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Finance for food systems transformation

Shifting finance towards food security and sustainability goals will require a systemic approach and the involvement of both public and private actors.

Financing is a game changer to achieve food systems transformation. While ill-fitted finance aggravates food systems inefficiencies, well-applied financial incentives may catalyse the adoption of sustainable food production and consumption practices.

Although the logic of reshaping finance to incentivize desirable behaviour is neither new nor is it exclusive to the challenge of achieving food security sustainably, it was only after the United Nations Food Systems Summit (UNFSS) in 2021 that a comprehensive Food Finance Architecture (FFA) has been proposed to support it. Developed by the summit's Finance Lever (comprising the World Bank, the International Food Policy Research Institute (IFPRI) and the Food and Land Use Coalition), the FFA contains five imperatives: reshape public support and incentives; integrate health, environmental and social risks into financial decision-making; scale fit-for-purpose financial products and business models; secure equitable food systems; and strengthen food governance and stability.

Together, these imperatives are expected to contribute substantially to the optimization of public spending and to the mobilization of private capital. The World Bank has estimated that food systems generate US$12 trillion in hidden social, economic and environmental costs, and that implementing the 5 food finance imperatives could unlock US$4.5 trillion per year in new business opportunities[1].

Yet, the successful implementation of these five imperatives depends on the coordination of policies and the alignment of interests across scales and governments. Here, two pivotal questions refer to the political-economy constraints to policy reform (and, hence, to the transformative agenda of the UNFSS) and to innovative sources of finance (which emerged at the 2021 Nutrition for Growth Summit in Tokyo as something to be explored[2]). Eugenio Diaz-Bonilla et al.[3] look at the former, arguing that these constraints are typically found in conflicting interests, inapt institutions and misinformation. Meera Shekar explores the latter, looking at how the framing for nutrition should evolve in light of synergies with human and planetary health to generate more money for nutrition and more nutrition for money – as well as the role of the private sector in setting priorities and assigning funds towards sustainable solutions for malnutrition.

IFPRI estimates that US$350 billion per year until 2030 will be needed to ensure that food systems meet climate mitigation and adaptation targets as well as other Sustainable Development Goals. Despite carrying great uncertainty, this figure exceeds public financial resources – including multilateral development assistance – considerably, thus rendering private finance essential[4]. Indeed, banks, investors and insurers are key to shifting the market towards sustainable practices; besides the direct effects that reshaping and redirecting financial resources could have, a report from the United Nations Environment Programme reminds us that "Financial institutions with significant portfolio exposure to the agrifood sector [...] 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"[5]. Still according to IFPRI, however, directing adequate volumes of private finance to food systems requires addressing high transaction costs, insecure financial transactions, climate-related risks and information asymmetries[4]. Such a complex task requires immediate action, especially if we are to ensure that the involvement of the private sector happens in a positive and responsible way.

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