

# Practical Guidance on the Operationalisation of Responsible Investment Principles in Large-Scale Agricultural Investments



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Side event organised by the Inter-Agency Working Group  
(FAO, IFAD, UNCTAD and the World Bank)

# Brief overview of the IAWG's activities on responsible agricultural investment

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FAO

# The Inter-agency Working Group (IAWG)

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- ▶ Established in 2009 amid rising concern on large-scale land acquisition and lack of knowledge on the phenomenon
  - ▶ Work mandated by the UN General Assembly
- ▶ Proposed Action Plan of research, dissemination and provision of guidance to governments, investors and other stakeholders
  - ▶ Action Plan adopted by the G20; Work endorsed by G8, APEC, ...
- ▶ Activities include research on :
  - ▶ Impacts of agricultural investment
  - ▶ Application of guidance instruments in the field
- ▶ Supports multi-stakeholder dialogue on responsible investment

# IAWG – learning from the ground (examples)

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FAO

- Trends and impact of FDI
- Home country measures for responsible agricultural investment
- Screening guide on RAI and national regulatory frameworks

IFAD

- Alternatives to land acquisitions
- Studies on outgrower schemes

UNCTAD &  
World Bank

- Historical review of 179 agribusinesses
- Field work with investors, communities and other stakeholders
  - Existing investments
  - Follow up in-depth study of communities and other stakeholders
  - Pilot-use operationalization with new investments

Outputs and  
dissemination

- Publications and other outputs (on USB stick)
- Policy dialogues
- Seminars and Workshops
- Practical guidance to governments, investors, local communities, and civil society

Principal financial  
support from  
Govt. of Japan

# Next steps for FAO

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Promoting the use of principles for responsible investment in agriculture and food systems (CFS-RAI) by stakeholders

- ▶ Development of a multi-stakeholder initiative  
Outreach, capacity development, technical advice, ...
- ▶ High level workshop on the role of FAO and governments
- ▶ Similar workshops with other stakeholder groups

# **Lessons from the field: 228 larger-scale agricultural investments**

*Grahame Dixie  
Agribusiness Advisor  
Agriculture Global Practice, the World Bank*

# Overview of fieldwork with investors, communities and other stakeholders

## PRINCIPLES FOR RESPONSIBLE AGRICULTURE INVESTMENT

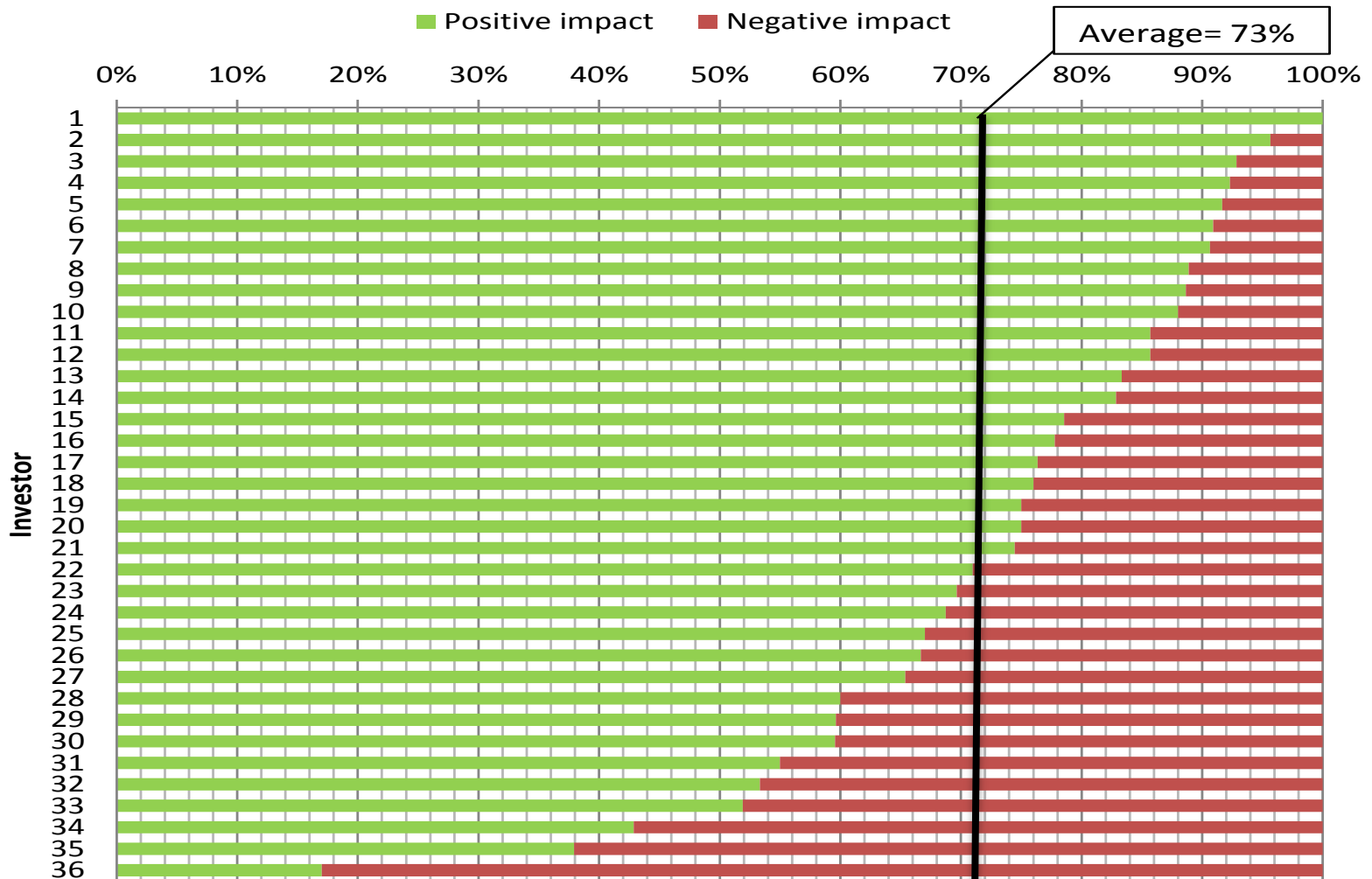


▶ 7 Plus 179 agribusiness investments made, by a major development bank, over a 50 year period in Asia & Africa

# Summary of fieldwork findings: main positive to enhance and negatives to reduce

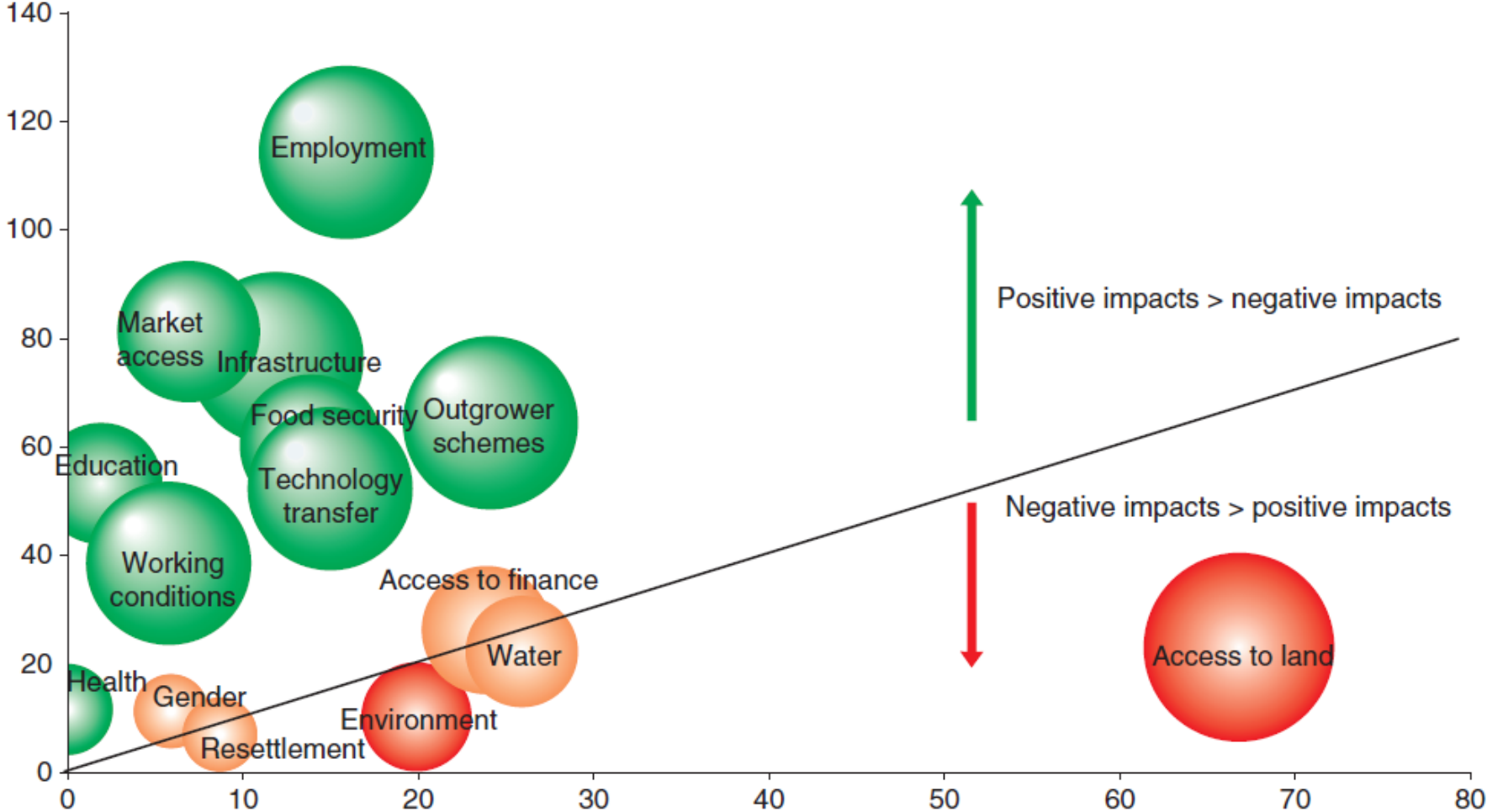
KEY POSITIVE IMPACTS	KEY NEGATIVE IMPACTS
EMPLOYMENT	LAND DISPUTES
ACCESS TO MARKETS FOR OUTGROWERS	UNCLEAR TERMS OF LAND DEAL
SOCIAL DEVELOPMENT PROGRAMMES	RESETTLEMENT
FINANCIALLY INCLUSIVE MODELS	FAILURE TO USE LAND
FOOD SECURITY	LACK OF CONSULTATION
TECHNOLOGY / INNOVATION	FINANCIAL FAILURE OF INVESTORS
ACCESS TO IMPROVED INFRASTRUCTURE	LACK OF DISPUTE MECHANISMS
	ENVIRONMENTAL IMPACT, INC. WATER

Perceptions of each investment vary within local communities, but positive perceptions outweigh negative ones (on average)



Pluses jobs, markets, infrastructure, outgrowers, the Most difficult issue is land, followed by environmental issues (water)

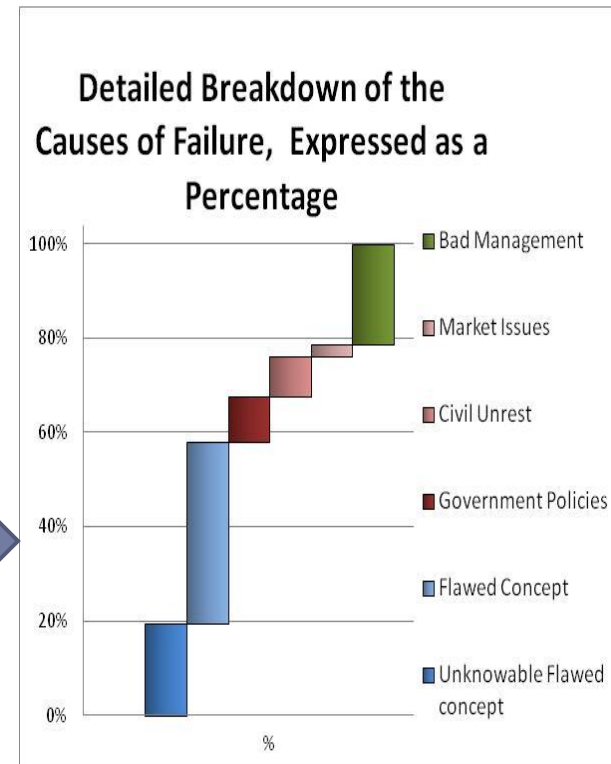
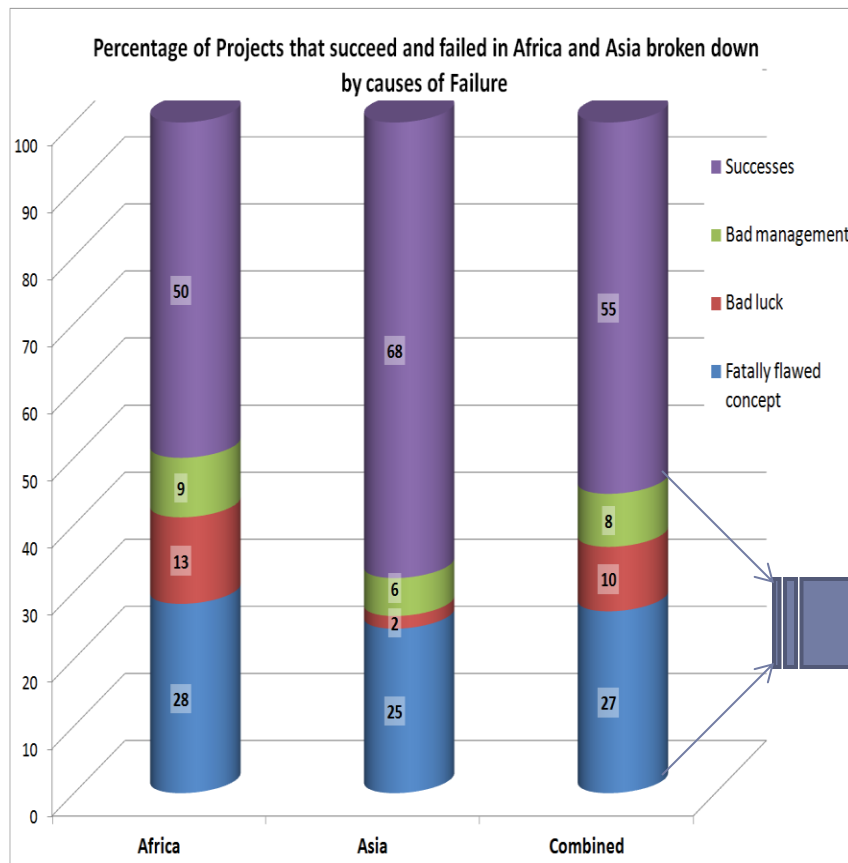
**FIGURE E.8:** Stakeholder Perceptions of Positive and Negative Impacts of Investments, Classified by Issue<sup>(a)</sup>



# Lesson 1:

## Understand the main causes of failure

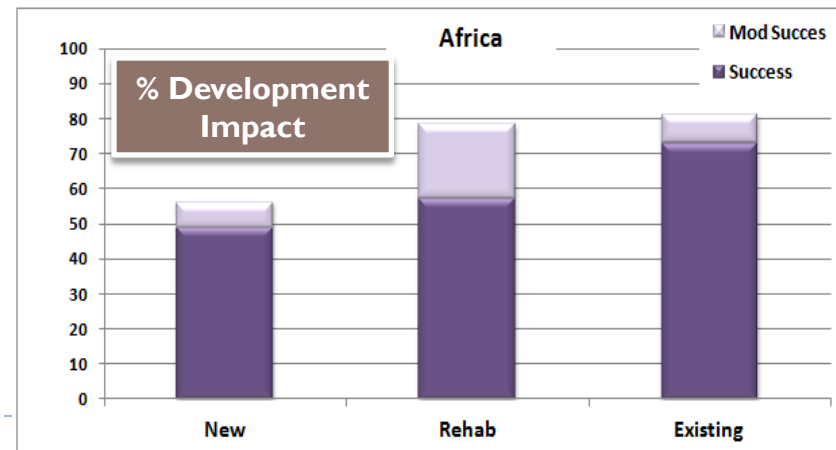
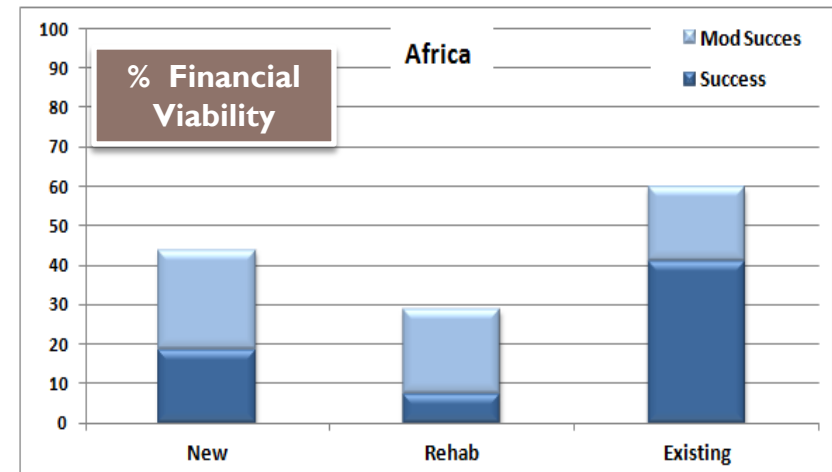
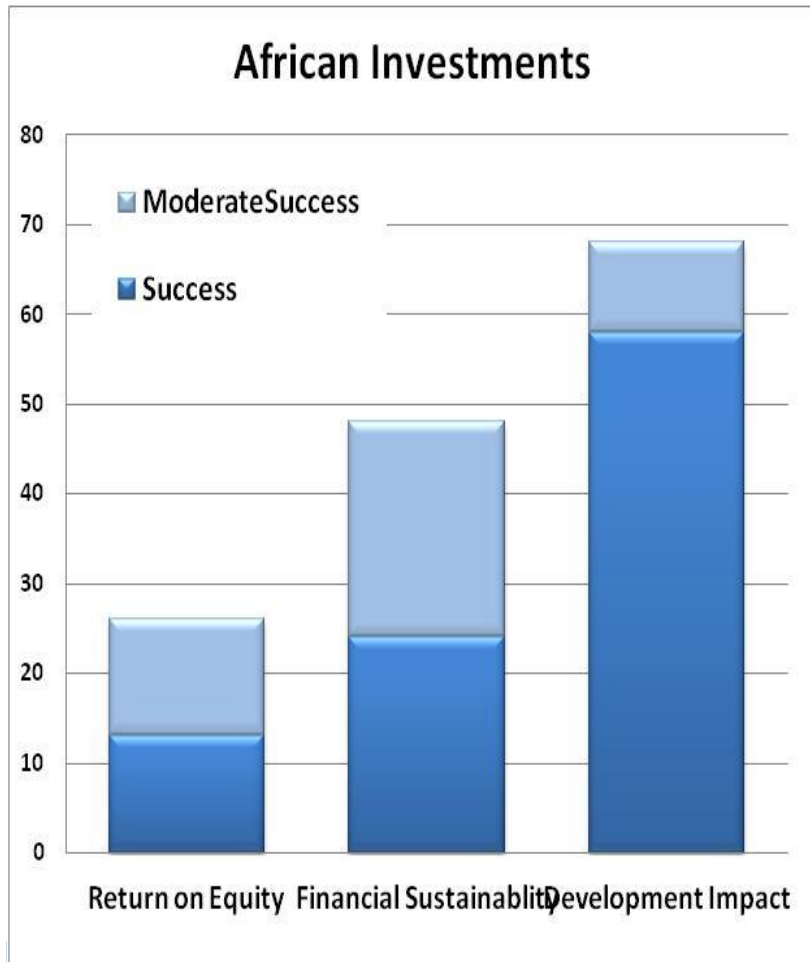
- ▶ Flawed concept
- ▶ Bad management
- ▶ Unexpected issues, e.g. civil unrest, market volatility
- ▶ Government policies



# Lesson 2: Risks in agriculture are high, especially for greenfield investments, larger scale farming

Often over 7 years before viability, profitability

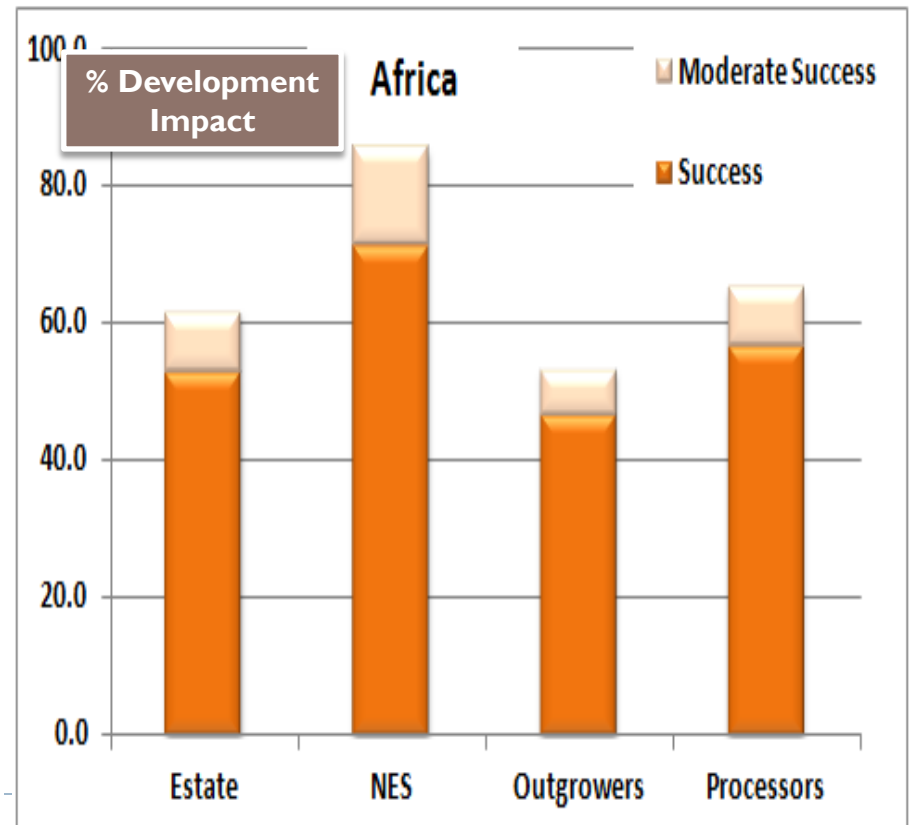
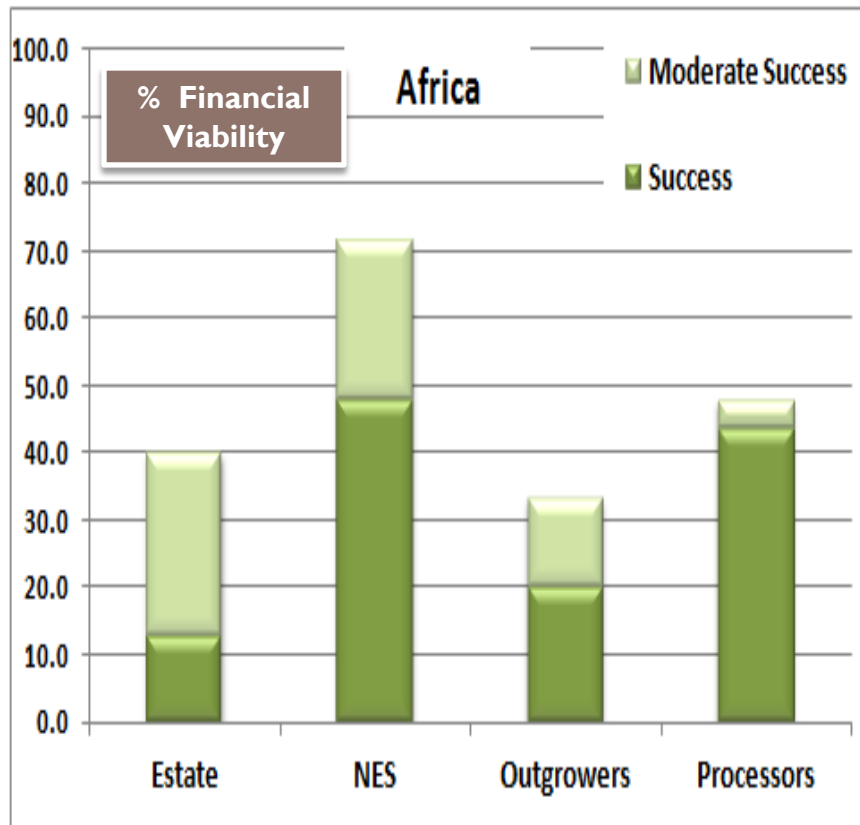
Often bought and sold many times in the process



# Lesson 3: There are significant differences between business models

- ▶ Outgrowers/large farms most risky, followed by processing operations.

- ▶ Nuclear estates least risky, because business model well understood and limited processed crops.



## Lesson 4 A small proportion of large scale agribusiness investments can be transformational

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- ▶ **For instance:**
  - ▶ Dramatically open new markets
  - ▶ Introduce profound technological changes
  - ▶ kick start new industries
  
- ▶ **Cases include:**
  - ▶ Salmon Farming in Chile
  - ▶ Nucleus States with outgrowers for sugar in Africa
  - ▶ Oil Palm production shifting between regions

## Lesson 5 (summary): There are a wide range of outcomes, with many complex interactions to consider

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- ▶ Extraordinarily wide range of outcomes:
- ▶ Significant interaction between these three aspects. Financial & Operational success  $\approx$  Satisfied Surrounding Communities  $\approx$  Experienced and well resourced investors
- ▶ On balance, investments studied generated positive socio-economic benefits for surrounding communities and host countries.
- ▶ But many negative impacts and room for improvement.
- ▶ lessons on 'how to' maximize the benefits and minimize the risks of agricultural investment.
- ▶ Private sector want to know... 'How to'
- ▶ Government ... Prescreening & selection criteria

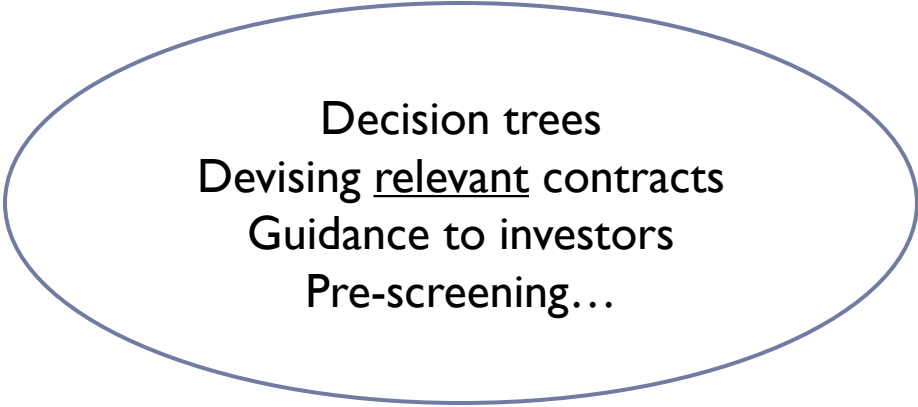
# Advice to policy makers

## DO

- ▶ Know what development you want,
- ▶ Be more choosy about the investor, business model, enterprise
- ▶ Set up process, review investments systematically
- ▶ Encourage alternatives to large scale land investments
- ▶ Support 1<sup>st</sup> movers, but not at scale
- ▶ Have a plan B for failure or exit
- ▶ Environment & Social plans are operationalized,
- ▶ Holistic implementation of principles
- ▶ Guidance, regulate and monitor outgrowers relations esp. prices

## DO NOT

- Offer different incentives to foreign investors than locals.
- Encourage mega land deals
- Make multiple gambles on the same new business model,
- Allow investors to have land without making productive investments
- Short cut existing land regulations



Decision trees  
Devising relevant contracts  
Guidance to investors  
Pre-screening...

# Investment Contracts for Agriculture: Maximizing Gains and Minimizing Risks

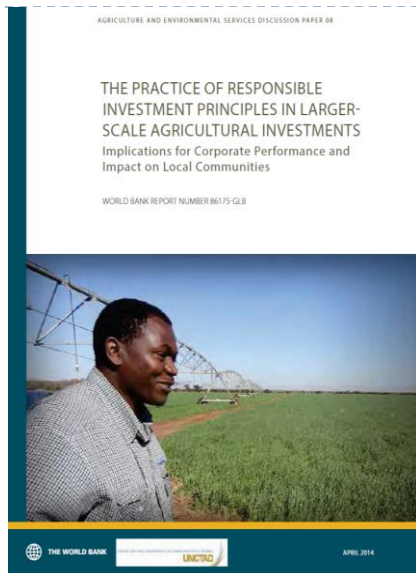
Carin Smaller

Advisor on Agriculture and Investment

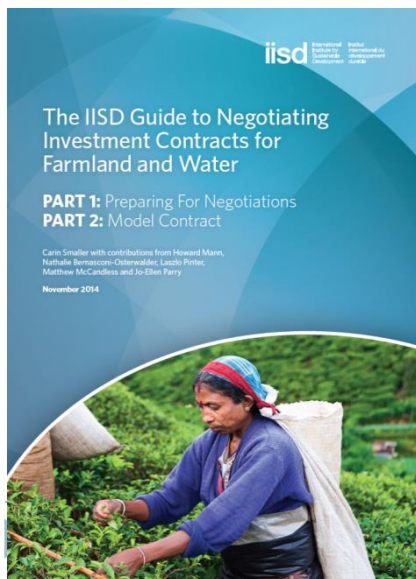
IISD



# Joint paper drawing on learning from two reports...



- ▶ UNCTAD and World Bank (2014)
  - ▶ Detailed primary field research on 39 mature agribusinesses in Africa and South East Asia.
  - ▶ Investigates what investors are doing to promote economic, social and environmental gains and sustainability.
  - ▶ Shows how communities and other stakeholders living around the investment perceive and are affected by it.



- ▶ IISD (2014)
  - ▶ Review of 80 agricultural investment contracts between investors and host governments.
  - ▶ Provides a guide for negotiating contracts for farmland and water.
  - ▶ Outlines a model contract, including model provisions, which investors and host governments can adapt.

...to show how farmland contracts can be set up so as to promote sustainable development

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- ▶ Responds to a demand for practical guidance on how to ensure that agricultural investments are not only sustainable in the long-term, but can also be beneficial and with minimal risks or negative effects.
- ▶ Starts with the key positive and negative outcomes of large-scale agricultural projects, and then proposes legal options on how contracts/classes can address the problem.
- ▶ Keeping in mind that: (1) contracts cannot solve all problems; it is simply one tool....and (2) even a perfectly drafted contract can lead to negative impacts if it is not properly implemented or respected.

# Three stages in the contracting process

## Preparing for contract negotiations

- Assessment of suitability and availability of land, soil and water;
- Meaningful inclusion of communities;
- Feasibility studies and business plans;
- Pre-screening of prospective investors.

## Negotiating the contract

- Defining rights and obligations;
- Stating applicability of domestic laws;
- Engaging with communities;
- Defining what information is public.

## Monitoring and enforcement

- Monitoring adherence to domestic laws and terms of agreement;
- Reporting requirements and indicators;
- Enforcement of sanctions for non-compliance;
- Application of contingency plans.

# 5 positives and 5 negatives from farmland investments

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KEY POSITIVE IMPACTS	KEY NEGATIVE IMPACTS
EMPLOYMENT CREATION	LOSS OF LAND AND POOR RESETTLEMENT PLANS
INTEGRATION OF LOCAL FARMERS	LACK OF OPENNES AND ENGAGEMENT WITH LOCAL COMMUNITIES
EXPANSION OF MARKET OPPORTUNITIES	WEAK ASSESSMENT OF COMMERCIAL VIABILITY
ESTABLISHMENT OF COMMUNITY DEVELOPMENT PROGRAMMES	POOR MANAGEMENT OF ENVIRONMENTAL AND SOCIAL IMPACTS
INCREASED INCOMES IMPROVE FOOD SECURITY	INSUFFICIENT MECHANISMS TO RAISE GRIEVANCES

# Examples of how to maximise the gains...

## **Positive outcome 2: Integration of local farmers**

- Investments in land that also integrated nearby farmers (through outgrower schemes) were the most successful business model and the only investments in which there was a significant transfer of technology.

## **Legal options:**

- Include a provision in the contract requiring the establishment of an outgrower scheme with local farmers alongside the land investment.
- Create a separate contract between investors and outgrowers, linked to the main lease agreement.
- Specify who should be included, the support and assistance to be provided, and how to establish a fair price-setting mechanism.
- Give preference to outgrower schemes that prioritize women and marginalized farmers.

# Examples of how to minimise risks...

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## **Downside 4: Poor management of environmental and social impacts**

- Impact assessments are treated as “box-ticking” exercises and not translated into management plans and not monitored.

### **Legal options:**

- Integrate impact assessments and management plans into the contracts with specific instructions and guidelines about what needs to be assessed and included in the management plans.
- Ensure verification by an independent third party and government approval.
- Failure to conduct impact assessments and develop management plans should amount to a material breach of the contract and be grounds for termination.