torhonen, Senior Land Tenure Officer, FAO, gave a brief overview of the voluntary guidelines for the tenure of land that are being developed by FAO and explained how the guidelines and the RAI principles complement each other.

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[1] www.responsibleagroinvestment.org

[2] More information on the past and future consultations is available from http://www.fao.org/economic/est/investments/building-international-concensus-on-rai-principles/en/

Representatives from companies with experience in foreign investment in developing countries presented their perspectives on responsible agricultural investment. Neil Spooner, CEO of Maxwell-Stamp KSA, described the initiatives of the government of Saudi Arabia to encourage its firms to invest in agriculture abroad and the constraints that they met, in particular due to reputational risk. Ard Lengkeek, Director of plantation at Mali Biocarburant SA, presented the experience of this joint venture between Mali and the Netherlands that was founded to produce jatropha and biodiesel. Going through the seven RAI principles one by one, he argued that the company had followed each of them even though it was not aware of them at the time of the investment. Finally, Justin Ourso, Director of Global Private Markets at TIAA-CREF, a large pension fund based in the United States, explained the internal guidelines that this company follows to ensure that its investment are responsible from the social and environmental perspectives. The largest socially-screened fund in the United States, TIAA-CREF has signed on to the UN Principles for Responsible Investment and intends to adopt the RAI principles.

3. Remarks by intergovernmental organizations

The representatives from two multilateral institutions that have jointly developed the RAI principles with FAO made remarks. IFAD stated that there has not been sufficient testing of the principles in the field so far. It intends to promote the adoption and active use of the RAI principles in the field by both investors and host governments. The World Bank made the following observations:

- The RAI principles need to be the outcome of a balanced effort in which all stakeholders are involved and thus the involvement of the private sector is required, as well as that of civil society organizations
- The RAI principles are not an end in themselves, but rather the start of a process; as a live instrument, they are set to evolve
- Initiatives to develop guidelines for responsible investment must take into account that the private sector is a very diverse and wide sector, with various interests
- Early research on the RAI principles captured only a handful of stakeholders, but as the process has evolved new partners are being included, notably in the private sector
- The development of principles must recognize that different geographical areas have different conditions and interests, for example the situation in South America is very different from that of Africa
- It is essential to consult all stakeholder groups in order to build consensus, and this event contributes to the consultation process.

4. Summary of discussions

Following these observations the Chair opened the plenary discussion with the following questions:

How are pilots being implemented for testing the RAI principles? How is the private sector defined? Should the RAI principles become recommendations or guidelines?

The participants shared their views concerning the principles and their suitability to private sector operators. They discussed how the principles can be useful to companies and the possible next steps, including further elaboration of the principles and their implementation in a way that can concretely help investors. The main points are summarized below.

Impacts of responsible agricultural investment on developing countries

- There is a need for foreign direct investment (FDI) in the agriculture sector of developing countries. FDI can potentially benefit the economic development of these countries in various manners (income generation, job creation, technology transfer, ...).
- However, a very small share of FDI goes into agriculture because it is a high-cost environment. It requires excellent technical skills and much time, as returns take time to materialize.
- It is important to conduct ex-ante assessment of the impacts of FDI projects.
- There is a need for local monitoring of investment projects to ensure that the projects benefit the area and avoid adverse effects.
- The evidence collected in case studies suggests that large-scale land acquisitions would not be consistent with the RAI principles.

What investors need in order to ensure responsible agricultural investment

- It is important to understand that private sector investors are not a homogenous group. There are different types of investors with different objectives, interests, strategies, attitude to risk, etc. Initiatives to promote responsible agricultural investment should involve the various types of investors.
- Companies are weary of reputational risk. In order to limit it they favour the auditing of their impacts by third-parties.
- The private sector needs support to start investing in the agricultural sector, as the sector yields low returns to investment at the beginning. "Patient capital" provided by the public sector or public-private partnerships can be an instrument of support. Public funds are needed to leverage private funds. Infrastructure development by the public sector can help companies invest in developing countries. The model of "growth corridors" as experimented in Tanzania may be useful.
- Companies need a clear regulatory environment, low cost enforcement and effective dispute resolution mechanisms, which reduce the need for individual reporting and compliance mechanisms.
- In this respect, governments have an important role to play in providing a stable and clear institutional framework that reduces the risks for investors. However, such a framework is often lacking in low-income countries. The governments of these countries need support to establish it. Technical advice and capacity building are essential. Without the right institutional framework, investors may view the RAI principles as more of an obstacle than an incentive.
- In addition, investors need roadmaps and guidelines so that they feel confident investing in developing country agriculture.
- It is important to utilize the lessons learnt from other sectors than agriculture that have been receiving FDI for a long time.

How the RAI principles can help investors

- Companies are interested in the RAI principles that they view as potentially useful. The key issue is their implementation.
- Clear implementation guidelines for the RAI principles need to be developed so that companies can practically implement them in their investment projects. If good guidelines are developed, investors

will use them because they will see them as a way of reducing risks. Conversely, in the absence of clear guidance companies may view the RAI principles as a disincentive.

- In order to be really effective the RAI principles should play a catalytic role for investment.
- There is a risk that the RAI principles could be used for "greenwashing" by some investors. They should not be just a paperwork exercise.
- The RAI principles should draw on existing international guidelines, codes of conduct and recommandations in order to avoid confusing companies. It must be recognized that there are similarities but also differences between all these instruments.
- In order to promote the use of the RAI principles by investors, efforts should be made to convince leading companies to adopt them. It is important to transform the best practices of industry leaders into practical guidance.
- A broad and comprehensive consultation process on the RAI principles is essential in order to build consensus among the various stakeholder groups. In particular, it is crucial to have both companies and civil-society organizations involved.

5. Conclusions

The Chair summarized the issues and recommendations on the principles and their operationalization. He noted that while investors are interested in the agricultural sector, there is a considerable investment gap in developing countries. The RAI principles can be a useful tool to bridge the gap but it is too early to draw conclusions. Investors and governments need more guidance on how to implement them. It is essential to help developing-country governments strengthen their capacity to deal with FDI. More work on the RAI principles is needed. He invited the participants to continue the dialogue and, in particular, encouraged firms to share their experiences and good practices.

ANNEXES

ANNEX 1: AGENDA

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Programme

9.15 **Welcome and introduction to the objectives of the side-event**
David Hallam, Director of Trade and Markets Division, FAO

9.20 **Key issues in FDI and the principles for responsible agricultural investment (RAI)**
Pascal Liu, Team Leader, International Investment in Agriculture, FAO

9.45 **Plenary discussion**

10.30 **Coffee break**

10.45 **The perspectives of companies on responsible agricultural investment**
- Neil Spooner, CEO, Maxwell-Stamp KSA, Saudi Arabia
- Ard Lengkeek, Director, Mali Biocarburant SA, Mali/Netherlands
- Justin Ourso, Director, Global Private Markets, TIAA-CREF

11.15 **Plenary discussion**

12.15 **Conclusions** – issues and recommendations on the principles and their operationalization, and priorities for follow-up
David Hallam

12.30 Close

Note: Due to budgetary constraints the workshop will be held in English only

ANNEX 2 LIST OF PARTICIPANTS

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