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Investing in sustainable food systems: A methodology and lessons learned from Africa

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Increased investments in agri-food systems are critical to realising the ambitions of the 2030 Agenda and the Paris Agreement. This requires coordinated actions across a range of policy areas and vast investments, both from public and private financiers. Yet, in developing countries, and particularly in Africa, many farmers, processors and other actors struggle to access the financial resources needed to invest in their agri-food systems.

This briefing note presents a five-step methodology to stimulate sustainable investments in agri-food systems, which was developed by ECDPM in partnership with the Food and Agriculture Organization of the United Nations (FAO). It also outlines six lessons learned from its application, in collaboration with local governments, farmers, processors and financial intermediaries, in four African countries: Burkina Faso, Ethiopia, Kenya and Niger.

This methodology can be used at the country level to support governments and the private sector to invest in agri-food value chains, contributing to achieving better sustainability outcomes and strengthening resilience to shocks. The lessons learned through the application of the methodology at the country level can also inform international processes aimed at scaling up the quantity and quality of public and private finance in food systems.

Introduction

Tackling global food insecurity – which has been greatly worsened by the ripple effect of the Russian aggression on Ukraine and the socio-economic impacts of the COVID-19 pandemic – requires coordinated actions across a range of policy areas and vast investments, both from public and private financiers.

A major structural bottleneck to food security and sustainable food systems, especially in Africa, is the limited access to financial resources for smallholder farmers, small and medium-sized enterprises (SMEs), women, youth and other marginalised players. This limits their ability to invest in more sustainable and resilient practices as well as build viable agri-food value chains.

One of the barriers hindering investments is the difficulty of agribusinesses to build credible cases for attracting investments. The agri-food sector generally faces high investment risks, driven by high environmental, productivity, and market risks. Yet, especially smallholder farmers and SMEs often lack traditional collateral to cover risks and receive loans. As a result, there is a wide gap between the amount and quality of investments needed to transform agri-food systems and the finance that actually flows to them. This causes food systems to underperform, which deepens poverty and damages the environment.

Against this backdrop, ECDPM, in partnership with the Food and Agriculture Organization of the United Nations (FAO) and with the financial support of the government of Italy, implemented the project AgrInvest-Food Systems, which aims at attracting private investments into agri-food systems aligned with the Sustainable Development Goals (SDGs) by leveraging public funds.

Five steps towards increased investments

Under this project, ECDPM and FAO developed a methodology to leverage sustainable investments in agri-food systems (Rampa and Dekeyser 2022a) and tested it – in collaboration with local governments, farmers, processors and financial intermediaries – in four African countries: Burkina Faso, Ethiopia, Kenya and Niger. Country-specific reports detailing the application of the five steps can be found here.

Grounded in the food systems approach (Dekeyser et al. 2020), this methodology provides a five-step process to strengthen collaboration between private and public actors to upscale finance in food systems, particularly for marginalised groups. At its core, this process entails a combination of **(1) a package of policy reforms** that can remove the main bottlenecks to increased investments in the food system, and **(2) a set of financial instruments (including blended finance)** addressing the needs of different value chain actors. Lastly, **(3) a multi-stakeholder platform**, or other coordination mechanisms specific to a value chain or territory, is involved in the application of the methodology and the design and implementation of its results.

The **first step** selects **one or more value chains or territories** where to increase investments for improved food system outcomes. It starts with an analysis of the relevant food system (including its main sustainability challenges, relevant economic interests and power relations) and takes into account the interests, needs and capabilities of stakeholders in the system. On the basis of this analysis, a value chain or territory with transformation potential can be identified, and an initial multi-stakeholder platform formed.

The **second step** identifies **investment opportunities for each of these value chains or territories**. This step is informed by an analysis of the value chain that maps its different segments, their interactions, investment needs, and end-markets, and unveils major bottlenecks to private investments in the value chain.

The **third step** pinpoints **suitable financial instruments and institutions** for investments in specific value chain segments (Ahairwe and Bilal 2022). These can include subsidies, loans, guarantees, grants and equity capital. Financing options may vary according to the size and geography of the enterprise and can come from different financial institutions, ranging from small local saving groups to large banks, impact investors, and public development banks. This step is based on a mapping of the national financial ecosystem and its gaps, local investment patterns and available financial instruments for different value chain segments.

The **fourth step** develops **recommendations for private investors** to enhance the sustainability of their investments in the selected value chains or territories (Cortez-Tellez 2022). These recommendations support investors in developing investment strategies that integrate environmental and social objectives, not only to reduce exposure to risks but also to expand opportunities to generate positive financial, environmental and social returns.

The **fifth and last step** formulates **a package of policy reforms and financial instruments**, including blended finance, that can remove the bottlenecks identified by steps 1 and 2 and enable investments to flow. A multi-stakeholder platform, or similar coordination mechanism that includes public and private actors in a value chain or territory, can have a dialogue regarding the design and implementation of proposed reforms.

The platform can develop a **roadmap** that carefully sequences actions and defines commitments, responsibilities and timeframes for each actor involved, and provides a system for monitoring their implementation. As such, this step wraps up all previous steps, bringing together the knowledge and partnerships developed throughout the process into an action plan.

What the methodology is and can support

This methodology supports the scaling up of finance for sustainable food systems, creating, for a value chain or territory

A combination of:

(1) A package of **policy reforms**

(2) A set of **financial instruments** including blended finance

(3) A **multi-stakeholder platform**

Based on an overall business case, composed of:

(1) A **vision** of why investment should flow into the selected value chains and territories

(2) A **theory of change** defining how the proposed mix of interventions will be scaling up investments

(3) A **cluster of concrete investment opportunities** for relevant stakeholders

An **overall business case** that outlines investment needs and opportunities can be created by bringing together the relevant stakeholders in the value chains or territories and stimulating dialogue with public and private investors. This case is composed of:

1. **a vision** that states why investments should flow into the selected value chains, or territories, and how this will contribute to improving the sustainability of the food system;

2. **a theory of change** that defines how the proposed mix of policy reforms, finance instruments and multi-stakeholder platforms emerging from this process will scale up the quantity and quality of investments into the value chains and territories of focus;

3. **a pipeline of concrete investment opportunities** for relevant stakeholders in the value chain, with a focus on marginalised food system players.

Six lessons learned from applying the methodology

Stimulating sustainable investments in food systems rely on policies, interventions and financial instruments that improve access to affordable and relevant financial services for private actors along the value chain. After applying the methodology in four African countries, six main lessons emerged.

First, a conducive financing environment requires **a national agri-food finance policy framework that supports the development of financial services targeting underserved communities and under-resourced groups**, especially smallholder farmers and SMEs led by women and youth. Such a framework can: (1) support savings mobilisation (from microcredit institutions to large and long-term investors such as pension funds); (2) expand the range of available collateral substitutes (such as procurement contracts

6 lessons learned from the application of the methodology

(1) Launch an **agri-food finance policy framework** that supports financial services for smallholder farmers

(2) Coordinate the **deployment of different investors and schemes** to maximise synergies

(3) Use **multi-stakeholder platforms** to clarify the risk-return-impact profile of investment opportunities

(4) Use public funds to leverage private capital through **blended finance** instruments

(5) Target more explicitly and systematically **specific SDGs, beneficiaries and value chains**

(6) Build capacity of value chain actors to formulate **profitable business plan proposals**

with commercial off-takers or public institutions, or warehouse receipt systems); (3) subsidise digital financial channels in rural areas for improved financial access and reduced transaction and monitoring costs for financial institutions; (4) scale up agricultural risk management tools (such as an insurance protecting producers against droughts).

Second, the **coordinated deployment of different investors and schemes** – such as governments, farmers' organisations, small and medium-sized enterprises, public development banks, private equity funds, banks, pension funds, and impact investors – is needed to maximise synergies across financial instruments used and address the financial needs of actors in different value chain segments, including currently marginalised players. A multi-stakeholder platform can facilitate this process by involving both value chain actors and public and private investors in building a roadmap for investments and by providing technical assistance.

Third, the combination of individual investors' assessment of the risk-return-impact profile of an investment opportunity with the collective assessment and dialogue promoted by a multistakeholder platform provides **a more balanced risk-return-impact profile for investments in the selected value chain or territory**.

Fourth, **public funds can be used more systematically to mitigate risks and attract private investments in agri-food value chains through blended finance instruments**. To increase the effectiveness of blended finance schemes and improve access to credit for smallholder farmers and micro and small agribusinesses, the criteria for funding allocations should be better adapted to smallholder-based value chains. For example, repayment schedules should be longer, ticket sizes reduced and the flexibility of the interest rate increased.

Fifth, blended finance should **target more explicitly and systematically specific SDGs, beneficiaries and value chains** (Rampa and Dekeyser 2022b). Instruments such as making portfolio guarantees, particularly if made available to intermediaries like impact investors, can be useful for this.[1] Both screening criteria (to select investees) and due diligence practices (to accompany investees in gradually strengthening the sustainability of their activities) should be used more systematically.

Lastly, the 'supply side' finance interventions listed above need to be complemented by actions on the 'demand side', by investing in **building the capacity of actors in the agri-food world to formulate profitable business plan proposals**, thus supporting the development of a pipeline of eligible investment opportunities (D'Alessandro et al. 2022).

Concluding remarks

This note summarises the steps and lessons learned of a methodology to stimulate sustainable investments in food systems. This methodology can be used at the country level to support governments and the private sector to invest in agri-food value chains, contributing to achieving better sustainability outcomes and strengthening resilience to shocks. For example, it could support the financing of the national food systems pathways coming out of the 2021 UN Food Systems Summit. In addition, the lessons learned through the application of the methodology at the country level can inform international processes aimed at scaling up the quantity and quality of public and private finance in food systems.

This note summarises the results of the AgrInvest-Food Systems project. In the coming years, ECDPM will continue working with FAO and other African, European and international partners to support investments for more sustainable and resilient African food systems.

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Endnote

[1] By providing credit risk coverage to intermediaries for the creation of a portfolio of new loans, portfolio guarantees allow targeting more effectively private investments in a particular value chain or for specific sustainable development objectives (compared, for example, to first-loss guarantees). These schemes seem also to be more effective in providing additional on-lending to eligible agri-food companies and projects, compared to donor-funded blended finance mechanisms such as challenge funds and matching grants.

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