



### 3.15 \$200M Climate Smart Food Systems Impact Investment Fund

#### a. Background

The global food system will need to produce food more efficiently and sustainably to feed an increasing population with changing diets, achieve the Sustainable Development Goals (SDGs) and meet the 2°C climate commitments of the Paris Agreement. As climate change affects food systems, governments, food and agriculture companies, and public and private investors need to better identify and address the numerous climate and nature-related risks they face. This can be an inflection point to seize the new investment opportunities that the transformation to nature-positive, low-carbon and climate resilient food systems presents. This will require addressing core market failures to unlocking private sector financing from food and agriculture companies, domestic and international financial institutions, and specialized investors. Against this backdrop, the CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS) and its partners conducted an extensive research, analysis, and stakeholder consultation with more than 100 partners globally to identify key action areas that are fundamental to transform food systems under a changing climate. These four action areas represent the basis of the systemic transformation that is needed in food systems: (i) rerouting farming and rural livelihoods to new trajectories, (ii) de-risking livelihoods, farms and value chains, (iii) reducing emissions from diets and value chains, and (iv) realigning policies, finance, support to social movements and innovation to build more resilient and sustainable food systems.

The game changing solution proposed under this submission emanates from the fourth action area as it proposes to reorient and leverage large volumes of private capital towards innovative investments in Climate-smart Food Systems. This will be done through the establishment of the first science-based USD200M climate smart food systems impact investment fund to help address key challenges and bottlenecks of the global food system. The fund will provide long-term expansion debt financing to SMEs operating in Asia Pacific, Latin America and Africa with enormous potential to transform food systems in these regions and positively contribute to climate change mitigation and adaptation and nature in food systems. It is critical to note the extraordinary scale and impact potential this game changer has, as it doesn't rely solely on public funding to get it off the ground. It is instead an innovative investment solution that will mobilize USD200Mio in commercial capital and will serve as a proof of concept to showcase how a private-public partnership can help transform food systems to become low-carbon and climate resilient in a commercially and financially attractive manner, while also delivering robust science-based development impact (i.e. nature positive, improved climate adaptation and mitigation, nutrition and diets, etc.). This will serve to guide other private investors on how to effectively finance the transformation of food systems.

#### b. What, in brief, is the solution?

responsAbility Investments AG and CGIAR/CCAFS aim to launch a USD 200 million impact investment fund to help address key challenges of the global food system. The fund will provide long-term expansion debt financing to SMEs operating in Asia Pacific, Latin America and Africa and thereby positively contribute to nature, climate change mitigation and adaptation in food systems. The rationale of the fund reflects two major global concerns: first, by 2050, global food production needs to feed two billion people more in the context of a depleting natural resource base. Second, the food system represents about a third of global greenhouse gas emissions. To match the need for an increase in food production with the Paris Agreement, it is critical to support the transition to nature-positive, low-carbon and climate-resilient global food systems. The Fund will support climate-smart interventions, such as sustainable land use, reduced food loss, energy and water efficiency, use of renewable energy and a shift to healthier and more nutritious and sustainable diets that can help deliver a large part of the net zero emissions goal targeted by mid-century.

#### c. What was/were the source(s) from which this solution emerged?



The idea for this solution emerges from the *Actions to Transform Food Systems Under Climate Change* report, produced with input from over 100 organizations. Specifically, CCAFS team conducted a consultation with more than 40 global leading public and private investors to identify key bottlenecks and potential solutions to transform food systems under a changing climate. The idea has since been further developed by the CCAFS program, which is led by the Alliance for Bioversity International and CIAT, and responsibility Investments AG, which submitted the idea through the Public survey.

**d. What problem is it trying to address within food systems?**

Linking to the *Actions to Transform Food Systems Under Climate Change* report action 4.2, this solution seeks to unlock private capital at scale (USD200Mio) to provide long-term expansion debt to SMEs operating in Asia Pacific, Latin America and Africa. The rationale of the fund reflects two major global concerns: first, by 2050, global food production needs to feed two billion people more in the context of a depleting natural resource base. Second, the food system represents about a third of global greenhouse gas emissions. To match the need for an increase in food production with the Paris Agreement, it is critical to support the transition to nature-positive, low-carbon and climate-resilient global food systems. The Fund will support climate-smart interventions, such as sustainable land use, reduced food loss, energy and water efficiency, use of renewable energy and a shift to healthier and more nutritious and sustainable diets that can help deliver a large part of the net zero emissions goal targeted by mid-century.

**e. Why is addressing that problem important for achieving the goal of your ACAI?**

The annual SDG financing gap is estimated at US\$2.5trillion, while the capital needed to transform food and land systems is estimated at US\$300 and US\$350billion per year. However, the volume of ODA flowing to food, agriculture and fishing in 2018, for example, amounted to US\$10.2billion. It is clear that public funding alone will not be sufficient to finance such transformation. This financing gap is even more critical when considering that our global population is likely to increase by another 2 billion by 2050, with changing diets, while the climate crisis exacerbates, and our natural resource base depletes at an alarming rate. Hence, we also need to design and deploy innovative investment solutions that can reorient and leverage private capital at scale to finance the much-needed technical innovations required. This solution will have a transformational impact, as it will not only use science to support the transformation of food systems to the benefit of people, nature and climate, but also showcase robust science-based commercially viable models that can help attract significantly more private capital at global scale.

**f. How can this solution address that problem?**

This solution aims to leverage and deploy private capital to implement climate-smart interventions to address key challenges of the global food systems through a USD200M impact investment fund. This will require i) exceptional investment capabilities, including the know-how on long-term expansion debt financing, ii) cutting-edge scientific capabilities for climate smart investments planning and decision-making during pre/post phases of technical assistance, and iii) projects/companies with ambition to tackle challenges of nature and climate change and increased demand for food. Having these inputs, will allow the Fund to make strategic investment decisions across the food systems actors and provide pre/post-technical assistance, including assessing the entry points for investments that address negative externalities and inefficiencies, as well as developing integrated climate risks management strategies.

By doing so, the fund will be able to attract new investors, create a pipeline of project companies, and increase the number of loans to investees. Finance and technical support will go towards scalable SMEs that can accelerate the transition to lower-carbon intensity and climate-resilient food systems in developing and emerging countries, by developing business models supporting sustainable land use, reduced food loss and waste, energy and water efficiency, use of renewable energy, and shift to sustainable diets etc. Moreover, as this is a science-based fund, actionable components of an integrated risk management strategy will be developed through tailored research. The implementation will be also informed by science to rigorously assess and prioritize the major risks. Additional outputs include higher

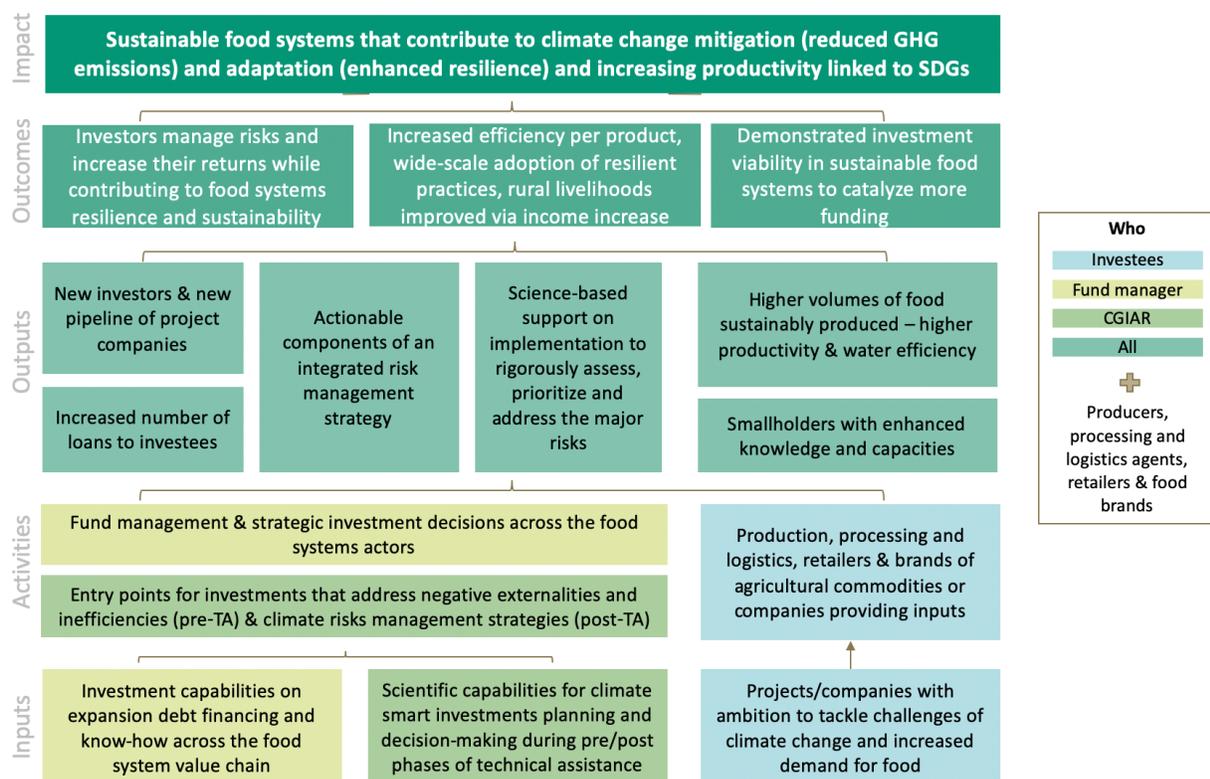


volumes of food sustainably produced with higher productivity and water efficiency, and more agri-food SMEs with enhanced knowledge and capacities, which are ultimate goal of our game changing solution.

Three major outcomes will be achieved through the implementation of the Fund. First, through tailored technical assistance, investors will have the capacity to manage risks and increase their returns while contributing to food systems resilience and sustainability, that is, enhanced adaptation, GHG emissions reduction and increased productivity. Second, our solution will enable agri-food SMEs to increase agricultural efficiency per product, while facilitating a wide-scale adoption of climate-smart strategies and increasing smallholders' incomes to improve rural livelihoods. Third outcome is demonstrating the investment viability of climate smart business models by showcasing a pipeline of 30+ SMEs at various stages of development that support interventions needed to transform the food system.

Ultimately, our game changing solution will realign investments to support sustainable food systems that contribute to climate change mitigation (reduced GHG emissions) and adaptation (enhanced resilience) while improving productivity. These impacts will directly contribute to SDGs 13, 2, 1, 12 and indirectly to SDGs 8, 15, 10, 7 and 9. Science-based monitoring and evaluation tools will enable the Fund to track contribution to key SDG indicators.

Major assumptions include; the existing growth and demand for healthy and ethical food in developed and developing markets, as well as the increased willpower of both public and private sectors to increase their ambition and short-term actions to tackle climate crisis while recovering from sanitary crisis. Increased dynamism across private sector agri-food industries to act against global climate challenges affecting food supply and demand, thus food systems as a whole. Moreover, as the Fund relies on high quality and blue-sky research on food systems and climate change including crosscutting institutional, socioeconomic and gender dimensions, we do not foresee potential unintended consequences of enacting this solution.





**g. Why does this solution align to the definition and criteria for a ‘game changing solution’ developed by the Summit?**

The Fund will be the first truly "science-based" climate smart food system fund, designed with scientific rigor from the onset to i) effectively assess and integrate climate change, biodiversity and related considerations in the investment decision-making process; ii) ensure the long-term sustainability of investees (women and men SMEs and gender-differentiated farmers they invest in); and iii) maximize the SDG impact of their investments:

- **Impact potential at scale:** In this changing environment, long-term capital is paramount to support SMEs not only to address the challenges faced by COVID-19, but also to build more resilient food systems that can endure future shocks. The fund will support a pipeline of growing SMEs actively transforming the food system. The success will attract not only further capital but will also incentivize Agri-Food SMEs to incorporate sustainability and climate change into their businesses and operations, and to adopt climate smart practices and technologies that contribute to the transformation to a low-carbon and climate resilient food system. Furthermore, this will serve as a real-life proof of concept to showcase how food systems transformation can be achieved at global scale, and how we can mobilize large volumes of much needed private capital to finance such transformation especially considering the annual investment gap to transform our food systems is estimated at US\$ 300-350 billion.
- **Sustainability:** The fund will use a science-based approach to deliver robust social and environmental impact while also targeting positive financial returns for investors, demonstrating the commercial viability of the investment. Women and men SMEs and farmers on the ground benefit from access to the latest CGIAR research innovations, knowledge and technologies to help them improve their productivity and livelihoods, and better adapt to and mitigate climate change. Unlike conventional impact funds, which tend to focus on one or several stages of the value chain (i.e. primary production, processing. etc.), this Fund will identify entry points for investments that address negative externalities and inefficiencies of the entire food system, from pre-production, through production and supply chains, to consumption.
- **Actionability:** The proposed solution is highly actionable as the proponents have been working with responsAbility AG to do the groundwork for the fund design as well as identify investors. The fund is now investor ready, and can be launched at the Summit as a scalable solution, which can attract even greater investment in years to come. The Fund aims to showcase to impact investors, and specifically more traditional private investors, that meaningful and transformational impact can be achieved (beyond the much less rigorous conventional ESG impact), if the necessary financial and scientific resources are put in place. The fund will prove that harnessing science and innovation can reorient and leverage private finance flows towards innovative investments in sustainable food systems transformation.

**h. What is the existing evidence supporting the argument that this solution will work, or at least that it will achieve the initial outcomes described above?**

The Fund combines the investment capabilities of one of the world's largest impact investors in sustainable food with the research capabilities from the world's largest agriculture science and innovation network. The fund deployment projections are derived from triangulating several factors, including experience of the asset manager disbursing over USD 1.7 billion in structured loans to agricultural value chain players. In particular, the fund is expected to leverage the experience of asset manager in long-term loans in the agriculture and food sector (Approx. USD100m, showing average annual losses of <1%).

The technical assistance required of the Fund is rooted in CGIAR's scientific and research capabilities, assets, people and global presence. With +8000 scientists and researches across 70+ countries, CGIAR possess unparalleled access to cutting-edge research on climate-smart food systems. Examples of the research and scientific innovation capabilities that comprise the technical assistance requested so far (and

