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## *Financing the Transition to Regenerative Agriculture: Sharing Risk with Producers*

*Executive Roundtable Summary*

*Virtual Conference – March 17, 2022*

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### Background

No doubt that the current industrialized agricultural system is subject to change. The EU Green Deal and Farm-to-Fork strategy is setting a landmark while alternative practices beyond organic have also developed in the US and other parts of the world. Two WEC Executive Roundtables in 2021 explored how agricultural value chains can advance sustainable development and climate action. Regenerative agriculture practices that restore soil health, sequester carbon, and boost productivity and resilience were identified as a promising approach. A major barrier to achieving scale is that farmers bear most of the risk associated with changing practices.

WEC's Roundtable series seeks to create a space for bottom-up conversations on what the Food & Agriculture sector explicitly needs to thrive. The aim of this 3<sup>rd</sup> event was to share innovative approaches to support farmers in the transition to regenerative agriculture. How can financing and technical assistance be deployed to share risk across the value chain? Can farmers benefit from voluntary carbon markets? What about other approaches that don't rely on carbon credits? The Roundtable brought together 45 senior sustainability, procurement, and government affairs executives from 15 countries – with 60% from large food companies and commodity traders, 38% from academia/NGO/agronomic service providers, and 2% farmers.

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### Participants

#### Host

**Petra Laux**, Head of Business Sustainability Crop Protection, Syngenta



#### Moderators

- **Axios:** Matthijs Mondria
- **Syngenta:** Dominic Widmer
- **Yale University:** Dan Esty
- **World Environment Center:** Glenn Prickett

#### Speakers

- **Bayer:** Monica McBride
- **Cargill:** Ryan Sirolli
- **Danone:** Christopher Adamo
- **Woodwell Climate Research Center:** Jonathan Sanderman

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### Key Points

- (1) An introductory poll** revealed that about 2/3 of the participating companies have started to experience how to best help farmers finance the transition to regenerative agriculture (Reg. Ag.). 14% have programs in place that have already supported hundreds of farmers finance the transition, while 9% do not actively collaborate with farmers to help them finance a transition to Regenerative Agriculture. Another 9% do not have the information. The poll's result is impressive, as it shows that a large majority of companies participating in this event, amongst them some of the largest agricultural companies, are undertaking efforts to help growers transition to regenerative agriculture.
- (2) Regenerative agriculture challenges the way the agricultural system has developed** after World War II. For decades, agriculture has been characterized by heavy mechanization and industrial fertilization, which ultimately has impacted the most important asset that farmers have, which is the biological health of the soil. These soils lack resilience to forces of erosion, show a steady decline in fertility, and are vulnerable to pests and weeds. Furthermore, a profitability crisis can be observed among farmers, while negative externalities to society at large (e.g. biodiversity loss and climate change) are also attributed to the system. **Regenerative Farming is a concept that addresses the aforementioned challenges and systematically**

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**improves soil health.** Practices include (1) a steady reduction of synthetic inputs, (2) a steady reduction of soil disturbance (tillage), (3) a steady increase of soil coverage throughout the year with living roots (cover cropping), (4) an increasingly functional role of biodiversity within the farming system (moving away from monocultures). And (5), the practices have to be context-specific to [respond to local conditions](#).

- (3) Growers transitioning to Regenerative Farming bear a lot of risk:** Organizations proposing reg. ag. demand that farmers change their operational system, move away from how their families have cultivated the land, and how neighbours, partners, and others are still doing it. These farmers can feel quite isolated while at the same time the new practices are more knowledge intensive and are not showing results immediately. Does the market value the effort? It is clearly more comfortable to wait. So, if we want this transition to happen at scale, risk-sharing is essential.
- (4) Risk can be shared in various ways,** from admitting long-term contracts with the farmers who make the transition to helping farmers find markets for rotating crops that companies do not buy themselves, or e.g. by certification programs, that quantify and certify the carbon improvements achieved by a farmer who adopts reg. ag. This data-driven approach is not only a new revenue stream for farmers but also suitable for companies which need to quantify achievements as they support the transition to reduce their supply chain carbon emissions. In this respect, Roundtable participants discussed the challenges around universal KPI's, which are needed to communicate success and enable economies of scale, but which are difficult to establish for each individual value chain player. Early movers are experimenting with their programs to solve those challenges.
- (5) Practices and successful initiatives to de-risk farmers** include a new benchmarking tool [“R3 – robust, resilient, reliable”](#) for farmers to measure and predict the financial impact of reg. ag. practices on their operations. It can be applied to a specific farm with its inputs and production data, and it helps to understand the upfront costs, the point of break-even, and estimates on profit. Other initiatives are evolving, such as crop risk insurances for a lower premium for ren. ag., although not established yet.
- (6) With regenerative agriculture being one of the opportunities to reduce scope 3 carbon footprints in the food value chain, global companies are very interested to scale successful projects.** At the same time strategies have to vary according to local circumstances, and thus there are no single, unique solutions. A way for business to handle this is strengthening relationships with the farmers. This has proven to help develop innovative, customized solutions such as e.g. low-interest loans, equipment sharing with neighbours, and longer term contracts. In addition, successful companies are emphasizing the economic benefits for farmers resulting from improved soil health, especially in the mid and long run (5-10 years) and rewarding them for the outcomes without turning them off by many new data requirements.
- (7) To drive creating a market for products from reg. ag.** Roundtable participants suggested an international label or standard, which informs consumers looking at the supermarket's shelf about these products. It became clear that it is of greatest importance that the underlying farming practices and datasets used must be consistent to avoid confusion and rejection on the consumers' side. Because specific reg. farming practices will vary by crop and geography, it was noted that developing a single global standard will be difficult. At the same time there was a general openness to work with any of the existing approaches or standards, as long as these are robust.
- (8) Confirming the “end-to-end value” over the value chain from the farmer to the retailer still needs more reflection.** If farmers should be incentivized to make the transition, all available funds should go to the farmer. However, seed producers, commodity traders, food processors, and retailers often rely on the

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same storytelling related to a lower carbon footprint and other benefits to society. As these outcomes will take place several years after initial investments are made, how can each of the value chain partners communicate the benefits to consumers, financial markets, and other stakeholders?

Furthermore, several participants argued that carbon credits [should not be sold outside the value chain](#). If a farmer's soil sequesters carbon, he may sit on these carbon credits or sell them to somebody else in the value chain who continues to sit on them. In both cases the product X on the shelf in the supermarket has helped to reduce CO<sub>2</sub>-releases to the atmosphere. However, if the owner of the credits sells them outside the value chain, somebody else will claim a reduction of carbon emissions, which will be accounted against his emissions. From that point on the respective product X on the supermarket shelf, although produced with reg. ag. practices, will have lost its carbon-reduced status and thus some of its value for the consumer.

- (9) In general soil scientists applaud the overall strategy to transition towards reg. ag., however they are less convinced that betting on significant atmospheric benefits is justified.** In fact, [the evidence base that adoption to reg. ag. practices always leads to positive climate benefits is weak](#), especially as measuring outcomes is so challenging (please also see [soil enrichment protocol](#)). The evidence base is high that reg. ag. enhances soil health and productivity, but for carbon capture this is not always true. So, if carbon is treated as a commodity, it must be ensured that the carbon credits generated are of high credibility, especially if they are counted as legitimate carbon sequestration.

There is hope that a new set of [land sector guidelines](#) currently being developed for scope 3 accounting according to the Greenhouse Gas Protocol may provide more clarity. In combination with the [Science-Based Targets' new, refined pathways in the Forest Land and Agriculture \(FLAG\) tool](#) it may enable the scaling of soil carbon payments. In addition to that, corporate participants also agreed that there need to be larger quantities of advanced and affordable technology to allow measuring the soil carbon sequestration.

But even if all this is solved, **rapid scaling is still the bottleneck**. It is not enough to involve thousands of farmers in these programs if they should have a meaningful impact: you need millions. Scientists and company representatives in this roundtable agreed that although regenerative practices are beneficial in many respects, including carbon sequestration, other means to reduce GHG emissions to the atmosphere from land use must stay on top of mind, such as stopping land conversion as well as the release of N<sub>2</sub>O and CH<sub>4</sub> from agriculture.

- (10) Multiple benefits of reg. ag. exist around ecosystem services that provide value to society.** Adding them up, (perhaps developing tradeable credits for each of them) and layering those on top of carbon credits may raise enough incentives for many more farmers to make the transition. In addition, the path forward to scale the transition to reg. ag. requires innovation on multiple directions, such as in finance, policy, technology, in incentives creation & partnership development, and in ways to engage the public.
- (11) Transformative Alliances were suggested as an important next step**, in which companies collaborate with each other, their value chains, and all stakeholders including investors, to change systems for the better. Spreading knowledge fast is necessary, and it was suggested that companies [help farmers to develop a peer-to-peer mentoring](#) at large scale. This works best in established and trusted supplier relationships. However, to scale transformative action, companies can develop other concrete steps: e.g. helping to define grading certain commodities on certain standards of production and price, as that will reduce uncertainty. Further action can be taken, also in collaboration with public policy.

*Note: WEC Executive Roundtables are conducted under the Chatham House Rule. This summary takes up discussions of the 3<sup>rd</sup> event in a series of business discussions about how to successfully implement the EU's Farm-to-Fork strategy, and specifically Regenerative Agriculture.*