

# Monitoring investments

*This note provides guidance on how to monitor the performance and impact of agricultural investments, and on which aspects to observe.*

Ongoing monitoring of investments is a key way to hold investors accountable for contractual commitments and deliver the expected benefits to the country and surrounding communities. It also facilitates early identification of emerging negative impacts or of failing investments, enabling remedial actions. Monitoring is often deficient because of a lack of resources and systematic procedures, which allows negative impacts to escalate beyond what would otherwise be the case. Internal monitoring is likewise good practice for investors and their financiers, though the field research indicated room for improvement.



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## RESPONSIBLE AGRICULTURAL INVESTMENT (RAI)

# KNOWLEDGE INTO ACTION NOTES

The **UNCTAD–World Bank Knowledge Into Action Note Series** is a compendium of practical, thematic guidance documents for use by governments, investors, and other stakeholders in the implementation of responsible agricultural investment principles. Background and a complete list of notes are in *Note 1: Introduction*.



## WHAT DOES FIELD RESEARCH SHOW?

**Insufficient ongoing monitoring by host governments.** Government monitoring of investments typically fell well short of what would be required to assess investors' adherence to commitments and obligations. Although all investors were subject to some form of monitoring, few countries had a dedicated monitoring and evaluation (M&E) function for large-scale agricultural investments. Usually the department or ministry with a particular mandate was responsible for monitoring; for example, the Department or Ministry of Environmental Affairs for monitoring compliance with the environmental and social management plan (ESMP). If government officials came to assess agricultural concessions, they usually focused on ensuring the investor was meeting productivity targets, without monitoring socioeconomic and environmental targets.

**Government capacity to monitor.** Full-scale monitoring is costly and resource intensive. Many governments lack the funding and the expertise to monitor investments effectively (box 1). As with screening of investments (see *Note 6: Screening prospective investors*), there is a need to develop human resource skills and processes within government to enable more effective monitoring. In many countries, investment approvals have proceeded at a pace beyond that which governments could realistically assess and monitor.

**Failing investments.** The limited scope of monitoring observed did not provide an early-warning system for detecting investments that are in difficulty or not evolving as planned. Thus, there was no early opportunity for investors and governments to discuss remedial action to get the investment back on track or, in the worst case, to enforce sanctions for noncompliance with domestic laws or material breach of contractual provisions, including termination. One third of investments visited were experiencing operational and financial difficulties.

One quarter were using less than 10 percent of their allocated land, representing a significant underuse of resources that government monitoring should identify at an early stage.

**Unapproved changes to business plan.** Several investments had switched crops or business models without notifying the authorities. In most cases, the government was unaware of difficulties being experienced by investors and only found out once the negative consequences of failure had been realized (for example, job losses and broken commitments to local communities). Even when investors did share their challenges openly with government there was sometimes a reluctance by the latter to act in a timely manner. Some land concession agreements included specifications on marking boundaries and development of areas in a specified manner, within a certain time frame. The effectiveness of monitoring to confirm compliance with such agreements was usually inadequate.

**Monitoring of land agreement consultations with communities.** In some cases, governments monitored initial consultations with communities. The approach varied, leading to different outcomes. In some situations, government played too active a role, in effect conducting the consultation for investors (see *Note 15: Community engagement strategies* and *Note 9: Respecting land rights and averting disputes*). Elsewhere, the government

was completely uninvolved. There appears to be a need for more detailed guidance on the ideal involvement of different parties in the process of consultation on project inception, especially where land acquisition is involved. Some processes also involved active participation by civil society, though this was rare. The process, outcomes, and agreements made during consultations were rarely monitored by independent parties.

**Lack of transparency hinders public monitoring.** The results or details of government monitoring were rarely made publicly available, making it difficult for other interested parties—be they residents or civil society representatives—to hold investors to account.

**Influence of certification schemes and sustainability reporting.** Certification schemes (such as those of the Forest Stewardship Council or the Roundtable on Sustainable Palm Oil) were an effective means through which investors were encouraged to improve their business, social, and environmental responsibility practices, by voluntarily submitting themselves to more extensive internal and external monitoring. This also applies where businesses adopt sustainability reporting (such as the Global Reporting Initiative or G4). Improved business practices potentially brought about by certification and sustainability reporting include good governance, transparency, due diligence, external accountability, and a more comprehensive approach to consultations with communities and the conduct of environmental and social impact assessments (ESIAs).

**Environmental impact.** Monitoring of investors' environmental impact, including use of land and water resources, adherence to environmental regulations, and implementation of the recommended mitigation actions arising from the ESIA was in most cases inadequate (see *Note 14: Environmental and social impact assessments* and *Note 13: Water access and management*).

**Investor company management information systems:** All companies have some sort of management information system (MIS), but their sophistication and level of maintenance varies, depending on the capacity of the entity and whether the company is subject to a certification scheme (box 2).

**Monitoring community agreements:** Investors that entered into community development agreements (see *Note 18: Community development agreements*) applied a range of institutional options to manage the implementation of them. One approach

## Box 1. Inspections and audits

An investor was allocated a concession on land that was covered with indigenous forests. In the terms of the land concession the investor was permitted to remove a specified area of trees as saw-logs for the export timber sector to be able to clear the area for planting. A joint working group of the Forestry Department, Customs and Ministry of Agriculture conducts an annual assessment to evaluate the progress of all large-scale agricultural investments against contractual conditions. Companies complete a questionnaire, and this is followed up by visits from working groups of government officials, who make recommendations. The companies then sign off on the working groups' evaluations, and any required actions are followed up at the next annual visit. While on paper, this sounded a good approach, practical application was lacking at the site visited. The government monitoring was mainly focused on ensuring that the customs requirements for timber exportation were adhered to. There was no verification that the wider business plan to develop rubber was being implemented, nor was their monitoring of the social and environmental impact of the investment. It transpired that the investor was unable to successfully develop a rubber plantation, due to lack of expertise and incorrect soil conditions. The investment has since failed and left the area abandoned, minus the indigenous timber extracted.

Source: UNCTAD–World Bank Responsible Agricultural Investment Database.

## Box 2. Investor Management Information System

An investor in a forestry concession in Ghana developed a comprehensive MIS that was integral to receiving Forestry Stewardship Council accreditation. The system provides management with data on physical and financial target indicators, including size of area under development, trees planted, chemical and fertilizer use, injuries on duty, grievances (current and closed), occupational health and safety records, community projects, and financial results. Much of this information interfaces with the geographic information system.

Source: UNCTAD–World Bank Responsible Agricultural Investment Database.

### Box 3. Community trusts nonprofit organization as an implementing and monitoring agency for community agreements

An investor in Tanzania had a community agreement to allocate a specified share of revenue to community projects. A trust was established as a non-profit organisation to implement the agreement. Trustees were elected community members and representatives from the investor. The trust was responsible for managing and disbursing the funds. Through this structure, it was able to hold the company to account to ensure the correct amounts were applied to the agreed projects. The trust identified and implemented projects, in dialogue with intended beneficiaries within the community. The trust also periodically reported to the community on projects implemented and proposed. Such a system facilitated dialogue between the investor and the community and helped ensure that commitments made were being upheld and monitored.

Source: UNCTAD–World Bank Responsible Agricultural Investment Database.

that worked well was the establishment of a separate nonprofit legal entity, with representatives from the investor and the community (which also allows for government representation) (box 3). It was easier to monitor the activities and financing of the separate entity than funding that was channeled through internal accounts. Governments were usually not monitoring adherence to community development commitments made by investors.

**Role of civil society.** Civil society can play a role in monitoring conflicts between investors and stakeholders and/or highlighting to the public or authorities issues such as degradation of natural resources. In Mozambique, an investor has partnered with a land rights NGO, using funding from the investor and aid organizations, to develop a set of land rights tools to address land conflict issues.

**No evidence of monitoring by home-country governments.** In the case of foreign investments, the field research showed no evidence of active monitoring by investors' home-country governments.

**Grievance redress mechanisms.** Once the operation is up and running, a robust monitoring framework—including a grievance mechanism (see *Note 19: Grievance redress mechanisms*)—provides a key channel of communication between stakeholders: it helps them maintain sound relations and deal with any problems fairly and efficiently.

**Public disclosure.** Appropriate public disclosure regarding the operation of an investment is key to facilitating public monitoring, which contributes to public trust and confidence (see *Note 10: Public transparency*).

**Shared responsibilities for monitoring.** Monitoring has the potential to help foster a collaborative relationship between the investor, the host government, local communities, and civil society—and is a shared responsibility (box 4). Key pre-investment processes such as consultations with communities, land acquisition and the conduct of social and environmental impact assessments should be subject to external monitoring by government and, where appropriate, by civil society. This helps to ensure that these processes are fair and transparent. A responsible investor will also have internal monitoring procedures, key metrics, and reporting frameworks to track and provide information on economic, social, and environmental impacts, and adherence to contractual commitments. Investors have an interest in monitoring outside perceptions of their businesses, including any grievances, to ensure a positive, mutually beneficial relationship with stakeholders. The investor should also track performance against internal management targets as well as adherence to internal policies (such as health and safety) as part of standard best practice in management.

### Box 4. Who should monitor investors' impact on sustainable development, and what should they monitor?

**Governments (both national and local administrative structures)** have an interest in an investor's impact, compliance with agreements, legislation, and regulations, and need to monitor these aspects:

- The conduct of consultations with communities, the land acquisition process and any resettlement of people, and the ESIA
- The overall impact of the investment on sustainable development, including resource impacts (for example, monitoring all water use across a catchment by all users for sustainable resource use and decisions on allocations to other investors), economic impacts, and social impacts (job creation)
- Legal and regulatory compliance: for example, with the environmental management plan and basic conditions of employment)
- Adherence to contractual commitments (including performance requirements underpinning investment incentives)
- Financial and operational performance, in particular whether the operation is developing at the pace and scale expected or agreed, so as to recognize early-warning indicators of any financial difficulty
- Grievances against the investment lodged by local communities or other stakeholders

**Investors (including the company, financiers, and equity investors)** have an interest in governance compliance, and operational and financial performance, and need to monitor these aspects: .../

- Compliance with the laws and regulations of the host country
- Adherence to the terms and conditions of the investment contract between investors and the government, including any annexed agreements with local communities (can include land and water use)
- Operational performance (efficiency and effectiveness in undertaking operations including yields, fertiliser and chemical use, etc.) and financial performance, in particular in cases where outward investment support is provided
- Compliance with environmental approval and ESMPs
- Adherence to internal policies, such as health and safety guidelines, and management and staffing targets
- Impact of initiatives related to corporate social responsibility (possibly through independent third parties)

**Certification bodies** provide a service to industry associations, members, and/or companies that agree to adhere to the institution's standards and monitor adherence to the requirements of the certification scheme

**Civil society organizations** have an interest in the welfare of society; they primarily monitor environmental and social issues, often focussing on aspects where the risk of negative impacts is high (such as land acquisition procedures, compliance with environmental legislation, and the like). There can be a role for civil society organizations to monitor consultations between investors and communities.

**Home-country governments.** In the case of foreign investments, it is worth considering cooperation between home and host governments for, among other things, joint monitoring and impact assessment (UNCTAD 2015).

Source: UNCTAD–World Bank Responsible Agricultural Investment Database.

## ✓ ELEMENTS OF GOOD PRACTICE FOR GOVERNMENTS

**Monitor the overall impact on sustainable development.** Governments should monitor the overall impact of projects on sustainable development, including the impact on national agricultural development plans.

**Monitor environmental and social aspects.** Monitoring should not be restricted to financial and operational performance but should include social and environmental implications of the investment.

**Set clear reporting and monitoring requirements.** Reporting and monitoring requirements should be included in the investment contract as means of contractual enforcement, including potential sanctions for noncompliance. They should include targets for key impacts of the project on sustainable development, such as land use, job creation, outgrower schemes, community development agreements, and social and environmental impacts. Expected benefits to the host country and communities need to be enshrined in the contract and then monitored to ensure delivery.

**Monitor adherence to performance requirements attached to investment incentives.** Any investment incentives provided should be performance-based and the requirements monitored to ensure compliance with the terms and conditions under which the incentives were provided.

**Develop monitoring capacity and systems.** Consideration should be given to developing appropriate monitoring systems and templates as well as the capacity of officials within departments, ministries, and/or agencies with appropriate mandates such as the environment, land management, and community and rural development, at all levels in the administration. This could involve setting aside a percentage of revenues from the project for funding monitoring activities. Capacity includes ensuring that the units responsible are able to access sufficient additional resources as new investment approvals are granted.

**Conduct impartial physical confirmation.** Where appropriate, officials should undertake physical inspections through site visits and that they record outcomes and observations using appropriate systems of data collection and field reporting.

**Grievance monitoring.** Support the establishment of a formal grievance redress procedure, and monitor the level and resolution of grievances, facilitating dispute resolution where appropriate.

**Ensure transparency.** Consider what information investors could make publicly available in order to improve public monitoring of investments (see *Note 10: Public transparency*).

**Consider home-country government oversight.** Home-country governments should consider monitoring the social and environmental performance of companies' operations abroad, in particular where the risks of corruption, human rights violations, or environmental damage are high.

## ✓ ELEMENTS OF GOOD PRACTICE FOR INVESTORS

**Take responsibility.** Investors should take responsibility for monitoring key metrics, informed by contractual commitments to the host country and local communities, and by the findings of ESIA studies, including concerns identified in consultation with affected communities. These M&E costs need to be factored into investment plans.

**Develop an appropriate MIS.** An appropriate MIS is critical to good management. It can also go a long way toward having appropriate, up-to-date information required by any monitoring agency or advocacy group readily available. An MIS could also make use of systems to receive communication from affected communities.

**Use technology.** A wide range of technology can be put to good use in monitoring and recording. Examples include appropriate remote-sensing systems, GPS, and GIS for identifying land boundaries, sensitive environmental areas, and land use patterns. Video and/or voice recording of meetings and resolutions make it possible to capture credible documentary evidence. Utilizing digital tablets to collect data in the field reduces costs and errors.

**Conduct environmental monitoring.** Appropriate ESAs are essential, as is translating them into ESMPs. ESMPs could be enforced through ongoing reporting and monitoring. (For details, see *Note 14: Environmental and social impact assessments*).

**Monitor operational health and safety.** Monitor accidents, injuries, and the general health of workers, and implement mitigation and corrective actions and preventive policies and procedures, with training in cases with dangerous work environments (see *Note 16: Healthy and safe working environment*).

**Institutionalize community development agreements.** If investors have a community development agreement (see *Note 18: Community development agreements*), consideration could be given to creating an appropriate not-for-profit entity that represents both the investor and the community. It can monitor commitments, implement community development projects, and raise external funding for social projects.

**Monitor impact.** Independent third parties and certification bodies could be used to ensure compliance with good international practice.

## REFERENCES AND RESOURCES

This Note is complementary to the literature and guidance documents to which many organizations have contributed, a selection of which is provided below. Further resources are provided in *Note 2: Additional resources*.

BLACKMORE, E., N. BUGALSKI & D. PRED. (2015). [Following the Money – An Advocate’s Guide to Securing Accountability in Agricultural Investments](#). (IIED: London).

FAO. 2010. [The Use of Monitoring and Evaluation in Agriculture and Rural Development Projects](#). (IFC: Washington).

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WORLD BANK. (2014). [The Practice of Responsible Investment Principles in Larger-Scale Agricultural Investments: Implications for Corporate Performance and Impact on Local Communities](#). *Agriculture and Environmental Services Discussion paper 8*. (World Bank: Washington).



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