



**Global
Forum**
on Food Security
and Nutrition

Innovative financing for agriculture, food security and nutrition

Summary of discussion no. 81
From 19 June to 10 July 2012



Global Forum on Food Security and Nutrition

About the Document

This document summarizes the results of the online discussion "Innovative financing for agriculture, food security and nutrition" held on the Global Forum on Food Security and Nutrition (<http://www.fao.org/fsnforum>) from 19 June to 10 July 2012.

The following summary aims at providing readers with a general overview of the discussion, including the list of all references shared.

For the full text of all contributions and further background information please refer to the discussion page: <http://www.fao.org/fsnforum/forum/discussions/innovative-financing>

Disclaimer

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned. The views expressed in this information product are those of the author(s) and do not necessarily reflect the views of FAO. The word "countries" appearing in the text refers to countries, territories and areas without distinction.



Table of contents

I. Overview	2
II. Objectives, methods and means of action which innovative financing should employ	3
III. The proposals for innovative financing mechanisms resulting from the consultation	5
Annex: Reference of contribution by author	7

I. Overview

The discussion on Innovative Financing for Agriculture, Food Security and Nutrition was launched by the FSN Forum (<http://www.fao.org/fsnforum>) from the 19 of June to 10 July and has been an undeniable success.

This document summarizes the results of the online discussion. The numbers in square brackets refer to the contribution, or contributions, which support the question under consideration (see annex for the list of contributors).

For the full text of all contributions please refer to proceedings: http://www.fao.org/fsnforum/sites/default/files/file/81_Innovative_financing/PROCEEDINGS_81_Innovative-financing-07-13-12-11-11.doc

The 28 contributions received have enriched the discussion with a diversity of points of view, coming from 12 countries and 5 continents. While the majority of contributions are from Europe (48%), Africa ranks second (22%) followed by North America and Asia (both 15%).

Participants also represent several different sectors, ensuring complementary views on the issues raised in the discussion: central and regional authorities (7.5%), private sector (11%), universities and research institutions (26%), international organizations (11%), independent consultants (26%), technical cooperation (4%) and non-governmental organizations (14%).

Besides these figures, two main outcomes from this consultation should be highlighted:

1. a series of concrete proposals for innovative financing mechanisms, and
2. an enriching exchange of questions and points of view on the objectives, methods and means of action which innovative financing should embrace.

II. Objectives, methods and means of action which innovative financing should employ

George Kent's contribution [2] quickly raised the **question of the legitimacy** of the objectives and methods of innovative financing. On legitimacy, George Kent brought up the problems of political acceptability of different mechanisms of innovative financing.¹ This question of acceptability is repeated by several contributions [13. Bertrand Vincent] reminding us of the political difficulty, for example, of putting in place taxation mechanisms in an internationally coordinated way.

Recalling that it is necessary to identify clearly the problems that innovative financing systems have to deal with,² he equally notes that there is no universal solution and that **each mechanism must be chosen and adapted precisely according to the pursued objective**. On this point, he is joined by the contribution of Falana Adetunji Olajide [7]: "one single financing strategy will not be appropriate".

Finally, G. Kent highlights the idea that food production is but one aspect of food security among many³ – and therefore that the objectives of innovative financing for food security must try to go beyond merely raising production capacity in developing countries.

However, the lack of investment by developing countries in their national farming sector is real: **while the Maputo Declaration of 2006 committed these States to dedicate 10% of their public spending to agriculture**, it has not had enough effect to reach this objective. It would be desirable to recall these commitments in the experts' reports [28. Adèle Irénée Grembombo].

Christian Chileshe's contribution [5] emphasizes the **psychological and sociological factors**, which are determining factors in the promotion of initiatives for smallholding farmers. Innovative financing schemes must, therefore, support smallholders (primarily, through credit and insurance) in the development of their activities: their role in bringing about financial and social **inclusion** must, accordingly, be particularly enhanced.

Many contributions [6. Dimitra Zervaki, 10. François Stepman] mention **the importance of research**, which must integrate all the stakeholders, at all levels of the value chain with the object of developing the most effective innovations possible, to best meet the needs of the different stakeholders (which is well summarized by François Stepman [10]: "A diversity of stakeholders – instead of mainly researchers – should be able to submit joint proposals in line with value chain consultation, research and innovation"), and education and training, where there are potentially significant consequences [27. Noemie Gerbault]. More than in any other domain, **innovative financing must here play an essential role as catalyst**.

One of the main difficulties for the agricultural sector, in developing countries, is how to attract financing, as mentioned in several contributions [2. George Kent, 10. François Stepman,

1 "New sources of funding could be proposed, but is there any reason to expect that those who control those funds would prioritize the poor? Yes, one could imagine innovations such as a small tax on currency transactions, but how would those revenues be managed? Would the powerful accept such a tax if the revenues were used primarily for the benefit of the poor?" George Kent.

2 "What type of IFMs are we talking about? Large-scale? Small-scale? In low-income countries, high-income countries, or everywhere?" George Kent.

3 "Suppose we agree that the main problem we want to focus on is the widespread hunger in the world. This is not due to an overall global food shortage. It is due primarily to the fact that many poor people do not have enough money to access the food supply that is out there, and they do not have adequate resources to produce their own food" George Kent.

11. Muhammad Irfan Kasana, 17. Calvin Miller]. The innovations experienced by agriculture in developed and in emerging countries throughout history have only been made possible by the existence of mechanisms for covering the associated risks, which have in turn made it possible to attract financing. Therefore, innovative financing schemes must not only serve to finance, but also **to guarantee agricultural production in developing countries**. Calvin Miller [17] notes that the means do exist ("the world has excess investment funds looking for a place to invest"): innovative financing must evidently bring about the deployment of these means for the benefit of food security.

The necessary participation of local and regional authorities in the financing and technical support of actions in favor of food security is also raised by some contributions [13. Bertrand Vincent, 27. Noemie Gerbault]: these local and regional authorities gain, in the countries of the Northern Hemisphere but also of the Southern Hemisphere, from a deep knowledge of problems in the field which they have to deal with directly and which they could use to the benefit of the partner regions. They also operate on a scale and on objectives that potentially allow them greater efficiency: by supporting local and regional authorities with whom they are in a decentralized cooperation partnership, which have therefore certain characteristics similar to their own, they can more easily orientate the financing and technical assistance towards the more pressing needs. [27. Noemie Gerbault].

The study and the co-ordination of the mobilization of innovative financing with the object of optimizing its efficiency have been invoked by several contributions [13. Bertrand Vincent, 19. Emilia Venetsanou, 21. Bhubaneswor Dhakal, 22. Gyanesh K Shukla, 24. Agnes Luo Laima]. Bertrand Vincent [13] recalls that the multiplication of structures for state aid to development, the excessive delays in intervention in urgent situations, the considerations of domestic politics or again diplomatic imperatives cripple the efficiency of the Official Development Assistance (ODA) in many sectors of food security. Because innovative financing schemes are generally less affected by such constraints, thanks to their, "**resilience**" and their "**capacity for adaptation**", have thus had the opportunity to deal with situations which the traditional ODA does not manage well or at least, insufficiently. On the other hand, they should not be viewed too naively: they are still subject to strong constraints [13. Bertrand Vincent, 14. George Kent, 24. Agnes Luo Laima]: Bertrand Vincent [13], for example, recalls that «by nature, the private sector invests to generate economic activity and increase its competitiveness», or also that "the boundary between 'private investment' and 'land grabbing' is tenuous".

As a result, **the governance of funds involved, the respect for the rule of law, the efficiency and economic and social equity of projects financed as conditions** for the mobilization of funds, must thus be strictly secured [19. Emilia Venetsanou].

Another contribution [22. Gyanesh K Shukla] even proposes a process of scenario planning for the implementation of innovative financing: "identify the **driving forces**, the **foreseen changes in the investment environment** and the **critical uncertainties**; describe the **stages of the scenario**; **consult**; assess the **implications of different scenarios**; compare the **possible responses to different scenarios**". **Mechanisms implemented must also be assessed**, particularly to protect against the risk that actions which might seem legitimate and effective do not turn out to be counterproductive [21. Bhubaneswor Dhakal, 26. Action contre la faim].

An important difficulty in the food security aid sector is the insufficient diversity of private stakeholders able to be associated to the programs for supplying the necessary products (fertilizers, tools, materials, etc.) [24. Agnes Luo Laima]. It is therefore necessary to make any innovative financing projects as competitive as possible, in particular calling on **small and medium sized organizations and to companies originating in the developing countries**.

III. The proposals for innovative financing mechanisms resulting from the consultation

The consultation has made possible the production of concrete and in general precise proposals for innovative financing mechanisms:

- The **creation of a direct relationship between a family of farmers from the Northern Hemisphere with a family from the Southern Hemisphere to discuss practices** [1. Peter Filius].
- The **development of credit** directed exclusively to the small farm producers [1. Peter Filius, 8. Tékpon Gblotchaou, 15. Christian Chilese, 26. Action contre la faim]. To be more precise, four great ideas could be sustained in this way: the implementation of **sovereign or communal funds for loan guarantees** for small farm producers, the setting up by the State and donors of **credit facilities**, the promotion of **inter-professional mutualization of debts** of the small farm producers and finally the development of **agricultural insurance** that covers the small producers against risks affecting their crops [8. Tékpon Gblotchaou, 26. Action contre la faim].
- The creation of dedicated organizations in order to offer **tools, packaging materials, minor machinery for sale at affordable prices to poor small producer; the hiring of major equipment; the leasing of storage facilities or machinery** [3. Lisa Kitinoja].
- Resorting to the **philanthropy of the private sector** to finance agricultural development projects, the private sector partners benefitting from opportunities for publicity and tax reduction [4. Mike Brandolino, 23. Jérôme Bossuet, 25. Lizzy Igbine]. These approaches can be promoted among private partners under the heading of Corporate Social Responsibility (CSR) [25. Lizzy Igbine].
- The **reallocation of debt to benefit food security** [9. José Luis Vivero Pol, 13. Bertrand Vincent]. It means cancelling a part of a developing country's debt, in exchange for its commitment to devote all or part of the amounts budgeted for the reimbursement of the cancelled debt to actions promoting food security.
- The involvement of all stakeholders concerned with food security (in particular, not only researchers, but also producers, industrialists, civil society) in **research for innovation at all levels of the value chain** [10. François Stepman, 23. Jérôme Bossuet]. The creation of platforms that finance results -orientated research consortia can be envisaged. The creation of securities for loans based on the storage of harvests. It would mean a-tripartite cooperation between producers, banks and donors or the State. The donors or the State provide storage infrastructures. In return for a low rental, the producer exchanges his production with the owners of the infrastructure for a voucher - corresponding to the stocked volume - which could later be exchanged for that quantity. This voucher could then be used as a collateral guarantee for a loan made to the producer by the bank [11. Muhammad Irfan Kasana, 15. Christian Chilese]. The price risk for products stored is not anymore taken by the producer instead it is transferred to the banks. This proposition seems interesting and deserves to be examined in depth.
- The exploitation of **financial remittances from migrants** in order to finance food security [13. Bertrand Vincent].

- The development of decentralized **cooperation between territorial (local or regional) authorities** [13. Bertrand Vincent, 27. Noemie Gerbault].
- **Payments for environmental services** [13. Bertrand Vincent, 20. Philipp Aerni]. It is about assessing the value of positive externalities produced by agricultural producers (for example, when a producer decides to plant trees on a piece of land, instead of exploit it) and to ensure that the beneficiaries of these externalities (private businesses, local communities, the State, etc.) reward the agricultural producers at the level of this valuation. It is important to keep in mind the difficulty of this assessment, particularly in developing countries.
- A mechanism for **reducing waste and over-consumption of food**: a developed country sets quantified objectives for reducing consumption and wastage of food. The gap between these objectives and the results observed mean the State automatically pays proportional penalties destined to the fight for food security [18. Andrew MacMillan]. If such a mechanism is interesting, its political realism seems, today, still uncertain.
- The **funding of actions towards modernization of production methods by saving carbon credits** [23. Jérôme Bossuet]. This kind of mechanism is already implemented in the area of biodiversity protection: the donor finances the modernization of production techniques which results usually, in a saving of carbon credits, which are then returned to the donors as reimbursement for their participation.
- The need to **communicate about the existing programs to the small producer potential beneficiaries**, an important proportion among them being unaware of the existence of such programs [25. Lizzy Igbine].
- A **tax on financial instruments derived from agricultural raw materials** [26. Action contre la faim]. This tax, which is similar to the tax on financial transactions (TFF), would have the same "double effect": to mobilize means to fund food security and, by a low tax, fight speculative operations (those operations using a very low rate on high volumes) without having consequences for other activities related to these products [26. Action contre la faim].
- The **voluntary contributions of agro-food businesses** [26. Action contre la faim].
- A **tax on the food products recognized scientifically as having a negative impact on over-nutrition and associated illnesses** [26. Action contre la faim].

The effectiveness and technical feasibility of these mechanisms is undoubtedly variable, but the consultation's objective was primarily to generate the emergence of new ideas and it has achieved this objective.

Annex: Reference of contribution by author

1. Peter Filius, Germany
2. George Kent, University of Hawai'i, USA [first contribution]
3. Lisa Kitinoja, The Postharvest Education Foundation
4. Mike Brandolino, Climate Emergency Institute, US
5. Christian Chileshe, 3C Development Management & Entrepreneurship Experts Ltd, Zambia [first contribution]
6. Dimitra Zervaki, Greece
7. Falana Adetunji Olajide, Federal Ministry of Health, Nigeria
8. Tékpon Gblotchaou, Alliance contre la Faim et la Malnutrition [Alliance against hunger and malnutrition], Benin
9. José Luis Vivero Pol, Université Catholique de Louvain [Catholic University of Leuven], Belgium
10. François Stepman, Platform for African – European Partnership in ARD [Agriculture Rural Development], Brussels
11. Muhammad Irfan Kasana, Agriculture Corner, Pakistan
12. Comments by the facilitators: Maurizio Malogioglio, Marie-Caroline Dodé and Géraldine Tardivel
13. Bertrand Vincent, UNCCD [United Nations Convention to Combat Desertification] Secretariat, Germany
14. George Kent, University of Hawai'i, USA [second contribution]
15. Christian Chilese, 3C Development Management & Entrepreneurship Experts Ltd, Zambia [second contribution]
16. Suman KA, Change Planet Partners Climate Innovation Foundation, India
17. Calvin Miller, FAO, Italy
18. Andrew MacMillan, Italy
19. Emilia Venetsanou, freelancer development practitioner, Italy
20. Philipp Aerni, FAO, Italy
21. Bhubaneswor Dhakal, Nepal
22. Gyanesh K Shukla, Environment/Development Consultant, India
23. Jérôme Bossuet, ICRISAT [International Crops Research Institute for the Semi-Arid tropics], France
24. Agnes Luo Laima, Zambia National Marketers Credit Association (ZANAMACA), Zambia
25. Lizzy Igbine, Nigerian Women Association, Nigeria
26. Action contre la faim (ACF) [Action against hunger], sent by Etienne du Vachat, France
27. Noemie Gerbault, ORU-FOGAR [United Regions Organization-Forum of Global Associations of Regions], France
28. Adèle Irénée Grembo, France