

ESG Due Diligence in Practice

How an investor would test a dairy-sector project using the KMA case study

Article purpose. This article uses a simple dairy-sector case study to show how an investor can move from an ESG promise to a compliance-gap review before funding a project. The point is practical: do not fund the story until the targets, evidence, governance and gaps have been tested.

1. The case study: KMA and the dairy-sector investment

Case study fact	What it means for an investor
KMA is a government agency established under the Kenya Milk Act 2000.	The investor first confirms KMA's legal mandate and authority to regulate and promote the dairy sector.
KMA regulates and promotes milk production, processing and distribution in Kenya.	The due diligence review must cover the dairy value chain, not just one project activity.
KMA supports dairy farmers, ensures milk quality and helps stabilise milk prices.	The investment has social, consumer-protection and market-stability dimensions.
KMA is preparing its first sustainability report using the GRI Standards.	The investor should test whether the GRI process has been followed and whether the data can support reporting.
The report focuses on sustainable dairy farming, reducing environmental impacts and improving farmer livelihoods.	The main ESG promises become due diligence targets: emissions, water, waste, livelihoods and governance.
Positive results include 15% methane reduction, 20% water-use reduction and 30% animal-waste diversion.	These figures must be verified through baselines, methodology, records and assurance.
Challenges include animal-waste pollution, ongoing methane, low farmer incomes, poor conditions for women and youth, limited veterinary access and transparency concerns.	These are possible compliance gaps. The investor must test whether they are being managed before funding.

Source note: KMA case study and KMA group presentation, August 2026.

Investor scenario. Assume an investor or development financier wants to fund a KMA-linked dairy sustainability programme. The programme sounds attractive because it promises lower methane emissions, better water management, animal-waste solutions, milk quality, farmer support and improved livelihoods. The investor should ask one controlling question: **can KMA prove the ESG story and close the compliance gaps before funding?**

2. The correct GRI order for the due diligence review

The investor should not start with a generic ESG checklist or jump straight to the Topic Standards. The correct order is:

1. GRI 1	2. GRI 2	3. GRI 3	4. Sector Standard	5. Topic Standards
Foundation requirements	General disclosures	Materiality method	GRI 13 sector check	Reporting disclosures
How to report under GRI	Activities, governance, policies and reporting practices	Determine material topics from impacts	Compare against likely material topics for agriculture/dairy	Use only after material topics have been determined

Practical due diligence sequence: sector and context -> SDGs and indicators -> governance and stakeholders -> ESG topics -> actual impacts -> prioritisation -> provisional material topics -> GRI 13 sector comparison -> Topic Standards and disclosures -> Kenya Dairy Roadmap alignment -> target testing -> compliance gaps and investment decision.

3. The step-by-step investor questions

Question 1: What sector am I investing in?

Answer. The broad sector is agriculture. For this case study, the investor narrows the review to dairy. Dairy matters because it links food security, smallholder livelihoods, milk safety, water, animal waste, methane emissions, animal health, workers, women, youth and consumers.

Due diligence point. The ESG review must therefore be sector-specific. A dairy investment should not be tested with the same checklist as a bank, oil company or construction project.

Question 2: What does KMA do, and what ESG promises are attached to the investment?

Answer. KMA regulates and promotes milk production, processing and distribution. The sustainability story is that KMA will promote sustainable dairy farming, reduce environmental impacts and improve the livelihoods of dairy farmers.

Investor test. The investor converts each promise into a testable question: What target was set? What indicator measures it? What evidence proves it? What gap remains?

Question 3: Which SDGs and indicators help define the ESG targets?

SDG	Why it matters in dairy	Indicator	Investor question
SDG 2 - Zero Hunger	Dairy supports food security, productivity and smallholder income.	2.3.2; 2.4.1	Are small-scale producers earning more and farming sustainably?
SDG 6 - Clean Water and Sanitation	Dairy uses water and animal waste can pollute water bodies.	6.3.2; 6.4.1	Is water quality protected and is water-use efficiency improving?
SDG 8 - Decent Work and Economic Growth	Dairy should create safe, fair and inclusive work.	8.5.1; 8.8.1	Are earnings, working conditions and safety improving?
SDG 13 - Climate Action	Dairy cattle produce methane and other GHG emissions.	13.2.2	Are GHG emissions measured and reducing?

Due diligence point. The SDGs are useful only when connected to measurable indicators. The investor is not asking whether SDG logos appear in a report; the investor is asking whether the underlying performance can be proved.

Question 4: Who owns ESG governance and accountability?

Answer. KMA should have Board-level accountability, focused ESG oversight, management coordination and named metric owners. Direction should flow downward through strategy, priorities and targets. Performance information should flow upward through ESG data, KPIs, risks and stakeholder feedback.

Governance level	Role	Investor evidence
Board of Directors	Approves ESG strategy, priorities, targets and reporting.	Board minutes; approved ESG strategy; risk appetite; reporting approvals.

Governance level	Role	Investor evidence
Board ESG / Sustainability Committee	Oversees ESG risks, performance and disclosures.	Committee terms of reference; meeting packs; action trackers.
Management ESG Steering Committee	Coordinates implementation across functions.	Management reports; programme plans; escalation logs.
ESG lead and business functions	Collect data, track KPIs and implement actions.	KPI dashboard; named owners; data records; internal controls.

Question 5: Where do stakeholders fit in the review?

Answer. Stakeholders should not appear as a disconnected section. They are part of the evidence base for identifying impacts, testing whether benefits are reaching the right people and checking whether complaints or risks are being ignored.

For KMA, the key stakeholders are smallholder dairy farmers, dairy workers, milk processors and distributors, consumers, national and county governments or regulators, local communities, veterinary and agricultural service providers, and development partners, financiers or CSOs.

Investor test. Have these groups been engaged? What concerns did they raise? Did KMA respond? Is there a grievance mechanism? Do farmer, worker, community and consumer records support the ESG claims?

Question 6: What ESG topics should first be assessed?

Answer. At this stage, the investor prepares an initial ESG issue map from KMA's mandate, sector context, stakeholder concerns and case-study facts. This is not yet the final list of material topics. It is a working list for assessment.

Environmental	Social	Governance
GHG and methane emissions Water use and efficiency Water pollution and effluents Animal-waste management Climate resilience	Farmer livelihoods Health, safety and working conditions Gender and youth inclusion Training and capacity building Animal health and veterinary access	Transparency and accountability Fund allocation Programme effectiveness Stakeholder engagement Data quality and reporting controls

Question 7: What actual positive and negative impacts were identified?

Actual positive impacts	Actual negative impacts
Methane emissions reduced by 15% through methane capture and improved feed management.	Animal waste pollution affects nearby rivers and streams.
Water usage reduced by 20% through rainwater harvesting and efficient irrigation.	Cattle farming still generates significant methane emissions.
30% of animal waste diverted from landfills through biogas and composting.	Smallholder farmers face low incomes and limited resources.
Sustainable dairy practices promoted through feed, irrigation, biogas and composting.	Women and youth face poor working conditions and limited training/resources.
Farmer opportunities and livelihoods supported through programmes, milk quality and price stabilisation.	Rural veterinary access is limited, affecting animal health and milk production.

Investor test. Positive impacts are not enough. The investor must test both the positive achievements and the negative impacts that remain.

Question 8: Which impacts are most significant?

Answer. Positive impacts are prioritised by scale and scope. Negative impacts are prioritised by severity, which looks at scale, scope and irremediable character. This helps the investor focus on what matters most before funding.

Priority	Impact	Assessment	Investor implication
1	Water pollution from animal waste	High scale, high scope, high irremediability	Possible pre-funding remediation condition.
2	Ongoing methane emissions	High scale, high scope, medium irremediability	Require verified emissions baseline and reduction plan.
3	Low smallholder incomes	High scale, high scope, medium irremediability	Require income/productivity evidence and farmer-benefit monitoring.
4	Poor working conditions for women and youth	High scale, medium scope, medium irremediability	Require labour, OHS, training and inclusion controls.
5	Limited veterinary access	Medium scale, high scope, medium irremediability	Require rural service coverage plan and animal health data.

Question 9: Is there an applicable GRI Sector Standard?

Answer. Yes. Because the investment is in agriculture and dairy, the investor checks GRI 13: Agriculture, Aquaculture and Fishing Sectors. This sector standard comes before the final Topic Standards mapping. It helps the investor compare KMA's proposed material topics against the 26 likely material topics for the sector.

Provisional KMA topic	GRI 13 sector check	Why relevant to KMA	Move to Topic Standard?
Methane emissions and climate action	13.1 Emissions; 13.2 Climate adaptation	Methane is a core dairy climate impact.	Yes – GRI 305
Water use, water quality and effluents	13.7 Water and effluents	Dairy uses water and waste can pollute water bodies.	Yes - GRI 303.
Animal-waste management	13.8 Waste	Manure and waste require controls, records and safe disposal/use.	Yes - GRI 306.
Milk quality and consumer safety	13.10 Food safety	KMA's mandate includes milk quality and regulation.	Yes - GRI 416.
Animal health and veterinary access	13.11 Animal health and welfare	Vet access affects animal health, milk production and farmer income.	Yes – GRI 13 sector disclosure
Farmer livelihoods and economic inclusion	13.21 Living income and living wage; 13.22 Economic inclusion	Smallholder incomes are central to the case study.	Yes - GRI 201 / GRI 203.
Working conditions, women and youth inclusion	13.15 Non-discrimination and equal opportunity; 13.19 OHS; 13.20 Employment practices	The case identifies poor working conditions and lack of training/resources.	Yes - GRI 401 / 403 / 404 / 405.
Transparency, fund allocation and accountability	13.24 Public policy; 13.26 Anti-corruption; plus GRI 2 governance disclosures	Stakeholders question fund allocation and programme effectiveness.	Yes - GRI 2 / GRI 205.

Investor test. If GRI 13 includes a likely sector topic and KMA decides it is not material, the investor should ask for the reason. If it is material, the investor moves to the relevant Topic Standard and evidence.

Question 10: Which Topic Standards and evidence should be used after the GRI 13 check?

Answer. The Topic Standards are used only after the material topics have been determined and checked against the sector standard. They help the investor understand the disclosures and evidence needed for reporting.

KMA material topic	GRI 13 check	Topic Standard / disclosure	Target or indicator	Investor evidence
Methane emissions and climate action	13.1 / 13.2	GRI 305 / climate disclosures	15% methane reduction; SDG 13.2.2	Baseline, GHG method, methane-capture records, feed-management data, verification.
Water use and effluents	13.7	GRI 303	20% water-use reduction; SDG 6.3.2 / 6.4.1	Water permits, meter readings, water-quality tests, effluent-monitoring reports.
Animal-waste management	13.8	GRI 306	30% waste diverted to biogas/compost; SDG 12.5	Biogas records, composting logs, waste-transfer records, site inspections.
Smallholder livelihoods	13.21 / 13.22	GRI 201 / GRI 203	SDG 2.3.2 farmer income	Farmer payment data, income surveys, support-programme records, productivity data.
Working conditions, women and youth inclusion	13.15 / 13.19 / 13.20	GRI 401 / 403 / 404 / 405	SDG 8.5.1 / 8.8.1	Contracts, wage records, injury logs, training records, gender/youth participation data.
Milk quality and consumer safety	13.10	GRI 416	Milk safety and quality performance; SDG 2.1	Quality tests, rejection records, inspection reports, regulatory compliance records.
Animal health and veterinary access	13.11	GRI 13 sector disclosure	Vet coverage and animal-health outcomes; SDG 2.4	Vet outreach reports, disease records, production data, rural service coverage.
Transparency and fund allocation	13.24 / 13.26	GRI 2 / GRI 205	Transparent governance and programme effectiveness; SDG 16.6	Board reports, allocation criteria, audit trail, anti-corruption controls, programme evaluations.

Question 11: Do the selected topics align with the Kenya Dairy Roadmap?

Answer. After the GRI 13 comparison, the investor can also check the Kenya Dairy Board / Kenya Dairy Industry Sustainability Roadmap. This is a local sector cross-check. It helps confirm that the material topics are not generic; they match real Kenyan dairy-sector priorities.

Roadmap pillar	KMA topics	Roadmap alignment
People	Working conditions; women and youth inclusion; training; milk quality and consumer safety.	Product quality and safety; livelihoods; diversity, equity and inclusion.
Planet	Methane and climate action; water and effluents; animal-waste management; animal health.	Emissions and energy management; water management; waste and effluents; animal welfare.

Roadmap pillar	KMA topics	Roadmap alignment
Prosperity	Smallholder livelihoods; economic inclusion; sustainable dairy practices.	Food security; sector competitiveness; livelihoods.
Governance	Transparency, fund allocation, accountability and stakeholder engagement.	Management of sustainability opportunities and risks; ethical behaviour; accountable governance.

Question 12: Were the targets met, and what compliance gaps remain?

Answer. This is the investor's core due diligence question. Once the sector standard and Topic Standards are known, the investor tests targets and indicators against evidence.

Claim / target	Evidence required	Compliance gap if evidence is weak	Investor response
Methane reduced by 15%	Baseline, measurement method, farm-level records, verification.	No baseline, weak methodology, no independent assurance.	Require verified emissions baseline and reduction plan.
Water use reduced by 20%	Meter data, water permits, efficiency records, water-quality reports.	Reduction claim not supported; pollution still unmanaged.	Condition funding on water data and pollution-control plan.
30% animal waste diverted	Biogas/compost records, disposal logs, site inspection reports.	Waste still pollutes rivers or records are incomplete.	Require waste-management system and monitoring covenant.
Smallholders benefit	Farmer income data, productivity data, programme reach and feedback.	Programmes exist but benefits are not reaching farmers.	Require farmer-benefit KPIs and reporting.
Women and youth supported	Training, participation, contracts, safety and wage data.	Poor conditions and lack of resources remain.	Require labour, training and inclusion action plan.
Funds allocated transparently	Allocation criteria, approvals, audit trail, programme evaluation.	Opaque allocation or no proof of programme effectiveness.	Require governance controls, reporting and audit rights.

Practical five-part test. For every material topic, the investor should ask: (1) what is the claim; (2) what target or indicator measures it; (3) what evidence proves it; (4) what gap remains; and (5) should the gap be fixed before funding or monitored through covenants after funding?

4. From ESG review to investment decision

Once the compliance gaps are clear, the investor has options. It may proceed, require conditions precedent, require a remediation plan, include ESG covenants, require periodic reporting, request independent assurance, release funds in milestones, adjust pricing or decline the investment.

If the gap is...	The investor may require...
Missing legal or regulatory approval	Permit, licence or regulator confirmation before disbursement.
Unverified ESG claim	Baseline, methodology and independent verification.
Weak stakeholder engagement	Consultation plan, grievance mechanism and evidence of response.
Poor environmental controls	Remediation plan, monitoring reports and site inspections.

If the gap is...	The investor may require...
Weak governance	Board oversight, committee mandate, named metric owners and dashboard.
Poor labour or inclusion practices	Labour compliance review, OHS plan, training and inclusion KPIs.

Conclusion

ESG due diligence is not a document-collection exercise. It is a structured review that asks whether the project's sustainability story can survive scrutiny.

In the KMA dairy example, the investor should move step by step: understand the dairy sector, identify the ESG promises, select SDGs and indicators, confirm governance, use stakeholders to test impacts, identify positive and negative impacts, prioritise the most significant impacts, determine provisional material topics, check GRI 13 first, then select the relevant Topic Standards, compare with the Kenya Dairy Roadmap and test the targets against evidence.

The final investment question is simple: what is promised, what is proven, what is missing and what must be fixed before funding?

Sources used for this Discussion

- ICS ESG Case Study Sustainability Reporting, August 2026 - KMA case study.
- GRI 3: Material Topics 2021 - method for determining material topics.
- GRI 13: Agriculture, Aquaculture and Fishing Sectors 2022 - sector standard for agriculture/dairy comparison.
- KMA group presentation, August 2026 - class working, SDGs, impacts, prioritisation, material topics and roadmap alignment.
- Kenya Dairy Industry Sustainability Roadmap 2023-2033 - local dairy-sector alignment.