

Agriculture must take the initiative to attract investment

The specialists who took part in IICA's Fifth Technical Forum highlighted the lack of investment in the agricultural sector in Latin America and the Caribbean and suggested ways of increasing it.

San José, Costa Rica, August, 2008 (IICA). Neither investment agencies nor the development strategies of Latin American countries view the agricultural sector as a potential target for investment. According to Carlos Razo, an economist with the Economic Commission for Latin America and the Caribbean (ECLAC), “Any country that wants investment in its agricultural sector will have to go out and find it.”

The other panelists involved in the Fifth Technical Forum agreed with Razo. The event took place 7 August at the Headquarters of the Inter-American Institute for Cooperation on Agriculture (IICA). Organized by the Institute, the theme of the activity was “Direct Foreign Investment in Latin America and the Caribbean and its impact on agriculture and rural development.”

The other experts who participated included Eduardo Alonso, an economist and international consultant, Jose Antonio Yock, Vice President of Latin American Operations of Del Monte Fresh Produce, Christopher Hansen, IICA Deputy Director General, and Rafael Trejos, IICA Director of Institutional Modernization.

The event was webcast to all IICA's Offices in the hemisphere, while the onsite audience was composed of public officials, executives of agricultural firms, several former ministers of agriculture of Costa Rica, representatives of cooperation and financing agencies and Institute officials. The first forum was held in 2004 and the activities focus on key issues related to the modernization of agriculture in the hemisphere, generating input for IICA's technical cooperation and public and private sector decision makers.

During his presentation, Razo, the Economic Affairs Officer of ECLAC's Investment and Business Strategies Unit, said that, despite the historic increase in direct foreign investment (DFI) in Latin America in 2007, less than 10% had gone into the natural resources sector. He pointed out that no disaggregated data was available on the specific investment in agriculture.

Razo also said that investments in natural resources and those aimed at improving market access had the potential to impact agriculture and rural life in Latin America, especially in countries such as Brazil, Chile, Argentina, Colombia and Mexico, which attracted most investment in the region, especially in the mining sector.

He acknowledged the benefits of investment in those sectors (e.g., higher exports, improved competitiveness and the creation of employment) but also observed that it can create difficulties, such as dependence on fluctuating international prices and environmental pollution. It also generates few productive linkages.

Nevertheless, both Razo and Alonso said it was up to the host countries to adopt measures to take full advantage of the investments they attracted and that the key lay in linking transnational companies with local production.

Possible areas for investment

In the case of investment in agriculture, both experts said that if the countries wished to increase the flow of resources toward the sector the first step was to make it a key objective of their development strategy and include it in their policies for attracting investment.

“The decision must be based on a consensus among various national sectors,” Razo went on. “Sometimes investment in the agricultural sector may appear not to bring a good rate of return, so work is needed to improve the image of agriculture as an attractive area in which to invest.”

The two economists also agreed that the rise in food prices had provided a good opportunity to do so. The situation made the sector potentially more profitable and attractive, especially areas such as agribusiness and biotechnology, Alonso pointed out.

Furthermore, in a context of climate change, investing in controlled production systems was a less risky option for investors and banks that wanted to pump capital into the agricultural sector.

“We have to seek out opportunities and create national and regional policies that, when combined with technology transfer and financing, will make it possible to take advantage of them,” Alonso continued. Policies for attracting investment, he explained, should be proactive and form part of the national development strategy.

He also highlighted the need to beef up the institutions in charge of attracting investment and to make the incentives they grant more efficient and better targeted. Interagency work was important but it “cannot be achieved with the stroke of a pen. It takes determination and real coordination among the entities involved.”

Alonso then stressed the importance of granting financing to small and medium-scale producers and organizing marketing chains, so they could insert their products into the market and thus forge links with foreign companies.

It was interesting to hear the views of a representative of one of the big transnational companies that specializes in agricultural products. Yock explained to the participants his firm’s criteria when deciding whether to make an investment. One was the suitability of the location for production, and the climate in particular. “Climate change has made historical forecasts useless, so now we are thinking more and more about production in greenhouses and in controlled environments,” he said.

Other criteria included the distance between the country and the markets; the infrastructure (ports, roads, etc.); political stability and “clear and precise legislation that is respected by the government;” good economic conditions for exporting; fiscal and other incentives; and, finally, the existence of a skilled labor force.

For more information, contact rafael.trejos@iica.int