



Innovative financing for agriculture, food security and nutrition Executive summary of the draft report (*Work in progress*)

In view of the urgent need to increase investment in agriculture, food security and nutrition to fight hunger around the world, the Leading Group on innovative financing for development (*see box below*) decided to set up, in its 9th plenary meeting (Bamako, June 2011), a Task Force on innovative financing for food security¹. The Task Force was asked, with the assistance of a high level committee of experts, to investigate options and propose a number of innovative financing mechanisms for agriculture, food security and nutrition.

Building on the experts' work, the final report will examine the rationale and need for innovative financing for agriculture, food security and nutrition, and include a critical review of possible mechanisms and initial proposals for the development and implementation of such mechanisms. This report will be presented at the 11th Plenary session of the Leading Group in Helsinki in February 2013.

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This executive summary presents the proposed innovative mechanisms selected by the high level committee of experts for further consideration by the Task Force on innovative financing for food security and thereafter by the Leading Group on innovative financing for development in February 2013. It introduces proposals of mechanisms to mobilize additional resources and mechanisms for catalyzing and scaling-up private investments in the food value chain and in innovation systems. Besides, the creation of a coordination entity, a Catalytic Facility for the promotion of innovative financing and innovating financing solutions for agriculture, food security and nutrition is proposed in the form a global, multi-stakeholders platform for developing new tools and catalyzing investment.

¹ Including member states of the Leading Group, United Nations relevant institutions, the World Bank, NGOs, foundations, agricultural research institutes; the Task Force is chaired by Mali, with the French Ministry of Foreign Affairs acting as Secretariat.

1. Rationale for innovative financing mechanisms for food security

The setting up of the Task Force on innovative financing for food security responds to current and future crucial challenges faced by the international community regarding food insecurity and malnutrition. Given the current trends in world population growth, particularly in developing countries, the global food supply will have to increase by 60 percent by 2050 in order to meet the world demand.

Meeting this challenge and allowing developing countries to ensure food security and nutrition imply an important investment in the agricultural sector (i.e., 50 percent according to FAO)², and combined efforts across other sectors such as nutrition, economic empowerment (especially women and young people), education, etc. These components are closely related to achievement of the first Millennium Development Goal (MDG 1) (reduction of extreme poverty and hunger by half by 2015).

Although progressing, budgets for agriculture in developing countries are severely constrained. Official Development Assistance (ODA) for agriculture has increased in recent years, with higher amounts allocated to emerging middle income countries as compare to sub-Saharan Africa and less developed countries. The challenge is all the more important in sub-Saharan Africa, the continent where population growth will be highest, where yields have tended to stagnate in recent years, and where climate change may have a negative impact on agricultural productivity.

Despite recent efforts, it is unlikely that the donor community will be able to source the needed funds out of traditional fiscal resources, which tend to be restricted and more unpredictable in times of crisis. Innovative resources, in complement to traditional ODA, are needed urgently for agriculture, food security and nutrition.

In addition to public funding to address the public good dimension of food security, agricultural development requires high levels of private investment, as most actors in the sector are private parties. There are strong indications that private investment still lays way behind its potential in most developing countries (and particularly in Africa), because investors and banks show little interest for a sector associated with high climatic, price and counterpart risks, and market failures. Innovative tools have been piloted to address these constraints, but still need to be developed and scaled up.

Innovative financing (including innovative additional resources to ODA and national budgets, as well as innovative mechanisms to catalyze private investment) are essential to reach food security and nutrition objectives. To maximize their contribution to food security objectives, these innovative financing mechanisms should, as much as possible, be targeted on food production and supply, on family farming as well as on nutritional issues.

2. Proposed innovative mechanisms

² The State of Food Insecurity in the World 2012 <http://www.fao.org/publications/sofi/en/>

2.1 - Mechanisms for generating additional resources

A number of potential mechanisms to attract additional resources for food security, agricultural development and nutrition have been identified, among which:

- National taxes, to be decided at the national level in developed or emerging countries: for instance, the tax on financial transaction, supported by several European countries, could be partly used for financing food security in developing countries; a tax on oils and fats, already existing in some countries (USA) could be partially used to finance nutrition actions in developing countries and a tax on fertilizers in developed and emerging countries has also been proposed by NEPAD as a mean to develop, fertilizer consumption in Africa through smart subsidies.
- Voluntary contributions and lotteries can also be considered (a part of the lottery proceeds in Belgium is already dedicated to finance food security projects in developing countries)
- Innovative schemes and partnerships to leverage the flow of migrant remittance towards agriculture, food security projects and nutrition projects in developing countries. Migrant remittances represent considerable financial flows from developed to developing countries, estimated at USD 400 billion annually, an amount comparable to three times net ODA. Surveys conducted by FAO suggest that around 5% of these funds are directly invested into agriculture, a share that could be improved with innovative mechanisms.
- Allocation of funds generated by the sale of emission allowances in the European Union Emissions Trading System (EU ETS). During the third trading period of the European Emission Trading System starting in 2013, it is expected that about half of the emission allowances will be auctioned, thus generating revenues for European Union Member states. Member states may decide to use part of this income³ for climate change mitigation and adaptation, including programmes for resilience to climate change in developing countries, which are the most affected although not the main actors of climate change. Such programmes could include sustainable agricultural intensification, which reduces the pressure on deforestation and contributes to climate change mitigation at the global level. Other countries around the world adopting emission trading schemes and auctioning allowances could opt for a similar approach.

2.2 - Mechanisms for catalyzing private investment

There is a considerable scope for developing mechanisms (which are merely at the experimental stage in developing countries, particularly in Africa) aiming at making investment in agriculture and food value chains more attractive and at reducing the level of risks in agricultural investment.

- Risk management tools, such as index based weather insurance, compensate the subscriber for a production loss when a reference index, for instance rainfall level, is not reached; and

³ As Germany has done already

guarantee funds, which reduce banking risks by granting a partial guarantee on a bank's loan portfolio.

- Innovative credit tools, such as warehouse receipts, which permit use of stocks as collateral for credit and prove to be an effective way to channel financing into value chains, could be scaled-up.
- Public/private partnerships with appropriate institutional and financing arrangements could help leverage funds from the private sector to finance infrastructure needed for the development of agriculture and value chains.
- Smart subsidies on agricultural inputs required for intensification may also catalyze farmers' investment. The already mentioned NEPAD proposal considers a harmonized fertilizer subsidy scheme for sub-Saharan states, based on common good management principles and on a co-financing by participating individual states and an African Fertilizer Financing Mechanism (funded by the tax on fertilizer in G20 countries). Such a scheme is expected to increase fivefold the use of fertilizer within 10 years (sub-Saharan Africa has the lowest use of fertilizer in the world), thus reversing the current alarming trend in soil fertility depletion and fostering a considerable increase in food production. Subsidies would decrease in time, as increased demand would generate economies of scale, thus making the scheme sustainable in the long run.

There is also large scope for developing dissemination of technical innovations (a crucial factor for agricultural growth and improved nutrition) through innovating mechanisms catalyzing private investment into innovation systems: pull mechanisms (based on ex-post incentives to innovation linked to pre-defined objectives) and advance market commitments⁴ (guaranteeing to innovating enterprises a minimum market and thereby reducing the risk related to market failures) are promising avenues to be developed.

2.3 – Proposal for a Catalytic Facility for the promotion of innovative financing and innovating financing solutions for agriculture, food security and nutrition.

A number of agricultural development institutions are already involved in a variety of pilot projects including innovative financing mechanisms. There is a clear need, however, for coordination of such interventions, and for a forum where experiences can be shared and evaluated, and where new innovative mechanisms can be designed and fine-tuned. There is also a need for additional effort to promote such tools and upscale existing projects. The creation of a Catalytic Facility for the promotion of innovative financing and innovating financing solutions for agriculture, food security and nutrition is highly recommended.

The mission of this Catalytic Facility would be to:

- promote innovative financing mechanisms in agriculture, food security and nutrition⁵ in developing countries, with a specific focus on the most vulnerable groups and on family

⁴ Already successfully used in the health sector for vaccine production.

⁵ Covering all financial tools aiming at reducing the constraints to local or international private investment in agricultural and animal production value chains or providing incentives for such investments, hence having a catalytic effect on their development.

farming, and also on more resilient and local food systems with stronger urban-rural linkages; intervene as co-financier of innovating financing projects with other development institutions, thus leveraging the investments of those institutions in such tools and creating a strong incentive for increasing the utilization of such tools; and

- play the role of a think tank for the design, coordination and evaluation of new approaches. Knowledge sharing and capacity building would also be part of its mission.

The Catalytic Facility could participate in the financing of public-private partnership through providing seed capital. It could participate in the capital of existing credit guarantee and co-finance credit guarantee, agricultural insurance or pull mechanism components of development projects.

The need for resources for the Catalytic Facility would depend on the importance of its co-financing function. The financing of the Catalytic Facility could be innovative *per se*, by mixing non-reimbursable contributions from voluntary states, development institutions or private foundations, and long-term soft loans from institutions and global agro-industrial companies (which should be interested to contribute on the grounds of their social accountability and their interest in developing new food markets).

The Catalytic Facility would be operated by a limited staff, and would have a systematic policy of calling on existing expertise (through, for instance, calls for proposals). The institutional status of the facility remains open: it could be integrated into existing institutions or be an independent international public-private institution with a governing board.

The creation of such a Catalytic Facility would improve the dialogue and mutual understanding within development institutions, local authorities and with the private sector, create incentives for innovation on a continuous basis, make possible a collective and coordinated approach, bring additional resources for the development of such tools and have a strong leverage effect on development institutions.

Missions of the Leading Group on innovative financing for development

The **Leading Group**, created in 2006, is the main platform of discussion and exchange of good practices on innovative financing for development. Consisting today of **63 member countries, international organisations, important foundations** and **NGOs**, the Leading group aims at:

- Promoting innovative financing for development amongst partners and international forums;
- Encouraging international mobilization and the implementation of the “set of options” of innovative financing mechanisms, including solidarity levies such as the air ticket levy and the FTT;
- Developing expertise on various areas related to development such as health, education and food security.

Presidency of the Leading group

The Leading Group is led by a different country every 6 months. The presidency has been successively ensured by Brazil, Norway, South Korea, Senegal, Guinea, France, Chile, Japan, Mali and Spain. The current President is Finland, who will host the 11th plenary session of the Leading Group in Helsinki in February 2013.

Joining the Leading Group

The Leading Group is an informal platform and each member can bring its know-how and specificity. The membership does not imply any obligation of implementing a mechanism of innovative financing. It does not either constrain the revenues of any already existing mechanism. Any country or international organization can apply to become a member by addressing a verbal note or letter to the current Presidency of the Leading Group and the Permanent Secretariat.

More information about the activities of the Leading Group and the priorities of the Finnish presidency are available at the following link: www.leadinggroup.org