



Shared Prosperity Dignified Life



WORLD BANK GROUP



Food and Agriculture  
Organization of the  
United Nations



World Food  
Programme



Sweden  
Sverige

# Regional Forum on Accelerating Food Systems Transformation in the Arab Region

Amman, Jordan, 30-31 October, 2024



## Session 2 Financing Food Systems Transformation in the Arab Region

### Financing the Transformation of Agrifood Systems

Ahmad Mukhtar, Senior Economist -FAO Near East North Africa Region

# How innovative financing can support food security and nutrition in the Arab Region

1. The Arab Region's food security and nutrition challenges require more funding
2. Blending capital and using innovative financing models can unlock this funding
3. Innovative financing mechanisms can:
  - Blend investment capital with concessional capital to reduce risk
  - Use innovative models to directly impact food security and nutrition
  - Apply climate finance instruments for food security and nutrition



# Arab Region's food security and nutrition requires more funding



- The Arab region continues to face **food security and nutrition challenges**
- A healthy diet is **unaffordable for almost 1/3** of the Arab region's population
- It would cost an estimated **USD 1.4 trillion annually to ensure affordable healthy diets** for the 568 million worldwide who cannot afford them, but investing in **agrifood interventions could reduce this global cost by USD 1 trillion annually** (Laborde & Torero, 2023)
- **Investments** in these agrifood interventions **are needed to address food security and nutrition** challenges; the interventions should also safeguard livelihoods, be gender-inclusive and protect the environment in line with the SDGs
- **Repurposing of existing agrifood subsidies** will play an important role, although alone, **it will not be enough** to address food security and nutrition in the Arab region

Source: FAO



# Current levels of funding to the agrifood sector in the Arab Region

To address the food security and nutrition challenges, we consider all funding flows to the agrifood system : Public and private, domestic and foreign.

The broader agriculture sector (agriculture, food, forestry, and fishing sectors) in Arab countries received **USD 28.4 billion** financing annually as of 2021:

- **USD 4.9 billion ODA and OOF** for food security and nutrition, specifically food consumption (in 2021),
- **USD 12.8 billion** in bank **credit** to agriculture, forestry, and fishing sectors (in 2021),
- **USD 10.4 billion** domestic **government expenditure** (in 2021), and
- **USD 0.3 billion FDI** (in 2016).

Source of financing	Domestic	Foreign
Public	<ul style="list-style-type: none"> <li>- Public spending</li> <li>- Public development banks (state banks)</li> </ul>	<ul style="list-style-type: none"> <li>- Official development assistance</li> <li>- Other official flows</li> </ul>
Private	<ul style="list-style-type: none"> <li>- Domestic private sector investment and spending</li> </ul>	<ul style="list-style-type: none"> <li>- Multinational corporations' investments and spending</li> <li>- Foreign direct investment</li> <li>- Cross-border remittances</li> </ul>

Source: FAO, IFAD, UNICEF, WFP and WHO. 2024. *The State of Food Security and Nutrition in the World 2024*. Rome, FAO.



# Blending capital and innovative financing models can unlock funding

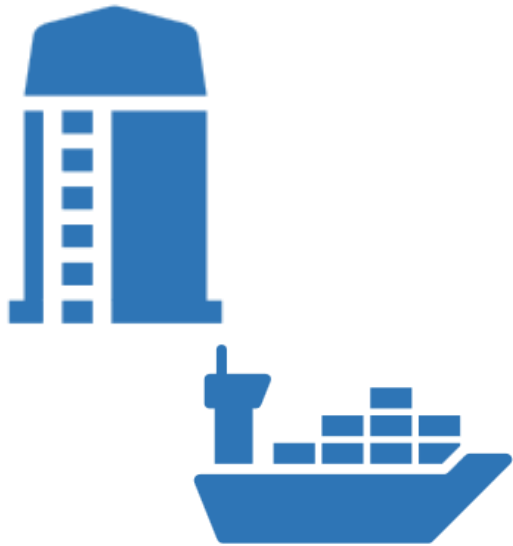


Source: FAO

- Investment flows, **both public and private**, can increase funding to interventions that support food security and nutrition
- Investment opportunities in the agrifood system in the Arab region face apparent a multitude of risks due to:
  - natural disasters and changing climate,
  - conflict in the region,
  - inadequate infrastructure,
  - Spoilage of perishable stock,
  - infrequent revenue streams,
  - lack of collateral availability and lack credit rating systems
- **Blending** of concessional capital and investment capital **can mitigate these investment risks**, and **innovative financing models can increase investment flows**



# Concessional capital can reduce risk through limited guarantees



- **Guaranteed sovereign impact loans** – Insurers can commit to paying out portions of losses to institutional lenders, unlocking billions for governments to put toward food and nutrition interventions
- **Reinsurance to safeguard against conflict risk** – The World Bank Multilateral Investment Guarantee Agency (MIGA) can provide capital guarantees to investments in agrifood firms that operate in zones that are at risk of conflict
- The number of **loans to agrifood firms can be increased through**
  - **capital guarantees** to lenders, which reduce a lender's losses on bad debt;
  - **subsidized interest rates**, that are easier for borrowers to repay



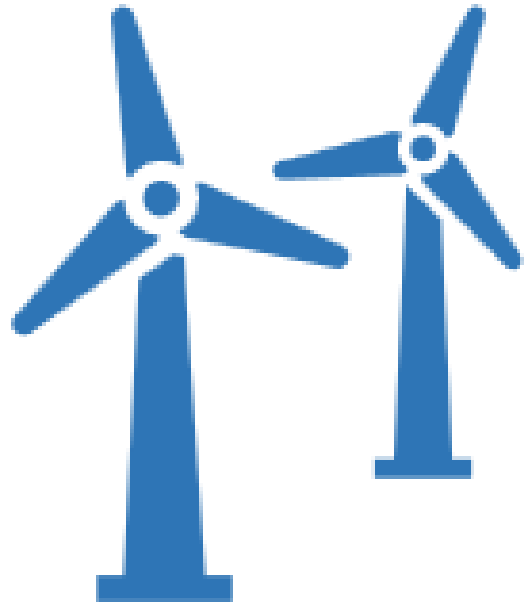
# Innovative financing models can directly impact food security, nutrition



- **Results-based financing (RBF)** - Grantors commit payments to a food security and nutrition intervention contingent on the achievement of measurable results at the end of the project. If the intervention fails to achieve the intended results, payment is not made in full, or in some cases, not made at all. RBF contracts are often prefinanced by investors.
- **Taxes on energy-dense foods** - Similar to more common alcohol and tobacco taxes, these taxes have the potential to deter consumption of foods that do not support healthy diets, while generating revenue for governments that expands fiscal space.
- **Sustainability-linked bonds** - Bond instruments that enable borrowers to have their interest rates lowered if they can demonstrate the achievement of certain outcome targets, that could include food security and nutrition targets



# Climate finance instruments can be used for food security and nutrition



- **Climate finance and green bonds** can support a food security and nutrition transformation by safeguarding the environment and securing the scarce environmental resources, such as water or arable land required for local food production
- **Carbon credits markets could be used for** the expansion of agroforestry initiatives that produce healthy tree crops and either (1) sequester carbon, or (2) promote soil health
- **Debt Swaps** enable creditors to forego a portion of their debt on the condition that the debtor country spends an agreed amount on approved food security and nutrition programs. (Traditionally a conservation instrument, but can be used for food security)





## Conclusion

- The Arab Region's food security and nutrition challenges require additional funding
- Repurposing existing support mechanisms (subsidies) is essential but not enough to solve the region's food security and nutrition challenges
- Attracting investment capital, blending with concessional capital and using innovative financing models can increase the flow of funding to the address food security and nutrition in the Arab region



# The End



## Example - Tunisia Cereals Room to Run Sovereign Loan Guarantee

**Country:** Tunisia

**Innovation:** Sovereign Loan and Loan Guarantee

**Implementing Party:** AfDB (lender); FCDO-UK/City of London Insurers (guarantors)

**Timeline:** 2023 - present

Tunisia's *Inclusive and Sustainable Development of the Cereal Sector Project* was approved in July 2023 and will strengthen food security resilience by applying interventions throughout the cereal value chain, including through storage and transport systems, aiming to increase both production volumes and productivity.

The project is financed by the African Development Bank and UK-FCDO's joint "Room to Run Sovereign" (RSRS) financing partnership that was launched at COP26. Room to Run is a \$2 billion guarantee facility funded by the UK-FCDO (\$1.6 billion) and City of London Insurers (\$400 million), that assume a portion of the credit exposure that the African Development Bank's sovereign climate finance portfolio.

(AfDB, 2022)



# Example - World Bank MIGA's Investment Guarantee for Date Production in Palestine

**Country:** Palestine

**Innovation:** Capital Guarantee Protecting from the risk of conflict

**Implementing Party:** World Bank Multilateral Investment Guarantee Agency (MIGA)

**Timeline:** 2023 - present

On June, 2023, MIGA provided a capital guarantee of \$16.6 million to companies that cultivate date palm trees and produce high-quality dates to cover the demand in the local market and build market share in international markets.

The guarantee covers investment that finances expansion from two to seven farms, opens a packaging facility for post-harvest handling of dates, a sorting and grading house, a cold storage facility, and a rooftop solar power plant, all located in Jericho, West Bank. The guarantees were issued for a period of up to five and a half years against the risks of expropriation and war and civil disturbance, including temporary loss of income.

The guarantees were underwritten by MIGA as an administrator of the West Bank and Gaza Investment Trust Fund and MIGA's Conflict-Affected and Fragile Economies Facility.

Source: [World Bank, 2023](#)



# Example - The Integrated Rural Development Project of the Mountain Areas in the Oriental Region”

**Country:** Morocco

**Innovation:** Results-based lending instrument

**Implementing Party:** International Fund for Agricultural Development (IFAD)

**Timeline:** Forthcoming

This mechanism is being deployed for the first time in IFAD’s Morocco portfolio. It consists of linking the disbursement of funds to the achievement of specific, previously agreed upon results (for PADERMO, the mechanism is based on Disbursement-linked indicators or DLIs). The results must be certified by the external third-party verification entity through a specific verification protocol. PADERMO has three DLIs for:

- (i) the creation and support of producer groups members of the National Association for Sheep and Goat Breeders (ANOC);
- (ii) the rehabilitation of rural roads; and
- (iii) functional literacy education for the project’s target populations.

Source: IFAD 2023



## Example – ESCWA Debt Swap Mechanism

**Country:** Jordan, Others Across the Arab Region

**Innovation:** Debt Swap Mechanism

**Implementing Party:** Economic and Social Commission for Western Asia (ESCWA)

**Timeline:** 2020 – Present

In December 2020, the ESCWA (Economic and Social Commission for Western Asia) launched the Debt Swap Mechanism (DSM), aimed at supporting Member States that are facing high debt burdens and need additional financing for the SDGs and climate action.

ESCWA is mandated to provide technical assistance to member States to advance and accelerate progress towards the SDGs and climate action. ESCWA has the convening power to liaise with member States debtors, creditors and donors to monitor and implement the swap funds transparently and accountably.

Jordan has been selected as a DSM pilot country, and ESCWA has declared it is open to cooperating with other member States to initiative discussions, formulate concrete proposals or to operate debt swap initiatives.

