

ESG in agriculture - why it needs to work

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Agribusinesses can maximise opportunities, including creating significant revenue generation to complement the sector's existing sources of revenue, and promote resilience by adopting ESG strategies.



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While some businesses in the agricultural sector are embracing environmental, social and governance (ESG) and are from benefiting global ESG trends, such as ESG and impact investing, the agricultural sector, as a whole, in Africa has been slow to adopt ESG strategies. There is also cynicism amongst some agribusinesses with respect to the question of whether ESG is really a necessary or useful tool in their contexts.

ESG Africa Conference recently hosted a webinar titled *ESG in Agriculture – A Distraction or the Solution*, which considered whether ESG is a distraction from the core business activities of the agricultural sector, or a solution to the challenges faced by the sector.

There appears to be a widely held view that when it comes to the agricultural sector, ESG is onerous. It appears that the agricultural sector finds it difficult to be profitable and green, simultaneously. This criticism of ESG is not unique to the agricultural sector. ESG proposes an integrated approach to the triple bottom line, namely people, planet, and prosperity. Older models of shareholder primacy emphasise profit over all else. Buy in to ESG therefore requires a paradigm shift.

Green finance

On a closer look, the criticism appears to emerge from the experiences of many agribusinesses in trying to access green finance, which has proven to be difficult. Obtaining finance such as green bonds often come at an additional cost to farmers, such as developing and marketing instruments and employing professional advisers. Again, this is not unique to the agricultural sector.

This concern is valid and points to a challenge consistently being raised by developing countries/emerging markets, namely how do we incentivise ESG initiatives and funding, as opposed to simply creating more red tape?

The reality is that ESG risks affect all businesses across sectors, including the agricultural sector. The agricultural sector's vulnerability to climate change is heightened by its reliance on water, land and favourable/reliable climate conditions, which are already being destabilised by climate change.

When it comes to the social aspect of ESG, the agricultural sector in South Africa has had to transition away from racially discriminatory practices. A lot of progress has been made. However, there is still a long way to go to ensure that fair opportunities exist for black farmers with respect to resources, including land and water, and equipment. One of the challenges for the industry is improving its stance on providing a living, rather than a minimum wage.

Globally, we are seeing changing consumer and customer preferences for products which affects the agricultural industry (including the full supply chain). For example, regulators and consumers are demanding that products have a lower carbon footprint and that packaging is designed having regard to its end of life to ensure that it does not become waste. This may affect how fresh produce is treated, or the product choice, altogether.

Maximising opportunities

Integrating ESG into the agricultural sector is not only important to deal with ESG risks, but also to ensure that opportunities are maximised. There are already some interesting and impactful ESG initiatives in the agricultural sector especially in regenerating ecosystems, farming methods and transformative partnerships. For example, farmers who are switching their farming methods to more sustainable methods/practices are selling carbon/biodiversity credits. Collaboration amongst industry players and information sharing is key to building successful ESG initiatives. ESG could create significant revenue generation to compliment farmers' existing sources of revenue.

Resilience and adaptation are familiar concepts in the agricultural sector, which is no stranger to natural disasters. Given that ESG is ultimately a tool to promote resilience within organisations, among other things, the agricultural sector is well placed to grasp and adopt ESG.

ABOUT THE AUTHOR

Lerato Mblefi, Associate & Dalit Anstey, Knowledge Lawyer from Webber Wentzel. Our cross-practice ESG lawyers assist clients across sectors with understanding and integrating ESG into their business activities and supply chains. We are uniquely positioned to assist agribusinesses make sense of the applicable ESG regulatory and policy frameworks, ESG risks and opportunities.

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