1. About this page

This page is designed to help fund managers quickly familiarise themselves with animal welfare matters. It is not intended to be a detailed technical guidance document.

- Additional considerations
  Formal specific technical guidance is provided at the end of this page and in Reference materials, including the International Finance Corporation (IFC) Good Practice Note: Improving Animal Welfare in Livestock Operations.

  This page provides an overview and general guidance. Fund managers should carefully consider each company based on its specific characteristics and circumstances including scale, location, technology, management capacity and commitment and track record. Risks, impacts and opportunities relating to a particular company can also change over time due to a number of factors (e.g. changes in the applicable laws or in the type of the company's activities or assets). Fund managers may need to engage external experts in some situations (see 'Advice for fund managers' section below).

2. Introduction

The World Organisation for Animal Health (OIE) defines animal welfare as how an animal copes with the conditions in which it lives. An animal is in a good state of welfare if it is healthy, comfortable, well nourished, safe, able to express innate behaviour and if it is not suffering from pain, fear and distress.

Animal welfare is first and foremost important for the animals, as where welfare is poor an animal may suffer physical and mental distress. However, animal welfare can be relevant to business: poor welfare can impact the ability of animals to grow, produce and reproduce, which in turn can reduce productivity and food quality; and ultimately impact company performance.

- Animal welfare is gaining international recognition
  Tougher legislation – including several European Union laws and the Indian Prevention of Cruelty to Animals Act (which does not allow for the caged confinement of animals) – highlights the growing global focus on animal welfare. A number of global and regional initiatives have also emerged to provide guidance on good practice, such as

the Pan-African Animal Welfare Alliance, the UK's Royal Society for the Prevention of Cruelty to Animals' (RSPCA's) 'RSPCA Assured' farm assurance and food-labelling scheme and OIE standards.

- Five Freedoms of animal welfare
  Originally established by the UK Farm Animal Welfare Council, the Five Freedoms underpin international dialogue on animal welfare and refer to idealised states of welfare rather than to standards:
  - **Freedom from hunger and thirst:** By ready access to fresh water and a diet to maintain full health and vigour.
  - **Freedom from discomfort:** By providing an appropriate environment including shelter and a comfortable resting area.
  - **Freedom from pain, injury or disease:** By prevention or rapid diagnosis and appropriate treatment.
  - **Freedom to express normal behaviour:** By providing sufficient space, proper facilities and the company of other animals of its kind.
  - **Freedom from fear and distress:** By ensuring conditions and treatment that avoid mental suffering.

3. Why companies and fund managers should address this topic

- Risks for the business
  Companies and their investors need to ensure that they comply with local laws, regulations and standards in order to retain their licence to operate and to avoid fines. Serious violations of these requirements and/or significant misalignment with international good practice can also lead to reputational damage and to the loss of customers, productivity and product quality.

  For example, the OIE estimates that morbidity and mortality due to animal diseases causes at least 20 per cent of livestock production globally to be lost. Poor transportation can lead to lower product quality, as well as higher morbidity and mortality, due to physical and mental stress. The muscles of animals that experience stress prior to slaughter tend to have a higher pH value, which can also degrade the quality of meat.

Poor animal welfare standards can also affect companies' sales and reputation. For example, McDonalds China and Yum Brands (owner of KFC and Pizza Hut) saw declining sales following the 2014 China meat scandal driven by customer food safety concerns.

- Opportunities for the business
  High animal welfare standards can generate a number of business benefits, including maintaining or enhancing profitability and sales, as customers become increasingly concerned about animal welfare and the associated issues of food safety, provenance and the environment. In addition, product quality can be improved and losses reduced through the adoption of good welfare practices and limiting the incidence and effects of disease.

  As awareness about animal welfare increases globally, livestock producers in emerging markets may be able to benefit from increased demand for animals produced in accordance with high welfare standards in their home markets. However, the business case for improving animal welfare is particularly relevant for companies involved in global supply chains, as customers may be prepared to specifically look for or pay a premium for products or companies that demonstrate good international animal welfare practices. In 2014, Brazil's largest pork producer (BRF) announced that it would eliminate gestation crates on company-owned and contract farms in response to consumer concerns and the South African pork industry is also considering phasing out crates.

4. Advice to fund managers

See BII environmental and social checklist as it contains questions and tips to help fund managers to assess the E&S aspects of an investment.

Fund managers should assess whether companies within or significantly exposed to the agriculture and aquaculture sectors (including food and beverage companies) have animal welfare policies and procedures and whether they are compliant with applicable laws and regulations and aligned with good international industry practice (GIIP).

- Animal welfare is particularly relevant in the following sectors
  - Agriculture and aquaculture.
  - Food and beverages, as agriculture and aquaculture companies are the primary suppliers to numerous companies in the food and beverages sector. Animal welfare should also be taken into account when assessing supply chain risks and opportunities in this sector.

Where investments in large-scale, intensive animal production facilities or in sectors with well-recognised animal welfare issues (e.g. food manufacture or cosmetics) are being explored, fund managers should consider appointing external advisors. Fund managers should assess whether they need to take into account the following animal welfare matters in their value chains:

- Appropriate physical conditions and animal welfare
  Fund managers should assess whether companies that have implemented (or will implement within a reasonable timeframe) good management practices provide livestock with access to fresh water, a diet appropriate to their health and growth needs, and a living environment (including shelter, space and company of the animal's own kind) that lets them express normal behaviour (e.g. allowing chickens to dust bathe).

  Furthermore, stocking densities should be low enough to prevent excessive temperatures and humidity and, in the case of chickens, to enable good litter management (e.g. litter should not become wet, but should be dry and crumbly). Cages should, generally, be avoided as they have inherent disadvantages for welfare. Narrow stalls – in which animals cannot turn around – should also be avoided. Similarly, animals should only be tethered for short periods, where necessary.

Enrichment materials are particularly beneficial for animal welfare. For example, chickens housed indoors can be given straw bales, perches and pecking objects (a low-cost solution with significant benefits for animal welfare). Natural light and good ventilated are also highly beneficial.

- Proper transport and slaughtering
  Fear, pain and distress experienced by animals during transportation and slaughtering should be minimised. Fund managers should assess to what extent the company has policies and processes to ensure procedures and standards that provide animals with sufficient space, water, food and rest during any journey are in place. Injured and ill animals should not be transported. Meanwhile, loading and unloading should be carried out without hitting, dragging or throwing animals.

  Handlers must not perform violent acts to move animals, such as crushing or breaking animals' tails, grasping animals' eyes or pulling them by the ears. Animal handlers should also avoid applying injurious objects or irritant substances to animals (particularly to sensitive areas).

- Veterinarian services
  Fund managers should confirm whether a qualified veterinarian is performing regular control visits and, where appropriate, treating the animals.

- Use of antibiotics
  Attention should be paid to the use of antibiotics. Companies should have systems to ensure that antibiotics are only used for diagnosed diseases and are not used to promote growth and secure improved productivity. Nor should antibiotics be used routinely to prevent disease in intensive-farming systems. Disease should be prevented by good hygiene, husbandry and housing.

- Intensive livestock production systems
  Intensive livestock production requires the implementation of particularly robust management systems, as the potential for poor welfaredistress and disease is particularly high in intensive livestock production.

- Access to new markets or customers and other business opportunities
  As part of the investment process, fund managers should specifically consider whether animal welfare is likely to be relevant to market access, i.e. whether future target

customers are likely to require certain animal welfare standards or formal certification, and whether the company has the ability to meet these. This is more likely to be the case among customers in developed markets than those based in developing ones.

5. Tools

BII Animal Welfare Toolkit

BII has developed an Animal Welfare Toolkit to address the needs of animal production companies and investors who require a prescriptive and clearly defined, practical approach to enhance welfare standards and systems. The Animal Welfare Toolkit offers guidance based on the first-hand experiences of experts and practitioners to generate a shared understanding of welfare expectations that can be used by companies and investors to benchmark and track performance over time. It can be used during due diligence with the support of consultants, and during monitoring with company experts or with external consultants as needed.

Animal welfare toolkit – Introduction

- Beef cattle: Toolkit PdF, Toolkit MSExcel, Resources
- Dairy cows: Toolkit PdF, Toolkit MSExcel, Resources
- Broiler chicken: Toolkit PdF, Toolkit MSExcel, Resources
- Laying hens: Toolkit PdF, Toolkit MSExcel, Resources
- Breeder birds: Toolkit PdF, Toolkit MSExcel
- Hatcheries: Toolkit PdF, Toolkit MSExcel
- Breeder birds and hatcheries: Resources
- Sows: Toolkit PdF, Toolkit MSExcel
- Growing pigs: Toolkit PdF, Toolkit MSExcel

- Sows and growing pigs: Resources
- Sheep: Toolkit PdF, Toolkit MSExcel, Resources
- Tilapia: Toolkit PdF, Toolkit MSExcel, Resources
- Shrimp: Toolkit PdF, Toolkit MSExcel, Resources

6. Further resources

- Good practice and guidelines
  - Good Practice Note: Improving Animal Welfare in Livestock Operations, International Finance Corporation (IFC), 2014.
  - Environmental and Social Management System (ESMS) Implementation Handbook: Animal Production, IFC, 2014.
  - Global G.A.P. 2013. Animal Welfare Add-on (pigs and poultry).
  - Considering Farm Animal Welfare in Investment Decision-Making (Farm Animal Investment Risk and Return, 2015).
  - Factory Farming: Assessing Investment Risks (Farm Animal Investment Risk and Return, 2016).
- Organisations
  - World Organisation for Animal Health (OIE).
  - Food and Agriculture Organization of the United Nations (FAO) Gateway to Farm Animal Welfare.
  - World Animal Protection.

- The Royal Society for the Prevention of Cruelty to Animals (RSPCA).