Commercial Agriculture for Smallholders and Agribusiness

# Policy Brief: Private sector and food security

Wellspring

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Commercial Agriculture for Smallholders and Agribusiness

CASA aims to drive global investment for inclusive climate-resilient agri-food systems that increase smallholder incomes.

The programme makes the case for increased agribusiness investment by demonstrating the commercial and development potential of sourcing models involving empowered smallholder producers and by tackling the information and evidence gaps holding back investment.

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# Executive summary

The global community is facing escalating acute food insecurity crises, predominantly in Sub-Saharan Africa, due to climate change, the Russia–Ukraine conflict, and COVID-19 shocks. Related impacts on donor government budgets, domestic conflicts and limited fiscal capacity in countries already experiencing acute food insecurity, often on top of high chronic food insecurity levels, further exacerbate the issue.

**This policy brief examines the potential of private sector financing to alleviate acute food insecurity, through providing a targeted review of key mechanisms for mobilizing private sector investment in priority regions affected by acute food insecurity.** These mechanisms include 1) donor–private sector partnerships, 2) private sector industry initiatives, and 3) standalone investors and institutions. They have been analysed through case studies and stakeholder consultations, to offer insights into the potential of private sector investment to address acute food insecurity challenges.

The analysis emphasizes the role of private sector commercial investment, including short-term investments in addressing immediate food supply needs and medium- to long-term investments in enhancing the resilience of local food systems, focusing on geographies experiencing Integrated Food Security Phase Classification (IPC) Acute Food Insecurity Phases 2 and 3.[1] These are acute food insecurity contexts where the private sector might still perceive a viable investment opportunity and where such investments can contribute to building more resilient food systems.

Based on this initial review of mechanisms to mobilize private sector financing, the brief concludes that **private sector financing has a role to play in building the resilience of medium-term food systems in order to prevent future emergencies, but that it is not suitable for addressing short-term, urgent financing needs related to acute food insecurity that is at crisis levels or near to them.** Private sector investors also need significant de-risking and blended finance in countries that are most affected by acute food insecurity, as well as policy predictability and demonstrated national commitments to domestic and regional food and agriculture strategies, due to the long timeframes of, and risks for, most agricultural investments. This indicates that **substantial additional donor and public sector intervention is needed to catalyse private sector investment and to direct it towards investments that will have the biggest impact on food security**.

Learnings from the case studies and other documents reviewed for this policy brief, along with interviews with a range of sectoral stakeholders, indicate that initiatives to mobilize private sector investment should prioritize two objectives so as to achieve the most food security impact. These will shift countries that are experiencing acute food insecurity away from exporting unprocessed agricultural production and importing consumable food and towards national and regional processing and value addition for local consumption. **First, focus efforts on catalysing private investment in local agricultural processing and value addition.** The missing value chain link in many acutely food-insecure countries is local processing and value addition capacity, which would also provide local offtake for domestic agricultural production. Many initiatives to date have not focused on this piece of the equation, but rather on access to inputs and smallholder farmer support. **Second, leverage blended financing to mobilize local financial institutional lending to processing and value addition SMEs.** Local currency lending is often the type of financing that agricultural SMEs most need: SME financing needs are not well-matched with the types of foreign currency investment that development finance institutions (DFIs) and other international investors offer, especially with regard to ticket size and return expectations.

This brief also recognizes the limitations of its approach and the complexity of the dynamics around using private sector investment to alleviate acute food insecurity. Therefore, the brief concludes by highlighting **critical questions for further research, including the positioning of smallholder**

[1] The private sector is not equipped to finance the extensive humanitarian aid required in Phases 4 and 5 (and private finance is also not recommended for the suggested types of interventions in these two phases under the IPC methodology).

**engagement for food security, innovation in blended financing instruments, and enabling trade and agricultural policy frameworks.**

## Introduction: What is the purpose of this policy brief?

The global community is facing escalating acute food insecurity crises that threaten to produce widespread disaster and famine. **In 2022, over 258 million individuals across 58 countries and territories, primarily in Africa, required immediate humanitarian assistance due to food insecurity.**[2] A confluence of climate, conflict, and COVID-19 related shocks have pushed numerous population groups into acute food insecurity. These shocks and stresses include a supply crunch in essential food staples, rising import costs for food and agricultural inputs, and the significant impact of the Russian invasion of Ukraine on global wheat and fertilizer supply and prices. Additionally, soaring inflation rates and central bank interest rate hikes have precipitated cost-of-living crises even in developed countries.

Many emerging market governments, still reeling from the financial and economic repercussions of the COVID-19 pandemic and burdened by growing debt crises, have limited fiscal capacity for sustained food aid and input subsidies. This constraint affects vulnerable consumers' ability to purchase food and farmers' capacity to maintain or increase food staple production.

Climate change is altering rainfall patterns and agricultural productivity in numerous countries, including in East Africa and Southern Africa, which have experienced consecutive seasons of drought, ill-timed heavy rainfall resulting in devastating floods, and the ensuing stunted agricultural growth. Additionally, domestic conflicts and political instability in countries such as Afghanistan, Burkina Faso, the Democratic Republic of Congo, Ethiopia, South Sudan, and Yemen have resulted in lost livelihoods, reduced agricultural production, and growing populations of displaced individuals who are susceptible to acute food insecurity.

Many factors contributing to the global surge in acute food insecurity have also affected the national budgets of certain donor countries. For instance, the UK's Foreign, Commonwealth and Development Office (FCDO) has significantly reduced its overall aid budget, lowering aid spending from 0.7% to 0.5% of gross national income,[3] with funding for both humanitarian food assistance and longer-term food and agriculture programmes included in the cuts. Conversely, other G7 countries have increased their food assistance in response to the burgeoning acute food insecurity crises. However, some donor funding has shifted from long-term food and agriculture interventions to short-term humanitarian assistance, at a time when both types of interventions are direly needed to address the underlying causes of acute food insecurity as well as respond to current crises.[4]

In light of this urgent situation, **there have been calls from the public sector and donors for the private sector to intervene and supply the additional financing necessary to save lives and construct more resilient food systems**. However, the extent to which private sector investment can and should contribute to addressing acute food insecurity remains uncertain. This policy brief aims to examine the potential of private sector financing to alleviate acute food insecurity through providing a targeted review of key mechanisms for mobilizing private sector investment in priority regions affected by acute food insecurity. The brief presents learnings from selected case studies, highlighting both success factors and challenges, and offers recommendations on how to unlock further private sector financing. In summary, this policy brief aims to provide preliminary responses to two questions:

1) **Can private sector investment fill the "financing gap" in regard to addressing acute food insecurity?**
2) **What mechanisms and incentives can catalyse more private sector financing for the food security agenda?**

[2] https://www.fsinplatform.org/sites/default/files/resources/files/GRFC2023-brief-EN.pdf
[3] https://commonslibrary.parliament.uk/research-briefings/cbp-9224/
[4] https://www.oecd.org/dac/development-co-operation-report-20747721.htm

## Scope: What does this policy brief examine, and what does it exclude?

Food security encompasses a diverse array of concerns, including acute and chronic food insecurity, as well as malnutrition. Moreover, the term “private sector” can refer to a multitude of stakeholders. To ensure the insights presented in this report are clear and relevant it is essential to first define food insecurity, identify the priority geographical regions where mechanisms for mobilizing private sector finance have been analysed, and delineate the specific providers and categories of private sector financing.

### Defining food insecurity and priority geographies

For the purposes of this policy brief, the widely accepted IPC definition of the five phases of acute food insecurity[5] is used.

**Figure 1: The IPC Acute Food Insecurity Scale phases and definitions**

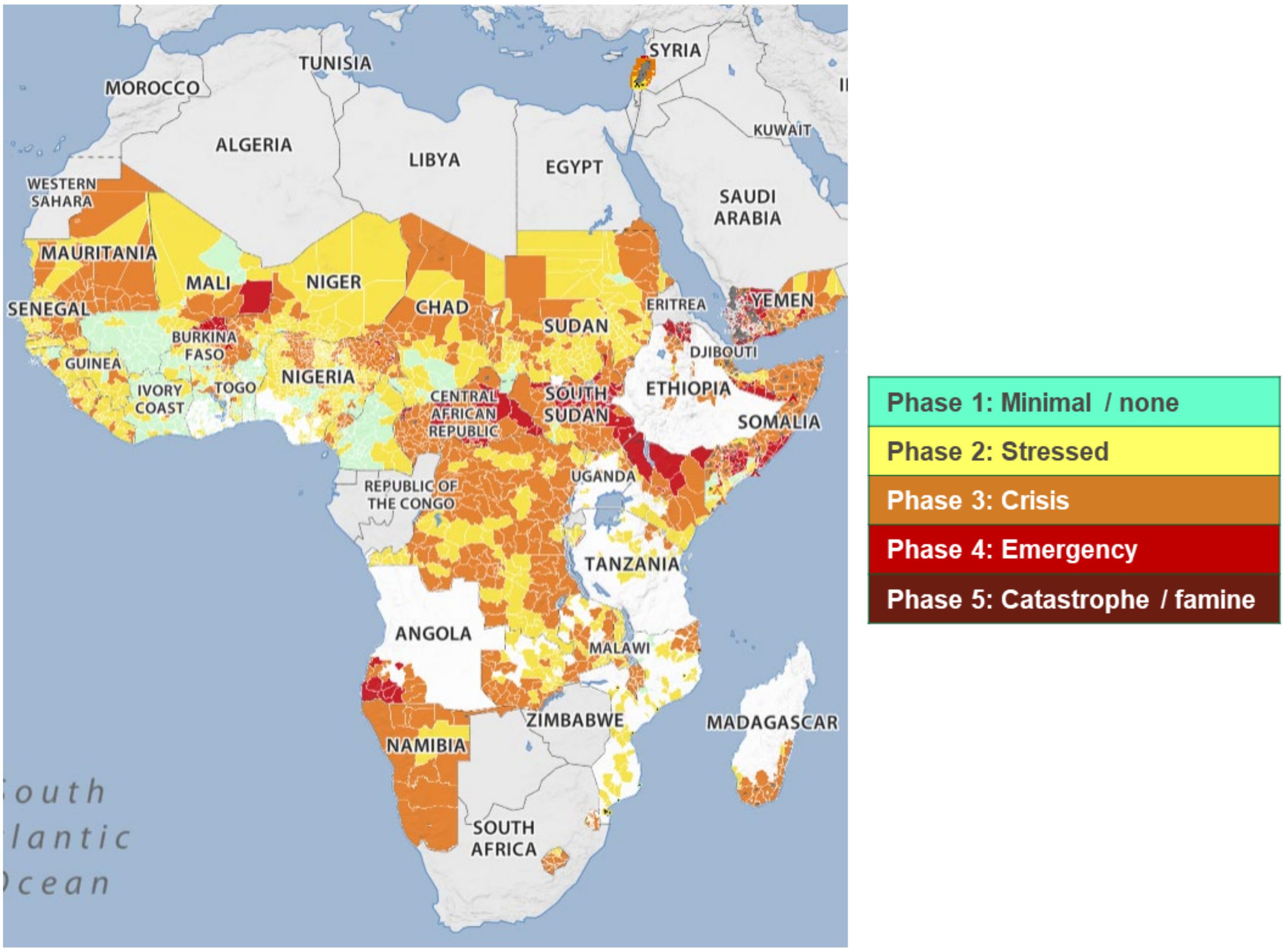
| IPC Acute Food Insecurity Scale | Phase description |
|---|---|
| Phase 1: Minimal / none | Households are able to meet essential food and non-food needs without engaging in atypical and unsustainable strategies to access food and income |
| Phase 2: Stressed | Households have minimally adequate food consumption but are unable to afford some essential non-food expenditures without engaging in stress coping strategies. |
| Phase 3: Crisis | Households either:<br>• Have food consumption gaps that are reflected by high or above-usual acute malnutrition; or<br>• Are marginally able to meet minimum food needs but only by depleting essential livelihood assets or through crisis-coping strategies. |
| Phase 4: Emergency | Households either:<br>• Have large food consumption gaps which are reflected in very high acute malnutrition and excess mortality; or<br>• Are able to mitigate large food consumption gaps but only by employing emergency livelihood strategies and asset liquidation. |
| Phase 5: Catastrophe / famine | Households have an extreme lack of food and/or other basic needs even after full employment of coping strategies. Starvation, death, destitution and extremely critical acute malnutrition levels are evident.<br>(For Famine Classification, an area needs to have extreme critical levels of acute malnutrition and mortality.) |

**The focus of this policy brief’s analysis is on regions experiencing Phases 2 and 3 of the IPC Acute Food Insecurity Scale, as private sector investment may be able to help prevent an escalation of acute food insecurity in these phases. By contrast, stakeholders from both the private sector and donor community agreed that the private sector is not equipped to finance the extensive humanitarian aid required in Phases 4 and 5** (and such finance is also not recommended for the suggested types of interventions in these two phases under the IPC methodology). Consequently, the analysis in this brief emphasizes acute food insecurity contexts where the private sector might still perceive a viable investment opportunity and where such investments can contribute to building more resilient food systems. This approach aims to alleviate current acute food insecurity crises and avert future ones.

Considering that **the majority of countries experiencing Phases 2 and 3 (and higher) of acute food insecurity are located in Sub-Saharan Africa**, the analysis has prioritized case studies examining mechanisms to mobilize private sector investment in one or more countries within this region. However, it is important to note that some of the mechanisms analysed also maintain a broader global focus.

[5] https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/manual/IPC_Technical_Manual_3_Final.pdf

**Figure 2: African countries colour-coded by latest IPC classification for acute food insecurity**[6]

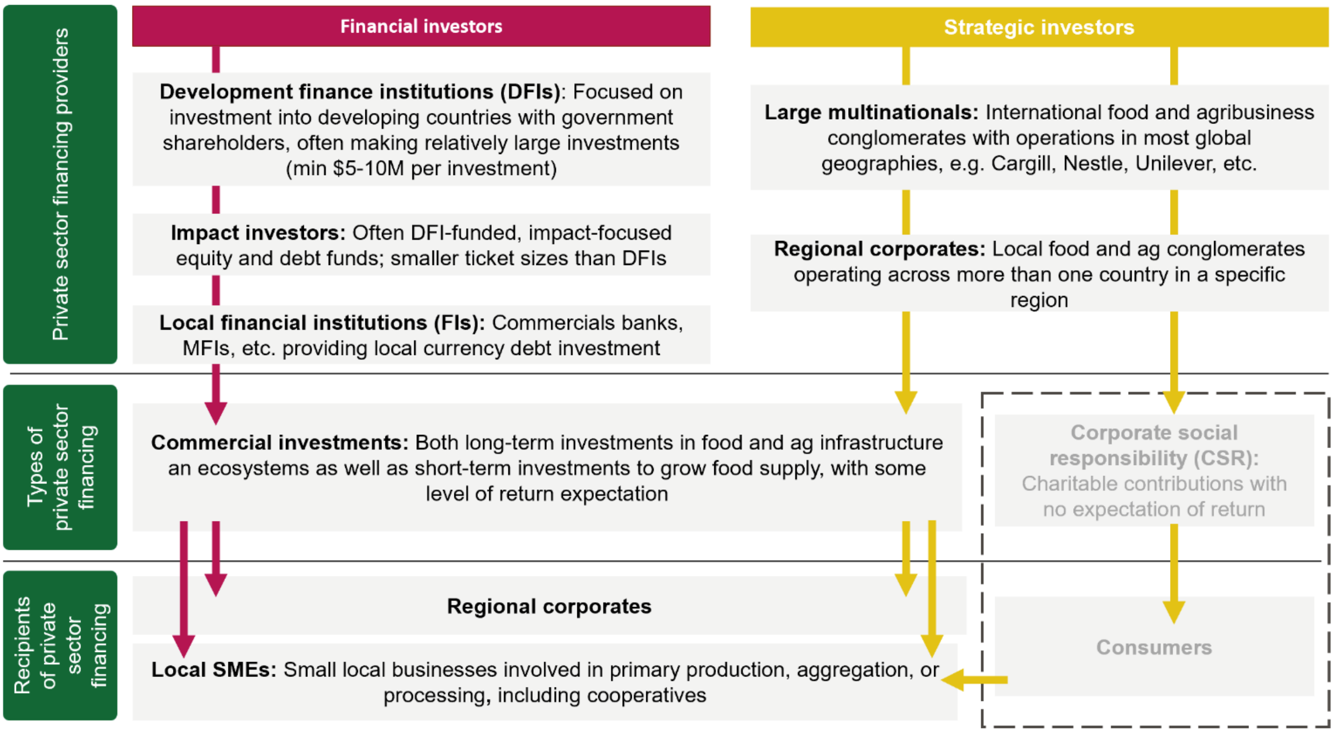



## Defining private sector financing providers and types of private sector financing

When examining private sector investment in the food security agenda there can be a lack of clarity regarding the distinction between investments targeting the food and agriculture sector as a whole and those specifically aimed at addressing acute food insecurity. **This brief has narrowed its analysis of private sector investments in African food and agriculture, concentrating on mechanisms that mobilize private sector investment that has an explicit focus on the food security agenda.** However, the food security agenda is inherently intertwined with the broader objective of constructing more resilient local food systems. As a result, the brief defines private sector financing providers for the food security agenda in relatively broad terms, as summarized in Figure 3 below.

[6] https://www.ipcinfo.org/ipc-country-analysis/ipc-mapping-tool/, accessed on March 31, 2023.

**Figure 3: Definition of private sector financing providers and types of private sector financing**




The analysis in this brief intentionally de-emphasizes corporate social responsibility (CSR) programmes, as the food and input aid provided by such initiatives is not sustainable or scalable, as compared to the overall need. Consequently, we have also downplayed demand-side private sector interventions aimed at supporting food access and affordability for consumers, as these tend to concentrate on consumer food subsidies, rather than commercial investment.

**This brief's primary focus – private sector commercial investment – encompasses both short-term investments to address immediate and pressing food supply needs in food-insecure regions, as well as medium- and long-term investments aimed at enhancing the resilience of local food systems in the target geographies and populations.** This approach aligns with the concept of achieving "relief from emergencies" that was referred to by one food security expert who was consulted as part of this work.

# Learnings: Initial assessment of existing mechanisms for mobilizing private sector financing for food security

## Mechanisms

This brief has identified three primary mechanisms for catalysing private sector investment in support of the food security agenda. Each mechanism is defined below, accompanied by representative examples. A more detailed examination of these examples, aimed at illustrating the key learnings, can be found in the subsequent section.

**Donor–private sector partnerships** are joint initiatives to support the food security agenda involving one or more donors and private sector stakeholders, with donors often providing support, incentives, or blended capital to de-risk private sector engagement. Examples include the Farm to Market Alliance, New Alliance for Food Security and Nutrition, Scaling Up Nutrition (SUN) Business Network, and Food Action Alliance.[7]

**Private sector industry initiatives** are joint initiatives led by private sector partners, often multinational industry leaders, to increase investment in sustainable food and agriculture value

[7] There are many more wider food systems resilience partnerships and initiatives that this policy brief did not profile, for brevity's sake; they include the new ClimateShot Investor Coalition (CLIC), FCDO's work with CLIC, the Shell Foundation (Catalysing Agriculture by Scaling Energy Ecosystems (CASEE)), and Acumen Fund, etc.

chains. There is overlap between this mechanism and donor–private sector partnerships, as most private sector initiatives receive donor or public implementation support. Perhaps tellingly, we found few examples of purely private sector initiatives to mobilize investment for food security beyond ad hoc and ongoing CSR efforts involving volunteerism or in-kind contributions of agricultural inputs and/or food. Examples of private sector industry initiatives that we were able to identify include the Zero Hunger Private Sector Pledge network, Partners in Food Solutions, and the Global Business for Food Security coalition (GBFS).

**Standalone investors and institutions** include both financial and strategic investors in food and agriculture businesses and standalone institutions that focus on mobilizing private investment in food and agriculture. DFIs and strategic investors – typically multinational corporations, but also some regional corporations – most commonly invest in regional or national corporates that have reached a certain level of scale and can absorb relatively large ($5 million and above) amounts of capital. Impact investors and some local financial institutions may also invest in local SMEs, which are perceived as higher risk and require smaller amounts of capital. Examples include British International Investment's (BII's) emerging investment strategy around food security, Rabobank's lending to local financial institutions for on-lending to the agriculture sector, and Aceli Africa, an organization that aims to incentivize additional lending to agricultural SMEs.

**Figure 4: Examples of initiatives to mobilize private sector investment for the food security agenda**

| Mechanism | |
| --- | --- |
| **Donor-private sector partnerships** | ○ Joint initiatives to support food security agendas **by one or more donors and private sector stakeholders**, with donors often providing support, incentives, or blended capital to de-risk private sector engagement<br>*Examples*:<br>G8 New Alliance for Food Security & Nutrition; Farm to Market Alliance; Food Action Alliance; Good Food Finance Network; United Nations Food Systems Coordination Hub; The Food and Land Use Coalition; Food Action Now!; United Against Malnutrition & Hunger – An Alliance for Global Action; Scaling Up Nutrition Business Network – Engage • Inspire • Invest; Feed the Future – The U.S. Government's Global Hunger & Food Security Initiative |
| **Private sector industry initiatives** | ○ Joint initiatives **led by private sector partners** to increase investment in sustainable food and ag value chains, often multinational industry leaders<br>*Examples*:<br>Zero Hunger Private Sector Pledge; Partners in Food Solutions |
| **Standalone investors & institutions** | ○ Both **financial and strategic individual investors in food and ag businesses, or standalone institutions** focused on mobilising private investment into food and ag<br>○ DFIs and local FIs most commonly invest in regional or national corporates; impact investors and some local FIs may also invest in local SMEs, which are perceived as higher risk and require smaller amounts of capital<br>*Examples:*<br>Aceli Africa; Rabobank; British International Investment |

## Learnings from case studies

The learnings set out below are distilled from a review of existing literature on the mechanisms defined above, as well as in-depth consultations with 10+ senior stakeholders representing donor agencies, case study initiatives, and private sector investors. The stakeholders consulted requested anonymity, in order to allow them to share their perspectives openly.

### Question #1: Can private sector investment fill the "financing gap" in regard to addressing acute food insecurity?

**Firstly, quantifying the "financing gap" is difficult and the concept itself can be misleading.**

There are many different understandings and estimations of the financing gap in regard to addressing acute food insecurity, ranging from the need for short-term humanitarian assistance to the amount needed for medium- and long-term investments to build resilience and reduce disaster risk, which differ by phase of acute food insecurity, as indicated in the IPC Acute Food Insecurity classification's Priority Response Objectives.[8] The financing need for the broader nutrition agenda is also sometimes discussed in combination or interchangeably with that for acute food insecurity, and there are few estimates that are precisely defined by phase of acute food insecurity.

For example, the United Nations co-ordinated response plans provided a combined financing gap estimate of **$9 billion in 2021 alone** for food security and nutrition clusters,[9] while the humanitarian financing needed solely to address projected famines in Ethiopia, Kenya, and Somalia in 2023 is **$3.7 billion**.[10] In regard to the medium- to long-term investment needed to build resilient food systems, the total agriculture financing gap in Africa has been estimated at **$180 billion annually**.[11] Quantifying the financing gap is highly dependent on various factors, including the definitions of food security and nutrition, the geographical regions under consideration, the specific measures being employed to address food insecurity, and the timescale involved in the analysis.

The usefulness of using the "financing gap" as a lens for analysing development challenges has also recently been questioned by the development finance community.[12] The concept of a financing gap fails to address a prevalent issue in the developing markets where acute food insecurity is concentrated – namely, the **scarcity of commercially viable investment opportunities** for the private sector in regard to domestic food production. Although substantial private (and public) sector investment is required to develop resilient food systems, private sector investors cannot allocate capital if there are limited investment opportunities offering a credible risk-adjusted return on investment. This equally applies to concessional capital providers, such as DFIs and impact investors, although the risk-adjusted return required should theoretically be lower for these types of investors. The lack of commercially viable investment opportunities has been and will continue to be a constraint in regard to mobilizing additional private sector investment for the food security agenda.

**Private sector investment is not suitable for addressing short-term, immediate acute food insecurity crises, emergencies, and catastrophes.**

According to private sector investors, as well as development sector experts who work closely with private sector food and agriculture companies, the unanimous perspective is that private sector investment has a very limited role to play in providing urgent relief in acute food insecurity crises, emergencies, and catastrophes (IPC Phases 3, 4, and 5, respectively). As one prominent private sector stakeholder who led East Africa operations for a multinational agriculture company put it: "I think food crises will get much worse, but I don't see the private sector filling that gap". This viewpoint may contrast with the idea that the private sector has a responsibility to suppliers and consumers in countries experiencing acute food insecurity. Nevertheless, it is essential to remember that private sector companies and investors bear a fiduciary duty to their own investors to pursue commercially sustainable and profit-generating opportunities.

8 The IPC Acute Food Insecurity Reference Table. https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/manual/IPC_Technical_Manual_3_Final.pdfhttps://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/manual/IPC_Technical_Manual_3_Final.pdf, p. 37
9 http://www.fightfoodcrises.net/fileadmin/user_upload/fightfoodcrises/doc/resources/GNAFC_FFFC_Report2022 .pdf
10 https://lordslibrary.parliament.uk/horn-of-africa-projections-of-a-famine-in-2023/
11 https://justruraltransition.org/case-study/aceli-africa/
12 https://www.bii.co.uk/en/news-insight/research/financing-gap-what-financing-gap/

*"The private sector goes where there is money to be made."* – Expert in mobilizing agricultural financing for Africa

*"Private sector companies are not convinced by anything other than market factors – those are the only things that companies should be paying attention to...and you're not going to find anything showing profitable private sector investment in acute food insecurity."* – Co-ordinator of an initiative for mobilizing private sector investment

Stakeholders consulted for this policy brief indicated that the private sector often looks to donors and the public sector to subsidize their operations in challenging food-insecure environments, where profitable operations are more difficult to sustain. For example, according to one industry expert, private sector input suppliers have lobbied international donors and domestic governments for continued and additional inputs subsidies in countries impacted by both acute food insecurity and fertilizer price shocks.

Efforts to mobilize private sector financing to address short-term acute food insecurity are mostly driven by philanthropy or CSR, which has limited scalability and sustainability. For example, Nestlé's much higher-than-usual pandemic food relief efforts (both in the form of financial and product donations) in 2020 amounted to $131 million,[13] a fraction of its ~$92 billion in global sales in the same year.[14] Not many other companies can or would match even that level of philanthropy.

**Private sector investment has a bigger role to play in building the medium-term resilience of food systems so as to prevent future emergencies, but private investors often seek higher returns in high-value export crops, rather than increasing the production of food for domestic consumption.**

**Case study highlight**

British International Investment

- Climate change, COVID-19 and the Russian invasion of Ukraine have exacerbated food insecurity in Africa and led British International Investment (BII) to increase its focus on food security.
- Through a Food Security Working Group, BII has made significant progress towards developing a consistent approach to food security in Africa, complementing an existing portfolio of ~$600M that supports these objectives.
- BII's approach spans all its sector groups and addresses both immediate crises and longer-term structural pressures, including focuses on:
  1. **Agricultural inputs**: Support trade; expand local production, distribution, usage, access and innovation of inputs (especially fertilizers, crop protection and seeds).
  2. **Food access:** Reduce prices for low-income consumers; strengthen supply chains and infrastructure (especially for staples and edible oils).
  3. **Climate-smart agriculture:** Improve smallholder productivity; build climate resilience of food systems and capture carbon.

**Case study highlight**

FOOD ACTION ALLIANCE

- Founded by the International Fund for Agricultural Development, Rabobank, and the World Economic Forum in 2019, with Rwanda, Switzerland, Tanzania, and the United Arab Emirates as government partners.
- Working with 35+ organizations to scale food systems innovation and impact globally by mobilizing collective action, public–private partnerships, and investments in national food systems investment plans and flagship initiatives.
- **"FAA's strength is medium-term food systems transformation, to build sustainable food systems for the future"** – it is unable to address immediate food security outcomes.

Most of the initiatives identified for this policy brief focus on mobilizing private sector investment for medium- to long-term food systems transformation to address the underlying causes of acute food insecurity, as detailed in the case study highlights. The IPC also prioritizes actions to build resilience and reduce disaster risk in Phases 1 and 2 of acute food insecurity.[15] However, investible

[13] https://www.nestle.com/stories/nestle-donations-help-feed-hungry-during-pandemic-covid
[14] https://www.nestle.com/media/pressreleases/allpressreleases/full-year-results-2020
[15] The IPC Acute Food Insecurity Reference Table. https://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/manual/IPC_Technical_Manual_3_Final.pdfhttps://www.ipcinfo.org/fileadmin/user_upload/ipcinfo/manual/IPC_Technical_Manual_3_Final.pdf, p. 37

opportunities, as defined by private sector investors, are difficult to find in this context and in the associated timeframe. For example, even DFIs with an explicit focus on creating development impact find it difficult to expand investments in support of the food security agenda. Staff members from **multiple DFIs indicated that most have investment criteria that price on commercial terms.** When DFIs accept a higher risk and lower returns by investing on concessional terms, they "still require sustainable enterprises who are able to sell things for more than they can produce".[16] Agricultural investments comprise on average only 7% of the portfolios of 13 leading bilateral and multilateral DFIs.[17]

Private investors' perception of the higher risk of, and lower financial returns from, food security and domestic food production investments are driven by both supply and consumption factors. On the supply side, smallholder farmers represent the bulk of primary production in Africa, especially for staple food crops, and smallholder value chains have not historically been a source of profit or investment returns for private sector investors. For example, a stakeholder with insider insight into many private sector partners of initiatives, such as the Farm-to-Market Alliance, indicated that companies have generally lost money investing as part of these larger-scale initiatives. This is also evidenced by data from the Council on Smallholder Agricultural Finance (CSAF) on small-scale and SME financial lending.[18] On the consumption side, addressing acute food insecurity requires a focus on lowering food prices and increasing the availability of nutritious foods for the most vulnerable, including low-income or displaced populations. However, private sector stakeholders indicated that they see most of the opportunity relating to serving local consumption in Africa as coming from providing the emerging middle class with higher-value processed foods and proteins, due to this population having more disposable income, with a preference for products with higher margins.

As a result of these factors, private sector investors are generally more focused on high-value export crops and processed foods for domestic markets, versus staple and affordable nutritious foods that can address acute food insecurity. For example, many of the most high-profile private sector investments in the African food and agriculture sector are in tea, coffee, avocado, floriculture, macadamia, cashew, and export horticulture. These high-value export crops also often incentivize the use of scarce land and water resources, drawing them away from food production for local consumption, which negatively impacts local food security as local food prices for net consumers undermine any profits for producers and workers from such high-value cash crops. In addition, the rise of "agtech" innovations, such as financial technology platforms serving smallholder farmers and big data analytic services, is often more attractive to private agricultural investors than direct investment in food value chains for domestic consumption, given the higher growth and returns potential promised by technology start-ups.

[16] https://assets.bii.co.uk/wp-content/uploads/2022/11/24134629/Risk-Return-and-Impact_BII.pdf
[17] A Review of Inclusive Technical Assistance in Agriculture Deployed by Development Finance Institutions, June 2020. p.5 https://www.casaprogramme.com/wp-content/uploads/20200630-CASA-TAF-Review-of-DFI-Inclusive-TA.pdf
[18] https://agrilinks.org/post/agricultural-sme-finance-challenge

## Question #2: What mechanisms and incentives can catalyse more private sector financing for the food security agenda?

### Case study highlight

FARM TO MARKET ALLIANCE

- Launched in 2015 by the Alliance for a Green Revolution in Africa, Bayer, Rabobank, Syngenta, the World Food Programme (WFP) and YARA to empower farmers.
- Provides access to information, quality inputs, affordable financing, other farmer services, handling and storage solutions, and market connections.
- **Successes:** Claim of $100 million in crop sales supported, across 490,689 farmers in Kenya, Rwanda, Tanzania, and Zambia. Claim of $2 million loans facilitated in Kenya and $198 million loans in Rwanda, but financing numbers need further substantiation.
- **Challenges:** Did not achieve scale or sustainability – now working in fewer countries than when it started; United Nations-led and unclear level of **dependency on WFP procurement**; key private sector partners are **multinational inputs suppliers**, rather than offtakers; lack of engagement and tensions with existing domestic agribusinesses, e.g. in Kenya; Unilever finger millet project in Kenya generally viewed as a success, but **failed to scale due lack of local processors** who can turn the finger millet into consumable product.

The findings from the previous section suggest that private sector investment is not a panacea for addressing short-term acute food insecurity. Nevertheless, private sector investment can play a crucial role in addressing the underlying causes of acute food insecurity over the medium and long term. This next section explores the successes that various initiatives and tools have achieved in mobilizing private sector investment for the food security agenda. Additionally, it examines how existing mechanisms may need to be adapted to direct more private investment towards areas that have the greatest impact on food security.

**Existing initiatives have focused on engaging multinationals and supporting input provision, but more efforts are needed to support local agribusinesses and processing capacity, as both offtakers for domestic agricultural production and value addition for local consumption**.

The answer to Question 2 is partially rooted in another related query: what types of private sector investment yield the most significant impact on food security? Africa, which houses the vast majority of countries experiencing acute food insecurity, currently imports approximately 40% of its food, with food imports increasing over the past decade.[19] Furthermore, there is growing concern that the multiplier effects of local agricultural growth, in terms of off-farm employment and productivity growth, are weakened if a significant portion of the region's food supply is produced, processed, and distributed outside the continent.[20]

[19] Africa Union, 2021 - https://www.europarl.europa.eu/cmsdata/246156/AU%20Common%20Position%20on%20Food%20Systems%20-%20English%2011-2021.pdf

[20] The future of work in African agriculture: Trends and drivers of change. Yeboah & Jayne, 2018. https://www.ilo.org/global/research/publications/working-papers/WCMS_624872/lang--en/index.htm

This observation suggests that, for the greatest impact on local food security, private sector investment should concentrate on enhancing local production and processing of staple crops and nutritious food intended for domestic consumption.

As the President of Senegal and the African Union, Macky Sall, stated at the Dakar 2 Summit on “Feeding Africa: Food Sovereignty and Resilience”, "Africa must learn to feed itself". However, many existing initiatives aimed at mobilizing private sector investment for the food security agenda have primarily focused on collaborating with multinational partners and enhancing access to inputs, rather than fostering the development of domestic offtakers and processing value chains. The reason there is such a focus on inputs is that for large global input suppliers this is a way of breaking into new markets. This links to the overarching point that these partnerships need to be commercially driven. However, these efforts to promote local production through smallholder farmer support have frequently overlooked the local offtake and processing aspects of the equation. A senior agricultural expert in a donor institution expressed criticism regarding the focus of current initiatives: "I've always pushed back and said we're not there for big multinational companies. We should be there to create markets for African companies." Another senior private sector stakeholder advocated for a shift in focus towards domestic processing value chains: "Increasing local processing and value addition would turn harvests into something that we can eat".

**Case study highlight**

Africa Improved Foods

- Africa Improved Foods is a public–private partnership founded in 2015 between DSM (a Dutch multinational that produces nutrient ingredients for human and animal consumption), the Government of Rwanda, IFC and FMO.
- Aims to locally manufacture high-nutrition foods, with $65 million invested by its partners to-date.
- **Successes:** Demonstrated the potential for public–private partnerships; increased local supply of nutritious foods; provided incentives for farmers to invest in higher-quality and higher-yield local production of key cereals.
- **Challenges:** Has only recently reached commercial breakeven after eight years of operations – **DSM is said to have lost millions** on its investment; has **yet to significantly diversify offtake from the WFP to private buyers**, and may be outbidding other local processors serving the commercial market for local supply of soy and maize in Rwanda due to WFP’s purchase price premium; may not be contributing to increasing food security for local Rwandese populations that are not on the receiving end of WFP humanitarian assistance.

Some initiatives, such as Africa Improved Foods,[21] have focused on building local processing capacity to supply WFP and the humanitarian sector, but have yet to successfully engage the local commercial offtake market, leading to a long road to commercial sustainability, and risking distortion in the producer supply chains that also supply local processors serving domestic commercial food markets. Hence, the net food security and systemic impact of initiatives such as Africa Improved Foods is something that warrants further objective research.

In order for private sector investments to contribute meaningfully to the food security agenda, all parts of local food value chains must be engaged: from input providers to producers, SME aggregators, value addition processors, logistics providers, and local vertically integrated companies. This can create more commercially sustainable sourcing from smallholder farmers for local value chains, as well as creating more sustainable domestic production of edible outputs.

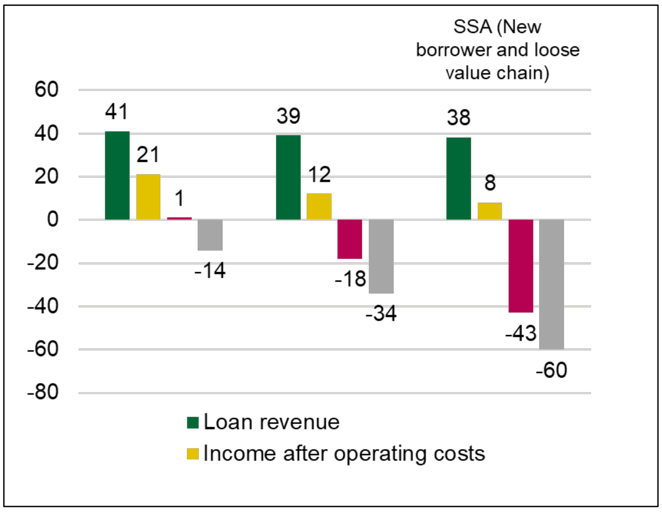
**Private sector financing providers need significant de-risking and blended finance in the countries that are the most affected by food insecurity, but the efficacy of current concessional capital or “blended” finance instruments is mixed.**

Although we now have strong hypotheses regarding where private sector investment should be targeted so as to achieve the biggest food security impact, the challenge of getting the private sector to invest still remains. The almost unanimous conclusion among the public, donor, and private sector stakeholders consulted for this policy brief is that **the private sector will not significantly increase its investments in food security without extensive government and donor intervention**. This is unsurprising, given anecdotal evidence that many private sector partners of the initiatives highlighted in this brief have lost money on investments made through

[21] https://africaimprovedfoods.com/

those initiatives, and that recent evidence of 3,600 SME agriculture investments has shown consistent losses in Sub-Saharan Africa.

**Figure 5: Average net income for 3,600 investments in SME agriculture across Sub-Saharan Africa**




In other words, catalysing a significant increase in private sector investment in countries facing acute food insecurity most likely requires substantive public policy incentives, concessional finance to de-risk private investment, and/or technical assistance to build a pipeline of investible opportunities.

As a prominent agriculture investor put it:

> *"We need to grow viable businesses over many years with patient capital before they are fully investible and can be transferred into the private sector. It is unrealistic to expect high levels of private leverage on day one. Donors and DFIs need to take their catalytic role more seriously and be realistic about the financial returns available when operating in food markets with multiple market failures."*

What, then, is blended finance, and how has it been applied towards catalysing private investment in the food security agenda?

As defined by the OECD, blended finance is "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries".[22] This necessitates a further definition of "development finance", which is financing with the aim of achieving development impact and can include instruments such as grants, guarantees for private debt investors, concessional debt with higher risk tolerances and lower interest rates, and equity investments that offer first-loss coverage for commercial investors.[23]

For agricultural investing, it is necessary to segment the definition of blended finance further, since donor or philanthropic grants and technical assistance are often required to de-risk and attract even concessional DFI or impact investment capital, let alone purely commercial financing. Hence, "blended finance" in emerging market agricultural sectors often initially "blends" concessional or public capital with even more concessional grant funding, rather than leveraging private sector investment.

But blended finance is not a cure-all solution. According to recent research by the Overseas Development Institute, leverage ratios for traditional blended financing instruments (e.g. concessional debt and guarantees) have been much lower than expected. Every $1 of multilateral development bank and DFI concessional financing has mobilized just $0.37 of private finance in low-income countries,[24] which are the vast majority of countries experiencing acute food insecurity. Furthermore, these average figures include sectors that are lower risk than agriculture,[25] while this

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[22] https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/

[23] The DFI Working Group on Blended Concessional Finance for Private Sector Projects has a slightly different definition of blended concessional finance, defining it as a tool "to increase finance for important private sector activities, help address the Sustainable Development Goals (SDGs), and mobilize private capital". DFIs also apply five enhanced principles to the use of blended concessional finance, including 1) additionality, as justification for the use of concessional finance, 2) crowding-in and minimal concessionality, 3) commercial sustainability, 4) reinforcing markets, and 5) promoting high standards. (https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES&CVID=lYCLe0B#:~:text=The%20five%20core%20principles%2C%20carried,and%205)%20promoting%20high%20standards)

[24] "Blended Finance in the Poorest Countries: The Need for a Better Approach". https://odi.org/en/publications/blended-finance-in-the-poorest-countries-the-need-for-a-better-approach/

[25] As the analysis of total investments by sector show, DFIs and multilateral development banks often prefer the lower risks and higher ticket sizes of large infrastructure investments, which also provide more visible representations of public investment.

research also shows that initial investments in agriculture opportunities require much higher percentages of concessional versus more commercial capital, due to the multiple risks and market failures in the sector.

**Private sector investors also need policy predictability and demonstrated national commitments to domestic and regional food and agriculture strategies, due to the long timeframes and risks of most agricultural investments.**

Staple food production is frequently subject to politicization, with unpredictable policy and trade environments that are often influenced by political economy factors. For instance, the purchasing and selling behaviours of national grain reserves, regional trade and border restrictions relating to food security or regional disputes, the enforcement of import tariffs and quality standards, price controls, and state intervention in commodity marketing all contribute to extreme price and volume volatility. This makes it challenging to invest commercially in staple crops for farms of all sizes, and for commercial offtakers to provide forward purchasing and pricing commitments to farmer groups.

Staple grains and cereals are key to addressing acute food insecurity, and the political economy challenges around these crops must be addressed if private sector investment is to be catalysed in a meaningful way. In his recent book, *Gambling on Development: Why Some Countries Win, and Others Lose,* Professor Stefan Dercon (Chief Economist of the UK's Department for International Development from 2011 to 2017, and FCDO Development Policy Adviser from 2020 to 2022) argues that the answer lies not in a specific set of policies, but rather in a key "development bargain", whereby a country's elites shift from protecting their own positions to gambling on a growth-based future. The book further argues that aid "should not be a core concern in debates about development, because putting aid to good use is hard or even at times counterproductive unless an elite bargain that is consistent with development is present or emerging". As such, focusing too much attention on finance for food security is misleading since it cannot flow until there are viable political preconditions for transforming the food system.

From a private sector investor perspective, the key components of these viable political preconditions are more public investment in, and a commitment to comprehensive strategies for, food and agriculture. Agribusiness needs to be part of a clear, coherent and co-ordinated industrial strategy that is supported by enabling policies and public investment, e.g. in infrastructure, which goes beyond special economic zones that privilege exports over domestic consumption. In 2003, African governments made commitments to allocate at least 10% of national public expenditures to agriculture, through the Maputo Declaration that spawned the Comprehensive Africa Agriculture Development Programme (CAADP) framework. However, only four countries have achieved the 10% budget allocation target, and only one country, Rwanda, is on track to meet all of its Malabo commitments.[26]

[26] https://au.int/sites/default/files/documents/41573-doc-ENGLISH_3rd_CAADP_Biennial_Review_Report_final.pdf

# Conclusions: Private sector financing cannot address the financing gap for addressing acute food insecurity on its own

## Initial conclusion: Can private sector investors close the financing gap for addressing acute food insecurity?

Based on this initial review of mechanisms to mobilize private sector financing, private sector investment has an important role to play in addressing the underlying causes of acute food insecurity in Africa, but significant donor and public sector intervention is still needed to catalyse private sector investment and to direct it towards investments that will have the biggest impact on food security.

In every scenario for the transformation of food systems to make food insecurity crises a thing of the past, governments and donors play a prominent role: in setting clear roadmaps for food and agriculture policy and sector development, and in providing the financing and incentives needed to catalyse private sector engagement in geographies where the pure commercial return case is difficult – if not impossible – to make.

Although there is a growing emphasis on "triple bottom lines" and social business models, the fact remains that private sector investors are not altruistic stakeholders. Even in cases where private financing is mobilized, it mostly goes to high-value export crops, which does little to improve food security in the countries where the private sector invests.

## Recommendations: How can initiatives mobilize additional private sector investment to address acute food insecurity?

Learnings from the case studies reviewed for this policy brief, as outlined in the sections above, indicate that initiatives aimed at mobilizing private sector investment for the food security agenda should prioritize two objectives.

### 1. Redesign initiatives to catalyse private investment for acute food insecurity that focuses on smallholder farmer support

Decades of donor support for smallholder farmers in the form of inputs subsidies and technical assistance has had limited impact on increasing productivity or moving away from subsistence farming for staple food crops, although smallholder initiatives in export cash crop value chains have been more successful. Successes in incorporating smallholder farmers in high-value export crop value chains indicate that private investment in smallholder production can be commercially viable and scalable. However, the relative lack of success at scale in mobilizing private investment to improve productivity and move away from subsistence-level farming in smallholder staple crop production indicates that initiatives may need to rethink the usual pillars of smallholder engagement. Many existing initiatives aimed at mobilizing private sector investment for the food security agenda have primarily focused on collaborating with multinational partners and enhancing access to inputs, but such support needs to go hand in hand with work on creating an enabling policy environment for staple crops and needs to focus on local commercial processing and value addition offtake, as specified in the recommendation below. Additional analysis is needed to identify the specific innovations that can mobilize private investment in smallholder value chains in ways that will achieve more impact in addressing acute food insecurity – this issue is raised in the section below.

### 2. Focus efforts on catalysing private investment in local agricultural processing and value addition

Africa, which houses the vast majority of countries experiencing acute food insecurity, currently imports approximately 40% of its food, with food imports increasing over the past decade. Furthermore, there is growing concern that the multiplier effects of local agricultural growth, in terms of off-farm employment and productivity growth, are weakened if a significant portion of the region's food supply is produced, processed, and distributed outside the continent. The missing value chain link driving growing food imports in many of these acutely food-insecure countries is a lack of local processing and value addition capacity, which would also provide local offtake for domestic agricultural production. As mentioned above, many initiatives to date have not focused on this piece of the equation, but rather on access to inputs and smallholder farmer support.

#### 3. Leverage blended financing to mobilize local financial institutional lending to processing and value addition SMEs

The type of local currency debt provided by local finance institutions is often the type of financing that agricultural SMEs most need. At the same time, SME financing needs are not well-matched with the types of foreign currency investment that DFIs and other international investors have available, especially with regard to ticket size and return expectations. As one senior agricultural expert stated: "Money available is not matching requirements in terms of ticket size and risk – DFIs can't invest in small ticket sizes".

There are many initiatives that are already engaged in providing concessional financing or incentives to local financial institutions in order to stimulate more lending to agricultural SMEs. However, existing blended financing instruments have been less effective than hoped in mobilizing private financing, although initiatives such as Aceli Africa have seen successes in improving the leverage ratio. The section below highlights open questions around Aceli Africa's approach as well as blended financing approaches in general, for further research.

## Areas for further research: What questions was this policy brief unable to answer within its limited scope?

#### 1. How should food security initiatives redesign their approaches to mobilizing private sector investment in smallholder farmer value chains?

To date, private sector investment in smallholder staple crop value chains as part of food security initiatives has yielded losses in many initiatives and has had limited impact on increasing productivity or moving away from subsistence farming. As one private sector investor put it: "If donors want the private sector to invest more through a food security lens, can they realistically also expect them to do so through smallholders?"

This should not be viewed as a blanket questioning of the value of private, donor, and public sector engagement with smallholder farmers, but rather of whether food security initiatives, specifically, should continue to focus on catalysing private sector investment in smallholder value chains, and how they should do so. As mentioned in the first recommendation above, further research is needed into the appetite of private sector investors for smallholder staple crop value chains, the realistic contribution additional private sector investment in these value chains can make towards improved food security, and innovations in how initiatives can redesign smallholder engagement to achieve more food security impact in staple crop value chains.

#### 2. What innovation in blended financing instruments is needed to increase their efficacy in catalysing private investment? And what other financial instruments can be applied to fund the food security agenda?

Given the mixed performance of blended financing in mobilizing private sector investment, more innovation may be needed in the types of instruments and incentives offered. Even the Aceli Africa example shared earlier is encountering challenges in scaling private financing for agricultural SMEs. One issue may be that not enough grants are available to increase returns or decrease risk for private investors, but that could be what is most needed to motivate private investment in high-impact but high-perceived-risk opportunities.[27] Along with innovation in instruments and incentives to de-risk private sector investments that address acute food insecurity, further scrutiny is also needed around governance mechanisms that ensure any increased concessional financing is used appropriately for maximum impact and additionality, but that are not unrealistically burdensome to implement for private investors.

[27] https://www.bii.co.uk/en/news-insight/research/financing-gap-what-financing-gap/

There are also many other financial instruments that have been applied in efforts to achieve development goals and that may also have relevance for the food security agenda. For example, how have results-based financing mechanisms been used effectively, and how can these instruments be applied to the food security agenda? What role can increasing pools of climate financing (e.g. voluntary carbon and payment for ecosystems services markets) play in supporting sustainable agriculture and resilient food systems? And to what extent do current climate financing mechanisms trade off food security through subsistence farming for climate and biodiversity objectives?

### 3. What frameworks for trade and agricultural subsidy policy can provide enabling foundations for, rather than deterring, more private sector investment, while balancing the needs of domestic producers and consumers versus multinationals?

This policy brief did not focus on the political economy and policy-enabling environment required for more private sector investment in the food security agenda, but these are important issues that can deter private investors. Policy reform must also balance the needs of domestic producers and consumers with the needs of influential multinational corporations. For example, the New Alliance for Food Security and Nutrition, a G8 initiative launched in 2012, was effective in driving policy change but is now defunct in part because of a backlash around policies and tax reforms perceived as prioritizing multinational corporations and marginalizing smallholder farmers and local companies.

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