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Organización de las Naciones Unidas para la Alimentación y la Agricultura

منظمة الأغذية والزراعة للأمم المتحدة

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Financing resilient agrifood systems and inclusive rural transformation: Boosting public and private sector investment

Executive Summary

Africa's rural areas and agrifood systems are transforming, shaped by several mega trends. To ensure that these transformation processes are efficient, inclusive, resilient and sustainable, targeted public and private sector investments are required.

However, there is a huge financing gap that constrains attainment of the levels of investments required for the desired transformation processes. This calls for the use of innovative financing instruments, including the use of limited public sector resources to leverage increased levels of private sector investments.

Given the current levels of debt distress, and the accompanying narrowing of the fiscal space in most African countries, there is a need for instruments to access and mobilize catalytic and blended financing for de-risking and catalysing bank credit and private investment, accompanied by technical assistance, into the agrifood systems.

The objective of this High-Level Ministerial Session is to highlight the key issues and opportunities involved in boosting investment in agrifood systems; facilitate experience sharing on best practices on public and private financing and investments in agrifood systems; and seek guidance from Members on areas where they may require partnerships and collaborations towards increased investments in agrifood systems.

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I. Background

1. Rural transformation refers to the processes by which rural economies and livelihoods shift from a situation of predominantly subsistence-oriented production and low incomes, to more productive and diversified economic activities that are integrated into national, regional and global markets. This transformation process is long-term and multidimensional, involving change in the economic, social and environmental conditions of rural areas.

2. This process is usually part of a broader process of structural transformation, and it is the result of: i) an increase in agricultural productivity and production through intensification and specialization; ii) the decline of agriculture's output share and share of employment in gross domestic product (GDP); and iii) the increasing importance of non-farm activities in rural livelihoods. It requires long-term engagement and investments across multiple sectors to achieve lasting results, including improved living standards and poverty reduction.

3. Historically, rural transformation has led to globally rapid economic growth, massively reduced poverty and improved welfare and standards of living. However, such transformation can generate negative externalities that have high costs on society (e.g. in terms of global warming and climate change). Moreover, the rewards of these processes of transformation have been unequally distributed and have led to the marginalization and disempowerment of multiple groups within global society. Given the important role of agriculture for rural livelihoods, achieving agricultural productivity growth and broader transformation of agrifood systems, from the current unsustainable trajectory onto a more sustainable and resilient pathway, is a necessity for an inclusive rural transformation. Inclusive productivity growth in agriculture generates employment and income -multiplier effects in the rural and overall economies, through extensive forward and backward linkages with the rest of the economy.

4. To achieve the required agricultural productivity growth, increased investments are required to change the current state of food production on the continent. For example, in sub-Saharan Africa 97 percent of staple production is rainfed[1]despite the fact that the continent is well endowed with water resources. In 2018, Africa, particularly sub-Saharan Africa, had the smallest equipped area for irrigation which account for only 3 percent of global irrigated land[2]. Therefore, additional investments in agricultural water management would be required, as they would pay great dividends and contribute to agrifood systems transformation, increasing agricultural productivity and ensuring inclusion in rural transformation processes.

5. The United Nations Food Systems Summit 2021 emphasized the need to transform agrifood systems to make them more resilient, and to adopt an inclusive approach to transforming the rural space. Such an approach requires close attention to the diversity of rural people's contexts, circumstances, vulnerabilities and opportunities. A large share of poor people in Africa live in rural areas of countries that are at the early stages of structural transformation, and as indicated earlier, these people rely upon rainfed agriculture for a large part of their food and livelihoods. Thus, the total transformation of agrifood systems, and concomitantly the rural area, is important to positively influence the livelihoods of the rural populations in Africa, which are projected to continue to increase over the next few decades, with large numbers of youth entering the labour market.

6. The required transformation processes have been held back by several factors. An understanding of the mega trends shaping rural transformation will help to identify the opportunities for addressing the bottlenecks which hinder the attainment of resilient agrifood systems and inclusive rural transformation. Among the mega trends influencing the rural economies in Africa are:

a. continued and rapid population growth and the youth bulge, which require a shift to intensified resource use and faster productivity growth to feed this growing population and create employment opportunities for the youth;

[1] FAO. 2022. The State of the World's Land and Water Resources for Food and Agriculture – Systems at breaking point. Main report. Rome.
https://doi.org/10.4060/cb9910en
[2] ibid

b. the increasing population, coupled with income growth and urbanization are fuelling rising food demand and reliance on food imports. Integrating African small-scale farmers and low-skilled rural youth into local and global supply chains would be an inclusive way to meet this demand, and avoid the reliance on food imports which impede domestic job growth;

c. income growth and the associated growing middle class in Africa will lead to a rapid shift in the labour force from farming to jobs outside the farm. Dietary changes are also expected to occur as a result of rising wages – from basic staples to protein-rich and processed foods. This will require increased investments in production and processing segments of the agricultural value chains;

d. in addition, the shift in the labour force to non-farm jobs may accelerate the observed phenomenon of an ageing farm population. This presents challenges to the adoption of new sustainable technologies and practices needed to secure sustainable food security;

e. increased fragmentation of landholdings due to the population pressures and limited natural resource availability makes it more challenging to achieve rapid productivity growth, associated with widespread land degradation, leading to stagnation and impoverishment;

f. the effects of climate change and other environmental threats are exacerbating several underlying weaknesses in the African agrifood system, and would require sustainable intensification of agriculture and agrifood systems; and

g. an important trend relates to the rapid adoption of mobile phones and internet connectivity which has accelerated the deployment of agricultural services for farmers. Continuous innovation in and deployment of the digital technologies, favoured by youth and other information-based resources, are required to attract more youth into the sector.

7. As a consequence, it is apparent that the transformation of agrifood systems in Africa requires increased levels of financing for targeted public and private investments. To achieve more resilient agrifood systems and inclusive rural transformation, there is the need to put in place a set of sustainability requirements for public and private investments, which would be driven by increased opportunities to invest in a way that overcomes the traditional trade-offs between profitability and social and environmental sustainability, and instead generating both. Such an approach requires coordinated actions across a range of policy areas and vast investments, both from public and private financers. In the context of limited investment by governments and a narrow range of financial products and services for agrifood systems in Africa, it is imperative to identify and roll out a set of innovative financing approaches that address both supply and demand constraints.

8. It is acknowledged that African agrifood systems face a financing and investment gap. This causes agrifood systems to underperform, which deepens the exclusion of the most vulnerable populations, and brings damages to the environment. Estimates of the gap between the demand for finance in agrifood systems, especially from small and medium enterprises (SMEs), and the actual investments that take place, vary. One estimate[3] shows that, in sub-Saharan Africa, the agriculture financing gap amounts to USD 180 billion annually. Out of this total gap, USD 65 billion, or more than 35 percent, is among SMEs with borrowing needs varying from USD 25 000 to USD 1.5 million. Another estimate[4] of the required country-level investment targets to achieve agrifood systems transformation in Africa puts the gap at USD 76.8 billion per year, which translates into about USD 400 million per year per country. A further estimate,[5] which narrows the scope to financing to end hunger and double the incomes of smallholder farmers, points to a financing gap of around USD 33 billion per year (USD 14 billion from donors and USD 19 billion from national

[3] ACELI Africa 2023. *Bridging the Financing Gap: Unlocking the Impact Potential of Agricultural SMEs in Africa*.
[4] Omamo, S and Mills, A (2022) *Investment Targets for Food System Transformation in Africa*. New Growth International Technical Note.
[5] Laborde, D., Parent, M., & Smaller, C. (2020). *Ending Hunger, Increasing Incomes, and Protecting the Climate: What would it cost donors?* Ceres2030. International Institute for Sustainable Development (IISD) and International Food Policy Research Institute (IFPRI)

governments in low- and middle-income countries) in additional spending, with about USD 21 billion needed in Africa.

9. While these estimates vary, what is not in doubt is that there is a huge financing gap for the transformation of agrifood systems in Africa. This huge financing and investment gap translates into a major structural bottleneck to resilient and ultimately inclusive agrifood systems in Africa, through the limited access to financial resources for smallholder farmers, SMEs, women, youth and other marginalized players. This limits their ability to invest in more sustainable and resilient practices, as well as build viable agrifood value chains.

10. The historical financing gap for African agrifood systems has been exacerbated in recent times. According to the International Monetary Fund (IMF),[6] a funding squeeze has hit hard in sub-Saharan Africa (SSA). Public debt and inflation are at levels not seen in decades. More than half of the low-income countries in sub-Saharan Africa were assessed by the IMF to be at high risk or already in debt distress as of 2022.[7] The effects of the recent series of shocks (including the COVID-19 pandemic, the war in Ukraine and increasingly frequent weather events) on the economies of SSA countries have intensified longstanding economic and social challenges and worsened fiscal vulnerabilities, narrowing the fiscal space for governments[8] to support the financing for agrifood systems transformations.

11. On the private sector side, one of the barriers hindering investments is the difficulty of agribusinesses to attract investments. These demand-side constraints are compounded by a narrow range of financial products and services for agribusinesses. Thus, in the context of high investment risks – driven by high environmental, productivity and market risks – agribusiness actors, especially smallholder farmers and SMEs, often lack appropriate instruments to cover risks and receive loans.

12. Therefore, there is the need for innovative financial instruments which are flexible, patient and risk-reducing, together with accompanying mechanisms that will ensure that these instruments work to address the market failures and risks constraining investments in the agrifood sector.

13. There are opportunities for addressing the financing challenges. The facilitation of increased public and private investments for more resilient agrifood systems and inclusive rural transformation in Africa must thus be based on several interlinked interventions, including policy reforms that are informed by private sector perspectives on agrifood system financing, and that can remove the main bottlenecks to increased investments in the agrifood system, along with a set of instruments, mechanisms and facilities to make investments more attractive and less risky.

14. Some recent experiences in facilitating public and private investments, which can contribute to resilient agrifood systems and inclusive rural transformation, are based on the increasingly larger availability of data. In the past, limited data on the economics of financing agri-SMEs has made it difficult to identify where the investments were required and how they should be designed to be inclusive. However, thanks to information analytics and digital technologies, market incentive facilities have been increasingly designed to mobilize funds for lending to agricultural SMEs in Africa by aligning capital supply and demand. Such facilities can provide instruments such as: i) portfolio first-loss coverage, to incentivize lenders to make more loans that meet resilience and inclusion criteria and are designed to absorb the incremental risk from serving marginalized borrowers; and ii) origination incentives to lenders, to compensate them for lower revenues and higher operating costs of making smaller loans to agri-SMEs that would not otherwise have access to financing.

15. Blended finance models present another opportunity for addressing the financing challenge. Blended finance refers to the deployment of philanthropic or public finance to attract private sector investments as a de-risking or risk sharing facility. The use of different blended finance instruments for

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[6] IMF (2023) *Regional Economic Outlook. Sub-Saharan Africa. The big funding squeeze*.
[7] IMF (https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf)
[8] IMF (https://www.imf.org/en/News/Articles/2023/09/26/cf-how-to-avoid-a-debt-crisis-in-sub-saharan-africa#:~:text=Adopting%20a%20medium%2Dterm%20fiscal,key%20to%20avoiding%20such%20pitfalls) indicates that there has been a doubling of the average debt ratio in sub-Saharan Africa (SSA) in just a decade, moving from 30 percent of GDP at the end of 2013 to almost 60 percent of GDP in 2022. It has also become more expensive to repay this debt, with the ratio of interest payments to revenue more than doubling since the early 2010s.

risk mitigation and impact investments, with the intention to generate positive, measurable social and environmental impact, alongside a financial return, would be important. Funds from the public or philanthropic organizations could be used to provide concessional capital to lower the overall cost of capital, or to provide an additional layer of protection to private investors. Such fund could also be used to provide guarantees or risk insurance, as well as grant-funded technical assistance facility to strengthen commercial viability and developmental impact. According to "Convergence – Blending Global Finance",[9] about 47 percent of all blended finance transactions are targeted at sub-Saharan Africa, with the agricultural sector accounting for about 21 percent of these transactions. Sub-Sahara has been the most frequently targeted region in blended finance transactions, where 48 percent of transactions for climate blended finance were carried out between 2020 and 2022 .[10]

16. Climate finance funding channels, such as the Green Climate Fund, the Global Environment Facility and the Adaptation Fund, and bilateral funding are important sources of funds that could support African countries to unlock their growth potential and promote climate action for more efficient, inclusive, resilient and sustainable agrifood systems. Climate finance could provide the resources for connecting public, private and concessional finance to lift investment and close the gap between resources and needs for agrifood systems transformation.

17. In conclusion, Africa faces multiple challenges in its efforts towards transforming agrifood systems and achieving inclusive rural transformation. Public sources of finance from government and donors will be inadequate to fill in the financing gap required for this transformation. This would require two major actions:

a. increased capital/investment financing from the private sector (e.g. commercial banks, private equity and venture funds) and other funds; and

b. improved quality of public and private investment (requiring better business/financial advisory or technical assistance).

18. FAO works in support of governments to: i) share evidence on structural and rural transformation that has taken place in the region over the past decades, and the factors that are driving the process; ii) assess the extent to which the benefits of the growth process are distributed in rural areas, particularly for small scale producers, SMEs, women and youth; iii) assess stakeholder responses, including government and private investors, to the impacts of climate change and how different value chain actors manage and cope with the adverse effects of climate change or benefit from emerging climate action opportunities; and iv) identify opportunities and constraints for priority public, private and blended investments, strategic planning and policy interventions that can boost rural transformation in ways that are inclusive and make agrifood systems more resilient to climate change through, among others, agriculture water management.

II. Objectives of the Session

19. The Session will provide a platform for Members and other key stakeholders to discuss concrete examples of measures or best practices used by African countries to promote public and private investment in agrifood systems in their countries. It will also gather suggestions for boosting investment in agrifood systems and promoting inclusive rural transformation.

III. Expected Outcomes

20. A shared understanding of the key issues and opportunities involved in boosting investment in African agrifood systems.

21. A shared understanding of best practices from Members on public and private financing and investments in agrifood systems.

[9] https://www.convergence.finance/blended-finance
[10] Convergence – Blending Global Finance (2023). *The State of Blended Finance 2023*. Climate Edition. Convergence Report

22. Guidance to FAO to support Members and Regional Economic Communities in promoting policy reforms for increased investment and inclusive rural transformation.

IV. Target audience / Participants

23. The target audience will include Ministers, the African Union and its African Continental Free Trade Area Secretariat, Regional Economic Communities in Africa, international organizations, national and international experts, the private sector, non-governmental organizations/civil society organizations and other invited participants.

V. Agenda

5 minutes	Introduction	Moderator:
10 minutes	Presentation: "Overview of challenges and opportunities for improved public and private sector investments for resilient agrifood systems and inclusive rural transformation"	FAO
30 minutes	Panel discussion	Ministers Representatives of the private sector Partners
40 minutes	Q&A session	Members and participants
5 minutes	Wrap-up and concluding remarks	Moderator