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الأغذية والزراعة
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FAO REGIONAL CONFERENCE FOR EUROPE

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Financing to end hunger for today and tomorrow (SDG2)

Executive Summary

Although the region is on track for Target 2.1 and Target 2.2 of the Sustainable Development Goals (SDGs) despite recent crises, persistent financial shortfalls pose a significant risk to their ultimate realization. This document argues that a concerted approach is required to leverage all forms of available finance from public, private, domestic and international sources. This approach should be based on coordinated action and integrated financing frameworks, with governments playing a dynamic role in enabling a conducive environment for finance through deploying public funds with higher returns and catalysing private sector finance.

Suggested action by the Regional Conference

The Regional Conference is invited to:

- a. **develop a credible understanding** of the national costs and mix of finance and investment required to achieve SDG 2, including potential synergies and trade-offs with other relevant SDG targets;
- b. mobilize finance from all available public and private sources by **establishing integrated financing strategies** that allow for the systematic assessment of the status quo and trends in the financing landscape while identifying, strategically prioritizing, planning and coordinating public and private finance and investment for SDG 2, aligned with national sustainable development plans;
- c. achieve more with less and sooner by **developing efficient and transparent systems** that align existing and new financing flows towards SDG 2 Target 2.1 and Target 2.2;
- d. take targeted action to **incentivize private sector financing for the SDGs** by enhancing the enabling environment and the financial and data infrastructure, lowering the costs and risks of finance and investment, and improving the bankability of agricultural actors, with a particular focus on small-scale farmers, agricultural micro, small and medium enterprises, and vulnerable groups such as women and youth;

Documents can be consulted at www.fao.org

- e. **develop a robust monitoring, evaluation and accountability framework for SDG finance**, including associated taxonomy, standards and guidance for all stakeholders to ensure transparency, track progress and optimize impact;
- f. **establish public knowledge centres** to share lessons and experiences and to encourage stakeholder collaboration for financing SDG 2 Target 2.1 and Target 2.2 at national and regional levels; and
- g. **develop integrated national financing frameworks** as predicated by the Addis Ababa Action Agenda,¹ which calls for the SDGs to be implemented through nationally owned sustainable development strategies that are linked to integrated national financing frameworks.

More specifically, the Regional Conference invites Members to:

- Assess how fiscal tools are strategically used to achieve SDG 2, seeking to: better integrate public planning and financing systems, mainstream the SDGs into public financial management frameworks, phase out and repurpose public subsidies harmful to SDG 2, so that resources can be redirected towards sustainable agrifood sector practices, strengthen domestic resource mobilization by pursuing reforms and building capacity in evidence-based tax policy formulation and management, and leverage tax policy to incentivize alignment with SDG 2.
- Attract and better target official development assistance for strategic investments in the agrifood sector that are aligned with SDG 2 and positioned to catalyse and complement private finance and investment. This includes prioritizing cost-effective, high-impact investments in food security, nutrition and nutrition-sensitive value chain development, while emphasizing the specific needs of women, youth and other vulnerable groups.
- Adopt a proactive approach to crowd in² the private sector through innovative financing solutions, including guarantee funds, impact investment, agricultural value chain finance, public–private partnerships, climate and environmental financing mechanisms, crowdfunding, social impact bonds, blended finance, agritech innovation funds, philanthropic capital and debt swaps.
- Establish taxonomies, standards and monitoring frameworks for SDG finance in alignment with the European Union sustainable finance framework, promote the Committee on World Food Security Principles for Responsible Investment in Agriculture and Food Systems and combat “SDG washing”.

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¹ The Addis Ababa Action Agenda was adopted in 2015 at the Third International Conference on Financing for Development. It is a global framework for financing sustainable development that aims to align all forms of finance, policies and international agreements with economic, social and environmental priorities.

² “Crowding in” describes the phenomenon of government spending spurring private investment.

I. Introduction

1.1. Overview

1. With less than seven years left to achieve the SDGs, the Europe and Central Asia (ECA) region is on track to meet SDG 2 pertaining to hunger, food insecurity and malnutrition. Progress has not always been linear, however, since a relatively steady path to 2020 was derailed by crises, including the COVID-19 pandemic, the war in Ukraine, earthquakes, drought and the crisis in food, energy and finance systems.³ Some indicators of malnutrition may even be poised to deteriorate in the future, unless targeted interventions address the drivers underlying their current negative trends. Nevertheless, the region is well positioned relative to the rest of the world, as indicated in Table 1.

Table 1. SDG 2 indicators for Target 2.1 and Target 2.2 in selected regions, 2020–2022

SDG 2 indicators 2020-2022	World	Europe and Central Asia	Caucasus	Central Asia	Western Balkans	CIS Europe and Ukraine	EFTA Countries	EU-27 and the United Kingdom
Prevalence of undernourishment (%)	9.2	<2.5	<2.5	3.2	<2.5	<2.5	<2.5	<2.5
Number of undernourished (millions)	725.0	n.r	n.r	2.4	n.r	n.r	n.r	n.r
Prevalence of severe food insecurity	11.3	2.7	2.3	4.8	4.8	1.2	0.9	1.8
Prevalence of moderate or severe food insecurity (%)	29.5	11.9	15.5	18.4	18.0	10.4	3.4	6.6
Prevalence of stunting among children under 5 (%)	22.3	4.9	10.3	7.7	5.9	5.8	2.5	3.2
Prevalence of wasting among children under 5 (% , 2022)	6.8	1.4	2.2	2.1	1.8	n.a	n.a	0.5
Prevalence of anaemia among women 19-49 (% , 2019)	29.9	18.8	30.4	28.1	22.8	20.5	11.6	14.0
Prevalence of obesity among adults (%)	13.1	25.3	20.9	17.7	22.5	25.7	22.6	25.4
Prevalence of exclusive breastfeeding among children 0-5 months of age (% , 2021)	47.7	n.a.	n.a.	44.9	27.0	n.a.	n.a.	n.a.
Prevalence of low birth weight (% ,	14.7	7.6	9.8	6.0	6.2	6.9	5.6	7.1
Percentage of people unable to afford a healthy diet (%)	42.2	3.1	8.9	24.4	10.9	2.5	0.1	1.0
Cost of a healthy diet (PPP dollars per person per day, 2021)	3.662	3.196	3.108	3.324	4.025	3.382	2.799	3.090

Source: Adapted from FAO. 2023. *Europe and Central Asia– Regional Overview of Food Security and Nutrition 2023 – Statistics and trends*. Budapest. <https://doi.org/10.4060/cc8608en>

Note: “CIS” refers to the Commonwealth of Independent States. “EFTA” refers to the European Free Trade Association. “EU-27 and the United Kingdom” refers to the EU-27 and the United Kingdom of Great Britain and Northern Ireland.

2. This document, while advocating for transformative approaches of agrifood systems, underscores financial aspects. It argues that financing for SDG 2 is an ambitious endeavour that demands a multifaceted, holistic approach, involving both public and private sector financing from domestic and international sources.
3. Section II delves into the key challenges in food security and nutrition for the region, as well as their drivers and existing policies and strategies, in order to arrive at the issue of the financing gap to address such challenges and support policies and strategies. Section III describes the financing challenge, exploring both public and private financing sources, identifies priority areas for financing, and discusses the scope and key sources of finance for SDG Target 2.1 and Target 2.2. Challenges with the current financing architecture are examined, and opportunities for change are explored. The

³ More information on the United Nations Global Crisis Response Group on Food, Energy and Finance is available at <https://news.un.org/pages/global-crisis-response-group/>.

concluding section presents recommendations for scaling up financing, emphasizing integrated strategies, improvements in public and private sector engagement and innovative financial approaches.

1.2. Hunger, food insecurity and malnutrition in Europe and Central Asia

4. The Regional Overview of Food Security and Nutrition in Europe and Central Asia for 2023 indicates both notable progress towards SDG 2 targets and notable challenges. Nutritionally, while stunting and wasting in children under 5 are low, obesity in adolescents and young adults, overweight in children under 5 and anaemia in women are increasing concerns. True-cost accounting studies for the ECA region underscore the substantial hidden health costs of current diets, emphasizing the urgent need for agrifood system transformation (more information on the cost of inaction is provided below). Achieving SDG 2 by 2030 in the region requires targeted, evidence-driven policies, collaboration and inclusivity to address the main drivers of food insecurity and malnutrition.

1.3 Drivers of food insecurity and malnutrition in Europe and Central Asia

5. Regional Strategic Foresight Exercises currently carried out by FAO seek to identify regional drivers of agrifood systems. Initial findings for the ECA region suggest that structural transformation has been a pivotal force shaping production, consumption and nutrition patterns throughout the region, as well as in subregions and individual countries. Structural transformation itself has been heavily influenced by context, notably cross-country interdependencies that become more prominent with eastern landlocked countries. Cross-country interdependencies have significant influence across various dimensions, from political alliances and trade patterns to foreign direct investment, technology transfer, business opportunities and migration. Their impact extends to economic growth, public investment and innovation within agrifood systems, leading to diverse trajectories in agricultural productivity growth and agrifood systems transformations, notably between high-income countries and economies in transition. A more detailed exploration of these and other key ECA drivers is available in document ERC/24/9.

1.4 ECA policies and strategies to tackle food insecurity and malnutrition

6. Naturally, the high-income countries in the region are those with less pressing financing needs to meet SDG 2. High-income countries in the ECA region have addressed food security and nutrition through a broad range of initiatives and policies, some of which belong to the public and others to the private sector.⁴

7. Economies in transition⁵ have also implemented a broad range of policies (e.g. school feeding programmes, food literacy and consumer education, reformulation of foods, broadening the diversity of foods available, etc.) that vary substantially across the region, collectively reflecting the multifaceted approach to transforming agrifood systems for addressing the complex challenges of hunger, food insecurity and malnutrition in periods of economic and social change. *Inter alia*, social safety nets have been established to protect vulnerable populations from food insecurity through targeted assistance programmes, such as cash transfers or food subsidies that support those most at risk of food insecurity, both in normal times and through such crises as the COVID-19 pandemic, the war in Ukraine, earthquakes, drought and the crisis in food, energy and finance systems. Land reforms are being undertaken to increase productivity and market responsiveness, thereby improving food availability. Governments are also investing in education programmes to raise awareness about nutrition, promoting healthy eating habits, and addressing issues related to malnutrition, often targeting schools, health care facilities and communities. Public health interventions also exist to combat malnutrition, including micronutrient deficiencies, which may involve fortifying staple foods, providing vitamin supplements and implementing health campaigns to improve overall dietary practices. Some countries have focused on rural development to enhance agricultural practices,

⁴ For more information, see the document ERC/22/3 from the Thirty-third Session of the FAO Regional Conference for Europe, available at <https://www.fao.org/3/ni188en/ni188en.pdf>.

⁵ “Economies in transition” refers to countries that are undergoing significant economic and political changes, often transitioning from a centrally planned or state-controlled economic system to a more market-oriented or mixed-market system.

infrastructure and income-generating opportunities in rural areas, with approaches that seek to alleviate poverty and improve food security among rural communities.

8. While the list of policies and strategies is long, their implementation has often been challenging, due to the prevalence of weak governance and institutions, including those responsible for financing these programmes. Both supply- and demand-side considerations need to be addressed for the effective implementation of policies that seek to reduce hunger, food insecurity and malnutrition. The core challenge lies in the need for better (financeable) policies to address the triple challenge of agrifood systems: ensuring food security and nutrition, providing livelihoods and improving environmental sustainability. Overcoming this challenge is made more difficult by existing disagreements over facts, diverging interests and differences in values, which can be mitigated through robust, inclusive, transparent and evidence-based policy processes. In other words, actions need to be undertaken not only to mobilize more resources but also to ensure that these resources are deployed in better policies (see Section III).

Financing gap and priority areas in Europe and Central Asia

9. Meeting SDG Target 2.1 and Target 2.2 in the region requires placing agrifood systems on a development pathway towards inclusive, sustainable, resilient and nutrition-sensitive growth and transformation. Consequently, a complex interplay of environmental, economic, social and political factors must be addressed, considering the specificity of high-income countries and economies in transition. While financing needs to be scaled up across the region, efforts should prioritize the economies in transition, focusing on areas that will unlock achievable pathways for nutrition-sensitive value chain development. Interventions also need to take into consideration the special characteristics of landlocked countries that suffer from the progressive deterioration of rural and transport infrastructure, weak institutions and lingering structural transformation.

10. No reliable estimates of the financing required to achieve SDG 2 are currently available for the region, especially in the context of promoting nutrition-sensitive, sustainable value chain development and agrifood systems transformation. This is due to, among others, the inherent complexity of developing a methodological approach that captures its multidimensional nature; challenges with data availability, quality and integration; and methodological inconsistencies of existing studies that do not allow for comparison or the aggregation of cost estimates.

11. Existing attempts at estimating the cost of meeting SDG 2 focus on global figures and highlight regions of the world whose challenges are more pronounced than those in the ECA region. Ultimately, a detailed region- and country-specific cost estimate is necessary to consider realistic and actionable options that can effectively guide policy and investment decisions towards meeting these targets in the region.

12. Nevertheless, drawing from Chichaibelu *et al.*,⁶ this document makes a rough estimate of the magnitude of finance required to achieve SDG 2 based on simple extrapolation. It also reviews the most up-to-date estimates conducted by FAO, the International Fund for Agricultural Development and the World Food Programme (2015);⁷ Rosegrant *et al.* (2017);⁸ Torero and von Braun (2015);⁹

⁶ Chichaibelu, B.B., Bekchanov, M., Von Braun, J. & Torero, M. 2021. The global cost of reaching a world without hunger: Investment costs and policy action opportunities. *Food Policy*, 104: 102151. <https://doi.org/10.1016/j.foodpol.2021.102151>

⁷ FAO, IFAD & WFP. 2015. *Achieving Zero Hunger: the critical role of investments in social protection and agriculture*. Rome, FAO. <https://www.fao.org/3/i4951e/i4951e.pdf>

⁸ Rosegrant, M.W., Sulser, T.B., Mason-D'Croz, D., Cenacchi, N., NinPratt, A., Dunston, S., Zhu, T. *et al.* 2017. *Quantitative foresight modeling to inform the CGIAR research portfolio*. Washington, DC, CGIAR. <https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/131144/filename/131355.pdf>

⁹ Torero, M. & Von Braun, J. 2015. *Toward a zero-hunger goal by 2030: some preliminary estimates of what it would cost*. Unpublished paper.

Laborde *et al.* (2016);¹⁰ and Shekar *et al.* (2017).¹¹ Based on a marginal abatement cost curves methodology, it identifies and costs a mix of least-cost investment options with the highest potential for reducing undernourishment globally. This study proposes that accomplishing SDG Target 2.1 of ending hunger by 2030 would require an annual public investment of about USD 39–50 billion globally.

13. Extrapolating from global figures by Chichaibelu *et al.*,¹² it can be estimated that the ECA region needs about USD 1.2–1.5 billion of annual public investment to achieve SDG Target 2.1 in the region.¹³ These figures need to be treated with caution, considering that simple extrapolation takes no account of regional specificities. To reiterate, this figure should be used as a rough starting point for further elaboration, but it does provide a starting point for discussion.

Financing for SDG 2 in Europe and Central Asia

2.1. Scope of the analysis

14. Financing SDG Target 2.1 and Target 2.2 should start by recognizing the interdependencies that exist among food security, nutrition and agrifood systems transformation. This implies a need for finance on a two-track approach – one focused on short-term needs for food security, nutrition, social protection and emergency support, and another focused on financing the transformation of agrifood systems so they can deliver affordable healthy diets while leaving no one behind.

15. Doing so will require an ambitious and holistic approach that takes a financial system perspective, which leverages all possible sources of public and private finance and coordinates public and private stakeholders for identifying, prioritizing, structuring and timing investments consistent with the CFS Principles of Responsible Investment in Agricultural and Food Systems.¹⁴ Moreover, financing needs to be smarter in design and targeting, catalytic in nature, incremental and at significant scale. Finally, it must be done in a way that anticipates synergies and possible trade-offs and that clearly measures impacts, while ensuring that the economic, social and environmental bases for the generation of food security and nutrition are not compromised.

2.2. Sources of finance

16. Figure 1 shows typical sources and types of development finance that are also applicable to finance for achieving SDG Target 2.1 and Target 2.2. These can be classified according to their institutional source (public versus private) and geographic origin (national or international), resulting in four general typologies: domestic public, domestic private, international public and international

¹⁰ Laborde, D., Bizikova, L., Lallemand, T. & Smaller, C. 2016. *Ending Hunger: What would it cost?* International Institute for Sustainable Development (IISD) and IFPRI Briefing Note. Winnipeg, MB, Canada, IISD. <https://www.iisd.org/system/files/publications/ending-hunger-what-would-it-cost.pdf>

¹¹ Shekar, M., Kakietek, J., Dayton Eberwein, J. & Walters, D. 2017. *An Investment Framework for Nutrition: Reaching the Global Targets for Stunting, Anemia, Breastfeeding, and Wasting*. Washington, DC: World Bank. <https://doi.org/10.1596/978-1-4648-1010-7>

¹² Chichaibelu, B.B., Bekchanov, M., Von Braun, J. & Torero, M. 2021. The global cost of reaching a world without hunger: Investment costs and policy action opportunities. *Food Policy*, 104: 102151. <https://doi.org/10.1016/j.foodpol.2021.102151>

¹³ This figure does not include the effects of economic fluctuations, climatic events or other transitory factors that affect the prevalence of undernutrition across the region (for example, the consequences of the war in Ukraine). Analysing these dynamics would also be crucial for designing effective interventions and policies that address immediate challenges and prevent long-lasting negative effects on individuals and communities, notably in the design of responsive strategies for Target 2.1 and Target 2.2. The term “transitory prevalence of undernutrition” refers to a temporary or fluctuating condition in which the prevalence of undernutrition, or insufficient intake of nutrition, experiences variations over time.

¹⁴ The CFS Principles for Responsible Investment in Agriculture and Food Systems were endorsed in October 2014 and are intended to guide responsible investment in agriculture and food systems to contribute to food security and nutrition, supporting the progressive realization of the right to adequate food in the context of national food security.

private. These can be further classified by whether they originate within or are external to agrifood systems.

Figure 1. Key sources and types of public and private development in finance



Source: UNDP. 2020. *Development Finance Assessment Guidebook: Supporting governments to build forward better through integrated national financing frameworks*. <https://sdgfinance.undp.org/sdg-tools/development-finance-assessment-dfa-guidebook>

17. Domestic public finance in this document refers to government budgets that, supported by different types of revenues and borrowing, are allocated towards public subsidies or transfers as well as capital outlays to support investment that could contribute to making progress towards SDG 2. This includes outlays for agricultural and rural development; food security, health and nutrition; and social protection, among others. In addition, financial instruments deployed by national development banks with general or sectoral development mandates may also be partly publicly funded. Domestic private finance, on the other hand, comes from individuals and institutions, either internal to agrifood systems (e.g. farmers, cooperatives and agribusinesses investing within food chains) or external to them (e.g. banks, microfinance institutions and institutional investors). Public and private sources of finance can also come together through various types of partnerships and blended modalities.

18. Official development assistance is the linchpin of international public finance, which also comes from international development finance institutions and funds like the Joint SDG Fund. Lastly, international private finance includes foreign direct investment and funding from multinational agribusinesses, philanthropic institutions and private investors or investment funds.

19. Financing can originate from a unitary source or be syndicated through partnerships based on synergies among various institutional mandates, operational and engagement modalities, and risk appetites and financing and risk management instruments, as in the case of the aforementioned blended finance.

20. Public finance plays a pivotal role in achieving SDG 2 targets through both current expenditures for immediate needs and investment for sustainable agrifood sector transformation. Public spending on current expenditures supports essential nutrition programmes and subsidies that directly or indirectly address hunger and malnutrition, as well as operational costs for agricultural support services such as extensions, pest and disease control and market access programmes, among others. Public finance for investment in agricultural infrastructure, research and development, capacity building and human capital forms the foundation for sustainable growth, resilience and long-term food security. Moreover, public investment is necessary to support the development of the financial system so that it is more capable of addressing gaps in access to finance for rural and agricultural actors.

21. For public investment, beyond the amount, investment prioritization and timing are both crucial for strategic planning, considering different maturity periods, return profiles and relevance, all

of which are shaped by the country context. Transitioning away from short-term farm subsidies to investments in public goods, such as agricultural research and development, rural advisory systems, human capital and knowledge may yield higher, more widespread and more durable returns.¹⁵

2.3. Challenges and opportunities of the existing financing architecture

Public finance

22. Both recurrent and public capital expenditures are critical to achieving SDG Target 2.1 and Target 2.2. They must be cost-effective and support sustainable development, which is not always the case. For example, public subsidies supporting agricultural production and access to finance are often not well designed, leading to inefficiencies and unintended side effects. Cost-effectiveness is crucial today because the fiscal and monetary responses to recent crises have strained public budgets, elevated debt-to-gross domestic product ratios, deteriorated sovereign credit ratings and limited fiscal space – particularly in low-income countries such as Kyrgyzstan and Tajikistan, which face elevated levels of debt distress. Inefficient tax systems strain public finances. Additionally, the current sovereign credit rating system hinders efficient financing for long-term investments in the SDGs and needs to be reconceptualized.¹⁶

23. Governments have a crucial role in developing an enabling environment to stimulate private finance, while attracting private investment. Through effective coordination, well-designed financial sector policies, regulations and supervisory regimes, coupled with investment in public goods, they can influence the quantity, composition and allocation of finance and investment. However, inefficient stakeholder coordination, underdeveloped financial infrastructure, limited institutional capacities and other persistent shortcomings in the enabling environment increase the cost and risks of financial service provision, reinforce information asymmetries, discourage the entry or incentivize the exit of providers, and ultimately act as a brake on the development of the rural financial sector, which could make a major contribution to financing SDG 2.

24. Official development assistance is the cornerstone of international development finance. Its specific development mandate, concessional nature, counter-cyclicality and ability to mobilize additional financing sources make it a critical source of funding for SDG 2. However, the crises impacting the region have resulted in the unexpected reprioritization of official development assistance from donors, thereby limiting its prior predictability. Moreover, official development assistance may more often bypass governments to avoid bureaucracy, generating further uncertainties regarding the actual availability of funding. The ongoing trends in food insecurity and malnutrition send strong signals that current levels of official development assistance are far below what is needed to achieve SDG 2 targets in the region, and the structuring of official development assistance is not optimized to serve both for better development outcomes and as a lever for private finance.

25. Public development banks – including bilateral, multilateral and national institutions – are key players in the SDG financing architecture, given their development mandates, low-cost capital formation, countercyclical positioning and versatile financing and risk-sharing instruments. However, the current scale of their outreach represents a fraction of the needs, and therefore they need further capitalization and reconfiguration of their business model to allow for higher impact. National development banks may be positioned to fill financing gaps, but caution is required considering a complicated global history replete with institutional failures at massive public costs, elevated risks of distorting markets and fostering poor credit culture.

Private finance

¹⁵ For more information, please see *The State of Food Security and Nutrition in the World 2022*, available at <https://doi.org/10.4060/cc0639en>.

¹⁶ Escrig-Olmedo *et al.* argue that rating methodologies tend to be shortsighted and do not adequately consider evaluation criteria related to the long-term development potential of countries that would be unlocked by being able to access long-term affordable financing. See: **Escrig-Olmedo, E., Fernández-Izquierdo, M., Ferrero-Ferrero, I., Rivera-Lirio, J. & Muñoz-Torres, M.** 2019. Rating the Raters: Evaluating how ESG Rating Agencies Integrate Sustainability Principles. *Sustainability*, 11(3): 915. <https://doi.org/10.3390/su11030915>

26. Private sector finance must provide the bulk of responsible investment in agrifood systems. However, the private sector faces numerous constraints in accessing and utilizing appropriate and affordable finance from financial service providers and investors. This is due to numerous well-known constraints. For commercial financial service providers, this includes perceived and real risks of financing food and agriculture that creates unfavourable risk-return profiles; insufficient domain expertise and institutional capacity in rural and agricultural sectors; lack of appropriate products, services and distribution channels; ineffective risk management systems; and often a shortage of bankable projects. Combined with market data gaps, information asymmetries, outdated risk-assessment and shortcomings in the enabling environment, this increases the unit cost of delivery and deteriorates the underlying economics of financing agrifood systems, in particular small-scale producers and agricultural micro, small and medium enterprises. Current practices also typically fail to price in the hidden costs of climate-related financial, social and environmental risk, exposing financial service providers and investors to significant risk.

27. The lack of access to finance and investment is acute for small-scale producers and such vulnerable groups as women and youth, as they face incremental hurdles due to a lack of collateral and risk management products such as insurance, limited financial and business literacy, limited documentation about their business, and other systematic exclusionary factors. Similar heightened challenges exist for “missing middle” agribusinesses¹⁷ that may be too large to be eligible for public support or private microfinance yet are considered too small, too risky or otherwise unattractive for commercial banks or private investors.

A call to action and a way forward to scale up financing for SDG 2

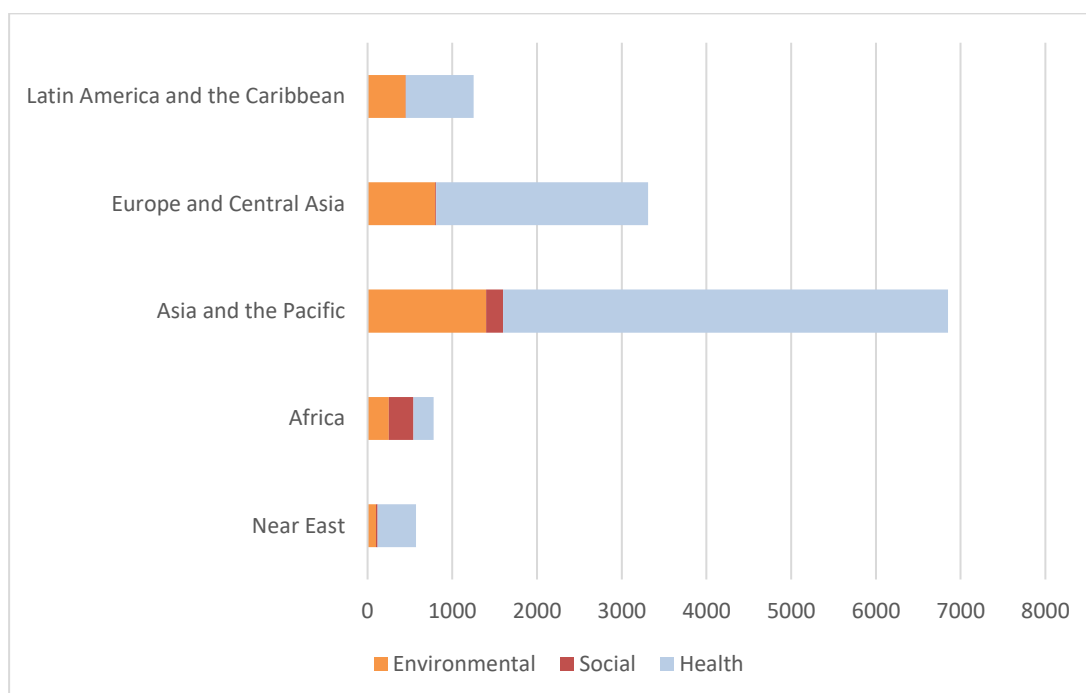
3.1. The cost of inaction

28. Immediate and decisive action is required to identify, mobilize and utilize finance and investment towards SDG 2. In addition, inaction could reverse the gains obtained in the region – especially among vulnerable groups, including women and children. Inaction also may hamper economic growth in the region’s agriculture sector, which plays a fundamental role in reducing poverty and inequalities and in ensuring food security. Rural areas lacking investment might experience increased rural-to-urban migration. Environmental issues, such as soil erosion and deforestation, could arise from underfunded sustainable agriculture. Research and development could be further deprioritized, hindering the growth of agricultural productivity. Continued food insecurity might lead to social and political instability, disrupting development efforts. True-cost accounting¹⁸ underscores the urgency of transforming agrifood systems and advancing on SDG 2 targets: According to *The State of Food and Agriculture 2023*, the cost of inaction in the region attributed only to health is measured in the trillions of dollars (see Figure 2).

¹⁷ In this report, agribusinesses are those responsible for the sale of inputs, crop collection and distribution, food production and the processing and retail of food products.

¹⁸ True-cost accounting is a holistic and systemic approach to measure and value the environmental, social, health and economic costs and benefits generated by agrifood systems to facilitate improved decisions by policymakers, businesses, farmers, investors and consumers. See: **FAO**. 2023. *The State of Food and Agriculture 2023: Revealing the true cost of food to transform agrifood systems*. FAO. <https://doi.org/10.4060/cc7724en>

Figure 2. Hidden costs of agrifood systems among the five FAO regions, billions



Source: Adapted from FAO. 2023. *The State of Food and Agriculture 2023. Revealing the true cost of food to transform agrifood systems*. Rome. <https://doi.org/10.4060/cc7724en>

Note: The graph shows the total quantified hidden costs of agrifood systems by region in 2020 purchasing power parity dollars.

3.2. The way forward

29. In the context of scaling up finance to achieve SDG Target 2.1 and Target 2.2 in the region, the FAO Regional Conference for Europe may put the following recommendations for the consideration of its Members:

30. When considering how to drive incremental finance for SDG Target 2.1 and Target 2.2, governments and development partners are encouraged to **adopt a financial systems perspective** at global, regional and national levels. This implies seeking to stimulate all possible sources of financing in an integrated manner, as predicated by the Addis Ababa Action Agenda. Governments should work with donors, development partners, private sector financial service providers and demand-side actors to systematically identify the opportunities and constraints to unlock finance for SDG Target 2.1 and Target 2.2 across the macro-level enabling environment, the meso-level financial infrastructure, and the micro level, where supply and demand dynamics for finance and investment play out.

31. To do this, governments should **develop integrated SDG financing strategies and action plans at the country level**, which can be accomplished through various means. A promising avenue that several countries in the region already are pursuing is the development of integrated national financing frameworks, which help countries strengthen planning processes and overcome existing impediments to financing the SDGs at the country level. Integrated national financing frameworks are based on a rigorous assessment that lays out the full range of financing sources and modalities, allowing countries to develop a strategy to increase investment, manage risks and target sustainable development priorities. Furthermore, they are linked to national sustainable development frameworks and to specific SDGs, thus enabling countries to track resources more accurately and comprehensively. Making SDG financing information more accessible and transparent will help guide financial flows to areas where they are most needed and increase the confidence of donors.

32. As part of these financing strategies, both existing and innovative **financing and risk management approaches should be utilized strategically**. Guarantees and blended finance can

crowd in private sector investments in agriculture by leveraging public or philanthropic funds to mitigate risks. The issuance of green and social impact bonds can secure dedicated funding for sustainable agricultural practices with social and environmental impact. Policymakers should support impact investing to channel capital into agribusinesses and agricultural technologies that deliver both financial returns and positive social or environmental outcomes. Implementing agricultural risk management tools, such as innovative insurance products, is crucial for enhancing the resilience of smallholder farmers to various risks, and improving their bankability.¹⁹ Additionally, fostering the development of crowdfunding and peer-to-peer lending platforms and channelling remittances to productive purposes can broaden the funding base for small-scale agricultural projects. Finally, facilitating public–private partnerships can harness the strengths of both sectors to implement projects that contribute to food security and sustainable agriculture.

33. **Review public expenditures** for SDG 2, evaluating the efficiency, effectiveness and cost-benefit ratio of public subsidy programmes and, if needed, develop a repurposing strategy based on “smart subsidies,” incentives and exit strategies. Strategies should adequately consider sociopolitical and economic factors, addressing any short-term adverse effects, especially on vulnerable groups, and should be designed based on evidence. This may entail a transitioning away from short-term farm subsidies to investments in public goods like research and development, nutrition-sensitive policies/actions, human capital and knowledge that may yield higher, more widespread and more durable returns. Moreover, countries may evaluate and update their current tax policies; take steps to improve (if needed) their tax management systems and strengthen capacities to collect taxes; and use fiscal policy as a strategic tool to discourage unhealthy diets and environmentally damaging food products or farming practices.

34. To **better utilize official development assistance**, governments may seek synergies with other financial flows, such as private investments, by acting as a catalyst that reduces risk and encourages further investments in the region’s agrifood sector. Integrated financing frameworks, such as the aforementioned integrated national financing frameworks, can be key to integrated public planning and financing systems; it can help mainstream the SDGs into public financial management and mobilize, coordinate and strategically deploy this official development assistance towards SDG Target 2.1 and Target 2.2 while capturing synergies with the broader agenda to finance national development goals and the SDGs.

35. Governments should **improve the enabling environment for private sector rural and agricultural finance**. This means reducing barriers to entry, costs and risks and improving the underlying economics of financial service provision, making rural and agricultural clients more attractive to financial service providers, and encouraging the expansion of the overall market size. Among others, this can be accomplished by:

- a. Improving the **legal and regulatory framework** to enhance the profitability of financial transactions and to broaden the spectrum of assets that are practically usable as collateral for commercial finance, including crops, accounts receivable, equipment and rural land. This includes updating financial sector-related laws and prudential regulations, alongside improving contract law, property rights and laws governing mortgages, bankruptcy, land tenure and secured transactions, and ensuring they are modern, evidence-based and responsive to sector needs.
- b. Enhancing the **technical capacity of public sector institutions** for developing policies and practices that promote rural finance and investment, creating platforms for dialogue among policy spheres – agriculture, finance, business environment – and developing a robust evidence base to inform dialogue and policy development.

¹⁹ Bankability refers to the feasibility and attractiveness of a specific project, individual or entity related to the extension of various types of financing instruments (debt, equity and hybrid instruments). It takes the perspective of the provider of the financing instrument and is typically assessed based on multiple factors, including repayment capacity, collateral, credit history, technical and market viability, management capacity, legal and regulatory compliance and risk management considerations. In the context of the SDGs, it also includes environmental, social and governance-related considerations.

- c. Developing and investing in **meso-level financial information and data infrastructure** that can reap systemic public benefits, while improving decision-making. Among others, this means developing or expanding credit guarantee and refinancing facilities, collateral registries and credit rating agencies, payment infrastructure, platforms for channelling remittances into productive investments and market, weather and geospatial data systems that improve risk management and support agricultural insurance system development.
 - d. Facilitating or participating in **innovative financing mechanisms and partnerships**, such as blended financing arrangements with donors, development finance institutions and private sector actors that de-risk financing transactions.
 - e. Supporting **financial literacy programmes** with an emphasis on small-scale producers and agribusinesses, and on typically vulnerable groups such as women and youth.
36. **Promote the establishment of hubs for sharing knowledge and collaborating** among the finance and development community through multistakeholder working groups to develop a common understanding and partnership models for financing SDG 2.
37. **Scale up the outreach of multilateral development banks** by increasing their capitalization and adapting their financing models to improve efficiency and leverage and play a more proactive role in crowding in private finance. Strengthening platforms for communication and coordination among public development banks can lead to more efficient financing through better complementarities, syndications, synergies and shared standards.
38. Reassess **national development banks** with a heightened cognizance of their complicated history. Any initiatives to bolster existing national development banks or establish new ones must be judiciously evaluated and grounded on principles of financial sustainability, robust governance, operational independence and stringent regulatory oversight. These banks also must be strategically positioned in the market to minimize market distortions.
39. **Recognize that the risk of “SDG washing”** – the opportunistic categorization of finance and investment as SDG compliant – grows in tandem with the expansion of incentives to increase sustainable finance for the SDGs. To combat this, both public and private entities need to establish and agree on shared frameworks and standards that define what constitutes sustainable and responsible investment. These should include ways to manage, measure impact and ensure accountability. Such efforts in the ECA region can be modelled on the European Union Sustainable Finance Framework and its constituent taxonomy, disclosures and tools.