# High Level Dialogue at CFS 47
# Finance and Investment
# January 26, 2021

## REPORT

On January 26, almost 150 gathered in a virtual High Level Dialogue as a contribution to the cross cutting theme of Finance in preparation for the Food Systems Summit. The groups recognized the importance in particular of activities to support youth and SMEs to get access to finance and derisking mechanisms. New partnerships are needed to provide funds into these key categories. The theme has been selected as a cross-cutting issue to the Summit and to generate some conversation outcomes across the Action Tracks.

Each participant was encouraged to engage in a multi-stakeholder process and for each discussion topic to:

a) Scope the problem that is the subject of their breakout room.
b) Identify ways to solve the problem.
c) Identify a collective action they can take that could be submitted to the Food Systems Summit action tracks.
d) Identify a policy recommendation to the Food Systems Summit.

## Dialogue Focus & Outcomes

### A) Major focus

Food finance interventions in both the public and private sector do not yet add up to a coherent and commensurate response that will lead to a thriving, sustainable global food system. We need to tackle inefficiencies in the way food systems are financed, rapidly shift capital out of the old economy and into more sustainable food assets. We need to clarify additional capital requirements to transform food systems, disaggregated for different geographies and Action Tracks. While many measures are individually constructive, they are not shifting capital at the scale and speed that is necessary and we need targeted interventions to unlock/redirect public and private capital. This dialogue has allowed for guests to exchange on five topics on the theme of finance.

<u>ACCELERATION</u>

Support to food systems financing through initiatives focusing on blended finance, digitalization, data, and long-term investment needs to accelerate with institutions, public/private financial service providers adjusting /developing systems and approaches. Actual accelerators active in the space of encouraging entrepreneurship and new ideas were present, though often are not joined up to global financial institutions.

This need for acceleration is closely linked to finance as it will require the clarification of the costs of reforming food subsidies (both implementation and compensation. costs) towards subsidy/taxation mechanism that offer positive incentives for sustainable food systems.

DERISKING

Many developing markets have challenges raising capital and farming itself is exposed to a wide range of risks because agricultural production relies heavily on the natural resource base and climate conditions. We need to appreciate the various sources of risk in the natural as well as institutional environments and address these as well.

Similarly, shocks to the market from both domestic and international sources can result in price volatility. These risks directly affect the economic returns from agriculture, the livelihood of farmers, and in the long run, the capacity of farmers to invest and innovate.

Derisking private sector financing could, it is estimated, mobilise over $2 trillion of private capital towards food system transformation.

INCLUSION

Ensure inclusion of women and youth specifically around financing and access to finance. Support for financial inclusion also requires a systematic approach to impact measurement, including indicators for inclusivity, as well as information on financial and agricultural performance, and that calculate the true value of food.

The World Bank recently made available the Global Financial Inclusion (Global Findex) database to measure and track the progress of financial inclusion. There are some indications that financial inclusion only helps to lower poverty and income inequality when overall economic conditions empower people to use access to finance for productive purposes such as expanding a business.

NATURE POSITIVE

Supporting farmer transition in adopting more sustainable agricultural practices through attributing real value to the stewardship of nature will be paramount if food systems are to respond to the Action Track work streams of protect, manage, and restore.

A move to nature-based solutions will require efforts to achieve zero emissions, regenerative agriculture, and emphasis on a circular bio-economy while maintaining economic viability.

VALUE CHAIN FINANCE

The shift to long-term sustainable financing requires focus on inclusion and integration across the entire value chain while creating new financial services.

This can facilitate the redirection of public/private spending in agriculture, in the food supply chain and in food consumption towards the triple goals of healthier people, a healthier planet, and healthier economies.

## B) Main Findings

ACCELERATION

Governments, financial institutions, research centers and investors from the private sector as a whole need to partner to accelerate growth in the nutritious food production sector by facilitating access to funding.

Banks typically must operate with a financial regulatory framework which, effectively, prevents banks from engaging in business activities that may have significant risk. Many 'acceleration' initiatives would not pass these regulatory hurdles and risk is the critical factor preventing 'accelerated' financial participation.

Governments have a key role to play to provide the right environment to promote new financing modalities as even successful start-ups and high-growth opportunities must often be self-funded because the financial industry shows no interest until a threshold of EBITDA (earnings before interest, taxes, depreciation, and amortization) is attained.

The need for acceleration will require the clarification of the costs of reforming food subsidies (both implementation and compensation costs) towards subsidy/taxation mechanism that offer positive incentives for sustainable food systems (payment for environmental services of food systems, better pricing of land and water; taxes for environmental degradation; and polluter pays principle for greenhouse gases) and financing for income support to poor households to increase the affordability of nutritious diets.

DERISKING

A strong political signal/leadership is needed to draw attention to opportunities in the middle of the value chain that can help to link changing consumer demand with the need for market-based incentives for farmers to take on risk and adopt new practices, inputs, food products, and processes.

The environment farmers work in is full of risk and high borrowing rates compound the risks to farmers, and lenders in any case are unwilling to take on risk and prefer highly liquid or marketable collateral.

There are various sources of risk in the natural as well as institutional environments and these need to be addressed. Technology can play an important role by providing specialized instruments that redistribute risk or directly cover against important specific sources of risk. It can also help by reducing transactions costs and hence the cost of borrowing, and by improving transparency in market functioning and reducing information asymmetries among borrowers, lenders, and other market intermediaries. It is important to take a larger perspective, embracing the whole value chain from production, transformation, distribution, and consumption.

INCLUSION

Ensure inclusion of women and youth specifically around financing and access to finance, including addressing the problem of capacity building, especially for youth and startup companies and ensure that the voices of the youth are heard.

This also includes the access to financing for women, improve their ability to start business and capacity to prepare a business plan etc; need for education for women; access to technology for women in rural areas; legislation to ensure that women can access the finance.

<u>NATURE POSITIVE</u>

A move to Nature based solutions will require the following: efforts to achieve Zero emissions; regenerative agriculture; and emphasis on a circular bioeconomy while maintaining economic viability. Therefore, its necessary find ways to valorize nature-based solutions – such as attributing value to biodiversity, carbon sequestration (carbon trading systems exist but the methods to reliably measure are not yet available). Other options include green bond issues, carbon credits and sequestration which could all create income for farmers to cover costs of transition – for example planting cover trees and using their carbon sequestration capacity to generate income while other crops grow to maturity underneath.

There is a need to harness assets and technologies that were not available 5 or 10 years ago to develop out-of the-ordinary solution thinking: use of satellites/drones to monitor progress across multiple small holding reserves; and cheap monitoring sensors that were not previously available to help with issues like fertilizer, water, soil carbon etc. Academia and food producers must collaborate to reflect the realities at different scales for better policy and impactful finance.

<u>VALUE CHAIN FINANCE</u>

Value chain finance is obstructed by high transactions costs arising from lack of information, lack of understanding and trust between participants, lack of standards and regulations, and simple logistical challenges, all of which make it hard to measure and manage risks (as required to allow financing to flow). The responses mainly focus on different ways of reducing these transaction costs.

Technology is key to overcoming informational challenges, leveraging also financial innovations and improved warehouse receipt systems, improved regulations and standards also help overcome information gaps. governments need to introduce standardization, better legal and financial framework, and education for key value chain actors. Technology can also help monitor production and overcome asymmetric information, so banks are more comfortable in lending to agricultural players.

## C) Discussion Topic Outcomes

<u>ACCELERATION</u>

Risk is the critical factor from start-up through scale-up with, typically only 4% of the funding comes from government. To get private sector engaged Government can and needs to play the role of catalyst and specifically focused on risk reduction, not just investment risk but also government stability within and across regions as the agriculture sector is highly fragmented, with diverse and context specific production, financial and investment costs.

Incentives are needed to encourage banks to provide faster and context specific financing to SMEs. Government needs to play the role of catalyst and specifically focus on risk reduction. Banks typically operate with a financial regulatory framework, but this framework prevents them from engaging in business activities that may have significant early-stage risk as is the case in agriculture. To overcome regulatory hurdles to supporting early-stage companies and start-ups banks sometimes participate in higher risk financings by forming arms-length investment arms or by attracting other financial institutions to provide financing. Creating a financial structuring vehicle through partnerships which are geared at establishing a pool of individual loans can de-risk them and will attract investment.

DERISKING

To get the world's small farmers to drive a food systems transformation, their situation, characterized by high risk and extreme consequences of failure, needs a strong political signal to draw attention to opportunities to link changing consumer demand with the need for market-based incentives for farmers to take on risk.

There needs provision of greater incentives for financial institutions that understand farming to provide new instruments that support new practices, inputs, food products, and processes. Blending of public and private finance can lead to new financial instruments that increase the size and tenor of loans for transformational (as opposed to incremental or otherwise insufficiently large) investments.

INCLUSION

Governments should invest in educating the youth on business, technology, and entrepreneurship from an early age. Capacity-building especially among women and youth through training to resolve the lack of human resources and technical skills for easier access to finance is critical. Such education usually takes place at the tertiary level, but this is considered too late. This includes a focus on CFS Voluntary Guidelines on land tenure which could guide country policies on land governance and land tenure.

NATURE POSITIVE

Governments need to invest in developing tools and methods that create a level playing field globally and that can be used to valorize nature-based solutions. Public sector needs to provide standards and framework to define the prices of food by focusing on water, nutrition, and emissions. Investment in big data informatics and analytics can help with true pricing on natural capital/natural resources to quantify better the value of nature positive approaches, inclusiveness, or positive nutritional outcomes designed to position the primary producer.

Investors and donors should prioritize climate-smart investments across food systems and value chains. Green bond issues, carbon credits, and sequestration should create income for farmers to cover the cost of transition to more sustainable agriculture. Affordability is key for many consumers so assess the risk of food prices going up.

VALUE CHAIN FINANCING

A strong functioning middle value chain contributes to derisking; value-chain aggregators can help overcome scale-efficiency issues and can support collective action among producers. Multisectoral partnerships are needed for storage and food preservation, re-insurance, innovation, and technology transfer. Financial needs assessments are required for funding programs to ascertain if they match needs of farmers as well as tailor-made solutions, recognizing local context. Encourage digital payment options such as mobile banking to reduce information asymmetry and link warehouse receipts to financial system to support farmers' access to credit.

### D) Areas of divergence

Not many areas of divergence were brought up due to time constraints. On the topic of derisking, there was debate whether the fund would be better directed toward small enterprises, which clearly have need, but lack the resources and know-how to become an engine of transformative change.  A strong case was made for investing in mid-sized firms that have the capacity and demonstrated staying power to lead transformative change now. These firms have the best chance of driving and catalyzing transformative change.

Trade was emphasized as highly important, but there is a sense that the Summit process is not paying adequate attention to this topic.