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Financing to end hunger for today and tomorrow (SDG2)

Executive Summary

The Africa region is far from achieving SDG targets 2.1 (universal access to safe and nutritious food) and 2.2 (ending all forms of malnutrition), as well as the other SDG-2 targets. In order to meet these targets, transformation of agrifood systems is necessary. This should address the multiple drivers of food insecurity and malnutrition to make agrifood systems on the continent more efficient, inclusive, resilient and sustainable. But the transformation needed to end hunger and malnutrition in Africa cannot be realized without increased levels of financing that help lift the current 282 million undernourished people, and the projected 311 million undernourished people by 2030, from their suffering. African countries identify financing for agrifood systems transformation as a priority issue which requires support from the international community. Financial flows from government, development assistance, bank credit and foreign direct investments need to be upscaled.

Current financial flows to the agricultural sector in Africa stand at about 19 billion USD per year, which is not sufficient to end hunger and malnutrition by 2030. Additional public spending will be required to bridge an estimated funding gap of about 21 billion USD per year. This translates to more than a doubling of the current levels of public financial flows to the Agriculture, Forestry and Fishing (AFF) sectors in Africa. However, given the current levels of debt distress and accompanying narrowing of the fiscal space in most African countries, such massive increases in public spending will be a challenge. There is the need for deployment of innovative financing instruments, including effectively tracking financial flows, repurposing public support in agriculture, accessing and mobilizing catalytic and blending financing for de-risking and catalysing bank credit and private investment into the sector, among others.

Suggested action by the Regional Conference

The Regional Conference is invited to:

- take note of the financing options, both internal and external, that are realistically available to support agrifood systems transformation;

This document can be consulted at www.fao.org

- share and draw experiences from promising approaches and policies to financing agrifood systems transformation;
- Encourage members to track and analyze current flows of finance and ensure alignment with key SDG targets (e.g., 2.1 and 2.2.) to ensure design and implement quality and impactful financing and investment.
- Encourage members to consolidate the fragmented food finance architecture to reduce transaction costs and improve efficiency and effectiveness of investments.

provide guidance on financing pathways that FAO should focus on to accelerate agrifood systems transformation in Africa.

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I. Overview of hunger, food insecurity and malnutrition and their major drivers, and the financing challenge to eradicate them

A. Introduction

1. Increased levels of financing are needed to ensure that Africa's agrifood systems can sustainably enable the achievement of SDG-2 on Zero Hunger by 2030. African countries identify financing for agrifood systems transformation as a priority issue which requires support from the international community¹.
2. The Africa region is far from meeting SDG targets 2.1 (universal access to safe and nutritious food) and 2.2 (ending all forms of malnutrition), as well as the other SDG-2 targets. To meet these targets, a complete transformation of agrifood systems is necessary. This should address the multiple drivers of food insecurity and malnutrition that are introduced below, which is a necessary condition to make agrifood systems more resilient to increasing shocks and stresses.
3. Similarly, achieving food security and good nutrition outcomes in the region also necessitates financing other SDGs. As climate change poses serious challenges for the region, increasing the resilience of agrifood systems against climate shocks (SDG 13), is of vital importance. Addressing fair rural livelihoods (SDG 2.3), poverty and inequalities (SDG 1 and SDG 10) are also essential. Due to the high level of land degradation, financing SDG 15 (life on land/sustainable use of terrestrial natural resources) is important. To tackle high food loss and waste in the region, SDG 12 (sustainable consumption and production) also needs additional financing.
4. This paper focusses on the current levels of financing for meeting SDG targets 2.1 and 2.2 and reviews estimates of the funding gap that needs to be bridged, including the potential funding sources and financial instruments, to achieve these targets.

B. Hunger, food insecurity and malnutrition

5. Africa is not on track towards achieving SDG-2 on Zero Hunger by 2030. The gains made in reducing hunger and food insecurity up until 2019 have been eroded since the onset of the COVID-19 pandemic. According to the latest estimates², there were 282 million hungry people in Africa in 2022 (an increase of 57 million people since the COVID-19 pandemic), representing about 38 percent of the estimated 735 million people that faced hunger globally – the highest prevalence among all regions of the world. Eastern Africa had the largest number of undernourished (134.6 million), compared to 62.8 million in Western Africa, 57 million in Central Africa, 19.5 million in Northern Africa, and 7.6 million in Southern Africa. Some of the worst affected countries include Central African Republic, Lesotho, Madagascar and Somalia where the prevalence of undernourishment exceeded 45 percent between 2020 and 2022. Moreover, in 2022, the prevalence of moderate or severe food insecurity was the highest in Central Africa (78.4 percent).
6. An estimated 868 million people were moderately or severely food-insecure (meaning they did not have access to adequate food) in Africa in 2022 and more than one-third of them, i.e. 342 million people, were severely food-insecure. More than two-thirds of the population in Central Africa, Eastern Africa and Western Africa faced moderate or severe food insecurity.

¹ Making food systems work for people and planet. UN Food Systems Summit +2. Report of the Secretary General 2023.

² FAO, AUC, ECA and WFP. 2023. *Africa – Regional Overview of Food Security and Nutrition 2023: Statistics and trends*. Accra, FAO. <https://doi.org/10.4060/cc8743en>

7. The quality of nutrition is also deteriorating. Millions of Africans suffer from widespread micronutrient deficiencies. Estimates on the prevalence of stunting and wasting among children below the age of five years remain high despite recent improvements. Overweight and obesity are also significant public health concerns in many countries. In 2021 the majority of Africa's population – about 78 percent – were unable to afford a healthy diet, compared with 42 percent at the global level. The steady increase of the cost of a healthy diet (about 5.6 percent increase between 2020 and 2021) has been a major contributing factor, in addition to insufficient incomes.
8. These numbers paint a stark picture of the reality of the unprecedented food insecurity crisis facing the region, which should galvanize development actors into action. In response to the recent economic shocks facing the region, countries introduced policy measures such as reduction of taxes on food and fuel, foregoing of import tariff revenues, imposition of export restrictions, and introduction of new food, fuel and fertilizer subsidies³.
9. More broadly, the key policies and strategies which are used by African countries to tackle hunger, food security and malnutrition are embedded in national frameworks such as National Agricultural Investment Plans (NAIPs) and National Pathways for Food Systems Transformation. Countries develop and implement NAIPs to deliver on commitments under the 2014 Malabo Declaration⁴. Progress on these commitments, including the commitment on zero hunger, are tracked through the Biennial Review Mechanism⁵. Similarly, as of 2023, 37 African countries adopted national pathways for transforming their agrifood systems⁶. Voluntary country reports provided insights into the progress and efforts being made to transform agrifood systems.
10. The FAO Regional Conference for Africa paper titled “*Global and regional food security outlook*” gives a more detailed overview of the hunger, food insecurity and malnutrition situation in the Africa region.

C. Major drivers of hunger, food insecurity and malnutrition

11. Violent conflict is one of the driving forces behind the worsening trends in food insecurity in the region. It is intrinsically linked with food insecurity due to its destructive impact on food production, distribution and marketing. In 2021, 18 Sub-Saharan countries experienced armed conflicts; of the 10 worst food crises that occurred in countries affected by violent conflict, five were in Africa (Democratic Republic of Congo, Ethiopia, Nigeria, South Sudan, and Sudan)⁷.
12. Climate change and the resulting weather extremes are also putting pressure on already existing vulnerabilities of Africa's agrifood systems due to widespread extreme poverty, and dependence on rain-fed agriculture, among other factors. In 2021, globally, nine out of the 10 most vulnerable countries to climate change were in Sub-Saharan Africa⁸. The impacts of climate change also compound conflicts partly due to increasing competition for natural resources. The Horn of Africa is a particular hotspot, constituting the world's most acute food insecurity emergencies in 2022. In

³ IMF. 2022. “*Building A More Food-Secure Sub-Saharan Africa.*” In Regional Economic Outlook: Sub-Saharan Africa—Living on the Edge, Washington, DC, October.

⁴ Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods. <https://www.nepad.org/caadp/publication/malabo-declaration-accelerated-agricultural-growth>

⁵ <https://au.int/en/newsevents/20220310/launch-3rd-caadp-biennial-review-report>

⁶ <https://www.unfoodsystemshub.org/latest-updates/news/detail/strengthening-africa%27s-food-systems-national-convenors-unite-for-the-2023-stocktaking-moment/en>

⁷ Delgado, Tschunkert and Smith, 2023. Food Insecurity in Africa: Drivers and Solutions.

⁸ <https://gain.nd.edu/our-work/country-index/rankings/>

that year, over 37 million people were estimated to be acutely food insecure⁹. Since then, the level of acute food insecurity has increased by 38 percent. The region is particularly vulnerable to climate shocks in the form of extreme droughts and flooding. Several countries have also undergone protracted crises and conflicts, while the 2019-2021 desert locust upsurge heavily impacted food security. Most recently, the conflict in Sudan has resulted in over 4.9 million people displaced¹⁰. The Sahel is another region facing severe food insecurity due to climate change, weak socio-economic conditions, and high levels of political instability leading also to displacement of affected populations.

13. In addition, the impacts of the war in Ukraine also negatively affected Sub-Saharan African countries, impeding their recovery efforts from the COVID-19 pandemic. The two countries were key producers and among the top global exporters of key commodities such as wheat, maize, rapeseed and sunflower oil, as well as leading suppliers of fertilizers. The war therefore induced substantial disruptions in global supply chains leading to soaring prices of food and agricultural inputs, especially fertilizers at a time Africa, heavily dependent on wheat and fertilizer imports, was still grappling with the impacts of the pandemic.
14. More recently, economic downturns and soaring inflation due to the war in Ukraine has decreased the fiscal space for several African governments, restricting their ability to cushion the socio-economic impacts on their vulnerable populations, as well as mobilizing and spending the requisite financial resources needed to transform agrifood systems in the region.

D. Financing Challenge

15. Given the state of food security and nutrition, and the underlying drivers which make it difficult to meet SDG-2 targets in the region, the need for increased financing to end hunger and malnutrition cannot be overemphasized. However, according to the IMF¹¹, a funding squeeze has hit hard in sub-Saharan Africa. 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 2022¹². The effects of the recent series of shocks emanating from 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 and reduced the fiscal space for governments¹³ to provide the required levels of financing for meeting the SDG-2 targets.

⁹ World Health Organization (WHO), Regional Emergency Response Appeal for the Greater Horn of Africa: July–December 2022 (WHO: Rome, 2022).

¹⁰ World Health Organization (WHO). 2024. *Greater Horn of Africa - WHO's Health Emergency Appeal 2024*. https://cdn.who.int/media/docs/default-source/documents/emergencies/2024-appeals/greater-horn-of-africa---who-2024-health-emergency-appeal.pdf?sfvrsn=883c8b90_1&download=true

¹¹ IMF (2023) Regional Economic Outlook. Sub-Saharan Africa. The big funding squeeze.

¹² IMF (<https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf>)

¹³ 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 SSA in just a decade, moving from 30% of GDP at the end of 2013 to almost 60% of GDP in 2022. It has also become much costlier to repay this debt, with the ratio of interest payments to revenue more than doubling since the early 2010s.

16. The funding squeeze and the narrowing fiscal space in Africa has implications for government spending on Agriculture, Forestry and Fishing (AFF). The Agriculture Orientation Index (AOI)¹⁴ measures the relative importance of government expenditures with respect to the output of the AFF – while other financing such as private financing or ODA in agriculture are excluded). Figure 1 shows that agriculture is significantly affected by underspending by most governments in the region. The AOI of 0.16 for Africa is very low compared to the world average (0.45). In 2022 only four countries (Botswana, Carbo Verde, Seychelles and South Africa) had a score of at least 0.5. The rest of the countries show very low orientation of public support to agriculture.
17. In terms of sub-regions, Southern Africa had the highest index (0.99 and 0.96 in 2021 and 2022 respectively), followed by Middle Africa and Northern Africa (0.42 and 0.36 respectively) in 2022 as shown in Figure 2.
18. Díaz-Bonilla et al. (2023)¹⁵ note that African countries in particular tend to allocate fewer resources to agriculture compared with other regions of the world and recommends that these countries increase their AOIs to about 0.5. Given the current AOI scores in Africa, the majority of African countries would have to increase significantly, spending on the agriculture sector. The financing challenge from government sources, therefore, is self-evident.

II. Current status of financing to end hunger, food insecurity and malnutrition: What is available and how much more is needed in the Africa region

19. Achieving SDG-2 targets requires innovative approaches to financing the transformation of agrifood systems. Yet, in Africa accessing and mobilizing funds is an ever-present challenge for many countries. In order to implement transformative actions that will lead to ending hunger and malnutrition in Africa, securing adequate financial resources is of utmost importance¹⁶.
20. Díaz-Bonilla et al (2021)¹⁷ categorizes six financing sources to promote investments in food systems transformation:
1. Funds “internal” to food systems
 - consumer expenditures on food
 - agrifood business profits and savings
 2. Funds “external” to food systems
 - public expenditures and taxes
 - official development assistance (ODA) and non-concessional lending by bilateral donors and multi- lateral development banks (MDBs)
 - bank finance

¹⁴ The Agriculture Orientation Index (AOI) is defined as the Agriculture Share of Government Expenditures divided by the Agriculture Share of GDP, where Agriculture refers to the agriculture forestry, fishing and hunting sector. An AOI score of less than 1 implies a lower orientation towards the sector.

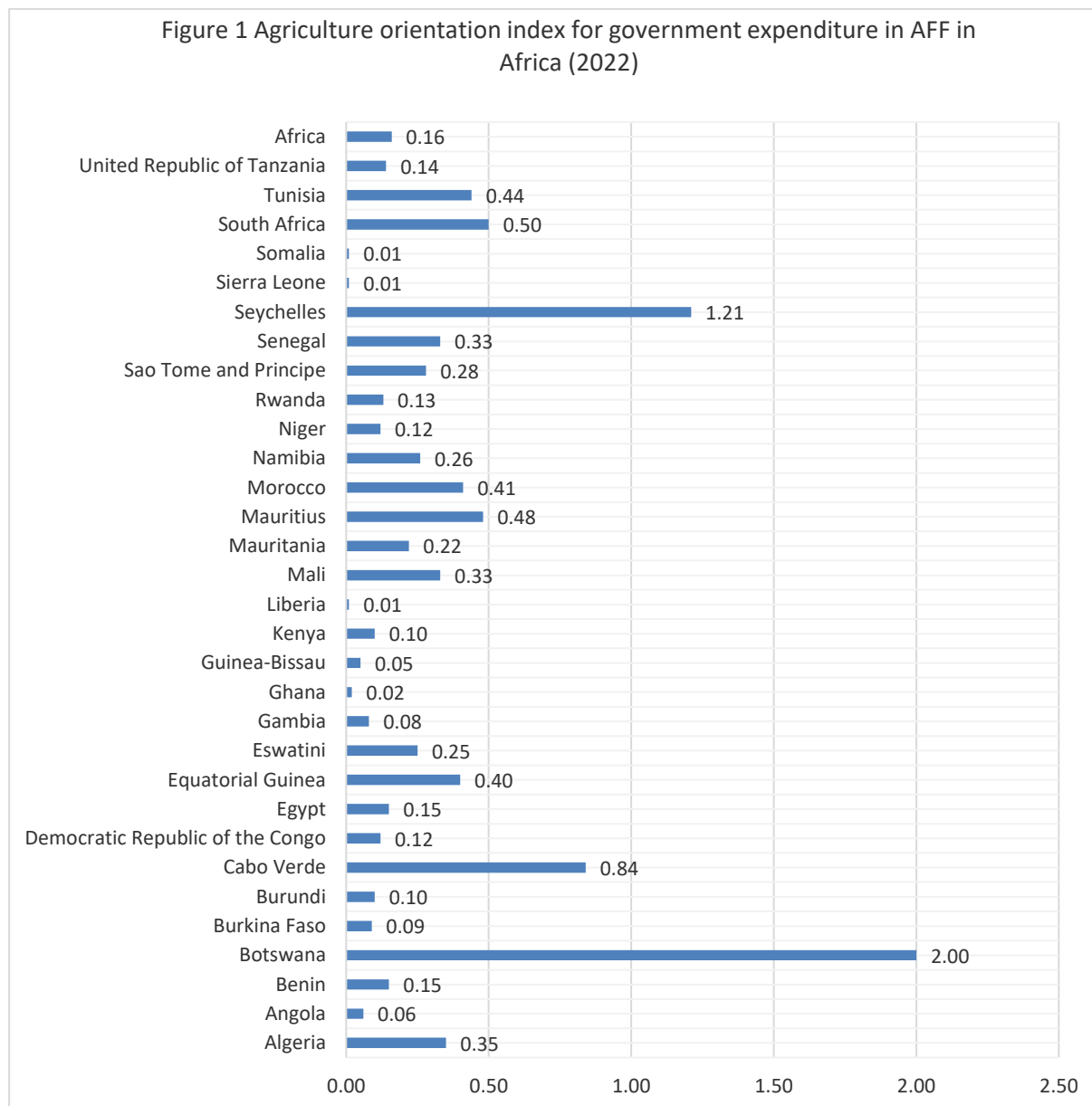
¹⁵ Díaz-Bonilla, E (2003) Financing SDG2 and Ending Hunger. In Science and Innovations for Food Systems Transformation. J. von Braun et al (eds)

¹⁶ Making Food Systems work for people and planet. UN Food Systems Summit +2 (2023). Report of the Secretary General

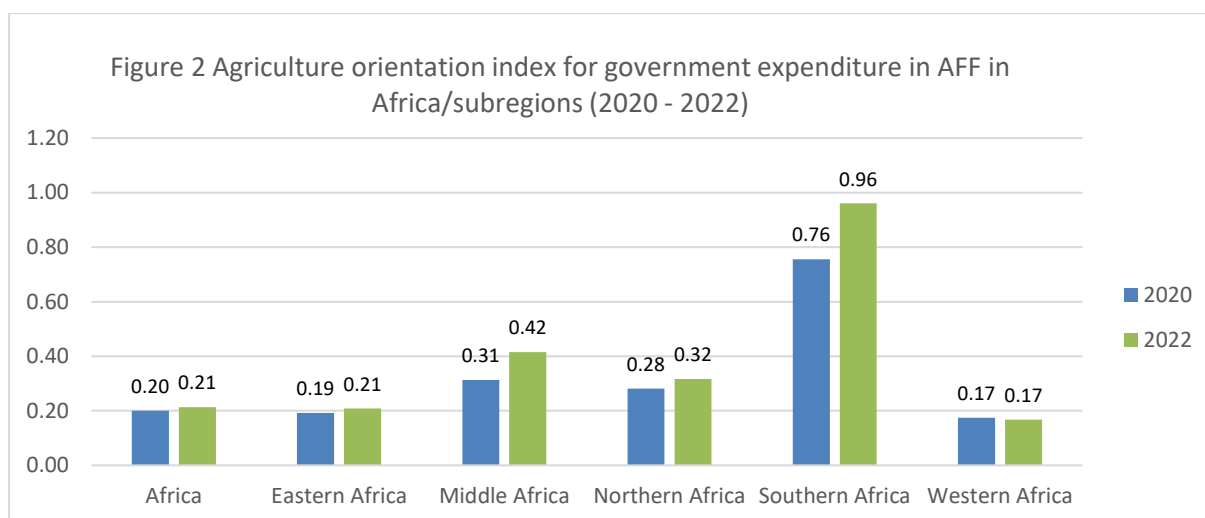
¹⁷ Díaz-Bonilla E, Swinnen J, Vos R (2021) Financing the transformation to healthy, sustainable, and equitable food systems. In: 2021 global food policy report: transforming food systems after COVID-19. IFPRI, Washington, DC

- capital market finance

The focus of this note is on financing from funds external to food systems for SDG targets 2.1 and 2.2. Specifically, it provides an overview of the following types of financing: Government expenditure, Development Flows to Agriculture, Credit from the banking system, Foreign Direct Investments.



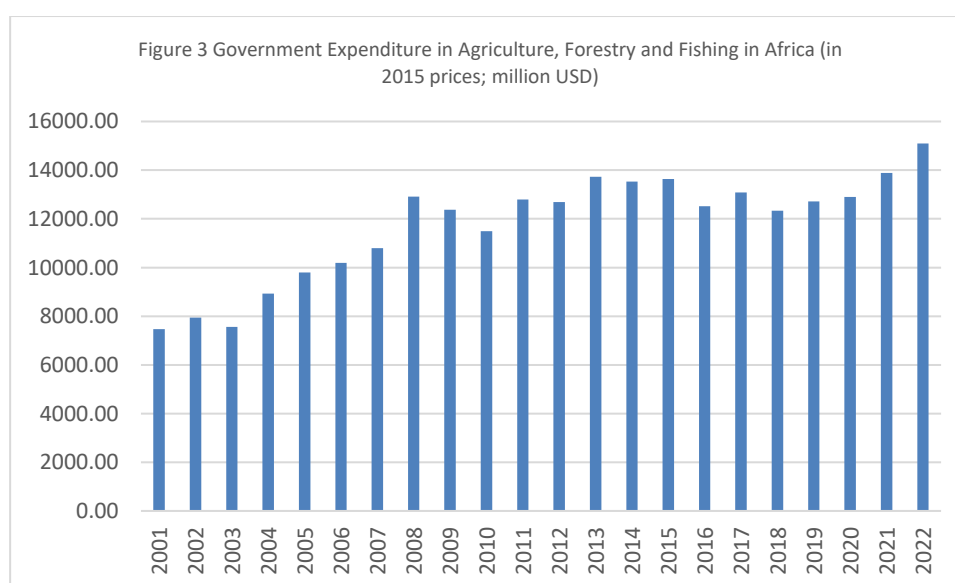
Source: FAOSTAT



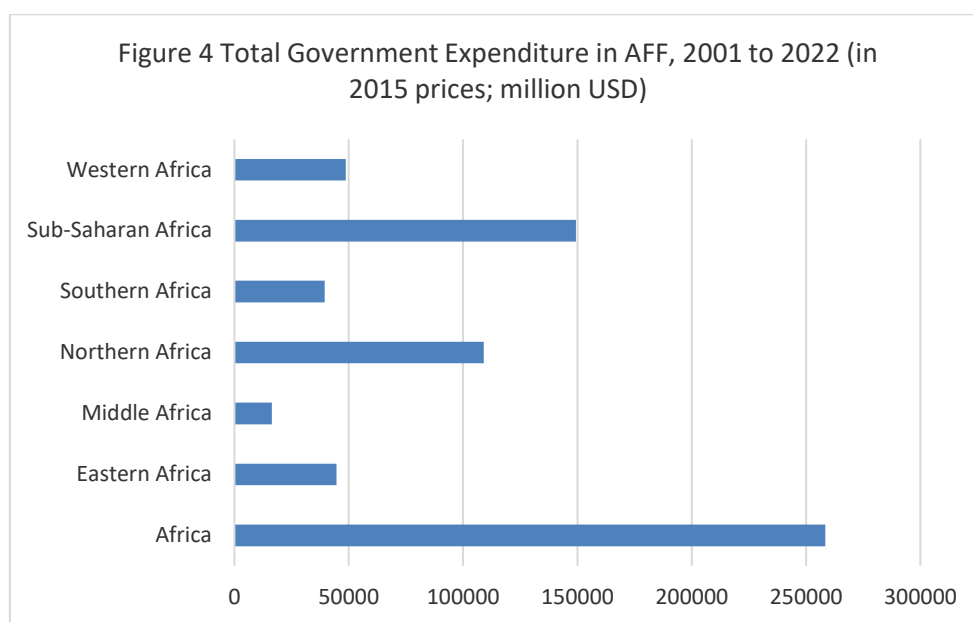
Source: FAOSTAT

A. Current level of financing

21. **Government expenditure** in the Agriculture, Forestry and Fishing (AFF) sectors in the Africa region was about USD 16 billion in 2022, up from USD 12.6 billion and 14.6 billion in 2020 and 2021 respectively (Figure 3). Overall, there has been a general upward trend in government expenditure to AFF since 2018. However, given the current funding squeeze in most African countries, providing the required levels of public expenditure to end hunger will continue to be a challenge. Figure 4 shows the sub-regional distribution of government expenditure. For the period 2001 to 2022, total government expenditure in AFF in the region amounted to about 258 billion USD, with about 58% and 42% of this expenditure made in sub-Saharan Africa and Northern Africa respectively.



Source: FAOSTAT



Source: FAOSTAT

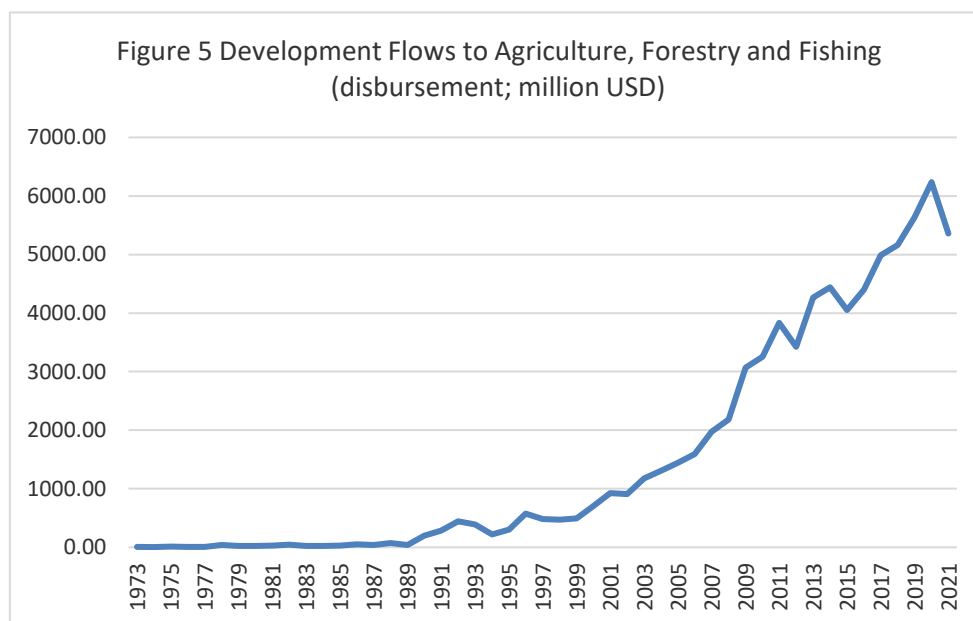
22. **Development Flows to Agriculture** includes Official Development Assistance (ODA) flows, Other Official Flows (OOFs) and Private Grants reported by donor countries, international organizations and private entities to the OECD Development Assistance Committee (DAC) Directorate¹⁸.
23. Official development assistance (ODA) is defined as government aid that promotes and specifically targets the economic development and welfare of developing countries. ODA is the main source of financing for development aid. ODA grants to agriculture and food security are a key component of development finance to achieve SDG 2¹⁹.
24. ZEF/FAO (2020)²⁰ highlights the importance of ODA in the quest towards ending hunger and malnutrition. Their analyses of ODA flows that relate to the SDG-2 commitment show that ODA from G7 countries specifically allocated to food security and rural development slightly more than doubled between 2000 and 2018 to reach 17 billion USD. Most of this ODA was targeted at countries in Sub-Saharan Africa, where there is a relatively higher prevalence of undernourishment and, as indicated earlier, there is relatively less public support through public expenditure. The report shows that ODA represented 36 percent of the foreign finance received by sub-Saharan African countries, compared with 31 percent from overseas personal remittances and 23 percent from foreign direct investment.
25. Figure 5 shows the trends in development flows to agriculture, forestry and fishing (AFF) in Africa. Total flows in 2021 in AFF was about 5.4 billion USD, down from the 2020 figure of 6.2 billion

¹⁸ FAOSTAT: <https://www.fao.org/faostat/en/#data/EA>

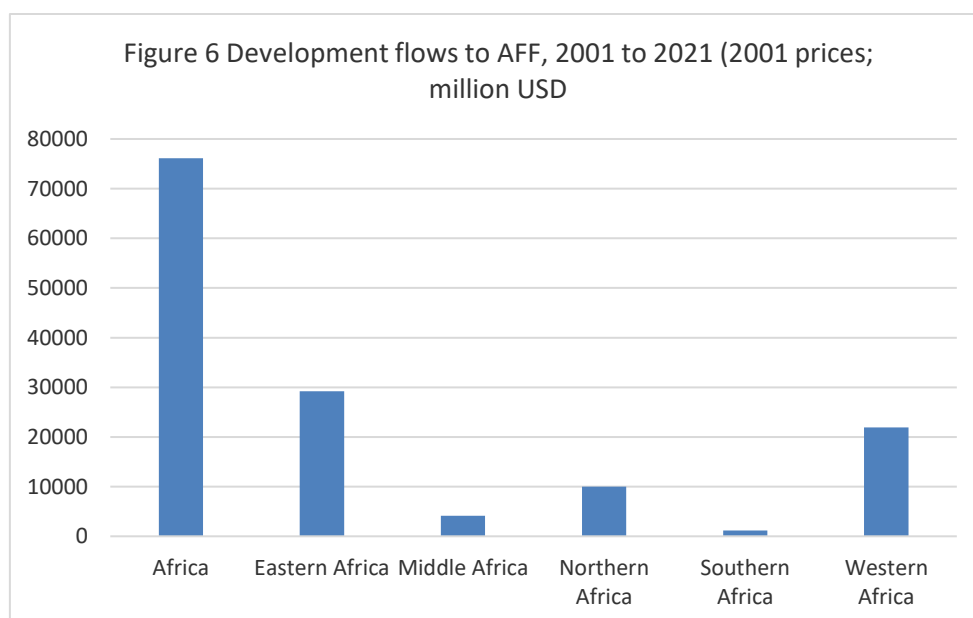
¹⁹ O. Perera, C. Smaller, K. Elharty, and L. Lefebvre: Unleashing the Catalytic Power of Donor Financing to Achieve SDG 2, Consultation Draft, <https://www.convergence.finance/api/file/b596a550dc079e4e805b1c8635d00d8b:ad77ee0c1c803b3c10dc38d2992ac3f5dbe4552d5c18cff0da362ee555461d62dc053d04c9797dc57a889d52be20f8891fdb94f52e1318e037734447a4a8822e44f21b84279941dee791de1162b0652c77dcdc961761e31508581f2dac62d3c314d49d98221effd2c5dccbb8c8c643d0d92abe1fe08687e0dc3def18b7c338531e56425f78dc50589ea07cb1c293ddf21e7c3bb16fe225961f222dd1bed3f09868caf932aa686d658f8c34a66c8d27>

²⁰ ZEF and FAO. 2020. Investment costs and policy action opportunities for reaching a world without hunger (SDG2). Rome and Bonn. <https://doi.org/10.4060/cb1497en>

USD. The overall trend in ODA flows to AFF especially since the nineties has been upward. Figure 6 provides the sub-regional distribution of development flows – the total received in the period 2001-2021 in USD million. Eastern Africa received about 38% of these flows, compared with about 29% for Western Africa. Southern Africa received the least amount (about 1.5%).

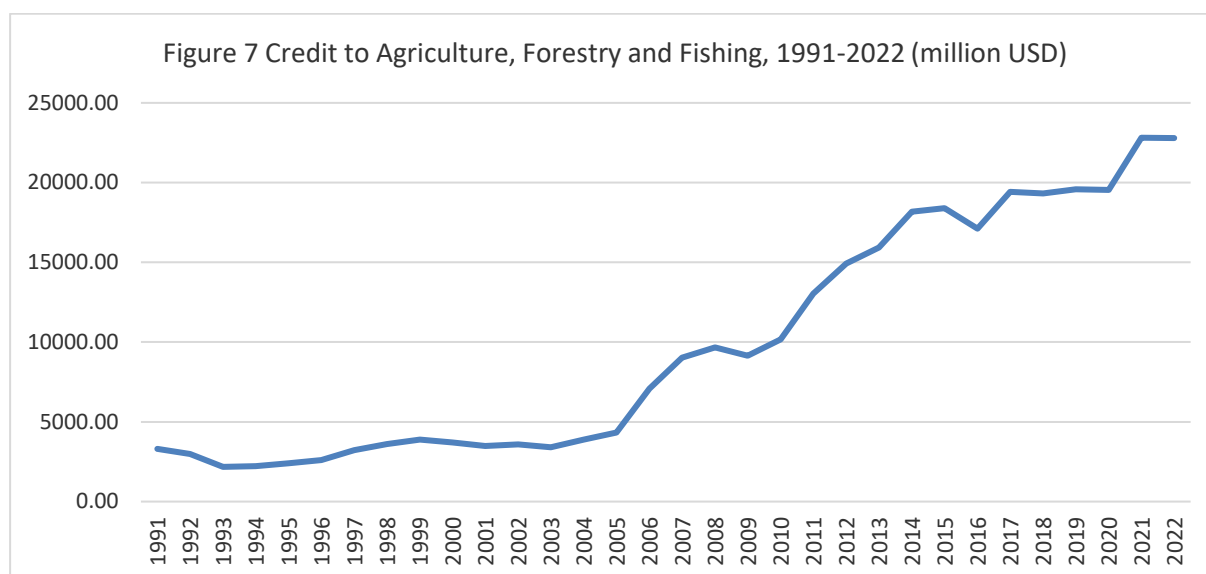


Source: FAOSTAT



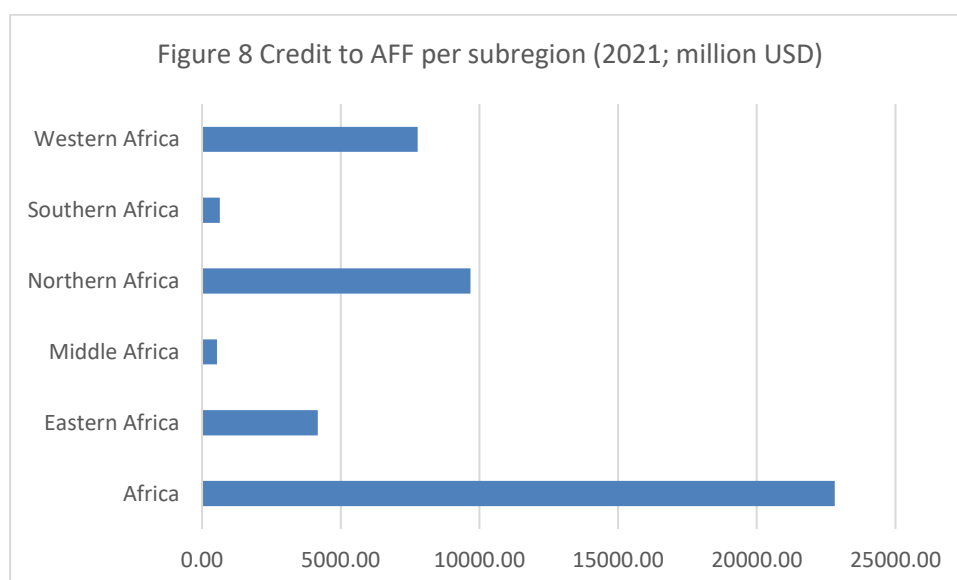
Source: FAOSTAT

26. **Credit to agriculture, forestry, and fishing** reached **USD 22.8 billion** in African countries in 2021 and remained the same in 2022, showing a 17% increase from the 2020 amount of 19.5 billion USD (Figure 7). Credit²¹ to Agriculture, Forestry, and Fishing has shown an increasing trend since 2005.



Source: FAOSTAT

27. Figure 8 shows the subregional distribution of credit to AFF (total amount of loans outstanding) in 2021. Northern Africa accounted for 42.4% of credit to AFF in the region in 2021, followed by Western Africa (34%) and Eastern Africa (18.3%). Southern and Central Africa had about 2.8% and 2.4% respectively.
28. The average annual change in the stock of loans provides an indication of annual net flows. Table 1 shows the annual change in the stock of loans and the average annual change for the period 2001 to 2021. The average annual credit to AFF is estimated at 868 million USD.



Source: FAOSTAT

²¹ This refers to the amount of loans provided by the domestic private/commercial banking sector to producers in agriculture, forestry and fishing, including household producers, cooperatives, and agro-businesses.

Table 1 Credit to AFF (million USD)		
Year	Loans outstanding	Annual change in stock
2001	3481.94	-224.57
2002	3595.01	113.06
2003	3408.43	-186.57
2004	3877.54	469.10
2005	4322.27	444.73
2006	7069.88	2747.61
2007	9032.39	1962.51
2008	9662.61	630.22
2009	9138.40	-524.21
2010	10165.41	1027.01
2011	13038.96	2873.55
2012	14921.14	1882.18
2013	15939.47	1018.33
2014	18171.39	2231.92
2015	18405.15	233.76
2016	17118.43	-1286.72
2017	19429.37	2310.94
2018	19326.60	-102.76
2019	19579.39	252.79
2020	19550.34	-29.05
2021	22815.87	3265.53
2022	22803.38	-12.49
Total		19096.87
Average Annual change		868.04

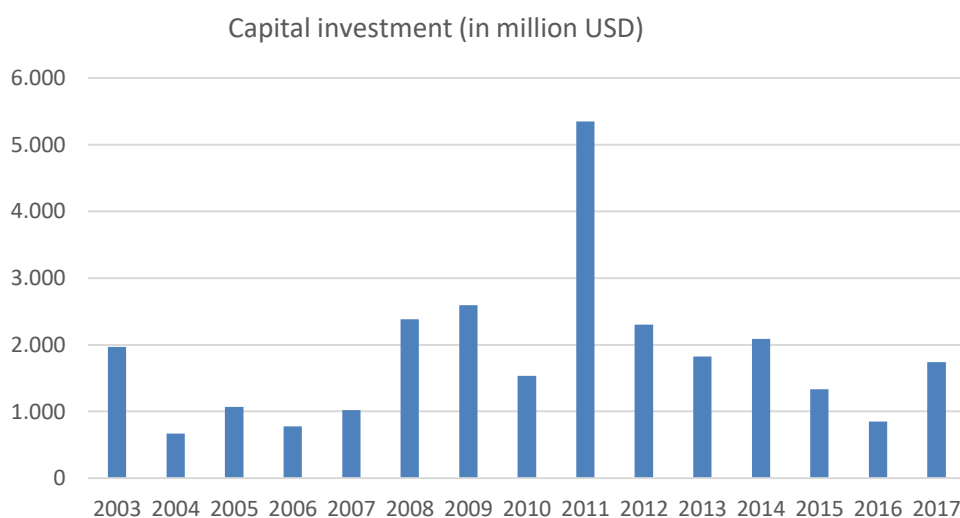
Source: Author's calculation based on FAOSTAT

29. Africa's share of global Foreign Direct Investment (FDI) has been low historically. Total FDI inflows into Africa averaged 3 percent of the global total between 2014 and 2018. In terms of flows to the African sub-regions, Northern and Southern Africa have historically been the major recipients of FDI (accounting for almost 80% of FDI flows into the region), but there has been an increasing trend in Eastern and Western Africa recently²²

²² Morgan, Stephen, Jarrad Farris, and Michael E. Johnson, October 2022. *Foreign Direct Investment in Africa: Recent Trends Leading up to the African Continental Free Trade Area (AfCFTA)*, Number EIB-242, U.S. Department of Agriculture, Economic Research Service.

30. Husmann et al (2019) noted that FDI into the African food and agriculture sector is just a little over 10% of the world FDI in the sector²³. This translates to a total of about 48.7 billion USD invested in the African food and beverages sector between 2003 and 2017, an average of about 3.2 billion USD per year.
31. Figure 9 shows the trend in FDI flows for capital investments in the African food and beverages sector for the period 2003 to 2017. Except for 2008, 2009, 2011 and 2014, these flows have been less than 2 billion USD per year. Figure 10 shows the distribution of FDI flows to Africa for the food and other subsectors. Investments in agricultural inputs and crop production accounted for more than half of these inflows. Figure 11 shows the subregional distribution of African FDI inflows to the food and agriculture sector. Eastern and Western Africa receive more of these inflows compared to the other subregions.

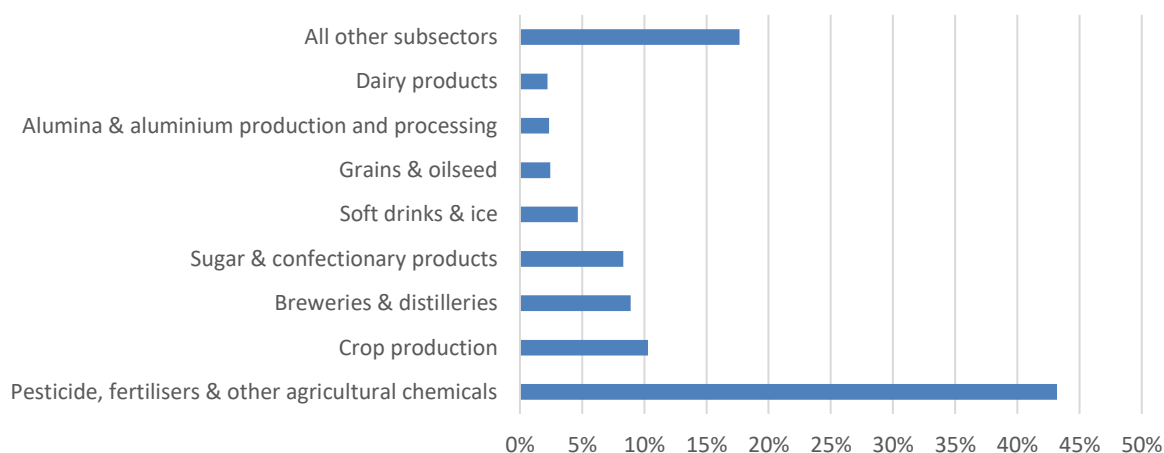
Figure 9 FDI inflows into the African food and beverages cluster 2003 – 2017 (excluding fertilizer investments): capital investment



Source: Husmann et al (2019)

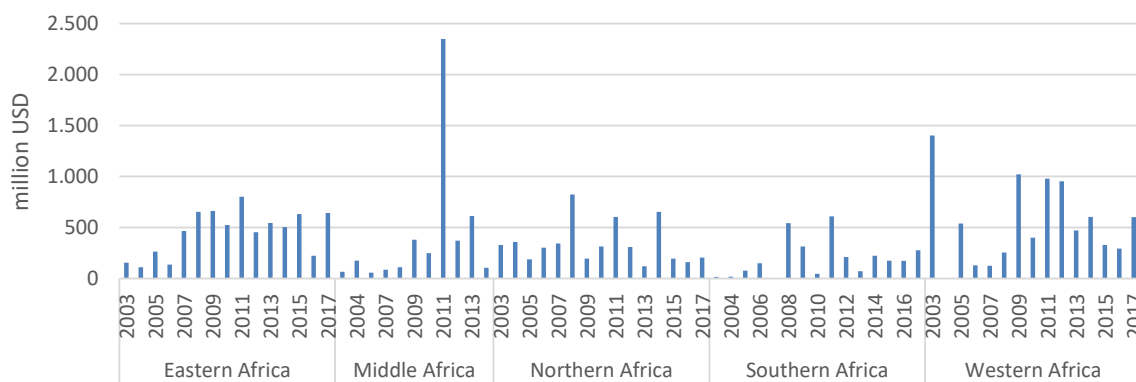
Figure 10 Shares of FDI in the food and other subsectors

²³ Husmann, Christine; Kubik, Zaneta (2019) : Foreign direct investment in the African food and agriculture sector: Trends, determinants and impacts, ZEF Discussion Papers on Development Policy, No. 274, University of Bonn, Center for Development Research (ZEF), Bonn



Source: Husmann et al (2019)

Figure 11 Food and Agriculture FDI inflows into the different Africa subregions 2003 – 2017 (excluding fertilizer investments)



Source: Husmann et al (2019)

32. The review of current levels of financing from the different sources shows estimates of the financial flows to AFF in Africa from the different sources of funding. In 2021, these flows totalled about 19 billion USD as follows: government expenditure 14.6 (of which up to 5.4 is ODA)²⁴; Credit 0.87 and FDI 3.2 (using annual average estimates for 2003 to 2017 for the food and beverages sector). What more is needed to achieve zero hunger?

²⁴ It is assumed that most of the ODA flows is channelled through governments' budget and captured in actual government expenditure.

B. *What is the funding gap?*

33. There are several estimates of the cost of achieving SDG-2 in Africa. These estimates are not always comparable as they tend to focus on different aspects – from transformation of agrifood systems, achieving SDG-2 and all its targets or on some selected targets; in addition, different estimation methodologies are applied. This section attempts to provide indications of what the literature says about the potential funding gap.
34. In 2016, the African Development Bank estimated that about 315 – 400 billion USD was required over a 10-year period for investment in 10 priority agricultural value chains for agriculture transformation in Africa. The annual cost was estimated at 32 – 40 billion USD with a funding gap of between **25 – 33 billion USD per year**²⁵. This estimate did not include FDI as a source of financing in estimating the funding gap. Based on the current estimates of FDI flows to the African food and beverages sector (shown previously), the lower bound of this estimated funding gap will be about **21.8 billion USD** per year.²⁶
35. More recently, Larborde et al (2020)²⁷ provided estimates of the financing required to end hunger and double the incomes of small holder farmers. They estimated that a total of 33 billion USD per year (14 billion USD from donors and 19 billion USD from national governments in low- and middle-income countries) in additional spending is needed to achieve the global commitment to end hunger sustainably between now and 2030. The 33 billion USD additional public spending per year is expected to prevent 490 million people from experiencing hunger. As stated earlier, 282 million people were hungry in Africa in 2022. The number of hungry people in Africa is projected to reach about 311 million people by 2030²⁸ if no action is undertaken. Using this projected figure, to estimate the funding for achieving SDG targets 2.1 and 2.2 in Africa, about **21 billion USD**, or close to two thirds of the additional public spending of 33 billion USD would be needed in Africa. This is similar to the lower bound estimate from the African Development Bank as shown above.
36. The estimates provided above are aggregate numbers. Omamo and Mills (2022)²⁹ provide an insight into the required country level investment targets to achieve food systems transformation in Africa. Overall, they estimate that Africa requires 76.8 billion USD per year in investments³⁰, with about 20% or **15.4 billion USD** of this amount per year coming from the public sector, and 80% from the private sector. They estimate that this level of investment translates into about 400 million USD per year per country, and showing that the country level investment targets for Africa are varied, from an estimate of almost 8 billion USD per year for Ethiopia to less than half a billion USD for Seychelles.

²⁵ The available sources of financing were from 1. multi-lateral and bilateral development partners including the AfDB (5 – 6 billion USD, out of which 2 – 3 billion USD from AfDB) 2. public sector spending (about 12 billion USD with only 2 – 3 billion USD of this total available for investments) 3. commercial lending into agriculture (1 billion USD)

²⁶ Using the estimated average annual FDI flows of 3.2 billion USD to the African food and beverages sector

²⁷ 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)

²⁸ FAO, IFAD, UNICEF, WFP and WHO. 2022. The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable. Rome, FAO. <https://doi.org/10.4060/cc0639en>

²⁹ Omamo, S and Mills, A (2022) Investment Targets for Food System Transformation in Africa. New Growth International Technical Note.

³⁰ This estimate which also goes beyond SDG-2 targets, focuses on investment, rather than overall financing requirements.

37. III. Conclusions and recommendations: a call to step up financing to end hunger, food insecurity and malnutrition and the way forward

A. Conclusion

38. From this analysis, agrifood systems in African countries received about 19 billion USD financing in 2021, composed of 14.6 billion USD from government expenditure (which is assumed to include most of the 5.4 billion in development flows to AFF), 0.87 billion USD in bank credit to agriculture, forestry and fishing sectors and 3.2 billion USD in FDI (annual average for the period 2003 to 2017 for the food and beverages sector). The funding gap is estimated at 21 billion USD in public spending per year, made up of 9.3 billion USD in donor funding and 11.7 billion USD in additional government spending on AFF. This translates to more than a doubling of the current levels of public financial flows to AFF in Africa.
39. A major conclusion from this analysis is that current public sources of finance from government and donors will be inadequate to fill in the financing gap required for transformation of agrifood systems in the region. This would require two major actions:
- increasing capital/investment financing from the private sector (e.g. commercial banks, private equity, venture funds) and other funds (such as sovereign wealth funds and insurance); and
 - improving the quality of public and private investment and other spending (this would require better business/financial advisory or technical assistance, as well improving the quality of recurrent public spending).

Therefore, the following recommendations are proposed.

B. Recommendations

40. Track and analyze current flows of finance and ensure alignment with SDG targets 2.1 and 2.2.

Tracking Financial Flows to Food Systems (the 3FS) is an important step in transforming financing of food systems, and in particular ending hunger. The 3FS methodology developed by IFAD and the World Bank is an important tool in this regard and can help to track financial flows against the targets, providing an understanding of the quantity and quality of financial flows and investments, and therefore inform necessary actions which need to be undertaken. This methodology which is piloted in 4 African countries – Kenya, Niger, Nigeria and Somalia - helps to provide the quality financial data needed to inform the design of an impactful financing and investment strategy.

41. Consolidate the fragmented food finance architecture.

The fragmented nature of funding sources and mechanisms adds complexity to the process of accessing and mobilizing funds for achieving SDG 2³¹. For example, countries tend to have several uncoordinated projects, which have high transaction costs and inefficiencies in meeting SDG-2 targets. Consolidating the currently fragmented food finance architecture is therefore an essential step towards transforming agrifood systems and attaining SDG targets.

42. Facilitate increased financing from the private sector

Any increases in public sources of finance will have to be complemented with increased private sector financing to fill the funding gap for achieving SDG targets 2.1 and 2.2. The following would be essential:

- De-risk investments

The real and perceived investment risks associated with the agricultural sector and broader agrifood system make financial flows, especially from the private sector, difficult to unlock. De-risking financing instruments which share or mitigate such risks have proven to be useful. The Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)³² provides an example of how such instruments incentivize increased private sector lending and investments.

- Facilitate impact investments

Impact investing is another innovative way to boost private investments in the agricultural sector. It involves the deployment of funds into investments that generate a measurable and beneficial social or environmental impact together with a financial return on the investment. One study³³ covering impact investments in Ethiopia, Sudan, Mali and Senegal show how the use of grants and concessional funding helped to unlock inclusive and impactful investments.

- Promote blended finance

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 risk mitigation and impact investments, with the intention to generate positive, measurable social and environmental impact alongside a financial return, will 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 funds could also be used to provide guarantees or risk insurance, as well as a grant-funded technical assistance facility to strengthen commercial viability and developmental impact. According to Convergence Finance³⁴, about 47% of all blended finance transactions are targeted in Sub-Saharan Africa, with the agricultural sector accounting for about 21% of these transactions. Sub-Saharan Africa has been the most frequently targeted region in blended finance transactions. For climate-blended finance, 48 percent of transactions between 2020 and 2022 were in SSA³⁵.

³¹ World Bank. 2020. The Financing Landscape for Agricultural Development

³² <https://nirsal.com/who-we-are/>

³³ Agyekumhene C, Derenoncourt M, Costa Jr C; Tetteh-Addo P, Wathuta W, Newman R, Grosjean G. 2022. Impact Investment in Agriculture in Africa: A Case study of Ethiopia, Sudan, Mali, and Senegal. CGIAR Initiative on Climate Resilience

³⁴ <https://www.convergence.finance/blended-finance>

³⁵ Convergence Blended Finance (2023). The State of Blended Finance 2023. Climate Edition. Convergence Report

42. Repurpose public support to the sector

A reallocation of funds is needed to move away from lower priority initiatives to those that contribute more directly to the attainment of SDG targets 2.1 and 2.2 targets. A rethinking of reallocating public budgets³⁶ is key to ensuring more cost-effective and efficient agrifood systems, target more nutritious foods and agricultural products that have a less environmental footprint.

43. Other innovative tools such as debt swaps, green and blue bonds, collaborative mechanisms, would need to be deployed as well. The 2024 Africa Regional Overview of Food Security and Nutrition report will discuss some of these innovative financial mechanisms in detail.

³⁶ FAO, IFAD, UNICEF, WFP and WHO. 2022. The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable. Rome, FAO. <https://doi.org/10.4060/cc0639en>