



Final Paper

**Sustainable Agriculture, Corporate Social
Responsibility (CSR) & The Private Sector
of the Financial Services Industry**

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Public Private Partnerships for Sustainable Development in the Americas
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Executive Summary

Although the idea of Sustainable Agriculture, in theory, goes back 10,000+ years to early agrarian societies in Asia and possibly The America's, Europe, and Africa, it is a actually a relatively new term as we use it today, as it is debated or discussed in meeting rooms and on farms around the planet. In fact, virtually no literature exists in the public domain where the three topics (Sustainable Agriculture, Corporate Social Responsibility (CSR) and The Private Sector of the Financial Services Industry) of this research are merged together, and the leading Agricultural bank in the world (and also the bank seen by many as the most ecological) has published a total of two papers on the subject. The idea of sustainable agriculture being funded by the banking industry is truly a new concept.

A. Sustainable Agriculture goes well beyond "Organic Farming or Organic Crops" which has become progressively more popular over the last 3 to 4 decades, and as a subject is well documented, financially supported, and typically associated with some version of CSR. Sustainable Agriculture integrates a wide range of issues such as:

- Water use;
- Local communities;
- Worker conditions; and
- Other variables (see attached flow charts).

In fact the definition about what is Sustainable Agriculture continues to be debated at a variety of levels. How does one look at issues like:

- Small vs. large scale operations/farms/cooperatives;
- Local vs. global production and transportation;
- Diversity vs. mono culture crop production;
- Food for energy/fuel vs. food for human/other animal's consumption;
- Genetically modified or not;
- Use of limited water supplies; and
- Maintenance of upstream watersheds

In addition, there are many other issues being looked at by NGO's, governments, and businesses.

The term "Sustainable Agriculture" has really only been used formally during the last decade and a leading large international corporation, like Unilever, that is focused on Sustainable Agriculture only introduced the idea (in a test mode) to a second product 6 years ago.

As far as the actual business of Sustainable Agriculture it is important to point out two items:

- Each individual crop (or product) needs to be looked at uniquely. The issues relevant to coffee are very different then soybeans, livestock or fisheries, and
- What has been researched, evaluated and documented to date, is still only being looked at on a case-by-case basis and few aggregate data sets exist.

These two factors make drawing any clear conclusions or recommendations very difficult on how best to proceed in funding and expanding sustainable agriculture.

B. Following Unliver's path, the idea of integrating **Corporate Social Responsibility** (CSR) and Sustainable Agriculture only started to surface as a topic in the 21st century, and is still not being looked at by most agriculture businesses.

C. As far as the **Private Sector of the Financial Services Industry**, it really started with Palm Oil in 1997 related to a public outcry in the Netherlands about Palm Oil Plantations.

(1) *Credit Providers* became engaged in the late 1990's - "The horrendous fires that swept through Indonesia in 1997 — burning down an area of rainforest bigger than the Netherlands and sending up smoke that reached as far as Brunei, Singapore, the Philippines, and Thailand — have been blamed on fires that were deliberately lit to clear forest for oil palm and other crops and then got out of hand because of a prolonged drought." WWF web site - <http://www.panda.org.za/article.php?id=171>. Emma Duncan, Managing Editor -- WWF International, E-mail: eduncan@wwfint.org. However, most banks still do not look at Sustainable Agriculture as an area for credit extensions, and those that do, have only started to really look at the issue in the last few years.

(2) As far as *Insurance Companies* it appears that the first "Sustainable Agriculture" product was introduced only a few months ago by a firm in the USA. "Midlands Management Corporation, based in Oklahoma City, has launched a Sustainable Farm Insurance Program, which it says is a first-of-its-kind, multi-line insurance program designed to meet the needs of agricultural farmers following sustainable farming practices. The program was developed after field research facilitated by the Pennsylvania Association for Sustainable Agriculture, in Milheim, Pa. The program is targeting small local farms practicing Sustainable Agriculture. Community supported agriculture operations are acceptable. Coverage features products liability including direct sales to consumers and limited loss of income coverage." Press release - Midlands Management Corporation - *Oklahoma City, OK. August 15, 2006.*

(3) From an *Asset Management Firm* perspective (i.e. actually investing in business by becoming a partial owner) the subject of investing in Sustainable Agriculture is primarily left to angel investors and development banks/agencies/institutions (those who are investing for other reasons besides rate of return), and is on a very small scale. Major investments are being made (self funded typically) by firms in the agriculture industry (i.e., firms like Unliver or DuPont) and farm companies in industries such as dairy, tea, coffee, etc... Asset managers are investing in health food and organic food companies/cooperatives like Whole Foods, but not in sustainable agriculture as a category.

Little research exists and few financial services firms are actively engaged or have specific approaches to the industry overall or at the product level.

D. Recommended Next Steps

- Clear definitions need to be established on what Sustainable Agriculture is and what it is not.
- Better data sets on what works and what does not work are needed (this includes going well beyond case studies and examples).
- A quantification of what is the financial risk associated with taking or not taking action is needed.
- More dialogue with members of the agricultural community and the financial services industry on the subject is essential and should be lead by governments, academics, and NGO representatives who are presently the groups with the most information on the subject.

Overview

The purpose of this paper is to give the reader a very top level overview of what these three subjects (*Sustainable Agriculture*, *Corporate Social responsibility (CSR)*, and *The Private Sector of the Financial Services*) are and how they might be intertwined from a business (not an NGO or Governmental) perspective. This should in turn give the reader a better understanding of how Sustainable Agriculture is intertwined with profitability, financial risk management, the overall global commons and the communities that businesses and financial institutions operate in, and where they meet their customer's needs and desires.

In general very little research has been done on subject of: Does Sustainable Agriculture make Financial Sense? When one looks at the issues of extending credit to Sustainable Agriculture the subject becomes almost a non existent data set. The lack of information on these combined issues is possible the most important finding of this research, since without adequate data on the financial viability of Sustainable Agriculture, it will continue to be an area ignored by most insurers, investors and credit providers.

The three discrete subjects explored in researching this paper:

- *Sustainable Agriculture*,
- *Corporate Social responsibility (CSR)*, and
- *The Private Sector of the Financial Services*,

are terms that are rarely merged together, and in fact no real focused research paper was found that actually looked at all three subjects simultaneously. Given this fact, it is important to look at each term individually in order to see how the terms can then be merged together.

A. Sustainable Agriculture

It should support the following principles:

1. It should produce crops with high yield and nutrition quality to meet existing and future needs keeping resource inputs as low as possible.
2. It must ensure that any adverse effects on soil fertility, water, and air quality, and biodiversity from agricultural activities are minimized, and positive contributions are made where possible.
3. It should optimize the use of renewable resources while minimizing the use of non-renewable resources.
4. It should enable local communities to protect and improve their well being and environment.

(Source – Unliver 2005 Report)

Many believe the following are many of the key indicators that need to go into any assessment of Sustainable agriculture:

1. Soil fertility health;
2. Soil loss;
3. Nutrients;
4. Pest management;
5. Biodiversity;
6. Value chain;
7. Energy;

8. Water;
9. Financial capital;
10. Social/human capital;
11. Local economy;
12. Animal welfare; and
13. Business profitability.

The primary focus has been on and continues to be organic farming and the crops it produces that can be sold at a premium to consumers particularly in the OECD countries.

B. Corporate Social Responsibility (CSR)

CSR is defined as the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees, the community and the environment are reflected in the company's policies and actions. (Source – CSRWire - http://www.csrwire.com/about_website 7th Nov. 2006: CSRwire's parent company, [Meadowbrook Lane Capital, LLC](#) has been described as a 'socially responsible investment bank' by the Wall Street Journal.)

C. The Private Sector of the Financial Services Industry

The Private Sector of The Financial Services Industry consists of many types of organizations performing three main functions:

- Providing credit;
- Insurance underwriting; and
- Asset management or direct investment of capital.

The main sectors within the industry that perform/provide these three items are:

- Commercial banks;
- Investment banks and other asset managers;
- Mutual funds;
- Pension funds;
- Property & casualty insurance firms;
- Life insurance firms;
- Venture capital firms and Angels; and
- Foundations and endowments.

For more on these functions and sectors the reader can look to a primer on the subject (Leverage for the Environment – World Recourses Institute, WRI)

Selected Paper Excerpts

A. Credit Products

Excerpt from 2006 Publication (chapter 9 – see References) by Bank Track - “Application to the banking sector - Although it may be unrealistic to expect most commercial banks to finance only organic or GMO-free agriculture, they could and should promote more sustainable agriculture. Banks should make a special effort to understand how more sustainable forms of production can help the bottom line not only of producers but of financial institutions as well. More credit and hedge instruments should be made available to approved producers for more sustainable farming practices. Perhaps the most promising initiatives from the perspective of financial institutions are the emergence of the product-specific commodity roundtables. One output will be investment screens for the financial sector. Prior to the development of standards, banks can be active participants in developing and supporting initiatives for those products in which their portfolios are largest. Support will also be needed to scale-up these initiatives once standards are developed and adopted, and to reward those producers who apply the standards and better practices that are developed by the round tables. Banks with considerable exposure in agriculture include ABN AMRO/Banco Real, Banco Itaú, Barclays, BBVA, CIBC, Citicorp, Rabobank, Scotia Bank, Société Général, ING, KBC, Royal Bank of Canada, Royal Bank of Scotland and Standard Chartered. Yet, with a few exceptions, these banks have not adopted any sector-specific agricultural policies. Few have taken steps to support, much less promote, a sector shift to sustainability. A few banks have supported or participated in commodity-specific roundtables. Rabobank, for example, has been very supportive of the roundtables in soy, cotton and sugar. ABN AMRO/Banco Real has participated in the cotton, sugar, and soy roundtables, and HSBC has been active in the palm oil and soy processes. The IFC has engaged in the roundtables on soy, cotton, palm oil, sugar and salmon.”

Credit Agricole press release ([Farming and the environment](#) Sustainable Development - December 13th, 2005 Crédit Agricole is continuing its efforts to promote more environmentally-friendly farming.) - “In 2004, farms in France got their first opportunity to be officially certified as “Responsible farms”. Most Crédit Agricole Regional Banks provided financial assistance towards the costs of the audits. More than one-half of the farms that qualified in 2004 received assistance of this kind. We continued this support for responsible farming in 2005, broadening it to include farms that are certified “organic” for the first time. At the same time, Crédit Agricole is working to raise the profile of environmentally-friendly farming initiatives. In 2004 we teamed up once again with FARRE, a French organisation that promotes responsible, environmentally-friendly farming, to stage “Les Espoirs de l’ Agriculture Raisonnée”, a competition recognising groups of farmers or individuals who develop practices to tackle environmental issues. The last two competitions have received some 600 entries - proof that efficient business practices and the environment can grow together. Safeguarding France’s forests - Crédit Agricole owns 7,000 hectares of forest in France, which it administers in accordance with a sustainable management charter. As a result, timber from Crédit Agricole forests is compliant with the Programme for the Endorsement of Forest Certification (PEFC) schemes. This European certification gives users and consumers a guarantee that the products they are using come from forests that are managed in a way that will ensure sustainable and respectful use of the natural environment. A greener banking business - As a service business, Crédit Agricole has a limited direct impact on the environment. But we know that we can cut back our use of paper, packaging and office supplies.

In 2005, the Group's Paris locations implemented a programme to reduce, sort and recycle these materials or dispose of them on the premises. We also introduced a programme to lower energy consumption, in an effort to reduce costs and curb greenhouse gas emissions. - Crédit Agricole also wants to help customers who would like to invest in greener processes under optimum conditions. Special business and retail loan packages are currently being prepared and will soon be available through the Regional Banks.”

B. Insurance Products

Sustainable Farm Insurance: press release from - Midlands Management Corporation - Oklahoma City, OK. August 15, 2006: Midlands Management announced today the launch of its Sustainable Farm Insurance Program, a first of its kind multi-line insurance program designed to meet the unique needs of agricultural producers following sustainable farming practices. Underwritten by Markel Insurance Company of Glen Allen Virginia, the program was developed after significant field research facilitated by the Pennsylvania Association for Sustainable Agriculture. Said James W. Hutchin, a Director of Midlands Management and Temple University Professor, “Sustainable farmers, agri-entrepreneurs, are committed to a set of operating principles and behaviors that make them a better risk. And, by changing the now traditional chain of commerce with innovations such as CSA's (Community Supported Agriculture), these fine farmers are also creating risks existing farm insurance policies do not always respond to adequately. The Sustainable Farm Insurance Program is a product that does two things, it recognizes the preferred underwriting this sort of farm should receive, and it provides the coverage really needed by those undertaking, among other things, direct sales to the public.” Brian Snyder, Executive Director of the Pennsylvania Association for Sustainable Agriculture, better known as PASA, added that “The status of agriculture is changing quickly in our country. As many farmers move away from traditional commodity programs in favor of producing high quality food products in a way that protects the environment and supports rural communities, it is fitting that they should get special treatment from their insurance company. These farmers are working hard to reduce risk in so many ways, for all of us.” Founded in 1992, PASA is one of the largest sustainable ag membership organizations in America, with members concentrated in the Mid-Atlantic region and to a lesser extent throughout the country. PASA's mission is to promote profitable farms that produce healthy food for all people while respecting the natural environment. For more information on the program, visit www.sustainablefarminsurance.com, or call Roger Park at 800 800-4007 Sustainable Farm Program - Contact Roger Park, 800-800-4007; fax, 405-840-5432; sustainableag@midman.com; or visit: www.sustainablefarminsurance.com

C. Industry Actions

What is Sustainable Agriculture (as defined by the National Sustainable Agriculture Information Service; website 8 Nov. 2006 - <http://attra.ncat.org/>): Sustainable agriculture is one that produces abundant food without depleting the earth's resources or polluting its environment. It is agriculture that follows the principles of nature to develop systems for raising crops and livestock that are, like nature, self-sustaining. Sustainable agriculture is also the agriculture of social values, one whose success is indistinguishable from vibrant rural communities, rich lives for families on the farms, and wholesome food for everyone. But in the first decade of the 21st

Century, sustainable agriculture, as a set of commonly accepted practices or a model farm economy, is still in its infancy—more than an idea, but only just. Although sustainability in agriculture is tied to broader issues of the global economy, declining petroleum reserves, and domestic food security, its midwives were not government policy makers but small farmers, environmentalists, and a persistent cadre of agricultural scientists. These people saw the devastation that late 20th-Century farming was causing to the very means of agricultural production—the water and soil—and so began a search for better ways to farm, an exploration that continues to this day. Conventional 20th-Century agriculture took industrial production as its model, and vertically-integrated agri-business was the result. The industrial approach, coupled with substantial government subsidies, made food abundant and cheap in the United States. But farms are biological systems, not mechanical ones, and they exist in a social context in ways that manufacturing plants do not. Through its emphasis on high production, the industrial model has degraded soil and water, reduced the biodiversity that is a key element to food security, increased our dependence on imported oil, and driven more and more acres into the hands of fewer and fewer "farmers," crippling rural communities. In recent decades, sustainable farmers and researchers around the world have responded to the extractive industrial model with ecology-based approaches, variously called natural, organic, low-input, alternative, regenerative, holistic, Biodynamic, biointensive, and biological farming systems. All of them, representing thousands of farms, have contributed to our understanding of what sustainable systems are, and each of them shares a vision of "farming with nature," an agro-ecology that promotes biodiversity, recycles plant nutrients, protects soil from erosion, conserves and protects water, uses minimum tillage, and integrates crop and livestock enterprises on the farm. But no matter how elegant the system or how accomplished the farmer, no agriculture is sustainable if it's not also profitable, able to provide a healthy family income and a good quality of life. Sustainable practices lend themselves to smaller, family-scale farms. These farms, in turn, tend to find their best niches in local markets, within local food systems, often selling directly to consumers. As alternatives to industrial agriculture evolve, so must their markets and the farmers who serve them. Creating and serving new markets remains one of the key challenges for sustainable agriculture. “

Whole Foods Boosts Support for Animal Welfare, Local Farms - July 2006 --- *“Amid growing criticism of the "industrialization" of organic foods, Whole Foods has launched new initiatives to support local sustainable agriculture and animal welfare. Whole Foods Markets Inc. has announced new initiatives to promote local sustainable agriculture and animal welfare. The company's new commitments include hiring a full-time staff person to find suppliers that meet the company's animal welfare standards, which are stricter than the USDA's national organic standards. It also includes new initiatives to source products locally, a \$10 million a year loan program to support small sustainable farmers, and setting up farmers markets at some locations to let small farmers sell their produce directly to customers. For more details and a discussion of these initiatives, see the Whole Foods blog at the online environmental magazine Grist.”* (Trillium Asset Management website)

California Growers – “Organic agriculture, one of the fastest growing segments of the food system, is increasingly being identified as an area of opportunity for California's agricultural sector in general, and for struggling small-scale farmers in particular. Much of the attention focuses on the benefits it provides to consumers (chemical-free foods) and to farmers (price premiums). But what about the implications of organic agriculture for the farm workers who work on these farms? Are there specific benefits for this often overlooked group, and if so, does the boom in organic agriculture represent an opportunity to improve the difficult and dangerous conditions many workers face? Is organic agriculture more "socially sustainable" than conventional agriculture? While "organic" and "sustainable" are not interchangeable terms, organic is frequently associated with the broader concept of sustainable agriculture, which integrates environmental health, economic profitability, and social and economic equity. Moreover, in the last few years, the organic movement has seriously debated if and how to incorporate social criteria into organic standards and certification requirements. The most ambitious effort is taking place at the international level. In 2003, the International Federation of Organic Agriculture Movements (IFOAM) adopted a new chapter on social justice for its Basic Standards (essentially, "standards for standards" that IFOAM-accredited certifiers must comply with). For years, organizations like California Certified Organic Farmers (CCOF) and more recently the California Sustainable Agriculture Working Group have been debating the idea of social standards, but the idea has never been popular enough for social standards to be seriously considered. Today there appears to be stronger interest in making a clear link between social justice and organic agriculture at this international level. (*Farm workers in organic agriculture: Toward a broader notion of sustainability* Sustainable Agriculture – Univ. of CA Sust. Ag. Research and Education Program - Winter-Spring 2005 (v17n1) Aimee Shreck, SAREP postdoctoral researcher; Christy Getz, assistant Cooperative Extension specialist, UC Berkeley; and Gail Feenstra, SAREP food systems analyst
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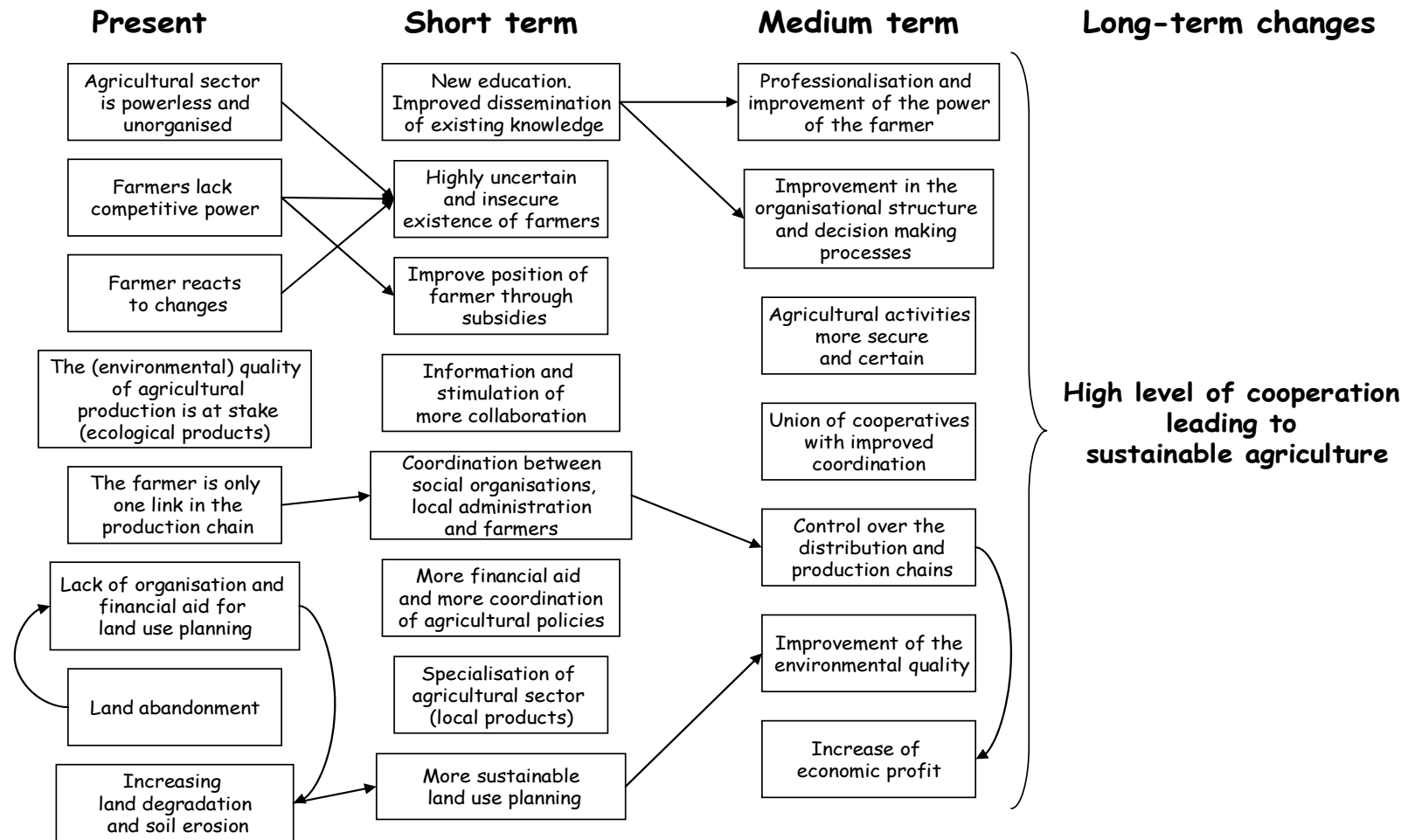
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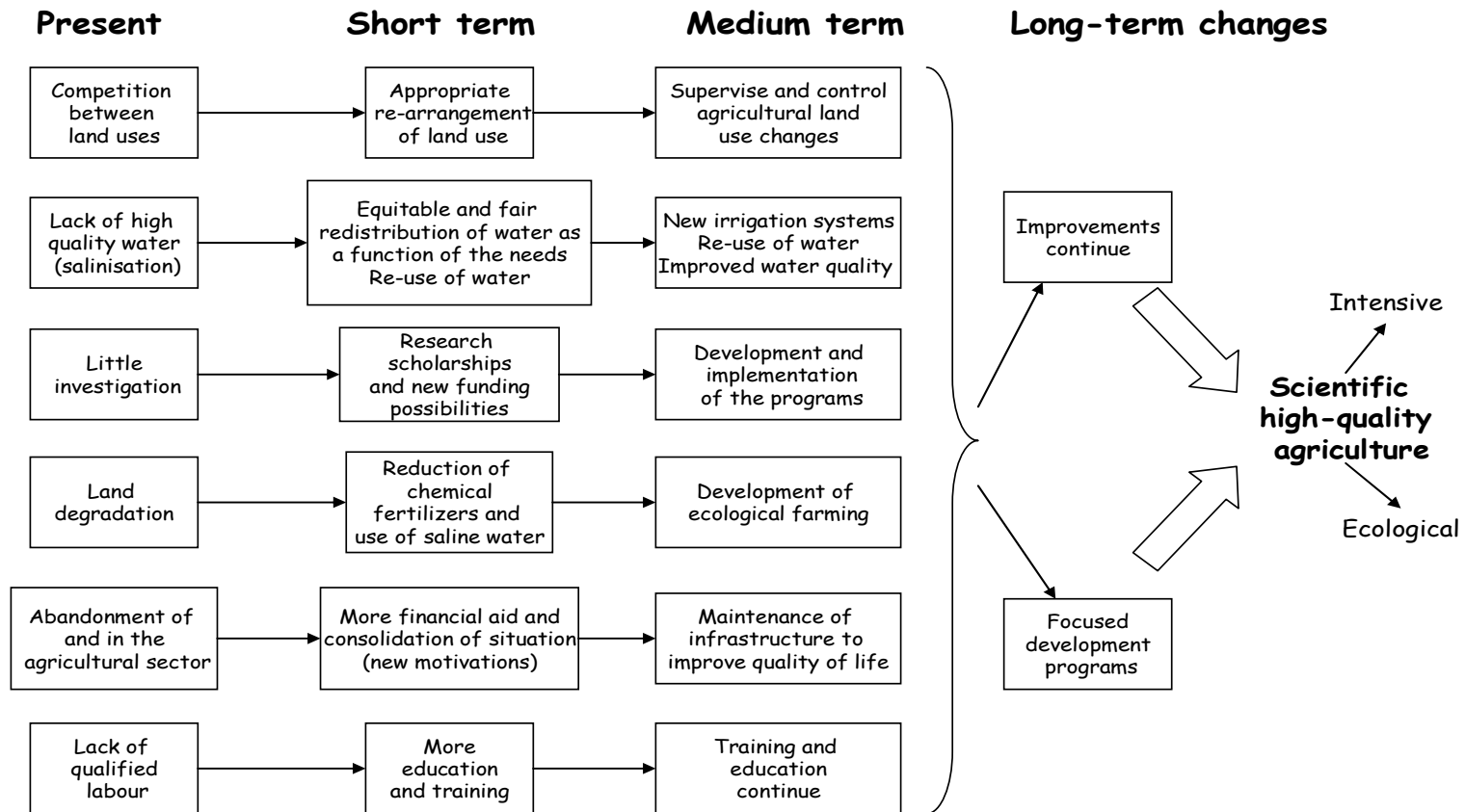
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