



## ECOSOC FINANCING FOR DEVELOPMENT FORUM 2023

### FAO KEY MESSAGES

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#### INTERNATIONAL CONTEXT AND CRISES

- 1. As a result of the deterioration of global outlook amid multiple shocks and elevated uncertainty we are moving backwards instead of making progress in reducing hunger and malnutrition. World hunger continues to rise.**

As many as 828 million people faced hunger in 2021. This is 150 million more people since 2019, before the outbreak of the COVID-19 pandemic. Beyond hunger, more than 2.3 billion people in the world lacked access to adequate food in 2021. Severe food insecurity increased globally and in every region in 2021. Healthy diets, a critical link between food security and nutrition, are out of reach and unaffordable for more than 3.1 billion people in the world.

Acute hunger continues to escalate and increase in severity. In 2021, it surpassed all previous records as reported by the Global Report on Food Crises (GRFC), with close to 193 million people acutely food insecure in 53 countries and territories. In addition, some 236 million people were in conditions of “Stressed” (Phase 2 in the IPC/CH Phase 2 scale) in 41 countries/territories, requiring action to prevent them from slipping into worse levels of acute food security.

- 2. Deterioration in public finances amid high debt levels put at risk financing for agriculture and agrifood systems in general, especially badly needed public goods.**

Investing in food and agriculture is often an effective strategy to alleviate poverty, fight hunger, boost productivity and accelerate the transformation of agrifood systems. However, in many countries public expenditure from all sources allocated to agriculture has been historically low and even declining in recent years, with key areas and services of the sector left underfunded (e.g. research and dissemination, infrastructure, marketing services). The recent crises can further strain finance on agriculture. The deterioration of the debt situation in many countries coupled with revenues decreases will further limit the fiscal space available for investments on food and agriculture.

- 3. A series of crises and disruptions (COVID-19, war in Ukraine, supply chain disruptions, energy) will challenge the ability of more vulnerable countries to finance development, food systems transformation, pay their debts but also meet internationally agreed goals including relevant to food security and nutrition.**

In the last three years food systems were hit by two consecutive shocks consisting of unprecedented COVID-19 induced supply chain disruptions followed by severe food and fertilizer shortages and energy price increase, including those related to the war in Ukraine. Higher prices have increased the global food import bill to an estimated all-time high surpassing USD 1.94 trillion, adding an additional

USD 180 billion over the previous record, stressing further the balance of payments, especially for net-importers of food.

**4. Climate change has affected disproportionately countries that are reliant on the agriculture sector.**

Specifically, between 2008 and 2018, 26 percent of the overall effects of climate change loss and damages affected the agriculture sector – including agriculture, forestry and other land uses as well as fishery and aquaculture. Climate shocks are a major explanation of the current situations, and they impact directly the food systems but also the whole fiscal space of countries. (E.g. flood in Pakistan). The last few years have been associated by 3 La Nina on a row, and we have a 55 percent probability to have an El Nino this year. So this is a big element in the current situation.

**5. A global commitment and relevant financing mechanism is needed to assist countries in dealing with surges in food import bills and prevent food security and macroeconomic crises.**

To address the challenge of rising food import costs, FAO has proposed a Global Food Import Financing Facility (FIFF) to support countries to shoulder the soaring costs of food imports and improve access to food at country level. Based on a comprehensive technical assessment, the FIFF covers 62 countries with a total population of 1.78 billion people, i.e. the group of net food importers in the low and low-middle income category. The aim is to provide food and nutritional security to those countries particularly exposed to soaring international food prices, as reflected in their elevating food import bills. The main elements of the facility have been adopted by IMF's Food Shock Window endorsed by its executive Board in October 2022.

## **STRUCTURAL TRANSFORMATION AND INDUSTRIALIZATION**

**6. Inclusive industrialization should go hand-in-hand with ensuring adequate finance for agricultural and food systems transformation. A prosperous agriculture has been a prerequisite of successful structural transformations and industrialization.**

Sustainable industrial transformation should go hand in hand with sustainable transformation of agriculture and food systems which are important contributors to social and environmental SDGs (agriculture, food systems and the rural space). Increasing the productivity and efficiency of agriculture has been a precondition for successful structural transformations.

A key policy message points to accompanying rather than forcing industrialization through the parallel development of primary sectors (principally agriculture and related activities) which constitute at early stages of development the primary source of labour force, savings and foreign earnings which follow increased productivity in primary sectors. Failure to include improvements in income and living conditions in the rural areas results in “push” migrations and increases in both rural and urban poverty.

**7. Growth in food systems can be a driving force for growth and employment especially in rural and peri-urban areas of low and middle income countries.**

Food systems create off-farm employment in expanding segments of food supply and value chains and reduce poverty and food insecurity especially in rural and peri-urban areas. Agro-industrialization can provide the springboard for other forms of manufacturing and services through technology spillovers, improved management skills and capital accumulation.

**8. There is an enormous potential of the “middle component” of the agrifood value chain especially agroindustry to re-launch industrialization in low income countries especially those which late transformers.**

For the food and beverages sub-sector as a whole, UNIDO data reported in FAO’s 2017 State of Food and Agriculture show that the average share of food and beverages sub-sector in total manufacturing value added was 40 percent for the 53 low income countries analyzed. Likewise, food and beverage processing as a share of overall manufacturing value addition is important in most developing regions with shares ranging from 20 percent to 30 percent in countries of Latin America and from 10 percent to 25 percent in most Asian and North African countries. One common trend across these three regions is that the food and beverage subsector’s share seems to have changed little in the last decade. However in some countries the share remained stable in the face of sharp increases in the manufacturing value added.

**9. Agrifood systems are a major employer of women globally and constitute a more<sup>1</sup> important source of livelihood for women than for men in many countries.**

Despite the importance of agrifood systems for women’s livelihoods and the welfare of their families, women’s roles tend to be marginalized and their working conditions are likely to be worse than men’s – irregular, informal, part-time, low-skilled, labour intensive and thus vulnerable. Women also have higher burdens of unpaid care, limiting their opportunities for education and employment. This is true both for women working in primary agricultural production, with wages and productivity systematically lower than those of men, and for women working in off-farm segments of agrifood systems, where their work is mostly in lower value nodes. Women may not be systematically excluded from high-value, export-oriented value chains or from entrepreneurship in agrifood systems, but their participation is usually constrained by discriminatory social norms and barriers to knowledge, assets, resources and social networks.

**10. Financing in support for agrifood Systems Transformation is grossly insufficient and inefficient.**

Finance needs of AFSs are unmet: 3 out of 4 agri- Small and mid-size enterprises (SMEs) in sub-Saharan Africa lack sufficient access to finance Only 30 percent of demand for financing from rural HHs (agri & non-agri lending) is met; approximately 1.7 billion adults are “unbanked”; 98 percent of AFS demand for long-term finance is unmet; inequalities in access persist: 56 percent of the unbanked are women; share of ODA for agriculture to total ODA is significantly lower than the share of agriculture in GDP; agricultural support and subsidies are linked to unsustainable use of resources, trade distortions and favors short term perspective.

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<sup>1</sup> FAO. 2023. 2021 The Status of Women in Agrifood Systems. Rome (to be launched 13.04.2023)

## **DOMESTIC RESOURCE MOBILIZATION**

### **11. Food Systems and food systems transformation are chronically underfunded from domestic resources. Very few countries are meeting agreed targets on domestic resources to agriculture.**

In Africa, Heads of State and Government endorsed the “Maputo Declaration on Agriculture and Food Security in Africa” at the Second Ordinary Assembly of the African Union in July 2003 in Maputo. A key decision of the declaration was the “commitment to the allocation of at least 10 percent of national budgetary resources to agriculture and rural development policy implementation within five years”. Since then, only a few countries have consistently met this target, both because the committed resources have been insufficient to meet the target, but also due to issues in executing the budgets. Recent evidence focusing on 12 Sub-Saharan African countries showed that 20 percent of the funds committed to agriculture were not spent<sup>2</sup>.

### **12. Agricultural policy support should be re-directed away from subsidies linked to the production of a specific commodity and targeted towards for the provisions of public goods, and financing of sustainable practices.**

Recent estimates suggest that, out of the USD 630 billion of yearly global support to the food and agricultural sector, approximately USD 380 billion are used to support farmers in a way that is often inefficient, distorts food prices and may even hurt people’s health and degrade the environment (by fostering for example the overuse of chemical inputs). Repurposing policy and subsidies towards public goods (such as agriculture research, extension, infrastructure and ODA for agriculture and rural development could foster a more efficient, sustainable and equitable development of the agriculture sector and enhance the coherency and alignment between agrifood programmes, policy objectives and the SDGs.

### **13. Improving access by Small and Medium agrifood Enterprises to finance and to hard and soft infrastructure will contribute to unlocking their potential to support employment and livelihoods and reduce food prices across the rural-urban continuum.**

Urbanization and the shift of diets towards more processed foods and a wider variety of food products constitute a driving force for expansion of SMAEs. Increased demand for agricultural inputs, production-related services and logistics constitute additional drivers for expansion. However, a number of challenges make it difficult for those firms to fulfil their potential and take advantage of growing opportunities. In developing countries, SMEs in food and agriculture are often scattered, numerous, small to very small, informal and family-based and lacking economies of scale. They face significant obstacles due to neglected infrastructure, insufficient access to finance, poor support for accessing improved technologies and lack of policy initiatives targeting their growth. SMAEs fall in a policy and institutional vacuum due to sectoral organization of central governments and insufficient power of local ones. Since many of them depend on local agriculture, for commodities to process or trade they face covariant risks and thus limits their potential for employment and income diversification.

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<sup>2</sup> Latest estimates for the region bring the share to 2.44 percent average for the 2016-2020 period (vs the 10 percent target).

## **INTERNATIONAL COOPERATION (DEVELOPMENT AND HUMANITARIAN FINANCE)**

### **14. Despite progress, the share of ODA to agriculture and rural development is not commensurate to the importance of those sectors for achieving the SDGs.**

Official Flows to Agriculture Forestry and Fisheries (AFF) sectors (including ODA, other Official Flows and Private Development Finance) to total development flows has remained constant after increasing significantly after the 2007-2008 food crisis. However, the share of agriculture in development flows remains significantly lower than it was in 2000 (4.58 percent versus 7.62 percent). The share of ODA for agriculture to total ODA is significantly lower than the share of agriculture in GDP for low income countries and even lower than the share of labour force in agrifood systems.

In the last few years there has been an increase of private donor resources (private development finance) alongside official assistance to agriculture while, at the same time official development assistance to Agriculture is shifting towards multi-lateral donors.

### **15. International cooperation in food crisis situations should follow a nexus approach whereby humanitarian assistance should tackle hunger and malnutrition directly and development assistance should address their underlying drivers.**

Official inflows are humanitarian and development and they are substantial: 53 food crises absorbed 88 percent of food-related international humanitarian assistance (as a four-year average over 2016-2020) and 44 percent of food-related official development assistance (as a four-year average over 2016-2020).

Official flows to food crisis countries favours humanitarian assistance rather than development assistance even in countries in protracted crisis situations in which one would expect development assistance to increase. In the 53 food crisis countries for the 53 food crisis countries: 43 percent of the total humanitarian assistance was allocated to food sectors and 11 percent of total development assistance.

### **16. Green Financing for agrifood systems faces several challenges.**

Combines challenges traditionally associated with agri-finance with those of investing in green products & assets: most green investments in agriculture relatively risky (non-investment grade level), and private actors particularly sensitive to this; there is uncertainty on benefits of new green technologies and innovations. Difficult for Financial Institutions to identify locally viable solutions.

Many DCs experiencing difficulties in designing commercially viable green agrifood investment and bankable projects that often require patient capital. Spurring demand and creating viable investment pipelines is one of the most important issues at the moment. Technical assistance is required while sometimes cost of project preparation is as high as value of project itself; low level of awareness among demand actors about green finance products and instruments-awareness on role of agriculture for Paris Agreement objectives is not there in the financial industry (words of a banking sector representative); lack of policy level commitment to long-term investments for greening agrifood (soil, smart forestry, ecosystem services, circular agri-based industries); lack or weak frameworks; extra complexity when interventions have multiple objectives and many different partners involved.

