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Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

Repurposing and Leveraging Agricultural Financing Towards a Just, Sustainable, and Healthy Transition of Agrifood Systems in The Global South

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Abstract

Agrifood systems need an urgent shift towards a just, sustainable, and healthy transition. Agriculture is a key sector to achieve this objective. However, existing agricultural practices are driving the sector in the opposite direction. Strategic changes in the public support and financing system can encourage the productive and the finance sector to advance towards a positive agricultural transformation.

G20 countries must face the challenge of this transition globally, while considering the uneven impacts of food production and consumption when comparing countries from the global North and South. Therefore, the policy brief emphasizes two different opportunities for countries of the global South to progress on the transition. The first is to repurpose public support by designing and implementing better financing standards, allocating resources according to transition criteria, preparing a transition plan and building a multistakeholder governance. The second is to leverage a financing system that ensures the transition by investing in key areas, such as adaptable technologies, improving data collection, and sharing best practices.

Better coordination between G20 working groups followed by concerted action among them to upscale positive experiences from the global South are indispensable to improve the debate on agrifood systems transition as well as to ensure the inclusion of global South countries, especially considering their scarcity of resources.

Keywords: Global South, Agrifood Systems, Transition, Agricultural Financing

Diagnosis of the Issue

Agrifood systems[1], as currently structured, have increased agricultural productivity worldwide albeit with negative impacts both on people as on the planet, representing 1/3 of global Greenhouse Gases (GHGs) emissions, being strong contributors to biodiversity losses and water withdrawals (WEF 2024). Furthermore, they fail to curb the increasing levels of hunger and malnutrition, while contributing to the poor health of the population (Ruggeri Laderchi et al 2024). Despite all these problems, the impacts of agrifood systems have remained unevaluated for a long time.

The "2014 Food Security and Nutrition Framework" set the basis for the G20 to take a long-term and integrated approach on the issue. The framework was built around three priority objectives, being the first one to increase responsible investment in food systems.

Like the G20, other multilateral forums, such as G7, the United Nations Framework Convention on Climate Change (UNFCCC), and the United Nations Food Systems Summit (UNFSS) have been mainstreaming similar discussions.

The existing investments, instead of supporting the transition of the sector away from harmful practices, are taking agricultural and food-related activities towards an unsustainable, unfair, and unhealthy direction. While negative effects of the agrifood systems are global, they are quite uneven, with more serious impacts in global South countries.

[1] Here, agrifood systems are defined as the entire range of actors of both agricultural and food systems and their interlinked value-adding activities involved in the production, aggregation, processing, distribution, consumption and disposal of food products (FAO et al 2022, 200).

For instance, almost 900 million people worldwide were facing severe food insecurity in 2022: 875 million in Africa, Asia, and Latin America and the Caribbean. The same applies to food affordability: 3 billion people worldwide were unable to afford a healthy diet in 2020, predominantly those living in the global South. From 2020 to 2021, food costs hiked more than 5% in global South countries, while global North countries underwent only marginal cost rises (FAO 2023a).

Uneven are also the multiple hazards caused by environmental shocks. Over the past three decades, 3.8 trillion USD worth of crops and livestock production were lost due to disasters (123 billion USD per year). Eastern Africa (15%) and Latin America and the Caribbean (10%) suffered the highest percentual losses from extreme events in terms of added value in agriculture (FAO 2023b).

The same applies for the true cost of agrifood systems, estimated to exceed 10 trillion USD at 2020 purchasing power parity. These costs include unaccounted impacts on environmental, social and health dimensions. While most of the hidden health costs (due to dietary patterns) are seen in the global North, environmental and social costs are more expressive in the South. Worldwide, these hidden costs account for around 3.5 trillion USD, with 76% in Africa, Asia, and Latin America and the Caribbean (FAO 2023c).

The data evidence that transforming the agrifood systems is mandatory as they are ill functioning from North to South. It also highlights that challenges and opportunities are different across both geopolitical contexts, requiring more analyses for the transformation of the agrifood systems in global South countries. This is especially relevant as changes in urbanization occur mainly in Asia, Africa, and Latin America and the Caribbean, increasing therefore the pressure on food supply and demand.

The question is no longer whether a transformation should occur, but how a steadfast global commitment among countries should advance. This awareness is strongly

embedded in Brazil's G20 presidency whose members must progress on discussions on how to transform agrifood systems and, more specifically, on how to prepare a pivotal sector such as agriculture for this endeavor, without leaving no one behind.

Due to climatic, environmental and social impacts on food production in the global South, this policy brief brings concrete recommendations for repurposing and leveraging public and private financing for the agricultural sector. Recommendations are based on the analysis of experiences seen both in Brazil and the African Union.

Recommendations

With the present financial system, available capital flows for agriculture still finance harmful practices, such as deforestation, soil degradation, loss of biodiversity, impoverishment of local communities and poor diets. National and international finance must be part of that transition. Recommendations, in the case of global South countries, include:

A. Repurposing public support to ensure a transition in agriculture

Recent studies accounted for more than USD 850 billion of public support being transferred each year to the agricultural sector from 2020 to 2022 (OCDE 2023). However, those flows were unevenly available and spent across the world. During 2020-2022, agricultural public support in OECD countries represented 25.1% of their agricultural production value, while in 11 emerging countries (including Brazil, China, India, and South Africa) this figure was 11.1% (OECD 2023).

Besides the financing differences among countries, those public resources are not supporting the agricultural transition. Taking Brazil as example, the Agricultural Plan (Plano Safra) is one of its main agricultural policies, setting out rules for rural credit operations and allocating public resources for financial institutions to offer rural credit at preferential rates. In the 2021/2022 Plan, the total credit reached USD 50.2 billion, but with only 1%, or USD 1 billion, allocated to the Low Carbon Agriculture Plan, with targets to reduce GHG emissions from the sector (Escolhas 2023).

Agriculture and livestock are the main causes of land use change, which is the main source of GHG emissions in Brazil. Both the Amazon and Cerrado biomes underwent the highest native vegetation losses in the past 38 years (1985-2022), with 51 and 32 million

hectares respectively, while recording the same increase in land occupation by agricultural and livestock activities (Mapbiomas 2023).

Nevertheless, the sector received USD 4.2 billion in financing from public funds and national development banks and more than USD 2.1 billion in tax benefits and subsidies for the development of activities in the Amazon and Cerrado in 2022 (Escolhas 2023). These public financial instruments consider very poor criteria for assessing the potential social and environmental impacts of eligible projects. Also, there are no standards for monitoring and evaluating a transition in the financed agricultural sector towards more sustainable practices (Escolhas 2023).

Countries must incentivize a transition of their agricultural sector, regardless of the level of their domestic financial resources. For this aim, it is essential to stop allocating public resources to agricultural and livestock projects that promote environmental degradation. Repurposing public support and finance must be guided by:

- **Designing and implementing strong, clear, and measurable standards for public support and financing of agrifood systems**. Criteria for selection, approval, monitoring, reporting and verification (MRV), and evaluation should follow minimal standards to be implemented by public banks on a regular basis. Raising standards among public financing institutions will not only help the repurposing itself but can also help trigger changes in the private sector, while also raising traceability standards.

- **Supporting the agricultural sector in adopting the criteria and standards required for the transition of agrifood systems**. Public resources should support the adoption of new productive practices, technologies, and traceability tools by farmers and their customers. This support is the basis of the transition, and needs to comprise all types of farming, while providing special support, such as capacity-building and technical

assistance, for small-scale and family farmers, traditional communities, women, and young people.

- **Preparing a plan to put the transition of agrifood systems at the center of the decision-making process on how to use public resources.** A transition plan can increase confidence across the productive and finance sectors. Short-, medium-, and long-term phases, each with clear criteria and timelines for a complete defunding of unsustainable activities, will help to address the multiple streams to be pursued for the transition to be fully implemented. The plan will depend on an evaluation of the cost-effectiveness of existent policies and programs. This way, it will support the assessment of potential winners and losers and guide future actions on how to minimize potential adverse effects in the sector, especially among the most vulnerable groups.

- **Implementing a multistakeholder governance to advance with the transition at national level**. A plural governance can improve the connection of food production with its consumption, support policy design and implementation, promote stakeholder engagement, and facilitate monitoring and evaluation of progress in policy implementation, effectiveness, efficiency, and impact.

B. Leveraging agriculture financing to support the transition of agrifood systems

Considering global South countries' budget restraints, the repurposing of existent national budgets itself will be insufficient. This is the case in low-income countries, even though agriculture remains an essential sector. The majority of the economically active population in these countries had at least one job or activity in agrifood systems. Africa accounts for 290 million people in the sector (Davis et al 2023).

As a relevant sector, the African Union (AU) adopted the Malabo Declaration in 2014 with seven commitments to accelerate agricultural growth. One of them was to leverage funds through the allocation of 10% of AU members' national budgets to agriculture from 2015 to 2025. Up to 2021, only four countries of the 51 members of the AU were on track to invest at least 10% of their national expenditures in agriculture (Egypt, Eswatini, Seychelles and Zambia) and more than 50% of members (26 states) experienced a decrease in their performance on this commitment (CAAPD 2022). In general, public agriculture investments in Africa have remained low due to the need to allocate funds for infrastructure and social services.

Therefore, another strategy built in the African continent to leverage agricultural resources is through international development institutions. Since 1997, the African Development Bank (AfDB) has classified the agricultural sector as a strategic area and has financed to date more than a thousand projects totaling USD 18.4 billion. In 2022, agriculture represented 23% (USD 1.9 billion) of AfDB loans, grants, and equity investments as well as approved guarantees (GRAIN 2023). Although relevant, much more public and private finance needs to be leveraged to address the transition of agrifood systems. Recent projections estimate a yearly global average of USD 500 billion from 2024 to 2050 (Ruggeri Laderchi et al 2024). About half of it should be invested in rural infrastructure, forest protection and restoration, reduction of food loss and waste, support for a dietary shift and agricultural research and development.

For this endeavor, G20 countries must dedicate the same effort to step up access of the global South to development finance institutions as well as to support the mobilization of resources from the private sector. Leveraging finance for the transition of the agricultural sector must be guided by:

- **Expanding resources to cope with transition trade-offs**. This includes the limited capacity of some vulnerable farmers and groups, especially small-scale and family farmers, to implement new standards and technologies. Additional resources must consider compensatory payments, building workforce capacity, increasing the public procurement of healthy products, and the expansion of social protection initiatives. These actions upscale the just dimension of the transition process.

- **Investing in technology and innovation adaptable to different products, regions and biomes.** Private research focuses on commodity export-oriented crops, while not necessarily targeting small-scale and family farmers nor investing in technology and innovation adaptable to different products, regions and biomes. Projects that support research activities for climate-smart agriculture with low-cost technologies are essential for the transformation of global South agrifood systems.

- **Improving data collection, monitoring, and reporting on agrifood systems**. This includes the unaccounted costs on the environment, society and population health, plus information on the impacts of climate disasters and environmental shocks in agriculture. The improvement of metrics, standards, and guidelines is a necessary condition for finding common ground among countries, but also for unlocking private finance for the transition.

- **Increasing critical investments in infrastructure and research and development (R&D).** National, regional and multilateral banks had historically mainly focused on infrastructure projects. While increasing their actions to promote sustainable development, they can expand their portfolio to areas relevant for the transition, such as transport, logistics and roads, electrification based on renewable energy, irrigation and water supply systems, better digital infrastructure, and advancing on R&D.

- **Harmonizing standards at regional level.** Regional integration can play an important role in coordinating agrifood regulations and standards, which is essential for investment decisions. The Southern Common Market (Mercosur), the Community of Latin American and Caribbean States (CELAC), the African Union (AU) and the African Continental Free Trade Area (AfCFTA) have been relevant to coordinate agricultural policies and instruments. Signatories can help leverage common standards for agricultural reforms and discuss how to cope with the effects of trade openness, such as losses in the small-scale, family farming sector.

- **Sharing good practices at the multilateral level.** Coordination can support the design of global guidelines for the transition, while discussing measures to avoid unexpected spill-over effects across borders. For instance, trade can help resourceful countries to fulfill their repurposing goals domestically by outsourcing externalities across the world. Also, environmental and social provisions in trade agreements can be mobilized as non-tariff barriers. Global negotiations and forums, such as the G20, offer favorable conditions for agenda-setting and for pushing for effective commitments worldwide.

Scenario of Outcomes

The 2021 “Matera Declaration of G20 Foreign Affairs and Development Ministers” and the 2023 “Deccan High Level Principles on Food Security and Nutrition of G20 Agriculture Ministers” reaffirm the need for G20 members to improve the catalytic investments from both public and private institutions.

While Brazil’s presidency follows the same path, just agriculture transition remains at the sidelines of a G20 concerted action, comparing to efforts regarding energy transition. The same pattern is seen at national level, at the Brazilian “Ecological Transformation Plan”, as repurposing and leveraging resources to support a just transition in agriculture are yet unclear. In this sense, better coordination among G20 Working Groups and a concerted action of Southern countries are indispensable actions to improve the debate on agrifood systems transition, especially considering the scarcity of resources faced by those countries and their need to repurpose while leveraging resources for that aim. Follow-up scenarios include:

- Concerted action between the Sustainable Finance Working Group (SFWG) for its priority 2 “Advancing credible, robust and just transition plans” with the Agriculture Working Group (AWG) and its priority 3 “Recognizing the essential role of family farmers, peasants, indigenous peoples and traditional communities for sustainable, healthy and inclusive food systems” to support building of the just dimension of agricultural transition plans.
- Transversal commitments among SFWG, AWG and the Development Working Group (DWG) for supporting trilateral cooperation in line with their interrelated goals connected to just agricultural transition, such as sharing best practices on sustainable tropical agriculture (AWG priority 1), optimizing access to funds for low-income

countries (SFWG priority 1) and building pathways for reducing inequalities (DWG priority 1).

If implemented, such scenarios can help build clear directions and financing strategies to foster discussions around a just transition for agriculture, especially considering the recent inclusion of the African Union as a permanent member of G20.

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