

Factsheet



The 3FS: keeping track of financial flows to food systems

Rationale

At the 2021 United Nations Food Systems Summit, governments, development partners and the private sector representatives committed to scaling up financing to national pathways for food systems transformation, moving away from practices that harm people and the planet. It also recognized that in relation to their national economies, the least developed countries bear the heaviest financing burden to meet the costs of food systems transformation. Estimates from the costs of ending hunger to the global cost of transitioning to high-performing food systems vary and range between US\$33 billion and US\$350 billion per year. No matter which estimate is used, currently nobody knows how much is mobilized to finance the world's transition to higher-performing food systems. Meeting financial commitments for food systems transformation requires keeping track of financial flows to food systems. Yet, a major knowledge gap facing decision-makers and stakeholders is that there is limited evidence on how countries and the global community are financing food systems transformation. Specifically, the volume and targeting of the financial flows to food systems, gaps and needs are unknown.

Objective

The development of the 3FS was co-led by the International Fund for Agricultural Development (IFAD) and the World Bank (WB) in collaboration with the Inter-American Institute for Cooperation on Agriculture (IICA) and the UN Food Systems Coordination Hub, while also leveraging the expertise and instruments of the ecosystems of support¹. The 3FS is a response to the lack of evidence on financial flows to food systems. It aims at providing decision-makers and stakeholders with evidence on the scale and scope of financial flows to food systems at country and global levels to inform impactful decisions and foster mutual accountability for transformative financing to food systems.

1. IFAD and the WB consulted with a Strategic Advisory Group composed of experts from the Inter American Institute for Cooperation on Agriculture (IICA); the Global Alliance for Improved Nutrition (GAIN), the Food and Agriculture Organization (FAO); the Organization for Economic Cooperation and Development (OECD); the African Agricultural Transformation Initiative (AATI) in collaboration with the McKinsey & Company, Scaling Up Nutrition (SUN), Sustainably Growing Africa Food Systems (AGRA), AKADEMIYA2063, the Good Food Finance Network (GFFN), and the 4SD foundation.

Key value

The 3FS offers a harmonized methodology to measure financial flows to food systems. It generates updated information on:

- How much financing goes to food systems at country and global levels?
- To which areas of the food system is the financing going?
- Is financing aligned with national priorities for food systems transformation?
- Where are the financing gaps?
- Is it targeting countries most in need?

The 3FS uses simple visuals and narrative to update decision makers, development partners and stakeholders on trends in financing to food systems and allows them to identify areas requiring attention against set priorities. With its user-friendly interface, the tool simplifies the comprehension of the trends in food system financing from domestic resources and international development financing. The end goal of the 3FS is to provide decision-makers and stakeholders with a coherent, up-to-date, and comparable evidence base on the financial flows for food systems. This will allow them to assess in a complementary manner the allocation of domestic public resources, international development financing in support of domestic resource mobilization, and soon also private sector financial flows to support evidence-based policy dialogues and decisions on financial flows for food systems transformation. The 3FS does not aim at assessing the quality and impact of the financial flows to food systems. It is also recognized that financial data is not the only source of information in making financing decisions. Hence the 3FS evidence should be used in conjunction with other analytical and decision-making methods. In its next phase, the 3FS will include financial flows from the private sector.

Financial data

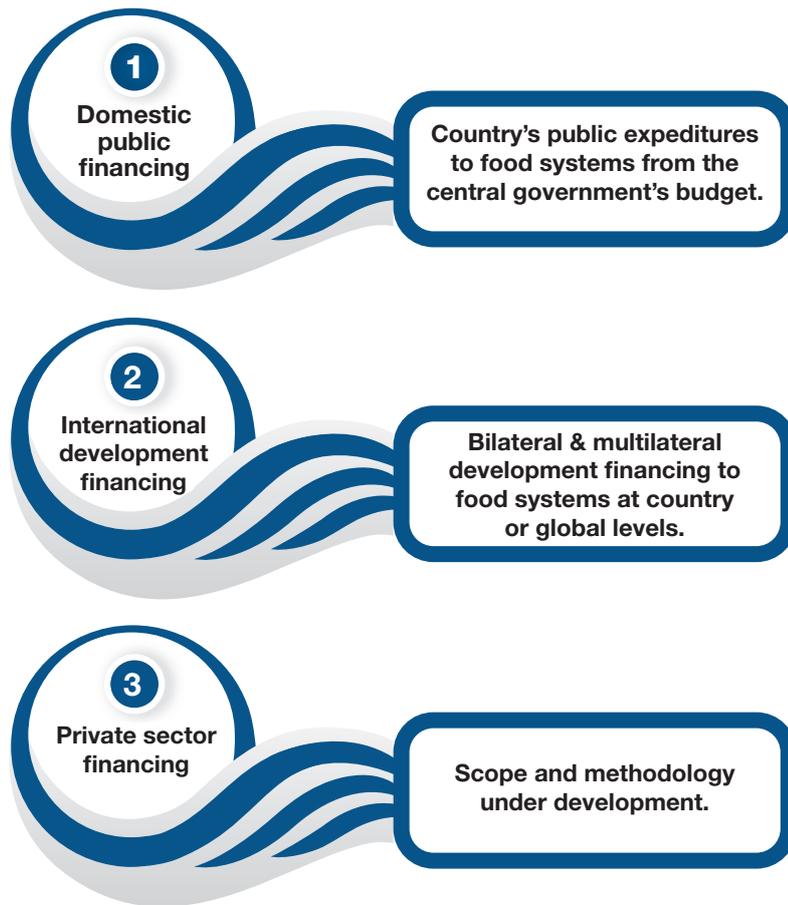
The 3FS builds on the SDG financing strategy² and tracks three financial flows to food systems:

- Domestic public financing
- International development financing
- Private sector financing, for instance considering flows from public development banks (coming next).

The 3FS addresses different needs by displaying data on financial flows to food systems in three windows:

- **The country window** offers evidence on financing to food systems at country-level by examining the domestic public spending and international development financial flows.
- **The global window** displays trends of international development financial flows in support of domestic resource mobilization efforts, based on the OECD Creditor Reporting Systems, which includes Official Development Assistance (ODA), Other Official Flows (OOF), and philanthropic contributions.
- **The private sector window**, which is still under development, will provide information on the quantity and quality of private sector financing for food systems, differentiating between the economic agents within food value chains, the banking system, and capital market operators.

2. The SDG financing strategy emphasizes the importance for low-income countries to mobilizing and managing three key sources of financing within a National Integrated Financial Strategy: 1) Domestic public spending, 2) International development financing, and 3) Private-sector financing. Jeffrey Sachs et al. UN Sustainable Development Solutions Network (SDSN). SDG costing & financing for low-income developing countries. 2019



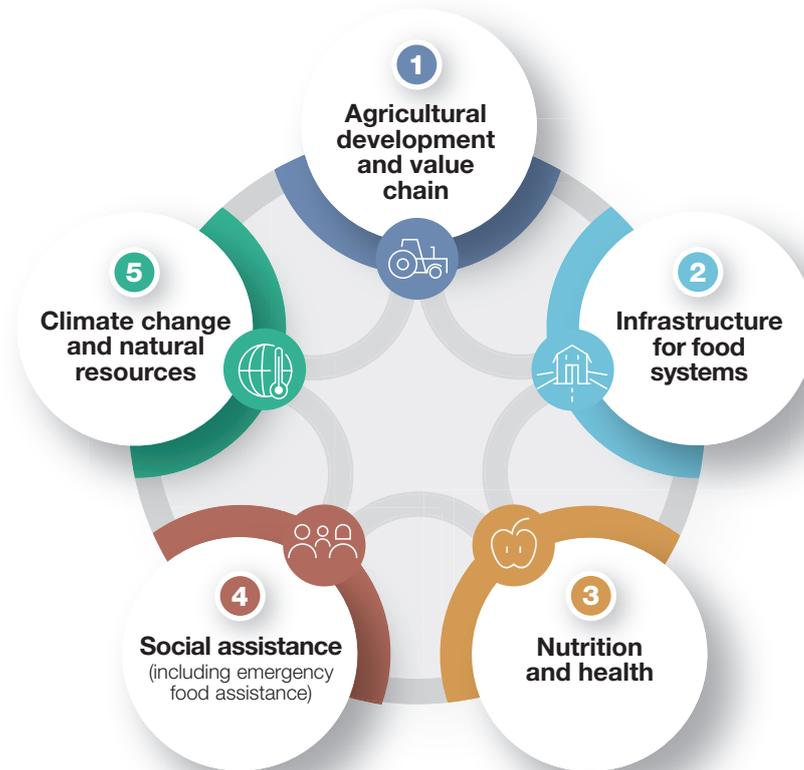
Definition framework for food systems

To measure financial flows to food systems, the 3FS aligns with the United Nations High-Level Panel of Experts on Food Security and Nutrition (HLPE) definition on food systems, encompassing various sub-systems and activities related to food production, processing, distribution, and consumption. The 3FS also aligns with the Classification of the Functions of Government (COFOG), the international classification system from the UN Statistics Division (UNSD), that categorizes government expenditure by functions, designed to be applicable universally across countries. By drawing upon the HLPE's definition of the food system and aligning with COFOG, the 3FS measures financial flows to food systems in a systemic manner across five inter-connected expenditure components for food systems: agricultural development and value chains, infrastructure for food systems, nutrition and health, social assistance (including emergency food assistance), and climate change and natural resources.

Five expenditure components for food systems

The 3FS *five expenditure components* underwent thorough validation with the Strategic Advisory Group and pilot countries, to ensure their relevance for measuring the financial flows to food systems. For each of these components, the 3FS methodology tracks relevant expenditures to food systems based on leading methodologies, namely:

- The FAO's MAFAP methodology for measuring financial flows to agricultural development and value chains, and infrastructure for food systems.
- The SUN's methodology for measuring financial flows to nutrition and health.
- The World Bank's ASPIRE methodology for measuring financial flows to social assistance.



Data sources

The 3FS draws on existing and well-established data sources to measure the financial flows to food systems:

- **Domestic public financing:** data is sourced from the national budget of the central government (actual expenditures), which may include transfers to subnational governments. Data on sub-national expenditures is often scarce.
- **International development financial flows:** data is sourced from the OECD's Creditor Reporting Systems (CRS), which is the established repository for trustworthy, standardized, and exhaustive data on development assistance. The OECD has played an instrumental role in informing the identification of the activities related to food systems in the CRS coding system, and in the interpretation and comprehension of associated financial data.
- **Private sector financing and other flows:** methodology is under development.

Methodological approach

To measure financial flows to food systems, the 3FS uses a *"tagging approach"*. Tagging means systematically analyzing expenditures in national budgets and the CRS database³ to identify those that can be categorized as food system financing. The tagging approach includes the following steps:

- Review the budget source (national budget/OECD CRS database)
- Identify expenditures that contribute to food systems
- Allocate expenditures across the five food systems components

³ International development financing is tracked for bilateral and multilateral outflows. For both bilateral and multilateral outflows, the 3FS tool tracks disbursements. Additionally, exploration is underway regarding private sector financing for food systems, both at the country and global levels.

- Determine food systems expenditures by component
- Prepare report on financial flows to food systems.

Institutional arrangements

To measure the domestic public financing to food systems, the 3FS relies on country ownership. The 3FS brings in a collaborative effort a team of experts from relevant spending ministries and agencies for food systems, and the Ministry of Finance. Together, they undertake the examination of expenditures related to food systems within the national budget and their distribution among the five food systems expenditure components. Country ownership is pivotal for the 3FS methodology to secure the endorsement of results by the country stakeholders and ensuring that those responsible for steering the national pathway for food systems transformation have had a hand in reviewing that expenditures are aligned with national priorities. For international development financing to food systems, the 3FS data built on a collaboration with the OECD, which provides and supports the interpretation of the CRS data identified as relevant for food systems.

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