FOOD SYSTEMS DIALOGUES (FSDs)

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CO-ORGANIZED BY WBCSD, FAIRR & THE COLUMBIA CENTER ON SUSTAINABLE INVESTMENT

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*The format of FSDs Summary Reports is under development. This report may be subject to change

Executive Summary

On 02 December 2019 a Food Systems Dialogues (FSDs) event took place in New York City, U.S.A, co-organized by the World Business Council for Sustainable Development, FAIRR, and the Columbia Center on Sustainable Investment.

Approximately 30 participants attended, reflecting a range of actors working in Food Systems, from global banks and investment management funds, to food companies.

Tables were asked to present one or more proposals to address a specific area of food systems, with a global focus. Ideally, the proposals were to be achievable within 3 years. The prompt themes for dialogue at this event addressed the following areas: investment opportunities related to sustainable protein; transparent reporting and communication between companies and investors; the development of new financial instruments to hedge risk and reward performance on sustainability metrics; promoting foods which contribute to reducing noncommunicable diseases; and supporting producers to take risks when transitioning to sustainable practices.

The following is a summary of the tables' proposals for food systems transformation as well as the discussions that led them to their conclusions.

As is the norm at FSDs events, all Proposals outlined in this Summary Report are not attributed to any particular individual or organization. Each proposal did not necessarily receive universal support from all participants at the event; rather, the aim of this report is to capture recommendations made at the event, in order to allow continuity and consensus - a 'red thread' - to emerge across all FSDs events.

Proposals

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'Investments in foods that have been shown to contribute to non-communicable diseases/or produced unsustainably are regularly reviewed.'

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Proposal 1: Develop metrics for transition pathways to guide companies and investors

A set of global and science-based metrics should be developed to underpin transition pathways towards more sustainable production. They will serve to set clear and actionable goals in both ecological and social dimensions, establishing an accepted standard of what a sustainable future looks like.

The metrics would guide decisions by companies as well as investors, large and small. They would enable the Sustainable Development Goals to become more tangible to food systems investors, so that they are able to make more informed decisions about the companies that they support.

Similar tasks have been undertaken in adjacent areas, such as climate. However, it is notable that the Financial Transaction Tax (FTT)* for climate did not include agriculture in the global metrics it developed.

It will be important to gather broad stakeholder input in creating these metrics, for several reasons. First, broad input is important in order to ensure that the metrics are scientifically robust, as well as achievable. Second, if companies and investors are part of the process of drafting the metrics, they are more likely to accept them and own their implementation. Indeed, it is important to achieve buy-in from venture capital investors because they are at the helm of driving the market towards and generating interest in companies with sustainable practices.

Nonetheless, it remains an open question as to who should lead the process. It may be appropriate to be led by producers, companies, and investors (i.e. those who will be implementing the standards and reporting on them); or it may be appropriate for a neutral external body to take the lead setting targets. In the case of an external body leading the process, the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD), or a similar task force, may be a suitable choice.

*A FTT is a levy on a specific type of financial transaction for a particular purpose.

Corporate sponsorship is an option which could be considered in order to provide the financial resources to support the process of jointly developing a set of global metrics, but maintaining independence through the leadership of an objective partner (academic, civil society, etc.).

Success in this initiative will likely be measured in terms of whether companies indeed report on the metrics. Success will also be measured by whether the metrics are used by investors to make investment decisions, and that there are public announcements to formalize this decision-making framework.

Proposal 2: Improve reporting on sustainable supply-chain performance

It is important to ensure a high degree of supply chain visibility and traceability. Higher quality information should be available about performance with respect to sustainability metrics attached to specific products, as well as attached to investor practices.

Product and supply-chain information should be available to participants in the chain, as well as to the public and to actors in the finance sector. This would give actors a basis on which to reward good performance on sustainability metrics.

Success for this initiative will ultimately be measured by reviewing whether or not financing decisions are tied to companies demonstrating sustainable strategies. More generally, success will be measured by the ability to gain certainty on sustainable performance of companies across the dimensions of nature, water, land use and social outcomes. These changes should be detectable globally.

Proposal 3: Bring diverse voices into problem-solving discussions

When devising initiatives in the investment and finance sector to support a transition towards sustainable food production, it is important to promote collaboration. Problem-solving discussions should include divergent viewpoints, and even people who violently disagree among themselves. This approach will ultimately lead to the best solutions.

One strategy to achieve this could be to continue bringing actors together at Food Systems Dialogues. FSDs should be action-oriented to the greatest extent possible.

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‘There is increased emphasis on policies and practices to: ensure that food producers are supported when taking on financial risks associated with shifting to nutritious and sustainably produced food, and are properly remunerated for the food they market.’

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Proposal 4: Create incentives for farmers to meet SDG-aligned healthy production targets

Subsidies, tax breaks and other incentives should be created specifically to support small producers and companies in their transition to sustainable practices. These incentives should be tied directly to targets aligned with the Sustainable Development Goals, and supporting the availability of nutritious food for consumers. The tax incentive structure which contributed to a shift towards solar power in the energy market could be taken as an example.

Some incentives could go beyond financial subsidies to include technical support and the creation of opportunities to access information about best practices in producing. Alternatively, incentives could support producers in an indirect manner by increasing marketing efforts designed to grow demand for sustainable and nutritious products in the food market broadly.

Success for these incentive models would come in the form of achieving a meaningful increase in revenues for small food producers and manufacturing companies, as well as a meaningful increase in the profitability of farmers who produce sustainably. Ideally, they would also lead to an increase in overall acreage of land devoted to growing sustainable foods.

Proposal 5: Connect farmers to downstream purchasers

It is important to promote better connection and collaboration between farmers and the companies purchasing their goods downstream. To do this, a platform should be created which brings small farmers and producers into contact with purchasers, and also with other producers. This platform should enable and promote sharing best practices, and mutual support between farmers.

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'Transparent reporting and communication between food and agriculture companies and investors supports a selection of investment opportunities.'

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Proposal: [Refer to Proposal 1: 'Develop metrics for transition pathways to guide companies and investors' for ideas developed in relation to this subject area .]

Proposal 6: Encourage investors to hold public companies accountable

Investors and shareholders should increasingly take an active role in holding public companies accountable for meeting sustainable practices. This kind of pressure could include demanding increased disclosure and transparency about sustainability in company reporting.

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'New financial instruments allow investors to hedge risk and food and agriculture companies to be rewarded for their performance.'

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Proposal 7: Devise financial instruments to lower the cost of capital for sustainable companies

The prospect of a lower cost of capital for producers and companies who engage in sustainable practices would be a very effective lever to promote uptake of these practices. Therefore, banks and other finance actors should create new financial instruments or incentives to help achieve this. These instruments should encompass an offering from different types of investors, including venture capital investors, investment managers, asset owners, banks and insurance companies. One such instrument could be expanding access blended capital.

If one major investor begins offering these kinds of instruments and actively pursues investments in companies demonstrating sustainable practices, they may act as an 'anchor investor'. In other words, one or a small group of actors setting an example of strategies which are successful would likely encourage a broader trend.

Proposal 8: Share knowledge among investors, to reduce the cost of due diligence

A mechanism by which investors are able to share data and best practice for performing due diligence on sustainability practices should be created. Due diligence with the tools currently available is often expensive, and this acts as a disincentive to investment companies to undertake such due diligence.

Concretely, it would be beneficial to develop a platform on which investors could verify data and share knowledge in regard to how to select KPIs which are effective to assess progress in sustainable practices.

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'Investment opportunities related to sustainable protein are realized.'

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Proposal 9: Create a dedicated pool of funds to de-risk the transition

A dedicated pool of funds should be established, which can be available as a resource to de-risk the transition to sustainable practices for producers and companies.

Making a major pivot in a company's business model is risky. Likewise, sustainable products and practices often still appear as risky, using untested technology or practices (e.g. plant proteins). Currently, investment in sustainable technologies in companies and markets is relatively small, and perceived as a venture space for investors; it needs to become mainstream, and attract higher-scale commitments from large industrial companies. Additionally, companies need to take risks by extending their supply chain contracts for longer terms to promote and incentivize more sustainable practices.

It is important to de-risk these decisions for companies. A dedicated could be used to help achieve this.

Companies themselves, as well as investors, could purchase a stake in this fund. The fund would make billions of dollars available to help bridge that gap to fund products and initiatives towards sustainable practices along the whole value chain.

Proposal 10: Create a mechanism to put a price on externalities especially for carbon and water

A process should be developed by which externalities of carbon production and water use or water pollution are internalized to the market. A pricing mechanism would support the market in devising solutions to reduce emissions and protect clean water sources.

Possible approaches for creating this mechanism include:

- Companies adopt a collaborative approach towards a unified accounting system for building externalities into the market
- the investor community exerts pressure on companies to do this