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JUST RURAL TRANSITION
INVESTMENT PARTNERSHIP NETWORK

An FT digital roundtable discussion, in association with the Just Rural Transition's Investment Partnership Network, held on the occasion of the FT Global Food Systems Summit

Putting the S in ESG: Financing Agricultural Transformation for a Just Rural Transition
November 5 2020

Summary of Discussion
This discussion was conducted under Chatham House rules: participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

Our food systems are facing a series of interrelated environmental and social challenges: one million species, including a third of all plant species, are facing extinction, fisheries are depleting, and deforestation, 80% of which is due to the extraction of commodities, accounts for a quarter of the Earth's greenhouse gas emissions. This signals ecological, human and economic disaster, which will especially harm the world's poorest people. How will we feed 9 billion people by 2030?

A major mindset change is needed to take a long term view, and address some of the complex challenges, such as a lack of coherent policy at country level and issues with land tenure. Nature based solutions should make up a third of all initiatives to address these challenges, but currently only account for around 3% of these.

An important plank of this is to mobilise private investment into land use and develop a shared vision between the public and private sectors, as private, public and philanthropic capital all have a role to play. Scaling up investment into sustainable agriculture has its challenges however. As an example, there is a particular lack of investment in African agricultural due to high risk and low returns, with a lack of infrastructure and the need to conduct in-depth consultations with local communities contributing to high upfront costs. Investment in these contexts provide a 0 - 5% return instead of a typical private finance return of around 15%.

The private sector is unable meet all of these challenges alone: more catalytic capital from the public and philanthropic sectors is needed to help, in particular to reduce the risks of investing in these contexts and help with the upfront costs, which will enable greater private investment to follow. Public funds need to become more effective at mobilising private capital in order to meet the huge needs for finance. This can be as much about using existing sources of finance in new ways, as about new sources of finance, for example ensuring that all of the multilateral development banks align their portfolios with the Paris climate change commitments.

It is also important to ensure finance flows reach farmers, fishermen and local communities. This is not only subsistence/smallholder farmers, and those linked to agribusinesses, but also family farms, who are important economic actors. A key approach is to finance at landscape level, requiring collaboration and partnerships between a range of different actors. A bottom up approach, with investment networks on the ground, can reach local communities. Large corporates also have a role in scaling sustainable finance that reaches local communities, as they serve as the aggregator of the smallholders in their supply chains.

Despite the challenges, approaches that provide a fair deal to both local communities and investors are beginning to work, and can provide interesting returns at project level, in cases where they are properly structured. These inclusive approaches will be essential in ensuring returns over the long term.

Scaling up these approaches will require concerted effort, including engaging experts on impact to support individual companies in their transitions. However ensuring that projects aligned with sustainability goals are able to provide commercial returns is how to draw in the further investment needed, going beyond sustainable projects towards a sustainable system.