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Food Systems Finance for Resilient Futures: An MDB and NDB Collaboration Roadmap

“We have the institutions to tackle poverty, we have the know-how to reduce inequality, what we need is to mobilise resources and join forces.”

ALVARO LARIO
President, International Fund for Agriculture Development

“When we help countries lower trade and transportation costs, we reduce the price of food and alleviate food insecurity in the region and globally.”

ILAN GOLDFAJN
President, Inter-American Development Bank

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Overview

The following working paper is prepared by Momentus Global for the 2023 Finance in Common. It proposes a set of 5 recommendations that Multilateral Development Banks (MDBs*) can adopt to implement their capital adequacy reforms in a way that enhances the prominence of National Development Banks (NDBs) in transforming food systems finance for a more resilient future.

The formulation of the working paper entailed extensive consultations, encompassing in-depth interviews conducted with national governments, public development banks (PDBs), and civil society representatives within five distinct country contexts: Bolivia, Togo, Zambia, India, and Tunisia. These consultations were used to inform the recommendations provided in this report. This working paper is open for comment. Kindly submit any comments to cvangaal@momentus.global by September 30, 2023. The final publication will be available October 2023.

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* The MDB "group" here referenced includes: Asian Development Bank (ADB); African Development Bank (AfDB); European Bank for Reconstruction and Development (EBRD); European Investment Bank (EIB), Inter-American Development Bank (IADB); the World Bank Group (WBG – IDA/IBRD/IFC/MIGA) and the International Fund for Agricultural Development (IFAD) (though IFAD is not technically classified as an MDB).

The global context: a food system in crisis

In a globally interconnected food system, the rural poor, who are key contributors to food production, paradoxically experience the highest rates of food insecurity. Many endure inadequate compensation, harsh conditions, and insufficient access to affordable and nutritious food, particularly women who often eat last and produce the most in low-income countries. These factors foster dependency, inequality, and unsustainable practices, leading to concerning health trends, loss of biodiversity and natural capital and the exclusion of small farmers from value chains. Addressing food insecurity goes beyond increasing food production—it involves improving rural livelihoods—combating poverty and food insecurity, as integral components of sustainable, lasting, and fair food systems.

STATS AT A GLANCE

- Approximately 2.4 billion individuals, largely women and residents of rural areas, did not have consistent access to nutritious, safe, and sufficient food in 2022. (SOFI 2023)
- Small-scale producers of less than 2 ha represent 84 percent of the farms in the world and control 12 percent of global farmland. (FAO2021)
- By 2050, almost seven in ten people are projected to live in cities, compared to 56 percent today. (SOFI 2023)
- In rural areas, the average share of food consumed from their own household production represents only 37 percent. (SOFI 2023)
- Agriculture, forestry and fisheries are the largest drivers of 60 percent of biodiversity loss and 80 percent of deforestation, (FAO 2016)

According to the FAO, the value-added economic contribution of the agriculture sector reached US$3.6 trillion in 2020. Meanwhile, the Scientific Group of the UN Food Systems Summit, 2021 estimates US$19.8 trillion per year in "hidden costs" of global food and land use systems[1] - taken together for every $1 of production, there is over $5 of hidden environmental and health costs. Fragmented global food and agriculture investments, centered on high-value crops and standardized production models, have led to a profit-oriented food system that often compromises long-term environmental sustainability and equitable access to nourishing and affordable food. This approach, while efficient, historically relies heavily on advanced machinery and fossil fuels for inputs and energy. In addition, growing

[1] Scientific Group of the UN Food Systems Summit. "The True Cost and True Price of Food." UN Food Systems Summit, 2021. https://sc-fss2021.org/wp-content/uploads/2021/06/UNFSS_true_cost_of_food.pdf

population migration to urban centers create an urban bias whereby public investments favour industrialization over agricultural development. Therefore, smallholder farmers face the dual challenge of inadequate public investment and exclusion from high-value agriculture markets that attract private capital.

Urgent action is needed to rectify the inequalities within the food system, and public development banks are key actors in driving a paradigm shift in how food systems function and are financed, particularly in low- and middle-income countries (LICs and MICs).

Based on five country consultation interviews, key structural barriers limit the resilience of food systems, namely weak enabling business environments for agricultural investments, inadequate rural infrastructure, and unsustainable land use practices. These structural barriers, combined with significant commercial risks associated with commodity and currency price fluctuations, small transaction sizes and climate-related crop losses, make agricultural investments across the value chain riskier than other sectors. Government policies significantly influence food systems' resilience and effectiveness. Therefore, a comprehensive approach is essential to strengthen food systems and advance the Sustainable Development Goal of Zero Hunger (SDG2).

The challenge within the global food system lies in the discrepancy between available resources and their allocation, creating a food systems finance gap. According to IFPRI's 2022 Global Food Policy Report the annual financing gap is expected to reach USD 350 billion by 2030, hindering progress towards climate and sustainable development goals. Climate change, land degradation and deforestation add to the costs as more frequent flooding, droughts, and natural disasters reduce agricultural yields. This disproportionately affects lower-income producers and consumers who face greater challenges in adapting to climate-related disruptions. The IPCC Special Report on Climate Change and Land attributes 21-37 percent of total greenhouse gas emissions to the global food system. These arise from production, land-use change, processing, packaging, distribution, preparation, and consumption habits, including food loss and waste.

Addressing these disparities requires a systems approach, such as holistic sovereign investments across multiple sectors and/or equity investments in innovative fintech/Agri-tech platforms that can diversify risk and bundle solutions to reach beneficiaries at scale. A systems approach considers the entire interconnected network within the agricultural sector. Hence, effective implementation necessitates the coordination of numerous stakeholders and financial institutions within a robust national food systems strategy that aligns with Nationally Determined Contributions (NDCs) for climate mitigation and adaptation. This approach redirects investments towards sustainable practices, local food sovereignty and rural development, so all people have a future where access to affordable and nutritious food is secured.

Public development banks are agents of change for food systems transformation

Our food system is broken, perpetuating inequalities, promoting unhealthy diets, and contributing to climate disruption. There is an urgent need for PDBs, at the core of our financial system, to redefine their role. Healthy food is a basic human right and needs to be financed accordingly.

PDBs, encompassing both MDBs and NDBs, play a pivotal role in economic growth, addressing market deficiencies, and attaining sustainable objectives. PDBs at each level, multilateral, regional and national, constitute a vital ecosystem, funneling expertise, resources, and assistance for global development. Functioning within sectors characterized by incomplete financial markets and limited inclusivity, PDBs intervene both counter-cyclically and structurally, facilitating access to financial services that fuel investment and bolster resilience.

With extensive client networks encompassing two-thirds of formal sector finance, these entities adeptly mobilize capital to facilitate businesses' contribution to sustainable development and more resilient economies. PDBs

employ diverse tools like second-floor banks, guarantee funds, interest rate subsidies, technical aid, and long-term resources. This report examines how PDBs can work together leveraging their respective comparative advantages and tools to close the food systems financing gap.

Globally, NDBs, wielding USD 5 trillion in assets under management, surpass international MDBs with USD 1 trillion (Gallagher and Kring2017). MDBs possess broad expertise, cross-border networks, resource mobilization capabilities, and economies of scale. They introduce pioneering financial instruments like green and SDG bonds and help shape regulations, all while adhering to rigorous accountability and precision-driven impact assessment measures. MDBs also play a role in advising governments and national banking supervisors in their capacity as financial regulators, especially in aligning finance with the SDGs. Meanwhile, NDBs, offer complementary strengths, including local market knowledge, knowledge of customer base, connections to key economic actors and access to local currency financing. NDBs also assume a significant role in promoting SDG-aligned finance through their public policy mandates.

Despite their strategic position at the heart of local economies and financial systems, NDBs are often excluded from pivotal policy conversations and are underutilized and undercapitalized. They are key actors in bridging the investment gap in climate-resilient infrastructure through strategic use of blended finance and their ability to structure and customize bundled finance—a potent financial and public policy mechanism. Therefore, strengthening the MDB-NDB connection is imperative. This collaboration is pivotal for catalyzing transformative reforms within local food systems, where local market connections are key to financial inclusion. Their proximity to local actors allows them to reach the most vulnerable, especially women who constitute 60% of food insecure individuals yet contribute to 60-80% of global food production in developing countries[2].

In July 2022, the G20 initiated an independent review of the MDB Capital Adequacy Framework (CAF) and identified the overestimation of financial risks by credit rating agencies as hampering effective global responses to crises and necessary long-term investments in higher risk markets. The G20 review prompts MDBs to optimize their balance sheets and capital utilization. Recommendations range from increasing the use of guarantees, mobilizing more private capital, extending special drawing rights, and operational reforms that consider the preferred creditor status. Numerous MDBs, like the Inter-American Development Bank and

Asian Development Bank, are taking action to adhere to the MDB CAF recommendations, such as engaging in exposure swaps to enhance balance sheet capacity[3].

However, reforms rarely take a strategic approach that prioritizes important socio-economic sectors with the greatest investment gaps, such as the agriculture sector in many LICs and MICs. **As a result, there is a risk that if additional capital generated by balance sheet optimization continues to follow conventional investment strategies, it will simply perpetuate existing inequalities and environmental externalities. Added financial capacity needs to be matched with substantial transformations in the ways the majority of MDBs allocate resources toward food systems, aimed at cultivating more resilient futures, particularly for vulnerable households.**

This report proposes that this transformation will not take hold without strengthened collaboration between MDBs and NDBs, whereby MDBs both learn from and guide NDBs toward increased SDG and NDC alignment. The recommendations constitute a “Roadmap” for MDBs to collectively reinforce and strengthen the capacity of NDBs **to efficiently allocate capital to local food systems**. Specifically, MDBs can better support NDBs in managing financial risk, accessing concessional finance, developing climate adapted project pipelines, integrating digital strategies and impact measurement tools, and advancing policy and regulatory improvements that incent climate mitigation and adaptation and discourage less sustainable practices.

[2] Davies, Vikki. “Women Produce up to 80% of Food in Developing Countries.” FAO 2023. https://www.fao.org/family-farming/detail/en/c/1634537/.
[3] IADB. “IDB and ADB Scale up Exposure Exchange with a New Deal Worth $1.5 Billion.” Inter-American Development Bank, 2022. https://www.iadb.org/en/news/idb-and-adb-scale-exposure-exchange-new-deal-worth-15-billion.

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A food systems finance collaboration roadmap

Summary of recommendations

The following section outlines five recommendations based on country stakeholder consultations with Bolivia, India, Togo, Tunisia, and Zambia on IFAD's Strategic Framework. They are designed to form a Food Systems Finance Roadmap through which MDBs could better support NDBs as key actors in strengthening the resilience of local food systems.

Food systems finance roadmap for transformation

RECOMMENDATION 1
Food Systems as a Policy Imperative

NDBs are key implementing arms for government food systems pathways and NDCs. MDBs could focus technical assistance to build NDB capacity to implement government food systems policies. In addition, policy-based operations (PBOs), including debt, equity, guarantees, and grant funding linked to policy implementation and budgetary allocations for natural capital preservation, can be effective incentives to drive more sustainable land management policies and investments.

RECOMMENDATION 2
Structure Globally, Invest Locally

MDBs can better support risk management by structuring aggregated global funds/bonds and on lend to diversified intermediaries and projects in developing countries. NDBs are ideal intermediaries to aggregate smaller national projects. They are equipped to invest in local financial institutions and ensure effective capital distribution to small and medium sized enterprises (SMEs) and food systems actors at the grassroots level. MDBs can deploy the funding through a mix of financial mechanisms such as debt, equity, guarantees and grants to support the financial robustness of NDBs and help them better manage risk.

RECOMMENDATION 3
Broker Innovative Finance

Food systems finance needs to incorporate a broader mix of financial players. MDBs can extend their influence to help NDBs broker new blended finance partnerships that help lower risks, crowd in new investors and support responsible risk taking. These partnerships might involve a spectrum of participants, including, supply chain partners, private banks, institutional investors, development finance institutions, impact investors, philanthropies, local pension funds, Savings and Credit Cooperative Organizations (SACCOs), and other local banks, thus expanding the nature of investments that can be made by NDBs and the impact of these investments on local food systems.

RECOMMENDATION 4
Retool the Risk Function

Information asymmetries complicate risk assessments for agriculture and particularly for Agri-SMEs. MDBs can invest in data systems and digital infrastructure. This enables a more comprehensive range of data points to be integrated into credit decisions, lowering information management costs for banks while establishing transparent criteria. In this endeavor, the promotion of digitization, alongside the construction of standards for public information, becomes pivotal. Such initiatives streamline information sharing, support risk understanding, and incorporate local insights. This collaborative approach benefits both MDBs and NDBs, fostering a more robust risk management framework.

RECOMMENDATION 5
Innovate for Climate Adaptation and Resilience

The status quo falls short as vulnerable groups increasingly become ensnared in fragility cycles. Merely continuing with business as usual is inadequate. MDBs need to intensify efforts to disseminate global best practices in climate innovation and facilitate NDBs' access to climate finance resources. This entails aiding capacity-building endeavors to develop innovative financial products that promote resilience (e.g climate risk insurance), establish data systems, harness international risk and climate adaptation insights, and support NDB's direct access to climate finance funds. This proactive approach is essential to counter fragility traps and foster resilient outcomes.

Should FIC adopt these five action areas, they could establish a concrete collaboration agenda under the PDB Platform for the Coalition of Agricultural PDBs. MDBs' commitment to collaborate across these action areas could be reinforced by a dedicated FIC working group. This group could focus on formulating a concrete workplan aimed at advancing efforts to finance enhanced access to resilient and inclusive nutritious food.

THE PDB PLATFORM FOR THE COALITION OF AGRICULTURAL PDBS

IFAD maintains the Secretariat role for the Coalition of Agricultural PDBs. The platform aims increase PDB lending in environmentally sustainable and inclusive private sector investments in agriculture. This objective will be achieved through the reinforcement of the Secretariat's capabilities in providing services such as technical assistance, experience and financial tool sharing, and innovation support to selected PDBs. The platform is anticipated to offer several services to PDBs, notably encompassing (i) technical assistance to enhance their capacity in effectively addressing key operational and governance challenges, organizing proficient staff development programs, and designing strategies for rural outreach, (ii) support in communication and knowledge sharing, and (iii) the promotion of innovation and partnership building.

RECOMMENDATION 1

Food Systems as a Policy Imperative

Public sector investments in the agriculture sector often target value chain approaches focused on specific high value agricultural commodities compared with broader food systems approaches targeting interventions at the nexus of food security, climate change and healthy diets. In the absence of comprehensive policy frameworks, agriculture investments tend to be fragmented and disconnected from local needs and realities. Both MDBs and NDBs are key financing instruments for the implementation of government agricultural development strategies, including National Food Systems Pathways and NDCs.

Based on an analysis of five countries where IFAD operates, coordination between governments and financial actors on the implementation of agricultural policies are at best limited to information sharing and transaction-specific coordination. While many countries establish sector-based donor working groups to harmonize agricultural development efforts, larger-scale projects transcending sectors, focusing on climate adaptation and resilience, are rare. Nonetheless, instances of strategic joint initiatives and territorial approaches stand out, aligning financial actors through integrated National Food Systems Investments. For instance, Egypt's Government is collaborating with development partners to synchronize investments under a Water-Food-Energy Nexus Programme (NWFE), led by three agencies: the African Development Bank (AfDB) for Water, IFAD for Food and Agriculture, and the European Bank for Reconstruction and Development (EBRD) for Energy.

The UN Food Systems Summit held in 2020 and followed up by the Stocktaking Moment held in July 2023, called on all countries to develop National Food Systems Pathways that consider critical areas of the food system, such as sustainable agriculture, food security, nutrition, gender equality and biodiversity conservation. In addition, NDCs constitute the essence of the Paris Agreement and set long-term national goals to reduce national Green House Gas Emissions. According to analysis by FAO, 85 percent of developing countries refer to agriculture and/or Land Use, Land-Use Change and Forestry (LULUCF) in their Intended NDCs mitigation contributions and of the developing countries that specified adaptation commitments, more than 90 percent refer to the agricultural sectors[4].

Within the context of climate change the agricultural sector emerges both as a challenge and a solution. It holds potential in reshaping diets, including reducing meat consumption among affluent populations, mitigating losses and waste, and enhancing carbon sequestration in soils. Moreover, the adoption of double green intensive agricultural practices like agroecology and regenerative agriculture can yield ecosystem services. In this evolving landscape, NDBs have a crucial role to play in shaping food systems pathways and in financing investments linked to these transformative shifts in agricultural practices.

Targeted Technical Assistance Partnerships between MDBs and NDBs is Needed

In practice, making agriculture part of the solution requires significant investment and coordinated efforts. National Food Systems Pathways and agriculture contributions to NDCs are rarely budgeted and there is a lack of NDB

[4] FAO. "The Agriculture Sectors in the Intended Nationally Determined Contributions: Analysis." Environment and Natural Resources Management Working Paper No. 62, 2016. https://www.fao.org/3/i5687e/i5687e.pdf.

capacity to develop larger food systems projects and syndicate lending. Commercial lending, even by Development Finance Institutions is limited for many agriculture projects in emerging markets which tend to face higher risks and lower returns relative to other sectors. Projects that embed new adaptation technology and regenerative practices face climate transition risks that can be perceived to add operational risks.

The 4th survey of the Platform for the Coalition of PDBs, conducted by IFAD, collected a total of 45 responses to identify primary areas where future technical support is needed (Figure X). It revealed that PDBs universally affirm engagement in green and inclusive finance, yet few possess a taxonomy to effectively exhibit these practices in their portfolios. Consequently, quantifying the scope and value of green finance remains complex. In tandem, the survey identifies avenues for improvement, such as developing a taxonomy for green finance, bolstering existing tools, and building skills to develop pipelines and conduct rigorous progress analysis and evaluation over time.

TABLE 1: PDB's interest in the themes proposed by the working group for 2024

% of PDBs surveyed who requested technical assistance by theme	
Climate change adaptation and environmental risks management	56
Financial inclusion and innovative partnership models for last mile rural penetration	47
Financing Valeu Chain	44
Financing agro-ecological transition	38
Measure of Environmental and social impact	33
How to develop a taxonomy for green finance	29
Digital solutions to ladt mile client acquisition and loan management	18
Addressing gender and youth inclusion in the Agri-PBD retail client portfolios	13
Which Milestone for the development of Agricultural PDBs	4
Traceability of Agri-PDBs financing	2

Source: IFAD's 4th Survey of the PDB Coalition

Technical assistance funds are commonly provided by MDBs to aid national governments in formulating and crafting targeted projects aligned with national development plans. There should be a greater emphasis on engaging NDBs and in channeling more of these funds to build NDB capacity to develop bankable investment pipelines for climate smart agriculture and low carbon food systems transitions. Limited MDB and donor technical assistance resources are often earmarked to specific objectives. Local governments will need to work with MDBs and donors to prioritize capacity building of NDBs and advocate for greater flexibility in how the resources can be used. More flexible grant funding will enable NDBs to tailor their capacity building efforts to context-specific priorities and apply bottom-up development approaches to project pipeline development, that responds directly to the needs and assets of rural populations.

Policy-based operations incentivize enabling policy for food system transitions

Finance is needed to curb continued losses in global natural forest and land degradation due to unsustainable agriculture practices. Policy-based operations (PBO) focused on sustainable and climate- adapted food systems can help provide needed budgetary resources for public investments in food systems projects that incorporate ecosystem management, health outcomes and rural infrastructure development. In our country interviews with Togo, Tunisia, and Zambia, policy-based support was mentioned as an opportunity area for MDBs to contribute to, which would assist governments in developing sustainable production systems that are resilient to shocks; and help increase the coherence of food systems investments across government departments. In 2019, L'Agence française de développement (AFD) conducted an evaluation of ten of its PBOs and found several benefits including their ability to: 1) encourage intra- and inter-ministerial coordination; 2) promote a multi-stakeholder dialogue to further sustainable public policies; 3) encourage coherence between donors; 4) remove constraints affecting the sustainability of projects; and 5) increase bilateral cooperation and peer exchange.

The African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IDB) and World Bank have experience using PBOs that condition concessional support or financial incentives on policy reforms. Between 2015 and 2020, the four MDBs accounted for USD 139 billion in PBOs, or 38% of the total new financial commitments made by these MDBs[5]. PBOs can be deployed through a variety of financial formats, such as low interest rate bonds, price

[5] Neunuebel, Carolyn, Valerie Laxton, and Hayden Higgins. "How Multilateral Development Banks Can Use Policy-Based Financing to Support Climate-Resilient Economies." World Resources Institute, 2023. https://www.wri.org/technical-perspectives/multilateral-development-banks-policy-based-financing.

incentives on loans, results-based project finance or debt forgiveness. REDD+ programs, Rhino Bonds and the recent debt-for-nature swap in Ecuador (see box below)[6] are high profile examples of PBOs that provide governments with financial incentives for policies that protect global public goods. MDBs could work with NDBs to deploy these tools at scale for agriculture projects with parallel investments in regenerative agriculture and other nature-based solutions to climate change.

The deployment of these tools requires robust measurement and reporting frameworks as well as technical assistance to measure the degree to which policy reforms are implemented and successfully executed. MDBs could collaborate to invest in supportive measurement frameworks and agree on key performance indicators to standardize the implementation of PBOs and reduce costs associated with external verification.

BOX 1

IDB Invest's Nature Swaps in Ecuador balances conservation with economic development. Ecuador's debt-for-nature swap safeguards its natural assets, reduces debt, and enhances fiscal stability. This effort strengthens Galapagos' protected areas, ensuring the integrity of vital marine ecosystems. Resources also support ocean health monitoring, sustainable fisheries, and climate resilience. According to the US International Development Finance Corporation (DFC), the transaction "will generate an estimated $323 million for marine conservation in the Galápagos Islands over the next 18.5 years". This comprehensive approach unites global efforts in conservation and safeguards these areas for future generations. This approach demonstrates a successful link between environmental outcomes and financial incentives, highlighting the synergies to be found between sustainability and economic goals.

RECOMMENDATION 2
Structure Globally, Invest Locally

Global value chains prioritize efficiency, standardization, and large-scale export-oriented production and distribution to cater to global demand. While this approach enhances food trade and availability, it concurrently concentrates power and profits in the hands of major agribusinesses and multinational corporations, while public investment in local domestic sectors and indigenous food crops go underfunded. This concentration disempowers small-scale farmers and local food producers, limiting their control over their food systems, in turn, undermining local food sovereignty, which is essential for inclusive and resilient food systems[7]. Fragmented investments further exacerbate the issue, leading to inefficiencies and inadequate funding for critical areas like sustainable agriculture, food security, and nutrition.

All the countries interviewed recognize the need to increase their food sovereignty and reduce their dependence on imported food. Specifically, Togo, Tunisia, and Zambia emphasized the need to support the development of local value chains by providing better financing and market supports to small-scale producers to benefit from a productivity and profitability perspective; assisting smallholders to access production opportunities in diversified, new (locally-focused) sectors; and enabling the use of local resources (i.e., water, land) more effectively[8]. As a result, there is a reliance on importing (affordable) food into developing countries at the cost of nutrition and health outcomes. This is particularly the case in Tunisia, where government subsidies support the imports of products that provide Tunisians with cheaper food options (i.e., soft wheats, sugar), which negatively impacts Tunisians' health outcomes.

Investments in food systems infrastructure such as storage, transportation and processing that connect small-scale farmers with local markets are typically too small for direct financing for MDBs. Interviews with stakeholders in India and Zambia noted that significant challenges in local food crops and infrastructure are key to addressing food insecurity and malnutrition in low-income and middle-income countries (LICs and MICs). This requires more funding via local and regional financial institutions that can identify smaller scale projects and make local currency investments in healthy local supply chains.

[6] Inter-American Development Bank, And IDB Invest. "IDB Group Country Strategy With Ecuador (2022-2025)." IDB INVEST, 2022. https://www.idbinvest.org/sites/default/files/2022-06/IDB%20Group%20Strategy%20for%20Ecuador%202022-2025.pdf.
[7] African Union. "CAADP Country Implementation under the Malabo Declaration." AUDA-NEPAD, 2016. https://au.int/sites/default/files/documents/31251-doc-the_country_caadp_implementation_guide_-_version_d_05_apr.pdf.
[8] Mariam, Diallo and Fleur, Wouterse, "Agricultural Development Promises More Growth and Less Poverty in Africa: Modelling the Potential Impact of Implementing the Comprehensive Africa Agriculture Development Programme in Six Countries," Development Policy Review 41, no. 3 (2023), https://doi.org/10.1111/dpr.12669.

NDBs can be key financial intermediaries for these projects since they possess the necessary local presence and reach to assess and manage project risks effectively. However, they face challenges in mobilizing funds for projects targeting vulnerable populations, since they are often considered too risky and/ too small scale for private investors. MDBs can complement this by utilizing global diversification strategies to bolster these investments through global or regional portfolios that can pool NDB assets. Mechanisms like bonds and aggregated funds (equity and debt), help diversify risks across currencies, countries, and commodities. In some cases, MDBs can consider adding blended finance instruments to enhance the quality of bond issuances (see Box 2 below). De-risking mechanisms like guarantees can be useful tools in helping NDBs manage risks of agricultural investments at the portfolio level. In addition, MDBs can transfer their special drawing rights to lower the cost of capital for direct bond issuances by national governments for high impact food systems investments.

BOX 2

Swedish Guarantees for Social Sustainability Bonds to Swedish Institutional Investors
In 2021, Sida issued a first loss guarantee of SEK 60 million to a GSS (green, social and sustainability) bond called Financing for Healthier Lives. The issuance raised SEK 1.5 billion from two Swedish institutional investors – the occupational pension company Alecta and the insurance company Afa Insurance. Danske Bank was the capital manager that placed the bond, responsAbility originated the pipeline of investments and Sida provided a partial guarantee to de-risk the Bond and cover first credit losses. The funds from the bond sale – SEK 1.5 billion – were lent to capital-constrained companies in low and middle-income countries in Africa, Latin America, and Central, South and Southeast Asia which operate in the sectors of health, WASH, climate-smart agriculture, clean and renewable energy, as well as financial inclusion for marginalised groups. Sida's guarantee was essential to mobilise commercial capital by giving the GSS bond a credit risk that institutional investors can accept, while at the same time increasing the amount of finance available.

The responsible use of diversification mechanisms still relies on sound underlying assets. Hence, the emphasis should be on establishing a robust banking environment at the national level. This entails fostering the growth of local institutions like microfinance entities and strengthening the supportive infrastructure, such as second-tier public banks, guarantee mechanisms, technical assistance facilities, and public information systems.

Bonds have the potential to scale up local food systems investments

There is strong demand from institutional investors for green social, sustainable, and sustainability linked (GSS+) bonds with longer tenures that meet verifiable standards. According to the Climate Bond Initiative's August 2023 report, GSS+ bonds reached a record US $4 trillion in the first half of 2023. Still only 5% reach ODA eligible countries (excluding China), and only 3% of climate aligned bonds target Agriculture sectors globally . MDBs are the main issuers of GSS+ bonds, acting as anchor investors and building investor confidence in the bond quality. Bond issuances for assets originated by MDBs in partnership with NDBs would be attractive to investors, who do not have the capacity and local networks to originate these assets themselves.

In discussions with Bolivian stakeholders, local bond issuances, particularly thematic bonds, were highlighted as a potential mechanism for MDBs to partner with NDBs to better target smallholder clients in the rural areas. Bond revenues could be a source of finance for local food systems investments. MDBs have the credibility and internal capacity to help structure capital market issuances that can mobilize private capital. They can also aggregate and pool

[9] Agriculture Technical and Industry Working Group. "Climate Bonds Standard & Certification Scheme." The Climate Bonds Initiative, 2021. https://unfccc.int/sites/default/files/03-10-intro_to_climate_bonds_standard_v2_-_dec2015.pdf.

investments at a smaller scale, either through diversified local equity funds or support to financial intermediaries and regional development banks. NDBs are ideal financial intermediaries to originate such diversified portfolios of smaller local projects given their proximity to local markets and ability to make local currency loans. The Climate Bond Initiative sets criteria for Agriculture Bonds, however more work is needed to help NDBs adopt suitable taxonomies that support these investments and develop investable pipelines.

Use of guarantees credit enhance NDB portfolios and local currency lending

According to interviews with Tunisia and Togo country stakeholders, local financial institutions are not as willing to take on risk and provide loans to the local market, given that the agriculture sector is perceived to be a high-risk sector (i.e., climate change risks, market volatility) for lenders. In Tunisia, for example, in loans/projects where a credit line is potentially provided, there is a requirement for a guarantee from the State as the private sector is not sufficiently developed to take on the risk directly. To address this challenge, the G20 MDB CAF Review encourages an increased use of guarantees amongst MDBs to support SDG finance. Not only can they be effective in enhancing the quality of Bond issuances by MDBs as described above, MDB guarantees can help enhance the credit quality and balance sheets of NDBs, by guaranteeing portfolio risks for agriculture lending to local food systems projects.

Guarantees are capital-efficient, support greater local currency lending and are more effective in mobilizing private capital. Guarantees also ease collateral constraints for borrowers, benefiting women and small businesses with limited collateral. A 2019 brief by Convergence[10] found that commercial investments are most frequently catalyzed by development guarantees. Despite their potential to mobilize five times more private capital compared to loans, they constitute only 4% of MDB commitments (in contrast to loans making up ~70% of MDB climate portfolios, with low mobilization ratios).[11]

Recently, the World Bank announced the increased use of guarantees as part of its commitment to MDB reform under the G20, and more MDBs are likely to follow suit. The OECD's recent decision to make guarantees eligible for Official Development Assistance, should go a long way to increase their use. Still banks lack incentives to issue guarantees due to their distinct risk profile and administrative complexity. They don't expand balance sheets and carry similar capital reserve requirements as loans. As banks prioritize activities that maximize profitability and minimize risk, guarantees often take a backseat. To promote guarantee issuance, regulatory adjustments and financial incentives are needed to align banks' interests and recognize the unique role guarantees play in mobilizing capital for development projects.

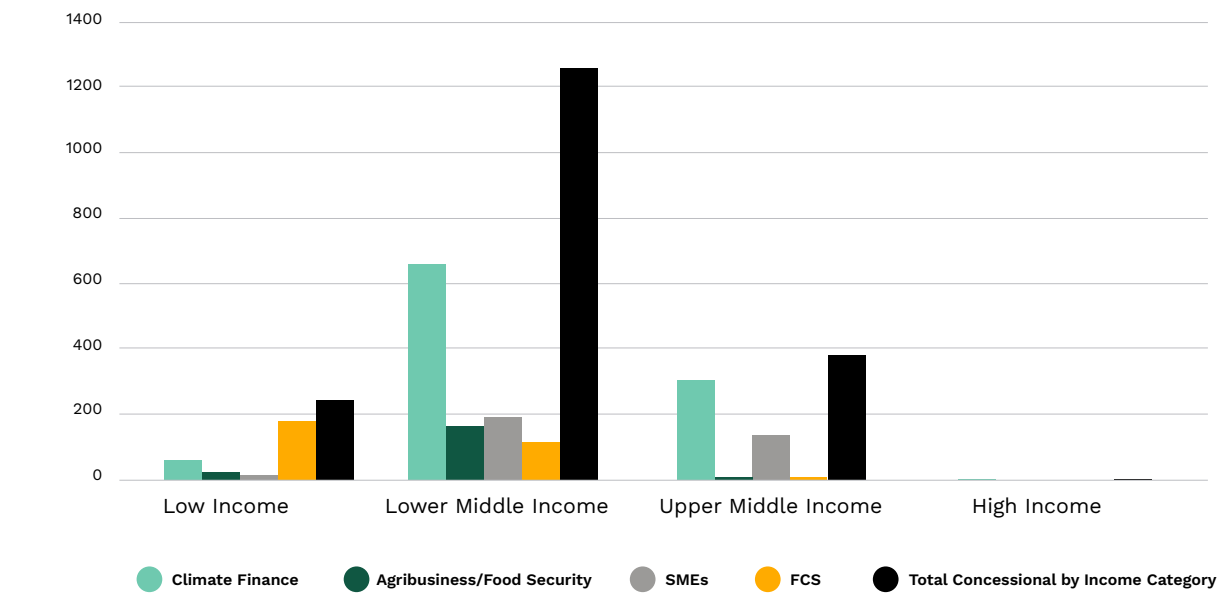
RECOMMENDATION 3
Broker Innovative Finance

The MDB CAF recommendations include a call for MDB's to focus more explicitly on private sector investment mobilization. This can be facilitated through blended finance structures that mix concessional and grant funding provided by donors or philanthropies with investments made on commercial terms by private investors. MDB's can help structure them in line with the **OECD Blended Finance principles** to ensure they do not distort markets, while attracting investors that would not otherwise make investments in the sustainable agriculture pipelines of NDBs.[12]

Given capacity limitations within donor agencies to directly evaluate investment risks, the vast majority of donor concessional resources flow through MDBs and DFIs. In fact, according to Devex, the capital managed by bilateral DFIs alone roughly doubled to USD 84 bn in 2022, given the role they can play in leveraging private capital for sustainable development. Although, MDBs and DFIs increased their mobilization of private finance by 50% in 2022 compared to 2021, the total volume of finance mobilized remains small USD 4.6 bn for MDBs and DFIs combined[13]. Agriculture sectors in LICs are receiving less than 1% of concessional blended finance commitments (see figure). Although, there is investor interest, confidence remains constrained by weak enabling policy environments, limited public and private sector institutional capacities, illiquid local financial markets, and a lack of well-designed projects. For this reason, the private sector currently funds 81% of green investment in high-income countries, but only 14% in developing countries, where financing costs can be up to seven times higher.[14]

[10] Convergence. Blending with Guarantees, 2019. https://www.convergence.finance/resource/blending-with-guarantees/view.
[11] Blended Finance Taskforce. Better Guarantees, Better Finance: Mobilising capital for climate through fit-for-purpose guarantees, 2023. https://www.systemiq.earth/wp-content/uploads/2023/06/Blended-Finance-Taskforce-2023-Better-Guarantees-Better-Finance-1.pdf.
[12] Bartz-Zuccala, W., Ö. Taskin, T. Hos, C. Sangaré, R. Schwarz and P. Horrocks. "Scaling up Blended Finance in Developing Countries." OECD, Paris, 2022. https://www.oecd.org/dac/scaling_up_blended_finance_in_developing_countries.pdf.
[13] DFI Working Group on Blended Concessional Finance Projects, Joint Report, 2023. https://www.eib.org/attachments/2022-dfi-bcf-working-group-joint-report.pdf.
[14] Wolf, Martin. "The Green Transition Won't Happen without Financing for Developing Countries." Financial Times, June 20, 2023. https://www.ft.com/content/770aadbb-1583-40ae-b072-9ef44c27cc15.

FIGURE 01. New Concessional Commitments by Income Level by Theme, 2021
($Millions)



Source: DFI Working Group on Blended Concessional Finance Projects, Joint Report 2023

In country interviews with Togo and Zambia, for instance, a lack of irrigation infrastructure and adequate water management were cited as significant barriers to agricultural productivity amongst smallholders. Mechanisms, such as blended funds, could help bring MDBs together with NDBs to provide needed financing to support the development of climate-smart projects (like irrigation infrastructure) that support multiple smallholders. These structures could be designed to help NDBs attract both international and local private finance to critical sustainable food systems infrastructure. NDBs' mandate to support sustainable development makes them ideal partners to allocate blended finance and mobilize local private finance.

Innovative financial tools targeting larger corporate actors can also be powerful drivers of more sustainable and equitable food systems. According to 2021 Boston Consulting Group analysis of global supply chain emissions, food supply chains account for the largest share, making up a quarter of global supply chain emissions. MNEs are responsible for 90% of Scope 3 emissions, mainly in emerging markets. These emissions are crucial, accounting for 30-40% of food system carbon emissions. Focus on Scope 1 takes pertinence within the agricultural production sector, with Land Use, Land-Use Change and Forestry (LULUCF) causing 20-24% of carbon emissions, driving 75% of biodiversity degradation, 75% of water consumption, and 80% of soil deterioration. This highlights the pressing necessity for substantial efforts to reform farming practices, notably through avenues like agroecology and regenerative agriculture by larger companies that have the resources and technology to production efficiencies in new production models.

Blended fund structures for food system infrastructure and investments

MDBs and DFIs play a central role as trusted partners in developing innovative blended finance structures that have the confidence of private investors in international and domestic markets. The Global Agriculture and Food Security Program (GAFSP), managed by the International Financial Corporation (IFC), has a private sector window that provides blended finance to agriculture businesses including local commercial financial institutions. Even with a significant exposure to projects in LICs and fragile markets, GAFSP has a strong track record of returns and impact, which suggests that risks may be over evaluated and negatively biased. Given IFAD's close relationship with PDBs in the agriculture sector, IFAD could be an interesting entity to channel donor grants to NDBs through a blended finance fund, building on existing lessons learned through its program on financial inclusion (See Box 3).

BOX 3

IFAD's Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT) contributed to the reform of financial sector policy in Kenya by working with local commercial financial institutions to provide a range of innovative financial products – such as savings and remittance services, community infrastructure loans, value-chain financing, medium-term financing for the agriculture sector, and index-based insurance and health insurance – and improves the access of poor rural households to these services. It also helps programme participants manage their assets, market their produce and increase their employment opportunities.

NDBs can provide a pipeline of investable projects for blended finance structures. Platform Africa , launched by the Africa[15] Investment Forum, brings together projects needing financing and potential investors and blended finance partnerships. The partners in The Platform include AfDB, Connect Americas, AFC, Afreximbank, European Investment Bank, Islamic Development Bank, and others. MDBs can broker partnerships with donors, impact investors and philanthropic actors to provide partial guarantee funds, concessional credit lines and first loss facilities, with local currency provisions and hedging mechanisms, to support NDB pipeline development.

As per the recommendations of the OECD report entitled Making Blended Finance work for Agri-SMEs, technical assistance facilities should also be included in blended finance structures for local financial institutions. Various funding mechanisms like the Green Climate Fund, NAMA Fund, Adaptation Fund, and EU ESFD provide resource avenues. Yet, the challenge is accessing these funds while balancing accountability and accessibility. NDBs serve as ideal entry points for this support, using grant funds to bolster financial policies, operations, and investment pipelines that improve their eligibility for concessional funding that can help NDBs reach vulnerable populations and scale up climate smart practices.

Mobilizing private sector capital through supply chain finance

A recent World Bank survey on MNE Global Supply Chains[16] concludes that MNE foreign direct investments can be an important source of climate finance. MDBs can connect larger corporate actors with NDBs to increase Agri-SME access to finance and encourage more sustainable local practices among agriculture supply chains. For example, supply chain finance such as reverse-factoring and performance-based incentives can drive inclusive agri-SME sourcing and sustainable production by larger corporates, impacting upstream activities.

Momentus Global is currently working with IDB Invest to evaluate its Reverse-factoring program. IDB Invest, as well as other MDBs, like IFC and the Asian Development Bank, offer credit lines to anchor buyers, under which their suppliers, mostly SMEs, can discount their invoices payable by the anchor buyer before they mature, at competitive prices. This means SME suppliers avoid costly working capital loans to finance their activities while awaiting end buyer payment. This product could increase access to finance for local farmer organizations and producer groups that would not otherwise access commercial credit. NDBs can be important financial intermediaries in reverse-factoring programs by managing multiple lines of credits for MDBs with local buyers. A decentralized approach will facilitate the inclusion of new farmers, granting them access to working capital finance and new suppliers.

In addition, small grants can be combined with commercial loans to create performance-based incentives (PBIs) for suppliers to increase their direct support to local farmer organizations, particularly women farmers (see IDB Invest example in Box 4). PBIs can be deployed through a variety of financial mechanisms, including bonds, loans and equity to create price incentives for larger agri-businesses in the supply chain to set ambitious environmental and social goals that generate societal impact across a large number of suppliers.

[15] https://platformafrica.com
[16] Haddad , Mona, Victor Steenbergen, And Abhishek Saurav. "Why Large Multinational Firms Hold the Key to Accelerating Countries' Decarbonization Strategies." World Bank Blogs, May 2023. https://blogs.worldbank.org/psd/why-large-multinational-firms-hold-key-accelerating-countries-decarbonization-strategies.

BOX 4

IDB Invest will provide a senior loan of up to US$ 16 million loan to Agripac S.A. (the "Company") to finance the expansion of the Company's production capacity. As part of this investment, the Women's Entrepreneurs Finance Initiative Fund ("We-Fi") will provide up to US$ 400,000 through Performance- Based Incentives to expand access to customer credit for the Company's WSME clients which are currently only 5.6% of total SME clients. Furthermore, the Advisory Service's Diversity and Inclusion team will support Agripac in two main areas: (i) creation of a strategy for the WSME segment and, (ii) integration of the WSME program in the day-to-day Agripac's operations.

RECOMMENDATION 4
Retool The Risk Functions

Agriculture credit risks are difficult to evaluate and are often overestimated due to a negative bias. Based on the case study discussions, information asymmetries are a major challenge. Significant investments and commitments are needed to improve data collection and inform credit risk analysis. The challenges of assessing risk across food systems activities are compounded by the uncertainties tied to regulatory changes, carbon policies, and both physical climate and transition risks. Most MDB risk teams largely function business as usual, despite technology improvements and machine learning that could be deployed to better inform credit risk assessments.

Digitalization and advances in machine learning technology and data analytics present an opportunity to improve responsible risk taking and decision-making by all PDBs. These tools are often costly to implement but have the potential to generate significant returns. Improved data analysis could transform procedural and isolated risk management units into more collaborative and strategic business entities that contribute to enhanced development impact. This will require MDBs to view risk functions differently redefining how it communicates and engages with other corporate functions to inform better decisions. MDBs have budgets and capacity to implement state-of-the-art risk management, that is much needed to de-bias agricultural investments facing a diverse range of risks from public policy interference to climate shocks. Beyond the essential disclosure of financial risks, comprehensive information encompassing the dual materiality of sustainability—both intrinsic and extrinsic to assets—is essential. This data, a public good, can be generated through domestic or global investments, offering insights for risk evaluation tied to quality standards, enabling a holistic assessment of financing sustainability.

Empower decentralized credit decisions in agriculture lending

Agriculture lending requires a close connection between loan officers and borrowers. Agriculture banks tend to be most effective when they have decentralized offices that are based in rural communities or work closely with local finance cooperatives. In order to reach small holders and local actors, more support is needed to empower loan officers and connect risk functions with front line decisions and needs.

A two-way loop between NDBs and MDBs can help reduce information asymmetry and inform better decision-making. Shared data platforms, enhanced with the latest technology would enable greater collaboration and data exchanges between NDBs, including sex-disaggregated data, to improve precision in calculating credit defaults probability and to de-bias credit decisions for agriculture lending. At the same time, ensuring flexibility to incorporate bottom-up analysis of context and borrower-specific considerations that influence the loan repayment.

Technical assistance for NDB digitization

Better lending decisions for complex and cross-sectoral food system investments will need to be supported by quality data, both in terms of risk and impact data. Concessional finance is often conditioned on generating quantifiable impact, particularly climate finance, which needs to meet standards to mitigate risks of green washing. Innovative tools such as FAO's ABC Map (see box 5) support data-driven analytics for climate risk evaluation. MDBs can support NDBs with technical assistance and peer-to-peer learning to advance their digitization agendas. Findings from country interviews with NDBs in Tunisia, India, Zambia, Togo and Bolivia, reinforced that most banks see digitization as an important priority to reaching more small-scale farmers.

Digital data also help reduce bias, including gender bias which is stronger in lending decisions to small farmers and agri-SMEs in emerging markets where financial data is often unavailable or unreliable. Efforts to automate lending decisions based on big data and machine learning are likely to help improve access to finance for women who show evidence of stronger repayment rates, but whose access to finance is limited by a lack of financial guarantees and collateral. In addition, processes to digitize the capture and collection of environmental and social data, and link it to risk decisions, will go a long way to help development banks increase impact and attract new sources of concessional finance from donors and philanthropic investors.

BOX 5

The Adaptation, Biodiversity and Carbon Mapping Tool (ABC-Map) is a geospatial app, developed by the Food and Agriculture Organization (FAO) based on Google Earth Engine that holistically assesses the environmental impact of national policies and plans (NDC, National Adaptation Plans (NAPs), etc.) and investments in the agriculture, forestry, and other land use change (AFOLU) sector. ABC-Map helps project designers and policy makers measure the potential impacts of their projects and policies on biodiversity and carbon stock while at the same time understand their exposure to climate change risks.

RECOMMENDATION 5

Innovate For Climate Adaptation And Resilience

Agricultural investments are generally considered high-risk given their susceptibility of production to weather and other climatic hazards, and particularly in low-income countries, where climate adapted infrastructure and production processes are less developed. While agriculture is part of the problem, it also holds the potential to be part of the solution. It is imperative to foster proactive and innovative strategies that address the relationship between climate change and agriculture, mitigating their joint impacts and maximizing their potential as nature-based solutions to climate change.

Climate risks disproportionately impact vulnerable groups, especially women, leading to defaults that perpetuate debt cycles. Lack of scalable financial products and gender sensitive technologies hinder agricultural transition investments, particularly for women. Further, many farmers lack knowledge and training in climate-resilient farming practices, including efficient irrigation, soil conservation, and resilient crop varieties, which hinders their ability to adapt to changing climactic conditions.

Given the important role agriculture plays in the economies of most LICs and MICs, all country interviews confirmed that agriculture adaptation is a priority. Most see their NDBs as key financial instruments in delivering on adaptation strategies and would like to see MDBs working more closely with local financial institutions to build out adaptation support. IFAD's 4th Survey of PDBs confirmed that this was their highest priority for technical support with 76% of respondents prioritizing support for financing adaptation to climate change. Climate adapted agriculture is still a relatively new concept and MDBs can play an important role in building the capacity of NDBs to access climate finance to support adaptation projects.

Support for NDB accreditation to global climate finance funds

Technical assistance is even more crucial to help NDBs leverage concessional finance to effectively reach vulnerable demographics, such as small-scale farmers, women, and youth, who operate in high-risk contexts. As such, MDBs can help NDB access concessional climate finance through the Global Climate Facility, Global Environment Facility,

Adaptation Fund and the Climate Investment Fund to name a few. Only one NDB, the Development Bank of South Africa has access to the GEF. GCF is better with 11 NDBs directly accessing it or 9.2% of GCF commitments[17] These funds are being challenged because funds are rarely delivered through local institutions. All countries interviewed expressed an interest in accessing these funds with the support of MDBs. MBDs can strengthen NDBs capacity to access climate finance funds by partnering with them on GCF, GEF and CIF projects; by providing technical assistance to strengthen their institutional capacity to obtain accreditation; and by advocating for the removal of burdensome requirements and/or a graduated accreditation process for NDBs. In parallel, MDBs are encouraged to partner with NDBs when applying for funding from these institutions, as per the example from IFAD in the Sahel (See Box 6).

Box 6

IFAD has been an Accredited Entity since 2018, supporting six projects that increase the climate resilience of the hardest to reach small-scale farmers. The Inclusive Green Financing Initiative (IGREENFIN I): Greening Agricultural Banks & the Financial Sector to Foster Climate Resilient, Low Emission Smallholder Agriculture in the Great Green Wall countries brings together DFIs and NDBs across the Sahel to help strengthen financial services to green SMEs. IFAD's partnership will build the institutional capacity of the NDBs to access future GCF accreditation and builds the capacity of commercial banks and microfinance institutions through partnerships on adaptation projects.

Climate finance innovation is a priority

MDBs can also support NDBs by involving them in syndicated loans that expose them to new innovative climate projects and by helping them develop project pipelines that deploy innovative adaptation technology (e.g. integrated food and energy systems, circular economy, biochar, soil restoration and biotechnology adoption of more resilient crop varieties). According to interviews with India's National Agriculture Bank, NABARD, MDBs play an important role in piloting innovative projects and in contextualizing them to local realities. MDBs also have the scale necessary to build new financial instruments such as climate risk insurance that NDBs could not develop in isolation.

Country consultations with stakeholders from Bolivia, India, and Togo have all highlighted the lack of a breadth of insurance products for climate-related risks. Climate risk insurance is a key tool to supporting the financial resilience of poor farmers to climate related shocks. It also helps stabilize lending to farmers by local financial institutions that would otherwise need to reduce exposure to sectors with higher climate-related risks.

InsuResilience is a Global Partnership that brings together partners with a common ambition to strengthen the financial resilience of the poor against climate disasters. InsuResilience partners, the Global Index Insurance Facility (GIIF) and African Risk Capacity (ARC), are pioneers in building the business case for catastrophic risk transfer solutions and index-based insurance that cover loans payments for crop losses in the event of climate-related disasters. They both work closely with NDBs and local financial institutions to roll out climate risk insurance with small-holder farmers.

[17] Stephany Griffith-Jones, Samantha Attridge , and Matthew Gouett, Securing Climate Finance through National Development Banks, January 2020, https://odi.org/en/publications/securing-climate-finance-through-national-development-banks/

While recognizing the valuable role of agricultural insurance, it's essential to highlight its limitations. One of the key challenges is the substantial subsidization required to make it accessible and effective, often ranging from 50% to 80% of the premiums. This highlights the financial burden associated with providing comprehensive coverage to farmers, especially those who are already vulnerable due to economic constraints. Thus, agricultural insurance is closely linked to the broader issue of financial inclusion. Its successful implementation relies on ensuring that farmers, particularly small-scale and marginalized ones, have access to formal financial services. Additionally, the viability of agricultural insurance relies on the agricultural sector's basic structural resilience against variables such as climate change, biodiversity loss, and land degradation. Without parallel advancements in these domains, its capacity to effectively mitigate risks across sectors will remain constrained.

Box 7

GIIF facilitates access to finance for smallholder farmers, micro-entrepreneurs, and microfinance institutions through the provisions of catastrophic risk transfer solutions and index-based insurance that strengthen the financial resilience of the poor against the impact of climate change and natural disasters in developing countries. GIIF's regional partners have facilitated more than 10.5 million contracts, covering over 50 million beneficiaries, with approximately $2 billion in sums insured, reaching over one million with information and access to index insurance. ACRE Africa, first funded by the GIIF and Syngenta Foundation for Sustainable Agriculture, has now partnered with insurers such as UAP Insurance (Kenya), APA Insurance (Kenya), SORAS Insurance (Rwanda) and reinsurers Swiss Re and Africa Re.149 As of September 2020, over 1.7 million farmers across Tanzania, Rwanda and Kenya have been insured for a value of over $181 million by ACRE's weather index-based insurance.

Index insurance is a relatively new but innovative approach to insurance provision that immediately pays out benefits based on a pre-determined index (e.g., rainfall level, seismic activity, livestock mortality rates) for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events, without requiring the traditional services of insurance claims assessors.

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Next steps and a path forward to implementation

Food systems finance requires collaboration

In conclusion, the transformation of our food systems requires a cohesive and holistic approach, with the collaboration between MDBs and NDBs as the driving force. While all PDBs undeniably hold a pivotal role in driving agricultural transformation, it's important to acknowledge their limitations. They alone cannot resolve the intricate web of challenges encompassing our food systems. Instead, a comprehensive approach necessitates synergistic collaboration of various public policies to achieve meaningful change.

Addressing poverty and vulnerability remains integral, with a focused lens on combating discrimination against women and youth. On the environmental front, the intricate nature of agricultural production cannot be understated. Because of the way in which these activities are interconnected with how resources are managed, it becomes necessary to adopt sustainable practices to ensure a balanced ecosystem. There exists a substantial opening for stakeholders in the agricultural sector to come together and jointly champion transformative change in the food system.

The recommendations laid out in this report provide a strategic roadmap to enhance collaboration between MDBs and NDBs with examples of tools and approaches that MDBs can deploy within the context of G20 CAF reforms. Each MDB should consider concrete commitments, based on their own unique offerings, to bolster their support for NDBs. Combined, these efforts could form a robust framework resulting empowering NDBs as pivotal agents in advancing sustainable and inclusive food systems. The alignment – across strategic domains of 1) embedding NDBs in policy execution; 2) fostering localized investments; 3) broadening innovative finance collaborations; 4) incorporating advanced risk assessment tools; and, 5) propelling climate innovation – constitutes a holistic response to the intricate challenges confronting our food systems today.

NEXT STEPS FOR A FIC WORKING GROUP

The potential establishment of a dedicated FIC working group, supported by the IFAD Secretariat for the Coalition of PDBs further enhances the momentum behind MDBs' commitment to these recommendations, promising

transformative strides towards a more prosperous food future. The following section prioritizes a list of next steps which a dedicated FIC working group could action in the coming year to advance the implementation of these recommendations:

- To pave the way for effective implementation, a collaborative framework should be established, bringing together MDBs, NDBs, government entities, and stakeholders to provide oversight and guidance. The framework would prioritize and craft comprehensive action plans for each strategy. These plans should delineate roles, timelines, and resource allocation to ensure clear execution.
- Fostering coordination between NDB strategies and national food security, health, and environmental policies ensures a holistic approach to food system transformation. Collaboration across sectors such as health, environment, and education facilitate a comprehensive strategy that addresses the complex challenges in the sector. Recognizing the vital role of both MDBs and NDBs, it is important to underscore that investments in agriculture must be integrated into comprehensive policy frameworks and national visions.
- To fortify the capacities of NDBs to deliver on the food systems agenda, coordinated capacity-building initiatives are essential. These programs should emphasize strengthening their expertise in policy execution, risk assessment, and digital transformation. This can be achieved through tailored training programs, peer-to-peer exchanges and technical support already provided through MDBs and the IFAD Coalition of PDBs.
- To catalyze transformation, innovative financial mechanisms like blended funds and insurance facilities should be thoughtfully designed to reach NDBs. This included well-defined access criteria to ensure inclusivity and impact of climate finance funds such as GCF, GEF and Adaptation Fund.
- Enabling NDB digitization and risk assessment is vital; technical support ensures smooth technology integration, enhancing efficiency. Partnerships with NDBs to incorporate improved climate and traditional risk assessment tools into financial mechanisms and design financial instruments that target the specific challenges faced by small operators.
- Partnerships with NDBs is required to support the project preparation and structuring of climate innovation projects at scale within the agriculture sector contributes to its adaptability and long-term viability. Encouraging sustainable practices and robust measurement frameworks through NDBs further bolsters the sector's ability to navigate climate challenges effectively.

By embracing these strategies and fostering collaboration, MDBs can effectively support NDBs as key actors in shaping comprehensive action plans that drive sustainable and inclusive food system transformation.

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Annexes

Annexes

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