



# THE ROLE OF UNCDF IN TRANSFORMATIVE FOOD SECURITY FINANCE



## CONTEXT

The Covid-19 pandemic has shed light on the fragility and unsustainability of global and local food systems. The pandemic has worked as an accelerator of the sense of urgency to take bold commitments towards the transformation of food systems in order to bring back SDG2 (Hunger eradication) on track.

A consensus exists that structural transformations towards sustainable, resilient, and equitable food systems include the way in which food is produced, accessed, distributed, valued, and consumed. It is acknowledged that sustainable food systems require that economic, social, cultural, and environmental dimensions and their trade-offs be fully integrated in policy and investment planning. They also entail a shift from one-size-fits-all solutions to local and context-specific approaches.

They finally call for a major change in the mindset and stronger collaboration of the involved public and business actors, as well as civil society. These are the challenges posed to the global events and summits that are planned to take place in 2021 and 2022.

UNCDF has a long experience with both direct and indirect interventions in food systems and food security. Over time its initial focus on the support to local governments' investments in public goods and services through its **Local Development Fund (LDF)** has been expanded to include the question of how public expenditure can stimulate Local Economic Development (LED) through the promotion of productive activities in agriculture and agricultural value chains. Together, LDF and LED contribute to promote a conducive environment for public and private investments.

In 2015, UNCDF launched the **Finance for Food programme (F4F)** with the purpose of providing a coherent and comprehensive framework for promoting financial support to food systems (FS) and food security and nutrition (FSN) related interventions. F4F is conceived as an innovative approach to address the emerging challenges resulting from the multidimensional and territorial nature of FS and FSN. With its focus on finance, F4F provides a strategic contribution to an issue that is generally considered a policy orphan in the conventional approaches to food systems. With the growing momentum on localizing SDGs and in line with the ongoing process towards food system transformation UNCDF experience in FS and local finance theory of change can play a pivotal role in accelerating SDG2 achievements.



## RATIONALE FOR UNCDF ROLE IN FOOD SYSTEMS TRANSFORMATION AND FSN

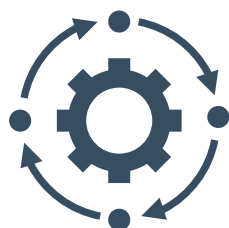
1

BY APPLYING LAST MILE FINANCE MODELS TO LOCAL FOOD SYSTEMS, UNCDF CAN FILL A CRITICAL GAP IN FINANCING.



2

PROACTIVE FSN INVESTMENTS TO TRANSFORM AND ADAPT FOOD SYSTEMS CAN SEIZE THE OPPORTUNITIES AND MINIMIZE THE RISKS OF TRANSFORMATIONAL CHANGES TRIGGERED BY KEY DRIVERS.



3

FOR THE ACHIEVEMENT OF NATIONAL FSN GOALS, TERRITORIAL APPROACHES AND POLICIES THAT PROMOTE LOCAL INVESTMENTS IN FSN ARE NECESSARY.



UNCDF has a mandate to bring financing solutions to the “last mile” and its local development finance theory of change focuses on increasing financing, policy and partnerships at the local level that can accelerate achievement of poverty reduction and hunger eradication in LDCs and other newly graduated countries. In many developing regions poverty and food insecurity levels are pervasive and livelihoods depend heavily on food systems, which often constitute the main source of employment and income. In these countries there is therefore a strong positive correlation between development objectives and Food Systems (FS) transformation and Food Security and Nutrition (FSN) outcomes.

Demography, urbanization, dietary transition, technological transition, ageing and feminization of rural population, and climate change, are among the key drivers expected to have major implications for FSN in developing countries. A focus on FSN sensitive investment is required to ensure that economic growth can contribute to transformation through resilient, inclusive and sustainable food systems that add value to local economies. With some updates and recalibration, the F4F programme provides a valuable operational framework to guide UNCDF interventions in FSN and provide frameworks for setting objectives and measuring impact in this area while leveraging UNCDF's financial mechanisms.

Local Governments, farmers and communities are on the frontline to address FS and FSN problems. They are generally responsible for the provision of FSN public goods and services, and through the day-to-day interactions with the people they serve, they are best placed to understand the needs and prioritize the required interventions, which are context-specific and cannot be based on a one-size-fits-all and top-down approach to policies and investments. Approaches that connect food growing regions with peri urban processing and urban food distribution networks and build partnerships between public, private and community efforts are needed.



## RATIONALE FOR UNCDF ROLE IN FOOD SYSTEMS TRANSFORMATION AND FSN

4

LOCAL GOVERNMENTS IN LDCs REQUIRE FINANCING AS WELL AS MANAGEMENT CAPACITY AND DECISION-MAKING AUTHORITY TO IDENTIFY, PLAN IMPLEMENT AND MONITOR INVESTMENTS WITH FSN TRANSFORMATIONAL IMPACTS.

The importance of local governments in fostering the complex and multi-dimensional transformational process leading to the achievements of FSN goals is generally ignored or at best undervalued, including in the decentralizing LDCs. This requires financing instruments that are flexible, accessible and affordable alongside technical capacity to enable local governments to plan, finance and implement transformative FSN solutions





## WHAT CAN UNCDF DO?

Building on the UNCDF mandate, experience, and lessons learnt, the distinctive role of UNCDF and in particular of the Local Transformative Finance Practice (LTFP) vis-à-vis the other FSN partners to unlock the local food systems development potential is **anchored in a three-tier approach or model**:

**1 Filling the gap of local finance.** This entails supporting local governments in:



### i. **Developing innovative financial tools and mechanisms**

to leverage domestic and international, public and private, financial resources from all possible sources (e.g., central budget transfers, ODA, remittances, FDI, Foundations and Global Funds, pooling of resources, etc.) to boost Local transformative FSN investments;



ii. **Promoting the right mix** of public goods (e.g., road infrastructure), productive (e.g., support to SMEs) and social finance (e.g., cash transfers) based on sound diagnostic and assessment of the FSN situation, the institutional and the socio-economic context of the targeted areas, and the needs of the various actors involved in FSN, including households, specific groups (e.g., women, youth) micro-enterprises, SMEs, municipalities;



### iii. **Designing and implementing the most appropriate mix of financial tools and mechanisms**

as UNCDF recognizes that transformational impacts towards resilient and inclusive FS and FSN will be higher if financial tools and mechanisms targeted to public investments, economic growth and social support go hand in hand.

## 2 Governance

Local governance is generally the weak link of the governance chain of LDCs. UNCDF has a track record, notably through the LTFP, in supporting local institutions and communities to supply and provide increased access to essential public goods and services for FS and FSN (e.g., clean water, health, education) as well as to invest in strategic and transformational territorial assets (e.g., energy, irrigation schemes, roads, etc.) and promote financial and fiscal accountability. Therefore, while keeping a strong focus on development finance and financial mechanisms, UNCDF can play a key role in:



i. **Strengthening vertical** dialogue and coordination of stakeholders and government institutions involved in FSN governance;



ii. **Promoting horizontal** governance mechanisms (e.g., across administrative levels, including city-region governance systems) that better reflect the spatial nature of FS and FSN governance;



iii. **Empowering local communities** and citizens to improve access to public goods and services and participate in local decision-making processes;



iv. **Promoting the transformational** impact of urbanization on FS and FSN, by facilitating the dialogue between cities and rural areas with a focus on the development of financial partnerships to address common FS and FSN related issues.

## WHAT CAN UNCDF DO?

### 3 Capacity development

Transformation towards resilient, inclusive, and sustainable food systems requires the development of a broad variety of individual, organisational and system-wide capacities cutting across sectors (e.g., environment, health, agriculture, public services, etc.), actors (e.g., public, business, and civil society) and evidence-based policy and investment planning and management. By focusing on the last mile, the value added of UNCDF in capacity development for resilient FS and FSN is to strengthen the capacities of local actors in:



**i. Improving local revenue generation** through either transfers from the central level or local fiscal systems;



**ii. Mobilizing, planning, managing and monitoring the use of domestic and international resources** to promote FS transformation and FSN sensitive investments;



**iii. Developing and adapting financial mechanisms and tools** to reflect the context-specificity of food systems, the needs of the actors involved, and the changing financial markets/actors and technologies.





## PRINCIPLES UNDERPINNING UNCDF WORK IN THE FSN

1

### **Coordination and synergies with other relevant programmes of UNCDF.**

FS and FSN related interventions of UNCDF cut across several programmes of UNCDF and the tools and mechanisms developed by these programmes can be instrumental to support the FSN pathways. In terms of financial instruments, FSN programmes can take advantage of SME finance, Municipal Investment Finance, and Performance based grants, and Local Development Funds among others. As stressed by the stocktaking report on F4F programmes published in 2018, “the connections between the critical mix of different financing opportunities and different pathways to food security have not yet been matched”. This matching of financing with FSN outcomes can be done more effectively with the range of instruments UNCDF has now developed and applied.

3

**Territorial approach.** A territorial approach to FS and FSN is in itself a transformative change agent for it suggests a radical shift from the prevailing “productionist” approach to include social, environmental, economic and institutional dimensions. The multidimensional nature of FS and FSN entails that efficient and resilient territorial food systems are not the result of the sum of isolated sectoral interventions or of single pathways. It rather suggests that the whole is higher than the sum of the parts. This stems from the fact that the dimensions of FSN and FS are interlinked and influence each other through trade-offs and feedback loops. Therefore, if the potential trade-offs and feedback loops are not properly mapped in the diagnostic studies, it is likely that the expected outcomes of every single pathway will not generate the expected FSN outcomes. A special focus will be placed on urban-rural food linkages and their implications for planning of food systems, governance and financial allocations.

2

### **Partnerships with technical organizations working on FSN.**

UNCDF's role in contributing to the achievement of SDG 2 “Zero Hunger” in the most vulnerable countries is to develop and provide appropriate financial solutions to the “last mile”. In this area UNCDF can play a leading role by optimizing partnerships with other development partners that bring additional technical and policy engagement. These partnerships are necessary and should be diversified and systematic (and to the extent possible formalised through, for example, letters of agreement, memorandum of understanding, joint programmes), to complement UNCDF's finance expertise with the technical expertise. Strategic partnerships should be pursued with UN organisations, IFIs, foundations, NGOs (local and international) as well as with financial partners.

4

**Cross-cutting themes.** As well developed in the F4F framework, key cross-cutting themes including climate change (ensuring the sustainability of its interventions), gender (recognizing the role of women in FS and FSN and to address the many barriers they face to access resources, including financial resources), youth (anticipating the need to generate new employment opportunities in a context of rapid increase of young people, mainly in the most vulnerable countries), vulnerable households (ensuring that no one is left behind in the achievement of FSN objectives), and sustainable cities (connecting to urban food systems and infrastructure needs) should be systematically mainstreamed in UNCDF interventions in FS and FSN initiatives.



#### ABOUT UNCDF:

The UN Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries (LDCs).

UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.