Unlocking Finance to End the Cycle of Food Crises

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Context

Adequate food is not a privilege but a right enshrined in the 1948 Universal Declaration of Human Rights. After decades of progress, compounding crises – including the COVID-19 pandemic, the unfolding impacts of climate change, and the escalation of the war in Ukraine – have led to a sharp rise in food and nutrition insecurity and exacerbated hunger since 2014. This upward trend continues despite increases in global per capita calorie supply, illustrating that many problems in the food system derive from the inequitable and inefficient distribution of nutritious food, inequities in agrifood value chains that favor corporations over producers and people, and from the localized and unevenly distributed shocks and impacts of environmental degradation and climate change.

The situation is stark:

- 783 million people go hungry – more than the population of the EU and US combined (SOFI 2023)
- An additional 120 million people were food insecure in 2022 compared to 2019 (SOFI 2023)
- Acute malnutrition has increased in pregnant and breastfeeding adolescent girls and women from 5.5 million to 6.9 million (25%) since 2022. 45 million children under five are affected by wasting (UNICEF 2023)
- An unprecedented quarter of a billion people faced acute food insecurity in 2022 (2023 Global Report on Food Crises)

The world is now significantly off track to achieve SDG2 by 2030.

With just six years left to achieve the SDGs, there is even more urgency to save lives, build resilience and secure the future. One thing is clear: urgent action is needed. A combination of anticipatory action, both developmental and humanitarian, and systematic structural reforms tackling inequality, including land rights, gender justice, market access and labor rights, and environmental degradation, must be taken to build resilience and break the continuous cycle of global food crises.

Meeting immediate needs to prevent any further deterioration in acute food insecurity and to treat and prevent wasting in children under the age of five remains critical. At the same time, we must better target existing funding to address the drivers of food insecurity and malnutrition and the fundamental inequities in food systems to break the cycle of crises. Global leaders must deliver on financial commitments made over the last decade, including on climate finance and the rechanneling of Special Drawing Rights.

New, equitable, and transparent financing is also necessary to keep pace with the unprecedented challenges low-income and lower-middle income countries face to save lives, build resilience, and secure the future. The Food Systems Economic Commission estimates the true cost of the current food system through its impact on health, climate and environment and poverty. “Food systems form a nexus linking some of the greatest triumphs and challenges of our times. Thanks to human ingenuity, determination and technical progress, they feed a world population that has doubled since the 1970s. And yet the unaccounted costs of the burdens they place on people and the planet are currently estimated at 15 trillion USD a year, equivalent to 12 percent of GDP in 2020.”

The Commission identified five operational goals:

- Consumption of healthy diets by all
- Strong livelihoods throughout the food system
- Protection of intact lands and restoration of degraded lands
- Environmentally sustainable food production
- Resilient food systems that maintain food and nutrition security in the short and the long run

We need to act now to end the current crises and to prevent future food crises, while undertaking ambitious reforms to accelerate progress towards SDG2, support national leadership and priorities, and strengthen local capacity and institutions. This is the only sustainable way forward. Not only is this the just approach, but it is the most cost-effective approach.

As we seek to align, leverage, and diversify financing to ensure more and better finance to break the cycle of global food crises, direct accessibility for frontline communities is paramount. Financing must reach smallholder farmers and their organizations/cooperatives, local small and medium-sized enterprises, local civil society organizations, women's groups, and Indigenous Peoples to ensure that agrifood systems transformation is inclusive, equitable, and sustainable for those whose livelihoods most depend on it.

KEY Recommendation

Develop a financing plan to complement a global plan to end food crises and accelerate progress towards SDG2. The financing plan should outline the roles for each of the key sources of funding – Official Development Assistance (ODA), concessional, private, philanthropic and domestic resources, to coordinate across actors, and include a tracking and reporting framework and mechanism. This can help to ensure that financing scales up evidence-based approaches in the countries and communities experiencing the highest levels of food insecurity and malnutrition; maintains the crisis response to meet humanitarian needs; and makes long-term investments that address the underlying causes of food crises.

Effective solutions exist for the interconnected challenges of food insecurity, malnutrition, poverty and inequality, fragile food systems, and climate change, but meaningful and just investment are lacking. In the last 15 years, there have been global and regional policy commitments to scale up evidence-based nutrition interventions, reverse environmental degradation and deploy nature positive solutions, and support small-scale food producers. Ceres2030 estimates that international funding for agri-food systems can play a catalytic role in creating the solutions, policies and incentives to unleash the potential of domestic and private sector investment.

A targeted increase of US$14 billion a year in official development assistance, accompanied by US$33 billion in domestic investment, could help double the incomes of small farmers. Estimates suggest that an additional $10 billion per year from 2023 - 2030 would achieve a sustainable food systems transformation in Ethiopia, Nigeria and Malawi.

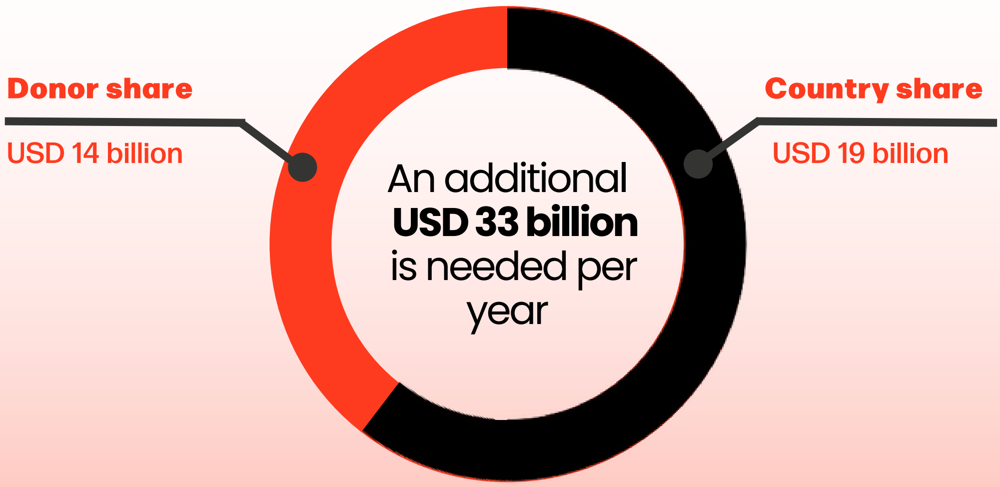

Figure 1: Additional Public Spending & Additional publicSpending & Donor Contribution, (Ceres2030: Sustainable Solutions to End Hunger)

Funding mechanisms with the potential to scale up these interventions exist, including:

- The Global Agriculture and Food Security Programme (GAFSP) was established 15 years ago by the G20 to address the 2007/2008 global food price crisis. While it has never been funded or fully utilised at the scale and in the way it was originally intended, it is a demand-driven financing mechanism that coordinates across United Nations (UN) agencies, the Multilateral Development Banks, and civil society and producer organizations to implement projects that support smallholder farmers, many of whom are women, in low-income and fragile contexts.
- The International Fund for Agricultural Development (IFAD) is an international financial institution and specialized UN agency that is focused on investing in rural people and rural development to increase food security and nutrition, livelihoods and resilience.
- The Child Nutrition Fund is a new financing mechanism to end childhood wasting by accelerating the scale-up of sustainable policies, essential actions, and supplies for early prevention, detection, and treatment in some of the countries with the highest numbers and/or proportion of children under 5 years of age affected by wasting.

Recommendations for Specific Financing Flows

Bilateral Official Development Assistance

Increase grants and highly concessional loans

The countries that have been hardest hit by the global food crisis are also countries that face a liquidity crisis and unsustainable levels of debt in large part due to the polycrisis. Malawi is projected to pay $US 147.3 million in external debt servicing in 2024 - the equivalent of 5.3% of government spending - as President Chakwera declares a state of disaster due to drought that impacts 2 million farming households and leaves 20 million in need of food assistance. For the foreseeable future, they will struggle to raise financing through capital markets and will continue to need development assistance in the form of grants and concessional loans. In response to the 2007/2008 global food price and financial crises, during the 2009 G8 Summit in Italy, G8 leaders launched the L'Aquila Food Security Initiative and pledged to "mobilize $20 billion over three years through this coordinated, comprehensive strategy focused on sustainable agriculture development, while keeping a strong commitment to ensure adequate emergency food aid assistance" towards the goal of improving food security and nutrition. It is critical that G7 and other leaders step up again in 2024 to take bold and visionary leadership, as they did during the last global food crisis.

Ensure a robust IDA21 Replenishment

Experts are calling for an ambitious tripling of the International Development Association (IDA), the World Bank's concessional lending arm for low-income countries, by 2030 in order to achieve the SDGs and tackle the climate crisis. This starts with meaningful, ambitious policy and financial commitments in 2024 with the upcoming 21st Replenishment of IDA covering the period 2025-2027, which will be critical to supporting IDA's 75 client countries manage the risks and challenges amplified by the impacts of climate change and conflicts, and the economic and development setbacks they experienced as a result of the COVID-19 pandemic.

IDA 21 should include a special theme on food security and nutrition to signal the centrality of the issue and spark the multi-sectoral investments in nutrition, agriculture and food systems transformation and reform the IDA21 Results Measurement Systems to report on outcomes, including robust food security, nutrition and rural livelihoods indicators.

Deliver on Climate Finance Commitments and Set a New Financing Goal

Developed countries must deliver on the commitment of $100 billion in climate finance, including a doubling of climate adaptation financing, ensuring that at least 5 percent of climate finance is targeted to smallholder farmers and their organizations and agree to a New Quantitative Goal on Climate Finance.

Multilateral Development Finance

Finance anticipatory action to prevent food crises

In order to break the cycle of crisis and prevent future food crises, anticipatory action is critical. The Food Security Crisis Preparedness Plans Initiative is a promising government owned multi stakeholder mechanism to respond early to emerging surveillance data and information. Ensuring it is operationalised, adequately funded, transparent and accountable will be essential.

Accelerate Debt Relief

Most IDA countries are facing debt distress. As much as 40% of government spending on the African continent goes to debt service, outweighing total combined spending of education, health, social protection and climate. Debt relief measures are urgently needed to create the fiscal space for countries to use their domestic and external financing to respond to climate disasters as well as invest in long-term sustainable development solutions.

The Common Framework for Debt Treatments was adopted by the G20 in 2020 to help restructure debt on a case by case basis. More than three years later, in March 2024, Zambia became the first country to successfully get debt relief through this mechanism. Several countries are still working through the process. Much more must be done to simplify and speed up the process.

Bilateral and multilateral creditors must introduce debt suspension clauses, in existing and new loan agreements, for all low income countries at high risk of backsliding on food security and nutrition. The trigger mechanism for this would be a threshold indicating a country or region of a country is at risk of moving up the IPC scale or the trigger mechanism envisioned by the Food Security Crisis Preparedness Plans. The risk of shocks endangering vital food security, and the ensuant macroeconomic and social impacts should be an integral part of the IMF/World Bank Debt Sustainability Assessments.

Debt swaps have been used effectively in other sectors and could be applied in food and nutrition security. A debt swap is an agreement between a creditor and a debtor country to cancel sovereign debt in order to free resources that can be allocated for development or climate purposes. The Global Fund has successfully used debt swaps to mobilize financing for public health programmes through Debt2Health.

Rechannel Special Drawing Rights

In August 2021, the IMF issued an unprecedented allocation of $650 billion worth of SDRs - a reserve asset that can be traded for hard currency - to provide much-needed financial flexibility in times of crisis, without incurring additional debt. The allocation was distributed proportional to IMF quotas, so high-income countries received the lion’s share.

In October 2021, the G20 committed to reallocate $100 billion of their SDRs to low-income countries. By March 2024, thirty countries had pledged to reallocate $108 billion of their SDRs, mostly to two IMF trusts - the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust (RST). As these facilities disburse slowly, usually over a period of three years, only $1.4 billion from the RST has reached vulnerable countries to date.

The G20 must deliver on their commitment to recycle $100 billion in SDRs and commit to allocate SDRs to support food systems financing mechanisms. The so-called hybrid capital proposals by the African Development Bank and InterAmerican Development Bank offer an attractive way to recycle SDRs and leverage their power to increase lending by 2-4 times the amount recycled. IFAD, as one of the prescribed holders of SDRs, could also take advantage of these proposals. Furthermore the IMF's Poverty Reduction and Growth Facility and Food Shock Windows should help finance the strengthening of food systems. The IMF should make support under the Resilience and Sustainability Trust available for food systems transformation which is critical to long-term sustainability and directly related to existing health and climate objectives. The RST review this year is an opportunity to do so.

Make progress on Multilateral Development Bank Reform

The international community must move more quickly on reform of the capital adequacy framework of the multilateral development banks to unlock additional financing from their balance sheets to meet the climate and development challenge. MDBs should also explore new and innovative ways to extend highly concessional lending or grants to countries at high risk of debt distress.

National-level Financing Options

Tax Windfall Profits

In recent years, companies have made windfall profits from the rise in food, fuel and fertilizer prices. Taxing these profits would generate revenue that could be used to scale up nutrition interventions and smallholder agriculture. In the last year, some of the world's largest food and energy companies made $306 billion in windfall profits and paid 84% out to shareholders. In addition, taxes on sugar-sweetened beverages can increase opportunities to improve the affordability of healthy diets while supporting smallholder farmers and local agri-food systems.

The Brazil presidency of the G20 has put a global minimum tax on the world's richest people on the agenda for the G20 Summit. It is a recognition of the enormous losses in tax revenue countries face due to tax evasion and tax havens. According to Oxfam, the top 1 percent of earners in G20 countries made more than $18 trillion in income by 2022, a figure higher than the GDP of China.

Repurpose harmful subsidies

Governments spend more than $635 billion on direct agricultural subsidies on fertilizer and a very limited range of crops. According to the 2022 SOFI report "(N)not only is much of this support market distorting, but it is not reaching many farmers, hurts the environment and does not promote the production of nutritious foods." In addition, government fossil fuels subsidies cost taxpayers $577 billion in 2021, and this doesn't include the indirect cost in terms of pollution, climate change, inequality and health impacts. The World Bank estimates this to be $6 trillion. Government support for fossil fuels and harmful agricultural policies should be repurposed towards food systems transformation aligned with the national pathways. Costed plans to guide scope and scale of funding already exist in some countries and others are being developed.

Leverage private sector financing

ODA can also be used to reduce the risk of private sector investments or loans in low and lower-middle income countries by providing credit guarantees, and agreeing to bear a percentage of losses incurred in the event of default by the borrower. Donor financing can also create incentives and mechanisms for the private sector and blended finance to small-scale actors, including smallholder farmers and small and medium sized enterprises in the agrifood system, ensuring that this is done on terms agreed to by local farmers and communities and respond to their needs & aspirations.

Conclusion

With the urgency to act, we no longer have the time to deal with one crisis or challenge at a time. There are many financing options to mobilize the resources to get back on track to achieve SDG2. Leadership and political will are required to put food and nutrition security, smallholder agriculture and food systems transformation at the heart of global financing discussions and to recognize these as transformational and catalytic investments to accelerate progress towards the Sustainable Development Goals and the Paris Climate Agreement.