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# FAO REGIONAL CONFERENCE FOR LATIN AMERICA AND THE CARIBBEAN

## Thirty-eighth Session

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

### Executive Summary

The Latin America and the Caribbean (LAC) region is not on track to achieving targets 2.1 “End hunger” and 2.2 “End all forms of malnutrition” of Sustainable Development Goal 2 (SDG 2). Projections suggest that hunger is expected to fairly remain constant in the next seven years.

Globally, countries would have to redistribute USD 1.4 trillion annually to fill the income gap of people who cannot access healthy diets. In the region, the cost of inaction – according to the estimates presented in this document – exceeds the estimated cost of ending hunger and all forms of malnutrition. The cost of ending extreme poverty, and consequently reducing hunger, can be estimated at about USD 12 billion annually, while the cost of closing the income gap to improve access to healthy diets can be estimated at USD 29 billion annually. By contrast, the total cost of inaction, considering the estimated hidden costs of dietary patterns and undernourishment, is USD 780 billion, while the cost of the double burden of malnutrition for only eight countries (which represents 38 percent of LAC’s gross domestic product [GDP]) in the region is USD 63 billion. This underscores the urgent need to evaluate, optimize and repurpose the financing to end hunger and malnutrition in all its forms.

To mobilize the necessary additional financing, a comprehensive approach is needed. A set of innovative and scalable financial mechanisms are necessary to bridge the financing gap to end hunger for today and tomorrow.

### Suggested action by the Regional Conference

The Regional Conference is invited to:

- (a) request FAO to develop data and evidence on how to optimize, evaluate and repurpose financing for food security and nutrition (FSN);
- (b) acknowledge the importance of public financing and high-level policy dialogue and commitment on financing for achieving FSN targets in the region; and
- (c) request FAO to provide technical recommendations to consider FSN outcomes into financial mechanisms.

Documents can be consulted at [www.fao.org](http://www.fao.org).

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## I. INTRODUCTION

1. Latin America and the Caribbean (LAC) is not on track to achieving targets 2.1 and 2.2 of Sustainable Development Goal (SDG) 2. Projections suggest that hunger is expected to remain fairly constant in the next seven years, and the number of people expected to be affected by undernourishment in the region will reach 44.5 million by 2030.<sup>1</sup>
2. The COVID-19 pandemic, the climate crisis and the war in Ukraine, together with the economic slowdown, food inflation and income inequality that characterize the region, have affected all four dimensions of food security and nutrition (FSN). Additionally, the rise in international food prices and inflation has impacted the cost of healthy diets, contributing to unhealthy consumption patterns that lead to multiple forms of malnutrition, including undernutrition, as well as overweight and obesity.
3. These multifaceted challenges in the region's FSN landscape underscore the urgent need for targeted interventions and sustained efforts to optimize and repurpose financing to end hunger for today and tomorrow. This involves finding the right mix of innovations, technologies, and public and private investments necessary for agrifood systems to promote more inclusive economic growth, better nutrition and health, and the sustainable management of natural resources.

## II. FINANCING TO END HUNGER AND REDUCE FOOD INSECURITY IN LAC

### II.1. Multifaceted financing within agrifood systems

4. Ending hunger and improving food security in LAC requires the right mix of innovations, technologies, and public and private investments that promote inclusive economic growth, through the creation of decent jobs, the strengthening of social protection systems, the promotion of better nutrition, and the sustainable management of natural resources. These activities imply costs that must be covered by mobilizing international financing, optimizing public financing, and redirecting private financing towards FSN purposes.

5. FSN financing should be framed under an agrifood systems approach that incorporates the full range of actors and their interrelated activities and interventions, including food production and supply chains (considering storage and distribution, packaging and processing, wholesale, retail and marketing, international trade, and food loss and waste management), as well as food environments and consumer behaviour. The interaction of agrifood systems with other support systems, such as environmental, social protection, health, transport and energy systems,<sup>2</sup> should also be considered.

### II.2. The cost to end hunger and reduce food insecurity and malnutrition

6. Globally, countries would have to redistribute USD 1.4 trillion annually to fill the income gap of people who cannot access healthy diets. However, by investing in various interventions, countries can drive down the cost of their safety nets by about two-thirds, or USD 428 billion globally, in 2030.<sup>3</sup>

<sup>1</sup> FAO, IFAD, UNICEF, WFP and WHO. 2023. *The State of Food Security and Nutrition in the World 2023. Urbanization, agrifood systems transformation and healthy diets across the rural–urban continuum*. Rome, FAO. In: <https://doi.org/10.4060/cc3017en>

<sup>2</sup> FAO, IFAD, PAHO, UNICEF and WFP. 2023. *Regional Overview of Food Security and Nutrition – Latin America and the Caribbean 2022 - Towards improving affordability of healthy diets*. In: <https://www.fao.org/documents/card/es?details=CC3859EN>

<sup>3</sup> Laborde, David & Torero, Máximo. (2023). Modeling Actions for Transforming Agrifood Systems. 10.1007/978-3-031-15703-5\_7.

7. To end hunger, it is necessary to at least bridge the extreme poverty gap, considering that the extreme poverty line is based on the cost of the basic food basket. The Economic Commission for Latin America and the Caribbean (ECLAC)<sup>4</sup> estimated that, on average, to bridge the extreme poverty gap in the region it would be necessary to invest 0.24 percent of the gross domestic product (GDP) of the region annually, or about USD 12 billion.<sup>5</sup> Additionally, it is important to consider that, to eliminate hunger and all forms of malnutrition, healthy diets should be affordable and available to all. Using ECLAC's methodology,<sup>6</sup> and considering the income gap necessary to access a healthy diet in LAC (based on the World Bank's highest poverty line of USD 6.85 per person/day,<sup>7</sup> the cost of closing the income gap to access healthy diets can be estimated at 0.52 percent of the region's GDP in 2021,<sup>8</sup> representing about USD 29 billion.<sup>9</sup>

### **II.3. The cost of inaction and slow/bad action**

8. Agrifood systems provide food security and nutrition, sustain economies and shape cultural identities. However, there are associated hidden environmental, social and health costs (or negative externalities). FAO's *State of Food and Agriculture* (SOFA) 2023 showcases true cost accounting, which helps arrive at an estimate of hidden costs<sup>10</sup> generated by market, institutional and policy failures. Globally, the leading quantified hidden costs of agrifood systems are those arising from dietary patterns that lead to diseases and lower labour productivity, which represent an important component of the cost of inaction related to not ending hunger and all forms of malnutrition. Based on this information, the estimated cost of inaction is more than USD 780 billion in the region.

9. Another estimate that is useful to quantify the cost of inaction is related to the double burden of malnutrition. The epidemiological and nutritional transition in LAC presents a double challenge to most countries' public policies on FSN: eradicating malnutrition and addressing a growing prevalence of overweight and obesity. In this context, ECLAC and the World Food Programme (WFP) have estimated the total cost of the double burden of malnutrition, including the costs related to health, education and productivity for different countries in the region. Although there is not a total estimate for the region, Table 1 shows the total cost of addressing the double burden of malnutrition for eight countries of LAC, which ranges from USD 0.5 billion (0.2 percent of GDP in 2014) to USD 28.8 billion (2.3 percent of GDP in 2018) in Chile and Mexico, respectively.<sup>11</sup>

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<sup>4</sup> ECLAC. 2023. *Institucionalidad social en América Latina y el Caribe: Eje central para avanzar hacia un desarrollo social inclusivo* (LC/CDS.5/3). Santiago.

In: <https://repositorio.cepal.org/server/api/core/bitstreams/35801e8f-a29b-4af4-935f-597a9f81a898/content>

<sup>5</sup> This estimate in USD is based on information available in ECLAC, 2023, specifically Table I.4: the extreme poverty gaps in 14 countries and the average gap for the rest of the countries of the region, and ECLAC's 2018 GDP estimate in constant USD (CEPALSTAT).

<sup>6</sup> ECLAC. 2023. *Institucionalidad social en América Latina y el Caribe: Eje central para avanzar hacia un desarrollo social inclusivo* (LC/CDS.5/3). Santiago.

In: <https://repositorio.cepal.org/server/api/core/bitstreams/35801e8f-a29b-4af4-935f-597a9f81a898/content>

<sup>7</sup> Díaz-Bonilla, E. 2023. *¿Qué es seguridad alimentaria y nutricional y cómo medirla?* IICA.

In: <https://repositorio.iica.int/handle/11324/21407>, shows that World Bank's poverty line of USD 6.85 PPP/per capita per day could be used as an approximation (upper limit) of the income needed to access a healthy diet.

<sup>8</sup> FAO, ECLAC, IICA and WFP. (forthcoming, February 2024). *Financing policy brief*.

<sup>9</sup> Using 2021 GDP (constant 2015 USD) from the World Bank's World Development Indicators.

<sup>10</sup> The hidden cost is any cost to individuals or society that is not reflected in the market price of a product or service. It refers to external costs (that is, a negative externality) or economic losses triggered by other market, institutional or policy failures. Source: *The State of Food and Agriculture 2023: Revealing the true cost of food to transform agrifood systems*. In: <https://www.fao.org/documents/card/en/c/cc7724en>

<sup>11</sup> ECLAC. 2022. *Nuevas publicaciones sobre doble carga de la malnutrición y su impacto social y económico*.

In: <https://www.cepal.org/en/notas/nuevas-publicaciones-doble-carga-la-malnutricion-su-impacto-social-economico>

**Table 1.**  
**Total cost of the double burden of malnutrition in LAC countries, selected years between 2014 and 2019**

Country	Chile	Ecuador	Mexico	Peru	El Salvador	Guatemala	Honduras	Dominican Republic
Year	2014	2014	2014	2019	2017	2018	2017	2017
% of GDP	0.2%	4.3%	2.3%	4.6%	10.3%	16.3%	10.2%	2.6%
USD	0.5 billion	4.3 billion	28.8 billion	10.6 billion	2.6 billion	12 billion	2.3 billion	1.9 billion

Source: WFP “The cost of the double burden of malnutrition”.<sup>12</sup>

10. The cost of inaction – according to the estimates shown above – exceeds by far the estimated cost of investing what is necessary to achieve targets 2.1 and 2.2 of SDG 2. The cost of ending extreme poverty, and consequently reducing hunger, can be estimated at about USD 12 billion,<sup>13</sup> while the cost of closing the income gap to improve access to healthy diets can be estimated at USD 29 billion.<sup>14</sup> By contrast, the total cost of inaction, considering the estimated hidden costs of dietary patterns and undernourishment, is USD 780 billion,<sup>15</sup> while the cost of the double burden of malnutrition for only eight countries (which represent 38 percent of LAC’s GDP) in the region is USD 63 billion<sup>16</sup>.

#### **II.4. Current types and levels of financing for FSN in the region**

##### ***Public spending by governments through the general national budgets***

11. Public sector intervention plays a critical role in agriculture and social protection and achieving targets 2.1 and 2.2 of SDG 2. There are several areas of public spending intervention that, in particular, have a direct impact on FSN. The data available allows for an analysis of public spending on agricultural production and social protection spending, which can benefit FSN outcomes.<sup>17</sup> However, this public spending leaves out some food security and nutrition dimensions related to consumers and public goods.

12. This public spending depends on budget allocations that must have, as a counterpart, public financing. The latter includes tax revenue, international contributions, and internal or external loans, among others, and these are influenced by diverse macroeconomic factors. Therefore, to improve public spending on FSN, it is necessary to assess the financing allocation mechanism (including tax revenue, domestic and external debt, and the availability of international contributions, etc.),

<sup>12</sup> <https://es.wfp.org/publicaciones/el-costo-de-la-doble-carga-de-la-malnutricion-0>

<sup>13</sup> This estimate in USD is based on information available in ECLAC. 2023. *Institucionalidad social en América Latina y el Caribe: Eje central para avanzar hacia un desarrollo social inclusivo* (LC/CDS.5/3). Santiago., specifically Table I.4: the extreme poverty gaps in 14 countries and the average gap for the rest of the countries of the region, and ECLAC’s 2018 GDP estimate in constant USD (CEPALSTAT).

<sup>14</sup> Using ECLAC’s methodology and considering the income gap necessary to access a healthy diet in LAC (using the World Bank’s highest poverty line of USD 6.85 per person/day) as explained in: Díaz-Bonilla, E. 2023. *¿Qué es seguridad alimentaria y nutricional y cómo medirla?* IICA.

<sup>15</sup> Based on the hidden cost which is any cost to individuals or society that is not reflected in the market price of a product or service. It refers to external costs (that is, a negative externality) or economic losses triggered by other market, institutional or policy failures. Source: *The State of Food and Agriculture 2023: Revealing the true cost of food to transform agrifood systems*. In: <https://www.fao.org/documents/card/en/c/cc7724en>

<sup>16</sup> Based on: ECLAC. 2022. *Nuevas publicaciones sobre doble carga de la malnutrición y su impacto social y económico*. In: <https://www.cepal.org/en/notas/nuevas-publicaciones-doble-carga-la-malnutricion-su-impacto-social-economico>

<sup>17</sup> Using the data available in FAOSTAT for agricultural production financing and social protection data from ECLAC.

considering the distribution of the public budget and the country's economic situation. In addition, it is also important to examine which areas of FSN are covered by public expenditures (and which are not) and how this could be optimized.

13. The public spending on agricultural production includes spending in three key areas: (a) agriculture, forestry and fishing; (b) environmental protection; and (c) research and development (R&D) in agriculture, forestry and fishing. Between 2001 and 2021, the total public expenditure in these areas in LAC was USD 23.4 billion per year on average,<sup>18</sup> representing 0.67 percent of LAC's total annual GDP in this period, which is below the world average of 0.75 percent.<sup>19</sup>

14. Table 2 shows the evolution of average annual public spending on agricultural production in the region considering five-year periods and the latest data available for 2021. Public expenditure in absolute value started to grow after 2006, reaching the highest average per year of USD 28.1 billion in the 2011–2015 period, but started to decline thereafter. In 2021, public spending reached just USD 15.3 billion. As shown in Table 2, the percentage of GDP of the public spending on agriculture production has also declined.

**Table 2.**  
**Annual average public expenditure related to agricultural production in LAC, 2001-2021**

	2001-2005	2006-2010	2011-2015	2016-2020	2021
Total public spending (USD billion)	18.515	25.993	28.113	22.681	15.325
% of GDP	0.58%	0.61%	0.75%	0.74%	0.57%
Agricultural Orientation Index (AOI)	0.52	0.46	0.35	0.26	0.21

Source: FAOSTAT.

15. The Agricultural Orientation Index (AOI)<sup>20</sup> can be used to examine the relevance that public spending on agricultural production has on the agricultural sector in LAC. This index indicates that the proportion of public expenditure on the agricultural sector is lower than the share of agriculture in the region's economy. It also trends downwards from around 0.5 in 2007 to 0.2 in 2021, which for the most recent years is below the world average of between 0.4 and 0.5.<sup>21</sup> This may be indicative of the fact that the level of financing received by the sector in the region is not in line with its relative economic importance. The declining trend in the index is not only explained by the reduction in the contribution of agricultural production to the total GDP, but also by a reduction in the public spending on agriculture in absolute terms.

16. Table 3 shows public expenditure on agricultural production disaggregated according to its three main areas. Of the total USD 15.3 billion spent in this sector in 2021, USD 10.6 billion went to agriculture, forestry and fisheries; USD 3.2 billion was allocated to environmental protection; while USD 1.5 billion was spent on research and R&D in agriculture, forestry and fisheries.

<sup>18</sup> Between 2001 and 2021 (at constant 2015 prices).

<sup>19</sup> Data from FAOSTAT.

<sup>20</sup> AOI indicates the share of government expenditure on the sector in relation to total government expenditure and divides it by the contribution of the agricultural sector to GDP. An AOI of less than 1 indicates that the sector receives a share of government expenditure that is less than its share of the economy, while an AOI of more than 1 indicates a share of government expenditure on the sector that is greater than its share of the economy.

<sup>21</sup> FAO, ECLAC, IICA and WFP. (forthcoming, February 2024). *Financing policy brief*.

**Table 3.**  
**Public expenditure related to agricultural production in LAC, disaggregated by area, 2021**

	<b>Agriculture, forestry and fishing</b>	<b>Environmental protection</b>	<b>R&amp;D in agriculture, forestry and fishing</b>
Total (in USD billion)	10.618	3.215	1.492
% of the total public expenditure on agricultural production	69.3%	21%	9.7%

Source: FAOSTAT.

17. By subregion, in South America the public expenditure on agricultural production has represented between 1 and 2 percent of total public expenditure in the last decade and has been declining from around 3 percent in 2009. In Mesoamerica, it remained at around 4 percent of total public spending between 2007 and 2014 but has declined since then to just over 1 percent in 2021. In the Caribbean, the proportion fluctuated more with values below 3 percent between 2008 and 2012, increasing to more than 6 percent in 2018 and falling again to around 3 percent in 2021.

18. Public spending on social protection programmes is also important for FSN because it strengthens the potential food consumption capacity of people living in poverty or vulnerability that, when realized through an increased demand, creates a virtuous circle that can sustain national growth and employment. Unlike public spending on agricultural production, public spending on non-contributory social protection<sup>22</sup> has been increasing in the region (Table 4). Between 2001 and 2014, it represented 0.5 percent of GDP, on average, but in the period 2015-2019, this share rose to an average of 0.7 percent of GDP, and in 2020 and 2021 it stood near 1 percent, responding to the needs generated by the COVID-19 pandemic.

**Table 4.**  
**Public expenditure on non-contributory social protection in LAC (% of GDP), 2001-2021**

	<b>2001</b>	<b>2009</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>South America</b>	0.44%	0.90%	0.54%	0.99%	1.38%	1.10%	1.75%	1.18%
<b>Mesoamerica</b>	0.24%	0.30%	0.22%	0.31%	0.26%	0.30%	0.43%	0.53%
<b>Caribbean</b>	0.30%	0.36%	0.27%	0.36%	0.42%	0.50%	0.74%	1.17%
<b>Latin America and the Caribbean</b>	0.33%	0.55%	0.36%	0.59%	0.73%	0.69%	1.10%	1.00%

Source: ECLAC. Non-contributory Social Protection Programmes Database in Latin America and the Caribbean.  
<https://dds.cepal.org/bpsnc/home>

19. The analysis by subregion shows that public expenditure on non-contributory social protection, as a percentage of GDP, was consistently higher in South America, remaining near 1 percent of GDP between 2009 and 2021, except for 2015 and 2020, when it reached 1.4 percent and 1.75 percent, respectively. In the Caribbean, this percentage was 0.33 percent of GDP until 2014; thereafter, it rose steadily until reaching 1.2 percent of GDP in 2021. In Mesoamerica, the average, up until 2019, was around 0.3 percent of GDP without significant fluctuations, and it only increased in 2020 and 2021 to 0.4 percent and 0.5 percent of GDP, respectively.

<sup>22</sup> For the purpose of this analysis, contributory social protection systems (pensions, unemployment insurance) are not included because, in general, their beneficiaries are people with formal jobs who are not the most affected by the problems of poverty and food insecurity, and it is the non-contributory system that is most related to food security.



20. As this section has shown, the region's public spending related to agricultural production, as a proportion of GDP, has been decreasing in the latest years, as countries have experienced structural transformation and fiscal challenges. On the contrary, public spending on social protection has been increasing in response to the challenges related to the COVID-19 pandemic. Considering the challenges and limited resources, it is relevant to improve monitoring and evaluation systems to determine effectiveness, efficiency, inclusiveness, as well as the contribution to food security and nutrition in order to readjust or reorient policies if necessary. For example, studies have shown that the need to increase spending on public goods and/or to redirect support towards components of healthy diets contributes to FSN.<sup>23</sup>

***International development flows for agriculture for FSN provided by bilateral and multilateral agencies and private philanthropic entities***

21. These flows involve development assistance from donor countries, multilateral organizations and private philanthropic entities,<sup>24</sup> and are aimed at financing different key purposes including agriculture, forestry and fisheries, agroindustry, food safety, rural development, nutritional food assistance, and environmental protection. This section shows the scale and evolution of these international development flows in the region.<sup>25</sup>

22. In the region, between 2011 and 2019, total annual international development flows remained around USD 4 billion, but reached nearly USD 6 billion in 2021, representing 0.09 percent of the regional GDP (Table 5). A major part of these flows is for agricultural production (53.7 percent) and environmental protection (31 percent) (Table 6). Also, it should be noted that 58 percent of this funding is provided by bilateral donors (Table 7).

**Table 5.**  
**International development flows for agriculture in LAC, 2001-2021**

	2001	2011	2015	2019	2020	2021
USD billion	1.380	4.548	4.169	3.473	5.297	5.946
% of GDP	0.04	0.07	0.07	0.06	0.11	0.09

Source: FAOSTAT.

<sup>23</sup> Allcott, H., Lederman, D. and López, R. 2006. *Political Institutions, Inequality, and Agricultural Growth: The Public Expenditure Connection*. Washington, DC. World Bank;

Mogues, Tewodaj; Yu, Bingxin; Fan, Shenggen; Mcbride, Linden. 2012. *The impacts of public investment in and for agriculture: Synthesis of the existing evidence*. IFPRI Discussion Paper 1217. Washington, D.C.: International Food Policy Research Institute (IFPRI).;

FAO, IFAD, UNICEF, WFP and WHO. 2022. *The State of Food Security and Nutrition in the World 2022 - Repurposing food and agricultural policies to make healthy diets more affordable*. Rome, FAO.

In: <https://www.fao.org/documents/card/es/c/CC0639EN>

<sup>24</sup> The Development Flows to Agriculture dataset includes Official Development Assistance (ODA) flows, Other Official Flows (OOFs) and private grants reported by donor countries, international organizations and private entities. ODA can take the form of: a) grants, where financial resources are provided to developing countries free of interest and with no provision for repayment, or b) soft loans, which have to be repaid with interest, albeit at a significantly lower rate than if developing countries borrowed from commercial banks.

In: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/faq.htm>.

<sup>25</sup> Public spending might also include development assistance funding.

**Table 6.**  
**International development flows (IDF) for agriculture in LAC, by purpose**

	Agricultural production	Processing and distribution	Consumption	Environmental protection
USD billion	2.656	351	405	1.533
% of total IDF for agriculture	53.7	7.1	8.2	31

Source: FAOSTAT.

**Table 7.**  
**International development flows (IDF) for agriculture in LAC, by type of donor**

2021	Bilateral	Multilateral	Private
% of total IDF for agriculture	58	27	15

Source: FAOSTAT.

23. Among the multilateral organizations, the most important are the Inter-American Development Bank, the International Bank for Reconstruction and Development, the institutions of the European Union, the Green Climate Fund and the International Development Association, which in total account for 80 percent of multilateral flows in the region. The most important bilateral partners are the United States of America, France and Germany, which account for nearly 70 percent of bilateral flows, followed by Canada (8 percent) and Norway (7 percent). The most important private partners are BBVA Microfinance Foundation, accounting for 64 percent of the international development flows for agriculture followed by the Bezos Earth Fund (12 percent), and the Gordon and Betty Moore Foundation (11 percent).

#### *Loans and advances in the banking system*

24. This includes the amounts of loans and advances provided by the banking sector to agricultural, forestry and fishing producers, rural households, agricultural cooperatives or any business related to agriculture.

25. In absolute terms, lending to agriculture has remained steady at around USD 30 billion over the decade between 2012 and 2021 (see Table 8). In 2021, these loans represented 1.37 percent of LAC's GDP.<sup>26</sup> In South America, they accounted for just over 2 percent of total loans to all sectors in 2012, which fell to around 1.6 percent in 2021. In Mesoamerica, they accounted for about 2.8 percent of total loans in 2021, while in the Caribbean they were approximately 2.5 percent.

**Table 8.**  
**Banking system's loans to agriculture in LAC, 2012-2021**

	2012	2017	2021
USD billion	31.410	30.941	31.841
% of GDP	1.21	1.56	1.37

Source: FAOSTAT.

#### *Capital markets through loans and investments*

26. Capital markets are potentially a very important source of funding for agrifood systems and include a wide variety of actors and instruments. Among these actors, it is important to distinguish

<sup>26</sup> Constant 2015 prices.



between private investors with exclusively for-profit purposes; private investors that include other social, environmental, and governance objectives; and investors that are public or semi-public entities, such as sovereign wealth funds of some countries, venture capital funds managed by governments, and similar entities that could act as financing mechanisms for public spending.

27. Financing instruments include equity shares in companies, different types of bonds and financing of specific projects, including venture capital. These types of investors and instruments could be used for the transformation of agrifood systems and to promote food security and nutrition, although the focus should be on socially and environmentally oriented investments.

28. There is no precise data on the actual trading volume. However, the largest share of capital market investment appears to be in developed countries, and the amounts geared towards the agricultural sector and the transformation of agrifood systems are small.

## **II.5. Focusing on ending hunger, food insecurity and malnutrition**

29. According to the estimates presented in this document, the cost of inaction is higher than the cost of ending hunger and all forms of malnutrition. Financing to support food security and nutrition in LAC is critical because inaction can increase hunger and malnutrition, while generating adverse economic, social and environmental effects that could affect the sustainable development of all countries in the region.

30. The analysis of financing to support food security and nutrition in LAC shows that information on financing is limited. However, according to the available data, the evolution of financing flows that may favourably impact food security and nutrition differs according to the type of flow. For example, while the financing flow for social protection and loans provided by the banking system have increased, public spending on agriculture has decreased in recent years.

31. In terms of international development assistance and loans and advances of the banking system, there is space to expand this financing flow. This requires understanding and removing systemic barriers that limit the supply of financial sources and services, particularly for smallholders who may not be in a position to comply with all the necessary steps to access loans and other resources or financial instruments. For capital markets, the challenge is mobilizing these resources for investments in developing countries, particularly in LAC.

32. The sources of financing showed are not necessarily aligned with targets 2.1 and 2.2 of SDG 2. Each of these flows is managed by different actors, with some depending on decisions of the government or international public actors, and others operating based on decisions by private actors. However, all of them are influenced by macroeconomic, trade and regulatory policies, which define the incentive framework.

33. In terms of the different sources of financing, in order to have a more complete view of financing flows, it is necessary to invest in the collection of private sector data on capital markets. While there is information on investment in the primary production stages of the agricultural, forestry and fisheries sectors – and its foreign component – less is known about investments and their sources in the downstream stages of the food chain and food environment. The private sector is the main driver of financing for agrifood systems, and it is therefore essential to better understand its investment all along the food value chain.

34. Financing for food security and nutrition needs to be addressed within the framework of agrifood systems, and there is room for redirecting demand and supply towards healthier diets. This requires a set of interventions related to prices, incomes, food environment, food preferences and market structure that guide consumers' decisions. Adequate fiscal incentives through taxation and subsidies are necessary, as well as social safety nets with a nutritional focus, food and nutrition education, labelling regulations and advertising standards, among others. Additionally, on the production side, subsidies, regulations and controls related to food safety and nutrition can be enhanced, along with adequate environmental conditions, labour conditions and fair competition, among other social objectives. Furthermore, technical support for family farming and the use of innovative technology in agriculture should be implemented, among other practices.

35. To meet the SDG targets, it is necessary to evaluate, optimize and reallocate the financing flows from governments towards outcomes of food security and nutrition, and increase flows from

international development funds and the private sector, in order to support these interventions, and promote investments and technology adoption in an inclusive manner.

36. Optimizing agricultural and social protection spending is one way to get some – albeit not all – the necessary financing within the existing budget framework. Repurposing existing food and agricultural policy support to promote the production of nutritious foods would contribute to creating thousands of jobs, lifting millions of people out of poverty and making a healthy diet more affordable, thereby resulting in greater economic growth. For LAC, by shifting fiscal subsidies from producers to consumers, the cost of a healthy diet could fall by 3.07 percent in 2030 in absolute value.<sup>27</sup>

37. Public expenditure on agriculture has been falling and is focused mostly on production. It is necessary to optimize, evaluate and repurpose public expenditure on agriculture and social protection, and analyse the benefits of increasing public expenditure for the supply chain and food environments. Additional financing could come from the reallocation of other expenditures within the total government budget.

### III. RECOMMENDATIONS TO IMPROVE FINANCING FOR FOOD SECURITY AND NUTRITION

#### III.1. Innovative and scalable financing options to end hunger, food insecurity and malnutrition

38. In many countries in LAC, there is a great debate on how to address the financial challenge of mobilizing foreign and domestic resources as part of a comprehensive policy to achieve targets 2.1 and 2.2 of SDG 2. To shed light on this discussion, a set of innovative and scalable financial tools is described, offering ways to bridge the financing gap to end hunger, food insecurity and malnutrition. In addition, a set of recommendations is presented to optimize and reallocate resources in order to finance all dimensions and actors of agrifood systems, especially in those areas where funding is mostly absent.

39. **Implement microcredit systems with food security and nutrition outcomes:** this financial and bottom-up tool can provide accessible capital to individuals often excluded from traditional banking, while enabling them to invest in agricultural activities and food initiatives, such as fostering the growth of sustainable farming practices. In Latin America, *Banco Solidario* in Ecuador provides microcredit to small and micro-entrepreneurs, many of whom are involved in agricultural activities, including family farmers. Microcredit mechanisms can allow these family farming systems to overcome difficulties accessing traditional credit while expanding local food production.

40. **Mobilize financial support and investment for agrifood systems transformation:** mobilize diverse funding mechanisms, including private sector investments, green deals, equity funds, innovative finance (e.g. the Green Climate Fund, the Clean Technology Fund and the Amazon Fund) and financial incentives linked to climate change initiatives (e.g., voluntary carbon markets)<sup>28</sup> that focus on climate change mitigation and adaptation. These funds offer a great opportunity to access multilateral finance to address the risks to food production systems triggered by the impacts of climate change through adaptation solutions and to reduce their footprint on emissions<sup>29</sup> with FSN actions as co-benefits.

41. **Use social and environmental bonds initiatives promoting private sector investments to improve food security and nutrition:** over the last decade, thematic bonds (a type of financial debt mechanism) have been developed in LAC, offering a great opportunity for investors to mobilize their support towards positive socioenvironmental initiatives across the region. In Colombia, social and

<sup>27</sup> FAO, IFAD, UNICEF, WFP and WHO. 2022. *The State of Food Security and Nutrition in the World 2022 - Repurposing food and agricultural policies to make healthy diets more affordable*. Rome, FAO. In: <https://www.fao.org/documents/card/en/c/cc0639en>

<sup>28</sup> FAO. 2023. *Achieving SDG 2 without breaching the 1.5 °C threshold: A global roadmap, Part 1 – How agrifood systems transformation through accelerated climate actions will help achieving food security and nutrition, today and tomorrow, In brief*. Rome. In: <https://doi.org/10.4060/cc9113en>

<sup>29</sup> Watson, Schalatek and Evéquoz. 2022. *Climate Finance Regional Briefing: Latin America - Climate Finance Fundamentals*.

green bonds are a good example. The green and social bonds are financial instruments used to raise funds especially for projects that have specific environmental or social objectives aligned with the principles of International Capital Markets Association. For instance, while social bonds can finance projects that promote food security and nutrition in the most vulnerable population, green bonds can support projects fostering sustainable agriculture.<sup>30</sup>

42. **Promote the implementation of impact funds:** these financing instruments are growing in popularity in the financial sector. The Zero Hunger Trust Fund (ZHTF) of Saint Vincent and the Grenadines, for example, was established in 2016 by an Act of Parliament (Act No 2 of 2016) as a mechanism to provide resources necessary to eradicate hunger. The ZHTF operates through a mix of financial resources, including a 2 percent levy on telecommunications services, private and individual donations, and international support (from countries and partners). The ZHTF specifically supports eradicating hunger, improving nutrition, achieving food security and promoting sustainable livelihoods in vulnerable communities in Saint Vincent and the Grenadines. For example, the ZHTF finances projects such as school feeding programmes, school and home gardens, and promoting local food markets, among other initiatives.<sup>31</sup>

43. **Improve resource mobilization through crowdfunding:** the fintech industry, with its crowdfunding platforms, has created collective opportunities to raise funds and invest in sectors not served or underserved by the traditional financial sector. In this regard, *Banca Ética Latinoamericana*, which operates in Argentina, Brazil, Chile and Uruguay, has focused on financing sectors such as education and culture, social development, and nature and the environment. In terms of targets 2.1 and 2.2 of SDG 2, the bank is mobilizing financing for positive impact organizations to facilitate the transformation towards sustainable agriculture and agroecology, thereby promoting healthy food production and developing regenerative livestock projects.<sup>32</sup>

44. In addition, a robust portfolio of investment opportunities related to the SDGs, and in particular SDG 2, can be developed with an appropriate risk/return profile (including individual projects, impact investment funds, green bonds and other instruments). To this end, it is suggested to establish one or more entities at the international level dedicated to the preparation/incubation/acceleration of projects and other investment vehicles with these characteristics.<sup>33</sup> Another proposal to mobilize private funds in capital markets is the use of the International Monetary Fund's Special Drawing Rights to ensure the issuance of zero-hunger bonds and similar social objectives.<sup>34</sup>

45. **Expand access to insurance and guarantees for smallholder farmers:** current levels of funding from banks and investors for agrifood systems transformation can be expanded. This requires understanding and removing systemic barriers that limit the access of agricultural producers, smallholders in food value chains, and the vulnerable population to financial services. Guarantees could serve as cash collateral against loan defaults for borrowers who are considered high-risk, including loan guarantees, crop insurance and other types of guarantees that include anticipatory actions. In addition, public and philanthropic funds can be used more strategically to eliminate or reduce the risk of private investors' operations. For example, they could absorb early losses and provide technical assistance and support to the entities operating the investments and carry out other financial operations that improve the risk profile of private investors.

46. **Promote and attract financing for FSN through integration and cooperation platforms:** Regional integration platforms such as the Community of Latin American and Caribbean States (CELAC), the Central American Integration System (SICA) and the Caribbean Community (CARICOM) are important mechanisms for promoting the exchange of experiences and

<sup>30</sup> IDB. 2023. *Green and Social Bonds in Colombia: five questions and answers*.

In: <https://blogs.iadb.org/ciudades-sostenibles/en/green-and-social-bonds-in-colombia-five-questions-and-answers/>

<sup>31</sup> Horne-Bique. 2023. *Zero Hunger Trust Fund. Saint Vincent and the Grenadines*. CELAC-FAO Technical Meeting, 9-10 November 2023.

<sup>32</sup> Banca Ética Latinoamericana. 2023. Impact report 2016-2022.

<sup>33</sup> Díaz-Bonilla, E. 2018. *Financing "a sustainable food future": some thoughts for the G20*. Economics Discussion Paper No. 2018-73. Kiel Institute for the World Economy. In: <http://www.economics-ejournal.org/economics/discussionpapers/2018-73>

<sup>34</sup> Díaz-Bonilla, 2021a and 2023; von Braun and Díaz-Bonilla, 2021.

dialogue between countries, development banks and international organizations, which makes it possible to identify and systematize the practices and challenges of the LAC region in terms of financing for ending hunger and malnutrition. The reviewed CELAC Plan for Food and Nutrition Security and the Eradication of Hunger 2025 is a focused mechanism for promoting and attracting financing for FSN at the regional, subregional and national levels.