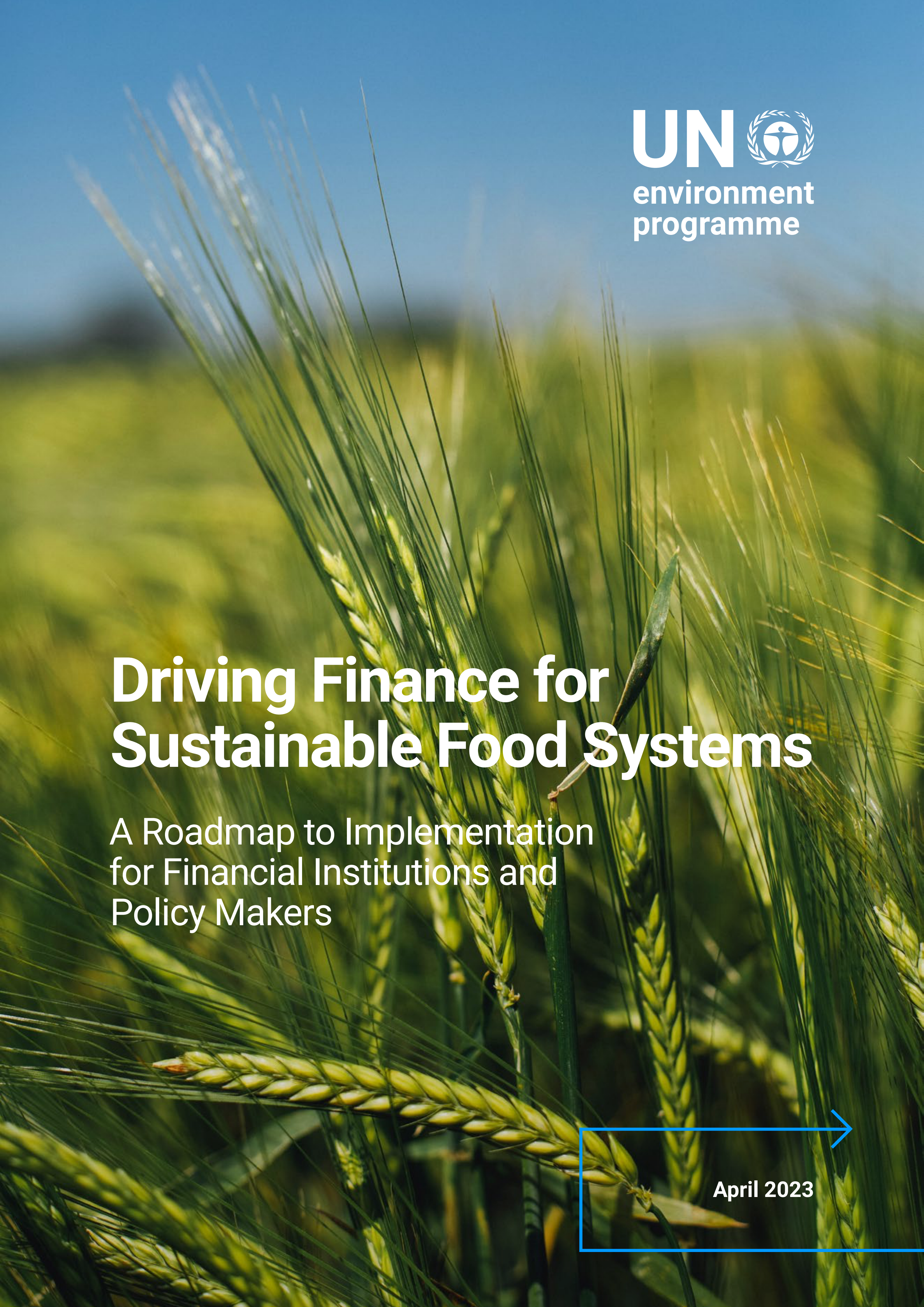

UN environment programme

Driving Finance for Sustainable Food Systems

A Roadmap to Implementation for Financial Institutions and Policy Makers

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Executive summary

Section I: The challenge

Food systems are key to achieving the Sustainable Development Goals (SDGs), yet their current trajectory is unsustainable. The way we produce and consume food contributes greatly to climate change. At least one third of total global greenhouse emissions from human activities can be attributed to the way we produce, process, transport and package food. The expansion of agricultural commodities is the largest driver of deforestation worldwide and food systems remain a key contributor to global nature loss with profound implications for people (e.g. related to food security, employment, public health and gender).

A food systems lens draws attention to multiple environmental, social and governance (ESG) factors—such as diets, climate and nature—and goes beyond a siloed approach. A rapid transition to sustainable food systems is key to achieving all 17 SDGs. Sustainable food systems could contribute to the fight against poverty, food insecurity and eradicating gender inequality by creating jobs, improving access to adequate nutrition, and supporting healthy communities. They can also help empower and support women and bolster their livelihoods by increasing women's access to capital, improving employment conditions or supporting businesses or investments that empower women, thereby improving their quality of life as well as that of their families and communities. While sustainable food systems are critical to addressing all major development challenges, the transition requires additional financial resources of up to USD 350 billion per year by 2030 (IFPRI 2022). Public financial resources, including multilateral development assistance, are not sufficient. **Private finance is essential to fill the funding gap to support the rapid transition of food systems**.

There is great potential for driving positive impacts from the financial services industry: Financial institutions with significant portfolio exposure to the agrifood sector have a fundamental role to play in addressing the world's most pressing challenges. They can influence clients and suppliers across value chains to improve their policies and practices, demand accurate quantitative monitoring and reporting from investees and drive financial flows towards more sustainable food systems. These efforts can underpin strong economic recovery, climate action, nature protection and public health and make food systems more sustainable, resilient, and fair.

Channelling private finance to food systems is a major challenge: Information asymmetries exist between financial institutions and potential borrowers or investee companies. The sector is prone to high transaction costs and small ticket sizes for agribusiness financial transactions upstream at the farm or production level. A significant proportion of actors operate in the informal sector, which lacks access to formal finance channels. The institutional capacity to set and enforce regulations to around financial transactions is often limited in countries where access to finance is most needed. In addition, food systems exhibit growing risks—they are exposed to increased frequency and intensity of extreme climate events, high volatility of commodity prices, heightened macro-economic challenges (inflation, recession) and geopolitical risks (local and regional conflicts, disruptions in international trade). Directing adequate volumes of private finance to sustainable food systems remains a major challenge. This report addresses how private finance can overcome significant hurdles on the path to fostering sustainable food systems.

Section II: Institutional changes needed

Identify and assess impact, set targets, monitor progress and achieve impact: The roadmap for implementation for private financiers starts by identifying—systematically and holistically—both the positive and negative impacts of loans, investments, and operations across environmental, social and economic impact areas. Next steps include assessing and measuring performance, setting targets, monitoring and disclosure. Boosting implementation in the agrifood sector requires capitalizing on the opportunities that this sector brings including investing in new projects and businesses that tackle food-related issues, making concessional finance available, developing innovative financial products, and raising institutional investor capital for sustainable food systems.

Deliver on commitments: After setting targets, financial institutions require concrete action plans to deliver on their commitments. Only the implementation of targets can result in tangible impacts for people, climate and nature.

Time for action: Financial actors can leverage the socio-economic opportunities of the food systems transition and mitigate the increasing financial risks they face if the current food system challenges are not addressed.

Good practices demonstrated and promoted by the Good Food Finance Network: The first tranche of targets under the Good Food Finance Network exemplify how finance can be redirected towards sustainable food systems through concrete, timebound steps and by addressing different ESG dimensions and geographies. Targets include a wide range of measurable environmental and social goals to build a sustainable food system, such as: increasing the use of technology to modernize agricultural practices, avoiding deforestation, investing in climate adaptation, and unlocking smallholder farmer income through incentivising carbon removal. Promoting gender equality and human rights-based approaches is a crucial element of environmental sustainability and this should be specifically reflected in social targets.

Section III: Credit risk mitigation and financial innovation

Blended finance offers great opportunities as an interim measure until new, sustainable food production and processing models are fully commercially viable: Blended finance is a way to de-risk investments by using concessional funding and the effective combination of public and private financing sources. Blended finance tools can be used to shift a portion of the risk from the issuer of the loan to the public sector, and to lower a lender's potential initial losses from default. Other forms of blended finance structures incorporate performance-based guarantees, such as the allocation of finance to the target clients of the vehicle (e.g. smallholders), or the condition of reduced collateral requirements, or a longer term repayment period.

Developing a strong portfolio of blended finance vehicles is particularly important for food systems to attract private investments to projects that exhibit high levels of risk while offering high potential for positive impacts. However, drawbacks include a perceived tedious and lengthy process that is unacceptable to some clients and often, a lack of consideration of the different risk appetites of participating institutions. Ultimately, any business model ought to be able to stand on its own without the use of subsidised loans or other forms of risk mitigation, which means that public funding in blended finance transactions has to decrease over time as and when it becomes clear that there is a market and financial institutions are able to correctly price the risks and cash flows of new, sustainable food production models.

Develop novel models of risk management for the food value chain: The public sector can develop and be part of new investment vehicles aiming to diversify the risk/return profiles of private investors. The design of new vehicles can also incorporate performance-based guarantees, such as the allocation of finance to the target clients of the vehicle (e.g. smallholders), or the condition of reduced collateral requirements, or a longer-term repayment period.

Promote financial vehicles to support the penetration and coverage of insurance services across food systems: The public sector can provide capital to cover certain segments of food systems in circumstances where the individual and collective purchasing capacity is low but the insurance need is high (e.g. small scale farmers, small businesses that are un(der)-covered by private insurers).

Financial innovations are fundamental to channelling private finance to sustainable food systems: A combination of innovative new instruments and financing techniques and those that have proven effective in other sectors will foster the development of sustainable finance in food systems. The past few years have seen a growing appetite of financial institutions—banks, investors, and insurers—for green products. The market now offers innovative investments that are linked to sustainability performance indicators, and financial vehicles designed for special purpose securitisation. The critical features of innovative instruments are scalability, replicability, and the versatility of the instrument.

Section IV: Develop an enabling policy environment

Developing an enabling policy environment is key to channeling sustainable finance to food systems. An enabling environment for sustainable finance consists of regulatory frameworks, policy instruments, and the provision of public services directed at both financial and non-financial actors to promote sustainable finance in food systems. It may involve direct policy actions in the form of market interventions, or indirect incentives and signals that aim to encourage market participants to invest in sustainable activities. It may also take the form of provisioning transparency (e.g. disclosures and reporting), and publicly available data and information that allow actors to make informed decisions about their financial transactions. The enabling policy environment can be structured in three pillars.

Pillar I. Develop a risk framework for the food value chain

Public policy needs to be dynamic and innovative in designing and instituting new mechanisms and models to manage chronic and emerging risks around food systems.

- **Set up specialised risk agencies (public or public-private partnerships)** that can institute technically suitable guidelines, metrics and methodologies to assess and monitor risks in food systems.
- **Set up a designated finance agency as a one-stop shop of blended finance for food systems** to develop and disseminate new investment vehicles that diversify the risk-return profiles of individual and institutional investors.
- **Support the penetration and coverage of insurance services across food systems** by providing capital to subsidize stakeholders that are un(der)-covered by insurers. Develop forms of risk sharing for segments of food systems where the collective purchase capacity is low, but the insurance need is high.

Pillar II. Repurpose and develop an incentive framework

Setting up an effective and efficient incentive framework—or adjusting existing ones to generate and re-direct flows of capital to sustainable activities—is a key component of an enabling policy environment.

Repurpose **agricultural support policies** by:

- **phasing out distortive policies,** especially those linked with agricultural input use, such as chemical fertilizers and pesticides
- **repurposing public funds** to provide services that promote sustainability, resilience, and biodiversity
- **intensifying support for green activities** such as crop rotation, green irrigation, soil protection, ecological reserves and compensation areas

Generate higher public financial flows through new instruments, including sovereign green bonds, which offer great potential to support sustainable activities.

Pillar III. Market signaling

Setting up effective and efficient signalling mechanisms to inform and influence behaviour of market participants around sustainable activities and investment areas is a key component of an enabling policy environment.

- **Re-direct investment flows through food-system-sensitive green taxonomies** to signal markets about sustainable activities and investment areas and attract financial capital.
- **Apply green monetary policies while avoiding additional constraints on food system finance**.
- **Set mandatory disclosure requirements** that require companies to disclose information on how they manage their ESG practices and operations.