

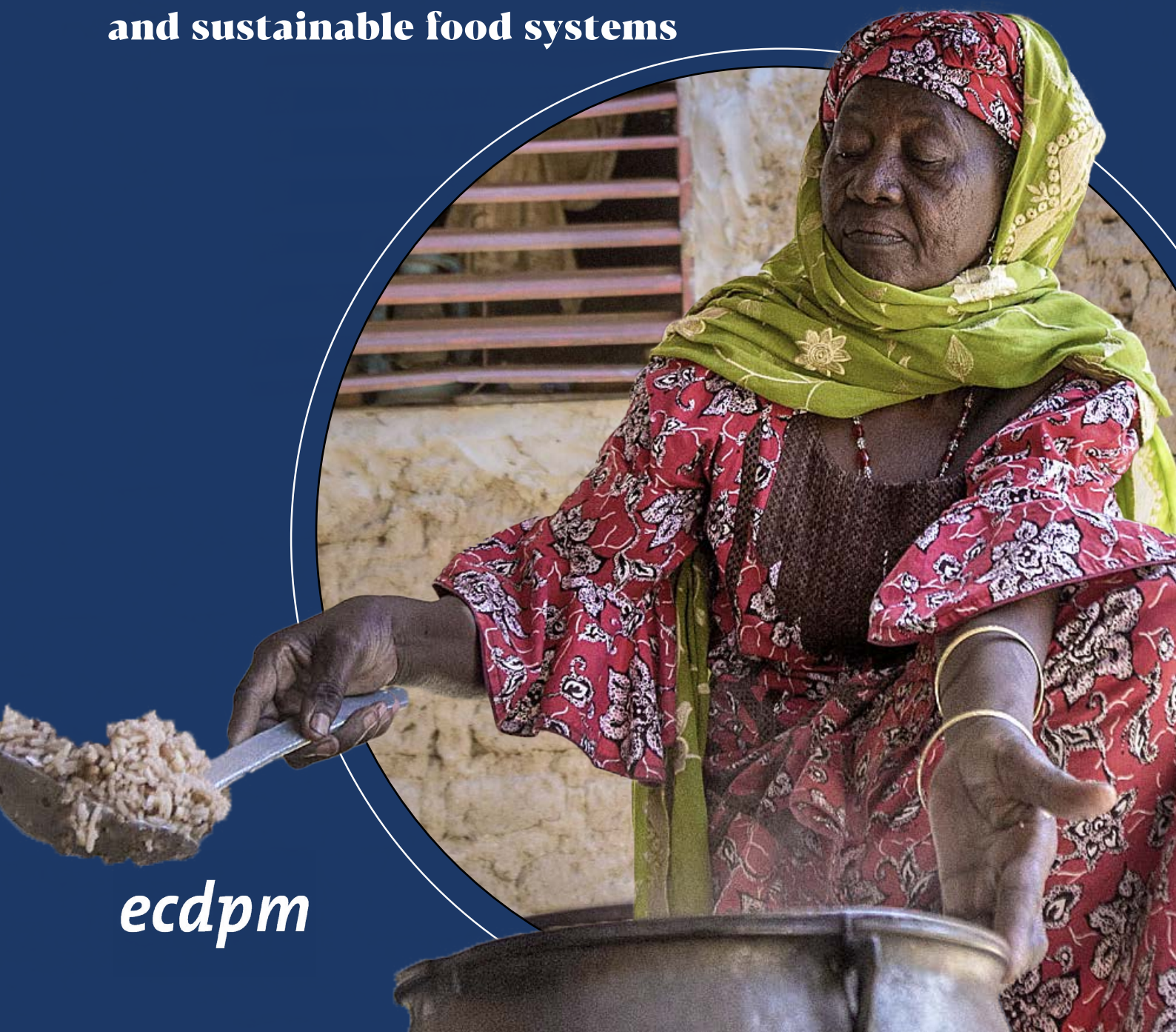


Food and Agriculture
Organization of the
United Nations

AgrInvest-Food Systems Project

Applying a sustainable food systems approach to value chain investment processes

A methodology to promote value chain investments for more inclusive and sustainable food systems



ecdpm

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Abbreviations and acronyms

AIV	African indigenous vegetable
ECDPM	European Centre for Development Policy Management
FAO	Food and Agriculture Organization of the United Nations
FMO	Dutch Entrepreneurial Development Bank
FSA	Food systems approach
FS	Food systems
KCV	Kenya Climate Ventures
MOU/MOUs	Memorandum(s) of understanding
MSP/MSPs	Multistakeholder platform(s)
PDB/PDBs	Public development bank(s)
PEA	Political economy analysis
SDG/SDGs	Sustainable Development Goal(s)
SFS	Sustainable food systems
SME	Small and medium-sized enterprises
UNFSS	United Nations Food Systems Summit
VC/VCS	Value chain(s)
VCA	Value chain analysis

1. Introduction

Ensuring our food systems are more sustainable is crucial for the health of our planet and people, and to tackle global food insecurity, now greatly worsened by the effects of the war in Ukraine. This requires **action across a range of policy areas and vast investments**. Transformational change entails employing a food system approach, meaning thinking and acting in a way that considers the entire food system, including the actors, activities and regulations that characterize the system, the way these “elements” interact and the outcomes these interactions generate.¹

Policymakers and investors can use a food systems approach (FSA) to identify and work on synergies between different sustainability objectives, and to capitalize on opportunities to accomplish multiple objectives simultaneously. By providing a big picture view, an FSA can inform better policies and investments and facilitate improved coordination and more effective collaboration with food system stakeholders (Dekeyser and Woolfrey, 2021). Policymakers and investors target the sustainable transformation of food systems more and more explicitly. An indication of this is the 2021 United Nations Food Systems Summit (UNFSS), which saw food system stakeholders come together and the development of national pathways for more sustainable food systems in more than a hundred countries.

The Food and Agriculture Organization of the United Nations (FAO), in partnership with the European Centre for Development Policy Management (ECDPM), has implemented the **AgriInvest-Food Systems** (AgriInvest-FS) Project since February 2020, which aims to foster investments in sustainable food systems in four African countries.² This paper presents the methodology, and related lessons, that emerged from the AgriInvest-FS project. The next section describes the methodology, which is based on FAO’s and ECDPM’s^{3,4} FSAs. Section 3 provides the key messages and the way forward for supporting the effectiveness and inclusiveness of both national and international processes such as the follow-up to the UNFSS.

¹ Over the last few years, many researchers, experts and organizations have developed different FSA. For an overview of the FSA literature and an analysis of their transformative potential see Slater *et al.* (2022): www.sciencedirect.com/science/article/abs/pii/S2211912422000013

² Benefiting from the financial support of the Government of Italy, the project was implemented in Burkina Faso, Ethiopia, Kenya and the Niger. More details on the project and all related publications are available at: www.fao.org/in-action/agriinvest-food-systems/en/

³ www.fao.org/3/ca2079en/CA2079EN.pdf

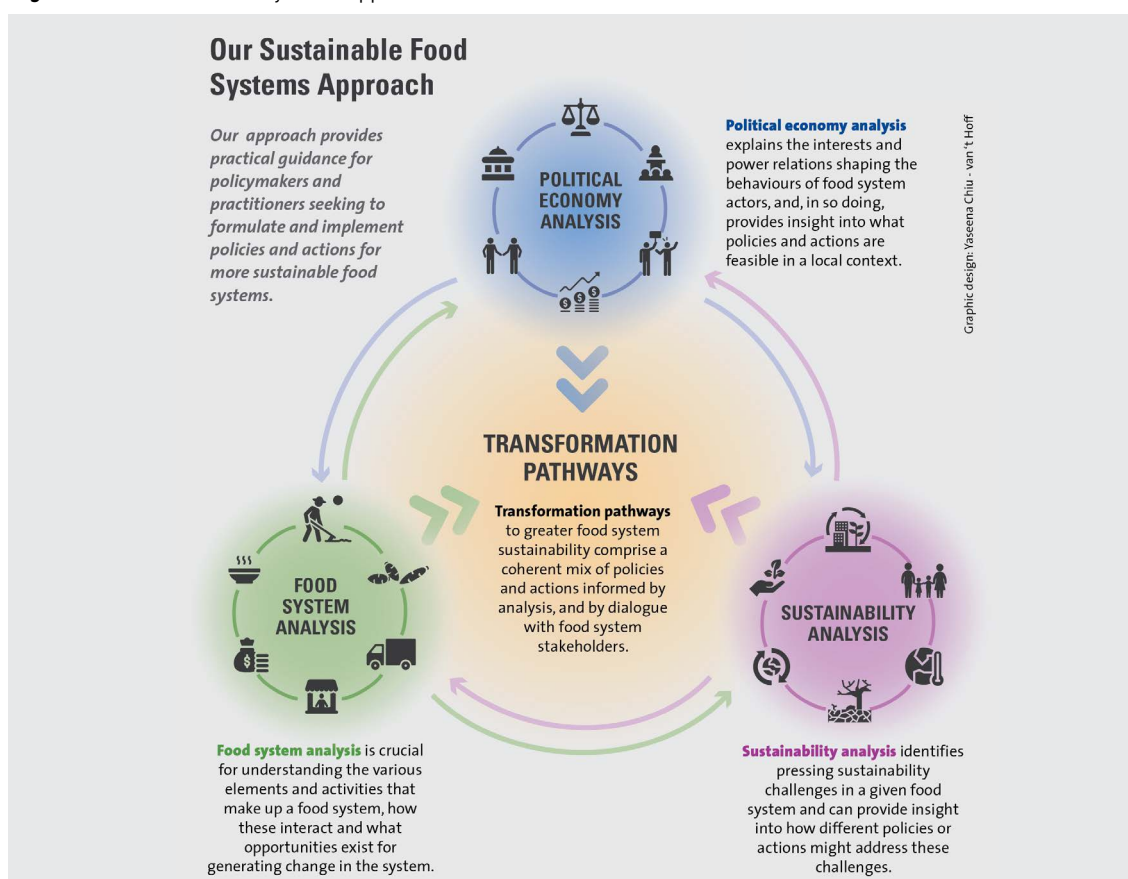
⁴ <https://ecdpm.org/publications/food-systems-approach-in-practice-guide-sustainable-transformation/>

2. The Methodology

This Methodology aims to promote value chain (VC) investments for more sustainable food systems (SFS). Based on Agrinvest-FS lessons and the needs of African stakeholders, promoting such investments should mostly be about strengthening collaborations between private and public actors to scale up the quantity and quality of finance for sustainable VC and food systems. This can be done via policy packages, finance instruments and multistakeholder platforms (MSP), targeting in particular access to finance for local food system actors (such as small and medium-sized enterprises [SME], smallholder farmers and women) and local financial intermediaries.

The ECDPM's sustainable FSA provides **the conceptual framework for this Methodology** and is the basis for practical guidance to design and facilitate systemic interventions, and assist actors in navigating the complexity of food systems. While recognizing that there is no single best FSA, this choice was made considering the centrality of, though weak so far, use of political economy analysis in SFS-debates.⁵ As summarized in Figure 1, the ECDPM sustainable food systems approach iteratively combines food system, sustainability, and political economy analyses, to support the development of transformation pathways to advance SFS.⁶

Figure 1: Sustainable food systems approach



Source: Dekeyser, and Woolfrey, 2021. *Why the EU must address the external implication of the Farm to Fork Strategy*. Maastricht, European Centre for Development Policy Management.

⁵ The need to include more political economy analysis in the food systems approach has been argued by other researchers and experts, e.g. Bene *et al.* (2020) <https://www.nature.com/articles/s43016-020-0136-4>

⁶ Every component informs and helps guide the others, without a strict chronology. Being intertwined, there may be overlaps between the components, with sustainability dimensions, for instance, emerging from the general food system analysis, or political economy insights help focus on a particular part of the food system. Importantly, the choices about, and results of, food system, sustainability, and PEA (and the associated multistakeholder dialogue) are supported and improved by the insights gained from each other. Given the uncertainties involved in complex change processes, transformation pathways, our fourth component, will be developed adaptively as well, to adjust to unexpected changes and to iteratively take into account further insights that in the meantime have emerged from one or more of the other three components (Dekeyser *et al.*, 2020).

The Methodology to promote VC investments for more inclusive SFSs comprises five stages and outputs.⁷

Each stage follows the approach described in Figure 1. The centre of the triangle being always the *local (cocreation) consultative processes for concrete investments and policy reforms*, supported by the iterative application of the three analytical or mapping steps. In the following subsections, boxes include descriptions of a few examples of each stage in the countries the AgrInvest-FS project piloted this Methodology.

The centre of the triangle always contains such local practical process and regular interactions with stakeholders, from the initial consultative workshops in Stage 1 to the MSP implementation in Stage 5. **The resources required for this iterative,⁸ step-based process are flexible**, thus enabling a quick overview or a deep dive as determined by a project's or organization's objectives. The analytical steps enrich one another and can be used to prepare new transformation pathways or to test, adapt or refine proposed or existing pathways (for instance to develop and implement the United Nations Food Systems Summit national pathways). The approach can be used lightly or more rigorously, depending on needs and resources. **Local stakeholders should drive this process, to ensure the pathways are built on local needs and capabilities.** Where needed, international partners such as FAO and ECDPM can provide technical and methodological support.⁹ Given the objectives of this Methodology, financial sustainability analysis (such as the bankability of proposed investments and/or interventions, or a viable business model), should also be a strong component of such process at the centre of the triangle, in each of the five stages.

The **Sustainable Development Goals (SDGs)** provide a useful framework to guide and set priorities for the sustainability analyses within this Methodology, at either the food system or the sector level. The SDGs and their underlying targets also point to interconnections between different outcomes (economic, social and environmental) of food systems. Based on relevant SDGs and targets,¹⁰ the promoters of sustainable private investments and all key stakeholders can then set priorities for the sustainable development targets to be pursued and monitored,¹¹ in line with the priorities emerging from the specific country and local context. The Methodology is neutral about this priority setting, and does not prescribe ex-ante, unlike other emerging approaches to food system transformation,¹² which specific sustainability improvements or transformation pathways the investment process should promote.

Stage 1

The first stage of the Methodology **employs the three analytical steps at national level**, aimed at understanding the national food system; assessing its sustainability; and recognizing the implications of economic interests, politics and power relations for food system dynamics. The results of these analyses allow the identification, in the fourth step (including through multistakeholder dialogue), the possible "transformation pathways" that can lead to greater sustainability of the national food system, and in particular the value chains that are most promising for contributing to such pathways, i.e. where increased investment can significantly support improved food system outcomes and the subsequent achievement of prioritized SDGs.

⁷In recent years, several methods or decision support tools have been developed to increase food system sustainability through multiactor engagement. These, however, connect food systems transformation to individual subsectors or outcomes that were prioritized ex-ante (e.g. agriculture, biodiversity, access to nutritious food) (see Table 2 in Negra *et al.*, 2020), rather than offering guidance, as does this Methodology, for planning transformation pathways through the application of a fully-fledged food systems approach to investment processes.

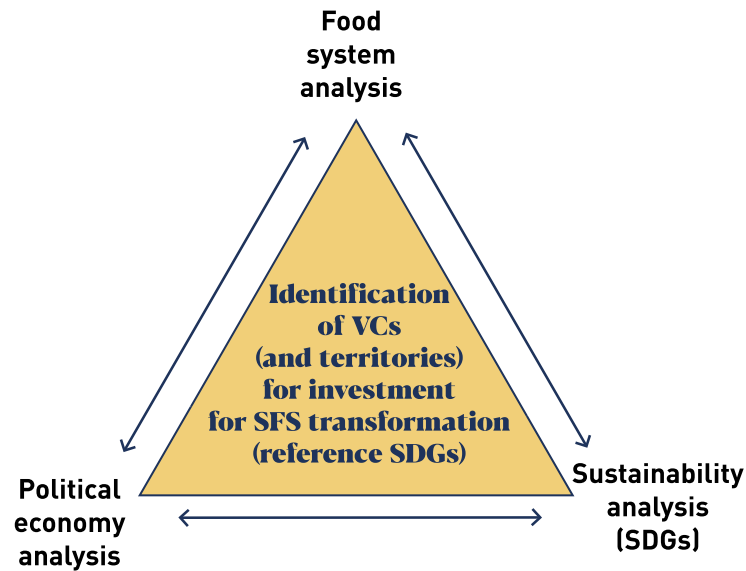
⁸Meaning there is no set order but the four steps can be dynamically reapplied with information from other components, including at different levels of depth and scales.

⁹More details about the practical tools and analytical and multistakeholder dialogue methods that can be used for each of the four steps of the FSA can be found in Dekeyser *et al.*, 2020.

¹⁰Goal 2 – End hunger, achieve food security and improved nutrition and promote sustainable agriculture – could be a starting point. Other goals are relevant, for example Goal 12 on sustainable consumption and production patterns and Goal 13 on climate change.

¹¹With this approach, the indicators provided by the global indicator framework for the SDGs, which were developed by the Inter-Agency and Expert Group on SDG Indicators, can eventually be used to monitor and evaluate the contributions of investments against broadly agreed targets.

¹²Recently there has been a large number of highly visible and influential publications and models on food system transformation, mostly targeting predetermined objectives, e.g. the EAT-Lancet Report focusing on more sustainability through a "healthy reference diet"; and the reports by the Intergovernmental Panel on Climate Change, the World Resources Institute and the Food and Land Use Coalition prioritizing climate change as primary concern, advocating for food system transformation pathways that can help keeping global temperature change within 1.5–2 °C (Davis, Lipper and Winters, 2022).



Food system analysis is used to explore the different elements of the national food system (e.g. food production and consumption patterns), their interactions (e.g. how trade policy impacts production practices) and the outcomes these interactions generate (e.g. diets, incomes). Mapping a food system – including relevant actors, activities and regulations – is crucial for identifying promising opportunities to improve its sustainability, including through the development of particular value chains (VCs).

Sustainability analysis integrates indicators of economic, social and environmental sustainability to assess the sustainability of current outcomes of the national food system and to identify critical sustainability challenges of specific VCs, their causes and how they relate to one another; which is crucial to prioritize actions for greater sustainability (Dekeyser and Woolfrey, 2021).

Political economy analysis (PEA) is used to better understand the formal and informal “rules of the game” that shape the decisions and behaviours of actors in the national food system and its VCs; hence for designing policies and investments that are feasible in the local context and that incorporate opposition and support for change. The results of these analyses feed the regular interactions with local actors and contribute to effective collaborations among food system stakeholders and help to design inclusive, context-appropriate and politically feasible “transformation pathways” (e.g. diversification of the national food system). The final output of Stage 1 is the identification, within these pathways, of the most promising VCs to be invested in to increase sustainability outcomes in the national food system.

Box 1. Stage 1 in Burkina Faso: food system analysis and the rice value chain

In Burkina Faso, the analysis of the national food system (D’Alessandro and Tondel, 2020) identified a number of sustainability challenges that hamper the food system’s contribution to the country’s sustainable development and indicated structural factors and underlying drivers. Based on this analysis, and in consultation with national actors, rice was selected as a promising value chain where increased investments could significantly support improved food system outcomes. Rice is a major staple crop in Burkina Faso and plays a considerable role in the economy, both as a source of income and as an important element in the diet of many households, especially in urban areas. This sector has significant growth potential, particularly in the West, Centre East and South West, and actors organized around the production, processing and marketing through an interprofessional committee. This potential is supported by rising national and subregional demand and strong public support. While local production has increased over the last decade, several bottlenecks persist such as

insufficient storage capacity, poor quality processing and parboiling equipment, weaknesses in marketing channels, and quality management problems, which make Burkinabe rice less competitive than imported. The latter, on the other hand, is supplied regularly to urban centres in large quantities and at affordable prices by big importers who control an oligopolistic market and have strong influence on the country's trade policy choices. In addition, the sector's prospects face important environmental and socioeconomic sustainability challenges linked to water stress and soil health management, climate change risks and unequal access to land and capital among different economic actors. Planned large-scale investments taking place in agricultural growth poles, in particular, risk reinforcing existing inequalities and further marginalizing smallholder farmers and small-scale women parboilers.

By identifying the key challenges and opportunities in terms of sustainability, market potential and political traction described above, the food system analysis has provided the building blocks for subsequent stages of the AgrInvest-FS methodology. For instance, the overview of the rice production, trade and consumption systems provided the basis for the value chain analysis of Stage 2. Similarly, understanding the food system's main environmental and social challenges was instrumental to the identification of sustainability criteria and trade-offs that different types of private investors need to integrate or manage in their investment strategies to contribute to broad sustainable development outcomes (Stage 4).

Finally, the analysis of relevant sector policies and mapping of key actors and institutions (including financial players) helped to formulate, in Stage 5, public policy measures grounded in local initiatives and processes and wary of political economy dynamics. It also allowed AgrInvest to find institutional entry points and deepen the engagement in multistakeholder dialogue with Burkinabé actors.

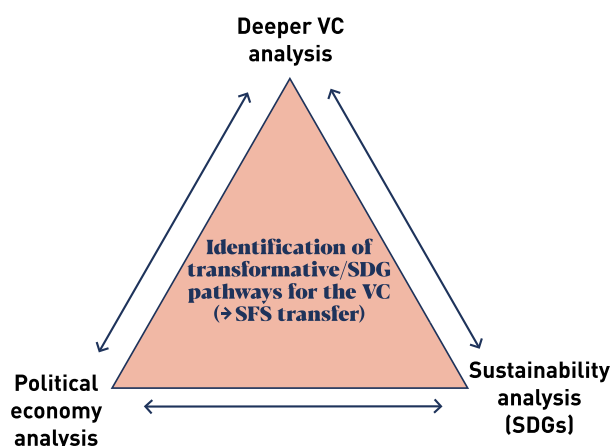
Stage 1 lessons from the AgrInvest-FS project include:

- Food system, sustainability, and political economy analyses are complex and time-consuming endeavours, so this Methodology recommends setting humble objectives and expectations about these three analytical steps and taking a collaborative and flexible approach to them. The goal is to provide **a big picture view, not an exhaustive analysis** based on direct data collection, to help practitioners and decision-makers describe the national food system and diagnose its key issues related to sustainability and political economy. Connecting as much as possible existing analyses or undertake new ones, if needed, in partnership with local and international researchers, and other projects or similar initiatives, could save project resources.
- Depending on the local context and dynamics, Stage 1 can result in the identification not only of **VCs** but also **territories**, or a **cluster of FS-activities**, or a **subsystem** of the national FS, or a combination of these, that are most promising for improving FS sustainability. Given the final goal of fostering SDG-aligned investments, focusing on one value chain makes it easier to discuss bottlenecks and attract investment, especially for potential investors; two or more VCs or territories would make the exercise much more complex and time-consuming.
- Taking a **territorial approach** can also be helpful in delimiting the boundaries of the food system under study, identifying groups of commodities and/or products that are part of the same production systems and sharing similar challenges (e.g. climate-related risks or competition over resource use). It would further allow for more context analysis of the underlying political traction and resistance, the identification of the main bottlenecks of the value chains in a particular territory, and the likely initiatives and champions that the project and/or organization could rely on in its next phases.
- The individual or group consultations, literature reviews, networking and partnership building activities in Stage 1 are very important **building blocks for the following stages of this**

Methodology, including for the establishment or enhancement of effective MSPs. Such MSPs should in turn be presented during Stage 1 as a possible concrete output of the process, which could encourage the participation of stakeholders throughout the five Stages.

Stage 2

The second stage of the Methodology applies the **three analytical steps to the VCs, territories and/or subsystems identified in Stage 1**, in order to better grasp their specific characteristics, assess their sustainability challenges, and understand the implications of interests, politics and power relations for the sustainable transformation of those VCs and territories. Based on these steps, the fourth step is to identify or revise, with local stakeholders, the “transformation pathways” for these VCs, indicating in particular how increased investments in the VC can significantly support improved food system outcomes and the subsequent achievement of prioritized SDGs.



Drawing on FAO’s approach,¹³ a **VC analysis** (VCA) is used to map the different segments of the VC and their interactions, and to explore in-depth the end-markets and the investment patterns within the VC (focusing on the constraints to private investments and the potential solutions). Sustainability analysis assesses the **sustainability of current outcomes** of the VC and allows for the prioritization of critical sustainability challenges and opportunities, understanding their causes and how they relate to one another, and thus leading to options for policies and investments that can improve social and environmental sustainability, together with economic rates of return.

Political economy analysis is used to map all relevant stakeholders in the VC, understand **the formal and informal “rules of the game”** within the VC and the power dynamics, interests and incentives that different actors have in boosting investments in this VC or maintaining the status quo;¹⁴ hence for designing the pathways to solutions (policies and investments) that represent targeted and politically feasible options for strengthening the value chain.

The knowledge and awareness resulting from these three analytical steps, which can enrich one another by being done in parallel or iteratively, feeds into the fourth step that discusses the transformative pathways in detail with local stakeholders to ensure the VC contributes to priority SDGs, including how to remove investment bottlenecks and how different policies and investments might address specific sustainability challenges. The final output of Stage 2 is the participatory identification, within these pathways, of investment cases for the VC, territory or subsystem, including the related: key actors

¹³ Developing sustainable food value chains: guiding principles (www.fao.org/sustainable-food-value-chains/library/details/en/c/265156/)

¹⁴ Available tools here include “interest-influence diagrams”, important to understand who the present and possible future protagonists are in the value chain, gauging their interest, influence and potential to invest in the VC.

and possible alliances; potential and incentives that will encourage private actors to invest; cases of relevant ongoing efforts, partnerships and initiatives that suggested pathways can build upon.

Box 2. Stage 2 in The Niger: political economy analysis, sustainability analysis and the identification of transformation pathways for the value chain

The case of the Niger shows that diving deep into the two vertices of political economy analysis and sustainability analysis, shown in the triangle above, can lead to particular transformation pathways that a pure value chain analysis is unlikely to recommend: storage of conservation onions. Moreover, these two vertices are closely linked. For instance, onion production has been practised in the Niger for centuries with actors – e.g. farmers, intermediaries or traders – performing their functions over generations, with sometimes overlapping roles as large farmers could also become traders or vice versa. Importantly, these relationships are cemented by trust, based on ethnic and other kinship ties, rather than on modern or formal markets. While relations can sometimes be usurious, e.g. informal credit advanced by intermediaries that sometimes traps farmers in debt, it is difficult to disentangle the pernicious effects and completely isolate or exclude certain groups of actors given that they perform other important functions (irrespective of the extractive credit relations, intermediaries are an important link connecting farmers to traders). It is therefore necessary to identify transformation pathways where these actors retain their functions, while addressing the inequalities in these relationships.

Based on this analysis, and in consultation with local actors, storage of conservation onions was identified as one such pathway. Moreover, with conservation of onions – which are produced in a more ecologically friendly way and can be stored for longer periods – sustainability aspects can be addressed more effectively. For instance, production with little to no chemical fertilizers helps preserve soil quality and ensure environmental sustainability. By securing incomes for farmers during the lean season, through deferred sale, storage of conservation onions also ensures economic sustainability. Generated income can be used for further investments in land or education of children and thereby enhance livelihoods, including for women, i.e. social sustainability. This can be achieved in a way that does not completely displace or disrupt existing relations between actors, while reducing the dependence of farmers on informal credit solutions and other usurious practices.

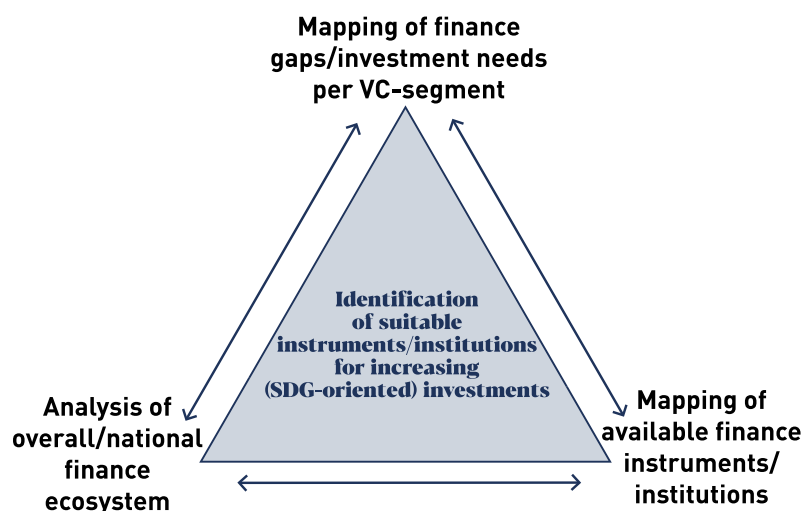
However, as also indicated by local experts, truly transformational changes necessitate more fundamental changes including greater public investments in education as well as extension services to increase yields. While these are long-term changes outside the scope of a project such as AgrInvest-FS, PEA points to taking them into account, since ignoring them completely may risk reinforcing existing inequalities. Investments in increased storage capacity, without increasing farmer access to financing, risks benefiting only a handful of actors, without addressing the usurious relations that keep farmers in indebtedness. Similarly, lack of public investments in education limits productive opportunities for future generations. Without deeper land reforms that can ensure land titles for women, benefits of investments are likely to further entrench existing gender disparities.

Stage 2 lessons from AgrInvest-FS include:

- The three analytical steps should take a **pragmatic and targeted approach**, and build on existing analyses (especially for primary data collection). The steps focus on: the VCA on bottom-line bottlenecks for investors, rather than producing comprehensive statistics; the political economy analysis (PEA) on investment dynamics and identifying the key drivers of change and possible opposition to the growth of the VC; and the sustainability analysis on the key VC-related SDGs.
- All analytical steps should take into account the **institutional environment** by identifying the preconditions for sustainable investments in the VC, sector, or territory (e.g. political commitment to the sector; conducive market regulatory framework). This is an important building block for the policy recommendations in Stage 5.
- **Transformation pathways** should aim to improve the entire VC by addressing one bottom-line bottleneck per VC segment and linking the different VC segments, thus offering both the overall (SDG-oriented) business case for investing in the VC and a cluster of concrete investment opportunities (potential investment cases stand out as possible low-hanging fruits).
- While, in many cases, focusing on one VC only seems more realistic and more conducive to private sector engagement, it is useful to also put forward solutions that benefit other VCs during the identification of transformative pathways for the VC. This can **support a better integration of the selected VC into the broader food system** and act as a catalyst for investment, especially if synergies can be brokered with more “powerful” or “supported” VCs (e.g. in Eastern and Southern Africa, this means promoting processing of products from the selected VC with maize products).

Stage 3

Focusing on the transformation pathways and investment cases resulting from Stage 2, the third stage of the Methodology **analyses more deeply the finance gaps, financing ecosystem and financial instruments in the VC, territory, or subsystem of focus**. Mapping, for the different VC segments, the finance gaps, investment needs, available financing instruments and institutions and their interactions, is needed as this Methodology ultimately aims to promote private investments and scale up the quantity and quality of finance for sustainable VCs and food systems. Moreover, the analysis of the Finance Ecosystem at the national level is used to better understand the formal and informal “rules of the game” that shape the decisions and behaviours of actors in the broader investment ecosystem. The results of these three mapping exercises allow for the identification, in the fourth step of Stage 3, of the most suitable and coherent financial instruments and institutions that can increase SDG-oriented investments in this VC.



Box 3. Stage 3 in Kenya: identifying suitable instruments and upscaling partnerships for SDG-oriented investments

The piloting of this Methodology in Kenya by the AgrInvest-FS project, building on existing dynamics within the African indigenous vegetables (AIV) VC, led to preliminary but significant progress with the coordination of value chain (VC) actors and the synergies across support and financing instruments used, which are necessary to increase SDG-oriented investments in this VC.

As part of Stage 3, the mapping of investment needs, finance gaps and effective finance instruments and institutions in different VC segments, led to identifying the type of ongoing investment patterns and partnerships, involving also local private and public champions, that if upscaled would increase the attractiveness of AIV for more investors and the likelihood of a cascading effect in terms of improved access to finance for currently marginalized small players. In the Kenyan AIV sector, medium-term private finance (with relatively flexible interest rate and repayment schedule) from an impact investment fund (Kenya Climate Ventures [KCV]) to a small and medium enterprise (SME) (MACE Foods) resulted in the expansion of processing of the vegetables; leading in turn to more contract farming directly benefiting smallholders in various parts of the country, and also generating growing interest from commercial banks in short-term finance for other farmers' organizations and aggregators. AgrInvest-FS supported the revitalization of the AIV multistakeholder platform (MSP) in Nyamira County and facilitated linkages between local champions to build on such investment patterns and enhance the local VC. The Nyamira North Women Sacco, a small financial cooperative operating along the entire AIV VC, now sells to MACE under contract farming. This SME in turn supports women, with the County Government, to ensure they have a consistent supply by ensuring adequate agronomic practices and production schedules. AgrInvest-FS also supported the Savings and Credit Co-Operative Society in the mobilization of funds from local banks to acquire a cold storage facility to improve quality and quantity of the vegetables.

The analysis of the broader national finance ecosystem identified portfolio guarantees as suitable blended finance instruments to effectively target a specific VC, by covering the credit risk of intermediaries for the creation of a portfolio of new loans there. A guarantee instrument could be launched to target specifically AIV and interested investors, building on the "proof of concept" provided by the Nyamira case and by the early successes of impact investors such as KCV and portfolio guarantees such as the NASIRA Facility (managed by the Dutch Entrepreneurial Development Bank (FMO) and providing EUR 50 million to Equity Bank). This would allow upscaling of the type of investment partnerships seen in Nyamira which, together with an AIV policy package and a MSP at national level developed through Stage 5, could have a cascading effect on increasing access to SDG-oriented finance for all players in the VC. The SDG-orientation of these investments would come from both the sustainability benefits of increasing AIV uptake (improved diets, agrobiodiversity, climate resilience, rural women's incomes); and the features of the accompanying finance instruments (e.g. those by KCV and FMO select investees based on their expected impact on sustainability and support their increasing it, including through due diligence processes).

Stage 3 lessons from AgrInvest-FS include:

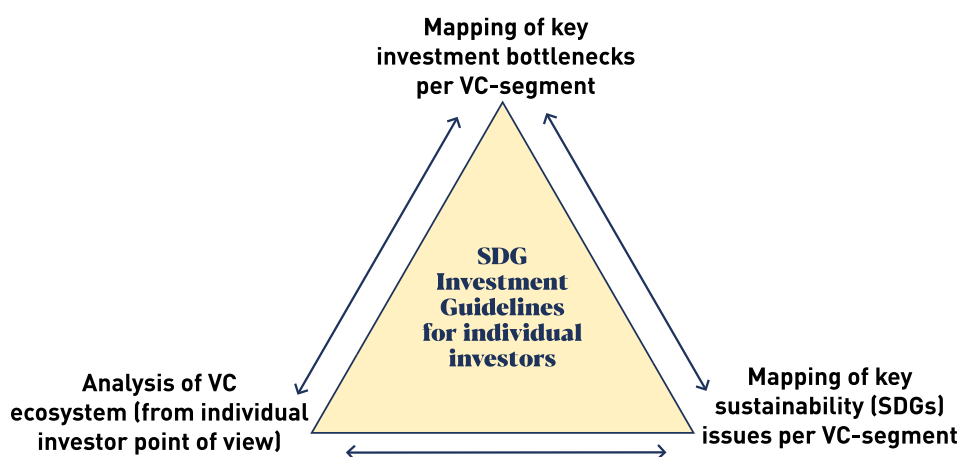
- Many instruments and institutions are often available, in principle, for increasing investment in a VC (government, farmers organizations, SME, public development banks (PDBs), private equity funds, banks, pension funds, impact investors, etc.) and such full range and potential should be harnessed in a coordinated way. Finding synergies and coordination tools across the various financial instruments increases the feasibility of all relevant investors mapped in Stage 3 coming on board and the likelihood of a **cascading effect** in terms of actual access to finance.
- Given that finance **gaps tend to be most serious among smallholders**, and considering the prohibitive lending conditions offered by most available finance instruments to smallholders, given the farmers' high-risk profile, lending conditions should be made more flexible, as has been achieved in countries such as Kenya.¹⁵
- The loans provided by financial intermediaries should be accompanied by support to small VC players in terms of business plan design, knowledge and networks. The **conditions** set by development finance institutions (DFI) or private equity investors to access their funds should be adapted for agri-SME and rural entrepreneurs, by reducing the required minimum yearly turnover, minimum contribution to total eligible project costs and minimum number of years of audited accounts.
- **Blended finance mechanisms** should be launched, or improved – if available, to support access to finance by smallholders and micro and small agribusinesses, as they have the potential, if well designed and inclusive of private and public actors, to de-risk investments targeting smallholder-based value chains. Public providers of blended finance could alter their funding allocation criteria so as to stimulate more favourable investment decisions by the related private investors for such small players. Such mechanisms have the potential to overcome issues related to minimum ticket size and inflexibility of the interest rate and repayment schedules, for example by regularly reviewing account terms of the served clients or VC trends and adjusting the financial offerings accordingly. There should also be more sharing of best practices and gradual convergence of procedures among blended finance providers, as high fragmentation of approaches and procedures is time consuming and discourages investors.
- Particularly promising in the blended finance space are **Guarantees as a catalytic mechanism and PDBs as financiers**. Guarantees are currently being introduced successfully by some of the largest donors, including for stimulating private-sector lending in the agriculture sector. Early successful cases, for example in Kenya, seem to show that guarantee mechanisms so far have been more effective than other types of donor-funded blended finance mechanisms in mobilizing additional private capital, including from commercial banks, and the targeting of SDG-oriented investments.¹⁶ In terms of financiers, PDBs seem to have the advantage of long-term finance, concessional financing, risk-reduction tools (including guarantees) and technical assistance, which can leverage private sector capital. Another advantage of providing blended finance through PDBs is the potential scale of the impact, as a result of the leverage of PDBs and commercial banks that can serve a much wider client base with their loans compared, for instance, to call for proposals or impact investors.

¹⁵ By accepting as collateral the savings of a guarantor (e.g. aggregators, community-based organizations, etc.), land leases, offtake agreements or vehicles; adapting repayment schemes to farming cycles; by learning from years of experience and research into micro-leasing, asset-based guarantees; and by harnessing the potential of digital transformation for innovative financial products and services.

¹⁶ By providing credit risk coverage to intermediaries for the creation of a portfolio of new loans, Portfolio guarantees seem to allow more effective targeting of a private investment in particular VCs of interest or for specific (SDG) objectives, while First Loss guarantees may not be enough to change the "rules of the game" and the attitude of the involved intermediaries with regard to smallholder investment as this mechanism only compensates the lender if the borrower defaults. This targeting can happen through more explicit and systematic use of both screening criteria to select investees, and due-diligence practices to accompany investees in strengthening the sustainability of their activities.

Stage 4

The fourth stage of the Methodology applies three further mapping steps to the VCs, territories and/or subsystems identified in Stage 1, focusing on how individual investors in different segments of the VC experience challenges and opportunities and could contribute to the transformation pathways resulting from Stage 2. Mapping, for the different VC segments, of the main constraints to investments and sustainability issues faced by the key private players as well as of the targeted SDGs, is needed to better understand how to increase SDG-alignment of individual private investments in the VC. Moreover, a deeper analysis of the VC ecosystem allows us to grasp the power relations of the key individual investors and their (lack of) interests in boosting investments in this VC. Bringing these three mapping exercises together is important for the designing of incentives and actions to facilitate more SDG-aligned investments in this VC. Based on this, the final output of Stage 4 is the launch of **SDG Investment Guidelines** for individual investors that are customized for the particular country and VC and take into account its key bottlenecks, the most relevant SDGs in this context and the key players' positions in the VC.¹⁷



Box 4. Stage 4 in Ethiopia: incorporating the impacts of Sustainable Development Goals in the private investment process

Motivations of investors and businesses to invest in local agrifood value chains can widely differ, so nudging investors to incorporate Sustainable Development Goals (SDG)-related impacts should be context specific.

Diaspora investors

In the case of the dairy value chain in Ethiopia, new investors are often from the diaspora. Their motivations to invest in the local dairy value chain are to positively impact local food and nutrition security and higher income and employment opportunities. To fully align investments to the SDGs, however, more environmentally friendly dairy practices should be stimulated. Diaspora investors often face challenges related to business development skills. In many cases, they invest in processing facilities, while investments in other parts of the value chain would make more business sense, and have more potential SDG impact. Dairy processors in the country are using only 22 percent of their capacity on average. Limited supply of safe milk from smallholders is one of the reasons for this underutilization.

¹⁷ Cortez Tellez, 2022. *Guidelines for sustainable agricultural investments for Burkina Faso, Ethiopia, Kenya and Niger – AgrInvest-Food Systems Project*. Rome, FAO. <https://doi.org/10.4060/cc0451en>

These types of investors have limited resources to carry out a proper assessment of the potential SDG impact of their investment. They also lack the tools to manage these SDG impacts. Banks through specialized business development services can provide incentives for a better SDG assessment. The management of impacts can be supported by systematic data collection of key indicators, including through multiactor arrangements possibly facilitated as part of Stage 5 of this Methodology. Systematic data collection to monitor positive and negative SDG-impacts can enable adaptation of investment strategies, accountability and lesson learning. The Ethiopian Agricultural Transformation Agency can play a role in this.

Foreign investors in integrated dairy value chain

Because of the increasing demand for dairy products, and low supply of dairy products, foreign investors see a business opportunity in investing in the dairy value chain in Ethiopia. One of these investors has done a thorough analysis of the dairy value chain, including an assessment of SDG impacts. Their strategy to manage SDG impacts is mainly focused on the environmental aspects. They plan investments in large-scale forage crop production. Their strategy to avoiding conflicts over scarce land resources is an agreement with the regional government. To increase the resilience of their investment, a long-term strategy of meaningful engagement with local communities is necessary. Only, dealing with the government is likely insufficient to achieve real local buy-in.

If foreign investors receive benefits from public sources, such as tax exemptions, subsidized loans or free technical assistance, then clear and contractual performance agreements could be a strong incentive for these companies to invest in and track the SDG impact of their investments.

Stage 4 of this methodology can support the uptake of SDG investment guidelines so that diaspora and foreign companies can improve their ability to address those types of challenges around SDG assessment and management of impacts.

Stage 4 lessons from AgrInvest-FS include:

- Incorporating SDG impacts in the investment process requires much **more awareness within individual organizations** about SDG-related issues and processes (across teams and levels within organizations, including top management); in the case of sustainable food system pathways, this can be facilitated by establishing a strategy and a unit dedicated to financing smallholder oriented VCs, to prepare and manage tailored products and the related SDG-alignment practices.
- Increasing SDG-alignment of individual investments needs a **closer interaction between individual investors' processes and overall coordination of the VC ecosystem**, through multiactor dialogue on the management of SDG-related impacts; this may require closer dialogue and coordination between private sector and technical and financial actors/partners active in the VC.
- A possible approach in Stage 4 is to survey a small sample of enterprises, to provide a disaggregated analysis of value chain dynamics, and establish a typology of enterprises according to multiple criteria.¹⁸ The typology can help appraise the actual and potential **contributions of different types of enterprises to SDGs**, and identify the different bottlenecks faced by each category of enterprise, their financing needs and priority areas for investments.¹⁹ SDG-alignment of individual private investments should be **incentivized and monitored as part**

¹⁸ Criteria can include: geographical (with the location and type of production system); size, scope (range of activities) and structure; strategic (marketing, products, supply of raw materials and inputs, coordination or partnerships with other players in the sector, financing, etc.); etc.

¹⁹ An example of this analysis can be found in Koutou *et al.* (2021) for the Burkina Faso case.

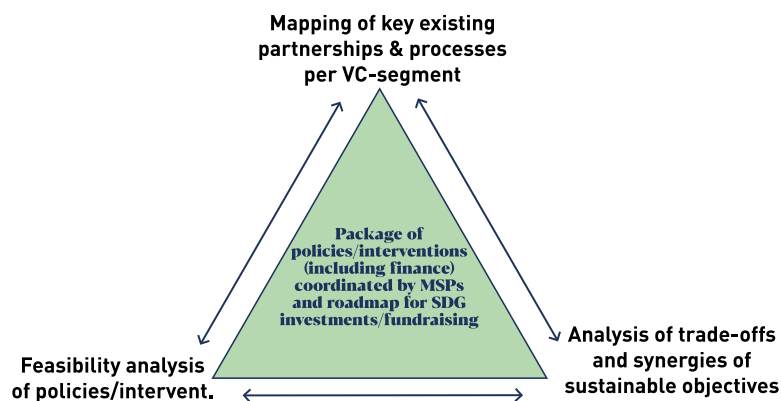
of the implementation of the pathways and the public-private collaborations (e.g. gradual enforcement of standards by regulators; selection criteria for investees), with more systematic disclosure and transparency on SDG-related impacts, both internally and externally, for accountability, lesson learning, and adjusting the course of action (mitigating negative impacts or increase positive impacts).

- Assessing the **resilience of planned or current investments** is a key aspect of an SDG impact assessment, by listing potential shocks, assessing their severity and likelihood, and identification of strategies to increase the resilience of investments.

Stage 5

For the VCs, territories and subsystems identified in Stage 1 and focusing on the transformation pathways identified in Stage 2, Stage 5 formulates policies and interventions to facilitate SDG-oriented investments, and identifies strategies for the engagement of several stakeholders in the implementation of these interventions. This last stage of the Methodology is a deep dive, in terms of both analysis and multiactor dialogues, **that builds on, and wraps-up, all previous outputs and stages**, bringing together the knowledge, collaborations, partnerships and experimentation that emerged during the entire process.

The mapping of key **existing partnerships and ongoing processes** around policy and investments for



each VC segment is used to understand the behaviour and incentives of VC stakeholders, the influence that each group has on economic, social and environmental outcomes, and the current drivers of change (effective coordination and real transformation require partnering not only with the right entities but the right people within each entity). This is crucial to the design of interventions based on local stakeholders' preferences and ongoing momentum.

The **analysis of synergies and trade-offs** around sustainability objectives can show how different policies and investments can improve the competitiveness of the VC while also supporting environmental sustainability and social equity; and identifies the trade-offs these actions might entail across different sustainability objectives. **Feasibility analysis** of the transformation pathways identified in Stage 2 is needed to design policies and investments that are grounded in local realities and improve the incentive system for sustainable investing in this sector (accounting also for possible opposition from those who would likely lose from the interventions).

The knowledge, awareness and partnership building resulting from these three analytical steps feed into the fourth step, when multiactor dialogue leads to the design of the detailed actions to stimulate concretely SDG-oriented-investments in the VC. This includes for each proposed thematic policy and intervention the specific steps to follow, their feasibility, and how SDG synergies would be supported and likely trade-offs countered; as well as key improvements cutting across the entire VC such as the mechanisms for better access to finance and stronger multistakeholder coordination (respectively crucial also to help fund and implement the interventions).



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The final output of Stage 5, validated through participatory workshops, is thus a **package of measures overseen through multiactor arrangements, coordination tools and other “means of implementation”**. These should include the establishment of value chain MSPs (or their strengthening where they exist) to regularly bring together all relevant actors to share information, build trust, and support coordination of the proposed policy improvements and interventions. The MSPs should as well design and oversee pre-commercial arrangements among stakeholders (e.g. memorandums of understanding) that can in turn lead to relevant commercial agreements required to facilitate SDG investments in the VC (including via financial mechanisms that can better serve the VC: blended finance, subsidies, loans, guarantees, grants and equity capital).

Multistakeholder platforms should develop a roadmap defining commitments, responsibilities and timeframes for each actor involved, so they can undertake the respective actions needed to implement the above-mentioned policy improvements and interventions, including more detailed proposals for financing, multistakeholder partnerships and policy advocacy strategies. The MSPs should also collectively assess and handle the trade-offs and synergies that exist, both between various sustainability objectives targeted by the same investment or intervention overseen by the MSPs, and between different investments or interventions. While understanding, analysing and managing trade-offs within food systems is a complex and still highly debated endeavour; some useful methods are available (e.g. in D’Alessandro *et al.*, 2021).

Box 5. Stage 5 in Kenya and Burkina Faso: multistakeholder platforms, business-to-business and training for business plans

Building on all previous stages and the related networks and collaborations, Stage 5 of this Methodology led, in different countries, to supporting various types of multistakeholder pre-commercial arrangements that are necessary to facilitating the relevant commercial agreements for Sustainable Development Goals (SDG)-oriented investments in the identified value chains (VCs).

In Kenya, the AgrInvest-FS project designed a package of policies and interventions with all relevant stakeholders to stimulate SDG-oriented investments in the African indigenous vegetables (AIV) VC, and accompanied the strengthening of a multistakeholder sector (MSP) in Nyamira county and the launch of a similar one in Nakuru county. The mapping of key existing partnerships and ongoing processes around policy and investments for each VC segment allowed for identification of and bringing together of a group of “drivers of change” in MSPs, including through real local policy leadership in the two counties. The feasibility analysis of the transformation pathways identified in Stage 2 helped the prioritization of policies and measures in line with the specific county context, with public procurement for AIV in Nakuru and aggregation centres in Nyamira as the low hanging fruits. The analysis of synergies and trade-offs around the related sustainability objectives led to identifying roadmaps for the MSPs, with careful sequencing of the actions and a few accompanying measures, e.g. to avoid that formalization of the VC, as part of public procurement arrangements, increases the difficulty of informal local players to sell more AIV.

In Burkina Faso, the multistakeholder pre-commercial arrangements within the framework of the AgrInvest-FS project, focused on increasing the bankability of small and medium enterprises engaged in the rice value chain. While studying recent developments in this sector that promote sustainable investments and assessing the financial sector and the existing financing opportunities for the rice

VC, the project supported “burkinabés” rice entrepreneurs with training in participatory business plan development, using the FAO RuralInvest methodology. The RuralInvest toolkit offers users an interactive, hands-on path, going from theory to practice, to work together with the entrepreneurs and create feasible, appropriate, and sustainable business plans.

After, the project chose five rice entrepreneurs and supported them in finalizing their business plans. Then, a business-to-business (B2B) workshop was organized, where FAO and the Burkina Faso Ministry of Agriculture brought together rice value chain stakeholders and financial institutions to encourage the signing of contractual financing arrangements. Main results included: i) the invited financial institutions presented their agricultural financial services offers; ii) rice entrepreneurs presented their business plans developed with RuralInvest; iii) bilateral discussions (entrepreneurs/ financial institutions) were facilitated to negotiate financing contracts; iv) policy measures favourable to investment in the rice value chain were identified and discussed.

After the workshop, AgrInvest-FS facilitated follow-up discussions between entrepreneurs and financial institutions in order to help finalize their contracts, and identified recommendations to promote investments in the rice value chain. FAO, moreover, developed concept notes for fundraising, drawing on lessons from best practices identified during the process.

Stage 5 lessons from AgrInvest-FS include:

- The recommended package of policies and interventions will be determined by the specific country or VC context, but those directly **targeting SDG alignment** should always be considered as a priority, both on the public side (e.g. through suppliers selection in public procurement of food; gradual enforcement of standards) and private side (e.g. investors can influence VC sustainability through their selection criteria and auditing requirements for investees).
- MSPs are not only needed to implement the proposed interventions but, in broad terms, for **improving VC and food system governance**, which was found to be a major issue in all four countries where this Methodology was piloted.
- MSPs are not a panacea, and different actors will only effectively participate in multistakeholder arrangements with **clear incentives**, particularly investors. This is why MSPs should be part of the investors’ business cases by: overseeing a package of interventions to improve VC productivity, market access, and value addition; and improving the transparency of information and clarifying market opportunities for investors along the entire VC. Sustainability over time of the MSP is likely to be linked to its “bankability”, i.e. the capacity to transform the better trust built, and smoother and more transparent information flows, not only into investments but also into MSP members’ contributions and funds for various types of capacity and institution building of public and private actors, and for other VC activities.²⁰
- MSPs that only operate at the national level and do not have tangible linkages with specific subnational, or county, contexts, including the ability to broker pre-commercial arrangements at such level, are unlikely to be enough to concretely facilitate investment, so the recommended MSP model is a **“hub and spokes” configuration**. The various “spokes platforms” should focus on county-specific actions, including facilitating business-to-business relations in a particular territory. The “hub platform” should regularly bring the Spokes platforms together to exchange lessons and tools; promote national policy improvements; and, from a food system perspective, liaise with other public-private coordination efforts in the country to synergize with initiatives supporting other value chains and SDG efforts.

²⁰ To this end, in particular an MSP finance task force should be tackling the bottlenecks to scaling up access to finance in this VC. Investors, who may not perceive an incentive to engaging in the full MSP, are more likely to regularly participate when the MSP’s task force is composed of different financier categories, ideally one category for each part of the VC, including commercial banks and the Ministry of Finance.

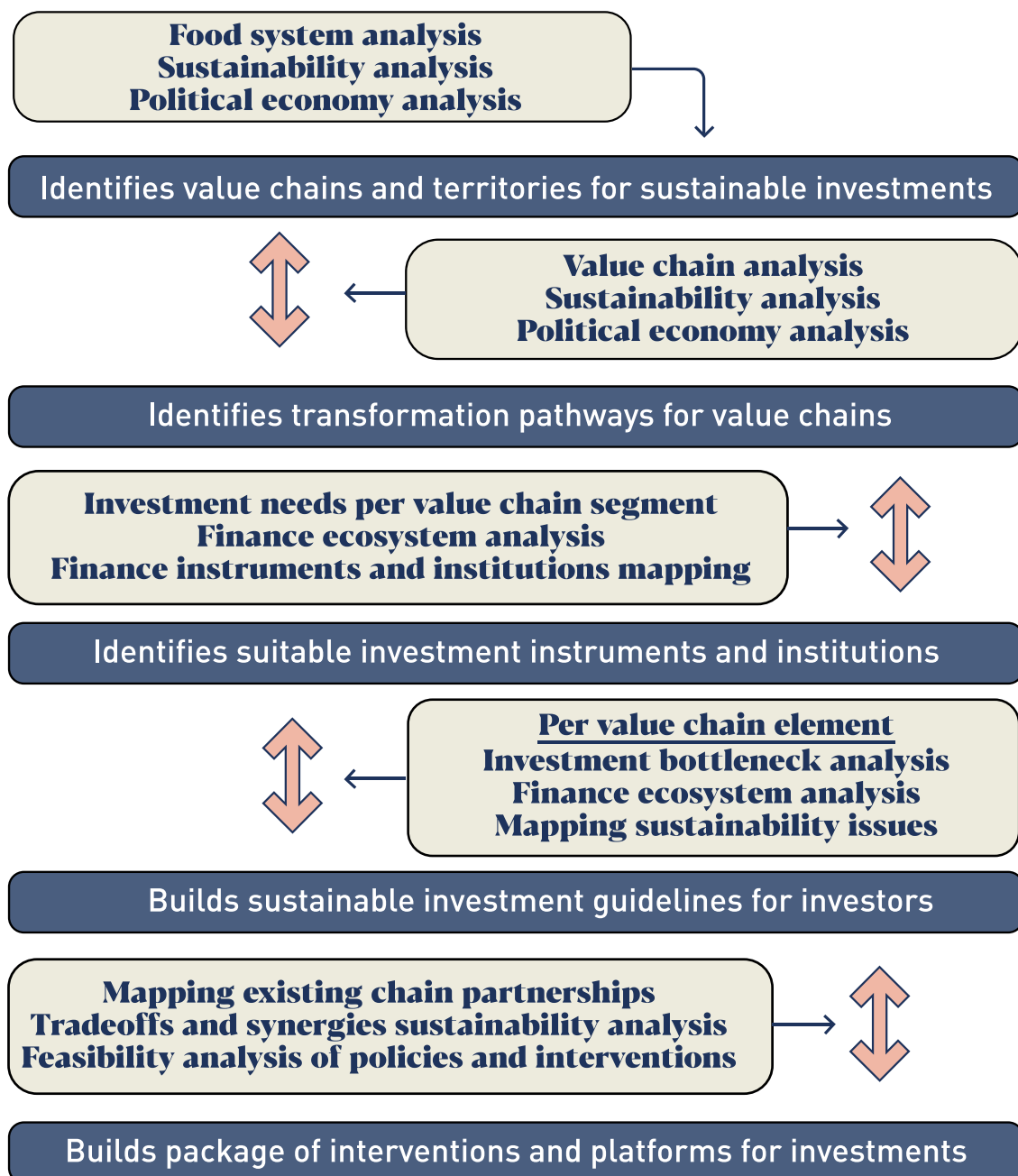


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3. Key messages and way forward

This Methodology and the lessons that emerged from its use through the AgrInvest-FS project, can guide, with the appropriate adaptations to different contexts, the application of a sustainable FSA to national and local VC investment processes. As summarized in the figure below, **in five stages this exercise can lead to the launch of policy packages, inclusive MSPs, and funding opportunities**, for the effective promotion of private investments into agrifood VC that contribute to more inclusive and sustainable food systems.

Figure 2. Summary of the proposed methodology



Credible business case, effective governance and creating a conducive financing environment

In addition to identifying lessons for each stage of the Methodology, the experience of the AgrInvest-FS project in four countries highlighted other **key messages that can help guide the implementation** of the entire exercise. Messages should be explicit so as to involve stakeholders from the outset and always kept at the centre of the process.

First, bringing the five stages together and retaining the interest of stakeholders throughout, especially from the private sector, requires a **credible overall business case**. Considering that the ultimate objective of the exercise is to facilitate private investments in VCs that support more SFS, this business case should be composed of:

- a **vision** of why investment should and will flow into the selected VCs and territories and how this will contribute to SFS and the SDGs (e.g. “a future corridor for nutritious food”);
- a **theory of change** for the proposed policies and interventions, defining how the policy package, finance instruments and MSPs emerging from this process will actually lead to scale up the quantity and SDG-quality of investments into the VCs and territories; and
- a **cluster of a few specific concrete investment opportunities** for relevant stakeholders, with a focus on local financial intermediaries and better access to finance for local food system actors (SME, smallholder farmers, women).

Second, for the business case and the investments to materialize, **appropriate tools for effective and inclusive governance of the VCs and territories**, including the right arrangements for practical coordination, should be in place:

- Both **public and private champions** of this business case should be urgently identified and engaged, at both national and local levels, considering that: design, implementation and monitoring of pathways, platforms and others cannot rely exclusively on external partners (e.g. ECDPM/FAO); without adequate capacity, entrepreneurship, technology and infrastructure, including beyond the specific VC or territory, even the perfect planning of VC development will not attract sufficient investment. In most low-income countries, this may require the nurturing of public and private champions, including through accompanying business skills training for the private sector and institutional building for the public sector and non-governmental organizations.
- Pathways implementation should be **carefully sequenced and low-hanging fruits**, including from actual investments, should be clarified and made available to all actors involved (with longer-term transformation pathways building on such fruits), since politicians and entrepreneurs need projects that can quickly show the impact and effectiveness of coordinating efforts with many other stakeholders; and
- Increasing the SDG-alignment of the overall investment ecosystem ultimately requires the **brokerage and implementation of “quid pro quo” collaborations** between the public and private sectors: the government side committing to policy improvements and public interventions that support sustainable private investments (including possibly lowering its costs); and the business side committing in return to strengthen and incorporate SDGs impacts in its own investment decisions (i.e. SDG-alignment of individual investments). Clearly presenting such an approach from the beginning of the public-private dialogue around stimulating investment, and monitoring the “quid pro quo” collaborations, are crucial for their success.

Third, **to ensure the food economy–financing environment is conducive to the SDGs:**

- The national agriculture finance policy framework should specifically and **effectively target smallholder-based value chains**, improving and increasing savings mobilization for them from all sources, from community-based micro-finance organizations to large and long-term

investors such as pension funds. Depending on the degree of sophistication and depth of the local financial ecosystem, such policy framework should reform or introduce regulations that are more favourable to smallholders, from expanding the range of available collateral substitutes (e.g. Public Procurement suppliers list, off-taker contracts) to subsidizing digital means that increase outreach of agricultural finance in rural areas but reduce transaction and monitoring costs; and without underestimating the remaining importance of grant-based finance to invest in the capacity of micro, small and medium enterprises and ensure that technical, financial and business services become more sensitive to their needs.

- The full potential of different investors and schemes (government, SME, PDBs, private equity funds, banks, pension funds, impact investors, etc.) for improved financing of food systems towards the SDGs should be **harnessed in a coordinated way, so as to target a cascading effect** in terms of actual access to finance for the currently marginalized food systems actors. While in some countries such as Kenya, the overall finance sector regulatory framework has started to facilitate better access to financial services for medium and large-scale agricultural enterprises, a new specific strategy and set of interventions should target the public sector and finance to leverage commercial financial providers for better access to credit for smallholder groups and micro and small agribusinesses.
- Indeed, given a positive correlation between SDG objectives and the sustainable growth of smallholder-based value chains, and the inherent high-risk profile of such VC, **blended finance instruments** are particularly important to support access to finance by smallholders and micro/small agribusinesses and should be used more systematically by all relevant actors, as they can allow de-risking and enable private commercial capital to invest more deliberately for social and/or environmental impact

A final set of lessons that can help guide the implementation of this Methodology relates to its preparatory processes. The need to keep stakeholders interested and engaged, especially those from the private sector, implies that the entire exercise should not take too long. A **realistic timeframe** is about one year, considering all the required analyses and multiple interactions with relevant stakeholders at every stage, from the early extensive consultations with both public and private actors, in both the capitals and the specific rural territories of focus, to the validation workshops for the proposed pathways and recommendations. Such a broad range of activities for the five stages also indicates that a **relatively large team** is needed to coordinate and facilitate this work in a given country. Finally, such local VC processes for identifying concrete investments and policy reforms should be based on experimentation and learning and should aim to stimulate, throughout the whole exercise, the creation of a coalition of supporters to **drive implementation**. Without insistence from the beginning that the focus is implementation, rather than analysis or research, there is a high risk that collaborations and partnerships, let alone the VC MSP, will stop after completion of the five stages.

Contributing to national pathways and global processes to finance sustainable food systems

The natural use of these Methodology and lessons is to guide and support national and local processes to promote greater sustainable private investment in priority VCs and territories. An additional use is to contribute to important international **processes targeting the enhanced role of public and private finance for the SDGs**, including and beyond the UNFSS. Since the Methodology can not only directly assist the development and implementation of national pathways for food systems transformation post-UNFSS; but also since the lessons emerging from AgrInvest-FS offer useful insights for all the major related debates, on SDG trade-off management, the alignment of public and private finance, how to target the missing middle in food VCs (informal smallholders, service providers and intermediaries), and how to bridge policymaking by Ministries of Finance and of Agriculture for the benefit of food systems.

The United Nations Secretary-General's Statement of Action on the **UNFSS** highlights many of these areas where the Methodology can support the effectiveness of multistakeholder food systems processes,²¹ in particular to “**accelerating the means of implementation**” and the ensuing “**food finance architecture**”, according to which implementing five “food finance imperatives” could unlock USD 4.5 trillion in new business opportunities every year and ensure a more sustainable food system.²² Especially the accomplishment of “imperative number 3” seems to require the contribution of the approach, methods and stages developed through AgrInvest-FS: “Scale fit-for-purpose financial products and business models, mobilizing private capital by de-risking and mainstreaming innovative financial instruments and regenerative assets while improving access to finance and services for primary producers through new supply chain partnerships.”

Several **processes directly led by private investors** are going in the same direction and could also benefit from this Methodology.²³ As recognized by the Impact Task Force,²⁴ a global initiative to accelerate the scale of private capital for public good, in today's context where investment decisions are often made with inadequate information about the social and environmental impact, capital should pursue investment strategies that integrate environmental and social objectives and allow not only the mitigation of exposure to risk but also the expansion of opportunities for capital to generate positive financial, environmental and social returns.

FAO and ECDPM are committed to the continuing provision of technical and policy support, in coordination with partners and in line with requests from countries as they refine and implement their national pathways for food systems transformation.

²¹“We must support national mechanisms that develop and implement national pathways to 2030 that are inclusive and consistent with countries' climate commitments, building upon the national food systems dialogues. With the United Nations system and all relevant stakeholders, including the International Finance Institutions, private sector, and civil society playing a pivotal role in supporting country implementation. Action must be driven at the country-level by governments in their local contexts. Five action areas to help inform the transitions needed to realize the vision of the 2030 Agenda have emerged from the Summit process. These include: ... Action Area (5) Accelerating the Means of Implementation”

²²www.worldbank.org/en/topic/agriculture/publication/food-finance-architecture-financing-a-healthy-equitable-and-sustainable-food-system

²³ One such specific initiative is the Good Food Finance Network, which brings together high-level leaders, financiers and policymakers, technical experts, and other stakeholders to facilitate the promotion of investments and financial solutions, or “good food finance”, for sustainable food systems.

²⁴ “Time to deliver: mobilizing private capital at scale for people and planet.”



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AgrInvest-Food Systems Project

Applying a sustainable food systems approach to value chain investment processes

A methodology to promote value chain investments for more inclusive and sustainable food systems