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## Working Paper

# Redirecting investment for a global food system that is sustainable and promotes healthy diets

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## Redirecting investment for a global food system that is sustainable and promotes healthy diets

*Eduardo Bianchi, Catherine Bowyer, Jamie Morrison, Rob Vos, and Laura Wellesley*

### Abstract

More and better quality private sector investment in food systems will be needed if countries are to achieve their Sustainable Development Goals. The key challenge addressed in this paper is how investment in food systems can be redirected such that it is both adequate to drive dynamic food system development and has the quality of promoting inclusive and sustainable systems. Three areas of action are considered: instruments that translate growing consumer awareness of the sustainability aspects of food system development into SDG compliant investment; instruments that encourage investment in food systems in high-risk contexts; and improvements to food system governance. The paper articulates three key areas in which the G20 should take action: (i) to strengthen global platforms for the benchmarking and coordination of private sector sustainability initiatives; (ii) to provide support to the coordinated implementation of voluntary guidelines to foster SDG-compliant investment in higher risk contexts; and (iii) to promote greater coordination between multilateral fora to strengthen the global governance of complex and interlinked food system challenges.

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## **1 The challenge**

Food systems in both developed and developing countries are changing rapidly. Increasingly characterized by a high degree of vertical integration, evolutions in food systems are being driven by new technologies that are changing production processes, distribution systems, marketing strategies, and even the food products that people eat (World Economic Forum, 2018; Stordalen and Fan, 2018).

These changes in the global food system have opened up enormous opportunities. Modern food systems have vast potential to underpin economic growth, create jobs (World Bank, 2018a), and satisfy changing consumer demand, especially in those developing countries experiencing rapid urbanization – the World Bank (2013) estimate that urban food and beverage consumption in Sub-Saharan Africa will grow by USD400 billion by 2030. They also offer the opportunity for system-wide change in the way in which production interacts with the environment, giving greater attention to the ecosystem services offered by the agricultural sector (Ingram et al., 2016).

However, developments in food systems also pose new challenges and controversies. Food system changes have responded to shifts in consumer preferences towards larger shares of more animal-sourced and processed foods in diets, raising concerns regarding the calorific and nutritional content of many food items (Baker. and Friel, 2016). Increased market concentration and the need to produce for a more integrated global market have raised new barriers to market access for smallholder farmers and small-scale food producers and service providers. Improvements in food chains have helped to reduce food loss through improved storage, handling, and conservation, but, by increasing food availability, lowering prices and increasing quality standards, has also induced greater food waste at the consumer end. In addition, the dominance of GVCs comes with the increased risk of fast transmission of food-borne disease and food-related health risks throughout the food chain (FAO, 2017a). The ecological footprint of the global food system continues to grow in terms of energy, resource use, and the contribution to greenhouse gas emissions (FAO, 2017b).

Investments in food system innovations are key in driving change towards more a more sustainable and food secure future. The scale and type of investment in food systems are largely determined by the decisions of both small and large scale private sector actors, decisions that both respond to and shape market opportunities created by changing consumer demands. While investment in post-production processing and distribution activities have seen the rapid development and penetration of modernized food systems, the level of investment in developing countries has often been inadequate to promote the transformation from traditional systems towards food systems that improve dietary quality and environmental sustainability while taking advantage of efficiency gains. Furthermore, in those regions where investments in modern food systems have been significant, the extent of the sustainability challenges faced suggests that the types of investments have often been incompatible with the development of inclusive and

sustainable food systems and therefore with the achievement of the Sustainable Development Goals (SDGs) that comprise the 2030 Agenda for Sustainable Development<sup>1</sup>.

The key challenge therefore, is one of ensuring that investment is adequate to drive dynamic food system development *and* has the quality of promoting inclusive and sustainable systems required to allow the global food system to contribute to the delivery of the SDGs.

## **2 Meeting the challenge: encouraging SDG-compliant investments**

Investing in food system developments that are compliant with the SDGs requires redirecting existing and new investments into more resource-efficient and climate-resilient production methods along the entire food chain and into improved infrastructure that connects farmers to markets and allow proceeds of value addition to be captured by vulnerable producers and households. As recognized in paragraph 4 of the G20 Action Plan on Food Security and Sustainable Food Systems, this includes support for innovation and technologies that allow efficiency improvements without compromising food safety, nutritional quality, access, availability and wider goals linked to delivering ecosystem services associated with agriculture.

Private investment decisions are influenced by public sector interventions and by the quality of governance mechanisms for food security. Investments in agrifood systems often tend to be considered high risk because of weather variability and other factors such as unstable macroeconomic conditions (World Bank, 2018b). Such risks are exacerbated in contexts characterized by weak rule of law, unclear regulatory landscapes, or a lack of clear strategic vision. The global nature of food systems requires that more coordinated action be taken at the global level to ensure that this challenge is met.

Action is therefore required at two levels: (a) the design of instruments that encourage SDG-compliant investment in food systems, and (b) strengthening food system governance.

### *A. Redesigning investment incentives*

Instruments to encourage SDG compliant investment can work through both the demand and the supply side of the food chain. On the demand side, interventions can aim to increase consumer awareness and consumer choice for food consistent with healthier and more sustainable diets. On the supply side, incentives can be created to reduce the risk of investing in food systems while internalizing health and sustainability concerns.

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<sup>1</sup> Achieving inclusive, equitable and sustainable food system development implies achieving a broad spectrum of Sustainable Development Goals on which the nature of food system development will have a direct impact, from good health and wellbeing, zero hunger and responsible consumption and production, through climate action and sustainable life on land and below water, to industry innovation, infrastructure decent work and new models of economic growth.

(i) *Instruments that build on, and support the translation of, growing consumer awareness into SDG compliant investment*

The negative consequences of non-SDG-compliant food system developments are increasingly being recognized by consumers. With growing consumer awareness, driven by concerns of the environmental and health impacts of investments and current supply chain technologies and practices, and by a desire among new generations of city dwellers to reconnect with the rural heritage, opportunities exist to define and establish added-value products that are capable of internalising social or environmental delivery within their price<sup>2</sup>. These forces can be used to fundamentally reshape food systems by stimulating coordinated government action in changing the regulatory environment that in turn incentivises improved private sector investment decisions.

Capitalizing on the opportunity to develop a clear market or demand-pull from this increased awareness will depend on significant investment in infrastructure to enable value-adding capabilities along the supply chain – from soil testing at the point of production, through remote sensing to supporting sustainable certification of chains of custody, to cold chain transport and storage - together with action to strengthen food system governance, and in establishing awareness and trust among value chain actors. It will also require greater effort to foster consumer confidence in the added value and positive attributes of the products they purchase.

In many contexts, private food businesses have taken primacy over public entities in setting food commodity grades and standards. Existing private sector and multistakeholder initiatives such as voluntary sustainability standards (VSS) (FAO/UNEP, 2014), covenants such as Origin Green in Ireland<sup>3</sup>, and consumer-business agreements such as those promoted by the Food Foundation in the UK, can act as possible vehicles for change. Such initiatives, which set standards for sustainable production and often include certification programmes to verify compliance, can be used as tools to drive consumer choice on the one hand and to channel and enhance the nascent demand for more sustainable food systems into market related investments on the other. VSS can offer a more dynamic, responsive system compared to public standards that may deliver a more stringent framework. However, the rigour of the process to define and enforce standards in an independent way is key to establishing confidence.

In most contexts, these vehicles alone are insufficient and need to be accompanied by the use of public policies and regulatory measures such as those relating to food labelling to ensure that environmental and health-related costs are effectively internalized (Food Foundation, 2017; Sonigo et al., 2012).

However, some regulatory approaches and private sector-led schemes have been seen to create barriers to sustainable development and trade, primarily because of the costs of compliance and

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<sup>2</sup> In China, for example, there is a dual push by NGOs and by emerging middle-class consumers for organic food and products on the one hand and ‘agro-tourism’ on the other.

<sup>3</sup> <https://www.origingreen.ie/for-you/>

the potential exclusion of actors less able to afford these costs. Dispensations may need to be made for small farmers, but in providing these, cognizance needs to be taken of the transboundary nature of the global food system which will necessitate greater coordination at the global level. Success also requires outreach to explain the economic, social and environmental opportunities that such approaches and schemes present combined with information and advice to support any transition in the adoption of new techniques and practices.

(ii) *Instruments that encourage investment in food system developments subject to a high degree of economic, climatic and/or political risk*

Consumer awareness or pressure for SDG-compliant products may be insufficient in creating the demand-pull for supply-side change, and hence may need to be complimented by smarter incentives that target producers, processors and retailers. In particular, encouraging and facilitating food system development compatible with sustainable development goals is likely to depend on de-risking investments in regions where human and environmental insecurity are great and food system governance is weak. International Finance Institutions need to improve their provision of inclusive oriented lending as articulated in the G20 Inclusive Business Framework (G20 Development Working Group, 2015). This will require that food system thinking informs the international finance infrastructure and associated public sector initiatives to crowd-in private sector investment in inclusive and resilient food systems by reducing levels of risk faced by investors as reflected in section 3 of the 2017 G20 Hamburg Action Plan.

Instruments to promote “high risk” investment include:

- a. Blending of public and private sector funding to underwrite higher risk investment for financial institutions and private sector investors (European Commission, 2016). This can facilitate favourable lending agreements, including by the multilateral development banks, for projects that have demonstrable returns in terms of delivering towards the achievement of the SDGs, but which may be less attractive to investors than higher return, but non-SDG compliant, investments.
- b. Tying loans and grants to compliance with safeguards and/or benchmarks. This could be achieved by, for example, translating existing or revised voluntary guidelines (see below) into tangible safeguards and benchmarks, with tighter criteria and more robust governance frameworks.
- c. Public sector investment, including through Public-Private Partnership mechanisms, in market infrastructure such as storage and wet market facilities, aimed at reducing volatility in returns on investment.

*B. Improving food system governance to mobilize investment*

The approaches outlined above will depend on strong food system governance that creates a more conducive enabling environment if they are to result in the delivery of investment in the right places and in the right ways, and to do so effectively and in alignment with the SDGs.

Food policies which have traditionally focused on ways to enhance agricultural productivity and to keep food prices at levels that balance (farm-level) producer and consumer interests, need to be reoriented to take advantage of the opportunities provided by changing food systems. As recognized in the 2015 G20 Action Plan on Food Security and Sustainable Food Systems, the traditional approach to food policy must be reoriented towards food-system-wide approaches that provide incentives for investments in inclusive and sustainable development of food systems and for steering consumer behaviour and food preferences toward healthier and more sustainable diets.

While policy in favour of enhancing productivity through subsidies on modern farm inputs, direct income support to farmers and/or subsidies to keep food prices low for consumers has been argued, under certain circumstances, to be supportive of improved food security (Dorward and Morrison, 2015) such support measures do not tend to incentivise the adoption of climate smart practices, nor do they necessarily promote the supply of food that contributes to healthier diets.

Realigning support policies and incentive schemes will require action at a number of levels. The transboundary nature of food systems and the public good nature of health and environmental challenges means that global governance processes that ensure coordination of required measures will be a key entry point in shaping the environment in which investments in food system development are made. In turn, strengthened global governance of food systems provides more robust frameworks within which countries design and implement national policies, standards, regulations and mechanisms affecting these systems.

### **3 Proposals for G20 Action**

In facilitating the redirection of investment in food systems compatible with the 2030 Agenda, we suggest that the G20 take action in relation to each of the three categories of action elaborated above:

- (1) Strengthen global platforms for the benchmarking and coordination of private sector sustainability initiatives that build on growing consumer awareness

The G20 should request that global platforms such as the United Nations Forum on Sustainability Standards (UNFSS)<sup>4</sup> and the G20 Inclusive Business Platform are strengthened to assist in reducing the complexity and multiplicity of private sector led schemes which can result in a situation where producers lack information on which standard should be adhered to, where suppliers need to comply with multiple standards to sell to different buyers, and/or where consumers face difficulties in interpreting labelling and certification schemes.

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<sup>4</sup> <https://unfss.org/>

Global policy platforms provide the opportunity to improve information and analysis from a more holistic perspective, and to promote initiatives that avoid multiplication and instead facilitate coordination among schemes, their convergence, and/or their mutual recognition. Such platforms could also be strengthened to provide outreach and training to make producers aware of the opportunities and to support the establishment of the product supply chains linking producers with food processors, certification schemes and ultimately consumers, and allow these standards to be compared and coordinated so that a product can be deemed compliant across trade boundaries.

The G20 should also promote enhanced evidence-based decision making with improved transparency and accountability, by supporting the development of indicators of social and environmental externalities associated with developments in food systems by endorsing partnerships and collaboration between organizations developing sustainability indicators and policy-makers. For example, by supporting the Chatham House initiative on building land, carbon and water footprints into [www.resource.trade.earth](http://www.resource.trade.earth), as well as indicators of social impact such as resource conflicts.

Greater accountability will need to be facilitated by policy research to provide greater understanding of the effectiveness of context-specific interventions and by greater investments in research and development to ensure that technologies and practices for sustainable agriculture, land, and water management, as well as sustainable and inclusive downstream food chain development are locally adoptable. The G20 should encourage sufficient resources to be made available for the related policy research and R&D investments.

(2) Support coordinated implementation of voluntary guidelines to foster SDG-compliant investment in higher risk contexts

The G20 should promote greater coherence, simplification and harmonization in the translation of existing sets of voluntary guidelines<sup>5</sup> into toolkits and practical steps that can be used by value chain actors in ensuring that their investment actions are aligned with the SDGs, and their extension to all components of the food system. In line with paragraph 5 of their 2015 Action Plan on Food Security and Sustainable Food Systems, the G20 may wish to request relevant International Organizations including FAO, IFPRI, OECD and the World Bank to translate existing guidelines into toolkits and practical steps, under the guidance of the Committee on World Food Security (CFS) where appropriate.

In follow-up to the G20 Inclusive Business framework issued by the G20 Development Working Group in 2015, the G20 should request that development banks upscale responsible investment through improved approaches to blended financing by promoting the integration of existing voluntary guidelines into the design of loan products and contractual arrangements supportive of SDG compatible investment; that the G20 Eminent Persons Group on Global Financial Governance consider improvements to the global financial architecture required to

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<sup>5</sup> Existing guidelines for which toolkits, safeguards and benchmarks need to be developed and harmonized include the CFS Principles for Responsible Investment in Agriculture and Food Systems, the OECD-FAO Guidance for Responsible Agricultural Supply Chains, the Code of Conduct for Responsible Fisheries, and the Voluntary Guidelines on Small-scale Fisheries. They also include voluntary principles for green finance promoted in the 2016 Hangzhou Action Plan



support such initiatives; and that the G20 Global Platform on Inclusive Business be further strengthened.

(3) Promote greater coordination between multilateral fora to strengthen the global governance of food system challenges

The G20 should act to ensure improved coherence in the development of the global governance frameworks that are key to promoting the realignment of national policies affecting food system development to address contemporary cross cutting challenges of health and environment and hence in creating the environment for SDG compliant investment in food system development.

To achieve this, the G20 should request involved agencies to establish joint task forces to review the current international architecture to identify areas in which coordination is required. For example, the WHO, WTO, FAO and UNFCCC, collectively responsible for the global governance of food safety, trade, nutrition and sustainability, could be requested to identify actions required to ensure that strengthening rules on the use of policy instruments through multilateral and regional trade agreements; regulating the use of non-tariff barriers to trade; enforcing regulations to stamp out illegal or unsustainable production practices where they continue; enhancing food system transparency and supply chain traceability, including through intergovernmental platforms such as the Agricultural Market Information System (a G20 initiative); and building momentum behind non-financial disclosure of environmental and social risks, are compatible with and incentivise development in food systems supportive of the achievement of the SDGs.

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