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Financing to end hunger for today and tomorrow (SDG 2)

Executive Summary

The Near East and North Africa (NENA) region is far off track to achieving Sustainable Development Goal (SDG) 2 considering the high rates of hunger and food insecurity in the region.

Undernourishment shows an increasing trend and the region continues to suffer from multiple forms of malnutrition. There is an intensification of the major drivers behind rising hunger, food insecurity and malnutrition in the region (conflict, climate change and economic slowdowns and downturns, combined with inequalities and the lack of affordability of healthy diets). SDG targets 2.1 and 2.2 will remain out of reach without transforming regional agrifood systems that deliver, besides food security and affordable healthy diets, greater resilience to major drivers while addressing fair livelihoods and inequalities. This will require firstly, repurposing existing domestic subsidies so that they serve more effectively and efficiently food systems transformation and that they enable the consumption of more nutritious foods and more sustainable products/production methods. Secondly, additional financial resources, both public and private, will be required to address both hunger and malnutrition and to support rural livelihoods, sustainable production and climate change adaptation.

Agri-food systems in NENA countries received USD 35.9 billion financing in 2021: USD 12.7 billion official development assistance (ODA) flows (to broader agriculture sectors including commodity and food aid, nutrition, environment and water), USD 12.5 billion bank credit to agriculture, forestry, and fishing sectors, USD 10.4 billion domestic government expenditure and USD 0.3 billion foreign direct investments (FDI) to agriculture, forestry, and fishing and food, beverages and tobacco (FDI data is from 2016). This estimate of current financing does not contain consumer spending and financial flows through food trade and retail from which local agrifood systems benefit. Based on one estimation, agrifood systems need at least an additional USD 13.3 billion in financing annually (financing gap) to transform agrifood systems in the region.

Concessional capital from resource partners and international Financial Institutions can mitigate investment risk and create new investment opportunities. By complementing private investment capital with concessional capital, innovative finance mechanisms can help address the USD 13.3

Documents can be consulted at www.fao.org

billion annual funding shortage in the NENA food systems and improve food security and nutrition in the region.

The confluence of private investment capital and concessional capital takes the form of innovative finance mechanisms, such as loss guarantees for lenders or insurers, impact investments in social innovation, results-based financing, green bonds, debt swaps, advance market commitments (contract farming), impact investment funds, innovative finance hubs, incubators, accelerators, compulsory charges and taxes, awards and prizes, development bonds, carbon-emissions trading.

The 2024 Near East and North Africa Regional Overview of Food Security and Nutrition will discuss these innovative financial mechanisms in detail.

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I. Introduction

Key terminology and scope

1. There is no agreed measurement of food security and nutrition financing. This leads to important differences in estimations about the current levels of financing and the financial gap to transform agrifood systems.
2. According to the International Food Policy Research Institute (IFPRI), global, national and local food systems operate on six main financial flows, namely: consumer spending, financial flows through food trade and retail, funds allocated through official development assistance, public financing through fiscal policies, financing through the banking systems, and investment flows from capital markets¹.
3. This note covers financing interventions across agrifood systems to ensure nutritious foods and healthy diets and to strengthen resilience to major drivers of food insecurity. It gives an estimation of the following types of financing for achieving SDG targets 2.1 and 2.2:
 - domestic support provided to agriculture;
 - official development assistance (ODA);
 - financing through the banking systems; and
 - foreign direct investments (FDI).
4. As the NENA region faces multiple drivers of food insecurity (including conflict, climate change and economic slowdowns and downturns), and as the region is far from achieving SDG 2.1 (universal access to safe and nutritious food) and 2.2 (ending all forms of malnutrition), a complete transformation of agrifood systems is necessary. First and foremost, agrifood systems must become more resilient to increasing shocks and stresses². Secondly, agrifood systems transformation must address the major drivers of food insecurity and malnutrition and ensure access to affordable healthy diets for all, sustainably and inclusively³. That is why the calculation of ODA flows into regional agrifood systems in this note takes a broader set of sectors: in addition to agriculture, also nutrition, environment protection, water, disaster prevention, and commodity and food aid⁴.
5. Due to regional challenges, achieving food security and good nutrition outcomes also necessitates financing other SDGs. Because of the high water stress levels, and as climate change poses serious challenges for the region, increasing the resilience of agrifood systems against climate shocks (SDG 13), and tackling water stress (SDG 6) 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.

¹ International Food Policy Research Institute (IFPRI) (2022). 2022 Global food policy report: Climate change and food systems. Washington, DC: International Food Policy Research Institute. doi.org/10.2499/9780896294257

² FAO, The State of Food and Agriculture 2021, [fao.org/3/cb4476en/cb4476en.pdf](https://www.fao.org/3/cb4476en/cb4476en.pdf)

³ FAO: The State of Food Security and Nutrition in the World 2021, <https://www.fao.org/3/cb4474en/cb4474en.pdf>

⁴ OECD Official development assistance (ODA) database is coded using by sector codes. In the current note, we analyse ODA flows to the following sectors (codes): School feeding (11250), Basic nutrition (12240), Water Supply & Sanitation, Agriculture, Forestry, Fishing (310), Agro-industries (32161), General Environment Protection (410), Rural development (43040), Food security policy and administrative management (43071), Household food security programmes (43072), Food safety and quality (43073), Commodity Aid / General Programme Assistance (500), Emergency food assistance (72040), Disaster Prevention & Preparedness (740).

II. Overview of hunger, food insecurity and malnutrition, major drivers, and the financing challenge

A. Hunger, food insecurity and malnutrition

6. In 2022, hunger in the Arab States reached its highest value since 2000. The number of undernourished people in 2022 was 59.8 million. Moderate or severe food insecurity affected 170.1 million people, or 36.6 percent of the population, in 2022. The NENA region continued to suffer from multiple forms of malnutrition. The prevalence of stunting among children under five years of age was 19.9 percent in 2022. The prevalence of overweight among children under five years of age (9.5 percent) and the prevalence of anemia among women aged 15 to 49 years were higher than the world average in 2022.

7. The FAO Regional Conference for the Near East (NERC) paper (NERC/24/10) titled “Global and regional food security outlook” gives an overview of the hunger, food insecurity and malnutrition situation in the NENA region.

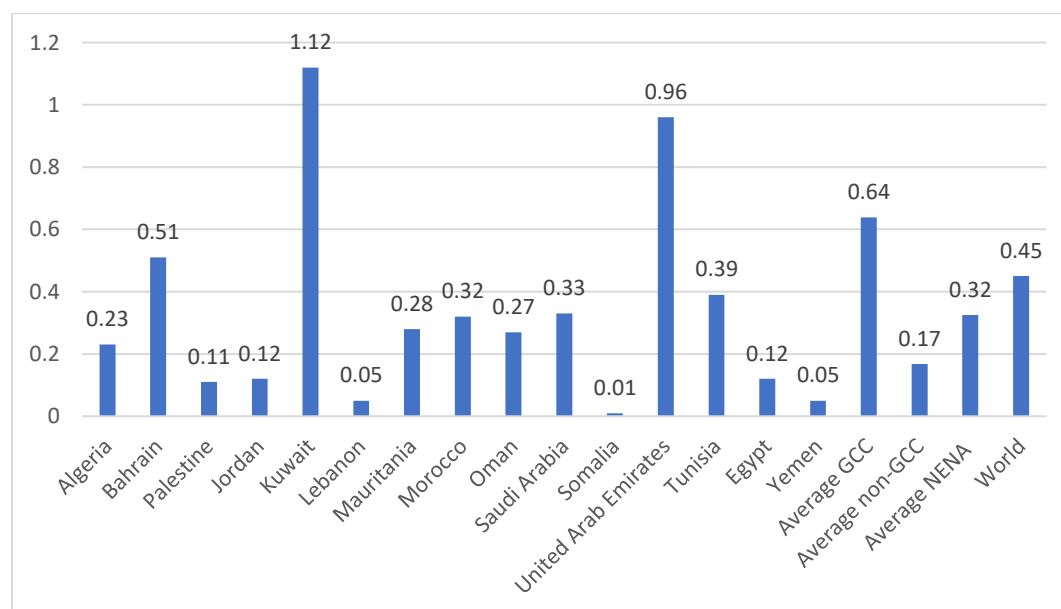
B. Major drivers of hunger, food insecurity and malnutrition

8. Climate change, scarcity of natural resources, conflicts and economic downturns are the major drivers of food insecurity. Large food import dependence, and recent high food prices, growing indebtedness in many countries and population growth increase food security challenges in the region. Accessibility of affordable food products to a growing population remains one of the greatest challenges the region is facing.

9. NERC paper (NERC/24/INF/30) on the regional foresight exercise gives a description of the major drivers of hunger, food insecurity and malnutrition in the region.

C. The financing challenge in NENA

Figure 1: Agriculture orientation index for government expenditures in NENA countries (2021)



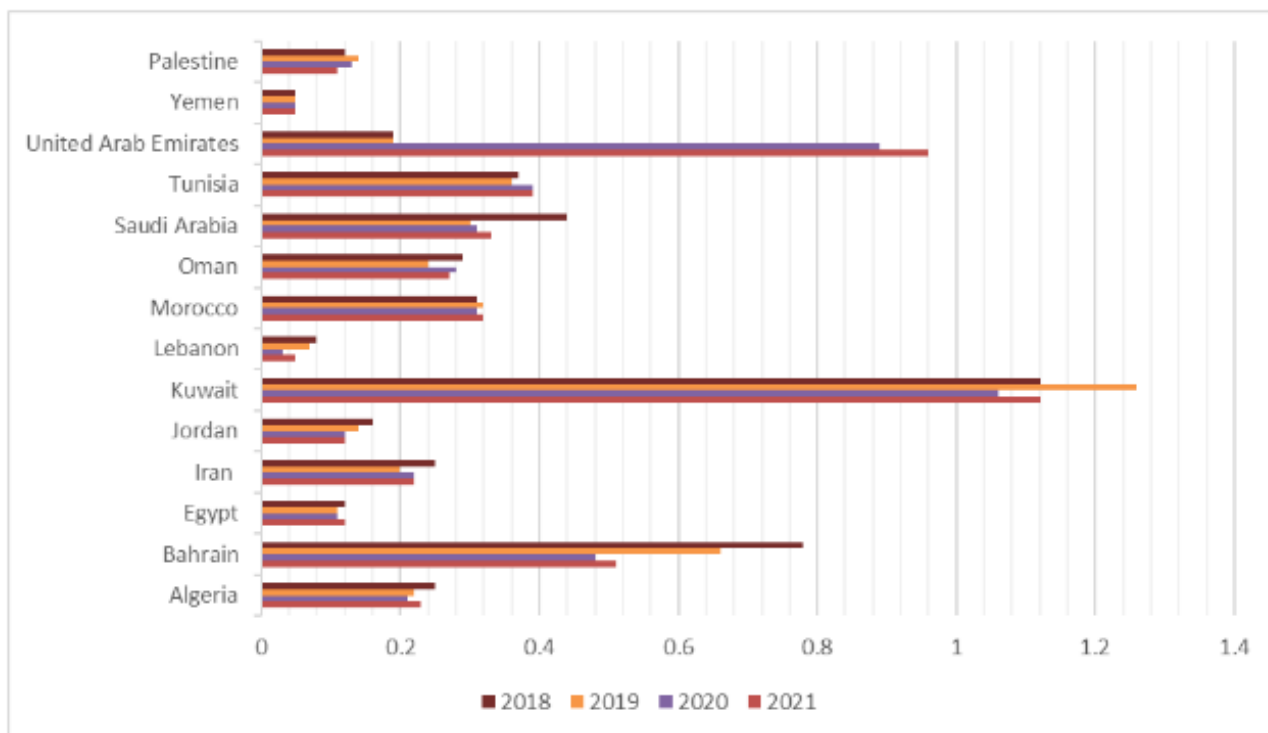
Source: [FAO SDG Indicators Data Portal](#), Accessed: December 2023

10. The Agriculture Orientation Index⁵ measures government expenditures in agriculture (it does not measure, however, other financing, such as private financing or ODA in agriculture). Based on this index, **agriculture is significantly underfinanced in the region** (Figure 1). The **Agriculture**

⁵ The Agriculture Orientation Index (AOI) for Government Expenditures 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.

Orientation Index (AOI) is very low in NENA (0.32) compared to the world average (0.45). It is especially low in non-GCC (Gulf Cooperation Council) countries (0.17).

Figure 2: Agriculture orientation index for government expenditures in NENA countries (2018-2021)



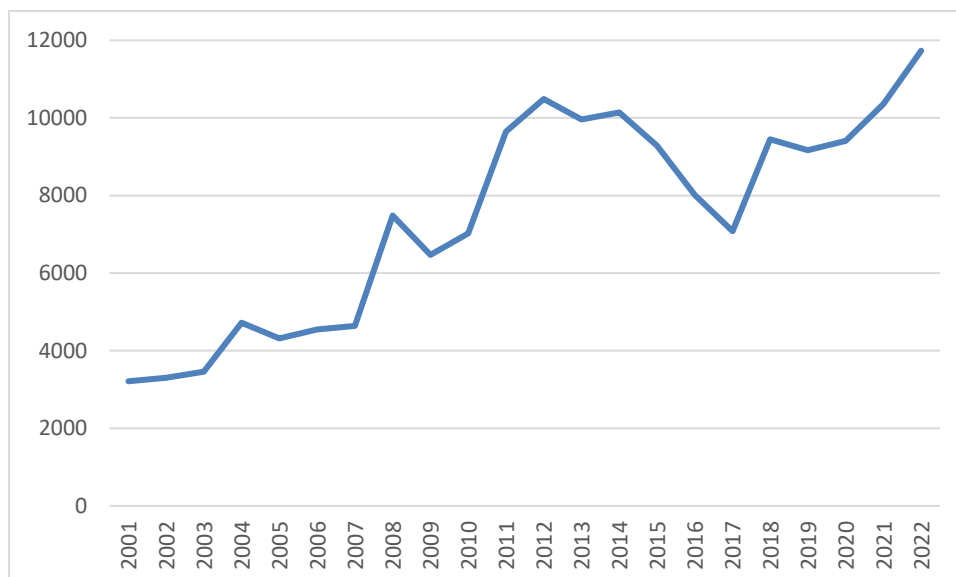
Notes: The score of Agriculture Orientation Index (AOI) less 1 implies a lower orientation towards the agriculture sector; Government spending in agriculture includes spending on sector policies and programs; soil improvement and soil degradation control; irrigation and reservoirs for agricultural use; animal health management, livestock research and training in animal husbandry; marine/freshwater biological research; afforestation and other forestry projects; etc.; The NENA countries covered by the FAOSTAT database. Source: FAOSTAT, available at <https://www.fao.org/faostat/en/#data/IC> (accessed 7 August 2023).

11. Among non- Gulf Cooperation Council (GCC) countries in NENA, **Maghreb countries are relatively higher in the agricultural orientation index**, and **Mashreq countries are particularly low** in the agricultural orientation of public spending (Figure 2). **In GCC countries, AOI is higher, which can be explained not just by higher spending on agriculture (relative to other public spending) but also due to a lower share of agriculture in gross domestic product (GDP).**

III. Current status of financing to end hunger, food insecurity and malnutrition and how much more is needed in the region

A. Current level of financing

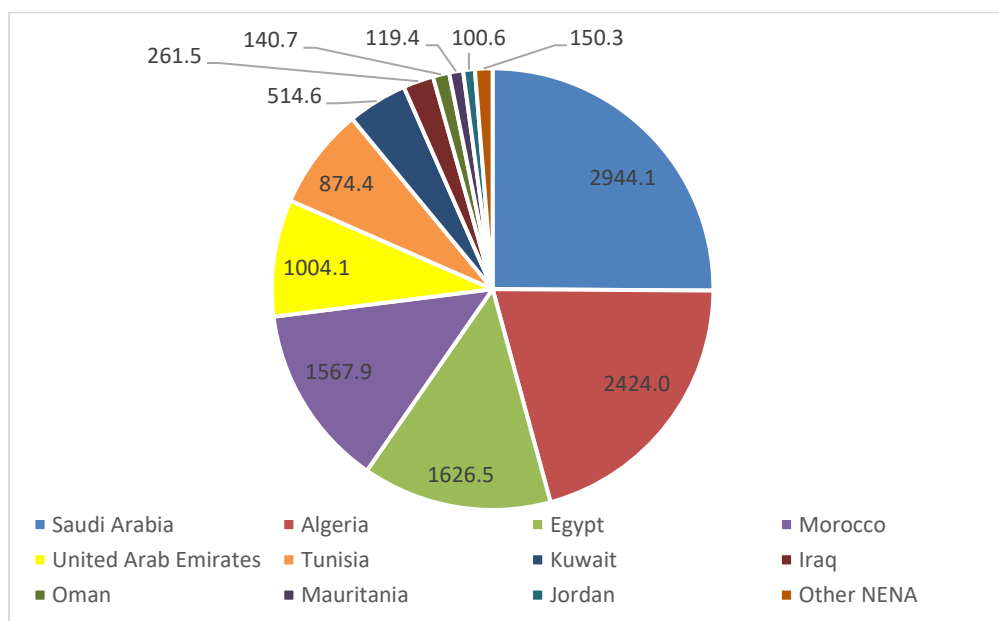
Figure 3: Agriculture, Forestry and Fishing expenditure in NENA countries (million USD)



Source: FAO (ESS)

12. **Government expenditure in the Agriculture, Forestry and Fishing (AFF) sectors** was USD 11.7 billion in 2022, up from **USD 10.4 billion in 2021** (Figure 3). Domestic support provided to AFF shows an increasing trend from 2001 with some setbacks, such as between 2014 and 2017.

Figure 4: Government expenditure in Agriculture, Forestry and Fishing in NENA countries



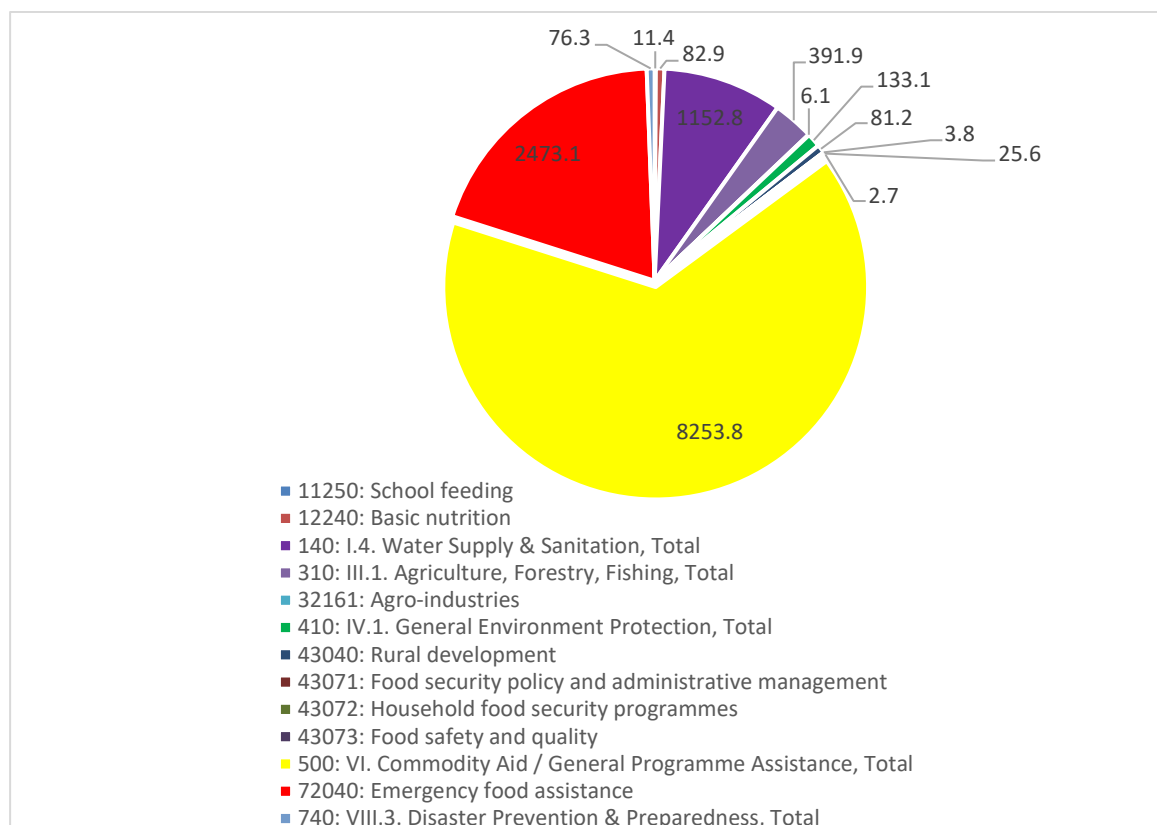
Source: FAO (ESS)

13. **In 2022, Saudi Arabia spent the most on agricultural domestic support** (USD 2.9 billion), followed by **Algeria** (USD 2.4 billion), **Egypt** (USD 1.6 billion), **Morocco** (USD 1.6 billion), **United**

Arab Emirates (USD 1.0 billion), **Tunisia** (USD 0.9 billion), and **Kuwait** (USD 0.5 billion) (Figure 4).

14. **Official development assistance (ODA)** is defined as government aid that promotes and specifically targets the economic development and welfare of developing countries⁶. ODA is the main source of financing for development aid. ODA grants to agriculture and food security comprise one of the significant sources of development finance to achieve SDG 2⁷.

Figure 5: Official Development Assistance to selected sectors in the NENA region by sectors (million USD)



Source: OECD Creditor Reporting System (CRS), https://stats.oecd.org/Index.aspx?DataSetCode=crs1&_ga=2.106586691.1325382171.1702987682-1222714590.1688402070#, Accessed: December 2023

⁶ Official development assistance (ODA) flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions are:

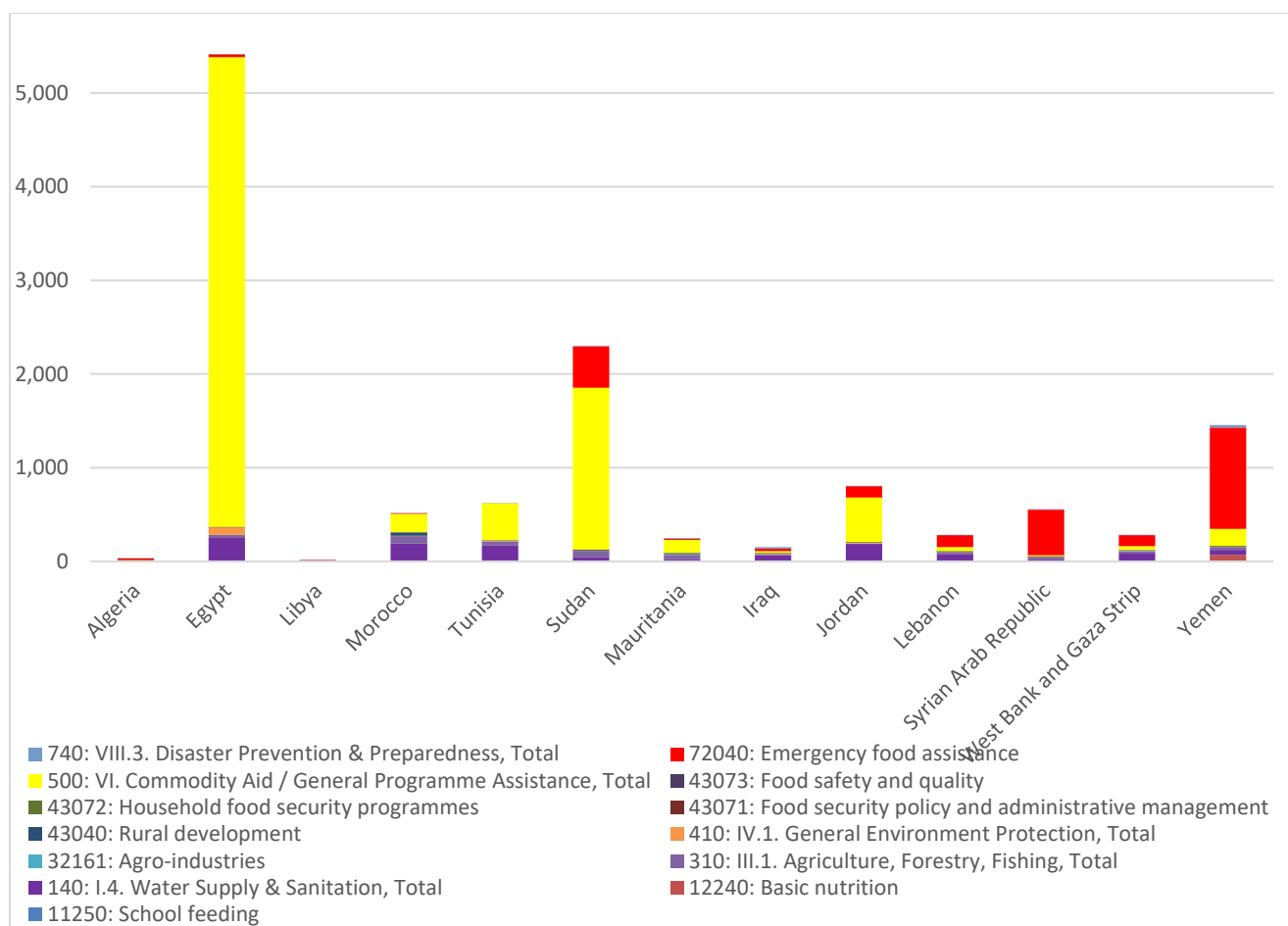
- Provided by official agencies, including state and local governments, or by their executive agencies; and
- Concessional (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective.

See OECD, <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm>, Accessed in December 2023.

⁷ 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:ad77ee0c1c803b3c10dc38d2992ac3f5dbe4552d5c18cff0da362ee555461d62dc053d04c9797dc57a889d52be20f8891fdb94f52e1318e037734447a4a8822e44f21b84279941dee791de1162b0652c77dc961761e31508581f2dac62d3c314d49d98221effd2c5dcccbb8c8c643d0d92abe1fe08687e0dc3def18b7c338531e56425f78dc50589ea07cb1c293ddf21e7c3bb16fe225961f222dd1bed3f09868caf932aa686d658f8c34a66c8d27a>

Figure 6: Official Development Assistance to selected sectors in the NENA region by country and by sectors (million USD)

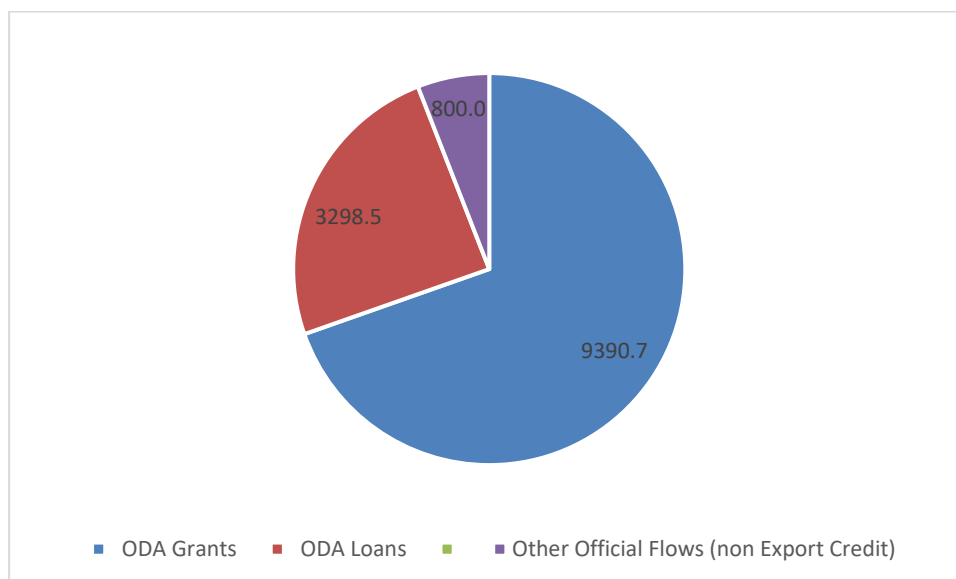


Source: OECD Creditor Reporting System (CRS),

https://stats.oecd.org/Index.aspx?DataSetCode=crs1&_ga=2.106586691.1325382171.1702987682-1222714590.1688402070#, Accessed: December 2023

15. Total ODA flows in 2021 in agriculture, nutrition, environment protection, water, disaster prevention, and commodity and food aid reached USD 12.7 billion (30.3 percent of total ODA flows to these countries). Commodity Aid / General Programme Assistance (Figure 5) received the highest inflows (USD 8.3 billion, 19.5 percent of total ODA inflows to NENA), most of which was targeted towards Egypt (USD 5.0 billion), Sudan (USD 1.7 billion), Jordan (USD 0.5 billion) and Tunisia (USD 0.4 billion) (Figure 6). Emergency food assistance received the second highest ODA inflows in 2021 (USD 2.5 billion, 5.9 percent of total ODA inflows to NENA), mostly to Yemen (USD 1.1 billion), the Syrian Arab Republic (USD 0.5 billion) and the Sudan (USD 0.4 billion). It was followed by Water Supply and Sanitation (USD 1.2 billion, 2.7 percent of total ODA inflows to NENA), mostly to Egypt, Morocco, Jordan and Tunisia (USD 0.2 billion). Agriculture, Forestry, and Fishing received USD 0.4 billion (0.9 percent of total ODA inflows), mainly to Morocco (USD 79.3 million), the Sudan (USD 71.0 million) and Mauritania (USD 45.1 million). General Environment Protection received USD 0.1 billion (0.3 percent of total ODA inflows), most of which flew to Egypt (USD 80.1 million).

Figure 7: ODA flows to NENA (million USD)



Source: OECD Creditor Reporting System (CRS), https://stats.oecd.org/Index.aspx?DataSetCode=crs1&_ga=2.106586691.1325382171.1702987682-1222714590.1688402070#, Accessed: December 2023

16. Out of the USD 12.7 billion ODA in the region, **69.6 percent** (USD 9.4 billion) was **ODA grant**, **24.5 percent** (USD 3.3 billion) was **ODA loans**, and **5.9 percent** (USD 0.8 billion) **other official flows** (Figure 7).

17. **FAOSTAT database provides a narrower assessment of ODA inflows into NENA Agriculture sector.** According to FAOSTAT, **USD 4.1 billion ODA** flew in 2021 to NENA countries in the following sectors: Food and nutrition assistance (USD 2.9 billion), Agriculture, forestry, fishing (USD 0.5 billion), Other Agriculture, Forestry and Fishing (USD 0.3 billion), General Environment Protection (USD 0.2 billion), Rural Development (USD 0.1 billion), Agro-industry (USD 72.6 million) and Food security and food safety (USD 31.3 million). The ODA flows to these sectors were 8.7 percent of the total ODA flows to the region (USD 47.0 billion, according to FAOSTAT).⁸

18. **Blended finance** is the use of concessional finance from donors and philanthropic foundations to mobilise commercial finance from development finance institutions and private investors to invest in projects that are too risky and lack sufficient returns for private investors⁹. The amount of ODA that is directed towards blended finance **annually is around 2-3 percent of the total ODA globally**¹⁰.

19. **Multilateral and bilateral development banks** are the other major sources of development finance. They not only channel ODA grants and loans from bilateral donors, but they also use their own money to provide concessional and commercial finance at market rates. For instance, **in 2023, the**

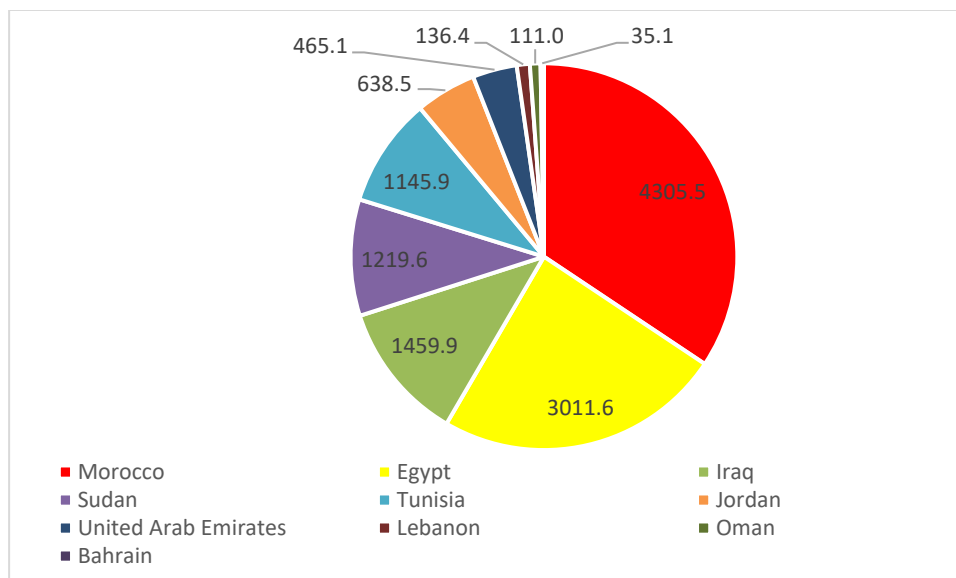
⁸ Source: FAOSTAT Development Flows to Agriculture, <https://www.fao.org/faostat/en/#data/EA>, Accessed: December 2023

⁹ 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:ad77ee0c1c803b3c10dc38d2992ac3f5dbe4552d5c18cff0da362ee555461d62dc053d04c9797dc57a889d52be20f8891fdb94f52e1318e037734447a4a8822e44f21b84279941dee791de1162b0652c77dcdc961761e31508581f2dac62d3c314d49d98221effd2c5dcccbb8c8c643d0d92abe1fe08687e0dc3def18b7c338531e56425f78dc50589ea07cb1c293ddf21e7c3bb16fe225961f222dd1bed3f09868caf932aa686d658f8c34a66c8d27a>

¹⁰ Convergence. 2021. The State of Blended Finance 2021. [Online]. [Accessed September 2023]. Available from: <https://www.convergence.finance/resource/the-state-of-blended-finance-2021/view>

African Development Bank, and the Islamic Development Bank, respectively, committed USD 10 billion and USD 5 billion for sustainable agricultural transformation programmes¹¹.

Figure 8: Credit to Agriculture, Forestry, and Fishing (2021, million USD)

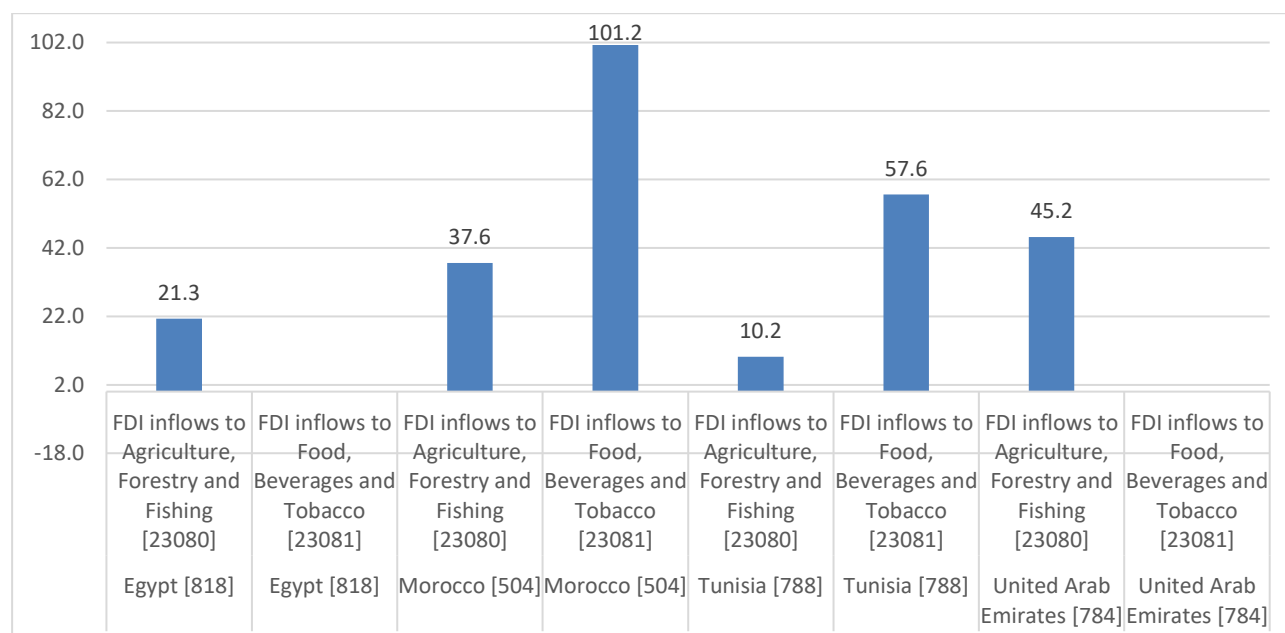


Source FAOSTAT, Credit to Agriculture, <https://www.fao.org/faostat/en/#data/IC>, Accessed in December 2023

20. **Credit to agriculture, forestry, and fishing** reached **USD 12.5 billion** in NENA countries in 2021. The following countries provided more than USD 1 billion credit: USD 4.3 billion in Morocco, USD 3.0 billion in Egypt, USD 1.5 billion in Iraq, USD 1.2 billion in Tunisia (Figure 8). Credit to Agriculture, Forestry, and Fishing has shown an increasing trend since 2006, especially in Mashreq and Maghreb countries.

¹¹ African Development Bank Group. 2021. African Development Bank approves \$10 million equity investment to boost cold storage and distribution of food, pharmaceuticals, in East Africa. [Online]. African Development Bank Group. [Accessed 14 September 2023]. Available from: <https://www.afdb.org/en/news-and-events/press-releases/african-development-bankapproves-10-million-equity-investment-boost-cold-storage-and-distribution-foodpharmaceuticals-east-africa-46442>

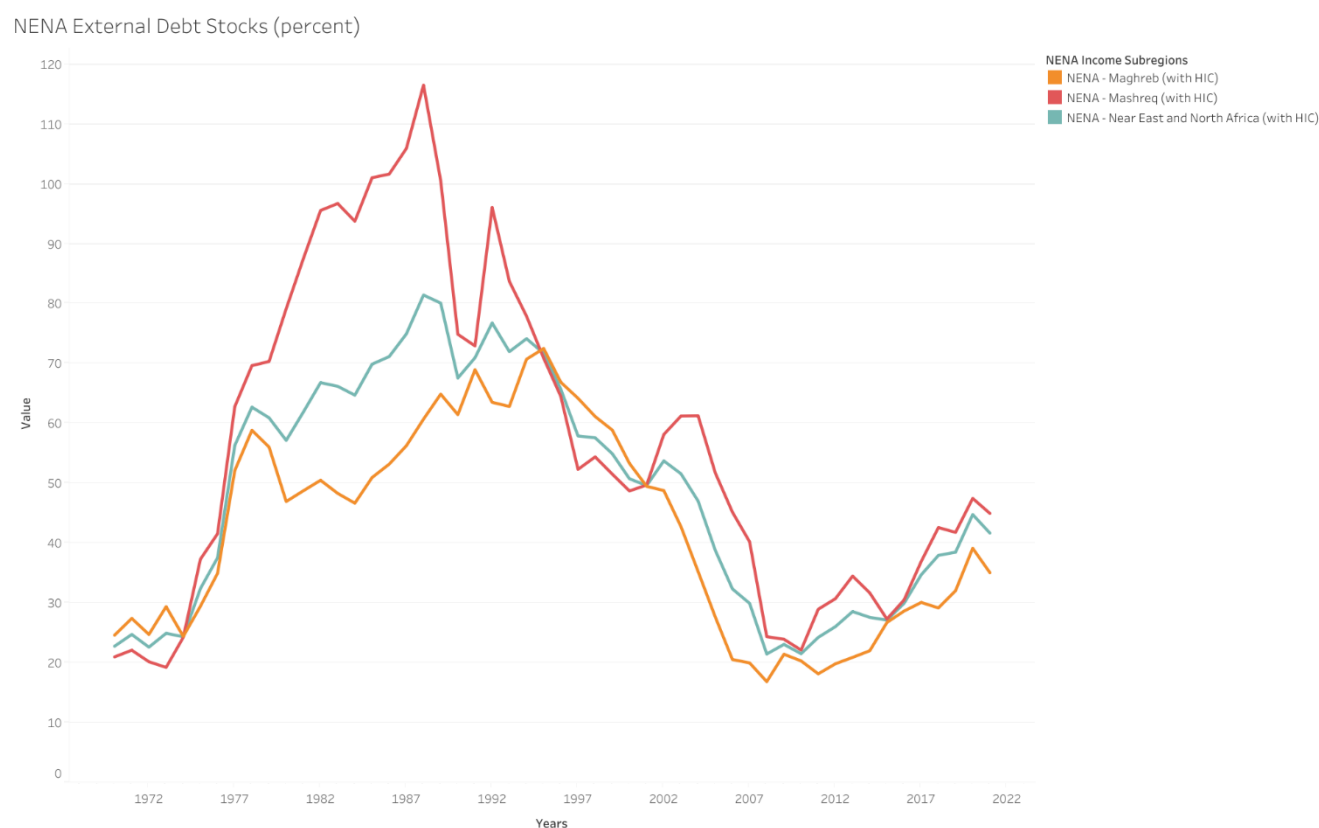
Figure 9: Foreign Direct Investment Inflows into Agriculture, Forestry, and Fishing and Food, Beverages and Tobacco (2016, million USD)



21. **Foreign Direct Investment (FDI) Inflows into agriculture, forestry, and fishing and food, beverages and tobacco** sectors are not significant compared to other financing sources flowing into the region (Figure 9). FDI inflow was **USD 273.2 million in 2016**¹². The majority of FDI (58.2 percent) flew to the agrifood processing industry (food, beverages and tobacco), and 41.9 percent to agriculture, forestry and fishing.

¹² The latest year, for which we have data for all NENA subregions.

Figure 10: Total external debt stocks (as percentage of gross national income)



22. **Total external debt stocks as a percentage of gross national income were 41.7 percent in the NENA region in 2021** (45.0 percent in Mashreq countries and 35.1 percent in Maghreb countries). **External debt burden has been growing since 2008** when international food prices increased significantly (Figure 10). In parallel, the **fiscal space of countries has been shrinking** since they have to spend more on interest rate and debt repayment. Food subsidies are a relatively large share of public spending in many countries of the region. High food prices put pressure on states' budgets and on national currencies, which the governments may devalue, which further increases indebtedness.

B. The cost to end hunger, food insecurity and malnutrition in NENA (the funding gap)

23. In 2023, Thornton et al. provided cost estimates to realize food system transformation, illustrating that the **cost to transform the food system in the Middle East and North Africa region requires funding of USD 13.3 billion per year**. The calculation takes into consideration **four key Action Areas necessary for food system transformation**¹³: (1) rerouting farming and rural livelihoods to new trajectories that conserve ecosystems and the natural resource base, reduce social inequality, and provide food and nutrition security for all; (2) de-risking livelihoods, farms and value chains, allowing food system actors to anticipate, respond to, and recover from increasingly frequent and extreme weather events; (3) producing, processing, distributing and consuming food in ways that lower greenhouse gas emissions and reduce food loss and waste; (4) realigning policies, finance, support to social movements, and innovation systems.

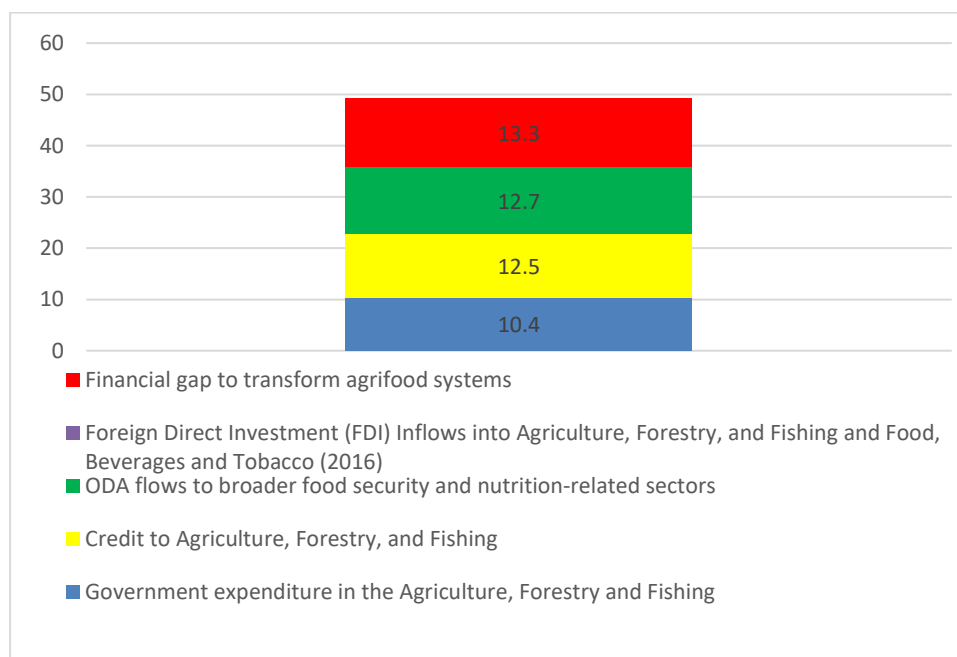
¹³ As defined by Steiner, A., et al., 2020. Actions to Transform Food Systems under Climate Change. Wageningen. CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS), The Netherlands.

24. Despite the calculation concerning the financial gap in agrifood systems transformation also includes Turkey, it **can be an underestimation compared to other world regions, taking into account the significant challenges the NENA region is facing in its agrifood systems reconfiguration** (see Section 1 of this note).

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

Conclusions

Figure 11: Current financing of agrifood systems in NENA and the financial gap (2021, billion USD, for FDI 2016)



Source: Previous figures in this note

Note: For FDI, more representative data is available for 2016

25. **Based on the findings of this note, agrifood systems in NENA countries received USD 35.9 billion financing in 2021, USD 12.7 billion ODA flows** (to broader agriculture sectors including commodity and food aid, nutrition, environment, and water), **USD 12.5 billion bank credit** to agriculture, forestry, and fishing sectors and **USD 10.4 billion domestic government expenditure** and USD 0.3 billion FDI (in 2016) (Figure 11). This estimate of current financing does not contain consumer spending and financial flows through food trade and retail from which local agrifood systems benefit. **Based on one estimate, agrifood systems need at least an additional USD 13.3 billion in financing annually (financing gap) to transform agrifood systems in the region.**

Recommendations

26. Given the record-high hunger and food insecurity in the NENA region, it is far off track to achieving SDG 2. In addition, there is an intensification of the major drivers behind rising hunger, food insecurity and malnutrition in the region (conflict, climate change and economic slowdowns and downturns, combined with inequalities and the lack of affordability of healthy diets). To reverse the increasing trend of undernourishment in the region and combat the triple burden of malnutrition, the transformation of food systems requires significant financing.

27. Repurposing current agricultural and domestic support is critically important to ensure more cost-effective and efficient agrifood systems? and target more nutritious foods and agricultural products that have a less environmental footprint. However, repurposing current public budgets will not be enough to reach the SDG 2 targets. Financing the transformation of agrifood systems will require significantly increased financing. As the financial space of regional governments (except for oil-exporting GCC countries) is limited, there is a need for increased private, public-private blended finance and new, scaled-up innovative financial mechanisms.
28. The inherent investment risks in NENA food systems make investment flows more challenging to unlock, but concessional capital from ODA, International Financial Institutions can mitigate investment risk and create new investment opportunities. By complementing investment capital with concessional capital, innovative finance mechanisms can help address the USD 13.3 billion funding shortage in the NENA food systems and improve food security and nutrition in the region.
29. The confluence of investment capital and concessional capital takes the form of innovative finance mechanisms, such as loss guarantees for lenders or insurers, Impact Investments in social innovation, results-based financing, green bonds, debt swaps, advance market commitments (contract farming), impact investment funds, innovative finance hubs, incubators, accelerators, compulsory charges and taxes, awards and prizes, development bonds, and carbon-emissions trading.
30. The 2024 Near East and North Africa Regional Overview of Food Security and Nutrition will discuss some of these innovative financial mechanisms in detail.