Federal Ministry of Food, Agriculture and Consumer Protection

2013 BERLIN AGRICULTURE MINISTERS' SUMMIT

Background Paper on the Global Forum for Food and Agriculture – GFFA 2013

The GFFA 2013 will discuss the topic "Responsible Investment in Food and Agriculture – A key factor for food security and rural development".

In recent years, investment in the agricultural sector has declined relative to investment in other sectors of the economy. This trend has been accompanied by decreasing public awareness of the importance of the agricultural sector for economic and social development. The percentage of public expenditure and total spending on development aid in this area have also fallen.

The effects of the recent, and in some cases considerable, increases in agricultural prices underline the need to once again step up support for agricultural development in order to secure the supply of food and combat poverty.

Since the 2008 food crisis, the need for additional – and also private – investment to ensure food security has therefore been emphasised time and again in talks on international level, most recently during the G8 Summit at Camp David. According to estimates published by the FAO, annual investment in the order of US$ 83 bn in food, agriculture and rural development is needed if we are to meet the demand for food by around 9.3 billion people in 2050. This figure does not include the investment that is also necessary in infrastructure, storage facilities, market development, training and research and development. Small farmers in particular often lack access to financial resources, and many countries are unable to mobilise the required capital. Foreign investment therefore plays a key role in meeting global investment targets and achieving the necessary nutrition objectives.

Levels of private foreign direct investment have increased in recent years, particularly in Asia and Oceania, Latin America, the Caribbean, South-eastern Europe and the CIS states. In developing countries, foreign direct investment is primarily geared towards the cultivation of marketable crops, such as energy crops, and to only a far lesser degree towards the growing of basic foodstuffs. In industrialised countries, on the other hand, the major part of foreign capital is invested in the processing of food– a sector that has steadily grown into an ever more important industry worldwide. The increasing activities of transnational companies in many developing countries since the nineteen-eighties is another relevant factor.

One of the reasons why capital is available for investment in the agricultural sector is that institutional investors, such as funds or investment companies, have also tapped into agriculture as an activity that enables them to expand their portfolio. Agricultural investment funds also invest capital within the framework of national food security strategies, however, and we are also seeing an increase in the acquisition of large areas of land by private or public-sector companies, investment funds and public-private partnerships..

Public and private investment require certain institutional and structural conditions, and it is the job of national governments to create these conditions. Clearly defined legal provisions governing property and trading activities provide a reliable and dependable framework for foreign investment. The development of the necessary infrastructure for finance, transport, communication, consulting and education underpins the willingness to invest. This also creates incentives for capital formation, particularly among local farmers – the most important investors. The **potential** for additional investment lies in increased productivity and competitiveness, in combating poverty and in creating stability in rural regions. This is why the framework conditions that are necessary to counter possible risks and undesirable developments like the exclusion of (small) farmers and negative social and ecological impacts need to be put in place at an early stage.

You can find additional background information in the study "Trends in Foreign Direct Investment in the Agricultural Sector of Developing and Transition Countries" (Heumesser and Schmid 2012) commissioned by the German Ministry of Food, Agriculture and Consumer Protection and available on the internet at http://www.gffa-berlin.de/images/stories/GFFA2013/studie%20der%20universitt%20wien.pdf .

Discussions between the Ministers should focus on the following questions:

- What role do private, public or joint (PPP) investment play in the agricultural value added chain in developing and emerging countries and how can additional capital be mobilised?
- How can the access of agricultural producers, including small farmers, to capital be facilitated and which investment models are suited to this purpose?
- What framework conditions need to be created for investment to ensure that it promotes sustainable development of the sector and avoids negative impacts?