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# Reimagining Financial Architecture to Achieve Food Sovereignty

By Dr Timothy Njagi

**A**frican governments have long maintained self-sufficiency as a policy target to achieve food security. In recent times, the justification for this policy choice has been amplified by global shocks such as the Covid-19 pandemic, which resulted in many countries prioritising local needs, for instance, instituting restrictions or even banning food exports, as a way of ensuring domestic food security. The exposure of net-importing countries, such as Kenya, to food insecurity has renewed focus on boosting local production and reducing reliance on food imports. The Kenya Kwanza administration prioritises reducing food imports as a key pillar of its agriculture policy.

Kenya's agricultural production lags demand. The country remains

a net importer of cereals, legumes, horticultural products, livestock products, and edible oils. The policy around agriculture financing has not shifted significantly over time. The sector remains largely dependent on public sector financing. Public sector financing has prioritised staple commodities such as maize and rice, as well as traditional cash crops such as coffee, tea, and sugarcane. Key financing areas focus on input access and the development of agricultural infrastructure, including markets, mechanisation, and irrigation. Development partners' support remains critical for the sector through financing research and access to technologies, including climate-smart technologies.

Attaining food sovereignty or self-sufficiency can still be a viable policy choice. However, a thorough examination of what is financed and developing strategic policy and

investment options are required. Traditionally, the crops subsector has dominated agricultural expenditures. Surprisingly, the trend did not change even after devolution of majority of the functions to county governments, as Counties were expected to allocate resources based on their comparative advantages. This was expected to provide a financing boost to underfunded sectors such as fisheries and livestock value chains other than dairy and poultry. In addition, key public programmes have predominantly focused on production, with the lion's share of the budget devoted to input subsidies and infrastructure development, including irrigation. However, this traditional approach to agricultural financing has not brought the country any closer to food sovereignty. For example, the fertiliser subsidy that is largely associated with maize production due to its design





**Agricultural and financing policies must be coordinated to ensure demand for local production remains stable, price volatility is reduced, and the country is less reliant on food imports for food security. PHOTO CREDIT: STRATHMORE SCHOOL OF BUSINESS.**

← has seen the country spend about KES 500 billion since 2008. However, cereal yields have remained stagnant, and key challenges remain unresolved.

A different approach using tools such as policy prioritisation for value chain analysis shifts financing priorities from a traditional focus towards identifying policy and investment levers that generate the highest returns and enhance value chain transformation. The pursuit of food self-sufficiency is still bundled with other objectives such as poverty alleviation and employment creation. This approach enables the identification of financing gaps across the value chain beyond the production node, facilitates financing to address systemic bottlenecks along the value chains, and identifies policy and investment options that deliver food sovereignty goals. The strategic shift under this approach is to reorient value chain analysis from diagnostic to financial planning.

Targeting value chain financing could unlock private investment in the sector, thereby increasing the level and scope of agricultural financing. The traditional approach has mainly targeted farm-level production. However, it has not transformed food systems due to the high risk and cost of credit, nor has it led to value chain integration. On the other hand, value chain financing models that promote contract-based financing help improve value chain structure,

allow for the provision of bundled services, and, in turn, diversify risk and integrate value chains. Off-taker contract-based financing has shown promising results in value chains such as dairy. Such models have enabled farmer organisations to access finance to invest in storage, value addition, and agroprocessing, thereby facilitating the provision of input credits bundled with services such as extension and veterinary services. Such financing relationships along value chains ensure that risk is shared among producers, aggregators, and processors, are inclusive, and transform value chains.

In addition, increasing the supply of agricultural public goods plays a critical role in crowding in private-sector investments. Data plays a key role in helping stakeholders assess risk and return in the sector. The current administration is already implementing the Kenya Integrated Agriculture and Market Information System (KIAMIS). Ensuring the credibility and reliability of the data, expanding access to it, and ensuring it is regularly up to date can significantly enable private investment along agricultural value chains, including organising logistics and identifying opportunities for aggregation, value addition, and agro-processing. Furthermore, when incorporating other programmes such as the credit guarantee scheme implemented by the National Treasury, SMEs in the sector can access

commercial lending from banks, which has remained very low at less than five per cent. Private-sector inclusion opens additional avenues for financing for sector stakeholders, ensuring that food systems are domestically anchored.

Finally, financial systems must be deliberate in supporting aggregation, storage, value addition and agroprocessing to ensure that food sovereignty is not undermined. Export markets create different incentives for value chain actors. For Kenya, it led to the exports of raw agricultural products and the importation of processed products. To reverse this, financing policy must be aligned with trade policies and priorities for food systems transformation. Trade policy must be consistent with domestic value chain development. This implies reorienting policy toward removing trade barriers and pursuing coherence in regulations on food standards, certification, and safety to reduce uncertainty and encourage long-term investment.

Agricultural and financing policies must be coordinated to ensure demand for local production remains stable, price volatility is reduced, and the country is less reliant on food imports for food security.

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