Corporate Social Responsibility (CSR) for Responsible Agricultural Investments (RAI)

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CSR concept

CSR is a concept that is working its way into many policy debates and corporate agendas and it defines an obligation, beyond that required by the law and paired by the commitment of a company to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families as well as that of the local community and society at large\(^1\). Hence when companies integrate social, economic and environmental concerns in their business operations\(^2\). Not all business organizations behave in a socially responsible manner and in a free market view, the main job of the business oriented company is to create wealth for the shareholders\(^3\), while the CSR view is that a company should be concerned with social issues as businesses do not have an unquestioned right to operate in society. The basic principle on the CSR concept is that business organizations have responsibility to various groups in society (internal and external stakeholders) and not just the owners / shareholders, including responsibility for the natural environment and decisions should be taken in the wider interest and not just the narrow shareholder interest, it is about how a company manages its business process to produce an overall positive impact on the society. Arguments for attaining to a socially-responsible behavior can be of ethical nature, it could improve the company public image, it can attract some ethical and green investors and can attract ethically conscious customers, increase the employees motivation and local communities, in general it can help in correcting social problems caused by a purely business oriented behavior.

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\(^3\) Friedman, M., Capitalism and freedom - “There is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profit so long as it stays will the rules of the game, which is to say, engages in open and free competition, without deception or fraud.”
CSR can cut across almost anything a company does or deal with and the business' impact on the wider world while considering how this impact can be used in a positive way is also an increasing concern of the customers. Responsible behaviors that go beyond the legal requirements can be adopted for example with choosing local suppliers as much as possible, this helps the support of local communities and also potentially reduces the energy wasted and carbon emissions from deliveries. Customers are also increasingly concerned about the wider impact of supply chains on local work forces. Sustainable development, like building a successful business, requires taking the long-term view and increasingly requires the integration of social, environmental and economic considerations to make balanced judgments.

Concerns associated with globalization, free trade and foreign direct investment continue to be raised and could threaten investment and economic growth. These concerns often center on the belief that socio-economic and environmental standards are being compromised, or that investment decisions are insensitive to local needs and circumstances. An adequate approach to CSR can potentially provides business with an opportunity to demonstrate that this does not have to be always the case. Good CSR policies and strategies based on partnerships with host countries and communities and on implementing the principles of socio-economic sustainable development can demonstrate a local commitment of the investor on the other hand, CSR policies set by international companies drafted from remote corporate headquarters, however well intentioned, but without also fostering partnerships and local involvement in the communities in which they do business, are likely to fuel feelings of alienation and suspicion.

Investments today cannot afford alienation, business needs a stable social environment that provides a predictable climate for investment and trade and therefore involving and protecting those local communities vital to a company’s continued commercial success.

**Large-scale agro sector investments, opportunities and risks**

The recent volatility of food prices enduringly affected the world food system. Increased pressure on natural resources and water scarcity as well as the imposing of export restrictions by mayor producers while prices were high and resulting distrust in the functioning of global markets forced countries depend on agricultural imports to change their strategies to meet domestic demand. In consequence, many countries started investing in agriculture production abroad. Several of these large scale investments\(^4\) triggered high rates of agricultural growth in recipient countries. East Africa in general, has been particularly affected as it is the target of investors from Europe and North America, mostly

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\(^4\) Within the scope of this CSR guidance, large-scale investments are the ones involving land areas of 1000 ha and above (parameters taken from the 2009 FAO – IFAD – IIEE Report: Land grab or development opportunity? Agricultural investment and international land deals in Africa)
private sector interest in high returns from investments, the Gulf States, seeking food security for domestic markets and Asian investors, seeking food and energy crops for domestic demand (Hallam 2009). Investments in agricultural production have the potential to supply developing countries with much needed capital, contribute to the development of key infrastructure and spread of new technologies. Considering that agricultural growth has a bigger impact on poverty reduction than other sectors (WDR 2008), this trend can be seen as potentially very positive. However, the investments also accompany significant risks for the recipient countries’ population, especially for the local communities which were using the land before it was sold or leased to foreign investors. In addition, they can lead to expanded corruption, unsustainable land use (land degradation, soil mining), water shortages and negatively affect food security in affected regions. The recent upsurge in foreign direct investments (FDI) in land raises the hope to bridge the gap of decades of underinvestment in developing countries’ agricultural sector, but it may also threaten host countries’ food security and increase the vulnerability of the rural population.

Decades of low investment have meant stagnating productivity and production levels. Achieving them will require a major reallocation in developing country budgets as well as in donor programmes. It will also require policies that support farmers in developing countries and encourage them and other private participants in agriculture to increase their investment.

Developing countries often face a lack of domestic, both private and governmental, investment capacities. Foreign Direct Investments (FDI) in agriculture are, therefore, crucial for strengthening the agricultural sector. The agricultural sector in developing countries urgently needs capital, lack of investments has been identified as an underlying cause of the recent food crisis, FAO estimates that additional investments of $83 billion annually are needed to deliver the necessary production increase to meet food needs in 2050. FDI in agriculture are often closely linked to FDI in arable land in order to secure and to control the access to commodities produced on the land. This new demand from outsiders is bringing financial resources, infrastructure and technology, but also increased pressures and competition over land and water in rural areas, where the average size of family farms is declining. Such pressures and competition may disproportionately affect poor rural people whose livelihoods depend on agriculture, livestock and forests, eroding their ability to gain and maintain access to natural resources.

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5 Hallam, David - OECD Global Forum on International Investment - Foreign Investment in Developing Country Agriculture – Issues, Policy Implications and International Response  
6 FAO, How to Feed the World in 2050  
7 Smallholders farms account for 60% of global agriculture, providing food to about one-third of humanity, the figure goes up to 80% in sub-Saharan Africa and Asia
The scale of the land acquisitions is unprecedented and the pace is increasing and likely to continue to increase at least in the medium term. There is not only a rush for land, but also for water. Proximity to water and infrastructure are key selection criteria for investors. Even though the phenomenon is global, Africa seems to be the prime target of the land rush and most (71%) of the large-scale land acquisitions in Africa are from outside the continent\(^8\) (18% in Latin America and 14% in Asia\(^9\)).

However, the investments also accompany significant risks for the recipient countries’ population, especially for the local communities which were using the land before it was sold or leased to foreign investors. In addition, they can lead to corruption, unsustainable land use (land degradation, soil mining etc), water shortages and negatively affect food security in affected regions. These risks are difficult to foresee as rural economies in most developing countries are characterized by thin, incomplete or failing market (de Janvry & Sadoulet 2006); e.g. markets for land are mostly absent and state-dominated. Land use and inheritance are based on user rights (rather than formalized property rights) and complementary markets (such as for credit, insurance or labour) are also low developed.

Literature findings\(^10\) indicate that land acquisitions are often part of complex packages, including infrastructure development. Leases are predominant, and governments play a key role in allocating them; the host country’s main benefits are often not from monetary transfers, but from commitments on investments, jobs, and infrastructure; contracts are mostly simple (in contradiction to complexity of the deals); and there is a lack of legal mechanisms to protect local rights and transparency (Cortula et al. 2009). In their basic form, land deals involve at least two parties, an acquirer and a provider. In the African context, the acquirer is generally a private or joint company, but it can also be a foreign government acquiring land directly\(^11\), the land provider is usually a government or, although rare, a private land-owner. Each deal usually involves multiple contracts and legal instruments, among others, agreement outline the host government commitment to making the land available to the investor.

As part of the UNDAP the Food and Agriculture Organization of the United Nations (FAO), in collaboration with a wide range of stakeholders, is currently supporting the GoT to develop CSR Guidelines for Responsible Agriculture Investments. The guidelines are based on the FAO, UNCTAD, IFAD and WB proposed principles for responsible agricultural investment including transparency, good governance and accountability; social, environmental and

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\(^8\) COP17-Africa Pavilion 2011, Managing land acquisitions and the interest of local communities

\(^9\) International Land Coalition (ILC) estimates

\(^10\) FAO-IFAD-IIED, 2009 - *Land grab or development opportunity? Agricultural investment and international land deals in Africa*

\(^11\) 2002 Special Agricultural Investment Agreement between Syria and Sudan
economic sustainability (ANNEX I); stakeholder involvement; as well as recognition of domestic food security and rural development concerns.

FAO and its partner organizations will be conducting comprehensive consultations with relevant stakeholders so as to build consensus in order to translate the principles into CSR guidelines for agro investors, GoT, development partners and international agencies to guide implementation at different levels. The participatory process aims at the domestication of the principles (or possible integration with others) as well as an institutional set-up, indicating what institution(s) will play the coordination role and guide / oversee / report on the implementation of the guidelines.

ANNEX I

*FAO, IFAD, UNCTAD and WB principles framework for responsible agricultural investments*

**Principle 1:** Existing rights to land and associated natural resources are recognized and respected

**Principle 2:** Investments do not jeopardize food security but rather strengthen it

**Principle 3:** Processes for accessing land and other resources and then making associated investments are transparent, monitored, and ensure accountability by all stakeholders, within a proper business, legal, and regulatory environment

**Principle 4:** All those materially affected are consulted, and agreements from consultations are recorded and enforced

**Principle 5:** Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value

**Principle 6:** Investments generate desirable social and distributional impacts and do not increase vulnerability

**Principle 7:** Environmental impacts due to a project are quantified and measures taken to encourage sustainable resource use while minimizing the risk/magnitude of negative impacts and mitigating them