

Financing the Transition to Sustainable Agriculture: The Case for Improved Coordination and Alignment

Webinar 'Growing private investment in sustainable farming'
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Background & motivation

2025 working paper

‘Leveraging private finance for the transition to sustainable agriculture’ (Wedl & Kam)

Recommendations (excerpt):

- Increase **collaboration & transparency**
- Scale impact via **landscape approaches and blended finance**

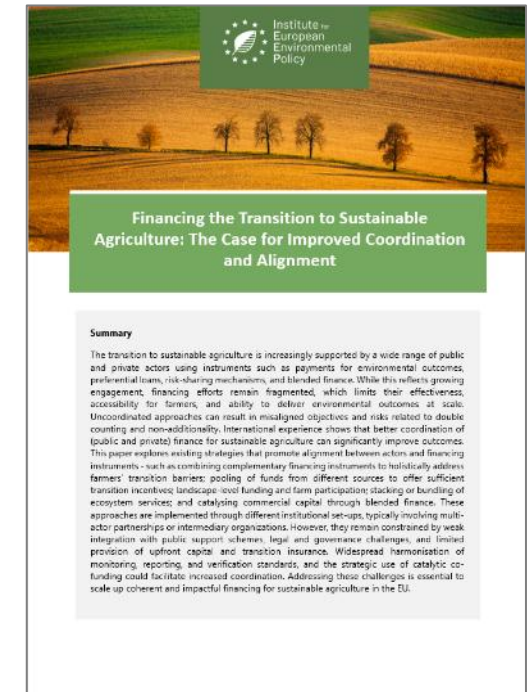


Follow-up paper

...with a focus on coordination & alignment

Objective:

- Explore existing strategies that promote alignment & coordination between different actors and financing instruments for the transition to sustainable agriculture



Transition barriers (from ,Leveraging private finance' paper)



Transition barriers for farmers

- **Limited access to capital** for upfront investment

- **Temporary yield risks & income instability**

- **Uncertainty of monetary benefits**

- **Knowledge gap**

- **Social scepticism** from peers

- **Structural disincentives**

Barriers for private financiers to support the transition

- **Limited returns** as hidden costs & benefits remain externalized

- **Incompatibility with short-term focus**

- **Data & knowledge gaps**

- **Credibility concerns**

- **High transaction costs**

- **Characteristic sector risks**

Typology of solutions (from 'Leveraging private finance' paper)

1

Payments for environmental outcomes

Private PES schemes

Carbon offset credits

Biodiversity credits

Price premiums

Addressing:

- Uncertain monetary benefits
- Temporary income insecurity

2

Debt-based Financing

Green bonds & loans

Sustainability-linked bonds & loans

Loans on favorable terms

Addressing:

- Limited access to upfront capital

3

Transition-risk Sharing

Research Pilots

Practice-based capacity building

Purchase agreement & minimum price

Transition insurance / warranty

Sustainable lease

Equity investment in enabling technology

Addressing:

- Knowledge gaps
- Temporary lack of income security
- Structural disincentive
- Various*

4

Blended Finance

Blended Fund

Guarantee

Addressing:

- Upfront capital
- Investment risks

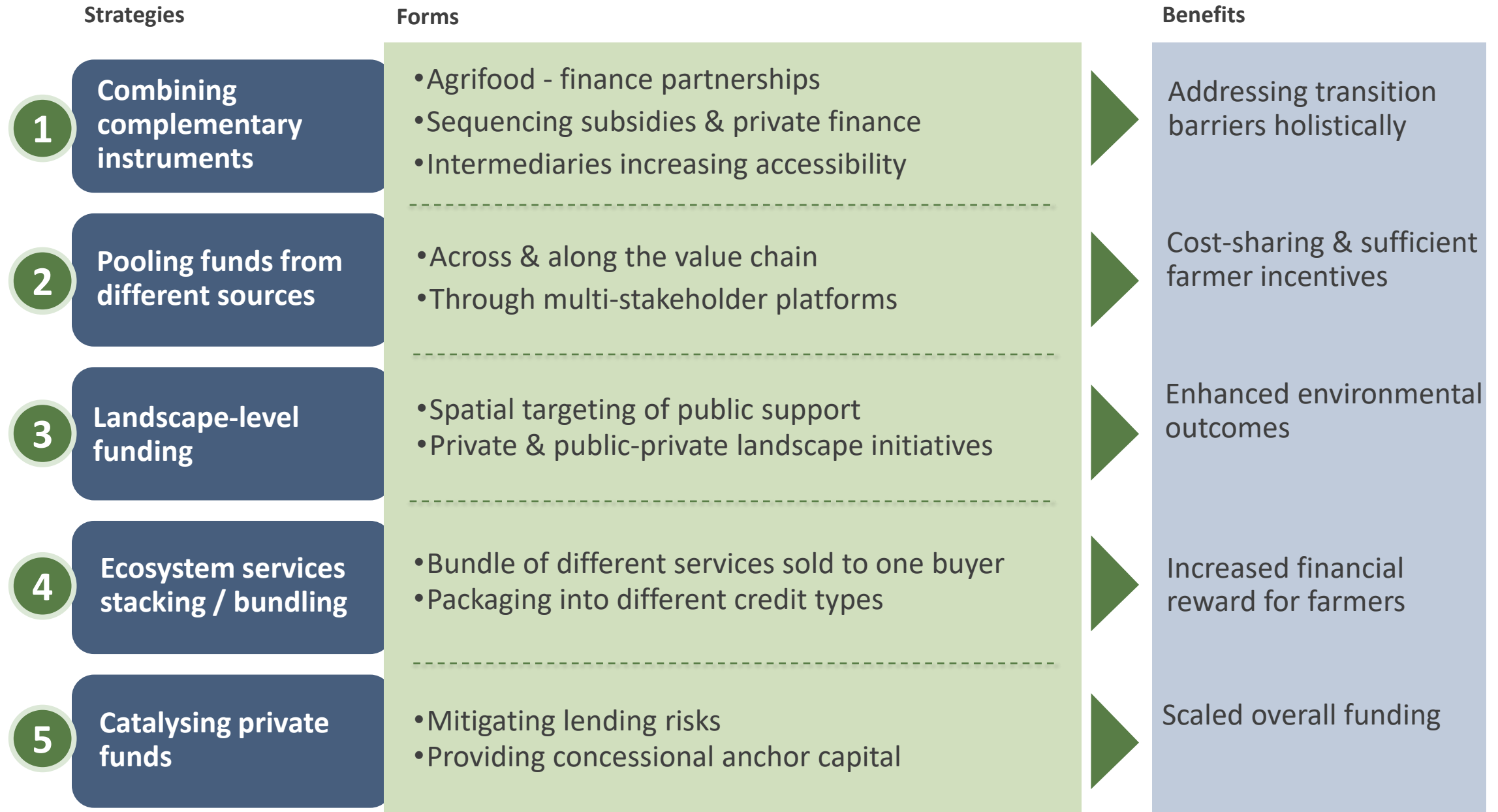
Challenges resulting from fragmented financing landscape:

- **Conflicting / one-sided objectives** regarding outcomes
- **Limited accessibility** for farmers
- **High administrative burden** for farmers when 'stacking' financing instruments
- Potential **additionality issues**
- Inability to tackle crucial **larger-scale ecosystem issues**
- **Inefficiencies** in implementation
- Unfavorable conditions for **larger commercial investors**

Benefits of coordination and alignment

- **Better alignment of objectives**
- **Easily accessible** bundles of financing components
- **Lower transaction costs**
- **Better biodiversity outcomes**
- **Cost efficiency and knowledge sharing**
- **Scaling of funds**

Strategies for coordinating finance



Deep dive: Combining complementary financing instruments

Purpose: addressing different transition barriers comprehensively

Agrifood - finance partnerships



- Combining ongoing payments with upfront capital
- E.g.:



Sequencing subsidies and private finance



- Public subsidies covering the upfront costs of preparing land for participation in environmental markets
- E.g.:



Intermediaries making financing instruments accessible to farmers



- Informing farmers about financing opportunities or matchmaking between farmers and financial actors
- E.g.



Deep dive: Landscape-level funding and farm participation

Purpose: addressing larger-scale ecosystem issues and water management

Spatial targeting of public support



- Agri-environmental schemes incentivizing collaboration among adjacent farms to address landscape-specific issues
- E.g. CAP-funded ACRES Co-operation program



Private & public-private landscape initiatives



- Intermediary coordinating and pooling funding from corporates and/or public agencies in the same landscape to offer farmers payments for environmental outcomes
- E.g.:



Deep dive: Catalysing private funds

Purpose: scaling overall funding by mobilising commercial funds

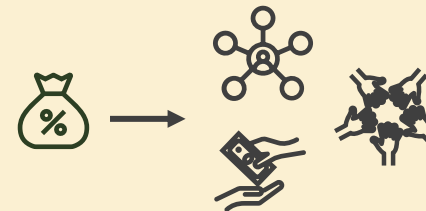
Mitigating lending risks



- Public banks absorbing loan risks – through guarantees or first-loss tranches – to increase commercial lending for sustainable agriculture
- E.g.: EIB Pan-European Agricultural Programme



Providing concessional anchor capital



- Public grant funding for the setting up or scaling of financing structures, so that additional private capital can engage
- E.g.: USDA Climate-Smart Commodities Program



Organizational approaches & challenges

Organisational set-ups: different ways of engaging with farmers

- ✓ Partnerships includes **corporates** -> **targeting supply chain**
- ✓ **Intermediary** acts as 'broker'-> **reaches out proactively** to farmers
- ✓ **Public support schemes** incentivize coordination-> **farmers apply**
- ✓ **Blended finance** -> farmers are reached **via agricultural banks**

Challenges

- ✓ Limited availability of **transition insurance and attractive upfront capital**
- ✓ **Anti-trust concerns**
- ✓ **Varying commercial interest in different landscapes / targeting of landscapes rarely integrated in CAP strategic plans**
- ✓ **Non-additionality risks**



Opportunities & policy recommendations



1. Improve transparency and drive harmonisation of MRV

- Addressing **additionality** issues
- Driving **EU-wide standardization of MRV requirements**

2. Catalytic use of public funds

- Strategically strengthen the role of **intermediaries**
- Targeted public grants enabling the **establishment of innovative financing mechanisms** on a larger scale

3. Embed coordination in public support frameworks

- Integrate in the **new CAP transition support mechanism**
- CAP support should **explicitly incentivize spatial targeting at landscape-scale level**



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