



Summary Brief

Monthly Meeting – 24 March 2022

Background

The first full Monthly Meeting of the Impact Investors Living Lab took place on Thursday, 24 March 2022, one month after the Introductory Meeting. Participants reviewed key takeaways from the Introductory Meeting, regarding urban food systems transformation dream scenarios, emerging opportunities for impact investing, and barriers to progress. The meeting also elicited feedback on a number of additional challenge questions:

1. Which barriers to progress need to be removed to unlock new flows of investment into urban food systems?
2. What other conditions must be in place to invite and mobilize impact investment?
3. Which emerging opportunities do you see for impact investment in urban food systems transformation?
4. Considering supply disruptions and price spikes, can impact investment be an instrument for scaling up local food production and improve resilience of food systems?

Key takeaways

The discussion primarily addressed questions 1-3. There was broad consensus that enabling policies and cooperative incubation of new business models, to reshape local consumption patterns, are necessary components of a shift to healthy, sustainable urban food systems. The right enabling environment invites a broader range of opportunities for direct investment for impact.

It was also clear from the discussion that mapping of value chains is needed, to identify the less visible points of impact, which might be incentivized through carefully designed public policy, support programs, and investment.

One perspective we heard was that if you can calculate emissions reduction, water savings, carbon capture, inherent in food and the wider food system value chain, and put that information on the label directly, that creates a market, which makes it easier to measure impact and easier to invest in impact.

Aligning perceptions in food policy and food investment is very important for raising ambitions. Policy-makers, investors, consumers, and actors across the value chain, need to be more aligned in their expectations and their understanding of what has value. Actions that create that alignment, including labeling and ESG ratings, create efficiencies that can unlock business innovation and impact investment.

Healthy food should not be pushed aside for other goals, especially not if they contribute towards green economy and sustainable food systems. In response to the call of scientists to find green, healthy, sustainable pathways out of pandemic-related economic challenges, we discussed the opportunity for addressing hunger in cities, such as Birmingham, as a way to reduce vulnerability, build resilience, and reduce the cost and impact of future shocks.

There is room and need for alternative forms of credit (e.g., green bonds, green credits) and ESG ratings to assess and finance businesses by their environmental and social effects. Those credits and ratings are not often suitable to assess and finance food businesses, which can be oriented toward large-scale production and distribution. A key action for mobilizing widespread impact investment in urban food systems would be to calibrate such incentives to large scale business transformations.

Raising awareness for the growth potential (scaling and consumer reach) of sustainable healthy food markets will help food markets to attract more investments. It usually happens when a larger company buys a sustainable business (see market for meat replacements). It may be necessary to look for gaps in policy and market incentives, which either miss such scaling potential or discount the value of community-level interventions.

We will focus three upcoming monthly meetings of the Impact Investors Living Lab on key themes emerging from the February and March meetings.

Upcoming meetings

The monthly meeting of the Impact Investors Lab takes place on the fourth Thursday of each month.¹ Dates and provisional themes for upcoming Impact Investors Lab Meetings:

- 28 April 2022, 15:00 CEST – Food Innovation Clusters
- 26 May 2022, 15:00 CEST – Mapping healthy food resources in cities to related impact-investment opportunities

Defining Impact

Before diving into discussion, we examined what constitutes impact, and who is positioned to make impact investments. The general category of impact investors can include private investors, public institutions, institutional investors, nonprofits and philanthropies, cooperative and blended financing strategies, and corporate enterprise at various scales, as well as food system actors, who may take on more risk than financial actors, depending on their situation.

Private investors that can deliver impact investment may include equity investors, high-net-worth individuals, family offices, private foundations, and philanthropies. Asset managers and investigational investors may also be impact investors, when they align their portfolios, or their long-term investment strategies, with specific environmental, social, and governance goals.

Policy and incentives can be used to recognize the impact investment made by social enterprises that provide specific additional services required for making value chains more sustainable, or for raising awareness among consumers about the different impact value of

¹ There are no meetings in August or December. The Lab coordinating team will produce consolidated insights for the following meetings in September and January.

specific choices. Such recognition can come in the form of low-interest loans for small businesses, conditional debt relief and interest rate reductions, targeted tax relief and multidimensional accounting approaches that value non-financial assets and investment in wider social and environmental good.

The tools used to mobilize impact investment can also be means of defining and assessing impact. The right approach can condition urban food systems to be more capable of delivering desired sustainability and health outcomes. Social investment loans, social impact bonds, targeted ESG funds, and third-party impact evaluations, can combine to build awareness, provide incentives, de-risk investments, and mainstream social benefit enterprise.

Emerging Questions

The March monthly meeting generated a number of complex questions participants felt should be addressed, to achieve investable food systems transformation in cities. We highlight some of them here, because they have strong potential for identifying connecting insights between impact investors, points of impact, and outcomes sought by policy-makers.

First: Which impact investment capabilities can help to ensure sustainability-oriented and system transition efforts move forward in the current stressed environment of multiple converging crises? We must recognize we are facing worsening climate disruption, with localized climate impacts, and climate-related food system destabilization. This is happening while the COVID pandemic continues to exacerbate supply disruptions, and geopolitical tensions, including trade barriers, the war in Ukraine, other conflicts, and unmanaged sovereign debt, create price spikes and supply disruptions.

Impact investors need to prepare and guard against price increases, which could interfere with key levers of change, including which priorities consumers act on. The current situation of converging crisis calls for a response to stressed market conditions that can fall hard on social enterprises. Can such a response be structured to draw impact investment that can deliver better outcomes and greater resilience over the long term?

We discussed the value of one city's experience of successful innovation across policy, finance, and action, for another city dealing with similar challenges. Specifically, we heard about the challenge of tackling poverty and hunger while focusing on transformation. Cities get pushback when people are facing emergency situations of deep poverty. It becomes important in such situations for cities to be clear that they are addressing both the immediate emergency need and the root causes of ill health, inequality, and lack of better options.

If that dual response has integrity, and can be expressed coherently (in alignment with a range of actors' needs, priorities, and capabilities), it can become a cause for the community, and a way of bringing new life to communities, even as they deal with crisis. People may be struggling to afford living expenses, so the food systems response should create jobs, skills, and a better understanding in of and ability to work on nutrition.

Bringing vibrant new life to community economies, through healthier sustainable business models, can answer some of these challenges. Two examples put forward were Hot Bread Kitchen (<https://hotbreadkitchen.org/>) and Robin Hood (<https://www.robinhood.org/>). Rising costs tempt policy-makers to delay action toward healthy food and anti-obesity programs, even

while city councils want to invest in more livable communities, healthier communities, better job opportunities, and resilient future development scenarios.

This leads to another question about transition timing: Is a time of high food prices in fact a better, more optimal time to invest in scaling up sustainable, health-building food systems? While many policy-makers are worried about prices, a time of high prices might mask the premium often seen with healthier, more sustainably produced food items, and shifting to those better standards could eliminate some of the costly inputs that might be driving prices up in mainstream food systems (Russia-sourced fertilizer inputs, for instance). Similar to clean energy systems, sustainable food systems bring external benefits that can be investable priorities for public finance, and where prices and supplies are more stable going forward.

We heard about the need for different actors in the impact investment ecosystem to hear and understand each other's perspective. Commercial banks, for instance, have some limitations in terms of how directly they can drive impact, but one tool they have is pricing. By pricing their own products to account for impact, banks can leverage and expand the reach of public sector incentives to drive investment into healthy, sustainable food systems.

Our February discussion highlighted the value of time-sensitive city budget impact mapping. In light of the above stresses and the need for clear and decisive transition action, our March meeting floated the idea of a time-sensitive city budget impact mapping toolbox as part of the Lab's formal outcomes. The February discussion had been seconded in bilateral meetings with Lab participants, so the toolbox could become an element of the final report, and should be discussed in upcoming sessions.

We discussed a key structural question about impact investing and market dynamics: What new understanding of value creation has to be standardized and in use for investors to see clearly and go after that new kind of return on investment? Which entities can play a role in making that information more visible? Participants highlighted the value of subsidies and incentives to generate this visibility of impact value.

Labeling and consumer demand are also critical. Consumers will pursue better outcomes, if they have the products in front of them, can identify them as more attractive, and don't have to pay a significant premium. Labelling can be a lever of change and a way to deliver insights on integrated metrics (climate/nutrition/health/sustainable land use/reducing plastic waste, etc.) to investors by making such information useful and attractive to more consumers.

Labelling and public awareness raise questions of jurisdiction. Which public authorities have the ability to intervene in ways that educate consumers, label products, incentivize production practices, and reward retailers for putting better choices in front of consumers. Impact investors recognize the need for coordination between levels of public authority, to achieve the optimal timeline for consumer awareness raising.

Another lever of action could be major portfolio realignment to invest in nature and nature-positive practices. This might best be described as either a national policy priority or a voluntary corporate decision, but cities can create focused programs that invite and reward investment in nature, both within their borders, and through the wider landscape of integrated and interacting supply chains. Participants discussed the value of highlighting such programs, whether in food systems or other major transition initiatives.

Innovation clusters can be used to ensure matching between ideas, business strategies, community need, public policy initiatives, and investors. Can we show examples of innovation clusters, whether in food or in another field, that are successful at delivering impact and creating a foundation for scale and reach?

On scale and reach, which institutions, actors, and investors, are best positioned to bring a robust delivery system to new food systems interventions? Suggested leverage points included major food retailers, major integrated production enterprises, multinational banks that support trade in commodities, and technologies that connect finance at scale with small-scale actors and actions, including consumers who wish to track the sustainability of their own habits. Urban food system innovation clusters could be important venues for testing such impact-oriented digital financial technologies.

We discussed the need to map out points of impact where small businesses, local communities, local producers, and big retailers or agribusiness firms can come together to allow large commercial banks to make critical impact investments that will achieve impact at scale. Discussion pointed toward mapping value chains across sectors and enterprise types, assessing interoperability between scales, measuring public awareness and opportunities for stimulating local consumer demand.

Financial and policy tools for assessing business model efficiency and adaptive capacity were also suggested as levers that could fit into impact mapping. Where, for instance, do new business models emerge that are optimized to the food system transformation imperative, if the local community is not actively looking for transformation?

In some ways, this brings us back to the core of what impact investing is: investors looking to create better outcomes aligning with entrepreneurs whose aim is to make change happen, even if they are the first to try. It is natural in such investment scenarios to take on added risk, but to bring impact investment to scale and to mainstream food-related impact investment for city-level transformation, cooperative approaches to de-risking should be considered.

One clear example provided was the use of state funding to support venture capital investment in research and development. If food-related health and sustainability metrics are not part of the value consideration attached to that R&D funding and activity, it becomes more difficult to mobilize venture capital for food systems impact. Though food is universally needed, and in that sense will always be in demand, food system innovation is often treated as categorically different from or less market-moving than technology innovation.

For next time

Our next monthly meeting—on Thursday, 28 April 2022—will include a focus on Food Innovation Clusters.

The term “innovation cluster” can mean a number of things, but based on interventions in our March discussion we will treat the term as referring to situations in which an unusual density of new businesses, practices, and consumption patterns, allows for faster-moving food system innovation and transformation.

- Those situations are real-world effects of a number of distinct and overlapping forces.
- They can arise organically, over time, due to cultural or political trends.

- They can be the product of public policy and incentives intended to generate better outcomes, which result in a density of better food system actors.
- They can be the focus of a targeted effort by cities, regions, or through public-private partnerships, to create a desired cluster of innovative entities and networks.

Please think about your own experiences of such dynamic spaces and networks, your hopes for what kind of support can be made available to create successful food innovation clusters, and which preferred outputs might be achieved by cities, at the community level or through partnership with impact investors. Experiences might come from other areas of innovation, including IT, biotech, clean energy, manufacturing, or green building.

Please send any responses, suggestions, ideas you wish to table or discuss, or suggested presentation topics, to the Lab coordinating team at investorslab@eatforum.org