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Promoting responsible business conduct along agricultural supply chains

This note serves as a background document to the high-level panel discussion on responsible business conduct along agricultural supply chains being held during the Global Forum on Responsible Business Conduct on 27 June 2014 and gathering together Ministers as well as high-level representatives of the business, civil society and international organisations. It provides a brief overview of the current opportunities for agri-business investments and the benefits and adverse impacts such investments may bring. It also provides suggestions on how governments and businesses can mitigate the risks of contributing to adverse impacts.

Key messages

- The increased involvement of a wide range of investors in the agri-food sector can help meet the growing demand for agri-food products, but it also heightens the risks of adverse impacts, particularly in weak governance countries.
- While governments bear the principal obligation for creating the necessary conditions to promote responsible agri-business investment, businesses should undertake due diligence to identify and mitigate the risks of contributing to adverse impacts. A thorough due diligence process can effectively lower their reputational, operational and thus financial risks.
- The FAO-OECD practical guidance being developed by a multi-stakeholder Advisory Group will be a valuable tool to support businesses in undertaking due diligence and implementing existing principles for responsible business conduct along agricultural supply chains.

What are the current investment opportunities in the agri-food sector?

The global demand for agri-food products is growing due to several main factors. First, the global population is expected to rise to more than 9 billion by 2050, with the fastest population growth rates in Africa and India. Second, income levels in emerging and developing economies are increasing with a middle class expected to grow from 430 million in 2000 to 1.15 billion in 2030, with China and India contributing to the largest share of such expansion. These rising incomes associated with rapid urbanisation lead to changes in diets towards more animal proteins, which drives an indirect demand for coarse grains and oilseeds for livestock feed. Third, biofuel production is expanding, with ethanol production expected to increase by almost 70% and biofuel production expected to consume 28% of the global sugar production by 2022.

As the demand for agri-food products increases, agricultural prices are expected to be higher in the coming decade than they were in the decade preceding the 2007-08 price spikes. Consequently, investing in agricultural commodities, in particular food crop, biofuel, feedstock, meat and dairy production, may offer significant returns in the short and long term. The United Nations Food and Agriculture Organization (FAO) estimates that agricultural production needs to increase by 60% by 2050, which would require an investment in primary production and downstream services of USD 209 billion per year.

What benefits can bring investments in the agri-food sector?

Agri-business investment can significantly benefit host countries and societies. It can create employment and bring expertise, technology and financing capacities for increasing agricultural production and productivity and upgrading in value chains, thereby enhancing local, national and ultimately, global food security. For instance, technology transfer from foreign enterprises to domestic producers can be undertaken through various channels, including technical advice on growing practices and cash flow management, demonstration plots, or the provision of improved inputs.

Job creation, a major benefit from agri-business investment

Job creation was the most frequently cited benefit arising from 39 large-scale agri-business investments analysed by the World Bank and UNCTAD. Investors offered permanent and temporary jobs roughly split 50-50, often in remote areas where formal employment had not previously existed. A formal job opportunity offered by investors was generally sought after by local producers as it offered greater work and income stability, and other employment benefits such as health care, food, accommodation, and training opportunities. Investors also contributed to indirect employment opportunities by providing a stable market for outgrowers' produce. For example, the 11 investors with outgrower schemes helped to support the livelihoods of 150 000 outgrowers. Outgrowers interviewed confirmed that investors made more reliable paymasters than itinerant middlemen.

Source: The practice of responsible investment in larger-scale agricultural investments – Implications for corporate performance and impacts on local communities, World Bank & UNCTAD, 2014.

Agri-business investment can also increase tax revenues and export earnings, enhance access to markets by smallholders, contribute to infrastructure development, and support improved sanitary and phytosanitary standards and product quality. It can induce backward and forward linkages and multiplier effects through local sourcing of labour and other inputs and processing of outputs, thus driving income growth. Investing in agriculture is in fact one of the most effective strategies for economic growth and poverty reduction in rural areas: GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture.

What potential adverse impacts can have investments in the agri-food sector?

While agri-business investments can benefit host countries and societies, they can also have adverse social and environmental impacts, including on the rights and livelihoods of local communities, particularly in countries with weak regulatory capacity and tenure rights. Conflicts between investors and affected stakeholders can lead to nutritional deprivation, social polarisation and political instability, and translate into reputational, operational and thus financial risks for investors.

Adverse impacts relate in particular to:

- ***Human rights:*** The infringement on human rights in the agri-food sector can be linked in particular to land tenure and working conditions. For instance, changes in land use may affect the right to an adequate standard of living. The right to non-discrimination is also often violated as gender discrimination remains a major concern in many agricultural investments, with women often being offered less formal employment and being overrepresented in the worst paid and most insecure jobs.

- ***Labour rights:*** Fundamental labour rights can sometimes be violated in the agri-food sector. In particular, plantation workers can face abusive conditions violating the rights for decent and healthy working conditions and freedom of association. Similarly, marginalised groups and workers employed on a casual basis, such as migrants, can be denied basic labour rights, such as safe working conditions satisfying their basic needs. Many agricultural workers suffer from occupational accidents and illnesses. For instance, according to the International Labour Organization, exposure to agrochemicals poses a significant health risk, with an estimated number of pesticide poisonings ranging between 2 and 5 million persons per year.

- ***Tenure rights over natural resources:*** Tenure risk increases when existing tenure rights are not secured or officially recognised, which leads to competing claims on natural resources, including in particular land and water resources. For instance, land legislation may not recognise informal rights or may recognise such rights but not be implemented due to inadequate land registration systems. Land acquisitions may then lead to the eviction of local communities holding customary rights without fair compensation, resulting in a loss of income, increased vulnerability and food insecurity. Such acquisitions have been a source of concern in light of the scale of some transactions. According to the Land Matrix, 18% of the agricultural land in Cambodia has been subject to land acquisitions. In Myanmar, 1.38 million hectares had been granted to private companies and government organisations in holdings of about 1 000 to 2 000 hectares by 2012, whereas the land actually cultivated would approximate only 20% of the total land area allocated.

- ***Sustainable use of natural resources:*** Investments intended to increase agricultural production in the short term may lead to ecosystem degradation in the long term, including: land degradation due to unsustainable growing practices; water resource depletion and contamination caused by agrochemical use or chemical drift; and losses of pristine forests and biodiversity. Agricultural investments may also have indirect external impacts, including greenhouse gas emissions, contamination of river basins or deforestation.

Land disputes, a major risk raised by agri-business investments

The most prominent negative impacts of the 39 large-scale agri-business investments analysed by the World Bank and UNCTAD were disputes over access to land, such as conflicts between the investor that received formal rights from the state and existing land users holding only informal rights. Such situations were at times exacerbated by a lack of clarity on the conditions and process for land acquisition, and further compounded in many cases where investors were using only a small portion of allocated land. Despite some positive examples, resettlement was seldom sufficiently consultative, inclusive, or adequately compensated. Involvement by local communities in decisions affecting them was deemed insufficient, and procedures to raise grievances or hold investors accountable were commonly absent.

Source: The practice of responsible investment in larger-scale agricultural investments – Implications for corporate performance and impacts on local communities, World Bank & UNCTAD, 2014.

What measures should governments and businesses take to maximise the positive impacts of agri-business investments?

While home and host country governments bear the principal obligation for creating the necessary conditions ensuring that investments are carried out responsibly, businesses can also play a major role in promoting responsible business conduct along agricultural supply chains. Governments and businesses can take, among others, the following measures to maximise the positive impacts of agri-business investments:

- Hold effective and meaningful consultations with all affected stakeholders on a regular basis;

- Conduct high-quality, comprehensive and independent impact assessments on a regular basis, and maintain environmental and social management systems to address identified adverse impacts;

- Disclose timely and accurate information on planned investments and related risks;

- Identify legitimate right holders, including holders of informal rights; avoid proceeding with investments unless right holders have given their free, prior and informed consent; and ensure that right holders receive a fair and prompt compensation of their impacted tenure rights;

- Support partnerships with local land rights holders, such as contract farming, outgrower schemes or joint ventures, as alternatives to land acquisitions. The involvement of neutral third parties acting as arbiters and referees is critical to ensure an equitable sharing of risks and rewards. Such partnerships can then maximise the benefits of both investors and local land rights holders by offering investors as much security of supply as direct production, reducing transaction costs, and increasing the production and productivity of local producers;

- Encourage the development and diffusion of new technologies, including clean technologies and those generating direct and indirect employment;

- Provide for non-judicial dispute resolution mechanisms, such as effective, legitimate, accessible, equitable and transparent grievance mechanisms, to facilitate rapid, affordable and fair dispute resolution with affected stakeholders.

Why a FAO-OECD guidance on responsible business conduct along agricultural supply chains?

- ***Objective:*** Help investors implement existing principles of responsible business conduct (RBC) as they apply to the agri-food sector by providing practical guidance on risk-based due diligence, i.e. on the steps investors should take to identify and address actual or potential risks to mitigate adverse impacts associated with their activities.

- ***Investors as the main intended users:*** Intended users comprise private and state-owned companies, including multinational enterprises, as well as institutional investors, including private financial actors (commercial banks, investment funds, hedge funds, private equity groups, family offices and pension funds) and state-owned funds (sovereign wealth funds, pension funds and development finance institutions) involved in agricultural supply chains from input supply to production, post-harvest handling, processing, transportation, marketing, distribution and retailing.

- ***An inclusive development process:*** The guidance is developed through an inclusive consultation process led by a multi-stakeholder advisory group comprising OECD and non-OECD countries, agri-food companies, institutional investors, farmers' organisations and civil society organisations.

- ***Three complementary sections:*** (i) a model policy outlining the content of the substantive standards for responsible agricultural supply chains *(what)*; (ii) a framework for risk-based due diligence spelling out the procedural steps to be taken for undertaking due diligence along agricultural supply chains *(how)*; (iii) a description of the risks arising from non-adherence to RBC principles and suggested measures to mitigate such risks *(why and how)*.

- ***A wide range of thematic areas covered:*** Human rights, tenure rights over and access to natural resources, labour rights, right to health, right to food, animal welfare, sustainable use of natural resources, governance, technology and innovation.

- ***Timeline:*** A draft of the guidance has been developed and the final guidance will be available in early 2015.