



Policy Brief

IMPACT INVESTMENT IN URBAN FOOD SYSTEMS

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Introduction and key messages

This Policy Brief has been developed as part of Food Trails, a four-year EU-funded Horizon 2020 Research and Innovation project (grant n. 101000812).

This Policy Brief aims to summarize and share project findings on impact investment in urban food systems and suggest actions to support long-term and sustainable investment in urban food systems. This Brief highlights the role and needs of European cities in the context of investing in urban food systems to support future input into EU initiatives. This document is intended to support European policymakers and other municipal actors in the food system. Content in this Policy Brief is drawn from the Food Trails [Roadmap for Scaling Impact Investment in Urban Food Systems](#), case studies and literature review conducted under Task 1.4 of the Food Trails project titled “impact investing for food systems”.

Cities are critical locations for food systems transformation. Cities are important local food systems, [housing more than half of the world's population](#), generating , 80% of global economic activity. [70% of global food is consumed](#) in cities, so ensuring food security and good nutrition in urban areas is increasingly important. Improving food systems to avoid unnecessary risk, harm, and cost is imperative to achieve food security, sustainable nutrition and human

health, and economic and fiscal stability.

Significant funding gaps exist in global sustainability efforts. Currently, there are significant funding gaps in (inter)national policy agendas for a sustainable world. For example, to achieve more equitable and sustainable food systems by 2030, the investment gap is substantially larger, and it is estimated that [global investments of 1.3 trillion USD annually are needed](#). Investments to modernise and improve urban food systems in cities will be critical in this transformation process. Investing in innovative processes and supporting start-ups, non-profits, municipalities, and businesses is necessary to bring new food solutions to scale in urban food systems.

To address the funding gap, this note presents three key messages for scaling impact investment in urban food systems:

1. Impact investing creates opportunities for expanding the reach and efficacy of urban food policies.
2. Investing for impact can achieve its scale potential when bolstered by coordination (formal or informal) among key actors across policy, finance, and value chains.
3. Inclusion is critical to support small-scale food systems innovators by enabling policies and impact investment and to ensure accessibility and affordability.

Key messages explained



Impact investing creates opportunities for expanding the reach and efficacy of urban food policies

Impact investment can be a way to drive positive social and environmental change in the urban food system.

The Global Impact Investing Network ([GIIN](#)) defines impact investments as “investments made to generate positive, measurable social and environmental impact alongside a financial return.” Impact investors may self-identify [according to the area of positive impact](#) (e.g., health, pollution, waste, water, they wish to support). An investment for impact is an investment that limits negative environmental, health, and socio-economic externalities (e.g., employment, diversity and inclusion) or creates positive ones (co-benefits).

Impact investment and its potential to contribute to major societal transition processes are of growing interest and importance as sustainable finance instruments.

Through social and green bonds, investments and buying off assets (and influence), a growing number of investors try to ensure, promote, and implement sustainable business practices for a better future.

Impact investors are not independent actors but rather strategic partners to change-makers.

The impact investment landscape includes a wide range of investors, from hedge funds to philanthropic foundations. Key actors in impact investment include:

- High Net Worth Individuals, family offices, and private foundations - they provide capital for early-stage ventures with a higher risk tolerance.
- Traditional institutional investors, like pension funds or insurance companies - manage large funds for positive financial returns, supporting long-term transitions.
- Other institutional investors are legal entities with diverse forms, including sovereign wealth funds (see the 100 largest sovereign health funds by SWFI [here](#)), private equity funds, and hedge funds, which have varied organisation models and investment strategies.

Some examples of impact investors that came up during the discussions in the [Food Trails Investors Living Lab](#) include investment firms, venture capitalists, incubators, accelerators and philanthropies, but also municipalities and national governments, businesses influencing food systems, or, more generally, actors investing in local innovative actions, or enabling monetary flows, leading to positive food systems transformation. The discussion in the lab emphasised that impact investment involves a financial provider and often includes other organisations in the partnership. There is often a community of innovators and a cluster of actors in finance, policy, and the community centred around impact investors and beneficiaries.

Through discussions with impact investors and cities in [Food Trails Investors Living Lab](#), we found impact investors can include investment firms, venture capitalists, incubators, accelerators and philanthropies, but also municipalities and national governments, businesses influencing food systems, or more generally, actors investing in local innovative actions, or enabling monetary flows, leading to positive food systems transformation.

Impact investment organisations are increasingly emphasising social and environmental goals, particularly in food systems and sustainable cities.

As of 2022, [3,349 impact investment organisations are responsible for managing around 1.2 trillion US dollars](#) of assets for the impact investment objectives, and they are increasingly interested in social and environmental outcomes, with 45% targeting responsible consumption and production and 40% targeting zero hunger, according to [GIIN 2020 Impact Investors Survey](#). Most impact investors allocate assets to food and agriculture, but 54% aim to increase their allocations to this sector in the next five years. Additionally, 55% aim to target sustainable cities and communities, presenting a significant opportunity for financing food system transformation in cities through collaboration with impact investors.

Impact investment in urban food system transformation can benefit both cities and

investors, promoting sustainability and yielding social and economic benefits.

Urban food systems are important places to increase understanding of and generate demand for healthy and sustainable products and practices. In some contexts, this will involve social and cultural change — that brings existing food culture into a new mindset while also bringing onboard new business models and a new market dynamic. Investors can tap into urban food policy actions to channel investment in transformative change towards a more equitable and sustainable food system (Figure 1).

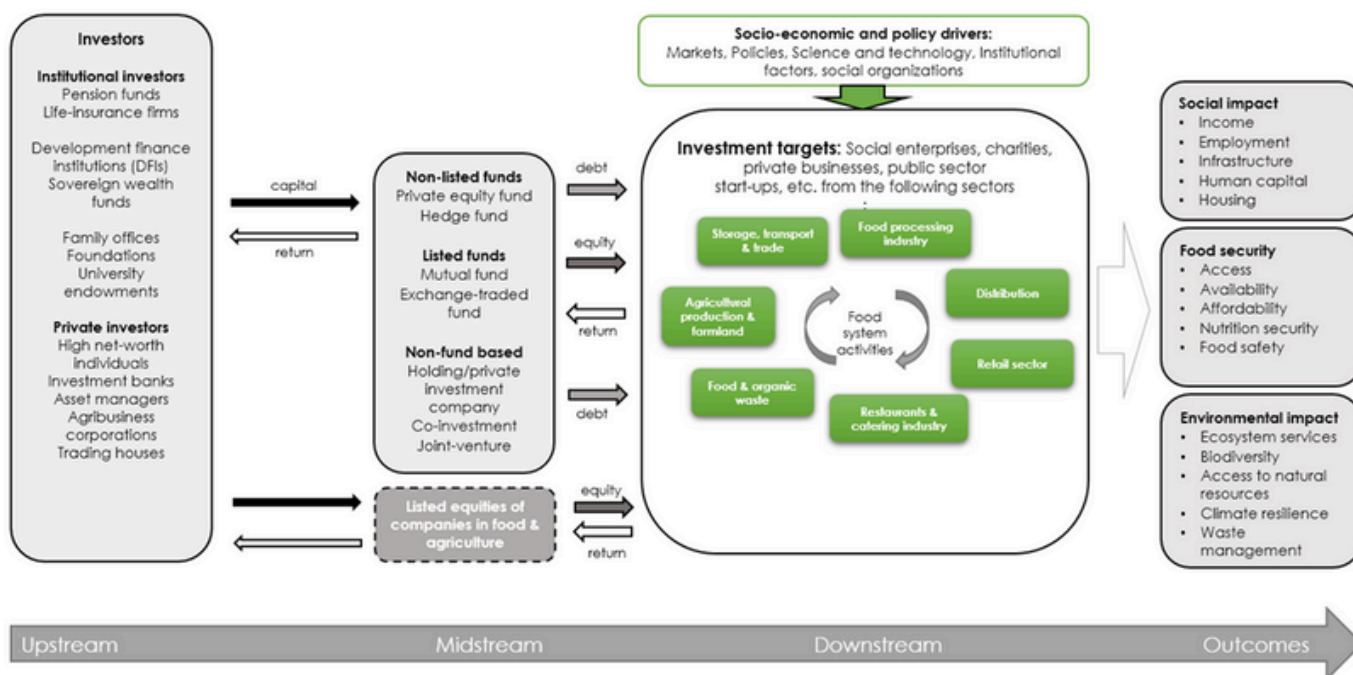
On the other hand, with fiscal and revenue limitations in cities and the need to sustain innovation, increased access to financial capital and services can foster the growth of urban food policy actions. Cities and their public institutions can leverage the impact investment process to sustain food policy actions, particularly to scale actions that have benefited from public initiative and funding to get started.

This collaboration between impact investors and public institutions can play an important role in influencing the social drivers in cities and urban areas. The regulations and policies, the quality of food marketing and procurement, trade associations organisations, and the shaping of the built environment (e.g. urban planning) can transform food production and services (storage, retail, processing, etc.), thereby generating food security, social, and environmental results.



Photo credits: Timon Reinhard - Pexels

Figure 1 | Impact investment and food system linkage



Source: FOOD TRAILS Work Package 1 - Task 1.4 Studies

City food systems boast inspiring impact investment cases, reflecting evolving financial trends that can serve as blueprints for cities to refine and innovate their own food policies.

We have identified several pioneering impact investors investing in new food-related opportunities in European cities. Two interesting examples, amongst others, are:

1

Social Investment Loan for Foodworks

Foodworks, a Sheffield-based social enterprise, plays a vital role in its community by sourcing local ingredients, operating community kitchens and gardens, preparing affordable and nutritious meals at 11 hubs, and redistributing food to reduce waste and enhance nutritional access. In order to expand their operations following the acquisition of a substantial government contract, Foodworks required additional funding. However, being a non-profit social enterprise, they couldn't attract equity investment aimed at generating profits, and commercial loans proved financially burdensome. This is where The Key Fund, a social enterprise and impact investor, stepped in to provide essential support. Specialising in financing ventures that have a positive social impact within sectors such as health, education, housing, training, and ecology, The Key Fund offers flexible loan and grant packages. After evaluating Foodworks' eligibility based on its track record, transparency, and investment plan, they extended a low-interest loan blended with a grant, rendering it an affordable financial solution for the social enterprise.

2

Social impact bonds for the Colour Kitchen in the Netherlands

Utrecht Municipality secured €734,000 in funding through a collaboration with Rabobank and Start Foundation, aimed at providing comprehensive training in restaurant management to empower young individuals to earn diplomas and secure employment opportunities. This innovative financing model involved the issuance of social impact bonds, which enabled private investors like Rabobank and Start Foundation to support social initiatives under contracts that only yield returns when predefined objectives are successfully achieved.

In the case of The Colour Kitchen, the bond's performance hinged on specific outcomes, including the number of young participants obtaining diplomas, securing short-term employment lasting at least six months, and ultimately finding stable, long-term positions beyond the initial six months.

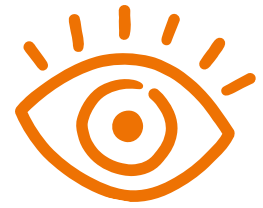


Photo credits: Food Works Sheffield Ltd. Company



Photo credits: The colour kitchen

Key messages explained



Investing for impact can achieve its scale potential when bolstered by coordination (formal or informal) among key actors across policy, finance, and value chains

Strategically sequencing actions within urban food systems can trigger impactful investments customised to local conditions.

Effective food systems transformation requires informed decision-making and collaboration across complex food value chains that are vulnerable to shocks and unpredictable events.

However, many key actors, including consumers, are often considered external to the investor's business strategy.

To maximise impact investment in local/regional food systems, community and consumer involvement, commercial entities (including banks and investors), and supplier participation must be enhanced all the way to the farm.

The Investors Lab identified eight thematic areas that represent segments of impact investing in urban food systems as an interface to sequence actions and catalyse impact investment.

Below, you can read about the key outcomes corresponding to each area:

- **Impact:** When seeking to attract investment, municipalities should emphasise how their goals, including food policies, can be realised through strategic investments. Furthermore, they should invite potential investors to join forces in reshaping local food

systems, irrespective of whether an official food policy is in place. It's essential to recognise that how municipalities articulate the potential outcomes of their projects will significantly shape investor enthusiasm and commitment.

- **Ambition:** When transforming urban food systems, it's crucial to strike a harmonious balance between the grand ambitions of businesses and the broader non-financial advantages for the community. Municipalities can harness the power of policy, procurement strategies, and practical collaborations to make impactful investments efficiently. For inspiring examples of ambitious initiatives, refer to the compelling client success stories featured in [the Key Fund Social Impact Report](#) and discussed in our lab.



Photo credits: Daria Obymaha - Pexels

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- **Data:** Accessing, co-managing, or owning integrated data systems is crucial for impact investors to expand the capital pool. Policies should incentivise the sharing of information, the adoption of technology, and the promotion of innovative enterprises that open datasets to smaller start-ups and new players entering the market. To illustrate this concept, consider the case of integrated data systems in [Milan's urban food policy budgeting](#), as an exemplary example.
 - **Policy:** Municipalities play a pivotal role as impact investors, actively influencing opportunities for private-sector investors. When municipalities define their missions and strategies clearly, they have the power to transform mindsets and realign investment priorities (please see [Birmingham food system strategy 2022 to 2030](#) considered in our lab as an example food system policy).
 - **Products:** Facilitating new investment for impact in urban food systems requires innovative financial services, consumer products, and business strategies from small to medium-sized enterprises operating locally and in the wider value chain. For instance, Groningen Municipality is a mobile app that uses blockchain technology to manage funds for entrepreneurs. Users will have their own digital wallet containing personal tokens and can make payments to connected entrepreneurs for services or products. The app is in development, with a Proof of Concept expected by June 2023.
 - **Scaling:** A key realisation is that innovative business models in the food industry might not align with conventional market dynamics, potentially leading to underutilisation of subsidies and incentives intended for more traditional practices. To harness these resources more effectively, policymakers have several options to consider. Firstly, they can formulate national food strategies, such as the forthcoming [National Food Strategy in the UK](#), which can benefit from philanthropic support, following a model similar to that of the Dixon Foundation. Another avenue involves promoting innovation networks that leverage global knowledge and digital tools to exchange successful practices with other cities. Lastly, policymakers can explore the establishment of investment partnerships that encourage collaboration between the public and private sectors through various financial mechanisms.
 - **Capacity and Community:** The conditions within a community and its capacity to drive change play pivotal roles in shaping the food system and influencing investment opportunities. By harnessing the strength of local capacity and community engagement, the development of products and services that cater to local demands and surpass expectations can be achieved, rendering investment scenarios highly appealing to potential investors. The story of an experience from [Berlin's Food Hub](#) and their focus on bottom-up food systems change through capacity building and community interaction is a good example of this.



Photo credits: Adonyi Gábor - Pexels

Key messages explained



Inclusion is critical to support small-scale food systems innovators by enabling policies and impact investment, and to ensure accessibility and affordability

To achieve a food systems transformation, policymakers must shape the economic landscape, support entrepreneurs pursuing co-benefits, and incentivise key actors in the value chain.

The economics of a food systems transition are complex. Policymakers need to acknowledge and condition the economic landscape to fit the food systems transformation. The health of people and the planet, including the food-producing regions on which the city depends and the financial well-being of the city are all dependent on shifting to practices that reduce risk and foster cascading co-benefits. For entrepreneurs to thrive by chasing co-benefits, they will need support from policy levers to overcome the forces that favour dominant food systems actors that profit from externalised costs and market failures. Policy levers can nudge consumers to incentivise financial institutions and value chain actors, such as retailers and restaurants, who favour healthier, more sustainable foods and products if rewarded for doing so.

Impact investing can be a way to drive positive change quickly and set the stage for broader transformation.

The increasingly urgent need for food systems transformation points to a need for impact investing that not only starts the process of innovation but supports start-ups, non-profits, municipalities, and businesses that can serve local needs and bring new food solutions to scale.

For example, in areas where small community-level enterprises deliver most food system services—including distribution, storage, processing and preparation—a highly localised investment for impact process may replicate successful practices from municipalities to leverage cultural entrepreneurship. Enabling policies that allow investors to see earlier returns from such small-scale local interventions can expand and identify the landscape of activities and accelerate scaling to the wider market.

In catalysing impact investment and food system innovation, cooperation and community engagement are key.

As highlighted from the work in the Impact Investment Living Lab, it is important to make room for a broad range of actors – also those not necessarily self-identifying as an ‘impact investor’. By cooperating and engaging with different actors in impact investments, it is possible to spread risk and expand opportunities to help drive food systems innovations forward. The work model of [the Key Fund](#) is a good example of why cooperation and community engagement are key. The Key Fund works with investees with a purpose and plan generating profits and social outcomes for people, communities and social enterprises that have traditionally been excluded and turned down by mainstream banks and building societies, especially in disadvantaged areas. Their model creates conditions for higher ambition by building capacity across a wider landscape of actors.



Photo credits: Megan Bucknall- Pexels

Conclusions

Impact investment in urban food systems offers significant potential for cities and investors, and policymakers can play a crucial role in shaping the economy, incentivising key players and catalysing impact investment in cities effectively.

There is an increasing focus on impact investment in transformative city initiatives, particularly in the food system, presenting opportunities for both cities and investors. Cities can learn from successful examples of impact investment in urban food systems and use them to develop or modify their own food policies. The impact investment to urban food systems will benefit from strategic action sequencing tailored to local circumstances.

Policymakers can utilise impact, ambition, data, policy, products, scaling, capacity and community as eight thematic areas to sequence their actions and catalyse impact investment in cities around. Policymakers must shape the economy, support entrepreneurs, and incentivise key players, including impact investors, to transform food systems. Impact investing can drive this transformation and broaden it in cities, with community engagement being key.

A comprehensive food policy and an impact investment network for the urban food system can enhance the coordination of strategic actions and investment opportunities in the food sector, leading to a more sustainable and resilient urban food system.

Cities can coordinate their food procurement efforts or collect social policies related to the food sector under a single city-wide food policy. The Milan Food Policy serves as an example of such a comprehensive policy, outlining key actions that must be taken to realise a vision while aligning various food-related projects that the administration implements. A unified food policy will contribute to the sequencing of strategic actions concerning impact investment. Establishing an urban food system impact investment network - including institutions, philanthropic organisations, and municipal policymakers - can facilitate information exchange on investment opportunities, enablers, and barriers.

Related project steps:



- "Call for Solutions – Sustainable Food Systems" was an initiative launched as part of the Horizon2020 Food Trails project. The aim is to develop sustainable, healthy and inclusive food policies in 11 European cities, which are Bergamo, Birmingham, Bordeaux Metropole, Copenhagen, Funchal, Grenoble-Alpes Metropole, Groningen, Milan, Thessaloniki, Tirana, and Warsaw. The initiative seeks to identify innovative start-ups and SMEs to collaborate with Food Trails' partner cities and develop strategic solutions to improve the sustainability of urban food systems. The initiative has received 200 applications.
- In Milan, some of the most innovative food-tech startups and SMEs from Europe came together for the Food Trails Matchmaking Day. The objective of this event was to create opportunities for collaboration between the private and public sectors, with the aim of transforming European sustainable food systems. Partner cities and potential investors also attended the event.
- The Food Trails project continues to empower city officers in living labs, pilot actions and innovations for a lifetime after the end of Food Trails.

Where to find more:

- Roadmap for scaling impact investment in urban food systems: <https://foodtrails.milanurbanfoodpolicypact.org/resources/food-trails-impact-investors-living-lab/>
- Good Food Finance Network <https://goodfood.finance/>
- Global Impact Investment Network <https://thegiin.org/>
- Food Trails website: <https://foodtrails.milanurbanfoodpolicypact.org/>