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The pitfalls of an inward-oriented economy: lessons from the evolution of Brazil and the Republic of Korea*

Thomas J. Hannigan, Ahreum Lee and Ram Mudambi**

Through the early 1980s, the Republic of Korea had lower per capita income than Brazil. However, in the ensuing decade and a half, the economy of the Republic of Korea grew rapidly and by 1996, the country was admitted to the OECD. In contrast, Brazil failed to make significant progress, becoming stuck in a so-called "middle-income trap". In this paper we present a comparative analysis of the economies of the Republic of Korea and Brazil and draw some general lessons for successful catch-up strategies and economic development policy. We identify three key factors underpinning the Republic of Korea's successful catch-up: 1) well planned and consistent government policy; 2) technological specialization; and 3) the nurturing of corporate champions. The economic development process is enormously complex and what works for one economy may not work for another due to contextual differences. Nonetheless, we argue that the successful experience of the Republic of Korea offers some general lessons from the standpoint of government and industrial policy, as well as firm strategy.

1. Introduction

National economic performance can be tied to a country's business environment and resources as amassed capital and labour become more productive (Solow, 1956). However, countries with similar starting points may see vastly different economic growth patterns, owing to different cultures, economic policies, institutions or asset endowments (Azariadis and Drazen, 1990). Some of these differences can have paradoxical effects like the so-called "resource curse" (Auty, 1993: 1). For example, it has been observed that natural resource-rich developing economies have generally performed worse than less well-endowed countries in the decades following the end of World War II, (Auty, 1993).

* The views expressed in this article are solely those of the authors and do not represent the views of the United Nations.

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In this paper, we study a particular instance of this contrast, undertaking a comparative analysis of the economies of Brazil and the Republic of Korea. Resource-rich Brazil may be characterized as being stuck in a "middle-income trap" with plateaued economic growth, limited investment, and a reliance on legacy sectors (Aiyar, Duval, Puy, Wu and Zhang, 2013). By contrast, the resource-poor Republic of Korea has emerged, cementing its status as a rich nation by gaining admittance to the OECD in 1996.

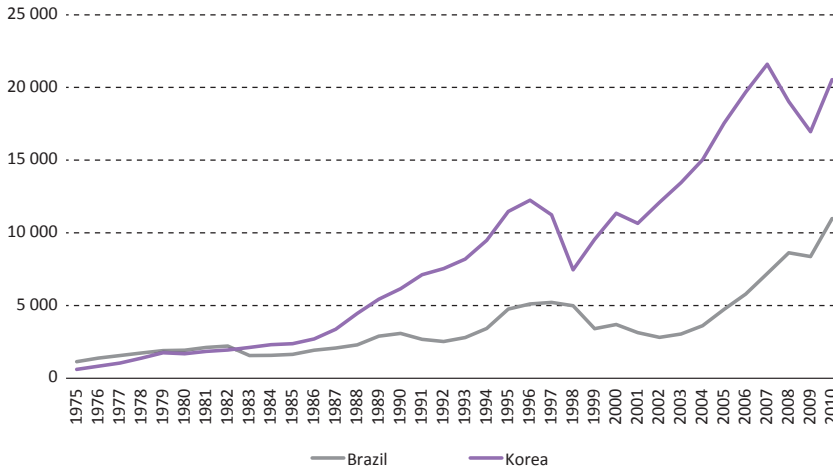
The ultimate outcome would have been difficult to predict in the early 1980s. Up to this point, Brazil posted a strong economic growth rate, underpinned by a diversified manufacturing sector and a solid export performance over the preceding decades (Moreira, 1995). By 1980, Brazil had reached a per capita income level of US$3,000, a level considerably above that in other emerging markets of the time, such as the Republic of Korea and Taiwan Province of China (Aiyar et al., 2013). Yet, the Brazilian growth rate then fell sharply, hampered by sharp declines in output and manufacturing exports. The country has since failed to break through to higher income levels, lagging the growth of many other emerging economies. By 2013, Brazil's GDP per capita ranked 95th in the world (Elstrodt, Manyika, Remes, Ellen and Martins, 2014).

As seen in figure 1, GDP per capita of the Republic of Korea at the onset of industrialization in 1961 was $91.48, compared to $203.19 for Brazil and the latter country maintained a higher level until 1983. However, despite this later start in economic development, the Republic of Korea progressed rapidly, surpassing Brazil's per capita income in the mid-1980s and eventually evolving to an "rich" economy by 1996 (Felipe, Abdon and Kumar, 2012). The Republic of Korea is considered one of the best-known examples of a developing economy that successfully achieved the living standards of the developed world, one of only 13 countries that were able to make this transition since the 1960s (Agénor, Canuto and Jelenic, 2012; Jankowska, Nagengast and Perea, 2012).

The economic development process is enormously complex. A large volume of literature has documented a wide range of factors contributing to successful catch-up, but few studies offer a comprehensive view. The focus of much of the extant literature is on the role of the government in economic development (e.g., Bell and Pavitt,

1993; Gerschenkron, 1962; Lall, 1992; Mahmood and Ruffin, 2005). While the government is a key actor in the economic development and catch-up process, it is by no means the only one. Therefore, in this paper, we offer a holistic view of the factors contributing to successful catch-up through a comparative analysis of the Republic of Korea and Brazilian economy over the past three decades.

Figure 1. GDP per capita (current US$)



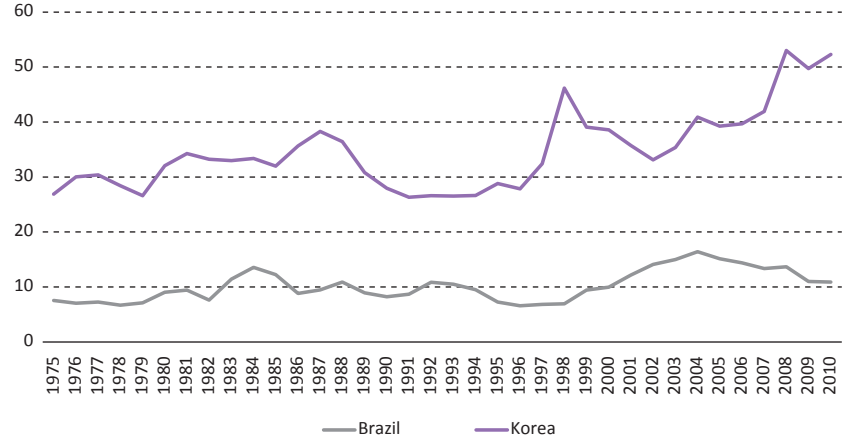
Source: World Bank.

In essence, our analysis of the economies of the Republic of Korea and Brazil reveals the most fundamental element underpinning successful economic development is maintaining an outward-oriented economy. This is the overarching long-term difference between the Republic of Korea and Brazil (Moreira, 1995). A key indicator of inward or outward orientation is the extent to which a country engages in global trade through exports. The Republic of Korea's export as a percentage of GDP has been consistently higher than that of Brazil, rising to 52.6 per cent of GDP by 2010 (figure 2), reflecting a greater outward orientation.

Under the umbrella of engagement with the global economy, we identify three specific main factors behind the Republic of Korea's outward orientation: 1) *a well-planned and consistent government policy*, 2) *a narrow technological focus, i.e., the technological specialization of a national production and*

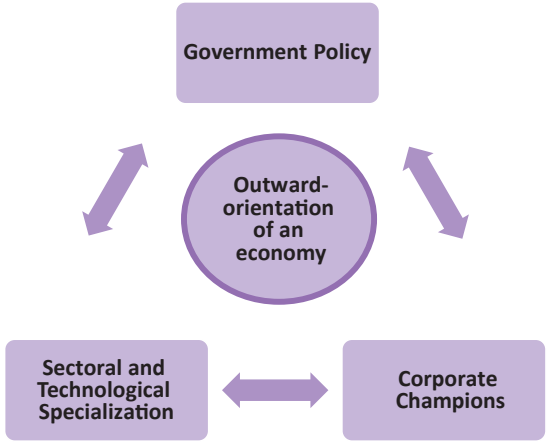
innovation system, and 3) *the encouragement of selected large local firms that demonstrate the wherewithal to compete and succeed in global markets*. It is difficult to identify the separate contributions or causal relationships amongst these three factors. However, economic development of an economy that is rapid enough to result in successful catch-up can be considered as the interplay of all these three factors (figure 3).

Figure 2. Exports of goods and services (Per cent of GDP)



Source: World Bank.

Figure 3. Contributing factors behind successful catch-up



Source: Authors.

2. The theoretical foundations of catch-up

The ability to productively use labour, capital, and technology is crucial to the growth of a national economy (Solow, 1956). In this regard, an economy's technological capabilities have been highlighted as a fundamental source of heterogeneous development paths observed across countries (Bell and Pavitt, 1993; Castellacci, 2008; Freeman, Clark and Soete, 1982; Fu, Pietrobelli, and Soete, 2011; Gerschenkron, 1962; Verspagen, 1991). The ability to innovate is particularly important to the successful exporting and ultimately diffusion of locally-developed technology amongst domestic firms (Archibugi and Pietrobelli, 2003).

A substantial body of literature has investigated how emerging countries catch up with developed nations. At the most basic level, latecomers can focus on simpler imitation processes, rather than more complex innovation processes (Awate, Larsen and Mudambi, 2012). This insight undergirds the key thesis that the greater the gap in technology and productivity between emerging and industrialized economies, the greater the potential for "rapid" catch-up (Abramovitz, 1986). The more backward an economy, the more standardized (and cheaper) the "new-to-location" technologies that can be introduced – and the greater the marginal effect of these technologies on productivity and growth. As the economy advances toward the knowledge frontier, new-to-location technologies become progressively more complicated (and expensive) and have smaller marginal effects on productivity and growth.

Firms are the main engines for growth (Porter, 1990), and domestic firms in emerging markets are likely to be technologically backward compared to those in advanced economies (Narula and Dunning, 2000). The literature has described the rapid technological catch-up of emerging market firms as a process of proactively investing in the upgrading of capabilities and skills (Giuliani, Pietrobelli, and Rabellotti, 2005; Awate et al., 2012; Kumaraswamy, Mudambi, Saranga and Tripathy, 2012). However, the technologies for such upgrading are typically not locally available. Hence, externally acquired technologies are essential

to economies that are in the processs of catching up from behind the technological frontier (Bell and Pavitt, 1993; Mudambi, 2008).

Governments in emerging economies seek to attract advanced economy mulitnational enterprises (AMNEs) via trade, market and FDI reforms, as they can help domestic firms to upgrade their technological capabilities through the transfer of the sophisticated knowledge and best practices (UNCTAD, 2001; Ivarsson and Alvstam, 2005). Upgrading via knoweldge transfer is highly contingent on spillover processes (Mudambi, 2008). Indeed, involvement in the value chain activities of AMNEs has been noted as a pathway for emerging market economies to participate in global trade, offering opportunities for upgrading and modernization of domestic firms (Giuliani, Pietrobelli and Rabellotti, 2005; Humphrey and Schmitz, 2002).

Value chain activities of AMNEs are coordinated through the continuous mutual exchange of information amongst participants (Lall, 1980). Establishing relationships with AMNEs thus offers emerging economy firms the opportunity to develop their technological capabilities. AMNEs typically provide their local suppliers with extensive technological assistance in order to meet their home market requirements (Dunning, 1993). Giuliani et al. (2005) show that by supplying global buyers, domestic firms in Latin America were able to overcome growth constraints and increase their capabilities through a series of upgrading processes. Guthrie (2005) also documents partnerships with AMNEs as an effective means of strengthening the international competitiveness of Chinese domestic firms. By virtue of interactions with AMNEs, domestic firms develop not only output capabilities (Awate et al., 2012), but (eventually) also innovation capabilities (Mathews, 2006). These are fundamentally different capabilities; output capabilities are based on exploiting extant knowledge, while innovation capabilities arise from exploring for new knowledge (Mudambi and Swift, 2014).

The Role of the Government

The actions of both the government and the private sector affect the overall orientation of an economy and ultimately

determine its performance in terms of achieving development goals. However, in the case of developing and emerging economies, the government can have a particularly powerful influence, for good or ill. The literature has highlighted the role of a government in enhancing technological capability at national level by placing a heavy emphasis on human capital, technology investment and infrastructure (e.g., Amsden, 1989; Keller, 1996; Moreira, 1995). These policies ultimately influence international competitiveness by providing the framework within which firms can undertake internal capability building efforts (Bell, 1982; Porter, 1990).

In order to achieve catch-up, latecomers have to grow faster than advanced market economies. Such rapid growth requires sophisticated planning capability and the involvement of patient investment capital. Building on the early work of Gerschenkron (1962), developmental-state theories provide a model of a nation's economic development that emphasizes the active role of the state in creating an export-based industrial system and facilitating the technology transfer to support it (Breznitz, 2007).

The literature charts the path of inward orientation just as clearly. Mahmood and Rufin argue: "when a country is far from the technological frontier, government can promote rapid industrialization by directing the flow of resources to firms and encouraging firms to invest such resources in technological upgrading" (2005: 339). The rapid economic progress of newly industrializing economies (NIEs), namely Hong Kong (China), the Republic of Korea, Singapore and Taiwan Province of China, in the 1970s and 1980s has been explained based on the logic of outward-looking state-led development. An inward focus is one that relies on available resources to meet local standards, while an export focus must hew to global benchmarks (Lall, 1992). Comparing the industrialization of the Republic of Korea and Brazil, Moreira (1995) clearly shows how the two governments significantly differed in terms of providing the incentives for domestic firms to undertake the upgrading necessary to become participate in global value chains and become world-class firms.

The Role of Sectoral and Technological Specialization

The limited availability of resources in developing economies makes it crucial that these are concentrated in the sectors and associated technologies where the country has the largest comparative advantages. The government can identify the more promising sectors for engagement with the global economy and shift strategic resources towards them (Mancusi, 2001). In essence, technological specialization at the national level allows an economy to build a high level of absorptive capacity in the selected industries and develop the capabilities to compete in global markets. The deep understanding of a certain domain through learning increases the ability to identify new knowledge sources (Cohen and Levinthal, 1990). Technological specialization stimulates positive knowledge accumulation and is associated with the development of state-of-the-art expertise, increased levels of sophistication and enhanced learning rates of firms (Lettle, Rost and Wartburg, 2009).

The Role of Large Private Sector Firms

The agent of economic expansion in all late-industrializing countries was what Chandler (1977) described as the large-scale multidivisional, modern industrial enterprise: these large firms laid out the basis for sustainable economic growth (Amsden, 1989). For instance, the Republic of Korea's dominant industrial enterprises take the form of diversified business groups or *chaebols* that share many of the characteristics of *keiretsu*, the large Japanese industrial combines. Even in Taiwan Province of China, an economy that is well known for its small and medium-sized enterprises (SMEs) (Orru, 1991), large firms were the engines of growth in the early phases of economic development in the early 1970s, accounting for over half of industrial output (Amsden, 1989). Large firms were the first entrants in foundational heavy industries such as steel, shipbuilding, heavy machinery (Amsden, 1991), thus providing the basis for the subsequent growth of SMEs in Taiwan Province of China overall.

The emergence of large firms as the backbone of an economy might be a necessary institutional response to the market

failures and institutional voids in many economies at the onset of industrialization (Levy and Kuo, 1991; Khanna and Palepu, 2000). Large firms can overcome the handicaps of underdeveloped economies by internalizing financial, labour and other resource flows. This enables them to enter new industries at minimum cost and at a rapid speed, enhancing their abilities to compete in global markets (Amsden, 1989). Further, the growth and success of large local firms can result in the subsequent growth of SMEs through spillovers within their domestic network. SMEs can upgrade their capabilities by serving large firms as subcontractors.

3. Comparing the contexts of the Republic of Korea and Brazil

We now illustrate this theoretical framework through a comparative examination of the contexts of the Republic of Korea and Brazil. We highlight the contrasts between the economic histories and development experiences of these two countries. We argue that this comparative analysis yields some generalizable insights. In comparing innovative activity between the two countries, we use patents granted by the United States Patent and Trademark Office to inventors or firms with addresses in these two respective countries. The use of United States patent data as an internationally comparable metric of innovative activity has been documented in a wide range of scholarly work (Cantwell, 1989).

Government Policy

As early as 1965, the Republic of Korea's President Park had already begun to talk about global competitiveness, emphasizing that competing with others in the international export race is not a choice, but a compulsion (Amsden, 1989). From its earliest days of export-led development in the mid-1960s, government policy was aimed at creating internationally competitive capabilities in the domestic economy. This export-led growth strategy was executed at two levels – strategic and tactical. At the strategic level, the government identified appropriate industries using sophisticated product cycle logic (Vernon, 1966). At the tactical level, it devised and implemented a comprehensive system that

linked import-control (protecting identified industries) with various means to promote exports such as export credit, taxation benefit, and duty drawback (Mah, 2007).

A key aspect of the financial and fiscal incentives offered by the Government was that firms had to achieve stringent performance standards in order to qualify. In order to receive the government incentives, it was not sufficient for firms to export; rather they had to show strong export performance (Amsden, 1989). This instilled a spirit of competition and learning in Korean firms.

It is important to recognize that the Republic of Korea commenced heavy investments in its physical infrastructure and educational system right after the end of the Korean War in the early 1950s. It set education as a strategic priority and facilitated access to secondary and tertiary education, creating a large pool of skilled workers and engineers. Following on early investments in "hard" infrastructure such as roads and transportation, more recently the government has also invested in "soft" infrastructure such as broadband access (Jankowska et al., 2012) that encourages innovation and R&D. These patient and long-term investments supported both indigenous technological capability building and global integration (Khalil, Dongier and Qiang, 2009). Without them the export successes that began in the 1960s would not have been possible.

In contrast, the Government of Brazil adopted an import-substitution policy, incentivizing domestic firms to serve the local market through the mid-1990s (Figueiredo, 2008). This policy had a second objective, namely the avoidance of a balance of payments crisis (Moreira, 1995). Exporting in Brazil was associated with backwardness due to centuries of colonial history when raw material exports served foreign markets (Moreira, 1995). As a consequence, the Government focused on protecting domestic industry rather than exposing them to competition in global market. Since export performance was not a necessary condition for survival, local firms had very limited incentives to increase their competitiveness.

Further, the Government's investment in infrastructure as well as education and skills has continued to be inadequate to support significant indigenous technological efforts. Brazil has invested on average just 2 per cent of GDP on physical infrastructure during the period from 1980 to 2006. This is far below the investments made by fast-growing Asian countries, which averaged 7 per cent of GDP (Carranza, Daude and Melguizo, 2014). In addition, the Republic of Korea and Brazil show a substantial disparity in the length of average schooling over the four decades (Jankowska et al., 2012). This led to a relatively poorly qualified workforce and poor science and technology infrastructure (Moreira, 1995), which were further obstacles to increasing local firms' competitiveness to global levels.

There is also a stark difference in terms of the manner in which each government implemented its policy. The Government of the Republic of Korea maintained a consistent policy regime over a period of five decades and its ultimate goal had always been increasing international competitiveness through indigenous technological efforts. In contrast, the Brazilian Government did not pursue industrialization in a systematic manner. Brazil's industrialization was more the result of external shocks rather than government strategic planning. The trade regime did not reflect long-term dynamic comparative advantages, but the short-term objective of conserving foreign exchange. Therefore it was constantly responding to the macroeconomic environment (Moreira, 1995). In spite of considerable lip service, the Government did not have a consistent commitment to building a science and technology infrastructure either. The following example is representative. The Brazilian Ministry of Science and Technology (MCT) was established in 1985 to support indigenous technological capability building, but it was abolished in 1989 (Moreira, 1995).

National Technological Focus

In keeping with the received wisdom at the time, the Government of the Republic of Korea took on an active role in planning the development of its economy (Tinbergen, 1956). It was keenly involved in shaping the industrial structure towards

more efficient configurations and remedying weak financial systems and education systems (Amsden, 1989). However, there was a fundamental difference between the approach of the Republic of Korea and the central planners in the communist and socialist regimes of the post World War II period. While the central planners focused on insulating the domestic economy from global markets with the (often unstated) goal of autarky, the activist policies of the Republic of Korea were aimed at increasing the ability of its economy and constituent firms to compete in the global marketplace.

The industrial policies with outward focused and followed the dictates of Ricardian comparative advantage, updated with a keen appreciation for the product cycle model. This was the antithesis of the central planning approach, which was focused on fulfilling domestic needs with domestic production. The experience of the Republic of Korea shares significant commonalities with the Japanese export-led growth model and lends some validity to the so-called "flying geese" model (Kojima, 2000).

With the aim of building an internationally competitive industry, The Republic of Korea charted a path of industrial transformation from labour-intensive industries such as textile and apparel to heavy and chemical industries (HCIs). As previously noted, this policy approach recognized the Ricardian and product cycle realities in the sense that as the development process gathered steam and domestic labour costs increased rapidly, labour-intensive industries could not remain competitive in global export markets. The result was a need for a dynamic shift beginning with low skill industry and moving progressively through to capital-intensive heavy industries and eventually to technology knowledge intensive industries. This process corresponds to what has been called a "process of national-level knowledge accumulation and absorptive capabilities by applying the reasoning and evidence from the firm-level analysis" (Criscuolo and Narula, 2008: 56).

To achieve the first industrial shift, the Government came up with the third Five-Year Plan or the "Big Push" which set specific

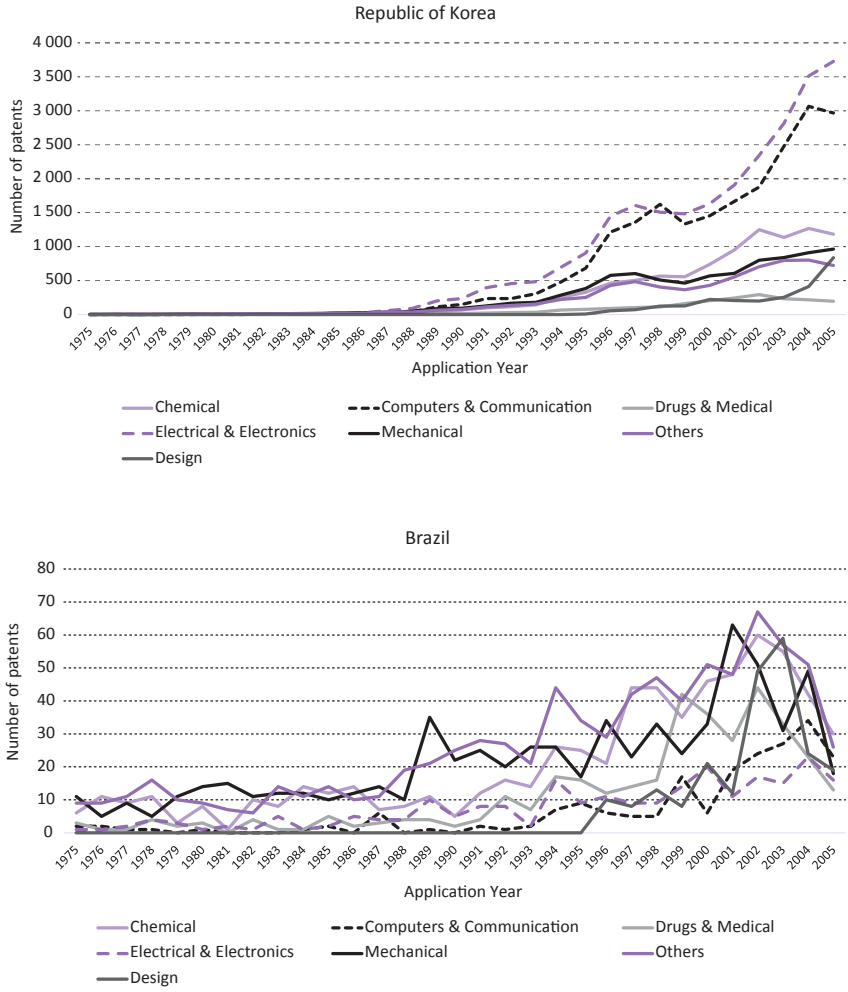
investment and export targets for each of the selected industries within the Heavy and Chemical Industrialization (HCI) policy (Moreira, 1995; Galbraith and Kim, 1998). Since these industries inherently required a greater level of capital and technology, the Government made enormous focused investments. For instance, in order to create industrial complexes, in 1973 it established Daedeok Innopolis, formerly known as Daedeok Science Town, research and development district where 20 major research institutes, over 40 corporate research centres and a number of venture capital firms were located (Cho, 2013). In a similar vein, the Government established the Committee for Co-development of HDTV in 1989 that was jointly run by government research institutions, private firms, and universities (Lee, Lim, and Song, 2005). All of these endeavours were intended to support economic development route charted by the Government by orchestrating public efforts with those of and private industry.

During the HCI period, the Government focused on same set of industries that had powered Japanese economic development – iron and steel, machinery, shipbuilding, electronics and petrochemicals (Kojima, 2000; Ahn, 2010). As a result of this focused policy, at every period of its economic development, the economy displayed a highly specialized industrial profile.

During the early years of development in the 1950s and 1960s, the Republic of Korea was highly resource constrained and focusing on selected industries was a necessity. As the economy began to develop rapidly in the 1980s, the constraints were relaxed, but industry and technological focus remained in place with a different rationale. During the period of rapid, catch-up driven growth, economies typically develop imitation-based output capabilities (Awate et al., 2012). Focusing economic policy on specific industries facilitated technological accumulation in those industries. Technological accumulation can be considered as the essential underlying source of international competitiveness on the part of countries, industries, and firms (Cantwell, 1989). The ability to identify new knowledge sources can be enhanced through learning in a certain domain, ultimately leads to sophistication of a particular industry (Cohen and Levinthal, 1990; Criscuolo and Narula, 2008).

The industries favoured by government policy have increased their competitiveness over the past three decades (figure 4). A very high percentage of innovative activities are concentrated in a limited set of industries such as electrical and electronics and computers and telecommunications. Korean firms have established world-leading market shares in some of these industries such as electronics and shipbuilding (Mundy, 2013).

Figure 4. Industrial focus



Source: Authors' analysis of U.S. Patent and Trademark Office data .

The policy efforts of Brazil differed from the Republic of Korea along two important dimensions. First, it bore greater resemblance to communist and socialist inward-looking central planning and was aimed at import-substitution rather than export promotion. Second, it lacked consistency and continuity such that its emphases tended to vary from government to government. The so-called "Targets Plan" aimed at developing heavy industry was neither specified in detail nor accompanied by significant institutional changes (Moreira, 1995). It was little more than a collection of five-year targets for output and investment in heavy industry, without a specification of how these targets were to be achieved. Further, the functional intervention to fundamentals to support the development of heavy industry such as transport, energy, and education system was very limited (Moreira, 1995). Thus, domestic firms remained reliant on weak fundamentals and consequently could only survive in the domestic market by being protected from foreign competition. Unlike the Republic of Korea, Brazil has not established a world leading market share in any industry. Its innovative output is dispersed across a wide range of industries and is negligible in every one of them (figure 4).

Corporate Champions

Yet another commonality between the economic developments of the Republic of Korea and Japan is the heavy reliance of both nations on the efforts of large business groups. As noted, the *chaebols* are the well-known counterparts to the Japanese *keiretsu* and they account for a very large share of the country's economy. Throughout the industrialization process, they were the backbone of the economy, carrying the economy from basic to high-tech industry (Amsden, 1989). In fact, the emergence of large conglomerates was an efficient institutional response to the institutional voids and market failures that characterized the economy during its underdevelopment phase (Levy and Kuo, 1991; Khanna and Palepu, 2000). Unlike small firms, these big business groups were able to closely coordinate financial and labour flows among group members, minimizing risk and improving financial performance (Amsden, 1989). Heavy

and chemical industries in particular are characterized as high risks and large capital investment.

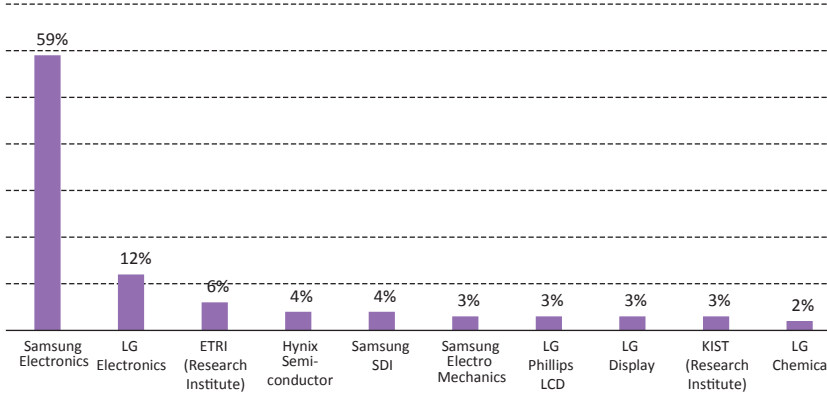
The Government of the Republic of Korea aided capital formation of the large conglomerates and encouraged their lines of business. This enabled them to exploit economies of scale as well as scope and generate large surpluses that could be ploughed into private sector R&D (Ahn, 2010). Such government support can potentially create inefficiencies if it is given unconditionally. However, the Government was very careful in ensuring that subsidies and industrial licenses were strictly based on performance. As a result, companies needed to distinguish themselves from one another (Amsden, 1989). In practice, this meant that they had to face with fierce competition not based on price, but non-price factors such as quality or delivery in a domestic market. Competitive rivalry creates the incentives for technological accumulation (Bell and Pavitt, 1993). Further, it generates pressures to innovative, to improve quality, to reduce costs, and to invest in upgrading capabilities, all of which help to create world-class competitors (Porter, 1990). Thus, with the help of the government support on the one hand and competitive discipline on the other hand, big *chaebols* were able to successfully transform themselves into firms that were competitive in the global market place.

In addition to the external factors of government support and competitive pressure, there were also internal factors that led firms to develop world-class capabilities. Their mindset to become globally competitive firms also played a pivotal role. Since their domestic market is relatively small, companies had limited scope to expand domestically. Unlike Brazilian firms that could generate comfortable performance based solely on their large domestic market, firms in the Republic of Korea had to be outward-focused merely to survive in the face of domestic competition.

Big companies like Samsung and LG started aggressive internationalization moves from the beginning, targeting the North American market (Lee et al., 2005). For instance, the chairman of Samsung, Lee Kun Hee, set a new global vision

to become a world-class company early on in the country's development process (Song and Lee, 2014). Such a mindset is, to a large extent, responsible for the transformation from learners to serious competitors in a relatively short period of time. In 2013, Samsung was ranked as the third most innovative company and the second largest R&D spender in the world (Booz and Co., 2013). This focus on the government favouring a few large conglomerates has resulted in a huge concentration of innovative capacity in a small set of major companies. Samsung and LG take up an enormous share, accounting for nearly 80 per cent of the Republic of Korea's total innovation output, i.e., 67,800 patents in total (figure 5).

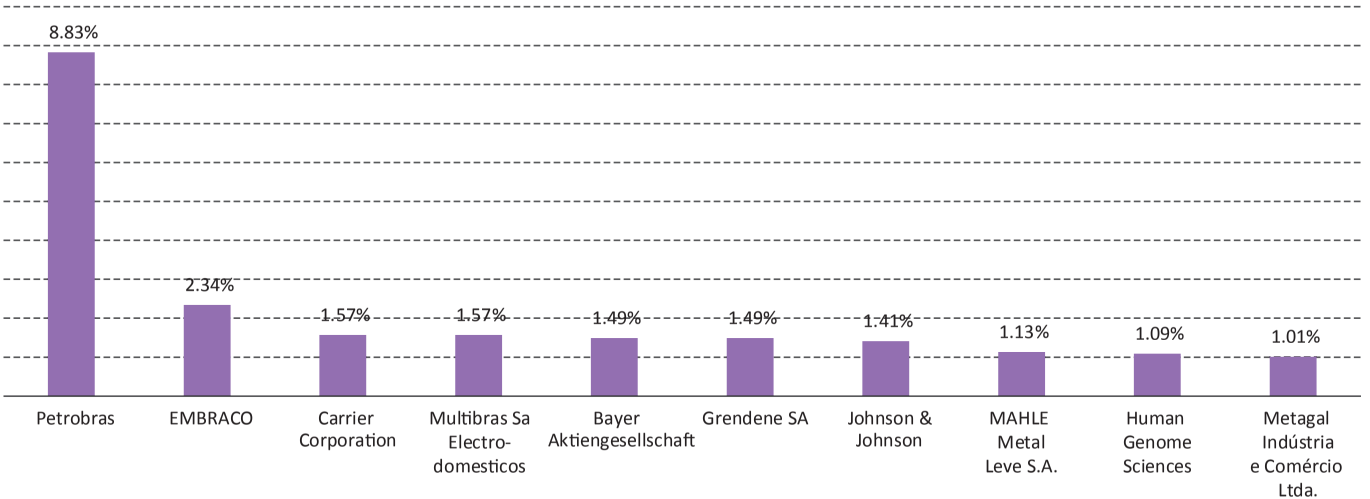
Figure 5. The composition of patent ownership: Top 10 assignees in the Republic of Korea



Source: Authors' analysis of U.S. Patent and Trademark Office data.

As noted previously, the Government of Brazil devoted its efforts to protect domestic firms from foreign competition and was not outward-oriented in giving subsidies. Brazilian firms did not feel the pressure to force themselves down the learning curve and upgrade technological capabilities (Moreira, 1995). Having a large domestic market may have given them a sense of security. As a consequence, unlike the Republic of Korea, we observe few corporate champions in the Brazilian economy. Further, as seen in figure 6, Brazilian firms' innovation activities are very minimal compared to the Republic of Korea's corporate champions. Even Petrobras, the Brazilian semi-public energy corporation and the

Figure 6. The composition of patent ownership: Top 10 assignees in Brazil



Source: Authors' analysis of U.S. Patent and Trademark Office data.

top Brazilian assignee, has only produced about 8 per cent of Brazil's patents. A second Brazilian assignee, Empresa Brasileira de Compressores S.A., the manufacturer of compressors for refrigerators, has only produced about 4 per cent. Combined together, these two big assignees in Brazil only have produced about 12 per cent of Brazil's total innovation output, i.e., 315 patents in total.

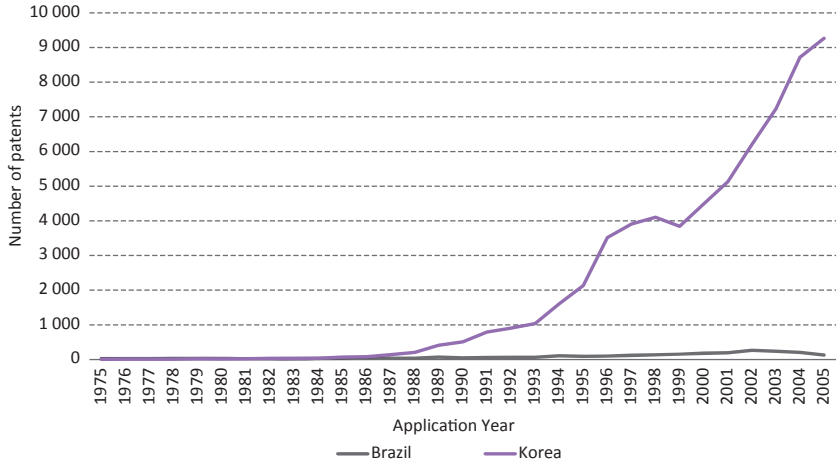
4. Concluding Remarks

Unlike Brazil, the Republic of Korea successfully made the leap into the OECD, the club of the most advanced countries, and now it continues to march towards becoming an innovation-driven economy. As shown in figure 7, the level of innovation capacity is very different between the Republic of Korea and Brazil. While patenting in both countries rose in the 1990s, the Republic of Korea's growth far surpassed that of Brazil. Specifically, the number of patents assigned to entities in the Republic of Korean has risen sharply, with a cumulative total of 84,751 by 2010, whereas the corresponding figure for Brazil is only 3,034. Further, differences in innovative capacity between two economies become even more severe if we compare patents per capita: the Republic of Korea's patents per capita is 1,695.02, while the corresponding figure for Brazil is only 15.26. The 2007 global capabilities (GloCap) index comprised of various technological indicators such as knowledge and skills and infrastructure reveals that Brazil's technological capabilities (0.013) are much lower than the Republic of Korea's (0.529) (Buckley and Hashai, 2014; Filippetti and Peyrache, 2011). All this evidence clearly demonstrates that Brazil's innovative capabilities significantly lag those in the Republic of Korea.

To escape from the "middle-income trap" and evolve further into a more innovative economy like the Republic of Korea, it may be necessary for Brazil to follow the example of the Republic of Korea's by gaining a firmer foothold in the global value chains of major knowledge intensive industries (Mudambi, 2008). This would involve a serious change in policy: the Government should be determined to increase the competitiveness of specific industries by giving incentives as well as sanctions conditional on firm performance. Identifying and investing in

industries where Brazil has a comparative advantage and that are suited to Brazil's stage of development is also important. But, above all these, it is impossible to over-emphasize the importance of addressing fundamentals for sustainable growth by focusing on building a good science and technology infrastructure, as well as a strong education system to develop human capital. The World Economic Forum ranks Brazil 114th and 121th in the world for the quality of overall infrastructure and education respectively (Schwab, 2013). These data indicate that underdevelopment in fundamentals will continue to be a serious bottleneck hampering a Brazilian move into sustained high growth.

Figure 7. Number of USPTO Patents with links to the Republic of Korea and Brazil, 1975-2005[a]



Source: Authors' analysis of U.S. Patent and Trademark Office data.

[a] Due to the truncation problem (Hall et al., 2001), interpretation the data after 2005 should be with care, and therefore, the data after 2005 was excluded.

Moving the Brazil towards becoming an innovation-driven economy requires an aggressive move to gain access to the state-of-the-art knowledge residing in other economies through developing innovation connectivity (Kumaraswamy et al, 2012). Brazilian inventors need to be connected to global innovation system by increasing connectivity through international co-operation in research, which would broaden their knowledge stock. It has been widely noted that a broad knowledge base

is crucial for innovation (Bierly and Chakrabarti, 1996), since knowledge which is different from a firm's existing knowledge base may offer ideas and insights that can be extremely useful to innovate through knowledge recombination (Rosenkopf and Almeida, 2003). In reality, in order to enhance competitiveness, firms often engage in international research collaboration, which may facilitate the generation of new technology in many fields. Connectivity to global innovation systems would ultimately restore Brazil's economic momentum by increasing domestic firms' competitiveness.

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Responsible agricultural investment: drawing upon best practices in existing initiatives

Hafiz Mirza, Zoe Goodman and Atrid Agostini *

Since the mid-2000s, private sector investment in agriculture – both domestic and foreign – has been on the increase. Studies on this trend find mixed results, both positive and negative consequences for local communities, depending on conditions and circumstances. In response, there has been a multiplication of principles, guidelines or benchmarks for investors and host governments which aim to mitigate the negative impacts of large-scale agricultural investments, while maximizing positive outcomes. This paper contributes to the ongoing discussions on principles for responsible agricultural investments (RAI) by assessing how RAI principles can draw upon best practices from existing initiatives. To facilitate the discussion, we first propose a typology for categorizing initiates to regulate investment in agriculture. Then we assess the best practices in ten key areas that RAI principles should consider.

Key words: agriculture, investment, regulation

1. Introduction

Since the mid-2000s, private sector investment in agriculture – both domestic and foreign – has been on the increase. Originally driven by a combination of factors associated with the food and financial crises, this global trend involves a multiplicity of actors with varying motives – from transnational corporations and private equity funds to State Owned Enterprise, Sovereign Wealth Funds and diaspora communities.[1] The development impacts of such investments vary widely and depend on a complex web of local, national and international factors – from village politics to national laws and international investment regimes, as much as business models, the level of implementation of the investment and the type of investor. Studies on this trend to date indicate that negative consequences for local communities

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[1] For definitions and a discussion on these actors, see UNCTAD (2009).

can outweigh the benefits: certainly there is no automaticity in communities gaining from investments.[2] For instance, inadequate consultation with potentially affected communities, a lack of transparency over the terms of investments, the loss of access to land and livelihoods in rural communities and the lack of host country capacity to vet and regulate investors are among the issues that lead to adverse investments, and need to be addressed.

One response to this situation has been to develop principles, guidelines or benchmarks for investors and host governments which aim to mitigate the negative impacts of large-scale agricultural investments while maximizing positive outcomes. For instance, the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD) and the World Bank have developed the Principles for Responsible Agricultural Investment.[3] Other initiatives in this vein include those that focus on regulating investment in agriculture more broadly (such as the Principles for Responsible Investment in Farmland[4]) or large-scale land acquisitions (such as the report of the UN Special Rapporteur on the right to food[5]). Discussions at the Committee on World Food Security (CFS) Open Ended Working Group (OEWG) on principles for responsible agricultural investments (RAI principles) form part of these on-going debates. The number and range of approaches immediately make it clear that there is significant support and demand for such guidelines from various users and other entities to improve investments in agriculture.

In order to contribute to these deliberations, this paper assesses how RAI principles can draw upon best practices from existing initiatives and makes suggestions for the way forward.

[2] Ward et al. (2012), High Level Panel of Experts on Food Security and Nutrition (2011).

[3] UNCTAD, the Principles for Responsible Agricultural Investment (PRAI PRINCIPLES) (webpage), www.unctad.org/en/Pages/DIAE/G-20/PRAI PRINCIPLES.aspx (accessed 31 May 2012).

[4] Principles for Responsible Investment Association, www.unpri.org/.

[5] A/HRC/13/33/Add.2, "Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge"

2. Initiatives for responsible investment: type, target audience, compliance mechanisms and effectiveness

The range of initiatives that aim to regulate corporate behaviour and/or guide governments' in their promotion of responsible investment and/or good practices in agriculture vary significantly according to type, target audience, compliance mechanisms and effectiveness.

2.1 Type of initiative

In the absence of standardized way of categorizing the scope of initiatives, we have adopted a typology which separates the initiatives into one of four categories: principles, guidelines, certification schemes, or indicators (details of selected indicators are provided in the appendix summary table).

- The category ***Principles*** comprises initiatives that companies or governments (and in some cases other stakeholders) sign up to and agree to abide by. They include some form of compliance mechanism, such as company self-assessment and public de-listing or external audits, and expulsion. Principles may simply establish an overall approach or philosophy to an issue (with their specific expression left open to context or interpretation). An example of such an approach is the UN Global Compact, which outlines very broad principles for responsible business practice. Other principles have much more specific provisions and stringent requirements for those who agree to comply – such as the Extractive Industries Transparency Initiative (EITI).

- ***Guidelines*** is the name given to initiatives which aim to promote good business or government behaviour (in agriculture or another sector), but do not involve compliance mechanisms or sanctions of any kind. This type of initiative includes the *Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security* by FAO[6] (hereafter referred to as "the FAO Voluntary Guidelines on Land") and the *Framework*

[6] FAO (2012).

and Guidelines on Land Policy in Africa[7] developed by the African Union Commission, the UN Economic Commission for Africa and the African Development Bank. It should be noted that some of the initiatives we call "Guidelines" here have the word "Principles" in their title, such as the report of the UN Special Rapporteur on the right to food, titled "Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge" (hereafter referred to as "minimum principles").[8]

- ***Certification Schemes*** refers to initiatives, mostly in agriculture or natural resource management, which involve assessment and certification by independent third party auditors of farms/operations involved in the scheme. If the farm/operation does not pass the regular on-site examinations, they are no longer certified by the initiative. This category includes Fairtrade[9], the Rainforest Alliance[10], the Roundtable on Responsible Biofuels[11] and the Roundtable on Responsible Palm Oil[12].

- ***Indicators*** are measures that have been developed in recent years, in order to promote environmental and social sustainability reporting by companies and other organizations. This category includes the Global Reporting Initiative (GRI), which has developed a comprehensive and standardized set of indicators designed to facilitate company reporting.[13]

- These different types of initiative are not mutually exclusive and indeed some seek to combine different approaches. For example, the UN Global Compact (designated here as Principles) encourages companies to use the Global Reporting Initiative (a system of

[7] African Union Commission-UN Economic Commission for Africa-African Development Bank Consortium (2010).

[8] Report of the Special Rapporteur on the right to food, A/HRC/13/33/Add.2, "Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge".

[9] Fairtrade International, www.fairtrade.net/.

[10] Rainforest Alliance, www.rainforest-alliance.org/.

[11] Roundtable on Sustainable Biofuels (RSB), http://rsb.epfl.ch/ (accessed 12 June 2012).

[12] Roundtable on Sustainable Palm Oil, http://www.rspo.org/ (accessed 4 June 2012).

[13] Global Reporting Initiative (2011), Sustainability reporting guidelines 3.1. Available at: https://www.globalreporting.org/resourcelibrary/G3.1-Guidelines-Incl-Technical-Protocol.pdf (accessed 12 June 2012).

indicators) when carrying out their self-assessments. Discussions around RAI principles would do well to bear this such options in mind; it might be possible, and advantageous, to aim for a set of complementary instruments – including principles, guidelines, certification schemes and indicators – to fully encompass the range, level and hierarchy of issues, values and actions relevant to regulating investments in agriculture. For instance, we can envisage a set of guidelines for policymakers in countries where agricultural investments are being made, principles – with robust compliance and sanctions mechanisms that draw lessons from existing certification schemes – for investors to abide by, as well as a set of indicators that governments, investors and civil society can use when vetting, assessing or monitoring agricultural investments.

2.2 Target users/audience

Initiatives generally aim to influence the behaviour of either governments or businesses, while others target both groups. In addition, a number of initiatives aim to involve civil society as participants in the development of standards (such as the Global Reporting Initiative, the UN Global Compact and the Roundtable on Sustainable Palm Oil) or as overseers of company/government compliance (such as the Extractive Industries Transparency Initiative and the OECD Guidelines for Multinational Enterprises). Discussions around RAI principles will need to consider which actors' behaviour they seek to target, as well as what role civil society – or independent bodies – will play in promoting compliance with the standards that are developed.

2.3 Ensuring compliance

Existing initiatives vary greatly according to the approach they take with regard to compliance. As mentioned in the section on typologies above, initiatives designated as "guidelines" in the table do not have compliance mechanisms of any kind. Businesses and governments can follow their recommendations, but there is no attempt to assess adherence to the advice given. Principles and certification schemes, on the other hand, use a range of different techniques to encourage and assess compliance, as well as sanction non-compliance.

- Self-assessments and public de-listing: Most corporate social responsibility initiatives do not independently monitor or measure

the adherence of companies to the principles or standards that they espouse. This includes the UN Global Compact, the Global Social Compliance Programme and the UN Principles for Responsible Investment. Rather, compliance is assessed and reported entirely by the companies themselves (or with the assistance of an external auditor, but this is at the company's discretion). If a company fails to comply with the reporting standards, or is found to be in breach of the principles, the sanctions generally involve little more than a removal from the initiative's website.

- **Monitoring mechanisms and external audits:** In other initiatives, the assessment of compliance involves external auditors. In some cases, independent audits are only required in specific cases. For instance, the Equator Principles only require the financial institutions that sign up to the scheme to hire an independent social or environmental expert to audit self-assessments for projects with potentially significant adverse impacts.[14] Other initiatives go further. The OECD Guidelines for Multinational Enterprises, for example, use a system of National Contact Points (NCPs) to assist companies with compliance issues, as well as investigate and assist in resolving breaches of the Guidelines when they arise. Even more robust and independent external examinations are at the heart of the Extractive Industries Transparency Initiative, which depends on a system of independent auditors and "validators" to monitor compliance. In order to be a robust and credible framework, RAI principles initiatives should incorporate some form of independent external validation, as well as clear mechanisms – where appropriate – to sanction companies failing to comply with the principles.

- **Certification systems:** For certification schemes, the whole integrity of the label – and the ability to market products under it – depends on annual independent assessments (carried out by trained auditors), which are in turn rigorously evaluated by independent certification committees. Fairtrade and the Rainforest Alliance represent examples of robust certification schemes. RAI principles should draw on the detailed practical guidance offered by such schemes, which have developed extensive measures and indicators to assess corporate behaviour in the agricultural sector.

[14] See Principle 7: independent review of Equator Principles (2006).

- Using human rights mechanisms: A number of the initiatives make explicit reference to the need for companies and governments to respect human rights. All States parties to the various UN human rights treaties are periodically reviewed by specialist Committees composed of independent human rights experts. The Committees use submissions from the State party itself, as well as civil society, to assess the implementation of specific human rights treaties. Violations or threats to human rights caused by States or companies in relation to agricultural investments could be raised in these forums. The human rights consequences of palm oil plantations in Indonesia have, for instance, been raised at the Committee on the Elimination of Racial Discrimination (CERD), with strong responses from Committee members. Once the review process is complete, the Committees produce Concluding Observations, mandating States parties to address any threats or abuses to human rights. Concluding Observations are particularly useful advocacy tools and have led to policy changes in a number of countries.

  Another option in cases of specific or systematic human rights violations by a company or State in the agricultural sector is to raise the issue with one of the Special Rapporteurs of the UN Human Rights Council. These independent human rights experts are mandated to address particular themes – transnational corporations, the right to food, the right to housing, the human rights of indigenous peoples etc. – or the human rights situation in particular countries. When Special Rapporteurs receive information on specific allegations of human rights abuse, they can send urgent appeals to governments, requiring clarification, as well as assess the situation themselves through country visits. Again, both the actions of and documents produced by Special Rapporteurs are highly useful advocacy tools that can be used to affect change in the behaviour of companies and governments.

2.4 Effectiveness

Ultimately, attempts to promote responsible investment in agriculture will depend on the effectiveness of the initiative(s) developed. What defines effectiveness and how successfully do existing initiatives influence corporate and government behaviour? At present, it is very difficult to come up with definite conclusions. While there is a

growing body of literature analyzing how corporate guidance schemes work on the ground, more work in this area is essential in order to make accountability initiatives more robust and affect genuine change in corporate behaviour. Notable efforts in this regard to date include OECD Watch,[15] an international network of civil society organizations that work to assess the effectiveness of the OECD's *Guidelines for Multinational Enterprises* and *Eye on EITI*[16]*,* a report compiling civil society perspectives and recommendations for the Extractive Industry Transparency Initiative (EITI).

3. Analysis of how RAI principles can draw upon best practices in existing initiatives

Existing initiatives provide a valuable range of ideas which can be drawn upon in elaborating and refining the concept of RAI principles. The following section takes a number of thematic issues relevant to RAI principles to indicate *some* of the lessons which can be learnt and applied from contemporary frameworks.

3.1 Land and resource rights of existing users

There are a number of guidelines that provide advice to States and investors regarding land and associated resource rights. These include the FAO Voluntary Guidelines on Land[17] and the *Framework and Guidelines on Land Policy in Africa*.[18] In order for rights to land and associated natural resources to be recognized and respected, both these instruments highlight the need for States to:

a) Expand and strengthen tenure systems, particularly to provide adequate legal protection to customary users and collective land rights systems. This involves implementing low cost, decentralized tenure registration systems, as well as prioritizing the tenure rights of marginalized and vulnerable populations, such as women and indigenous peoples.

[15] OECD Watch, http://oecdwatch.org/ (accessed 1 June 2012).
[16] Publish What You Pay and Revenue Watch Institute (2006).
[17] FAO (2012).
[18] African Union Commission-UN Economic Commission for Africa-African Development Bank Consortium (2010).

b) Decentralize land and natural resource management systems to ensure that local communities have decision-making power over the areas in which they live. Such systems should draw on local land tenure and resource management practices.

c) Implement transparent land transfer mechanisms. This includes ensuring that the processes for granting an agricultural concession are clearly defined and publicized and that each stage is subject to public scrutiny (from the initial vetting of the investor, the community consultation procedures, to the transfer of land rights, where applicable). Transparency is particularly crucial at the initial stages of decision-making regarding an agricultural investment, and can help ensure that potentially negative investments are not implemented in the first place.[19] A recent report by Global Witness, the International Land Coalition and the Oakland Institute deals specifically with improving decision-making processes for large-scale land acquisitions and provides detailed recommendations for governments, investors and civil society.[20]

While it is widely recognized that expanding tenure rights is a critical step for ensuring access to land and associated natural resources, discussions relating to RAI principles need to address the fact that most poor rural populations do not have legally recognized tenure. Given this situation, the FAO Voluntary Guidelines on Land underscores the importance of "[taking] reasonable measures to identify, record and respect legitimate tenure right holders and their rights, whether formally recorded or not".[21] In other words, when considering an agricultural investment, States and investors must regard all existing users and claimants of land "as having a moral right of possession, regardless of the formal legal status of their claims".[22] For indigenous communities, these recommendations can be cross-referenced with the relevant provisions on the significance of access to land for indigenous populations in the *ILO Convention Concerning*

[19] Anseeuw et al. (2012).

[20] Global Witness, the International Land Coalition (ILC) and the Oakland Institute (2012).

[21] FAO (2012).

[22] Anseeuw et al. (2012).

Indigenous and Tribal Peoples in Independent Countries (Convention 169)[23] and the *UN Declaration on the Rights of Indigenous Peoples*.[24]

3.2 Expropriation, evictions and compensation

Guidance on expropriation, evictions and compensation can be found in the *Basic Principles and Guidelines on Development-Based Evictions and Displacement* by the UN Special Rapporteur on the right to adequate housing.[25] This document outlines the resettlement, rehabilitation and compensation procedures required to ensure that human rights are not violated through eviction. Fair compensation must ensure that previous living standards are at least maintained, if not improved. The *Performance Standards on Environmental and Social Sustainability* by the International Finance Corporation (IFC) [26] details some of the requirements regarding resettlement and compensation. Of relevance for RAI principles, the Performance Standards also outline private sector responsibilities in cases of government-managed resettlement, as well as steps companies must undertake if land acquisitions cause physical or economic displacement.

Other initiatives supply complementary and alternative approaches. All highlight the need for adequate and accessible redress mechanisms to ensure that those who feel their human rights may be or have been violated through resettlement and compensation processes have access to remedy (for further discussion on remediation measures, see below).

3.3 Local and national food security

The *Voluntary Guidelines to Support the Progressive Realization of the Right to Food in the Context of National Food Security* by FAO (hereafter referred to as "the FAO Voluntary Guidelines on Food")[27] emphasizes the need to ensure that all economic development policies

[23] ILO (1989). See, for example, Articles 13 to 19.

[24] United Nations (2008). See, for example, Paragraph 2 (b), Articles 10, 25, 26 and 32.

[25] See "Annex 1: Basic principles and guidelines on development-based evictions and displacement" of the Report of the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, A/HRC/4/18, 5 February 2007.

[26] IFC (2012).

[27] FAO (2004).

support the right to food – this encompasses agricultural investment strategies. States should carefully consider the agricultural development models that they follow in order to avoid detrimental impacts on the right to food, particularly for vulnerable groups. This involves assessing, *inter alia*, whether projects involving monoculture agriculture, biofuels and/or crops for export are compatible with their right to food obligations. The UN Global Compact publication *Food sustainability: a Guide to Private Sector Action* provides useful advice to companies seeking to align their investment policies with food security concerns.[28] Issues to consider for ensuring that investments do not have negative implications for food security include:

Access to land

The FAO Voluntary Guidelines on Food emphasize the importance of maintaining and improving access to land and associated natural resources, including water, for ensuring food security. Indeed, for the vast majority of the world's hungry, access to land is a condition for the achievement of a decent standard of living and the realisation of the right to food.[29] For RAI principles this suggests that concerted efforts should be made to promote investment strategies that do not involve the transfer of land away from rural communities.

Smallholders

Given the importance of smallholder farmers in promoting local, national and global food security, a number of recent reports emphasize that investment in agriculture should focus on smallholders.[30] For States and investors, this could involve investing in infrastructure to improve access to markets (such as roads and storage facilities), supporting the organization of farmers into collectives so that they are better able to enter value chains and access market information, as well as prioritizing investment models that involve collaborating with local farmers, such as joint ventures (between companies and farmer-controlled entities).

[28] United Nations Global Compact (2008).

[29] The land-food nexus is further elaborated in the report of the UN Special Rapporteur on the right to food, A/65/281.

[30] See, for instance, the report of the Special Rapporteur on the right to food, A/HRC/13/33/Add.2, "Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge"; Anseeuw et al. (2012); High Level Panel of Experts on Food Security and Nutrition (2011).

Labour intensity and "living wages"

In cases where agricultural investments do involve large estate farms, the UN Special Rapporteur on the right to food [31] asserts the need to ensure that investments "contribute to the fullest extent possible to reinforcing local livelihood options and in particular provide access to a living wage for the local population affected, which is a key component of the right to food." In other words, in order to promote local food security, large-scale agricultural investments should support a range of off-farm jobs and ensure that all employees are provided with a living wage, which enables them to provide an adequate standard of living themselves and their families.

Environmentally sustainable farming methods

For national food security to be realized, the FAO Voluntary Guidelines on Food[32] and other similar initiatives assert the need for ecologically sustainable agricultural systems that promote, *inter alia*, sustainable food production for present and future generations, biodiversity and soil conservation. One of the key issues for RAI principles to consider is whether and how to promote agricultural investments that do not depend on monocultures, given the importance of genetic diversity to food security.[33]

3.4 Transparency

Considerations on improving transparency for land transfers and investment contracts are discussed in the section above on land and resource rights of existing users above. Other issues for RAI principles to consider relating to transparency include:

Access to information

The *IFC Performance Standards* and the *OECD Guidelines for Multinational Enterprises* both provide guidance to companies regarding the disclosure of information. This includes advice on what to

[31] Report of the Special Rapporteur on the right to food, A/HRC/13/33/Add.2. "Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge".

[32] FAO (2004)

[33] Report of the Special Rapporteur on the right to food, A/HRC/16/49. "Agro-ecology and the right to food".

disclose[34] and who to disclose it to (including affected communities and relevant government officials). Both documents stress that disclosure of information should occur regularly – through meetings with all affected stakeholders, announcements in the media etc. – and that investors must take into account the situation of remote or isolated and non-literate communities, and any poor and marginalised groups. In other words, information should be provided in language(s) and forms appropriate for the communities and regions affected.

While both initiatives stress that such disclosure should be "timely," RAI principles could go further than this by stipulating the need for disclosure at the earliest possible stage, when a range of options are still available regarding a proposed investment. In terms of ensuring that all potentially affected communities and governments are provided with the full range of information to enable them to make informed decisions regarding an investment, it is possible to draw on the work of various organizations who aim to improve consultation procedures – many of which provide detailed disclosure of information checklists.[35]

Corruption, tax and incentive transparency

The Extractive Industries Transparency Initiative (EITI) is instructive here. It requires the "regular publication of all material oil, gas and mining payments by companies to governments and all material revenues received by governments from oil, gas and mining companies to a wide audience in a publicly accessible, comprehensive and comprehensible manner".[36] These disclosures are subject to independent audits which assess credibility and discrepancies. Civil society is integral to monitoring and evaluating this process. Such a model could be usefully transferred to many industries, including agricultural investments, to ensure that a) government incentives to investors are appropriate, b) tax payments by agricultural companies are timely and adequate, and c) tax revenues are used for the benefit of local communities.

[34] For example, IFC(2010) stipulate (i) the purpose, nature, and scale of the project; (ii) the duration of proposed project activities; (iii) any risks to and potential impacts on affected communities and relevant mitigation measures; (iv) the envisaged stakeholder engagement process; and (v) the grievance mechanism.

[35] See, for example, Weitzner (2011).

[36] Extractive Industries Transparency Initiative, The EITI principles and criteria (webpage), http://eiti.org/eiti/principles (accessed 1 June 2012).

On the issue of bribery, the OECD Guidelines for Multinational Enterprises stipulates, "[e]nterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage".[37] However, rather than focussing on bribery alone, RAI principles should consider incorporating a broader approach to corruption, as espoused by the UN Convention Against Corruption.[38] RAI principles will need to consider elaborating anti-corruption provisions that target both company management and government officials (at local and national levels).

3.5 Creating a business and investment environment that supports the rural poor

Creating a legal and regulatory environment that attracts private sector investment *and* is conducive to the realization of pro-poor development goals is a major challenge for governments all over the world. While many documents, such as the OECD Policy Framework for Investment[39] and its Principles of Corporate Governance,[40] provide detailed guidance to governments seeking to create an attractive investment climate, it is important to ensure that such decisions support sustainable and inclusive development. In this regard, UNCTAD's Investment Policy Framework for Sustainable Development (IPFSD) serves as a useful reference for operationalizing sustainable development in concrete measures at the national and international level, both in policymaking and implementation. Governments wishing to align their country's business, legal and regulatory environment with their legally binding human rights obligations, including in agriculture, could start by consulting, the IPFSD, the FAO Legal Framework Analysis for Rural and Agricultural Investment Projects: Concepts and

[37] OECD (2011).

[38] United Nations Office on Drugs and Crime (2004).

[39] For more information, see OECD policy framework for investment (webpage), www.oecd.org/document/61/0,3746,en_2649_34893_33696253_1_1_1_1,00.html (accessed 4 June 2012).

[40] For more information, see OECD principles of corporate governance (webpage), www.oecd.org/document/49/0,3746,en_2649_34813_31530865_1_1_1_1,00.html (accessed 4 June 2012).

Guidelines[41] and the Special Representative of the Secretary-General's Guiding principles on business and human rights.[42]

3.6 Access to remedy

All initiatives aiming to guide responsible corporate behaviour and/or good agricultural practices emphasize the importance of grievance and redress mechanisms. However, given that judicial systems are financially, physically or linguistically inaccessible for poor and marginalized populations, providing access to justice is a major challenge in all countries. The *Guiding Principles on Business and Human Rights* offers a good place to start regarding the design of human rights-consistent judicial and non-judicial redress mechanisms.[43] Among other issues, the *Guiding Principles on Business and Human Rights* advise companies to establish operational-level grievance mechanisms to make it possible for grievances related to a business operation to be addressed early and remediated directly.

3.7 Consultation processes

Embedding agricultural investments in local visions of development

As highlighted in a number of recent reports on the rise of large-scale agricultural investments, it is critically important that governments initiate broad public debates at local and national levels, with the aim of establishing inclusive agricultural development strategies that prioritize the views of existing land users and rural populations.[44] RAI principles should go beyond existing initiatives by emphasizing the need for agricultural and rural development polices to be based on the vision of local communities. This recommendation follows the principles of international human rights law.[45] Policy-makers could usefully draw

[41] FAO Development Law Service (2000).

[42] Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, A/HRC/17/31, "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework".

[43] Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, A/HRC/17/31.

[44] Anseeuw (2012); High Level Panel of Experts on Food Security and Nutrition (2011).

[45] See, for example, OHCHR (1966), Article 25; ILO (1989); and UN (1986).

on the wealth of FAO publications which outline ways to promote participatory and negotiated rural development plans.[46]

Free, prior and informed consent procedures which result in enforceable agreements

Initiatives promoting responsible investment frequently include requirements for investors to undertake consultations with local communities, but often lack specific criteria and benchmarks for investors. The principles of free, prior and informed consent (FPIC) are increasingly accepted as the minimum standard for community consultations, especially when dealing with indigenous populations.[47] FPIC requirements have been elaborated in a number of treaties relating to the environment (e.g. the Convention on Biodiversity Bonn Guidelines on Access to Genetic Resources and Fair and Equitable Sharing of the Benefits Arising out of their Utilization[48]) and indigenous peoples (e.g. the UN Declaration on the Rights of Indigenous Peoples[49]). In addition, the IFC has included FPIC requirements in the updated version of the *Performance Standards*. However, what FPIC means in practice remains a matter of much debate and very few governments or companies have experience with such processes. [50] Given this situation, RAI principles should:

- Draw on the on-going work, particularly by civil society[51] and the UN Permanent Forum on Indigenous Issues,[52] to define and clarify FPIC.
- Take into consideration the capacity building mechanisms necessary in order to enhance the ability of governments, companies and affected local communities to undertake and participate in FPIC consultation processes. [53]

46 FAO (2005).
47 Herbertsen (2011).
48 Convention on Biodiversity (2002).
49 United Nations (2008).
50 Herbertsen (2011); Weitzner (2011).
51 See, for example, Weitzner (2011).
52 See especially Tamang (2005).
53 Weitzner (2011).

RAI principles initiatives have the potential to lead the way in agriculture by building on the IFC Performance Standards in three key ways:

- By stipulating the need for investors to obtain the FPIC of all communities affected by an agricultural investment, not just indigenous peoples.

- By requiring that the investor maintain the FPIC of affected communities throughout the life of an investment. This would involve specifying the variety of points in the life of project where such consultation procedures should be carried out (e.g. prior to any modifications to the project) and including provisions allowing communities to withhold their consent if terms of agreements are violated.[54]

- By specifying that FPIC must be "reached through an independent and self-determined decision-making process" in accordance with the cultural traditions and practices of the communities affected.[55] In other words, in order to avoid either the investor or the State affecting the consultation for their benefit, communities themselves must have control over FPIC procedures.

RAI principles should also consider including specific measures to ensure that agreements stemming from community consultations are recognized and upheld such as:

- Establishing an independent oversight of these processes by a third party recognized and accepted by all those involved.

- Recording all of the conditions discussed in the consultation process and including them in the agreement so that it has detailed contractual provisions outlining the commitments of the investor (and the community), against which actions can be measured.

- Legislating laws and policies to protect against the violation of contracts agreed to through consultation processes.[56]

[54] Herbertsen (2011).
[55] ibid.
[56] Adopted from Weitzner (2011).

3.8 Investor adherence to human rights and ethical business practice

Human rights

Companies should respect the human rights of all people wherever they operate. They must also take care not to cause or contribute to human rights abuses through their business relationships. At a minimum, this requires that businesses ensure their immediate suppliers and immediate buyers are not complicit in human rights abuses. These responsibilities exist independently of the host States' human rights record. With regards to large-scale agricultural investments, the Minimum Principles by the UN Special Rapporteur on the Right to Food[57] provides the most detailed guidance to date on what human rights compliance on large-scale agricultural investments must include (for both investors and host States). Guidance for companies and governments seeking to ensure their business practices and policies are human rights-consistent can also be found in the Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, *Guiding Principles on Business and Human Rights: Implementing the "Protect, Respect and Remedy" Framework* (hereafter referred to as "the Guiding Principles on Business and Human Rights").[58] Although widely accepted – and integrated into the UN Global Compact and the OECD Guidelines for Multinational Enterprises – many lawyers and civil society organizations have argued that, while the Guiding Principles represent a good starting point, much more work is needed in this area for companies are to become truly accountable for the impacts on human rights.[59] Ultimately, corporate compliance with human rights is dependent on political will and enforcement capacity in home and host States. With this in mind, RAI principles should include specific provisions:

[57] Report of the Special Rapporteur on the right to food, A/HRC/13/33/Add.2.

[58] Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, A/HRC/17/31.

[59] Joint Civil Society Statement to the 17th Session of the Human Rights Council. Available at: http://www.hrw.org/news/2011/05/30/joint-civil-society-statement-17th-session-human-rights-council (accessed 12 June 2012).

- Reminding national governments of their legally binding obligations to ensure that corporations do not threaten the human rights of their citizens

- Encouraging States to outline and implement measurable steps to improve their ability to monitor and regulate businesses acting within or from their territory.

Globally recognized standards for agricultural products and processes

RAI principles may wish to consider building on the social, environmental and product standards developed by a multitude of agricultural certification schemes. These include:

- **Fairtrade** is internationally recognized as one of the most successful agricultural initiatives to date. Fairtrade addresses the whole supply chain for registered producers and buyers, outlining minimum working conditions for both hired labour and contract production as well as product standards for hired labour and small producer organizations. [60] There are also Fairtrade standards for specific products, such as fresh vegetables, honey and coffee.

- A number of initiatives cover the supply chain for specific crops, stipulating requirements regarding product quality and working conditions, as well as social and environmental considerations. These include the **Roundtable on Sustainable Palm Oil** (RSPO)[61], the **Roundtable on Sustainable Biofuels** (RSB),[62] the **Ethical Tea Partnership**[63] and the **Roundtable on Responsible Soy Association** (RTRS).[64]

- As a "pre-farm-gate standard" the **GLOBALG.A.P.** certifies all on-farm production processes, from feed and seedlings to the final product

[60] Fairtrade International, Our standards (webpage), www.fairtrade.net/our_standards.html?&L=0 (accessed 4 June 2012).

[61] Roundtable on Sustainable Palm Oil, Homepage (webpage), http://www.rspo.org/ (accessed 4 June 2012).

[62] Roundtable on Sustainable Biofuels, Homepage (webpage), http://rsb.epfl.ch/ (accessed 12 June 2012).

[63] Ethical Tea Partnership, Homepage (webpage), http://www.ethicalteapartnership.org/ (accessed 4 June 2012).

[64] Round Table on Responsible Soy Association, Homepage (webpage), http://www.responsiblesoy.org/ (accessed 4 June 2012).

(as it is when it leaves the farm).[65] GLOBALG.AP. aims to become an internationally recognized minimum standard ensuring that certain environmental and social conditions have been met during production.

Working conditions

The *ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*[66] was one of the first international instruments to specifically address transnational corporate behaviour. It remains a useful tool for governments, multinational enterprises, employers' and workers' organizations on issues such as employment, training, working conditions and industrial relations. The MNE Declaration today also incorporates the ILO Declaration on Fundamental Principles and Rights at Work.[67] For investors, the International Organisation of Employers (IOE) Employer's Guide provides comprehensive advice on implementing the MNE Declaration.[68]

RAI principles should also make reference to the various ILO standards guaranteeing the rights of agricultural workers,[69] which States should ratify and implement, and investors in turn abide by. Among the issues most important to clarify regarding agricultural workers is the provision of a "living wage" (that enables workers to earn an adequate standard of living for themselves and their families)[70] and effective coverage through social security schemes. To ensure that the rights of agricultural workers are upheld, States must, *inter alia*, devote appropriate resources for monitoring investments in agriculture, as mandated by the ILO Labour Inspection Convention.[71]

[65] GLOBALG.A.P., Homepage (webpage), http://www.globalgap.org/ (accessed 4 June 2012).

[66] ILO (2006).

[67] ILO (1998).

[68] International Organization of Employers (2004).

[69] Such as ILO Convention No. 99 (1851) on Minimum Wage Fixing Machinery in Agriculture; Convention No. 129 (1969) on Labour Inspection in Agriculture; Convention No. 184 (2001) on Safety and Health in Agriculture; Convention No. 110 (1958) on Conditions of Employment of Plantation Workers; and Convention No. 141 (1975) on Organisations of Rural Workers and Their Role in Economic and Social Development.

[70] Report of the Special Rapporteur on the right to food, A/HRC/13/33.

[71] ILO (1947) Labour Inspection Convention. Available at: http://www.ilo.org/ilolex/cgi-lex/convde.pl?C081 (accessed 4 June 2012).

The Fairtrade Standards also include detailed recommendations regarding working conditions. Fairtrade requires member organizations to bring social rights and security to their workers.[72] Some of the core elements include: training opportunities, non-discriminatory employment practices, no child labour, no forced labour, access to collective bargaining processes and freedom of association of the workforce, providing salaries above the minimum wage and adequate occupational safety and health conditions (sufficient to avoid workplace related accidents).

Health and safety

There are a variety of initiatives addressing health and safety issues in the agricultural sector. These include the *ILO Safety and Health in Agriculture Convention*,[73] the *ILO Code of Practice on Safety and Health in Agriculture*[74] and the *Environmental, Health, and Safety Guidelines* (which provides agriculture-specific advice regarding plantation crop production and annual crop production) by the IFC.[75] These are complemented by various treaties and standards which aim to regulate the use of pesticides – such as the *International Code of Conduct on the Distribution and Use of Pesticides* of FAO.[76]

Quality standards

Quality standards required in contract farming operations may be very difficult for smallholders to comply with because they lack the capital and/or technical know-how required to fulfil them. The Fairtrade Standard for Contract Production provides one example of how to address this issue. The Standard requires businesses in partnership with smallholders to provide a financial advance on contracts if producers request it.[77] Fairtrade also provides guidance for small producer organizations seeking to create more beneficial partnerships

[72] Fairtrade International, Standards for hired labour (webpage), http://www.fairtrade.net/944.html (accessed 4 June 2012).

[73] ILO (2001) *Safety and Health in Agriculture Convention*. Available at: http://www.ilo.org/ilolex/cgi-lex/convde.pl?C184 (accessed 12 June 2012).

[74] ILO (2010).

[75] IFC, Environmental, Health and Safety Guidelines (webpage) www.ifc.org/ehsguidelines (accessed 4 June 2012).

[76] FAO (2003).

[77] Fairtrade International (2011a).

with buyers.[78] Similarly, the Ethical Trading Initiative (ETI) Smallholder Guidelines seek to provide guidance on how retailers, purchasers, smallholders and others can take action to help improve the working conditions of small scale farmers.[79] In order to ensure that smallholders are able to comply with quality standards, the GLOBALG.A.P. has gone further, launching an initiative to involve smallholders in the elaboration and development of standards. This includes a feedback mechanism through which smallholders can indicate challenges they face relating to the quality standards and affect changes to the certification scheme.[80]

Avoidance of anti-competitive practices

The need for companies to avoid anti-competitive practices is stipulated in a number of initiatives, including the OECD Guidelines for Multinational Enterprises.[81] A useful outline of the issues governments need to consider when developing competition laws for food supply chains can be found in the UN Special Rapporteur on the right to food's report on Agribusinesses and the right to food.[82] He asserts the importance of adopting measures that protect both consumers and suppliers, and prevent smallholders being manipulated by excessively powerful buyers.

3.9 Mechanisms to help ensure broad social benefits for local communities

Robust measures to assess and monitor agricultural investments

In order to ensure that investments do not have negative social consequences, governments must thoroughly vet investors and proposed investment projects at the earliest opportunity, long before any definitive decisions about an investment are made. The viability of projects should be assessed against the development vision of local communities and agreed national agricultural development frameworks. A number of initiatives propose that governments and investors should

[78] Fairtrade International (2011b).

[79] Ethical Trading Initiative (2005).

[80] GLOBALG.A.P., Smallholder involvement (webpage), http://www.globalgap.org/cms/front_content.php?idcat=70 (accessed 4 June 2012).

[81] OECD (2011).

[82] Report of the Special Rapporteur on the right to food, A/HRC/13/33.

determine whether a project is viable through robust environmental, social or human rights impact assessments. This approach is advocated by the FAO Voluntary Guidelines on Food, IFC Performance Standards and the Roundtable on Sustainable Biofuels, among others. However, initiatives can be vague of about what prior assessments should entail, the Equator Principles being a good example of this. There is much ongoing work to help define parameters of comprehensive impact assessments. For instance, a recent report by the UN Special Rapporteur on the Right to Food, Guiding Principles on Human Rights Impact Assessments of Trade and Investment Agreements, offers excellent recommendations.[83] Step-by-step assistance for evaluating the human rights impacts of foreign investments has also been elaborated by Rights & Democracy, in their *Getting it Right: Human Rights Impact Assessment Guide*.[84] Other sources that contain useful tools regarding impact assessments include the Business and Human Rights Resource Centre[85] and the Human Rights Impact Resource Centre.[86] Finally, the Akwé: Kon Guidelines[87] of the Convention on Biodiversity also provide detailed advice for conducting cultural, environmental and social impact assessments in areas inhabited by indigenous communities.

Prior impact assessments must evaluate the potential effects of an agricultural investment on all aspects of social life – from living standards to the ability to participate in cultural activities. In this regard, the IFC Performance Standards is one of the few initiatives that explicitly mention the need to consider the effects of a project on the cultural heritage of indigenous peoples. However, cultural heritage is narrowly defined by the IFC, especially concerning intangible cultural heritage.[88] RAI principles can expand on this by proposing that governments and companies consider all tangible and intangible forms of cultural heritage of all communities (not just indigenous peoples)

[83] Report of the Special Rapporteur on the right to food, A/HRC/19/59/Add.5..

[84] Rights & Democracy, Getting it right: human rights impact assessment guide (webpage), http://www.dd-rd.ca/hria/en/ (accessed 4 June 2012).

[85] Business and Human Rights Resource Centre, Impact assessment (webpage), http://www.business-humanrights.org/ToolsGuidancePortal/Impactassessment (accessed 4 June 2012).

[86] Human Rights Impact Resource Centre, Homepage (webpage), http://www.humanrightsimpact.org/ (accessed 4 June 2012).

[87] Convention on Biological Diversity (2004).

[88] International Finance Corporation (2012).

potentially affected by an investment in their prior impact assessments. A further consideration for RAI principles is that impact assessments must pay particular attention to marginalized populations, such as women, indigenous peoples and ethnic minorities. The need for special attention to vulnerable groups is emphasized by a number of initiatives, including the FAO Voluntary Guidelines on Land.

Monitoring

Impact assessments should be repeated at specified intervals and coupled with monitoring mechanisms, defined in advance of project implementation, that evaluate the social and environmental consequences of investments over time. In this regard, the Land Policy Initiative Framework and Guidelines on Land Policy in Africa[89] provides a number of concrete suggestions for decentralized and community-based monitoring systems that can help track the implementation of agricultural investment projects. A recent report by the FAO Investment Centre (in cooperation with the World Bank) on the use of monitoring and evaluation in agriculture and rural development projects[90] also includes helpful policy recommendations for improving monitoring strategies.

Benefit-sharing arrangements

Many agricultural investments have been agreed to on the basis of promises of job creation, infrastructure improvement and community development. However, these promises are often vague and not included in the final contracts. Employment benefits frequently do not materialize or are low-paid and insecure.[91] All investment contracts should include specific provisions outlining benefit sharing arrangements against which investors can be held to account. In addition, as mentioned by the Committee on Food Security High

[89] African Union Commission-UN Economic Commission for Africa-African Development Bank Consortium (2010).

[90] Muller–Praefcke, Dieter (2010) The use of monitoring and evaluation in agriculture and rural development projects: findings from a review of implementation completion reports. Food and Agriculture Organization Investment Centre Division. Available at: http://www.fao.org/docrep/013/am292e/am292e00.pdf (accessed 4 June 2012).

[91] Deininger et al. (2011), Anseeuw et al. (2012) and High Level Panel of Experts on Food Security and Nutrition (2011).

Level Panel of Expert's Land tenure and international investments in agriculture report, "investment contracts should always provide a clause allowing government (on behalf of local communities) to cancel lease agreements or contracts when they fail to comply with agreed terms."[92] In order for benefit sharing arrangements to be upheld, States also need to assess the implementation and enforcement capacity of the various agencies whose participation is needed to hold investors to account *vis-à-vis* such arrangements. Benefit sharing arrangements should also include provisions regarding compensation mechanisms and access to remedy in all cases where negative social impacts have been caused.

In terms of ensuring that benefit sharing arrangements support the needs and visions of the communities they are intended to support, RAI principles could look to the participatory methods outlined in the Fairtrade Standard for Contract Production and Standard for Hired Labour.[93] Buyers of Fairtrade products are required to pay a Fairtrade Premium, in addition to the minimum price for agricultural products. Farmers or workers involved in growing the crops decide, in conjunction with management, how the premium is to be used to improve health, educational, environmental or other facilities for local communities.

Business models

No business model is a panacea – contract farming schemes, for example, still involve highly unequal power relations between investors and producers and often perpetuate the exclusion of outgrowers from decision-making structures.[94] While emphasizing the importance of context in influencing what may work, the International Institute for Environment and Development (IIED) has conducted a survey of business models that provide opportunities for smallholders,[95] while the UN Special Rapporteur on the Right to Food outlines a number of considerations that States and investors could address in order to make outgrower schemes more equitable.[96]

92 High Level Panel of Experts on Food Security and Nutrition (2011).
93 Fairtrade International (2011a).
94 Vermeulen, Sonja and Lorenzo Cotula (2010).
95 Ibid.
96 Report of the Special Rapporteur on the right to food, A/66/262.

Failure and exit

A sorely neglected issue in the existing framework of initiatives is that of failure (or exit by the initial investor). Of course, much unnecessary failure can be avoided through requiring robust vetting and assessment processes to ensure that socially detrimental deals and investments are not implemented in the first place. However, agriculture is a risky business and due consideration must be given to the possibility of failure. Laws, policies and contingency plans need to be in place to ensure that an investor's bankruptcy or abandonment of a project does not lead to disastrous consequences for entire communities. RAI principles should consider including concrete provisions relating to failure. These could include compensation procedures and safety nets that employees and affected persons will have access to, as well as steps to facilitate the takeover of the project by a more financially and commercially viable and credible investor.

3.10 Environmental sustainability

What is to be expected of investors in agriculture, beyond the obligation to obey domestic laws on environmental protection? From an environmental perspective, various reports stipulate the need for governments to prioritize agricultural investments that support sustainable smallholder agriculture and agro-ecological farming methods.[97] This is in line with the recommendations made by the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) landmark global report, *Agriculture at a Crossroads*.[98] Agricultural projects should be designed with reference to local knowledge and environmental management practices in order to develop and adapt site-specific technologies that can help maintain, create or restore fertile soils, increase water use efficiency, promote genetic diversity and reduce contamination from agrochemicals. It is also critical that all agricultural investment contracts include enforceable limits on water extraction (based on thorough, independent assessments of sustainable extraction rates

[97] Anseeuw et al. (2012); High Level Panel of Experts on Food Security and Nutrition (2011), especially Appendix 1: Basic agro-ecological principles. See also Report of the Special Rapporteur on the right to food, A/HRC/16/49.

[98] International Assessment of Agricultural Knowledge, Science and Technology for Development (2008).

and competing – local, downstream, future – demands for water).[99] In line with conventions such as the United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters,[100] it may also be of use for RAI PRINCIPLES to explicitly acknowledge the obligation that states and investors have in terms of preserving the environment for future generations.

There are a variety of environmental certification schemes which provide detailed advice to companies and producers wishing to pursue sustainable agricultural strategies. For example, the Rainforest Alliance Sustainable Agricultural Standard[101] outlines various environmental management programmes – such as integrated pest control, soil conservation, ecosystem and wildlife protection and water conservation – that farms must comply with in order to be certified by the scheme. The Rainforest Alliance also requires farms to reduce the use of agrochemicals, diminish greenhouse gas emissions and avoid planting genetically modified organisms. Each of these recommendations deserves consideration if on-going RAI principles discussions are to seriously address environmental sustainability.

Given the contribution of agriculture to climate change, it is critical that investors in this sector take specific steps to reduce greenhouse gas emissions and dependence on fossil fuels. Caring for Climate,[102] an initiative led by the UN Global Compact and the UN Environment Programme (UNEP), is a step in this direction which RAI principles should seek to go beyond.

Assessing and monitoring environmental effects

Prior and periodic environmental impact assessments (EIAs) are critical for ensuring that agricultural investments are designed and implemented in a manner that protects the environment. EIAs are required by many major global initiatives, including the IFC Performance Standards, the OECD Guidelines for Multinational Enterprises and

[99] Jägerskog et al. (2012).
[100] United Nations Economic Commission for Europe (1998).
[101] Sustainable Agricultural Network and the Rainforest Alliance (2010).
[102] United Nations Global Compact, Caring for climate (webpage), http://www.unglobalcompact.org/issues/environment/climate_change/ (accessed 4 June 2012).

the Roundtable on Sustainable Biofuels, to name a few. EIAs should measure any potential or actual effect of an agricultural investment on the environment. Issues to address include flora, fauna, biodiversity, soil, climate, air, water, landscape and natural sites. Provisions regarding who is to undertake EIAs, how they will include inputs from various stakeholders, how the results will be made available, what to assess and where, as well as how results will be verified must all be detailed by RAI principles.[103]

RAI principles could seek to incorporate the highest normative standard regarding environmental assessments by drawing on the UNECE Protocol on Strategic Environmental Assessment.[104] This convention mandates that a "strategic environmental assessment" (SEA) be carried out as early as possible in the decision-making process, when all alternatives remain open for consideration. While EIAs consider the environmental impacts of a particular project, a SEA enables governments and development planners to consider broader issues, such as "why, where and what form of development?"[105] would be most appropriate from an environmental sustainability perspective. A SEA incorporates human health into its analysis and also involves the evaluation of a reasonable range of alternatives, with priority given to the "best practicable environmental option."[106]

EIAs (or SEA) should go hand-in-hand with robust environmental monitoring and management systems that aim to continuously improve the environmental footprint of an investment through measurable targets. Monitoring systems must, like EIAs, be developed will specific benchmarks and methodological decisions made well in advance. Monitoring should lead to changes in project design and remediation measures wherever necessary. Monitoring by investors should be periodically checked and reviewed by governments. The Rainforest Alliance provides useful benchmarks and provisions regarding environmental monitoring systems.

[103] Bonvoisin et al. (2012).
[104] United Nations Economic Commission for Europe (2003).
[105] Bonvoisin et al. (2012).
[106] ibid.

4. Conclusions

This paper has focussed on the extant initiatives, be these principles, guidelines, certification schemes or indicators, which can be drawn upon in the ongoing dialogue on responsible agricultural investment, whether they were initially or primarily aimed at agriculture or not. For instance, initiatives – and their outcome – in, say, extractive industries are of value in considering similar issues related to investment in agriculture. The discussion has been framed in terms of utilizing existing initiatives in developing RAI principles, but inasmuch as principles are of necessity couched at a high level of abstraction, the analysis above also provides contingent guidance for their operationalization and implementation.

Although further research and analytical work is required, especially in the area of agriculture, taking cognisance of significant variance in for instance business models and agricultural sub-sectors, it is clear that existing initiatives on responsible investment already represent a wealth of knowledge. This can be drawn upon by governments, investors and other stakeholders, whether designing new strategies or policies, or considering specific or concrete ways to design-in responsibility into operations, activities or processes.

Appendix

Summary table of selected principles (P), guidelines (G), certification schemes (C) and indicators (I) relevant for responsible investment in agriculture

A. Principles:

Name of Principle	Date created	Type	Scope and Coverage		Compliance		Relevance for discussions on responsible agricultural investment
		P, G, C, I or other	Industry Specific	Target Users/ Audience	Self-assessment	External assessment	
Equator Principles	2003	P	Financial institutions	Financial institutions and the companies they lend to	Participating institutions must submit annual reports demonstrating steps taken to ensure the projects they finance meet social and environmental standards.	All projects with potentially significant adverse impacts must be independently audited.	> Participating institutions commit not to provide loans to projects where the borrower is unable to comply with specified social and environmental policies and procedures. > A model linking principles to funding may be of use to rai.
Extractive Industries Trans parency Initiative **(EITI)**	2003	P	Extractive industries (Oil, Gas, Mining)	Governments and companies in the extractive industries.		> Payments and revenues disclosed by companies and governments are reconciled by an independent auditor, who must investigate any discrepancies. > In addition, an external, independent validation procedure must be carried out every five years. Validator assesses EITI implementation through consultation with key stakeholders. Report is then reviewed by the EITI Board.	> Civil society is integral in the design, monitoring and evaluation of EITI implementation. > The EITI disclosure model could be usefully transferred to large-scale agricultural investments to ensure that a) government incentives to investors are appropriate, b) tax payments by agricultural companies are timely and adequate and c) tax revenues are used appropriately. > Important lessons for rai can be drawn from the audit and external validation processes.
International Finance Corporation (IFC) ***Performance Standards on Environmental and Social Sustainability***	Last up-date2012	P	No	Private and public clients of the IFC	Clients should establish internal monitoring and review mechanisms.	External experts should verify client's monitoring information for projects with significant impacts.	> Outlines free, prior and informed consent (FPIC) procedures that must be followed when a project may have *significant impacts on indigenous communities*. > One of the few initiatives that explicitly mentions cultural heritage. However, the definition of cultural heritage used by the IFC is quite narrow, particularly regarding intangible cultural heritage – in their Environmental and Social Management Systems, clients are only required to consider instances of intangible culture that are proposed to be used for commercial purposes. > Clients must regularly report to affected communities, describing progress with implementation of the project, as well as details regarding any issues that involve a risk or impact for them.

International Labour Organization (ILO) Conventions guaranteeing the rights of agricultural workers (various)	various	Legally binding for States Parties to the Conventions	Agriculture	Governments	Governments must report on the measures taken to implement the Conventions at regular intervals.	> Governments periodic submissions are reviewed through the ILO supervisory system > In addition, employers' and workers' organizations, as well as other member States, can submit representations or complaints against any State party who is found to be in breach of the Conventions.	Various relevant ILO Conventions include: > No. 99 (1851) on *Minimum Wage Fixing Machinery in Agriculture* > Convention No. 129 (1969) on *Labour Inspection in Agriculture* > Convention 184 (2001) on *Safety and Health in Agriculture* > Convention No. 110 (1958) on *Conditions of Employment of Plantation Workers* > Convention 141 (1975) on *Organizations of Rural Workers and Their Role in Economic and Social Development* > These Conventions should all be signed and ratified by States affected or involved in agricultural investments, consequently followed by companies in compliance with national law.
International Working Group of Sovereign Wealth Funds (IWG) *Generally Accepted Principles and Practices (GAPP) - Santiago Principles*	2008	P	No	Sovereign wealth funds (SWFs)	Yes		> May be of use when regulating SWFs involved in agricultural investments
Organization for Economic Co-operation and Development (OECD) *Guidelines for Multinational Enterprises*	1976, last update2011	P	No	Multinational enterprises	Participants should establish internal monitoring and review mechanisms.	> Distinct implementation mechanism, National Contact Points (NCPs), i.e. government appointed officials mandated to promote the *Guidelines* and assist in resolving issues related to implementation as they arise. > In cases where the *Guidelines* have allegedly been breached, NGOs and trade unions can submit evidence relating to a company's non-compliance to NCPs, who must then assess the issue and assist in securing its resolution	> NCPs and civil society/trade union participation offer an interesting implementation and monitoring model for rai. > Integrates Ruggie's *Guiding Principles on Business and Human Rights*; provides material enabling companies to ensure that their policies, practices and business relationships are human rights-consistent. Extensive guidance for companies on: > Anti-competitive practices that must be avoided. > EIAs and robust environmental monitoring and management systems. > Countering bribery. UN Convention Against Corruption outlines the need to counter broader acts of corruption. > Timely disclosure of information, taking into account the rights of remote, isolated or non-literate communities to access information about any business policies that affect them.

UN Economic Commission for Europe (UNECE) ***Protocol on Strategic Environmental Assessment***	2003	Legally binding for the States Parties to the Protocol	No	Governments		> Other States parties and NGOs can submit information regarding their concerns about another country's compliance with its obligations under the Protocol. > These submissions are then assessed by the Implementation Committee, which consists of 8 members nominated by States Parties to the Protocol.	> The Strategic Environmental Assessment (SEA) goes beyond EIAs. While EIAs consider the environmental impacts of a particular project, SEA enables governments and development planners to consider broader issues, such as "why, where and what form of development" would be most appropriate from an environmental sustainability perspective? > SEA involves the evaluation of a reasonable range of alternatives, with priority given to the "best practicable environmental option."
UN *Global Compact*	2000	P	No	Companies	A *Communication of Progress* (COP) must be posted on the *Global Compact*'s website annually and shared with a variety of stakeholders, including investors, consumers, civil society and government.		> Recognizes importance of disclosing progress to a variety of stakeholders. > Integrates Ruggie's *Guiding Principles on Business and Human Rights*; provides material enabling companies to ensure that their policies, practices and business relationships are human rights-consistent. Useful tools for implementing and communicating social and environmental principles, include: > *Corporate Water Accounting: An Analysis of Methods and Tools for Measuring Water Use and its Impacts* > *Food Sustainability: A guide to private sector action* > *Carbon Disclosure Project* and the *Caring for Climate* initiative
UN *Principles for Responsible Investment (UN PRI)*	2006	P	No	Asset owners, investment managers and professional service partners	All members must report annually using a set of standardised indicators.		
UN Principles for Responsible Investment (UN PRI) ***Principles for Responsible Investment in Farmland***	2011	P	Agriculture	Institutional investors	Yes		
World Bank Group ***Environmental, Health, and Safety Guidelines***	2007	P	No	World Bank Group (used as a standard by others)			> Includes a number of specific guidelines on Agribusiness/ Food Production, such as plantation crop production, poultry production etc.

B. Guidelines:

Name of Guidelines	Date created	Type	Scope and Coverage		Compliance		Relevance for discussions on responsible agricultural investment
		P, G, C, I or other	Industry Specific	Target Users/ Audience	Self-assessment	External assessment	
African Union Commission, the UN Economic Commission for Africa and the African Development Bank ***Framework and Guidelines on Land Policy in Africa***	2010	G	Agriculture	Governments, companies and donors			> Emphasizes the importance of developing land policies in a manner that is inclusive and responsive to the needs of all land users. > Concrete suggestions for decentralized and community-based monitoring systems that can help track the implementation of agricultural investment projects. > Outlines the need to expand and strengthen tenure systems, particularly to provide adequate legal protection to customary users and collective land rights systems. > Useful publications for rai, including regional studies.
Committee on World Food Security (CFS) High Level Panel of Experts on Food Security and Nutrition ***Land tenure and international investments in agriculture***	2011	G	Agriculture	Governments, businesses, civil society			> Overview report examining the drivers and impacts of large-scale land investments. > Outlines international and national instruments and policy measures that may be of use for regulating such investments. > Policy recommendations include that home States must take steps to regulate investors registered in their territory, for example through establishing a mechanism that enables people in the host country to hold the company to account for its actions.
Convention on Biodiversity (CBD) ***Akwé: Kon Guidelines***	2004	G	No	Governments			> Authoritative guidance regarding the conduct of cultural, environmental and social impact assessments in areas inhabited by indigenous communities.
Convention on Biodiversity (CBD) ***Bonn Guidelines on Access to Genetic Resources and Fair and Equitable Sharing of the Benefits Arising out of their Utilization***	2002	G	No	Users and providers of genetic resources			> Details on fulfilling prior and informed consent requirements. > See also the CBD's *Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization* for more details.
Food and Agriculture Organization (FAO) ***Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security***	2012	G	Agriculture, Forestry and Fisheries (broadly)	Governments			Encourages governments to: > "[T]ake reasonable measures to identify, record and respect legitimate tenure right holders and their rights, *whether formally recorded or not.*" Applies to both States and non-stake actors. > Ensure all land tenure policies are consistent with their legally binding human rights obligations. This includes agricultural investment strategies. sity and soil conservation

							Encourages governments to: > "[T]ake reasonable measures to identify, record and respect legitimate tenure right holders and their rights, *whether formally recorded or not*." Applies to both States and non-stake actors. > Ensure all land tenure policies are consistent with their legally binding human rights obligations. This includes agricultural investment strategies. > Expand and strengthen tenure systems, particularly to provide adequate legal protection to customary users and collective land rights systems. > Decentralize land and natural resource management systems to ensure that local communities have decision-making power over the areas in which they live. > Maintain and improve access to land and associated natural resources, including water, for ensuring food security and rural living standards. Hence, emphasis on importance of land reform favouring smallholders and land poor populations. > Provide adequate compensation to all land users, regardless of the status of their tenure rights. Fair compensation must ensure that previous living standards are at least maintained, if not improved. > "Consider the particular obstacles faced by women and girls with regard to tenure and associated tenure rights, and take measures to ensure that legal and policy frameworks provide adequate protection for women and that laws that recognize women's tenure rights are implemented and enforced." > Initiate broad public debates with the aim of establishing clear rules regarding "the scale, scope and nature of allowable transactions in tenure rights." This will help create inclusive agricultural development and investment strategies. > Undertake prior independent assessments before allowing any changes in land use and distribution, evaluating impacts on tenure rights, food security and the progressive realization of the right to adequate food, livelihoods and the environment for all potentially affected communities. Special attention must be paid to particularly vulnerable populations (such as women and indigenous peoples). > Prioritize ecologically sustainable agricultural systems that promote, *inter alia*, sustainable food production for present and future generations, biodiversity and soil conservation

Food and Agriculture Organization (FAO) ***Voluntary Guidelines to Support the Progressive Realization of the Right to Food in the Context of National Food Security***	2004	G	No	Governments			Encourages States to ensure that: > All economic development policies support the right to food – this encompasses agricultural investment strategies. > Robust "Right to Food Impact Assessments" are conducted prior to any investment that may affect food the right to food. See the FAO's *Guide on Conducting a Right to Food Assessment*. > Ecologically sustainable agricultural systems are prioritized, promoting sustainable food production for present and future generations. Other useful resources: > *Guide on Legislating for the Right to Food.* > *Methods to Monitor the Human Right to Adequate Food* – Volume I and II > *Guide on Right to Food Budget Analysis*
Global Witness, the International Land Coalition (ILC) and the Oakland Institute ***Dealing with disclosure: improving transparency in decision-making over large-scale land acquisitions, allocations and investments***	2012	G	Land	Governments, businesses and citizens			> One of the many informative reports by these organizations, all of which are active on the issue of large-scale land acquisitions. > While many previous publications have emphasized that detrimental land deals are often being agreed through opaque processes between governments and investors, this report outlines mechanisms needed to improve transparency in this area. Most importantly, the report asserts the need for investors and governments to make all contractual information publically available (unless doing so would cause commercial damage or harm to the public interest).
Institute for Human Rights and Business (IHRB) ***Guidelines on Business, Land Acquisition and Land Use: A Human Rights Approach***	2011 (not yet finalized)	G	Agriculture	Businesses			> Emphasizes the importance of transparency, non-discrimination and accountability when acquiring land and running land-based operations > Stresses the importance of meaningful and regular consultations with local communities based on their free and informed consent
International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) ***Agriculture at a crossroads***	2009	G	Agriculture	Governments, companies and civil society			Emphasizes the importance of: > Local knowledge and local natural resource management practices in developing and adapting agricultural systems that can help maintain, create or restore soils, increase water use efficiency, promote genetic diversity and reduce contamination from agrochemicals. > Sustainable water management practices in agriculture based on thorough, independent assessments of sustainable extraction rates. See also the International Water Management Institute's (IWMI) *Comprehensive Assessment of Water Management in Agriculture* for more details.

							> Supporting agroecological farming systems, and enhancing biodiversity conservation/use > "Countering the effects of agriculture on climate change and mitigating the negative impacts of climate change on agriculture" through, *inter alia*, robust targets to reduce green house gas emissions. > Supporting public and private investment in rural areas that recognizes women's contribution to agriculture and environmental conservation and aims to improve female agricultural producers' living and working conditions. > Improving access to land and associated natural resources for smallholder farmers.
International Labour Organization (ILO) *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*	1977, last updated 2006	G	No	Governments and multinational enterprises, as well as employers' and workers' organizations			> Authoritative guidance document regarding employment, training, working conditions and industrial relations.
International Organization for Standardization (ISO) Various standards including *ISO 26000 – Social Responsibility* and *ISO 65 – Agriculture*	Various	G	Some ISOs are sector specific, others not	Businesses			> Two of the many voluntary international standards developed by the ISO that may be of use to rai. While ISO 26000 provides guidance on social responsibility, ISO 65 addresses a number of different agricultural products and processes. > While all the ISO standards are voluntary, some have been incorporated into certification schemes, and thus become mandatory for participants of the scheme (e.g. Fairtrade and the Roundtable on Sustainable Palm Oil incorporate ISO standards).
***Land Deal Politics Initiative* (LDPI)**	2010			Civil society, academics, governments, investors			> The LDPI is coordinated by a number of high profile academic institutions. Focussing on the political economy, ecology and sociology of land deals, the LDPI seeks to develop a database of field-based research outlining the extent, nature and impact of changes in land use and land property relations around the world. > In addition to output from their 2011 and 2012 conferences, the LDPI's upcoming Working Paper Series will likely provide useful insights for ongoing discussions on rai
onValues *The Responsible Investor's Guide to Commodities: an Overview of Best Practices Across Commodity-Exposed Asset Classes*	2011	G	No	Investors			> Series of recommendations for investors involved in agriculture. These include: - assess the impacts of an investment on smallholder farmers and local communities - avoid investments in crops that are unsuited to local conditions

Organization for Economic Co-operation and Development (OECD) and Food and Agricultural Organization (FAO) ***Practical Guidance for Responsible Investment in Agricultural Supply Chains***	2012 (not yet finalized)	G	Agriculture	Companies			> Aims to help companies avoid infringing internationally recognised principles and standards of responsible business conduct when they invest in agricultural supply chains. > Seeks to compliment on-going discussions on rai and the OECD Guidelines for Multinational Enterprises
Plateforme Régionale des Organisations Paysannes d'Afrique Centrale (PROPAC), Réseau des organisations paysannes et de producteurs de l'Afrique de l'Ouest (ROPPA), Eastern Africa Farmers Federation (EAFF), Pan African Farmers' Organization (PAFO) ***Agricultural Investment for Strengthening Family Farming and Sustainable Food Systems in Africa***	2011	G	Agriculture	Donors and multilateral organizations, as well as the Committee on World Food Security			Recommendations from these regional farmers' organizations in Africa include that: > agricultural investments strategies should prioritize more agroecological, biodiverse and resilient models of production supported by participatory research, development and extension systems under farmers' control > priority should be given to agricultural investments that support sustainable family farming and farmers' organizations and networks; > meaningful civil society participation in on-going discussions about agricultural investments is essential, particularly in the format of the CFS
The International Land Coalition (ILC) ***Land Rights and the Rush for Land: Findings of the Global Commercial Pressures on Land Research Project***	2011	G	Land	Governments, businesses, civil society			> Overview report examining the drivers and impacts of large-scale land investments, based on extensive research with partners within the ILC. > Comprehensive policy recommendations for host governments, including that "All existing users and claimants of land must be regarded as having a moral right of possession, regardless of the formal legal status of their claims".
The World Bank ***Rising Global Interest in Farmland: Can it Yield Sustainable and Equitable Benefits?***	2011	G	Agriculture	Governments, businesses, civil society			> Overview report examining the drivers and impacts of large-scale agricultural investments, based on extensive firsthand data and case studies. > Outlines considerations for governments and investors that help promote more equitable investments.
UN ***Declaration on the Rights of Indigenous Peoples***	2007	G	No	Governments			> Stipulates that indigenous peoples have the right to the lands and territories they have traditionally inhabited and that States must take measures to prevent "any action which has the aim or effect of dispossessing them of their lands, territories or resources." > Outlines many of the instances where free, prior and informed consent (FPIC) procedures must be followed, including prior to any changes in access to land.

UN Special Rapporteur on the right to adequate housing *Basic Principles and Guidelines on Development-Based Evictions and Displacement*	2007	G	No	Governments and companies involved in evictions			> Outlines the resettlement, rehabilitation and compensation procedures required to ensure that human rights are not violated through eviction and resettlement processes. > Stipulates that expropriation can only ever be justified for the purpose of promoting the general welfare (which must be defined in advance).
UN Special Rapporteur on the right to food *Large-scale land acquisitions and leases: a set of minimum principles and measures to address the human rights challenge*	2009	G	Agriculture	Governments and companies involved in large-scale land acquisitions			Emphasizes the need: > For investors in the agricultural sector to move away from investment models that involve large-scale land acquisitions (or leases) and focus instead on equitable partnerships with smallholders. This might include outgrower schemes and joint ventures. > To avoid conversions to monoculture agriculture, given the importance of genetic diversity to food security. > For agricultural investments to be highly labour intensive and include a range of off-farm jobs in order to support local food security. > To take particular care with regard to the lands of indigenous peoples and other communities with customary tenure systems. > For human rights impact assessments to be conducted prior to any changes in access to land or associated natural resources.
UN Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework"*	2011	G	No	Governments and companies			> In addition to ensuring core corporate activities are human rights compliant, the *Guiding Principles* emphasize the importance of ensuring that business do not cause or contribute to human rights abuses through their business relationships. Also offers guidance on how to: > Ensure that a country's business, legal and regulatory environment is consistent with their legally binding human rights obligations > Design human rights-consistent judicial and non-judicial redress mechanisms. > Companies should consider establishing operational-level grievance mechanisms to make it possible for grievances related to a business operation to be addressed early and remediated directly.

C. Certification schemes:

Name of Certification Scheme	Date created	Type	Scope and Coverage		Compliance		Relevance for discussions on responsible agricultural investment (rai)
		P, G, C, I or other	Industry Specific	Target Users/ Audience	Self-assessment	External assessment	
Rainforest Alliance	1997	C	Yes (agriculture, forestry, tourism, forest-based carbon projects)	Companies		Certification bodies working under RA-Cert or Sustainable Farm Certification International (SFC) schedule and conduct independent audits, awarding Rainforest Alliance certification based on the standards of the Sustainable Agriculture Network (SAN). Farms are assessed by the independent auditors against very specific criteria. Once Rainforest Alliance certified, farms must be audited annually. Other types of audit – such as unannounced research visits – are also embedded in the scheme.	> Detailed environmental and social standards for agriculture, including for working and living conditions of farm employees, occupational health and safety and environmental management and conservation. > Mandates the implementation of systems relating to: - integrated pest management - soil conservation - water conservation - integrated waste management - ecosystem protection - environmental monitoring > Specific provisions against genetically modified organisms
GLOBALG.AP.	EUREP G.A.P. started 1997, became GLOBALG.A.P. in 2007	C	Agriculture	Large and small agricultural producers		Third party certification of farm production processes based on the International Organization for Standardization's *Guide 65*.	> In order to ensure that smallholders are able to comply with the quality standards and obtain a *GLOBALG.A.P.* certificate, an initiative to involve smallholders in the elaboration and development of these standards has been launched. The *Africa Observer* project allows for feedback from smallholders regarding their ability to comply (or not) with the *GLOBALG.A.P.* standards.
Fairtrade	Max Havelaar started in 1988, Fairtrade International in 1997. All standards last updated in 2011.	C	Agriculture	Agricultural producers and companies who market *Fairtrade* products (importers, exporters and licensees)		> On-site inspections are conducted by qualified auditors, trained and examined for the job by FLO-Cert, the Fairtrade certification body. Auditors are usually based in the country where they work and are familiar with local languages, cultures and laws. Average time spent on the inspection is between 4 days and several weeks (depending on the size and complexity of the operation). > Auditor's report is then evaluated by an independent certification committee at FLO-CERT, the organization that certifies Fairtrade producers.	> Extensive guidance regarding minimum working conditions for hired labour and contract production, as well as product standards for hired labour and product standards for small producer organizations. > *Standard for Contract Production* requires businesses in partnership with smallholders to provide a financial advance on contracts if producers request it. This is designed to help smallholders meet the quality standards required. > Provides guidance for small producer organizations seeking to create more beneficial partnerships with buyers. > Innovative benefit sharing arrangements that prioritize the needs and visions of the communities they are intended to support. Buyers of *Fairtrade* products are required to pay a *Fairtrade*

						> Once certified, this process is carried out annually. > In order to continue to be certified, producers must meet specific progress requirements that demonstrate the continuous development of the organization and conditions for workers.	*Premium*, in addition to the minimum price for products. Farmers or workers involved in growing the crops decide, in conjunction with management, how the premium will be used to improve health, educational, environmental or other facilities for local communities. > Very rigorous certification model.
***Roundtable on Sustainable Palm Oil* (RSPO)** The RSPO and RSB are just two examples of the many initiatives that address specific agricultural supply chains, stipulating requirements regarding product quality and working conditions, as well as social and environmental considerations. These include the *Ethical Tea Partnership* and the *Round Table on Responsible Soy Association* (RTRS).	2003	C	Agriculture (palm oil supply chains)	Oil palm producers, palm oil processors or traders.	All members must submit an *Annual Communication of Progress*.	Certified palm oil producers are assessed by accredited certification bodies that use RSPO *Principles & Criteria* and the International Organization for Standardization's *Guide 65/66* to make assessments.	> Includes a Grievance Process with a Grievance Panel composed of producers, civil society organizations and other stakeholders for addressing complaints against RSPO members.
***Roundtable on Sustainable Biofuels* (RSB)**	2011 (following 4 years of consultations)	C	Agriculture (biofuel supply chains)	Feedstock producers and processors, biofuel producers and blenders.	Operators conduct self risk assessments in order to apply for certification.	Operators wishing to apply for certification conduct self risk assessments and, if accepted by the RSB services foundation, then chose an accredited certification body and are independently audited (through desk and on-site assessments). Certification is valid for up to 24 months at which point the audit process must be repeated.	The RSB Principles & Criteria include detailed provisions relating to > the right to food and the improvement of local and regional food security > conserving ground and surface water resources, and respecting formal and customary water rights > soil conservation The RSB mandates certified operators to carry out food security impact assessments, water impact assessments conservation impact assessments and soil impact assessments, and has developed specific guidelines for each of these evaluation processes.

C. Indicators:

Name of Indicator	Date created	Type	Scope and Coverage		Compliance		Relevance for discussions on responsible agricultural investment
		P, G, C, I or other	Industry Specific	Target Users/ Audience	Self-assessment	External assessment	
Global Impact Investing Ratings System **(GIIRS)**	2010	I	No	Investors, funds and companies		**The company self-reports and is then rated by GIIRS through the B Impact Ratings System, an independent third-party review system.**	**> System for assessing the social and environmental impact of companies and funds with a ratings and analytics approach similar to Standard & Poor's credit risk ratings and Capital IQ financial analytics.** **> Although commendable for introducing an external assessment mechanism, the B Impact Ratings System may lack the nuance of less business-oriented systems.**
Global Reporting Initiative **(GRI)**	1997, latest version 2006	I	No	Reporting organizations, both businesses and development-oriented	Self-assessment but reporting organizations are also encouraged to have an assurance provider offer an opinion on the self-declaration and/or request that the GRI check the self-declaration.		**> GRI's *Sustainability Reporting Guidelines* is the** world's most widely used sustainability reporting framework. > Latest version includes indicators on human rights, community and gender.

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Multinationals and Economic Geography: Location, Technology and Innovation

Simona Iammarino and Philip McCann
(Cheltenham, United Kingdom and Northampton, MA, Edward Elgar, 2013), 479 pages with index

This is a very rich book – rich in content and rich as a source of ideas for researchers. It is clearly structured and knit together, carefully and widely researched, argued and developed. The aim of the book is to present an integrated perspective on the following three key elements of the contemporary economic and business world: the firm, specifically the multinational enterprise (MNE); space and geography, specifically localization and regionalism; and knowledge, innovation and technology.

These three elements each have a huge tradition and literature. What is less researched is the attempt to integrate them together and work out the interrelationships. The book admirably fills this research gap in two respects. It introduces the reader to the large and often complex literature on each of the three elements, and then it brings them together and works out the interlinkages. To show the interdependence between MNEs' strategies and behaviour and location, the authors use knowledge, technology and innovation as the glue that ties together MNEs and location. In this perspective, MNEs' activities and their locations affect each other. Local development becomes endogenous rather than being a given, exogenous variable. Knowledge impacts on local development and is affected by it via spillover effects and via the research activities of MNEs. Let us follow the authors and consider how these three elements and their interrelationships are presented.

The authors start from analysis of the MNE (chapter 2). They take Dunning's Ownership, Location and Internalization (OLI) framework (Dunning, 1977, 1979) as the basis for most of their arguments on the MNE. They present a discussion of the ownership advantage and its loose relationship to the location advantage in relation to the works of Hymer (1960), Vernon (1966), Caves (1971) as well as the New Trade Theory (Markusen, 1984; Helpman, 1984; Helpman and Krugman, 1985) and the Technological Competence and

Capability approach (Cantwell, 1989, 1991; Teece and Pisano, 1994). This is followed by a discussion of the internalization advantage and transaction costs (Buckley and Casson, 1976; Teece, 1977, 1988; Rugman, 1981; Hennart, 1982) and their links to the location advantage. The authors see the location advantage as the "problematic" element in the theory of the MNE (p. 60). Both economic theory and international business literature "…treat geography and space at a highly stylized and unspecified macro level" (p.61). The characteristics of space and location are seen – in these literatures – as exogenous and fairly fixed rather than endogenous and dynamic. The authors want to redress this perspective.

Chapter 3 deals with spatial decision theory of firms and specifically of MNEs. The authors see the investment decision as a single decision, though involving two different spatial dimensions: at the international and sub-national levels. Their analysis of determinants of the firm's optimum location leads to discussions of models based on inputs and resources and of those based on markets and spatial competition. The reader is presented with discussions of the following models. The most basic model is the classical Weber location-production model, in which the firm chooses a location which minimizes the transportation costs of raw materials and final product. The logistics-costs location production model widens the debate to take account of "the fact that the firms face both the costs of transporting goods, but also the costs of *not* transporting goods, that is, the costs of holding goods as inventories" (p. 90). The "market area analysis" deals with the issue of location near (or not) markets and the related one of possible spatial monopoly power. The Hotelling model considers non-price competition and introduces elements of clustering in the spatial location of firms. The Salop model widens the analysis to include several firms. Finally, the authors consider locational strategies under the more realistic assumption of limited information, bounded rationality and satisficing rather than optimizing behaviour on the part of the firm. The chapter ends with a discussion of firms' spatial and organizational structures and their linkages.

The third key element – knowledge, technology and innovation – is considered in chapter 4. The reader is presented with discussions on how different theoretical approaches merged – or failed to do so

– innovation and the growth of the firm. Starting from their critical analysis of the neo-classical theory (Swan, 1956; Solow, 1956) as well as of the New Growth Theory (Romer, 1986; Lucas, 1988; Grossman and Helpman, 1991), the chapter then introduces the reader to a more sympathetic discussion of the approach by Penrose (1959) where the black box is opened and the firm as an autonomous institution makes its entry into economics. In the Penrosian view, resources are analysed in terms of the services they yield, and internal resources and external environments create the productive opportunity set of particular firm. The authors' preferred approach is the evolutionary theory going back to the seminal work by Nelson and Winter (1982). They stress the extended boundaries of knowledge outside the firm and how therefore the internal and external environments both contribute to knowledge development and growth. There are interesting discussions on the nature of knowledge and technical progress. In particular, their view of "knowledge-creation processes as complex, cumulative, partially tacit and path dependent phenomena" leads them to conclude that "there are strong grounds for arguing that innovation is very likely to stay highly concentrated across space, organizations and hierarchies, thereby giving rise to rather distinctive growth patterns" (p. 148).

The path dependency of knowledge creation processes discussed in page 148 seems to be circumscribed three pages later where we read "…the possibility also exists that systems, like firms, may neither accumulate knowledge efficiently, nor be able to learn and develop capabilities…" (p. 151). I would go further and claim that market conditions – particularly those in the labour market – may lead to a reversal in the use of technology. A year or so ago the British media reported (with some admiration!) the latest entrepreneurial initiative of a smallish business man in the North of England. He had managed to bring back jobs from Asia to the United Kingdom, which consisted of sewing ladies' underwear working long hours and using old, worn-out sewing machines.

The discussion on knowledge is then linked to the one on competencies and capabilities. Technological and innovation taxonomies are dealt with in the context of geographical innovation systems – specifically National System of Innovation and Regional Systems of Innovation as well as Sectoral and Technological Systems

of Innovation. Finally, the chapter presents a discussion of the role and activities of MNEs in technological accumulation and knowledge diffusion via their internal and external networks. They see the MNEs as "undoubtedly the most important actors in the worldwide cross-border creation of technical knowledge" (p. 170). Moreover, they see locational attractiveness as partly linked to diverse technological, social and economic culture.

The second part of the book carries the subtitle "Multinationals and the Changing Economic Geography of Globalization". Chapter 5 develops arguments aiming at integrating the micro level of the MNEs with the meso level of regional systems and industrial clusters. The glue once again is knowledge and innovation and their internal and external sources. The discussion on Marshallian agglomeration economies is followed by a very interesting topic of "related variety" seen as essential to growth because "[k]nowledge will only spill over from one sector to another when they are complementary in terms of competencies and capabilities" (p. 201). Then the argument moves to locational strategies by MNEs. The authors comment that "[t]he positive conclusion is that MNEs have a great deal to gain from locating in clusters, and on such a basis, the additional normative conclusion is that MNEs should generally locate facilities where other similar establishments are concentrated" (p. 203). They claim that this rule applies to activities and regions characterized by knowledge-intensity as well as to more routine and conventional factor-intensive activities. The MNEs would/should cluster together with similar firms and activities though in different regions: those characterized by knowledge intensity versus those characterized by routine activities. On the latter point, this reviewer has some doubts. While the argument for clustering knowledge-intensive activities is well made because of the learning advantages, the argument for clustering routine labour-intensive activities in the same low wages areas may be misplaced. Clustering of such activities would lead to increased demand for labour and thus to higher wages thus eliminating the original and main reason for the location in the area while having no obvious counteracting advantages in co-location strategies. From the point of view of MNEs, routine activities which rely on intensive use of labour and low wages may better be dispersed unless arguments can be made that clustering them would lead to the development of better infrastructure by government intervention. But this would take

us into the realm of exogeneity as well as the realm of speculation. The chapter then introduces us to a very interesting discussion on different ideal types of spatial industrial configuration characterized by the nature of the relationship between the firms located there. Three types of relationship between firms are considered: pure agglomeration, industrial complex, and social network. In the case of pure agglomeration, the "inter-firm relations are inherently transient" (p. 205). "The industrial complex is characterized by long-term stable and predictable relations" (p. 206). In the social network model, the key element that binds the clustering firms together is mutual trust. Spatial proximity, though not sufficient, is necessary for acquiring trust. The spillover of knowledge within all these types of cluster partly depends on the degree of autonomy of the subsidiary from headquarters. Thus, the internal organization of the MNE is of relevance for knowledge diffusion and localization.

A critique of the transaction cost approach to industrial clusters (table 5.1) leads to the authors' own enhanced classification in table 5.2. In this version, the typology becomes much richer and diverse with characteristics ranging from knowledge and technology elements to dynamics to appropriability to accumulativeness and to modes of governance. The clustering typologies see the third type – Social Network – split into two subcategories: Competence-based social network and Trust-based social network. Their taxonomy emerges from the overall integrated scheme linking MNEs to knowledge/technology/innovation to location and, as the authors point out on page 223, is deductive in contrast to the well-known sectoral classification of Pavitt (1984), which had emerged from observations. The usefulness or problematic of any classification partly depend on the use the researcher makes of it in terms of testing methodology. The authors recommend case studies and indeed they offer quite a few interesting ones in table 5.3 and in box 5.1, which deals with the historical evolution of industrial clusters and regional systems. Consistent with their approach, the authors see such historical evolution as being "crucially related to issues of knowledge, technology and innovation" (p. 227). A discussion of organizational structure and their relationship to clusters follows. It is the tightness of headquarters control over the ownership and internalization advantages that enable MNEs' strategies of both clustering and dispersion.

The last three chapters are an attempt to extend the overall triad scheme – MNEs/knowledge/locality – to the global and macro spheres of globalization and development. The authors quite rightly criticize the "flat world" theory according to which distance is dead, spatial transaction costs are low and decreasing, and firms can locate anywhere in our contemporary, homogenized world. Yes, I agree with the authors that economic distance is no less dead than history in contemporary society. Neither has market supremacy replaced the firm – particularly the MNE – and its power. Their analysis starts from a historical excursion into globalization that takes them to the development of nation states and of MNEs up and beyond the World War II. The so-called third industrial revolution post-World War II is given considerable attention as is the institutional developments since the 1990s, particularly the emergence of several regional integration institutions from the EU to NAFTA to ASEAN, alongside the entry into the global labour market of countries with vast labour supply.

Globalization has moved hand-in-hand with the growth of global cities. They are presented as the hub of knowledge and innovation and of connectivity. The tacitness of much knowledge means that labour proximity and mobility – even short trips by highly skilled labourers – are essential for knowledge transfer to take place. Therefore connectivity via internet as well as via air traffic and airports becomes important – hence the relevance of large cities and the relevance of the cost of connectivity. Regarding the latter, there is a claim that while connectivity via internet has greatly reduced the cost of information and knowledge transmission, the overall costs of connectivity has increased because of the related movements of such large and increasing number of skilled workers including managers and technical staff. This reinforces the authors' argument for clustering and agglomeration, particularly in cities endowed with good airports.

The penultimate chapter extends their overall theory on the interdependence of MNEs/knowledge/location to the development of countries with specific reference to the evolution of emerging economies particularly the BRIICS (Brazil, Russia, India, Indonesia, China and South Africa). The argument for "spikeness" is well developed and convincing as far as geographical spikeness is concerned: economic space is uneven and there are many and growing inequalities. However, at the

macro and global level any argument on spikeness must necessarily also deal with other types of inequalities and spikeness such as income and wealth inequalities both within and between countries.

It is interesting and novel to see interdependencies between MNEs, knowledge and space applied to macro analyses. Nonetheless understanding globalization, development and growth at the macro level requires consideration of macro and political elements as well as of the micro issues of MNEs and the meso issues of regions and sectors. The current book cannot address this issue as satisfactorily as it did its main thesis, largely because it is outside its theoretical framework and remit. A specific example on this shortcoming is the following. There is a claim that MNEs tend to invest in developed countries via M&As in an asset-seeking strategy for the acquisition of knowledge assets; they invest via greenfield in developing countries where no such knowledge acquisition strategies can be applied. The authors give normative prescriptions on this assertion: "…it is clear that the modes of FDI in developing and transition economies ought to evolve over time from greenfield investments to increasing numbers of mergers and acquisitions, as the knowledge base of these countries steadily expands" (p. 332). However, we might arrive at more cautious conclusions and recommendations if the macro picture of world economies in the last few decades is taken into account. This is a picture in which a long-term tendency towards decline in profitable investment opportunities in the real sector of advanced economies has led to the search for more profitable opportunities in the financial sector. The increase in M&As is part and parcel of this tendency. Often rich in liquid assets, MNEs from developed countries – the vast majority of the world MNEs – were aware that investments in the real sector, i.e. those leading to creation of extra productive capacity, could not be very profitable. Many of them opted for the acquisition modality for their FDI in developed countries. This strategy produced the following advantages for firms: a reduction in excess capacity in their industry; a reduction in the number of competitors; and, in some cases, also acquisition of knowledge. It is also worth remembering the following two facts about M&As. First, they had not always been such a prevalent modality of FDI as has been the case in the last three decades. Second, acquisitions have not been the prerogative of FDI in developed countries; they have been fairly common also in developing

countries as a result of privatization programmes. The problem here is that the overall firm strategy on modality of inward FDI – M&As versus greenfield – is heavily conditioned by exogenous macro and political elements which vary historically. These cannot easily be captured by an approach based largely on the firm and its interaction with space and knowledge, excellent though the approach is in other respects.

The discussion on cities in chapter 7 is very interesting and full of relevant insights. I could not help feeling that the stronger the connectivity of large cities and of selected regions, the further away – in relative terms – are areas which lack the relevant transport and communications infrastructure. There seems to be a relationship between size of cities, their connectivity, their degree of knowledge and their productivity. However, most of these well-connected large cities are also the very same cities which are top of the league as financial centres. Any discourse on the advantages of such developments may have to consider also the social problems and risks – as we have been experiencing since the crisis of 2007/8 – such as those attached to excessive financialization of cities, regions and countries. But the possible divergence between private and public costs could not be adequately taken into account given the aim of the book. The authors are right to put some emphasis on the role of MNEs in macro issues. The MNEs are the main business actors in the contemporary macro economy, in globalization and in development. Yet, their role is often neglected by many writers whether they approach these issues from an orthodox or a more radical perspective. It is to the credit of the authors that they try to bring in the MNEs and their activities in the discourse.

This is a book that could only have been written by people with a large joint cumulative knowledge acquired through years of research. The reader is given some 77 pages of bibliography. This can easily be justified by the breadth and depth of the issues tackled in the book. There is plenty of evidence that the references have been carefully read, digested and incorporated with great benefit to the reader. The overall judgement of this reviewer is that this is an excellent book that has managed to develop what it sets out to do: analyses of the interdependence between MNEs/knowledge/space. It has done so in a way that provides not only very large literature sources but also a very rich source of ideas for future research. I also strongly recommend

the book as a teaching aid in post-graduate courses on the MNEs, on innovation and, specially, on economic geography.

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Transnational Corporations and International Production: Concepts, Theories and Effects (Second Edition)

Grazia Ietto-Gillies

Cheltenham, United Kingdom: Edward Elgar, 2012), 288 pages

This is a welcome and timely updated second edition of *Transnational Corporations and International Production: Concepts, Theories and Effects*, by Grazia Ietto-Gillies, a scholar with a well-deserved high recognition and reputation in the field.

The first edition of this book was a success, having fared rather well both as a resource for researchers, and a useful textbook for students (mainly postgraduate) of International Business. And rightly so, for it provided a very comprehensive, yet clear and hands-on overview of the key literature on concepts, theories and effects of TNCs and their activities, contained in a relatively small book.

This second edition maintains the structure and the focus of its predecessor, which proved to be highly successful, and is organized into four parts, dealing with the three main themes that constitute the subtitle of the book – concepts, theories and effects – with two parts devoted to theories. This review will delve into these four parts, highlighting key changes and updates made and, where relevant, some constructive comments and suggestions will be made. As the issue is rich and complex, these comments are not meant to be comprehensive, but to propose some incremental suggestions within the already so competently discussed themes.

Part I (Evolution and concepts) is mainly dedicated to clarifying the main concepts relevant to a proper understanding of TNCs and international production. It also presents a discussion of the main related trends and patterns, and a concise and useful digression on the historical evolution of the TNC. This part has been competently updated and the two chapters that were included in the first edition were consolidated into one chapter only, which resulted in an effective solution. The historical perspective offered is helpful and indeed crucial for underpinning the parts that follow, understanding the roots of certain developments, and enabling a better comparative perspective to the analysis of different theoretical approaches.

In chapter 1 (particularly in sections 2, 3 and 4) I would have liked to see the very influential literature on subsidiaries' roles/strategies and evolution taken into greater account. This literature is vast and extremely important, warranting a summarized account of its main contributions. The author here takes a more conservative approach to issues of control and to the development of the modern TNC. It would have also been interesting to have in the account of trends and patterns a reference to recent developments such as the rise of emerging countries' TNCs and the increasing relevance of sovereign wealth funds – for this has implications on issues such as the relations among States, and between States and TNCs (dealt with in chapter 14).

Parts II and III deal with theories, the cut-off point being World War II. This is more than a simple chronological landmark: as the author explains, this is justified by substantial reasons, notably the unprecedented expansion of cross-border business operations post-WWII, and also because the theories focused on the TNC appeared after WWII. These parts are structured in a very effective, logical and intellectually honest way: both in the sequence of chapters, and in the way each chapter is composed: first, a presentation of the theories or perspectives, then a critical comment that is focused not only in the theories of each chapter, but in other approaches (like the theories expounded in precedent chapters) that can be usefully contrasted with each focal theory. A plus throughout the book is also the synthesis provided at the end, and the explicit mentioning of the other chapters that can be usefully related.

Part II (Pre-WWII approaches to international investment) includes two chapters, one dedicated to Marxist approaches and another focusing on the neoclassical paradigm as it relates to foreign investment. This part is *sui generis* when compared to the content of other International Business-focused textbooks, which often ignore such perspectives. As the author notes, however, these two chapters are useful insofar as they provide historical antecedents worth taking into consideration. The author clearly explains how they underpin and can be contrasted with subsequent approaches.

Part III (Modern theories) includes 12 chapters, each presenting an important theory of the TNC and its activities. This part has been

improved and is more complete than the one in the first edition. In my opinion, the author addressed rather well certain aspects that were missing from the first edition. The main changes in this Part, that I regard as improvements, are relate to chapters 11, 14 and 15.

Chapter 11 (corresponding to chapter 12 in the first edition) reflects on evolutionary theories of the TNC. The author included in this edition, the contribution of Kogut and Zander alongside that of Cantwell. This is an important addition to this chapter. The author compares these two approaches, and also usefully discusses the work of Kogut and Zander in relation to that of internalization theory, particularly on how differently the issue of the boundaries of the firm is tackled.

Chapter 14 (Nation-states and TNCs' strategic behaviour – chapter 15 in the first edition) was rewritten and restructured bearing in mind both the evolution of the author's thinking on these issues, as well as reflecting developments in real economies. It provides an interesting take on the matter, although here maybe a more explicit and detailed consideration of some of the major recent changes (e.g. the rise of emerging countries TNCs, sovereign wealth funds, the relevance of non-traditional actors such as non-governmental organizations, and, as several recent issues of the World Investment Report mention, the increasing appearance in recent years of regulations not favourable to TNCs) would have represented an added value.

Chapter 15 (Resources, networks and the TNC), a whole new chapter, represents the main change implemented in Part III. The author here gives attention to two specific conceptions of the firm, as applied to TNCs: the firm as a "bundle of resources" (expounding the path-breaking work of Edith Penrose), and the firm as a "network" (taking into account the work of theorists more in the managerial tradition of international business). This chapter is a very significant inclusion in the book, although I see room for improvement in a future edition, notably on the part on resources. Although the seminal work of Penrose is the key and most noteworthy, there is an array of contributions, mainly from United States-based authors with a more managerial outlook, which should be explicitly acknowledged. This would have made this chapter more balanced and with a similar depth than others in this section.

The last part (Part IV: Effects) delves into the effects of TNC activity (on well-chosen themes: innovation, labour, trade and on the balance of payments). Chapter 16 has been rewritten and restructured, providing a very well organized and complete treatment on the boundaries in the assessment of such effects. Chapter 17 has been refocused and shortened, concentrating only on innovation, which is a recognition of the importance of this issue when evaluating the impact of TNC activity. In this chapter, my main suggestion would be to give greater relevance to the influential and closely related literature on subsidiaries' roles/strategies and on their relation to headquarters, their lateral linkages, as well as other phenomena such as reverse transfer of technology. Here, the level of analysis is not only at the company and macro level, but also at the sub-firm level, and this is really crucial to understanding the effects of TNCs on innovation (in both the host and home countries).

Another suggestion for Part IV in a future edition would be to add another chapter reviewing the impact of TNCs on clustering and on entrepreneurship, areas that are more and more relevant in the literature and in reality.

In all, this volume is a fabulous resource for researchers and students alike. Given the impossible task of addressing all aspects of such a complex issue as the TNC and international production, this book makes an outstanding contribution and exhibits a notable equilibrium between being complete and concise. Preserving the readability of the first, this second edition even manages to be more inclusive and effective. I already adopted it in my own courses, and will recommend it as priority reading to fellow researchers and students interested in International Business.

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GUIDELINES FOR CONTRIBUTORS

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Cantwell, John (1991). "A survey of theories of international production", in Christos N. Pitelis and Roger Sugden, eds., *The Nature of the Transnational Firm* (London: Routledge), pp. 16–63.

Dunning, John H. (1979). "Explaining changing patterns of international production: in defence of the eclectic theory", *Oxford Bulletin of Economics and Statistics*, 41 (November), pp. 269–295.

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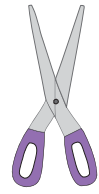

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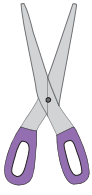

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