



Policy Brief

GLOBAL ACTION FOR CLIMATE FINANCE AND INVESTMENTS FOR AGRIFOOD SYSTEM TRANSFORMATION

Task Force 4

Food Security and Sustainable Agriculture

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Abstract

The transformation of food systems is crucial for achieving multiple global objectives, including the 2030 Sustainable Development Goals (SDGs) and the climate change mitigation, adaptation and resilience goals established in the 2015 Paris Agreement. The Paris Agreement calls for “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.” To meet national and global SDG-related and climate goals, existing flows of funds must be reoriented, and support mobilised for a broad range of investments and interventions, including mitigation and adaptation activities, by all food system actors. The brief proposes seven recommendations for the Group of 20 (G20) to act upon: (1) establish effective incentive frameworks to attract food-system finance; (2) improve regulatory frameworks to steer food consumption and production decisions towards sustainability and healthy diets; (3) encourage more strategic use of international development funds; (4) repurposing of existing agricultural support for the transformation of food systems; (5) promote climate-positive investment with funding from the commercial banking system and capital markets; (6) promote access of SMEs and smallholders to finance from commercial banking system and capital markets and (7) provide support to countries in aligning with the United Nations Forum on Sustainability Standards (UNFSS) National Pathways with the Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) of the UN Framework Convention on Climate Change (UNFCCC).

Challenges

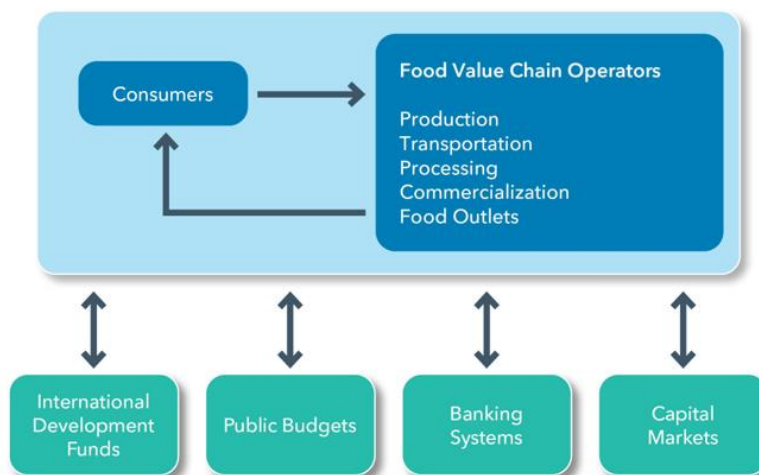
Food systems are important for income and employment generation, poverty reduction, food security, health and nutrition, energy use, climate change, environmental sustainability, biodiversity and ecosystems, and even for peace and political stability. Hence, the adequate functioning of food systems is crucial for achieving the SDGs by 2030 and the climate change mitigation and adaptation targets established by the 2015 Paris Agreement. To achieve these economic, social and environmental objectives, current food systems need to retool their operations. In particular, investment in sustainable intensification of agriculture, particularly in developing countries, will play a key role in the solution to climate change, with its potential triple role in reducing emissions from crop and livestock production via climate-smart practices; helping capture more carbon dioxide equivalent (CO₂eq) through efficient agriculture and landscape management, and adapting and building resilience to more challenging climate and weather conditions (Echeverría, 2021).

Transforming food systems will be costly but affordable. Estimates of the costs of transforming agriculture and food systems to meet the SDGs and the Paris Agreement targets range from an additional US\$15 billion to \$350 billion per year between 2022 and 2030, depending on how many of those objectives are included and baseline assumptions (IFPRI, 2021; Sulser et al., 2021; FOLU, 2019; Laborde et al., 2020; ZEF and FAO, 2020; and UNEP, 2021). Cost estimates become significantly higher when adding investment needs of broader economic system transformation. For example, the additional transition costs for the entire energy sector are estimated at about US\$5 trillion annually until 2030 (International Energy Agency, 2021).

No matter the precise price tag, recent international summits, including the latest Conference of Parties of the UNFCCC (COP26) and the UNFSS, reiterated the Paris Agreement call for substantially scaling up and reorienting finance flows towards sustainable development and stressed the need to create innovative financing mechanisms.

There are ample sources of finance to be considered. Taking a broad view of food system finance, Diaz-Bonilla, Swinnen and Vos (2021) propose considering six types of “flow of funds” (Figure 1). Two are “internal” sources of funding generated in food systems. They refer to food expenditures by consumers, which in turn constitute the sales/revenues and, hence, the profits and own savings of farmers and agrifood business operators. Four are “external” to food systems, including international development finance (concessional and non-concessional loans, grants and donations), national government budgets, commercial bank credits and capital market finance.

Figure 1 Flow of funds for food systems
Flow of Funds for Food Systems



Source: E Diaz-Bonilla, J Swinnen, and R Vos, “Financing the Transformation to Healthy, Sustainable, and Equitable Food Systems,” in *Global Food Policy Report 2021: Transforming Food Systems after COVID-19*, 20–23 (Washington, DC: IFPRI, 2021).

Despite the broad array of funding sources, estimated financing gaps for sustainable food system transformation are substantial. The Standing Committee on Finance (SCF), established at COP16, has been tasked with the preparation of biennial estimates of such financing gaps. The SCF’s most recent report on current climate finance flows (2017–2018) for all mitigation and adaptation activities presents a high-end estimate of \$775 billion and a low-end estimate of about \$574 billion (UNFCCC, 2021). Climate finance for mitigation and adaption in agriculture, forestry, land use and natural resource management (AFOLU) currently represent less than 4 percent of all surveyed financial flows. The SCF does not provide an estimate of such financial flows for the food sector as a whole. Díaz-Bonilla (2021a) attempts to provide a breakdown of current financial flows supporting efforts at ending hunger and making agriculture sustainable (SDG2), but equally encounters data limitations to estimate financial flows for the entire food system.

The analysis of current fiscal and financial flows should also consider whether these provide incentives and means for investments serving the SDGs and climate change objectives or not. For instance, governments may be subsidising fossil fuels or bad diets, or agribusinesses may deploy finance for clearing forests, and so on. Identifying such “bad” uses of funds and finding ways to stop these would reduce their direct adverse effects while freeing up resources for nature-positive investments.

Proposals for G20

To address these challenges, this brief recommends that the G20 takes leadership in promoting the mobilisation of financial resources and incentives for investments in healthy, equitable, inclusive, sustainable and climate-resilient food systems along seven action areas requiring international concertation:

1. **Establish effective incentive frameworks for attracting finance for food system transformation**

Governments have a variety of policy and intervention options to provide an effective framework to promote investment in mitigation and adaptation and SDG-aligned activities, and to guide financial flows away from unhealthy and environmentally damaging foods and operations. National macroeconomic and trade policies define the general business environment, including aspects such as price stability that can facilitate investment. Governance of carbon emissions, including legislated net-zero targets, as well as related sectoral targets, and adequate pricing of carbon and other externalities will be crucial to guiding decisions of consumers, producers and other agents in food systems (CFLI, EDFI and GIF, 2021). As suggested by the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board, disclosure of climate-related risks could help steer financial institutions away from investments adversely affecting climate resilience. The G20 can take a lead in strengthening and harmonising such incentive frameworks.

2. **Improve regulatory frameworks to steer food consumption and production decisions towards sustainability and healthy diets**

The G20 could provide leadership in developing an internationally concerted framework for sustainable, safe and healthy food standards and regulations. Consumers want affordable, convenient, good-tasting and safe food. They also claim to value healthy food and environmental sustainability, though often their choices do not reflect these preferences. Governments can influence the food environment – including prices, incomes, preferences and the market structure that frame consumers’ decisions – using taxes and subsidies, income support, nutritional information and regulations (for example, labelling requirements). Governments already influence the decisions of food value-chain operators using regulations and controls related to health, nutrition and food safety. Other interventions will be needed to address climate objectives, such as stopping deforestation and displacement of vulnerable communities from their land and reducing food loss and waste. For example, food companies could be charged for the environmental costs of their waste. In addition, pledges by food companies to achieve net-zero carbon or net-zero emissions may require public mechanisms for monitoring and enforcement.

3. Use international development funds strategically

In 2009, developed countries pledged to provide \$100 billion annually for mitigation and adaptation at COP15. This pledge was renewed at COP26. Yet, international development funds going to agriculture and food, climate change and related uses are small compared with the needs. The G20 should make sure commitments to provide \$100 billion for developing countries are met with a sizeable grant component, and a significant share of resources allocated for climate change mitigation and adaptation efforts in food systems. To support a positive shift in financing, bilateral and multilateral development agencies should improve disclosure of sustainability impacts of their operations, with common reporting methodologies, and comply with commitments linked to zero deforestation and no financing of coal and other high-emissions projects, aligning their operations with climate goals and the 2030 SDGs.

These international public resources also should be used more strategically to leverage and mobilise the vast liquidity in global private capital markets. Blended and parallel finances, guarantees to de-risk specific projects and socially or environmentally themed bonds can support private investments that address larger humanitarian and development objectives. This potential for leverage is also relevant to the current debate about possible uses of the International Monetary Fund's newest issue of Special Drawing Rights (SDRs) (about \$650 billion, of which about 60 percent goes to developed countries) and the possibility of reallocating a larger share of them to developing countries for financing mitigation and adaptation.

4. Improve the allocation of public budgets for the transformation of food systems

One possibility under discussion is to repurpose the agricultural support measures (\$600 billion to \$700 billion) that currently include a variety of expenditures and transfers to producers. Of this, some 35–40 percent are subsidies (concentrated in Europe and China) that could be repurposed towards the provision of environmental public goods and support of healthier and more sustainable diets, instead of supporting products that damage health and the environment (see related *T20 Policy brief on repurposing of agricultural support*). Public budgets also include large fossil-fuel direct subsidies, amounting to about \$826 billion (extrapolating from Parry, Black and Vernon, 2021). The Glasgow Climate Pact agreed at COP26 commits countries to “accelerating efforts towards the phase-down of unabated coal power and inefficient fossil fuel subsidies, recognizing the need for support towards a just transition.” Eliminating those subsidies would reduce incentives for fossil-fuel use, and they could be reallocated to finance adaptation and mitigation in food systems.

In addition, innovative policy frameworks, including payments for environmental services, could help stop deforestation and promote ecosystem restoration and ecosystem services; and sound carbon markets, allowing for carbon credits, with the possibility of using the related income stream to support dedicated bonds (Echeverría, 2021).

The G20 could take leadership in providing an internationally concerted framework for the repurposing of agricultural and fossil fuel subsidies towards scaled-up investments in science and technology, not just for sustainable intensification of agricultural production, but also to improve efficiency and climate-resilience along agrifood value chains and improving the consumer environment. One proposal recommends that countries' investments should reach at least 1 percent of food-system-related gross domestic product (von Braun et al., 2021). The framework should also include guidelines for public expenditure and tax reviews to help determine whether the level and composition of governments' budgets are adequate, as well as efficient, effective, and equitable, in regard to climate change objectives and other SDGs.

5. Steer banking systems and capital markets towards climate- and nature-positive investments

Some banks and other investors have already made pledges and formed coalitions such as the Glasgow Financial Alliance for Net Zero (GFANZ) and the Climate Finance Leadership Initiative. GFANZ has argued it can mobilise \$100 trillion through 2050 for climate-positive investments, with an annual flow of about \$3 trillion to \$4 trillion. However, standards for nonfinancial objectives vary, as do monitoring and reporting expectations. For these pledges to be effective in reorienting investment, the G20 could take leadership in developing and promoting the use of the macroeconomic, regulatory and incentives framework discussed above, including the legislation of net-zero emissions targets, pricing of externalities, development of carbon markets and risk disclosures, thus generating demand and creating markets for the financial flows.

6. Additional interventions in banking systems and capital markets for an inclusive transformation

Food system actors most affected by climate change include small farmers, small and medium sized enterprises (SMEs), women and youth. Concerted action will be needed to create incentives for funding the inclusive transformation of food systems, particularly investments led by these groups. First, a robust pipeline of investable opportunities (including individual projects, impact investment funds, green bonds and other instruments) must be developed. Second, central banks, within adequate monetary programming that considers inflation objectives, can offer specific lines of credit to financial entities, which in turn can finance credit lines for climate-positive activities, focusing on small farmers and SMEs, including women and youth, in food value chains. Well-managed public development banks¹, which already play a key role in climate finance, can be powerful instruments for addressing market failures that affect agricultural and rural financial markets and climate finance, and for crowding-in private sector funds from commercial banks and private investors by using blended finance and de-risking arrangements

¹ See a discussion of the evolution of approaches toward public development banks in Díaz-Bonilla, 2015.

with their own public capital.² Third, new instruments such as sustainability-linked loans and bonds can help: these are being used to finance decarbonisation transition plans, with interest rates that fluctuate depending on the attainment of emissions-reduction goals or supply chain sustainability metrics. However, further innovations are needed to mobilise funds from banks and capital markets on the scale needed, and in ways that consider the special needs of small farmers and disadvantaged groups in food systems.

7. Support countries in aligning the National Pathways of the UNFSS with the NDCs and NAPs of the UNFCCC

Currently, the country-based³ initiatives for the transformation of food systems are approached under two separate tracks: the National Pathways delineated at the UNFSS and the NDCs and NAPs of the Paris Agreement within the negotiations under the UNFCCC. The latter cover more than only food systems and the national pathways include more than only climate change objectives. But all those approaches need to be integrated into comprehensive national plans from the perspective of the transformation of food systems.

The UN secretary-general announced at the UNFSS that there will be UN-appointed resident country coordinators to help manage the work of the UN organisations around national programmes of food systems transformation. Of course, such coordination must extend beyond the UN system and must be coordinated by national governments. The G20 can ensure a wider collaboration of international organisations in support of country-led national plans for food systems transformation.

² See the “Finance in Common Summit” organised in November 2020, as a joint initiative of the International Development Finance Club (IDFC), the World Federation of Development Finance Institutions (WFDI), SAFIN, IFAD, and the Government of France https://www.ifad.org/documents/38714174/42142599/fic_statement.pdf/6a6fcfe1-6614-7786-c69a-743df3dcd5e6.

³ Both the UNFSS and COP26 are advancing two ways of ensuring follow up to proposed actions: (1) establishment of coalitions among interested stakeholders and (2) support to the development of integrated NAPs. Here we focus on the second approach. Regarding coalitions, there are several of them, including public and private participants, such as in zero hunger, school lunches, net-zero deforestation, good food finance, reduction of food waste and loss and sustainable livestock production, among other coalitions. To be effective, these coalitions must clarify their governance, funding and operational structures and approaches, and those with overlapping topics may need to consolidate around common structures.

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