LEARNING ABOUT

2a.1

INDICATOR

SDG Indicator 2.a.1 - Agriculture Orientation Index

Lesson: The role of public finance in Goal 2 and Target 2.a of the 2030 Agenda

Text-only version

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Food and Agriculture Organization of the United Nations

SUSTAINABLE DEVELOPMENT GOALS

working for Zero Hunger

In this lesson

The role of public finance in Goal 2 and Target 2.a of the 2030 Agenda

This lesson introduces SDG Target 2.a. It also illustrates the main flows of investment in agriculture and the fundamental role of public finance in supporting this sector.

Learning objectives

At the end of this lesson, you will be able to:

- explain the pertinence of Target 2.a in achieving Goal 2;
- illustrate the main flows of investment in agriculture;
- describe the role of public finance in supporting agriculture.

Goal 2 and its targets

Goal 2 aims to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.

Goal 2 is broken down into **eight different targets**. This course is concerned with…

Target 2.1	By 2030, end hunger and **ensure access** by all people, in particular the poor and people in vulnerable situations, including infants, **to safe**, **nutritious and sufficient food** all year round.
Target 2.2	By 2030, **end all forms of malnutrition**, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons.
Target 2.3	By 2030, **double** the **agricultural productivity and incomes** of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.
Target 2.4	By 2030, ensure **sustainable food production systems** and implement **resilient agricultural practices** that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate

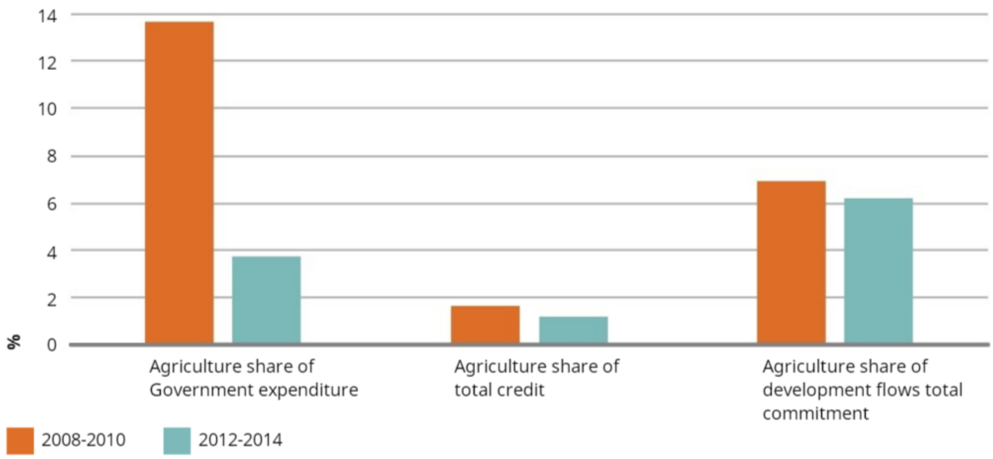
	change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.
Target 2.5	By 2020, maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified **seed and plant banks** at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed.
Target 2.a	**Increase investment**, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order **to enhance agricultural productive capacity** in developing countries, in particular least developed countries.
Target 2.b	**Correct and prevent trade restrictions and distortions** in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round.
Target 2.c	Adopt measures to **ensure** the proper **functioning of food commodity markets** and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility.

Target 2.a

Why Target 2.a is so important?

> *"Investing in agriculture is essential for reducing hunger and promoting sustainable agricultural production! Through the Maputo and Malabo Declarations, the African Union set targets to increase public spending on agriculture and rural development, and to raise sector productivity.* But in our country, the investment in agriculture is decreasing, as you can see in this graph. We need to stop this negative trend if we want to ensure food

security for our people and achieve the Zero Hunger Goal.



In fact, we have also committed, through Target 2.a, to increase investment to enhance agricultural productive capacity. Also, the Addis Ababa Action Agenda*, encourages the increase of public investment in order to fulfil "the need to revitalize the agricultural sector, promote rural development, and ensure food security".*

Johanna, head of the Ministry of Agriculture

The Maputo and Malabo Declarations

The Maputo Declaration on Agriculture and Food Security was endorsed by the African Heads of State and Government during the Second Ordinary Assembly of the African Union in July 2003. The declaration contains several important decisions regarding agriculture, including the commitment to allocate at least 10 percent of national budgets to agriculture and rural development. The Malabo Declaration on Accelerated Agricultural Growth was endorsed by the African Heads of State and Government during the Twenty Third Ordinary Assembly of the African Union in July 2014. The declaration reaffirmed the commitments of the Maputo Declaration, including the commitment on allocating at least 10 percent of public expenditure to agriculture.

The Addis Ababa Action Agenda

The Addis Ababa Action Agenda was adopted at the Third International Conference on Financing for Development and endorsed by the UN General Assembly. It supports the implementation of the 2030 Agenda for Sustainable Development. The purpose is to end poverty and hunger and to achieve sustainable development through promoting economic growth, protecting the environment, and promoting social security. *Source: Addis Ababa Action Agenda outcome document*

The investment flow in agriculture

In the graph shown by Johanna, different flows of investment in agriculture are considered. Several actors play a crucial role in financing the agriculture sector. Their contribution to the sector has different scopes and goals. Let's take a look at them. There are essentially **four sources of investment in agriculture**:

Private flows	Public flows
Domestic	**Domestic**
Private equity and credit	Government expenditure
Foreign	**Foreign**
Direct investment	Development flows

Private flows

Domestic - Private equity and credit

In most countries, the largest share of financing for agriculture generally comes from the domestic private sector, in particular **agricultural producers**, **fishers**, **foresters and farmers**. It includes the largely unmeasured **reinvestment of savings** of individuals, families and communities, often **called private equity**.

Private financing also includes **credit**[1] received **from financial institutions**. Credit is particularly important because private stakeholders face high risks in terms of the timing between investments (e.g. the purchase of machinery and boats, time and input investments in sowing crops, trees and orchards, and in raising livestock) and the realization of outcomes (e.g. the harvesting of crops, the capture and sale of fish, the sale of livestock, and the cutting and selling of lumber).

Between the investment and outcome, producers face **uncertainty** in various factors affecting the price they receive and the volume they produce and sell. These uncertainties can result from impacts of price volatility, pests, disease and natural and man-made disasters.

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[1] **Credit to Agriculture (C2A):** Credit to agriculture refers to domestic credit provided by the financial sector to producers in the Agriculture, Forestry, Fishing and Hunting sector. It includes all sources of credit with the exception of credit to the central government. The financial sector includes monetary authorities and deposit money banks, as well as other financial corporations where data are available (including corporations that do not accept transferable deposits but do incur such liabilities as time and savings deposits). Credit to agriculture corresponds to any of several credit vehicles used to finance agricultural transactions, including loans, notes, bills of exchange and banker's acceptances. *Sources: World Bank and Investopedia*

Foreign Direct investment

Foreign direct investment in agriculture represents the private foreign component of financing, in which the main actors are **foreign enterprises** or **international corporations**. These foreign companies invest with the aim of acquiring a lasting management influence and ownership of production. These flows can have a **positive impact** in terms of transferring knowledge and expertise and opening new markets. They can also have an **adverse impact** in cases of land grabbing, marginalization of poorer domestic producers, introduction of local price inflation, and lower levels of personal attachment to sustainable practices.

Public flows

Domestic -> Government expenditure

Government expenditure is essential to **create a conducive environment** that enables private investors to address their interest in the agriculture sector, **redistribute income** to the poorest and most needy of producers, and **address market failures**[2].

So, although the private sector is the main source of investment in agriculture, public finance also plays a very important role, for two main reasons. Government spending in agriculture makes contributions to those activities that the private sector does not invest in optimal levels and, as a result, increases sector efficiency, productivity and income growth, often through improving human or physical capital. For example:

- **Soil improvement and soil degradation control**
- **Irrigation and reservoirs for agricultural use**
- **Animal health management, livestock research and training in animal husbandry**

These kinds of activities do not usually receive sufficient contributions from the private sector, due to the presence of market failure. On the other hand, government spending is essential to sustain smallholders. The high risk faced by agricultural producers, particularly smallholders unable to hedge against risk, often requires **government intervention** in terms of **income redistribution to support**

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[2] **Market failure:** The term "Market failure" describes situations in which market outcomes do not achieve allocative efficiency, also known as Pareto Efficiency. Pareto Efficiency occurs when resources are allocated in such a way that it is not possible to make anyone better off without making someone else worse off. When markets fail to achieve Pareto Efficiency, government intervention is required to reallocate resources in order to achieve Pareto Efficiency. Market failure arises in the presence of market power and absence of perfect competition, in the presence of negative and positive externalities, in the presence of imperfect information, and in the production of public goods. Source: OECD Glossary of Statistical Terms

smallholders in distress following crop failures and livestock loss from pests, droughts, floods, infrastructure failure, or severe price changes.

Foreign -> Development flows

Foreign government agencies, bilateral donors and multilateral institutions are the key actors of the public foreign sector of investment to agriculture. These flows, better known as **Official Development Assistance (ODA)**[3] or Other Official Flows (OOF), aim to **promote the socio-economic development and welfare of developing countries**.

Summary

Through Target 2.a, countries have committed to increase investment to enhance agricultural productive capacity.

There are essentially four sources of investment flows in agriculture:

- public domestic = government expenditure;
- public foreign = development flows;
- private domestic = private equity and credit;
- private foreign = direct investment.

Although the private sector is the main source of investment in agriculture, public finance also plays a very important role.

Government spending on agriculture is essential because, on the one hand, it contributes to those activities that the private sector does not invest in optimal levels and, as a result, increases sector efficiency, productivity and income growth, often through improving human or physical capital. On the other, it helps to create a conducive environment that is attractive to private sector investment.

[3] **Official Development Assistance (ODA) to agriculture:** ODA to agriculture includes those commitments for the purposes of projects and programmes related to crops and livestock, forestry and fisheries. The definition excludes rural development and development food aid.
Source: SOFA 2012