



Global  
Landscapes  
Forum



Photo by Olivier Girard/CIFOR

# White Paper

London, 10 June 2015

## Tenure and governance in agricultural and forestry supply chains

Undertaking risk-based due diligence

This White Paper was produced by  
OECD; Center for International Forestry Research (CIFOR); The World Bank

## Background

Agriculture should continue attracting further investment, particularly in developing countries where investment stocks in agriculture are relatively low. Long-term prices for both crop and livestock products are set to rise as the demand for food increases driven by growing populations, higher incomes and changing diets. Enterprises operating along agricultural supply chains can help meet the growing demand for agri-food products, create employment and bring expertise, technology and financing capacities for increasing agricultural production sustainably. This can enhance food and nutritional security and help achieve the development goals of the host country.

At the same time, the risks of adverse environmental, social and human rights impacts may be exacerbated as new actors, such as institutional investors, are increasingly involved in agricultural supply chains and as a growing number of investors explore opportunities to invest in regions and countries with weak governance frameworks. While governments bear the principal obligation for creating the necessary conditions for responsible agricultural and forestry supply chains, enterprises should undertake due diligence to identify, assess,

mitigate, prevent and account for how they address the actual and potential adverse impacts of their activities. Doing so will likely lower their reputational, operational and thus financial risks. Thorough due diligence can also maximize their positive impacts on sustainable economic development, poverty reduction and food security.

Moreover, there is considerable innovation among financial institutions, producer companies and consumer goods companies, working in league with nongovernmental organizations (NGOs), to design and implement environmental, social and governance (ESG) standards of performance independently from governments. Investors and companies are responding to growing expectations by consumers in their major markets that commodities be produced sustainably. Social media and civil society advocacy campaigns draw attention to unsustainable practices, catalyzing company commitments to sustainability. The emergence of these “non-state resource governance arrangements” is particularly evident in the forestry sector. Recent pledges by major palm oil producers to ensure their supply chains are deforestation-free are an example.

## What risks do enterprises face when investing in agricultural and forestry supply chains?

Enterprises can cause or contribute to various adverse impacts, including on human rights, labor rights, health, tenure rights over natural resources, or the environment.

- **Human rights:** The infringement on human rights in the agri-food sector can be linked 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.
- **Labor rights:** Fundamental labor rights are sometimes violated in the agri-food sector. Plantation workers can experience abusive conditions that violate the rights to decent and healthy working conditions and freedom of association. Similarly, marginalized groups and workers employed on a casual basis, such as migrants, can be denied basic labor rights, such as safe working conditions that satisfy 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 the number of pesticide poisonings estimated at 2–5 million persons per year.
- **Tenure rights over natural resources:** Tenure risk increases when existing tenure rights are not secured or officially recognized, which leads to competing claims on natural resources, including land and water resources. The land legislation may not recognize informal rights or may 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 (ha) had been granted to private companies and government organizations in holdings of about 1000–2000 ha 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 and deforestation.

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

The most prominent negative impacts of the 39 large-scale agri-business investments analyzed by the World Bank and United Nations Conference on Trade and Development (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. 2014. World Bank and UNCTAD.*

## How can enterprises mitigate the risks of contributing to adverse impacts?

Home and host country governments bear the principal obligation for promoting responsible agricultural and forestry supply chains. Businesses, however, can play a major role in mitigating adverse impacts and maximizing the positive impacts of their operations, including by taking the following measures:

- Hold early and ongoing effective and meaningful consultations with all affected stakeholders.
- Conduct high-quality, comprehensive and independent impact assessments on a regular basis, and maintain environmental and social management systems.
- Disclose timely and accurate information on planned investments and related risks.
- Identify legitimate holders of tenure rights, including informal rights; ensure they receive fair and prompt compensation of their impacted tenure rights; and support partnerships with tenure rights holders, such as contract farming, outgrower schemes or joint ventures, as alternatives to land acquisitions.
- Establish systems for regular consultation and cooperation with workers.
- Encourage the development and diffusion of new technologies, including clean technologies and those generating direct and indirect employment.
- Provide for and cooperate in non-judicial grievance and mediation mechanisms as early-warning risk-awareness systems.
- Implement high environmental and social sustainability standards in production practices.

## What are the benefits of undertaking thorough risk-based due diligence?

Undertaking due diligence can lower reputational, operational and thus financial risks. Indeed, it can avoid time-consuming and costly conflicts with affected stakeholders that can lead to nutritional deprivation, social polarization and political instability, and translate into higher costs and lower profits. Furthermore, changing market dynamics increase the importance of sustainability, as underlined in the 2015 report of the World Economic Forum, *Beyond Supply Chains — Empowering Responsible Value Chains*. First, growing numbers of consumers are willing to pay more for sustainable products and practices. Second, increasingly scarce natural resources and rising commodity prices make resource efficiency and waste reduction crucial variables for enterprises to remain profitable. Third, the regulatory environment and NGOs are pushing for more transparency, which increases non-compliance costs and can create a backlash from the marketplace. Many companies are showing considerable innovation in adjusting their production practices to reduce negative environmental impacts and increase social benefits to workers and out-growers.

## What are proposed implementation activities?

- Develop practical guidance to help enterprises undertake due diligence along agricultural and forestry supply chains, including guidance tailored to various types of enterprises and/or specific commodities.
- Gather lessons learned, best practices and case studies from enterprises.
- Provide due diligence training, workshops and peer-learning webinars focusing on producers, small and medium enterprises, and institutional investors.
- Organize country roundtables and pilot implementation programs for specific enterprises and/or commodities.

## Proposed Session Agenda

---

- 10:00-10:10      **Introduction**  
 Steve Lawry, Research Director, Forests and Governance Portfolio, CIFOR  
 Coralie David, Policy Analyst on Investment in Agriculture, OECD

### Session 1: Identifying risks along agricultural and forestry supply chains

- 10:10-10:25      **Mitigating tenure risks in areas of weak governance**  
 Thea Hilhorst, Global Coordinator Land Governance Assessment Framework, World Bank

#### **Tenure risks in forestry supply chains**

Steve Lawry, Research Director, Forests and Governance Portfolio, CIFOR

---

- 10:25-10:45      Open discussion:
- *What types of risks can arise along supply chains?*
  - *What management systems should be set up to identify such risks?*
  - *How can downstream enterprises identify risks arising in upstream operations?*

### Session 2: Addressing risks along agricultural and forestry supply chains

- 10:45-11:00      **Undertaking due diligence along agricultural supply chains**  
 Coralie David, Policy Analyst on Investment in Agriculture, OECD

#### **The Interlaken Group Guidelines on Responsible Investment: Observing the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT)**

Andy White, Executive Director, Rights and Resources Initiative and private sector partner and Jeffrey Hatcher, Indufor North America

---

- 11:00-11:20      Open discussion:
- *What situations warrant heightened managerial care?*
  - *What standards for responsible business conduct should enterprises adhere to?*
  - *What steps should they follow to undertake risk-based due diligence?*
- 

continued on next page

## Proposed Session Agenda - Continued

## Session 3: Moving forward

11:20-11:35

**Best practices in environmental protection**

Helena Vines Fiestas, Head of Sustainability Research, BNP Paribas Investment Partners

**Agricultural Supply Chain Adaptation Facility**

Angela Falconer, Fellow, Climate Policy Initiative

11:35-11:55

Open discussion:

- *How to promote and disseminate best practices to address risks along supply chains?*
- *What are the respective responsibilities of various actors in addressing adverse environmental, social and human rights impacts?*
- *How can various actors operating along supply chains collaborate to address risks?*

11:55-12:00

**Concluding remarks**

- *Steve Lawry, Research Director, Forests and Governance Portfolio, CIFOR*
- *Coralie David, Policy Analyst on Investment in Agriculture, OECD*

## Background documents

## CIFOR and OECD

- Social impacts of the Forest Stewardship Council certification: An assessment in the Congo basin (CIFOR, 2014)
- OECD Guidelines for Multinational Enterprises (OECD, 2011)
- FAO-OECD Guidance for Responsible Agricultural Supply Chains (OECD, forthcoming)
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD, 2013)
- Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractives Sector (OECD, forthcoming)
- Institutional investors and green infrastructure investments (OECD, 2013)

## Other

- Principles for Responsible Investment in Agriculture and Food Systems of the Committee on World Food Security (2014)
- Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (2012)
- Principles for Responsible Agricultural Investment that Respects Rights, Livelihoods and Resources (2011)
- Guiding Principles on Business and Human Rights [Implementing the UN "Protect, Respect and Remedy" Framework] (2011)



# Global Landscapes Forum | London

The Investment Case

10 June 2015, London

landscapes.org

## Coordinating partners



## Strategic partners



## Funding partners



## Authors

