Many countries in the Global South have developed long-standing fertiliser distribution programmes, alongside support for seed, pesticides and other inputs.

Photo: Jörg Böthling

Foreign direct investment in agriculture is often aimed at land and resource control, and is concentrated in major export commodity sectors.

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Just rewards, or just rewarding business-as-usual?

The urgent need to realign the financial incentives in our food systems

Big sums of money are flowing into food and farming, but it is still going to the wrong places. A recent UN report points to the vast majority of agricultural subsidies being environmentally harmful. Fertiliser subsidies are also damaging the environment and depleting public budgets, while 'green' investment is failing to materialise. Funding for truly transformative initiatives – from agroecological research to short supply chains – is still badly lacking. Our author argues that finance as we know it can't fix the food system. Instead, bigger changes in our food systems and economic systems — changes that shift power relations — are required.

By Nick Jacobs

As 2022 draws to a close, with nearly 50 million people facing acute hunger and 45 countries in need of food assistance, global food systems are clearly at breaking point. Anyone seeking to defend 'business-as-usual' must confront a number of increasingly harsh realities – that global food supply chains and food security are fragile; that environmental breakdown is decimating harvests; that sustainable agriculture is key to restoring biodiversity, adapting to climate change, alleviating poverty and rebuilding food security; and that billions of dollars are needed to accelerate the transition to sustainable food and farming systems. The good news is that there are considerable sums of money already flowing into food systems, and multiple levers to pull on. However, it is also clear that many of these incentive systems are still pointing in the wrong direction.

Firstly, agricultural subsidies play a critical role in shaping food systems. Globally, government subsidies to agriculture total roughly 720 billion US dollars (USD) per year. For decades, the subsidies channelled to large-scale farms in the Global North have been criticised for distorting global markets and undercutting developing world agriculture. Those criticisms are now getting louder and wider. A recent UN report has confirmed that around 90 per cent of the world's agricultural subsidies are environmentally harmful, with the bulk of payments channelled to high-emitting sectors like meat and dairy. Even the latest statistical update on food security (*The State of Food Security and Nutrition*) issued by the UN Food and Agriculture Organization (FAO) called for subsidies to be 'repurposed' as a precondition for ending hunger. In the European Union – where agricultural subsidies still account for nearly 40 per cent of the bloc's expenditure – there is widespread opposition to the status quo. This includes farmers' organisations like Via Campesina, who would rather have no subsidies at all than today's highly distorting payments.

Secondly, fertiliser subsidies provide another powerful set of incentives – and also reinforce today's most damaging production models. With the 'Green Revolution' focusing attention on increasing the productivity of (input-responsive) staple crops, many countries across the Global South have developed long-standing fertiliser distribution programmes, alongside support for seeds, pesticides and other inputs. By 2010, ten of the biggest African countries were channelling 14 to 26 per cent of public agricultural expenditure to these programmes. With food, fertiliser and fuel prices soaring following the Russian invasion of Ukraine, governments are now pouring ever-greater resources into providing farmers with these inputs. A report on the *Fertilizer Trap* by the Institute for Agriculture and Trade Policy (IATP) and the non-profit organisation GRAIN shows that India (with 26 billion USD budgeted this year), Kenya and the Philippines are among a host of governments ramping up fertiliser subsidies in the face of the crisis – and dangerously depleting public budgets in the process. Global North countries are also doubling down on fertiliser production incentives – including 500 million USD of new US grants – as well as continuing to subsidise fossil fuel extraction.

After decades of neglect, overseas development aid for African agriculture has tripled since 1997 and exceeded three billion USD in 2017.

Photo: Flore de Preneuf/ World Bank

Agricultural subsidies play a critical role in shaping our food systems. The lion's share of world-wide agricultural subsidies is channelled to high-emitting sectors like meat and dairy.

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Thirdly, major sums of public funding are injected into food systems through agri-development programmes and partnerships. After decades of neglect, overseas development aid for African agriculture has tripled since 1997, and exceeded three billion USD in 2017 – alongside increasing investment from philanthropic foundations. With growing recognition of agriculture's carbon sequestration and climate adaptation potential, some donors are starting to shift their practices and channel funds into transformative initiatives. Germany, for example, is partnering with the Indian state of Andhra Pradesh to help transition hundreds of thousands of farmers to 'natural farming', while more than 50 per cent of Swiss agricultural research funding in Africa goes to agroecological projects. However, these remain the exception: the bulk of agri-development funding continues to accrue to 'public private partnerships' (PPPs) like the Gates-funded AGRA alliance, which enmesh corporate interests (e.g. selling agri-chemicals) with those of small farmers, and continue to focus narrowly on increasing the productivity of (export) crops. Despite the urgent need to develop and spread knowledge on sustainable practices, a declining share of aid is channelled to research, and only a fraction of those funds – as little as three per cent for the Gates Foundation – goes to systemic, agroecological projects.

Fourthly, private capital flows represent another financial lever for food system change – the biggest lever in dollar terms. Foreign direct investment (FDI) in agriculture already amounts to about 1.5 trillion USD per annum. Most of these flows are currently supporting business-as-usual. FDI in agriculture is typically aimed at land and resource control, and concentrated in major export commodity sectors (rice in Asia, sugarcane and soybeans in South America). With agriculture currently absorbing less than one per cent of total FDI, some see huge potential for channelling increasing investment flows into the sector, and redirecting them towards sustainable practices. The World Bank is optimistic on this front, highlighting the 40 trillion USD of global assets already aligned with ESG (Environmental, Social, Governance) principles, the 750 billion USD sitting in outstanding stocks of green bonds, and the proliferating mechanisms for investing in food system transformation – from 'blended finance' solutions like sustainability-linked debt facilities, to underwriting long-term purchase contracts to help smallholders harness innovations.

> A declining share of aid is channelled to research

Although they represent a different type of incentive, fiscal policies are another powerful tool governments can use to align food systems with health and sustainability goals. For example, soda taxes in Chile – coupled with child marketing restrictions and labelling requirements – helped to reduce consumption by 23 per cent. Mexico also achieved a 12 per cent drop in sales after a 10 per cent tax was levied on sugary drinks in 2014. Buoyed by these success stories, there are now growing calls for fiscal tools to be used systematically to align food prices with their true cost to people and the planet.

Surveying this landscape, it is clear that today's food system incentives are poorly aligned with sustainability. But it also feels as if the tide may be about to turn – that the problems are now obvious, that pioneering initiatives are showing the way forward, that a critical mass of awareness is about to drive a realignment of food system incentives and unlock a tide of green investment. However, a reality check is needed. None of these incentive systems offers an easy win, and progress is stalling on all fronts. Recent events in fact suggest that decision-making and resource allocation in food systems is fundamentally unresponsive to biophysical limits and economic realities.

With Covid-19, climate shocks and the invasion of Ukraine disrupting food supply chains, the case has never been clearer for rebuilding more resilient food systems – and redirecting financial flows to that effect. But instead of accelerating reforms, the current crises are being used to justify the status quo and kick the can further down the road. In Europe, farm biodiversity requirements have been relaxed, fertiliser/pesticide reduction targets have come under attack, and subsidy reforms put into the deep freeze, on the grounds that for now the focus should be on helping farmers to 'feed the world'. Many governments, meanwhile, are expanding fertiliser and fossil energy subsidies – rather than taking the opportunity to accelerate the shift towards low-input, diversified, agroecological systems. Nor is the crisis sparking a fis-

A soft drink transporter at a market in the Bellavista neighbourhood of Santiago, Chile. Soda taxes in the country have helped to reduce consumption by 23 per cent.

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cal transformation. In a context of rampant food price inflation, some European Parliament groups are in fact pushing for VAT to be lowered on fruit, vegetables, dairy and all 'basic foods' – highlighting how health and sustainability imperatives can be blunted, and fiscal tools instrumentalised, in a context of entrenched power relations and corporate capture of policy processes.

Through new incentives for industrial agriculture, governments are therefore exacerbating the climate and biodiversity crises which are contributing to today's food crisis – and leaving the world even more vulnerable to the next supply shocks (which can't be far away). This contradiction is sometimes acknowledged, but the logic appears to be that as long as we have the wrong production model, we need the wrong subsidies and the wrong incentives to keep it afloat.

Investment flows tell a similar story. While the focus (and language) of investments is shifting, the fundamental logic is not. The same old assumptions about return on investment remain in place, and capital continues to flow to growth opportunities. New sectors are attracting rapid investment, from food e-retail platforms to lab meat startups, but only insofar as they promise to deliver sustainability gains within the parameters of the current system – to unearth new consumer markets for multinationals (who often buy up the newcomers), to continue the inexorable growth of total food production/consumption rather than challenging it. And while trillions of dollars are ESG-aligned on paper, money is increasingly being managed by opaque financial players with no real stake in the sectors and communities affected by their investments. Remarkably, Blackrock and four other asset management firms own 10–30 per cent of the shares of the top agri-food firms, and a rising share of farmland in the Global South. Across the board, there is a worrying lack of accountability. AGRA, for example, continues to absorb millions of dollars of agri-development funding, despite failing to deliver on stated hunger and poverty reduction goals, let alone sustainability.

Where funding is not flowing is to the organic and agroecological systems that sustain yields and build resilience through diversity (not chemical inputs). To the short supply chain initiatives – from community supported agriculture to farmers' markets and cooperatives – that provide farmers with a fair price, and a market for diverse outputs (i.e. real incentives for producing sustainably). To the initiatives working at the relevant scales – communities, landscapes, territories, city-regions – to reconnect producers and consumers, establish circular nutrient and waste flows, and build democratic food system governance. To the social innovations that can drive change faster and more durably than technological innovations. To the community-led research and farmer-to-farmer knowledge sharing that is critical to build resilient food systems.

What these opportunities have in common is their capacity to generate value for the many, not wealth for the few. In other words, they lack 'investibility' in conventional terms. This situation is unlikely to change insofar as today's paradigms, power structures, and overarching incentives remain in place – in food systems and beyond. There is clearly no threshold at which rational resource allocation suddenly kicks in: with the social and environmental costs of today's food systems likely already exceeding the market value they generate (6–12 trillion USD versus 10 trillion), surely we would have passed that threshold already. In a crucial caveat to the *Food Finance Architecture* it delivered for the 2021 UN Food Systems Summit, the World Bank acknowledges that "financial institutions are not currently unlocking the potential of (sustainable) financial products, instead remaining in old patterns of behaviour". This is a telling reality. It reflects the fact that powerful actors are still assuming they will be able to extract wealth and profit as ecosystems collapse. It is this assumption – and not an acceptance of the wholesale transformation required – that has been priced into today's food systems and the incentives guiding them.

The task of realigning financial incentives with sustainable food systems is therefore even bigger and more complex than it first appears. It becomes doubly important to pursue change in all the incentive systems described above – and to do so in a way that challenges fundamental assumptions and shifts power in the process.

Alongside the abundant greenwashing and false dawns, there are emerging examples of real change from which we can take heart. Around the world, top-line incentives are being shifted by pulling on multiple, mutually-reinforcing levers – financial, fiscal, regulatory, political – and redistributing power. It is worth remembering that Chile's success in fighting obesity is down to a multi-faceted package of measures – a soda tax and curbs on industry marketing power. Meanwhile, in Andhra Pradesh, hundreds of thousands of farmers are shifting to agroecology thanks to the availability of biological inputs, community support systems, a purpose-built, not-for-profit company – and multi-level political support (including international partnerships). There are also signs that financial actors are growing impatient and pushing for real change. The latest European data suggests that investors are turning away from 'light green' ESG-aligned funds, while opting into funds that target specific sustainability outcomes. As these steps converge, as transitions become transformations, change could become truly unstoppable. Instead of just rewarding business-as-usual, tomorrow's food systems could finally deliver just rewards.

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