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## EUROPEAN COMMISSION ON AGRICULTURE

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## **Unlocking sustainable and inclusive finance and strengthening public–private partnerships for agrifood systems transformation in Europe and Central Asia**

### Executive Summary

This document provides a guiding framework and policy recommendations for scaling up sustainable and inclusive finance to transform agrifood systems in the European and Central Asia region, aligning productivity and sustainability. It identifies related policy, capacity and institutional challenges and opportunities within national financial systems to enhance the availability and quality of finance in agrifood systems.

This document calls on Members to adopt more strategic and catalytic approaches to scaling up sustainable and inclusive finance for transitioning towards greener, more efficient, productive, resilient and inclusive agrifood systems. This requires decisive action to strengthen public-sector capacity and policy coherence, a conducive environment for finance, investment in agrifood system and financial infrastructure, and the reduction of risks and costs of finance to proactively “crowd in” private finance.

It emphasizes the building of capacities among financial service providers while improving the financial literacy and bankability of agrifood system actors. It underscores the importance of mainstreaming the Committee on World Food Security Principles for Responsible Investment in Agriculture and Food Systems and of adopting national sustainable finance frameworks to support an aligned approach to financing that simultaneously advances productivity and sustainability objectives. Without decisive action, the region risks falling short on the Sustainable Development Goals (SDGs), jeopardizing the long-term resilience, sustainability and competitiveness of its agrifood systems.

### Guidance Sought

Members of the European Commission on Agriculture are invited to review the document and its recommendations, share their related experiences and insights, and consider the relevance of and endorse the policy recommendations in section five.

## I. Introduction

1. Transforming agrifood systems is central to achieving the SDGs and is embedded in the FAO Regional Office for Europe and Central Asia's programme and country-level interventions. While the structure and weight of agrifood systems in the region are highly variable,<sup>1</sup> they play important roles in value addition, employment, food and nutrition security, healthy diets and sustainable resource use. However, they also generate substantial hidden health, environmental and social costs, contributing to, *inter alia*, a third of greenhouse gas emissions globally.<sup>2</sup> True-cost accounting points to substantial hidden health and environmental costs of current production and consumption patterns in the Europe and Central Asia region<sup>3</sup> – estimated at approximately USD 2.7 trillion per annum.

2. The estimated costs of transforming agrifood systems globally are substantial, ranging from USD 14 billion to USD 400 billion annually, depending on the scope of the goals<sup>4</sup> – multiple orders of magnitude beyond current spending. While there are no specific estimates for the Europe and Central Asia region, the global estimates illustrate the magnitude of the challenge.

3. Finance plays a critical role as an enabler for such a transition. The urgency of scaling up finance to transform agrifood systems has been extensively documented.<sup>5</sup> A strong case for investment has been recognized in terms of society-wide social, economic and environmental benefits, as well as long-term returns on investment. This transition must be pursued along national agrifood systems pathways while upholding climate commitments and priorities, as reflected in nationally determined contributions and National Adaptation Plans.

4. The volume of public and private finance mobilized by countries in Europe and Central Asia remains significantly below the levels required for this transformation, notwithstanding substantial differences across the region. In many countries, access to finance is not even sufficient to meet the recurrent working capital and investment needs of many agrifood system actors, especially those of agricultural micro-, small- and medium-sized enterprises and of women and youth. Public spending and subsidies are often skewed towards large-scale actors, often without sufficient alignment to sustainability objectives or the broader transformation needs of agrifood systems. Misaligned subsidies and private finance may exacerbate environmental costs. This underscores the need for both more and better (inclusive, greener, sustainable) finance that aligns productivity and sustainability.

5. To address these issues, this document explores the dynamics of access to finance for agrifood system actors within the broader agenda of agrifood system transformation.<sup>6</sup> Section two provides a

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<sup>1</sup> **FAO, IFAD, UNECE, UNICEF, WHO and WMO.** 2025. *Europe and Central Asia Regional Overview of Food Security and Nutrition 2024 – Managing water sustainably for improved food security and nutrition*. Budapest. <https://doi.org/10.4060/cd4739en>

<sup>2</sup> **Chiriac, D., Vishnumolakala, H. and Rosane, P.** 2023. *Landscape of Climate Finance for Agrifood Systems*. Climate Policy Initiative. <https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-for-agrifood-systems/>

<sup>3</sup> **FAO.** 2024. *The State of Food and Agriculture 2024 – Value-driven transformation of agrifood systems*. Rome. <https://doi.org/10.4060/cd2616en>. This figure includes health-related costs estimated at USD 2.2 trillion and environmental costs of around USD 500 billion.

<sup>4</sup> Woodhill J., Surie M., and Jones K. 2024 *Financing food systems transformation and rural revitalization: Opportunities and Challenges* [https://www.donorplatform.org/wp-content/uploads/2025/01/GDPRD-Draft-Background-Paper-for-AGA2024\\_2024NOV19.pdf](https://www.donorplatform.org/wp-content/uploads/2025/01/GDPRD-Draft-Background-Paper-for-AGA2024_2024NOV19.pdf)

<sup>5</sup> For example, by the Thirty-fourth FAO Regional Conference for Europe, the 2024 FAO State of Food Security and Nutrition in the World report, the United Nations Secretary-General's Call to Action at the 2023 Agrifood Systems Stocktaking Moment, and the Sevilla Declaration resulting from the 2025 Fourth International Conference on Financing for Development.

<sup>6</sup> Agrifood system finance is a complex concept and extends beyond the dynamics of accessing finance for the actors reviewed in this background document. It includes public finance and how governments use public expenditures and investment to address objectives related to agrifood system transformation.

snapshot of the regional context, reflecting on general characteristics of financial systems in the region,<sup>7</sup> highlighting factors that lead to gaps in access to finance for agrifood system actors, and reflecting on macro and geopolitical factors shaping public finance. Section three introduces a guiding framework for assessing the financial system, along with agrifood system typologies and relevant linkages. It also identifies sources and uses of finance and various financial instruments to address the capital and risk management needs of different actors. Section four reflects on challenges, opportunities and entry points for scaling up finance for agrifood system actors, promoting financial inclusion and sustainable finance in the region. Section five provides policy recommendations to Members and opportunities for FAO support.

## II. The regional context

6. Overall, countries in Europe and Central Asia remain insufficiently equipped to mobilize the scale and quality of financial resources needed to support the transformation of their agrifood systems in line with the SDGs and national aspirations. Many agrifood producers lack adequate access to affordable and appropriate finance for operational, investment and risk-management needs. This limits their ability to invest in productivity-enhancing technologies. Moreover, when sustainability incentives are weak or disconnected from growth-oriented investment strategies, producers face a dual disadvantage: They are unable to improve economic performance and are equally constrained in adopting sustainable production models. This misalignment between productivity and sustainability objectives undermines the transformative potential of agrifood systems. Many small-scale producers, rural women and youth, and agricultural small- and medium enterprises (SMEs) are effectively excluded from formal sources of finance, the latter often constituting a “missing middle”<sup>8</sup> of the agrifood financing system.

7. However, notable differences exist across the region: while European Union countries can leverage advanced financial systems alongside substantial national and European Union-level public support, fiscal space in other subregions is more limited, and financial systems remain less mature. The latter are characterized by lower financial depth and breadth,<sup>9</sup> fragmentation, limited product diversity, higher delivery costs, and underdeveloped financial infrastructure. While some non-European Union countries also spend substantial amounts on agricultural subsidies, including on low-cost credit, such support is often structured in a way that limits outreach and scalability. For example, the provision of public credit lines at interest rates below inflation has high fiscal costs but reaches limited numbers of producers or processors.

8. Hence, a major policy issue in European Union Member Countries is to repurpose and realign public spending to improve its distributional, environmental and health impacts and to incentivize complementary private finance and investment. Conversely, the main priority in non-European Union countries is more fundamental: to increase the availability, diversity and quality of finance – public and private – to enhance productivity and sustainability across their agrifood systems. This includes the more-effective use of public finance to crowd in private finance and foster green and inclusive finance.

9. Agrifood systems in the region face further headwinds stemming from recent geopolitical shifts, political resistance and evolving trends in public spending priorities. Ongoing discussions within the European Union on adjustments to the European Green Deal following widespread farmer protests and the

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<sup>7</sup> The FAO Regional Office for Europe and Central Asia is currently implementing a Regional Technical Cooperation Project on improving access to finance for agrifood system stakeholders. This includes more in-depth analyses on the financing needs, constraints and opportunities of diverse agrifood system actors in region; the status quo and responsiveness of financial systems; and evidence-based recommendations to inform future policy dialogue and capacity development at regional and national levels.

<sup>8</sup> The “missing middle” of rural and agricultural finance refers to a common feature of underdeveloped financial systems whereby agricultural SMEs are excluded from accessing affordable and appropriate finance due to their stage of development, asset base, etc., that *de facto* or *de jure* inhibit their access to commercial finance and public support programmes, while their financing requirements are too large for microfinance institutions.

<sup>9</sup> The term “financial market depth and breadth” refers to the size, liquidity and diversity of financial markets; the accessibility of financial services across the population; and their informational, pricing and allocative efficiency.

introduction of greater flexibility<sup>10</sup> in meeting climate targets may influence the overall trajectory and perceived urgency of climate action, create negative spillover effects in neighbouring countries, and influence the incentives for the private sector to direct finance towards sustainability-related investment. Neighbouring non-European Union countries, especially those on European Union accession pathways, may slow their own reforms or deprioritize sustainability investments, assuming that alignment with European Union standards is no longer as stringent or time sensitive. At the same time, official development assistance (ODA) is declining in real terms,<sup>11</sup> and donors and governments are reallocating public spending towards defence and other priorities.

10. Aggregate data on financial flows into the agrifood system at regional level are limited and fraught by methodological issues.<sup>12</sup> Therefore, just a few indicators are presented here to provide a rough approximation of the level and adequacy of finance, mainly focused on the agricultural sector.

11. Adequate domestic public finance and investment are essential for agrifood system transformation, yet the Agriculture Orientation Index (AOI)<sup>13,14</sup> remains well below 0.5 for most countries in the region outside the European Union.<sup>15</sup> This means that agriculture's share in public spending is less than half of the sector's contribution to the national gross domestic product (GDP) for most countries. The regional average AOI for 2019–2023 for the 17 non-European Union countries for which data are available was 0.35, ranging from 0.31 (Central Asia) to 0.42 (Türkiye). Although data suggest a modest upward trend in average AOI

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<sup>10</sup> Mainly by introducing the use of international carbon credits in the second part of the 2030–2040 decade for meeting some of the reduction targets, along with integrating domestic permanent carbon removals in the European Union Emissions Trading System, and enhanced flexibilities across sectors. For more information, see: **European Commission**. 2025. Questions and answers on the 2040 EU climate target proposal. In: *European Commission*. [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_25\\_1688](https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_1688)

<sup>11</sup> The OECD projects a 9 percent to 17 percent drop in net ODA in 2025, following a drop of 9 percent in 2024, and identifies the forward-looking outlook as highly uncertain. The decrease is driven by prominent donors in the Europe and Central Asia region, including the European Union, France, Germany, the United Kingdom of Great Britain and Northern Ireland, and the United States of America. Multiple sources report the anticipated negative impact on ODA for agriculture, albeit with varying estimates of its magnitude. In tandem, the Donor Tracker notes that defence spending among key OECD DAC donors is expected to increase significantly in NATO countries. For more information, see: **OECD**. 2025. *Cuts in official development assistance: OECD projections for 2025 and the near term*. OECD Policy Briefs. Paris, OECD Publishing. <https://doi.org/10.1787/8c530629-en>

<sup>12</sup> Most financial reporting follows traditional sectoral breakdowns (e.g. agriculture, manufacturing, etc.) and does not mirror the complexity of agrifood systems. Even for sectoral reporting such as finance into agriculture, definitions and boundaries vary across countries. Public expenditure reviews following a common methodology are needed to get an accurate picture of the amount and distribution of public finance across countries. Likewise, the definition of credit into agriculture differs among countries depending on the reporting requirements of central banks and banks' internal reporting practices. Differences exist in the inclusion of downstream activities (e.g. marketing, storage and processing of agricultural outputs) and of different farming segments (especially regarding non-registered small-scale farmers and backyard producers, which may be reported under consumer credit or household lending). Determining the size and nature of the financing gaps would require a deeper supply-and-demand assessment at the country level, and few such assessments are publicly available.

<sup>13</sup> Aggregate data on financial flows into the agrifood system at the regional level are limited and fraught by methodological issues. As such, just a few indicators are presented here to provide a rough approximation of the level and adequacy of finance, mainly focused on the agricultural sector. These are the Agricultural Orientation Index (AOI) for Public Spending and the AOI for Credit, as well as financial inclusion data to represent household producers and consumers.

<sup>14</sup> The AOI for Government Expenditures is defined as the agriculture share of government expenditure divided by the agriculture value added share of GDP, where agriculture refers to the agriculture, forestry, fishing and hunting sector. For reference, the high-income countries in the European Union have AOI values close to or above 1, as indicated in: **FAO**. 2022. *FAOSTAT. Credit to agriculture: Global and Regional Trends 2012 – 2021*.

<sup>15</sup> Among these countries, only Belarus, Kazakhstan and North Macedonia had AOIs above 0.5.

from 2019 (0.34) to 2023 (0.41),<sup>16</sup> values fluctuated annually and remained below 0.5, indicating persistent underinvestment in agriculture relative to its economic importance.<sup>17</sup>

12. A similar picture emerges for non-European Union countries regarding credit for agriculture. With few exceptions, the share of total credit from commercial banks to agriculture remains low, especially vis-à-vis the sector's share in total value added, as expressed by the AOI for Credit.<sup>18</sup> There is a stark difference between European Union and non-European Union countries: The average AOI for Credit from 2019 to 2023 was 2.8 for the 15 European Union countries for which data are available and just 0.59 for the ten non-European Union countries for which data are available for the same period. Despite modest improvement across the region, from 0.55 (2019) to 0.62 (2023), the AOI for Credit remains well below 1.<sup>19</sup> Although the AOI reflects only formal banking sector lending, excluding other important sources of finance,<sup>20</sup> it nonetheless highlights persistent gaps in agricultural financing across much of the region and points to the need for targeted policy and financial-sector reforms to better align credit flows with the economic role of agriculture.

13. The 2025 Global Findex<sup>21</sup> survey shows a positive long-term trend in general financial inclusion<sup>22</sup> in the region across several indicators,<sup>23</sup> including access to formal financial services, consistently high account utilization rates, and a considerable rise in the use of mobile money and digitally enabled accounts. Although some plateauing can be observed since the 2021 survey, improvements have been driven in part

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<sup>16</sup> The average AOI for the region (excluding European Union countries) increased 20 percent from 2019 to 2023, from 0.34 to 0.41, with subregions displaying variable increases – namely, 32 percent in the Western Balkans, 15 percent in the Caucasus, 18 percent for Commonwealth of Independent States and Ukraine, 13 percent for Central Asia and 5 percent for Türkiye.

<sup>17</sup> Unfortunately, FAOSTAT data on the AOI for European Union Member States only covers national expenditures, whereas the bulk of the subsidies for the agrifood system come from European Union resources. Values are therefore misleading and not reported here.

<sup>18</sup> The AOI for credit normalizes the share of credit to agriculture over total credit to all industries by dividing it by the share of agriculture in GDP, providing insight into the relative importance that commercial banks place on financing the sector. An AOI of less than 1 indicates that the agricultural sector receives a credit share lower than its contribution to the economy, while an AOI greater than 1 indicates a credit share to the agricultural sector greater than its economic contribution.

<sup>19</sup> Available data suggest a few subregional trends, with Central Asia standing out for its strong upwards trajectory, from an AOI for Credit of 0.64 in 2019 to 0.92 in 2023, with consistent year-on-year increases, while the Western Balkans and Caucasus appear relatively stagnant or in decline, even if based on limited available data. In this context, Central Asia had the highest average AOI (0.79), and the Caucasus the lowest (0.47).

<sup>20</sup> These sources are detailed in the section on private-sector sources.

<sup>21</sup> The Global Findex Database 2025 is a World Bank dataset on financial inclusion based on nationally representative surveys in 141 countries. It provides globally comparable data on how adults access and use financial services, including accounts, payments, savings, credit, insurance and digital tools. The Findex definition of the Europe and Central Asia region largely overlaps with FAO Regional Office for Europe and Central Asia programme countries, excluding high-income countries and the Russian Federation but including Bulgaria and Romania. For more information, see: **Klapper, L., Singer, D., Starita, L. and Norris, A.** 2025. *The Global Findex Database 2025: Connectivity and Financial Inclusion in the Digital Economy*. Washington, DC, World Bank. <https://dx.doi.org/10.1596/978-1-4648-2204-9>

<sup>22</sup> The Global Findex captures data related to access to finance by households in their role as general consumers, a portion of which may also be directed towards productive activities or service provision within the agrifood system in their role as micro- and small-scale or otherwise informal enterprises.

<sup>23</sup> In 2024, 77.8 percent of individuals over age 15 in the region reported owning an account at a formal financial institution or through a mobile money provider – generally considered a necessary if not sufficient steppingstone to deeper engagement with formal financial services. This reflects an increase by 36 percent since 2014, even if gains since 2021 have been marginal. The low rate of inactive accounts reported – just 2.1 percent – also points to durable and robust utilization rates, reflecting an important aspect of financial inclusion. In 2024, 68 percent of adults reported having a digitally enabled account, and in 2021, 74 percent reported sending or receiving money through digital platforms in the preceding year, up from 60 percent in 2017.

by the continued expansion of digital financial services and underpinned by widespread mobile phone ownership.

14. Yet, important disparities exist between countries and across the rural–urban divide and, to varying extents, based on gender, age or income differences, reflecting a lag among agrifood system actors who are disproportionately located in rural areas. For example, the gender gap in account ownership in Europe and Central Asia remains around 8 percent, and women disproportionately represent the total share of adults without an account.<sup>24</sup> These disparities are partly driven by affordability constraints, lower levels of financial and digital literacy and capability, and rural connectivity issues in some countries.

15. These dynamics highlight the need to rethink how finance can support the shift towards more inclusive, fair, healthy and sustainable agrifood systems and sustainable diets through growth trajectories that are adequately remunerative for its actors. Persistent structural and policy gaps, capacity limitations and binding constraints within and at the intersection of agrifood and financial systems in the region need to be addressed. Hence, a system-level perspective is needed to assess issues and identify entry points at the national level.

### **III. System-level perspective of sustainable, inclusive finance and connections with agrifood systems**

16. A three-tiered framework is recommended to assess national financial systems:

- A. **The macrolevel** covers the enabling policy, legal, regulatory and institutional environment and relevant infrastructure that can shape financial-sector development and activity. Key elements include financial-sector policies and related legislation, national financial inclusion strategies, land tenure systems, enabling regulation regarding collateral,<sup>25</sup> regulatory frameworks for sustainable finance, and specific support policies such as interest rate subsidies.
- B. **The mesolevel** refers to financial, information and data infrastructure – such as credit bureaus, collateral registries, payment systems, and digital and data networks – that influence the operating environment of financial actors. It also comprises sector associations representing financial institutions, second-tier banks and specific support instruments.<sup>26</sup>
- C. **The microlevel** refers to the availability and adequacy of financial products, services and delivery mechanisms for different agrifood system actors and their financing needs.

17. Understanding the interplay of these tiers is essential for identifying constraints, expanding financial inclusion and designing policies and instruments that better serve the diverse financing needs of stakeholders. Especially, the quality of the enabling macro- and mesolevel environment is critical for reducing risks, encouraging private investment and improving the ability and incentives of financial institutions to service diverse segments of the agrifood system at scale.

18. Across these tiers, financial systems should be assessed from three angles: 1) access to finance for agrifood system actors as a whole; 2) access to finance for excluded population groups such as women, youth and other underserved actors; and 3) financing for sustainability and green transition.

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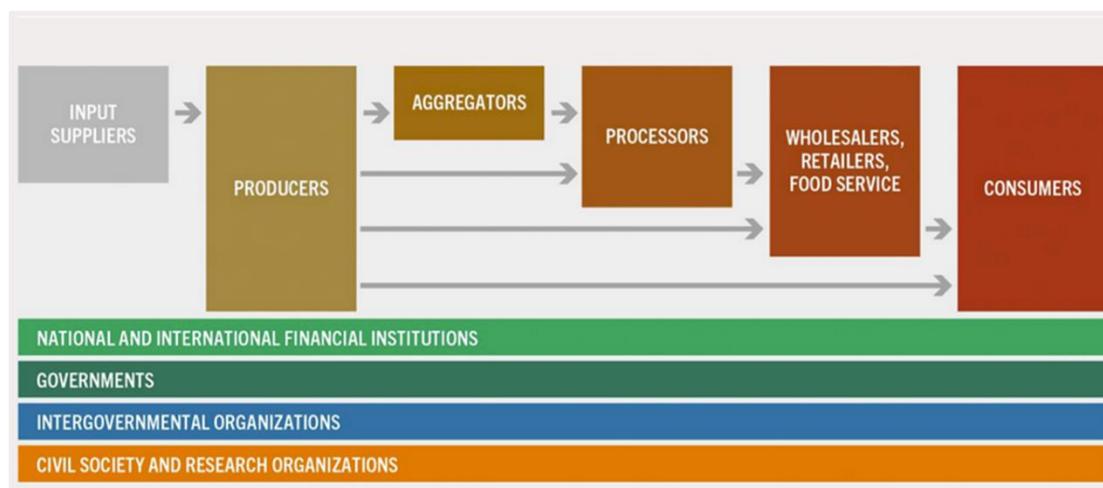
<sup>24</sup> Just 23 percent of individuals above the age of 15 reported saving at formal financial institutions or using a mobile money account in 2024, which is reduced to just 20 percent in rural areas, even if on an improving trend since 2021.

<sup>25</sup> For example, facilitating the use of non-conventional collateral such as warehouse receipts or moveable assets.

<sup>26</sup> Such as dedicated credit lines, guarantee funds or re-insurance providers.

Figure 1: Typical actors in agrifood systems

### Agrifood system actors and their financing needs



Source: FAO. 2024. *The State of Food and Agriculture 2024 – Value-driven transformation of agrifood systems*. Rome. <https://doi.org/10.4060/cd2616en>

19. Agrifood systems are inherently complex, encompassing diverse actors<sup>27</sup> operating along the core and extended segments of the constituent supply and value chains, as illustrated in **Error! Reference source not found.** These systems are supported by a wider network of actors delivering essential services – such as extension, advisory, finance and logistics – and those operating within the broader environment, including public and research institutions and civil society.

20. They take on different typologies<sup>28</sup> across the region and tend to exhibit a segmentation deriving from their past agrarian structures. This consists of: 1) a modern, large-scale segment characterized by vertical integration, multiple channels for financing, better access to knowledge, advanced technologies and strong market linkages; 2) a small-scale segment, often informal or subsistence oriented yet critical to local food security, nutrition and livelihoods; and 3) an emerging medium-scale segment, including commercially oriented family farms and agricultural SMEs that have significant yet unrealized potential.<sup>29</sup>

21. Actors within these segments vary significantly in their level of formality, size, maturity and performance, ranging from micro and small producers to large, vertically integrated agribusinesses and supermarkets, and consumers of different income strata. Each segment has distinct constraints and financial needs. Across all segments, food system actors need financial services for three basic purposes:

- **working capital** for purchasing or storing inputs – such as labour, fuel or raw materials – and outputs at different levels of value addition;

<sup>27</sup> This includes the entire range of actors and their interlinked value-adding activities involved in the production, aggregation, processing, distribution, consumption and disposal of food products that originate from agriculture, forestry or fisheries, and parts of the broader economic, societal and natural environments in which they are embedded.

<sup>28</sup> FAO's flagship publication *The State of Food and Agriculture 2024* proposes six typologies of agrifood systems, namely protracted crises, traditional, expanding, diversifying, formalizing, and industrial. The Europe and Central Asia region includes agrifood systems predominantly classified as industrial (mostly European Union countries), formalizing (mostly Eastern Europe and the Balkans), and diversifying (mostly the Caucasus and Central Asia). For reference, see <https://doi.org/10.4060/cd2616en>, beginning on page 9.

<sup>29</sup> The total demand for agrifood system finance would include both effective and latent demand, the exploration of which falls outside the scope of this background document.

- **investment capital** for financing the acquisition or upgrading of fixed assets, infrastructure, equipment and technology for enhancing productivity and adopting sustainable production practices; and
- **risk management** such as agricultural insurance, forward contracts or hedging instruments that can help mitigate and share climate, pest/disease and price risk.

22. Responding to the diverse characteristics and needs of farmers and enterprises of all scales requires a broad range of products and delivery mechanisms. Consumers – especially lower-income groups – need financial services to enhance resilience and ensure access to sufficient and healthy food during periods of hardship caused by individual or systemic shocks.

23. In addition to agrifood system actors' ability to increase their scale of operations and productivity, finance also plays an important role in catalysing the transformation towards a more sustainable and inclusive agrifood system. **Sustainable, green and climate finance** play important roles to support investments in sustainable practices and technologies. These include approaches that enhance land, water, energy and input use efficiencies; preserve biodiversity and ecosystem services; and promote climate-smart and digital solutions for productivity, sustainability and resilience, along with sustainable practices such as agroecology, regenerative agriculture and the use of biobased inputs for crop and pest management. Given the diversity of the aforementioned practices, taxonomies are needed to define in a transparent manner which practices qualify under sustainable finance frameworks and for the repurposing of subsidies.

24. **Inclusive finance** aims at enhancing the access of smallholders, microenterprises, “missing middle” SMEs, youth and women to a range of tailored financial services for expanding their economic activities, better managing risks and adopting green and sustainable technologies.

Table 1 provides an overview of the main categories of financial services, along with specific products, services and delivery mechanisms. The broader the range and the better their availability, the better a given national financial system is able to serve the operational, investment-related and transformation needs of agrifood systems.

*Table 1: Main categories of financial instruments for agrifood system finance*

<b>Category</b>	<b>Product, service, instrument or arrangement</b>
Traditional and non-traditional banking products and services	<ul style="list-style-type: none"> <li>• Loans</li> <li>• Savings accounts</li> <li>• Transactional services (payments, remittances, etc)</li> <li>• Digital finance (digital wallets, digital loans/savings/investment accounts, etc)</li> </ul>
Capital markets instruments (traditional and “innovative”)	<ul style="list-style-type: none"> <li>• Vanilla corporate bonds; performance-linked or thematic bonds (green, blue, etc)</li> <li>• Equity (public, private) and hybrid instruments</li> <li>• Institutional investors and investment funds (commercial and impact mandate)</li> </ul>
Product Financing	<ul style="list-style-type: none"> <li>• Trader credit</li> <li>• Input-supplier finance</li> <li>• Marketing and wholesale company finance</li> <li>• Lead-firm financing</li> </ul>
Receivables Financing	<ul style="list-style-type: none"> <li>• Trade-receivables finance</li> <li>• Factoring</li> <li>• Forfaiting</li> </ul>
Asset-based financing	<ul style="list-style-type: none"> <li>• Warehouse receipts finance</li> <li>• Agrarian Receipts</li> <li>• Repurchase agreements (repos)</li> <li>• Financial leasing (lease–purchase)</li> </ul>
Risk management products	<ul style="list-style-type: none"> <li>• Insurance (traditional indemnity based, parametric)</li> <li>• Futures and forward contracts</li> <li>• Other hedging instruments</li> </ul>
Financial enhancements, structured finance	<ul style="list-style-type: none"> <li>• Securitization instruments</li> <li>• Risk-sharing and guarantee facilities</li> <li>• Joint-venture finance</li> <li>• Blended finance</li> </ul>
Sustainable Finance	<ul style="list-style-type: none"> <li>• Thematic bonds (SDG bonds, green bonds, blue bonds)</li> <li>• Blended Finance</li> <li>• Impact investment funds that include environmental mandate</li> </ul>
Inclusive Finance	<ul style="list-style-type: none"> <li>• Microfinance, including microcredit, savings and microinsurance</li> <li>• Social bonds</li> <li>• Blended finance</li> <li>• Impact investment funds that include social mandate</li> <li>• Digital Financial Services</li> </ul>

*Note: This table presents an indicative classification based on primary features and functions of different financial products, services, instruments and arrangements. However, these can fall into several categories. For example, warehouse receipts and agrarian receipts exhibit features of both asset-based and receivables-based finance. Or impact investment funds may have mandates that cover both social and environmental outcomes, thereby contributing to both sustainable finance and inclusive finance.*

*Source: Developed by authors*

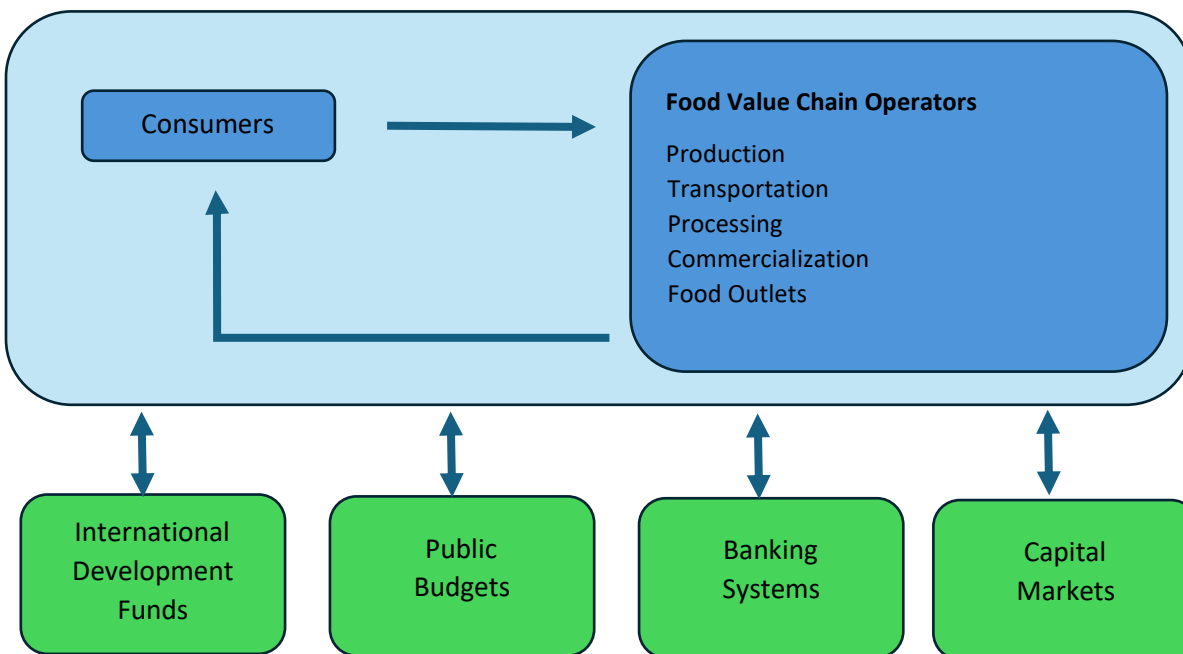
### Mapping sources of food system finance

25. The diverse sources of funding available to agrifood system actors can be categorized into public, private and mixed, both domestic and international. Public sources include national governments, development finance institutions (DFIs<sup>30</sup>) and ODA. Private sources encompass commercial banks, microfinance institutions, non-bank financial institutions, foreign direct investors, capital markets and informal finance within value chains. Additionally, alternative sources such as crowdfunding platforms,

<sup>30</sup> Including multi-lateral, bilateral and national DFIs and funds.

social impact investors and venture capital, and angel investors are emerging to fill gaps, especially for agritech companies, small-scale or underserved actors. Mixed sources include blended finance and other forms of public–private partnerships,<sup>31</sup> often in collaboration with international development actors. Taken altogether, these aspects can be collectively considered the agrifood financing architecture.

Figure 2: Flow of financing to agrifood systems



Source: Díaz-Bonilla, E. 2021. *Financing Sustainable Development Goal 2 and the end of hunger*. In: IFPRI. <https://www.ifpri.org/blog/financing-sustainable-development-goal-2-and-end-hunger/>

26. A further distinction can be made between internal and external finance. The majority of agrifood system finance originates from actors within agrifood value chains, through financing arrangements between farmers, and upstream and downstream actors<sup>32</sup>. Notably, consumers are the ultimate financiers of the system, as every actor – farmers, processors, traders, retailers, etc. – is ultimately paid from revenues resulting from consumer spending (Figure 2). Consumer preferences and resulting demand therefore play an important role in shaping the level of finance flowing into the system as well as to what extent finance is directed towards objectives of agrifood system transformation as it relates to sustainability, health and nutrition, etc. Hence, reorienting consumer demand towards healthy and sustainably produced food is an important lever for transforming the agrifood system.

<sup>31</sup> Blended finance refers to the strategic use of concessional public or philanthropic capital to mobilize commercial finance for investments that are expected to otherwise not materialize due to high risk, low expected returns or both. It is a structuring approach that combines different sources of capital with varying risk - return expectations and investment horizons. While blended financing arrangements can take many forms, common structures include a combination of first-loss capital, risk-sharing facilities, and technical assistance facilities.

<sup>32</sup> Examples include buyer and supplier credit to farmers and delayed payments by processors and supermarkets.

#### **IV. Challenges and opportunities in the Europe and Central Asia region**

##### ***Challenges***

###### *General agrifood system finance availability*

27. The responsiveness of national financial systems to actors' needs is shaped by their policy, legal and regulatory frameworks, underlying norms and incentives. Agrifood system finance is positioned at the intersection of multiple policy domains – agriculture, rural development, environment and climate change, health and the financial sector – while macroeconomic factors like interest and exchange rates further influence access, product costs and embedded risks. Without deliberate coordination, this complexity often leaves agrifood system finance as a “policy orphan”, highlighting the need for integrated policy action and dedicated coordination mechanisms.

28. Compounding weaknesses in the meso-level financial infrastructure may cause binding constraints or discourage entry into rural and agricultural finance. For example, without an enabling environment<sup>33</sup> for secured transactions, movable asset-based lending – an important instrument to overcome the shortage of conventional collateral such as (rural) land titles – may be impractical or unprofitable. Underdeveloped telecommunications infrastructure or market, weather and geospatial data systems can limit the scope and outreach of digital financial services or create binding constraints to the expansion of agricultural insurance.<sup>34</sup>

29. The private sector is a crucial source of investment in agrifood systems. Yet, it faces numerous constraints in accessing and utilizing appropriate and affordable finance from financial service providers and investors. This is due to numerous well-known constraints, which are typically heightened in the non-European Union countries in Europe and Central Asia. For commercial financial service providers, this includes insufficient expertise and institutional capacity in rural and agricultural sectors, a lack of appropriate financial products and distribution channels, limited risk management instruments, and a shortage of bankable projects. Combined with market data gaps, information asymmetries and perceived and real risks of financing agriculture this leads to unfavourable risk–return profiles. Moreover, gaps in critical rural and agrifood system infrastructure – such as irrigation systems, storage facilities, cold chain and market infrastructure – not only reduce productivity and competitiveness but also increase risks and transactions cost for agrifood system actors. The latter reduces the bankability of agrifood system actors and further limits financing. Addressing these structural bottlenecks is of paramount importance to unlock additional financing.

##### ***Financial exclusion***

30. Small-scale producers, women, youth and informal enterprises face incremental hurdles due to various supply- and demand-side constraints. These include lack of collateral, financial or commercial track records, limited business documentation, and poor financial and business literacy. In addition, high delivery costs for small amounts, especially in rural areas, increase the unit cost of finance, making its provision more costly. Financial institutions often do not explicitly adopt a gender- or youth-responsive product design cycle and outreach strategies, adding additional supply-side constraints. Similar

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<sup>33</sup> Including enabling legislation, well-functioning credit bureaus and collateral registries, and efficient dispute resolution mechanisms.

<sup>34</sup> The design, pricing and ultimately the viability of parametric agricultural insurance relies, among others, on actuarial projections of the likelihood of specific hazards resulting in loss events that trigger insurance claims and managing basis risk. This, in turn, relies on the availability of long-term, high-quality weather data at national, regional and local levels which is predicated on the existence of modern, well-distributed meteorological infrastructure and specialized hydro-meteorological service providers, among others. Without this in place, actuarial projections are not reliable, and basis risk may become prohibitively high, forming a binding constraint to mainstreaming agricultural insurance in the country.

heightened challenges exist for “missing middle” agricultural SMEs that have outgrown public support and microfinance but are not yet mature enough to be financed by commercial banks.

### ***Misaligned incentives***

31. Current market environments typically fail to price in the costs of climate-related financial, social and environmental risk, exposing financial service providers and investors to significant risk. Likewise, market prices do not cover the hidden environmental and health costs of production systems, leading to the misallocation of credit and investment flows. Subsidies and other public support measures are only partially aligned with the needed transition towards sustainable, climate-smart and energy-efficient production systems. Reforming longstanding subsidies can present political economy challenges, requiring careful negotiation and consensus building among a wide range of stakeholders, beyond just the direct beneficiaries.

### ***Opportunities and entry points***

#### *Enhancing general access to finance among agrifood system actors*

32. A functioning financial market where households and businesses actively use financial products and services is in many ways a precondition for introducing elements of green finance and enhancing access by underserved segments. A comprehensive regulatory and financial framework that promotes financial inclusion, social inclusion and green finance will help implement mutually reinforcing policy actions; create synergies among economic, social and environmental goals; and achieve progress faster.<sup>35</sup>

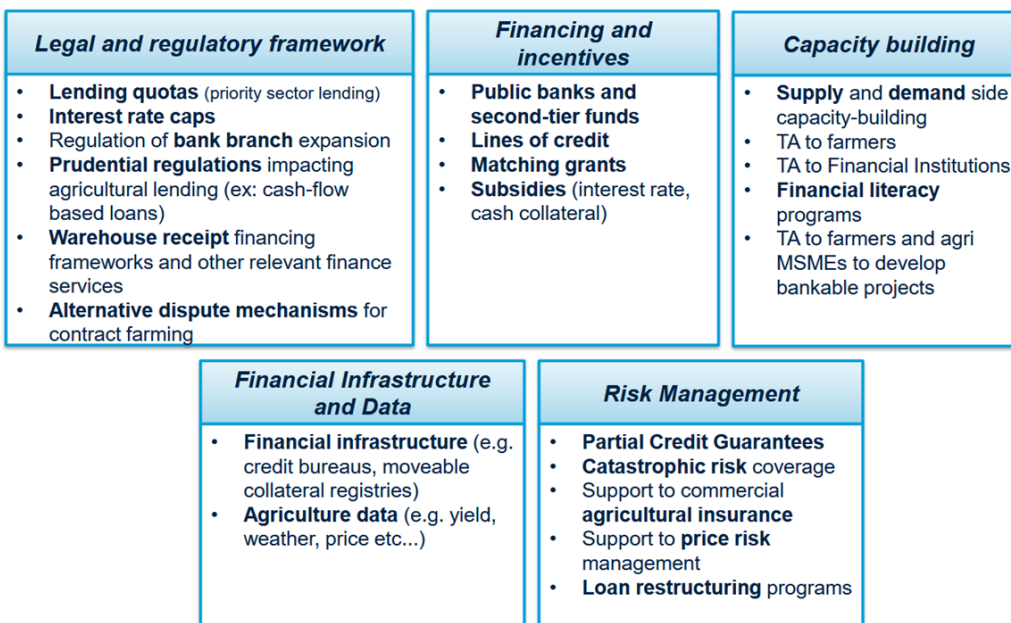
33. As illustrated in Figure 3, a range of policy instruments can be used to improve the range, quality and quantity of financial services for agrifood sector actors. While not all of these are equally suitable,<sup>36</sup> a coherent combination of critical enablers at macro-, meso- and microlevel is critical for narrowing gaps between supply and demand for finance. As such, governments have a crucial role in developing an enabling environment to stimulate domestic finance while attracting private investment. Through effective coordination, well-designed financial sector policies, regulations and supervisory regimes, coupled with investment in public goods, they can influence the quantity, composition and allocation of finance and investment.

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<sup>35</sup> OECD. 2022. *Green Economy Transition in Eastern Europe, the Caucasus and Central Asia. Progress and Way Forward*. OECD Green Growth Studies.

<sup>36</sup> Interest rate caps may lead to hidden fees, larger loan sizes or the exit of financiers from more risk areas and target groups.

Figure 3: National public policies affecting finance for food system actors



Source: Adapted from: *Varangis, P., Buchenau, J. and Onothe, T. n.d. Agricultural Finance and Agricultural Insurance As part of National Financial Inclusion Agendas. World Bank.*

34. Since the current economic and political situation limits the expansion of public finance, the focus should be on strategically using public finance to mobilize private finance into the sector, including for higher risk and underserved segments. Public–private partnerships and blended finance can play important roles in mobilizing finance for both hard and soft infrastructure while reaping systemic public benefits related to promoting sustainable and inclusive finance. By pooling public and private expertise and resources and establishing risk-sharing arrangements, they can unlock financing to address critical investment gaps in financial infrastructure, rural infrastructure and information and communications technology systems that would otherwise not be feasible individually due to elevated risks, high capital requirements, and/or insufficient capacity or expertise. Public–private partnerships also can drive financial product and delivery innovations by sharing initial costs and risks, with the public sector, donors or other institutions better able to absorb early-stage and tail risks that would otherwise deter private actors. To unlock the potential of public–private partnerships, robust legal and regulatory frameworks are needed, with clear provisions on sharing risks and costs to enhance trust among investors, reduce financial risks and facilitate greater private-sector involvement.

#### *Enhancing financial inclusion*

35. Policy, legal and institutional frameworks also can play an important role in shaping who is included and excluded from formal financial systems. Financial regulations and prudential norms established with the objective of strengthening the stability and soundness of the financial sector may inadvertently create barriers for women, youth, smallholders and other underserved groups. For example, lending requirements around collateral, property rights or minimum loan sizes can disadvantage these actors as they may disproportionately lack formal land titles, assets or credit histories. Likewise, rigid know-your-customer rules or inadequate consumer protection frameworks can reinforce exclusion. Adopting a policy framework such as a national financial inclusion strategy<sup>37</sup> can make a substantial contribution to

<sup>37</sup> A national financial inclusion strategy is a national document that sets out a country’s vision, objectives, prioritized actions, target performance indicators and monitoring measures to systematically expand inclusive access to and use of a range of financial products and services that responds to users’ needs.

systematically identifying and addressing these gaps, coordinating related interventions between relevant stakeholders, and establishing monitoring and accountability mechanisms.

### *Enhancing sustainable finance*

36. Enabling policies also are required for redirecting public and private finance towards environmentally friendly production systems and related investments. This relies on instruments such as the repurposing of environmentally harmful or socially regressive subsidies, financial incentives and risk sharing for investors and financiers, and public–private partnerships. Equally important is the establishment of a reference framework for sustainable finance that lays out the taxonomy, disclosure requirements, monitoring protocols and related tools. Such frameworks can help stakeholders converge on a common set of definitions of what constitutes sustainable finance, enhance transparency through better reporting and monitoring, reduce ambiguity for investors, and reduce the incentives for greenwashing.<sup>38</sup> Doing so can help mobilize and direct additional finance towards sustainability-related outcomes while addressing the growing risk of SDG washing or greenwashing, which grows in tandem with the expansion of incentives to increase sustainable finance.

37. Several non-European Union countries in the region have made notable progress to address systemic constraints to finance. Examples include enabling legal, regulatory and institutional frameworks for leasing, warehouse receipt finance, using moveable assets as collateral, reforming land tenure systems, and specific financing instruments such as public guarantee funds, agricultural insurance and specific credit lines. Innovative instruments have been introduced, such as Agrarian Receipts in Serbia and Ukraine<sup>39</sup> and agency banking<sup>40</sup> in Tajikistan, while Türkiye is emerging as a regional leader in fintech innovation.<sup>41</sup>

38. Several countries also have progressed in strengthening the enabling environment for inclusive finance, e.g. through a conducive legal environment for microfinance, by building institutional capacity, and by promoting responsible lending practices. Others have adopted national financial inclusion strategies<sup>42</sup> that also include specific targeting measures for women and youth, including Belarus, Kyrgyzstan, Tajikistan and Uzbekistan. Azerbaijan, Belarus, Georgia and Kazakhstan are engaged in regional initiatives under the auspices of the Alliance for Financial Inclusion’s Eastern Europe and Central Asia Policy Initiative.<sup>43</sup> These developments provide a valuable foundation for the sharing of knowledge and experience in the region and for promoting the inclusion of women, youth and other underserved segments.

39. In recent years, countries such as Armenia, Georgia, Kazakhstan, Kyrgyzstan and Ukraine have embarked on efforts to align the policy objectives of financial-sector development with their national

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<sup>38</sup> Greenwashing, also called SDG washing, is the opportunistic categorization of finance and investment as green or SDG compliant.

<sup>39</sup> Agrarian receipts, also called crop receipts, are a pre-harvest financing instrument that allows farmers, farmers organizations or agricultural enterprises to pledge their future harvest as collateral for credit from a creditor, which can include banks as well as value chain actors. First developed in Brazil in the 1990s, it has been introduced in Serbia in 2014 and Ukraine in 2015.

<sup>40</sup> Agency banking is a business model where financial institutions partner with third-party agents, often local businesses, to offer basic banking services to customers in areas where traditional bank branches are limited or unavailable.

<sup>41</sup> Advancing fintech solutions, in particular for reducing the cost of remittances, can have a meaningful impact on financial inclusion, considering the reliance of many households in the Europe and Central Asia region on remittance inflows as a key source of income, especially in rural and underserved areas.

<sup>42</sup> National financial inclusion strategies can be developed as standalone strategies or otherwise integrated into broader national development strategies, such as national financial sector strategies. While individual strategies place different emphasis on key policy areas based on national contexts, most strategies address finance for women and youth, SMEs, green finance, financial education, digital financial services, consumer protection and microinsurance.

<sup>43</sup> The AFI Eastern Europe and Central Asia Policy Initiative (ECAPI) supports and develops financial inclusion policies and regulatory frameworks for AFI member institutions in the Eastern Europe and Central Asia region.

climate and environmental targets. Recognizing the importance of mobilizing private-sector finance for sustainable investment, they have been developing policy frameworks and capacity to use funding from governments and DFIs more wisely to catalyse private-sector investment. Instruments include sustainable finance road maps and related taxonomies and guidelines for reporting and disclosure. Several countries – including Armenia, Georgia, Kazakhstan and Ukraine – have issued green bonds.<sup>44</sup> Similarly to the European Union,<sup>45</sup> these frameworks and instruments need to be extended into the agricultural sector and related industries.

## V. **Recommendations for the Europe and Central Asia region and the consequences of inaction**

To enhance access to finance in general for the agrifood sector, Members are invited to:

40. **Conduct detailed national agrifood system finance assessments** to map the financing needs for different actors and segments against the current supply of finance and to identify key gaps, also vis-à-vis transformational objectives. This also requires a careful analysis of the enabling policy, legal and institutional environment at macro- and mesolevels, including coherence among financial, agricultural and environmental policies and related policy, regulatory and institutional gaps. The assessment should be combined with a public expenditure review of the agricultural and related sectors to identify opportunities for the repurposing of subsidies. At the microlevel, the capacity of financial service providers and agrifood system actors to supply and properly use different financial instruments needs to be assessed. Together, these assessments can contribute to a more robust evidence base for informed policymaking and prioritization of policy reforms, institutional strengthening, capacity development, and related investment needs.

41. **Based on the above assessment, a targeted action plan to enhance agrifood system finance should be developed through multistakeholder, multisectoral dialogue platforms.** This should include key stakeholders such as central banks, relevant line ministries (e.g. agriculture, environment, finance, trade and industries), along with mesolevel institutions, to break down policy silos and improve coordination. Equally important is consultation with the full range of private agrifood system actors as well as different tiers of financial institutions. While the specific policy and investment priorities are country-specific, improved policy coherence, alignment of incentives, de-risking and reducing transaction costs are cross-cutting priorities to enhance and align finance for the twin goals of increasing productivity and sustainability across the agrifood system. Some policy and investment priorities relevant to most countries in the Europe and Central Asia region are outlined below.

42. **Take targeted action to incentivize private-sector financing** by (re)designing policy instruments to better crowd in private finance while using public finance in a more strategic and catalytic way. Examples include partial credit guarantee schemes, partial refinancing mechanisms, and targeted matching grants and interest rate subsidies. Public finance should focus on market failures and externalities that are unlikely to attract sufficient private finance, such as the transition to sustainable production practices and outreach to high-risk segments of the agrifood system. Innovative structuring approaches like blended finance can be used to mobilize additional private finance for green transformation and social inclusion. Public funding for credit lines should be judiciously evaluated to ensure robust justification in light of their mixed track record, opportunity costs and potential distortionary effects. Levels of concessionality should be carefully assessed and kept appropriately low to maintain sound incentives, maximize private co-financing, and broaden outreach in terms of the number of recipients.

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<sup>44</sup> OECD. 2022. *Green Economy Transition in Eastern Europe, the Caucasus and Central Asia. Progress and Way Forward*. OECD Green Growth Studies.

<sup>45</sup> While the Technical Working Group under the European Union Platform on Sustainable Finance worked on a taxonomy-compliant route for mixed farming, the European Union taxonomy currently does not include the agricultural sector. The same applies to the food and beverage industries.

43. **Strengthen mesolevel frameworks and institutional capacities and reduce the risks and transaction costs of agrifood system finance, including through public–private partnerships.** Priority areas include: 1) financial, information and data infrastructure to enhance decision-making and risk management; 2) broadening the range of collateral, including moveable assets, stored commodities, future crops and alternative data, through an adequate legal and institutional framework; 3) improving the interoperability of payment systems, including mobile money; 4) establishing platforms for channelling remittances into productive investments; and 5) enhancing market, weather and geospatial data systems to support agricultural insurance, credit risk management, and agricultural credit scoring. Public–private partnerships and blended finance also should be considered to address critical rural infrastructure gaps (such as in irrigation, storage facilities, cold chain and market infrastructure, and connectivity), as these investments are essential to improving productivity, efficiency and sustainability in agrifood systems.

44. **Strengthen the capacity of national financial service providers to design and deliver a broader range of financial services at lower costs, including to underserved producer segments.** This includes strengthening their expertise and market intelligence in nutrition-sensitive, sustainable agriculture and specific value chains; improving risk management systems and tools; designing customer-centric financial products and services; along with cost-effective outreach models, strategic partnerships; and enhanced use of digital technologies.

45. **Encourage the responsible adoption of information and communications technologies and digital technologies, including artificial intelligence,** to reduce delivery costs, improve risk management and drive financial product innovation. Use cases include enhanced loan evaluation and risk management and the utilization of alternative data to make credit, payment and insurance services available at lower costs and to broader population segments. This requires investing in core digital and data infrastructure, adopting proportional regulatory frameworks, and using tools such as innovation labs and regulatory sandboxes to stimulate and safely test innovations, as appropriate. It also implies establishing robust safeguards for consumer protection and privacy.

In addition to the above, in order to promote financial inclusion, Members are invited to:

46. **Take targeted action to improve the “bankability” of small-scale agricultural producers, agricultural SMEs, women and youth** by integrating financial literacy, nutrition-sensitive and sustainable agriculture and business advisory training into national mechanisms – both public and private – for delivering training and capacity building to agricultural sector actors (or otherwise establishing such mechanisms).

47. **When designing and implementing national financial inclusion strategies, ensure that the specific needs of rural and agricultural sector actors are duly reflected,** drawing on evidence-based analyses of the factors that drive their exclusion and responding to their specific financing needs.

48. **Mainstream the Committee on World Food Security Principles for Responsible Investment in Agriculture and Food Systems principles into policy, regulatory and legal frameworks for responsible investment** to promote a balanced approach to financing that supports both productivity-enhancing investment and sustainability. This includes raising awareness and building capacity among relevant stakeholders, aligning public support mechanisms and promoting their adoption by private financial sector and agrifood system actors.

In order to scale up sustainable and green finance, Members are invited to:

49. **Establish clear frameworks, standards and taxonomies to define, track and verify sustainable finance and investment in agrifood systems** while ensuring transparency, accountability and comparability across countries and adapting to national contexts and capacities. In parallel, Members will need to raise awareness and build capacities among financial institutions, agrifood businesses, public

institutions and regulators to apply the framework in practice and support the development and accreditation of independent verification and certification bodies to strengthen credibility and build investor confidence.

50. **Repurpose subsidies to ensure full alignment with the broader sustainability agenda of agrifood system transformation.**

51. **FAO can play a pivotal role in supporting Members in the implementation of these recommendations** through its policy dialogue, normative work and capacity building and by leveraging its convening power in support of Members' efforts to advance sustainable, inclusive and healthy agrifood systems.

52. In particular, FAO can strengthen the evidence base on agrifood system finance in the region, promote knowledge sharing and analyse innovations and good practices. Through the flagship Hand-in-Hand Initiative, FAO employs a suite of advanced analytical techniques that can support Members in identifying, assessing and prioritizing investments in their agrifood systems in order to help scale up finance.

53. Additionally, the FAO Investment Centre, with its dedicated service covering the Europe and Central Asia region,<sup>46</sup> collaborates with countries and a growing network of knowledge and financing partners – including international and regional financial institutions such as the European Bank for Reconstruction and Development, the European Investment Bank, the Asian Development Bank, the World Bank and the International Fund for Agricultural Development – to provide investment and finance solutions tailored to meet these challenges by supporting strategic investment planning and policy, public investment, private investment and innovative finance.

54. Finally, FAO's longstanding partnership with global environmental financing facilities such as the Green Climate Fund and the Global Environmental Facility and related capacity-building initiatives can help Members better access and utilize these funds as part of their overall financing architecture.

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<sup>46</sup> The Europe and Central Asia region is covered under the FAO Investment Centre's Near East and North Africa, Europe and Central Asia Service.