



Linking Land Tenure and Use for Shared Prosperity

ANNUAL WORLD BANK CONFERENCE ON LAND AND POVERTY
WASHINGTON DC, MARCH 23-27, 2015



RESPONSIBLE INVESTMENTS IN AGRICULTURE, IN PRACTICE: RESULTS AND CONCLUSIONS FROM A CASE STUDY REVIEW

DR. BERND SCHANZENBAECHER

CEO & FOUNDER, EBG CAPITAL AG, ZURICH (CH)

Bernd.Schanzenbaecher@ebg-capital.com

&

JAMES ALLEN

SENIOR ANALYST, EBG CAPITAL AG, ZURICH (CH)

James.Allen@ebg-capital.com

**Paper prepared for presentation at the
“2015 WORLD BANK CONFERENCE ON LAND AND POVERTY”
The World Bank - Washington DC, March 23-27, 2015**

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Abstract

In 2014 EBG Capital, an independent advisory company focused on agricultural investments, was mandated by the German Development Agency to compile case-studies on the practical implementation of responsible investment (RI) principles - particularly around land tenure - by private investment companies.

EBG reached out to 35+ asset managers with exposure to land who are known as “leaders” in RI. Case studies were received back from eight investment funds, who we have anonymized here for confidentiality reasons. They responded to questions about which RI principles they adhere to, what DD they undertake, how they approach land tenure and how impacts are monitored.

The results showed that all investors are concerned about securing land-based rights and they undertake extensive DD. They often prefer to acquire existing businesses or assets rather than green-field sites, since this makes land tenure more secure. Every investor aims to create positive impacts for local stakeholders, typically via improved infrastructure, healthcare and education, better pay and access to markets. But some see RI as a cost of doing business, rather than a point of principle, and the quality of impacts varies relative to the obligations implied by the international principles to which they are all signatories.

Key Words:

CASE-STUDIES

INVESTMENTS

LAND

RESPONSIBLE

TENURE

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Abbreviations

AuM	Assets under Management
AFOLU	Agriculture, Forestry and Other Land Use
AML	Anti-Money Laundering
CCB	Climate Community and Biodiversity Standard
CFS-RAI	Principles for Responsible Investment in Agriculture and Food Systems
CFS	Committee on World Food Security
CRISA	Code for Responsible Investing in South Africa
CSR	Corporate Social Responsibility
DD	Due Diligence
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ESG	Environmental, Social and Governance
ETI	Ethical Trading Initiative
FABs	Food and Agriculture Business Principles (of the UNGC)
FAO	United Nations Food and Agriculture Organization
FDI	Foreign Direct Investment
FPIC	Free, Prior and Informed Consent
FTE	Full-time Employee
GAP	Good Agricultural Practices
GIZ	German Development Agency
GMP	Good Manufacturing Practices
GP	General Partner
HACCP	Hazard Analysis and Critical Control Point
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFC PS	IFC Performance Standard
ILO	International Labour Organisation
INCRA	Instituto Nacional de Colonização e Reforma Agrária (Brazil)
KPI	Key Performance Indicator
KYC	Know Your Client
LLP	Limited Liability Partnership

MIGA	Multilateral Investment Guarantee Agency (of the World Bank group)
NGO	Non-governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PE	Private Equity
PRAI	Principles for Responsible Agricultural Investment (World Bank)
RBC	Responsible Business Conduct
REDD+	Reducing Emissions from Deforestation and Forest Degradation “+”
RI	Responsible Investments
SAI	Sustainable Agriculture Initiative
SAN	Sustainable Agriculture Network
SMETA	Sedex Members Ethical Trade Audit
SQF	Safe Quality Food
SRI	Socially Responsible Investing
UNCTAD	United Nations Conference on Trade and Development
UNGC	UN Global Compact
UNPRI	UN Principles for Responsible Investment
VGGT	Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security
WB	World Bank
WEF	World Economic Forum

Executive Summary

EBG Capital was appointed by the German Development Agency (GIZ) to obtain case studies from selected agricultural investment funds (predominantly private equity investors) to determine “best practice” in Responsible Investment (RI) in agriculture and the use of international RI principles and guidelines to achieve this. We requested a case study of a practical (“on-the-ground”) investment in farmland from 33 agricultural investors from around the world. Questions related to international RI principles and guidelines, due diligence, consultation with local communities, impact, and impact monitoring. Of the 33 investors contacted, 24 either declined or failed to respond to our request before the deadline of 9 November 2014.

Our eight respondents were a diverse group of investors with total assets under management (AUM) north of US\$ 2bn, and covering Latin America, Africa, Asia and Central & Eastern Europe. Their case studies covered a wide range of farmland project-types from bananas and citrus fruits to tea and grains. Investment strategies varied from debt financing and prepayment / financing to investments in equity and direct acquisition of farmland assets (land, land leases and equipment.) In some cases, investors self-operated newly acquired farmland, in others they sub-leased the operations to a corporate entity or individually sub-leased parcels of land to local farmers.

All investors are signatories to one or more international initiatives – guidelines or principles - such as the Principles of Responsible Investment (PRI). IFC Performance Standards were frequently used as RI guidelines. However, respondents identified the challenges they face in the more practical, “on the ground” implementation of these RI guidelines. At best, these guidelines offer a checklist against which investors compare their own internal environmental, social and governance (ESG) criteria (which take into account both high standards and practical constraints).

Our report finds that all investors in agriculture are concerned with securing adequate, reliable and defensible land tenure. This forms the primary focus of their pre-investment due diligence and ongoing investment monitoring. Securing “free, prior and informed consent” (FPIC) seems to be a challenging part of the investment process and only a few respondents have conducted a structured FPIC process. The agriculture investors in this survey tend to acquire existing farmland operations - with many processes in place - rather than greenfield projects. This makes sense from a risk management point-of-view and helps to ensure compliance with RI guidelines.

In terms of social impacts, these vary across the specific projects and investor ‘ESG Commitment.’ The reporting of social impacts tend to be identified as either improved livelihoods or improved community development. The measurement and reporting of social impact varies across investors and is difficult to assess.

Overall, the case studies provide exceptional detail into best practices in RI in Agriculture that can and should be emulated across the sector. In addition, this review identifies opportunities for improved RI practices ‘on the ground’ (e.g. framework on what guides to be used under which conditions or have a more flexible version of the IFC Performance Standards for smaller scale projects). The study also identified areas for additional research such as investor mapping based on the Land Matrix database or broaden the survey by including feedback from local stakeholders (360° feedback).

Contact

To contact EBG Capital, please write to:

EBG Capital AG
Lavaterstr. 40
CH-8002 Zürich

info@ebg-capital.com

www.ebg-capital.com

www.responsible-agri-investments.com

Introduction

The financial crisis and the simultaneous “food-price crisis” (2006-2008) – during which time global food prices for major commodities such as rice, wheat, corn and soybeans rose over 100% (OECD, 2013) – have forced concerns about food security issues and so-called “land-grabs” onto the public agenda (International Food Policy Research Institute, 2009).

Demand for food has grown with world population growth (forecast to reach 9.3 billion by 2050 (UN, 2011) as well as the combined effects of rising per capita income levels and increased demand for resource-intensive foods. Indeed, food prices are expected to rise higher over the next decade than during the last (OECD, 2011). However, most of the easily accessible, productive farmland is already in production (Tilman, 2002). Other land that could be converted to high-quality farmland requires huge investments in infrastructure such as transport, storage and irrigation.

Agriculture, therefore, continues to attract significant new foreign and domestic investment, particularly in developing countries where investment volumes are comparatively low and tremendous efficiencies-of-scale are believed possible (Mugera & Karfakis, 2013).

Agricultural investments can generate a wide range of developmental benefits, including food security and increased economic opportunities (FAO, 2010). They can also be designed to protect delicate ecosystems and preserve important local or tribal lands and indigenous peoples’ access to resources. In order to do so, however, they need to be conceived, planned and executed responsibly and specifically directed towards the achievement of these aims whilst aiming to mitigate or avoid known and anticipated negative outcomes. There are increasingly high economic and reputational risks to investors who fail to achieve this delicate balance (OECD, 2013).

In response to growing civic, non-governmental and governmental concerns about the potentially negative consequences of new agricultural investments, international organisations such as FAO and the World Bank have developed principles and guidance to foster responsible investments (“RI”) in land / agriculture.

An array of initiatives are now under development, or being actively practiced; including the FAO Voluntary Guidelines for the Responsible Governance of Tenure of Land, Fisheries, and Forests in the Context of National Food Security (VGGT), the Principles for Responsible Agricultural Investment that

Respects Rights, Livelihoods and Resources (PRAI) from the World Bank, FAO, IFAD and UNCTAD, the CFS Principles for Responsible Agricultural Investments (CFS rai), the IFC Performance Standards on Social and Environmental Sustainability and the private-sector led Principles for Responsible Investment (UNPRI). For an overview of many of these schemes, please read EBG Capital’s report “Responsible Investments in Agriculture: Overview of Private Sector –related Initiatives” compiled for the Swiss Agency for Development and Cooperation (2014), available via the EBG website.

The common element to all these initiatives is the effort to ensure investments in the agricultural value chain meet certain environmental, social and governance (ESG) standards. Each initiative differs, however, in the way they deal with the questions that vex agricultural investment “reformers”: how to deliver adequate consultation with local communities before an investment is launched; the appropriate level of self-regulation and independent scrutiny governing investments; the obligations of investors vis-à-vis the environment; the ability for host and foreign governments to intervene before and after an investment; the applicable standards of social and governance duties during and after the investment; and so on.

Purpose and objective

The purpose of this report was to identify both current good practices of RI in agriculture as well as the practical, ‘on the ground’ – rather than ‘in principle’ – implications of RI guidelines applied in the agricultural investment process.

The objective throughout the research was to obtain case studies from investment vehicles and investors (predominantly private equity investors) that were known to have a) agriculture as the basis or an important element of their investment strategy and b) a commitment to RI. Subsequent analysis of the case studies helped to determine “best practices” and to provide a deeper understanding of how investors use RI guidelines to inform their investment strategies whilst upholding their duties to their shareholders.

Selection process and case studies

Funds were selected on the basis of (a) their known or anticipated exposure to emerging markets and (b) their known interest in applying RI practices. In this sense they are considered ‘best in class’. Many of these investors are known personally to EBG Capital: as a result they have provided information more readily and in greater detail than might otherwise have been the case.

Selected investors were sent a case study template to fill out, and one or more telephone calls were made to facilitate the data-gathering process. Most investors provided information in the form of a completed template. Others sent fund documentation from which we were able to extract the relevant information (we then gained their approval to publish this information).

In each instance we have been careful to ensure commercial confidences are protected, which limits the amount of information we can disclose. However, we are confident a fair and informative overview of agricultural RI practices has been achieved.

For confidentiality reasons we have decided not to disclose the names of the funds surveyed in this paper.

Outputs

We provide in this paper:

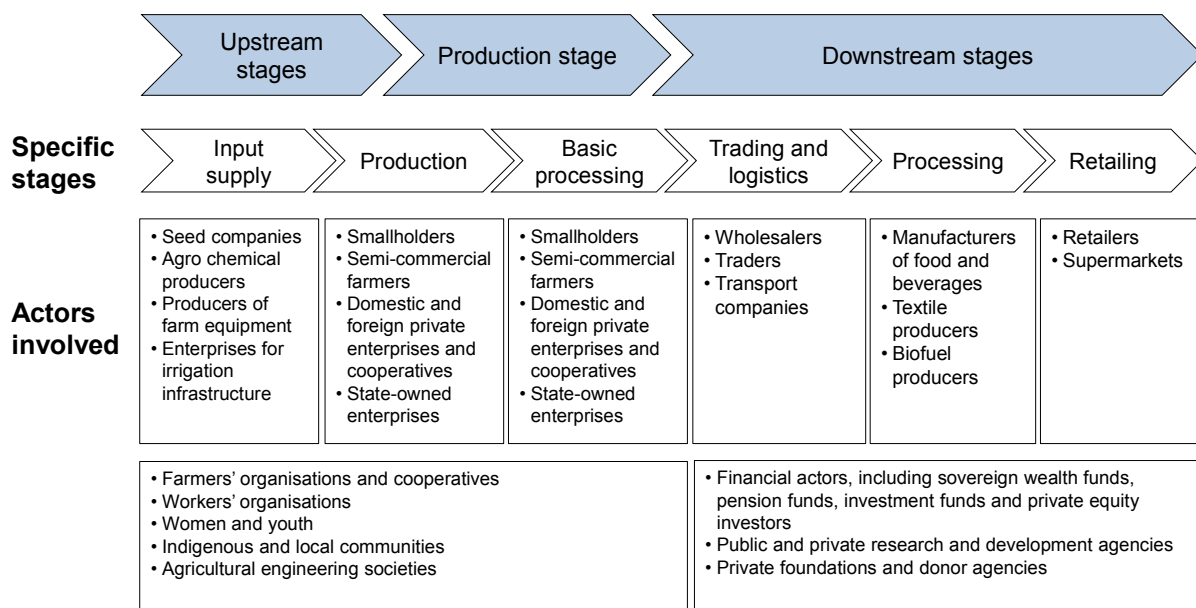
- A description of investors in agriculture
- An overview of our Survey, Key Findings from the examined case studies and the placement of these in the context of ‘Responsible Investments into Agriculture’
- ‘Lessons Learned’ and implications from the study; and
- Recommendations and suggestions for immediate and long-term future action

A Description Of Investors In Agriculture

The agricultural value chain encompasses all the activities, organisations, actors, technology, information, resources and services involved in producing agricultural products for consumer markets. This value chain includes upstream and downstream sectors: from the supply of seeds, fertilizers and equipment; to production, post-harvest handling, processing, transportation, marketing and distribution. It contains a number of inter-related actors including input suppliers, producers, aggregators and processors, trading companies and retailers, as well as other actors supplying a particular end-market, such as technical, business and financial service providers (OECD, 2014).

The following diagram illustrates various stages and actors of the agricultural value chain.

Figure 1: The Agricultural Value Chain



Source: Adapted from OECD (2014)

In recent years, a large diversity of investors have become involved in the supply chain, ranging from smallholders, farmers' organisations, cooperatives and start-up companies to multinational enterprises (often through subsidiary companies or local affiliates), sovereign wealth funds, pension funds, private

equity investors, financial actors such as commercial banks and investment funds, agricultural engineering enterprises and private foundations (Clapp, 2014).

Investors play an important role along the value chain by providing capital in different forms to actors that own, lease or operate land-based assets. While investors are not a uniform group, they can be grouped into the following broad categories:

- Farmers (smallholders i.e. small to large family farms): this is by far the largest investor group in farmland.
- Farmers' organisations and cooperatives: constitute a significant investor in cultivation and production but not normally land acquisition. Cooperatives will often own/manage a downstream asset (e.g. sugar mill) as well as supply seed and other inputs to farmers.
- Asset Owners: Individuals or companies that own the capital and have full discretion over the way the capital is invested across different asset classes. Asset owners can choose to manage the investments themselves or delegate this task to Asset Managers. Asset Owners include but are not limited to:
 - Insurance companies
 - Family Offices / Private investors
 - Pension Funds
 - Endowment Funds / Private Foundations
- Asset Managers: manage investments on behalf of the asset owner. Asset managers can be focused on just one asset class (listed equity, real estate) or across a range of asset classes. Asset owners include but are not limited to:
 - Investment Fund Managers / Private Banks
 - Private Equity (PE) Funds
 - Hedge Funds
- Land Aggregators: listed companies whose core strategy is to invest in land.
- State-owned investors or Sovereign Wealth Funds: often seeking to secure access to an underlying commodity.
- Strategic corporates including food companies: includes multinationals and regional corporates who may be state-owned.
- Bilateral or Multilateral Development Banks: provide debt financing to projects, but can also take equity in specific circumstances.

- Financial services sector including commercial banks: arrange financing for clients that invest in agriculture.
- Commodity traders: can provide trade finance and hedging instruments. Rarely direct investors in land, fisheries or forests.

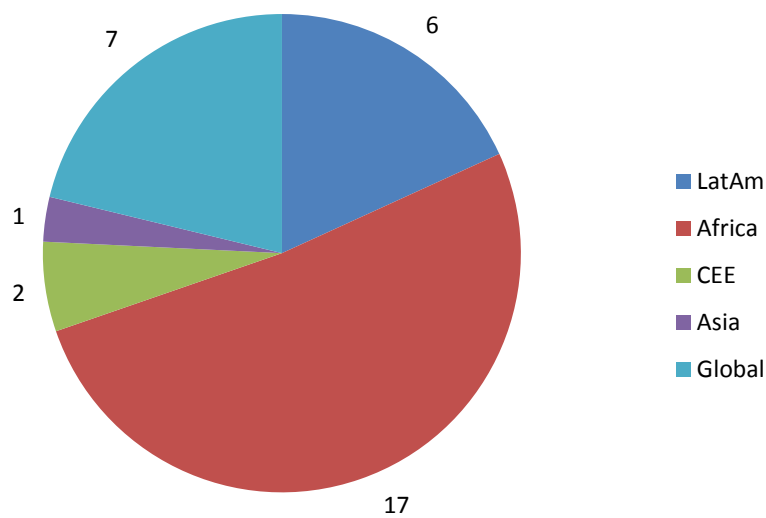
The primary focus of this study was on asset owners and managers because they have the most direct exposure to potential financial, legal and reputational risks from their investments. Thus, they should have an inherent interest in getting things right from the beginning.

The Survey

Overview of the examined case studies

33 agricultural investment investors were contacted for case study materials. The target geographies of these funds are as follows:

Figure 2: Target geographies of contacted investors

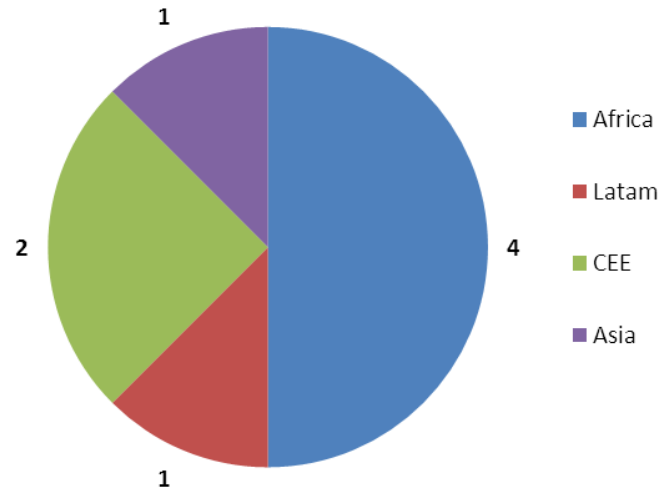


Of these, 24 either declined, failed to respond to our request or promised a case study but failed to provide us with the relevant information before our final deadline (9 November 2014).

We received eight completed case studies or information from which we were able to complete a case study, and in each instance sought and received confirmation that we can share these case studies with a wider audience. We are grateful to those individuals who assisted us in providing case studies for their respective funds.

The funds invest in the following target geographies:

Figure 3: Target geographies of investors who provided case studies



Assets under management (AUM) range from US\$13m, which is small for a foreign agricultural investor, up to US\$460m. All investors have a diversified strategy to invest in multiple types of agricultural projects, with the exception of one which targets only projects growing biofuels crops. Case studies were provided for specific investments in banana plantations, cocoa, biofuels, tea, row crops, arable crops, coffee, cotton / soybeans and citrus fruits.

In terms of size, investors bought or operated farms ranging from 300 hectares to 17,500 which will clearly pose very different types and scales of impacts and challenges. The smallest project employed just 16 staff, the largest 7,600 (full-time). Some investors acquired existing farming operations, with the intention to improve, renovate and expand, while others acquired land for greenfield projects where no previous farming activities existed. With respect to operating style, some investors bought land to self-operate or manage the farming practice, whilst others leased land to local smallholders or farmers. Some other farms were directly leased by the investor from Government or from private owners.

Key Findings

Figure 4: Overview of investors who provided case studies

Name	A	B	C	D	E	F	G	H
Type	Private Equity	Private Equity: Carbon & soft commodities	Private Equity	Private Equity	Private Equity	Direct investment	Private Equity	Private Equity
Current AuM	US\$13m	Euro 86m	US\$690m, of which ag US\$460m	Unknown	Euro 315m	US\$ 80 million	Euro 700m (multiple funds)	AUM of US\$200m
Country	Mozambique	Peru	India	Zambia	Mostly Poland and Romania	Peru	Mozambique	South Africa
Size (Ha's)	300	4,000 (sustainable agroforestry) ~200k conservation	7,056	2,746 (560 irrigated)		3,000	17,500	5,868
Ownership	Own assets, lease land	State concession for land use of 20yrs	Lease tea estates from govt (30-yr renewable)	Acquired asset, curatorship with lease	Own	Loans to smallholders and trade organisations	Leasehold	Own; investment period 7-10 years
Investment strategy	Lease land, invest in infrastructure	7-yr loan to counterparty who works with smallholders	Stake in company, strategy to acquire new tea estates and expand existing operations	Buying farm, equipment, infrastructure. Land originally leased for 14 years, now 99-year lease.	Buys farms and other farm assets and makes improvements	Working capital loans and pre-financing of production/harvesting	Equity investment into an existing agribusiness	Buying farmland and infrastructure ; strategy to target expansion / consolidation
Operating structure	Self-operate	Borrower operates project under contract to fund	Self-operate	Self-operate	Buy and lease farms to local farmers / operators	Land is owned by smallholders, counterpart assets as collateral	Self-operate	Buy and lease to experienced operators
Greenfield	Y	Y	N	N	N	Y/N (existing land, loans = expansion)	Y (10% of land area developed)	N
Start of operations	2010 (planting in 2012)	2014/15	1940s; investment in 2012	2010	2009	2004	2009/2010 (Initial start-up)	2010, 2011 (2) and 2014
Commodity	Certified organic bananas	REDD+ carbon credits, sustainable cocoa	Darjeeling tea	Banana, wheat, groundnuts and vegetable production	Arable crops, especially grains and oilseeds	Coffee/Cocoa	Cotton, soybeans	Grapes, citrus fruits, deciduous and stone fruits.
# people employed	400-500		~ 7,600 full time staff	>90	16	200 (perm) 100 (temp)	120 (perm) 500 (temp)	351 (perm), 2,360 seasonal

Investors were targeted because of their reputation for high sustainability standards and their position as "leaders" in the field of ESG / responsible investment.

We asked them to complete or provide materials for a case study focusing on certain key issues relating to a specific agricultural investment completed by their fund, which included:

- What overarching RI principles / guidelines did the investor adhere to?
- What pre-investment due diligence did they undertake and what were the key questions?
- Was land governance a factor in their investment decision, and how did they approach it?
- How was consultation undertaken with local stakeholders?
- How will the investment change local livelihoods?
- What post-investment DD or monitoring is taking place?
- What KPIs are used to monitor the investment?
- What measures were implemented to comply with RI principles / guidelines and how is compliance ensured (by external consultants, internal staff etc)?

We were unable to secure answers from each investor to every question. We believe that in most cases this can be explained by time constraints.

The following table summarizes, ‘at a glance’, their answers to Due Diligence questions:

Figure 5: Overview of responses to due diligence questions

	What, if any, RI guidelines does company / project follow?	What pre-investment DD was done?	Was DD done internally or externally?	What were the main questions / issues covered by DD?
A	UNPRI, ILO, EU-standards, Global GAP. Target: TAFC organic, ISO 9001, SAN, ETI Base Code	Partner selection, country risk, farm feasibility, EIA, community (land availability)	Soil, water, EIA, climate externally, rest internally	Land rights, infrastructure needs, market access, management availability
B	IFC EIB, CCB, Fairtrade certifications	All aspects including ESG, FPIC, concessions/lease agreements, counterparty, host country political risk, bribery/corruption, financial	Primarily internal, external legal and political risk.	Reliability, competence and reputation of counterparty. Observance of ESG, particularly FPIC
C	14 int'l certifications, GAP, GMP, Manufacturing facilities are HACCP and SQF certified	Internal ESG based on IFC. DD reviewed the availability of specialists in biodynamic techniques. DD included tax, legal, technical including ESG	Both (majority external)	Land issues (leases), environmental and social issues, foreign investment risk and tax
D	Policy of general upliftment through stable employment/ job provision, with a focus on improvements to housing, food security and support in education.	Done by an investment team supported by analysts and agronomists	Largely internally, some outside consultancy used.	Location and sustainability, crop types and seasonality, water security, electricity, labor availability
E	PRI, Farmland Principles	CSR Country Quick Scan, individual policies, relevant global guidelines. DD on sellers, leaseholders land, operators, tax, financial, accounting	Support of internal departments within the wider Group as well as with external service providers.	Macroeconomic trends, climate conditions, agro-economic opportunities, lease, investment possibilities, country risks.
F	PRI, internal criteria	Full market and economic DD plus local legal opinion on mortgages.	Internal (business model, financial and eligibility criteria) + external (audit financials + legal counsel on the collateral).	Business model, relationship between buyers, suppliers and lenders. Investment impact. monitor small producers/contractors
G	IFC, Mozambican laws	Full market, economic audit; legal DD on land leasehold, other property and equipment, contracts. Management audit. ESG review	Both, internal - investment (financial, economic, management, environmental and social), external - legal, audit	Legality of the land leases, land lease application processes, property, plant and equipment audit, financial strength of the company, ESG
H	IFC, Global GAP, CRISA, UNPRI, OECD, South African law	All aspects mentioned including 2 ESG assessments. In line with SMETA by on-site audits of IFC standards.	Both. Global GAP by independent auditors. External specialists on specific issues (e.g. soil and water assessment). Independent EIA.	Technical and agronomical. IFC standards 3 and 6. Legal DD focuses land tenure.

The following table summarizes Governance, Consultation, and Monitoring answers ‘at a glance’:

Figure 6: Overview of responses to governance, consultation, and monitoring questions

	Was land governance a factor in your investment decision and how?	How was consultation undertaken with local communities / stakeholders?	What post-investment DD is being done?	What measures were specifically implemented to be in compliance with RI principles?
A	Yes, particularly formalization of lease hold and community benefits	Some cumbersome negotiations, but no land claims. Discrepancy between available land and suitability.	Financial performance, budget gap, planting/development targets	No. of FTEs, % women, no. of people trained, salary premium
B	Yes, land governance is critical.	FPIC by local Peruvian NGO with ongoing engagement.	Ongoing monitoring of ESG and FPIC by local partner with quarterly reporting to fund and investors. Annual, public ESG report.	Rigorous internal policies and processes to adhere to ESG Standards implemented.
C	Yes land governance was thoroughly investigated.	Social DD. Interviews with local staff. Investigate local law compliance.	Tea Board of India introduced new monitoring system of supply chain, collection + validation production and sales.	Fairtrade certifications, near 100% housing facilities, worker's income augmentation and infant nutrition programme.
D	Yes, land title is in place with constituted Land Survey maps.	Meetings with local headmen. Representation was also made to the local chief, who named the farm after his grandfather.	Scientific research and consultation with industry experts to increase yields, incl minimum tillage and mulch farming.	New business creation, creating and maintaining permanent employment, improved housing, production of potable clean water and sanitation, forestation, renewable energy use, school and village support.
E	Yes, land register and courts are the first source of information on land rights and land use.	Stakeholder meetings including during unrest. Attention to the leaseholder selection. Developed a smallholder policy.	Monitors leaseholders, especially on application of good agricultural practices.	Regular monitoring, extensive upgrading to ensure high business and ethical standards for its own land contractors.
F	Yes - valuation from an independent company.	Meeting with local suppliers (small producers), independent institution (Cocoa Alliance) and USAID.	Monitoring of the counterparty, quarterly financial statements and report on the expenditures related to new hectares.	Counterparty provides loans to small producers; payments structured to avoid deforestation.
G	Yes, examined land application and verified involvement of communities.	At least five meetings held with community, overseen by government. EIA consultant's report reconfirmed.	ESG reporting programme will be developed.	To be implemented to develop the remaining unused land area.
H	Yes, fund abides by IFC Standards 5, 7 and 8: formal ownership + legal entitlement.	ESG Baseline assessments, local communities interviewed along SMETA guidelines. Management, suppliers and contractors included. Perimeter survey includes NGOs, health and education providers.	Regular visits, annual ESG assessment; workers empowered; Adult Basic Education and Training; ETI supervisor training.	South African minimum wage increased by 50%, so Fund has made changes. Promoting environmental sustainability.

Conclusions

The key findings and lessons learned from EBG's report are as follows.

Due diligence

- The case studies demonstrate that all respondents – as was to be expected from investors that are proactive – engage in significant due diligence prior to making an investment.
- Areas of due diligence included land lease, financial, environmental and social, commercial (counterparties), market and country / political.
- DD providers were both internal and external.

Land tenure and governance

- All respondents are concerned about land tenure and ensuring security of land leases or other land-based rights as part of their pre-investment due diligence. Aside from ownership, land leases ranged from a few years up to 30 years and even 99 years in one case.
- Most investors focus on acquiring existing businesses or assets and improving, building-out or consolidating operations rather than starting new 'greenfield' investments. This makes it easier to secure land tenure and helps to create greater impacts for local communities. Because of the focus on buying existing farms, land tenure and governance issues are still critical, but it appears they can be resolved more easily.

Consultation with local stakeholders:

- FPIC appears to be the thorniest issue facing Responsible Investors in Agriculture.
- Responses (or lack thereof) to the question about consultation with local stakeholders may indicate – even amongst 'best in class' sustainability investors – a certain lack of understanding or uncertainty about the "FPIC" process, the extent to which consultation is necessary depending upon an investment size or type, or the practical means of a foreign investor achieving meaningful consultation without working through a (more) local third party.

- All investors monitor their investments from an ESG perspective and are careful to remedy any local or potential environmental / social issue before they morph into a reputational risk; we are aware of at least one investor ending an investment process due to concerns over the potential for social unrest to be created by the investment.

International principles/guidelines

- All investors have signed up to at least one of UNPRI, PRAI, IFC Performance Standards, Global GAP, GMP etc. All investors surveyed were well informed on many of the international principles / guidelines and most complied with at least two.
- However, some investors have established internal processes to define, execute and monitor ESG activities that are either stricter or more appropriate (as they see it) to their investment strategy. The international standards to which they adhere are therefore more of a checklist than a tool to practicing sustainable investments. This is to be expected considering the differing nature of company operating strategies, which are neither uniform nor standardized (since everybody does things their own way) and it is difficult to see how a non-legal international framework could work differently.

ESG Monitoring:

- Monitoring is a standard practice undertaken by all types of project-based investors.
- ESG monitoring formed a significant component according to all respondents. This study found ESG monitoring often dovetails with an investor's existing monitoring activities, and in most cases requires mandatory reporting from local operating entities / counterparties.
- In agriculture this most often takes the form of key performance indicators (KPIs) reporting by individual farms and counterparties, progress against targets and DD assessments and actions to address operational issues.
- This local approach has advantages and disadvantages. Local actors are more intimately involved with the region and are better placed to understand events on the ground, what constitutes best practice, good performance and how to identify issues and potential conflict. On the other hand, over-reliance on a local partner or counterparty to undertake monitoring can create the potential for corruption, abuses, limited or even negative

impacts and ultimately a reputational risk for the investor (this also applies to consultation and project execution).

- Most investors seek to strike a balance by maintaining a degree of oversight internally and by a) structuring effective contracts with counterparties (to punish underperformance), b) visiting the site themselves, and / or c) employing external consultants etc.

Local Impact and Livelihoods

- Every fund described positive impacts from their investment upon local communities. The approach towards consultation varied. Some funds did not directly consult with local people regarding land tenure (or any other issue) but worked with partner organisations who undertook this consultation on their behalf, and were ultimately responsible for executing and monitoring ESG impacts of the project. Some funds didn't tell us what consultation (if any) took place. Others directly consulted with communities as part of their operating strategy. A different approach to consultation between funds is to be expected given that the scale and type of investments differ radically between some of the investors contacted.
- The social impact on the local community is generally regarded through either a community development or a livelihoods lens. Community development impact typically takes the form of improved housing, electrification, education, healthcare, and sanitation. Improved livelihoods are often reported as increased income, improved skills training, improved infrastructure, establishment of cooperatives, better access to markets, clean water and commodities.
- The 'quality' of impacts is variable, with some investors doing a better job of living up to their declared good intentions than others. But this variability is not easy to determine. Third party impact assessments are far more reliable than promotional materials or a public statement of adherence to international principles / guidelines.
- Some investors see RI as a 'cost of doing business', others as a point of principle. This may affect the quality of the local impacts they create, their duration, sustainability and may perhaps more broadly reflect their commitment to a project; the size of the investment, the costs of due diligence and project execution, the strategic importance of the project, their relationship with local / regional actors, their future plans, and so on.

ESG Learning Curve

- We see significant improvement in awareness of the issue, in ESG practices and in transparency over the last five years.
- It should be noted that seven of the eight case studies involve relatively young operations of less than five years and the case studies represent leaders in the field.
- Increased attention should be paid to improving the knowledge and practices of other investors and investment managers.
- However, the use of detailed KPIs for monitoring ESG performance is varied. Only one investor reported using KPIs to measure the specific impact of the business on the local community. This is an area of significant opportunity and growth.
- In a related finding, only two investors employed dedicated ESG specialists. While a full time specialist certainly aids ESG best practices, it is not a precondition to a successful ESG strategy.

Constraints to ESG implementation:

- One constraint to better ESG implementation is the number of international principles/guidelines that, in fact, cause confusion. Managers and investors are not always clear which principles/guidelines apply and how to implement them.
- Many guidelines such as the IFC Performance Standards have been developed for large-scale projects (and are not specific to agricultural projects). Applying them on smaller scale investments is challenging.
- Further, cost constraints at the level of the deals we examined often prevented full external due diligence on the ESG side.

Motivations for Responsible Investing in Agriculture: There are a number of reasons investors are looking to strengthen ESG practices in their investments:

- Reputational risk is a prime motivator. In particular, claims of ‘land grabbing’ have been gaining public attention in the last five years. Activist NGOs are increasingly focusing on this issue. As a result, there is a clear business case to proactively reduce this risk.

- While ESG cost benefit analysis would lend itself to identifying improved efficiencies – as it has done in other sectors (e.g. manufacturing) – there were no clear examples of cost benefit analysis undertaken by the respondents.
- It should be noted that there are significant blind spots where investors still can work outside RI guidelines. These blind spots include local investors, investors with a strategic interest in physical access to soft commodities, and private investors benefiting from opaque legal and ownership structures.

Recommendations And Suggestions For Immediate And Long-Term Action

These case studies of ‘best in class’ Responsible Investors in Agriculture form an initial understanding of the opportunities and challenges in this growing field. Additional research to better inform best practices should:

- Conduct a map of current investors (classification of investor, publically available information, match with PRI membership, etc) in agriculture based on the land matrix database.
- Based on this map, scale the survey to additional investor respondents to broaden understanding of how these investors implement RI.
- Conduct a similar survey targeting local investors, to gain a better understanding of their knowledge and attitude toward RI (such a survey can only be done in close cooperation with the respective national or local land administration body, such as INCRA in Brazil).
- Scale the survey to include local stakeholders (360° feedback).
- Test through third-party observation, due diligence and reporting, the performance of selected projects against declared and intended standards.
- Develop a scorecard for independent verification and assessment of ESG practices and impacts upon local stakeholders.
- Conduct targeted cost-benefit analysis on ESG implementation in Agriculture.
- Identify global best practices and provide recommendations to resolve the most significant challenges in RI in Agriculture.

Responsible Investors in Agriculture would benefit greatly from locally-adaptable yet concrete guides on ESG best practices based on international principles/guidelines. Additionally, the sector would benefit from an adaptation of the IFC PS for small-scale agricultural projects.

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