



GrAins

Greening Agrifood
in Social Economy



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Capacity building on Greening Agrifood in Social Economy

Financial tools for the green transition of small and medium sized enterprises in Social Economy

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Abbreviations

CAP	Common Agricultural Policy
EAGF	European agricultural guarantee fund
EAFRD	European agricultural fund for rural development
EaSI	EU Programme for Employment and Social Innovation
EC	European Commission
ESG	Environmental, Social and Governance
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
MFI	Microfinance institution
RDP	Rural Development Programme
R&D	Research & Development
SDG	Sustainable Development Goals
SE	Social Economy
SME	Small and medium enterprise

1. Financial Challenges and Opportunities in the EU Agri-Food Sector

The agri-food sector is a complex network encompassing extensive supply chains involving agriculture, forestry, fishing, manufacturing, wholesale and retail trade, transportation and storage, accommodation, food services, researchers, and public authorities. Despite its critical role, the ecosystem confronts numerous challenges. In 2021, the food product manufacturing sector, a pivotal component for the EU, generated €585 billion in value-added, contributing 4.84% to the overall EU value-added and providing employment for 16.3 million people¹.

In the European Union (EU), approximately 11 million agricultural enterprises produce food products, alongside 300 thousand food processing companies and 2.8 million businesses in the food distribution and catering sector. The food and beverage industry, the EU's largest manufacturing sector, employs 4.2 million people, generating a turnover of 967 billion euros and an added value of 190 billion euros in 2019 (Interreg Europe, 2022). However, this figure decreased to 585 billion euros in 2021 (equivalent to 4.84% of the EU's overall added value)².

Small and medium-sized enterprises (SMEs) form the backbone of the agrifood ecosystem, representing 99% of the 289,000 businesses in the food and beverage sector. They contribute approximately 48% of the turnover and employ over half of the workforce in food and beverage production. The remaining 1% of large enterprises in the food and beverage sector generate over 50% of the sector's turnover. Although agricultural enterprises are not officially classified as SMEs in business statistics, the majority could be considered SMEs, given that only 1% of EU agricultural enterprises have an annual turnover exceeding 500,000 euros³.

European businesses in the food and beverage sector are predominantly small and medium-sized enterprises (SMEs), constituting 99.2% of the sector's businesses. However, recent years have presented significant challenges for agrifood SMEs, including the COVID-19 pandemic, the Ukraine-Russia war, extreme weather events linked to climate change, rising commodity prices, and heightened global demand from Asia and Africa^{4 5}.

The agrifood ecosystem, one of the fourteen industrial ecosystems identified in the updated New Industrial Strategy, encompasses the entire food chain. It includes farmers, fishermen, aquaculture producers, the food and beverage industry, retail, and wholesale food product sales, catering services, input and service providers, and all actors and organizations involved from field to table. In this context, the term "agrifood ecosystem" holistically refers to the EU's food system, extending its scope to consumers, the research community, public authorities, socio-cultural aspects, and institutional components of food systems.

The EU agri-food ecosystem confronts major challenges, including environmental issues, climate change impacts, securing incomes for farmers and fishers, ensuring sustainable diets, and addressing a skilled workforce shortage. Financial challenges are evident as farmers and fishers report lower incomes, face input cost increases, and grapple with market uncertainties. Additionally, the sector faces generational renewal issues, with fewer young people entering the industry.

¹ SWD (2021) 351 final, Annual Single Market Report 2021. The report uses data of NACE codes A, C10, C11 and C12 for analytical purposes. https://commission.europa.eu/system/files/2021-05/swd-annual-single-market-report-2021_en.pdf

² SWD (2023) 263 final. COMMISSION STAFF WORKING DOCUMENT. Co-creation of a transition pathway for a more resilient, sustainable, and digital agri-food ecosystem. <https://data.consilium.europa.eu/doc/document/ST-12301-2023-INIT/en/pdf>

³ Ibid

⁴ European Commission (2020), Food 2030 pathways for action, Research, and innovation policy as a driver for sustainable, healthy, and inclusive food systems

⁵ European Commission (2021). Preliminary impacts of the COVID-19 pandemic on European agriculture: a sector-based analysis of food systems and market resilience



Agri-food SMEs, including farmers, require investment, up-skilling, and resources for the green and digital transition. Large companies, although globally competitive, struggle with workforce challenges and limited innovation. Overall, the ecosystem faces increased input costs, especially in energy, impacting competitiveness. The COVID-19 pandemic underscored the importance of resilient food supply chains, revealing both challenges and opportunities for the agri-food sector.

The unprecedented surge in energy, gas, and commodity prices in 2022 highlighted the agri-food system's dependency on fossil fuels. This dependency resulted in higher costs across the board for food producers, posing risks to food affordability, particularly for low-income groups⁶. Climate change further exacerbated these challenges, reducing yields and impacting global food security⁷.

The financial challenges inherent in greening agri-food underscore the intricate interplay between economic, environmental, and social dimensions within the food system.

The agri-food sector, a cornerstone of the EU economy, faces economic hurdles such as lower R&D investment, talent acquisition difficulties, and increased costs precipitated by external shocks like the Russian invasion of Ukraine and the energy crisis⁸.

Moreover, the sector's global competitiveness is juxtaposed against vulnerabilities exposed by geopolitical events. Amid these challenges, the role of international trade becomes pivotal for food security. Modern EU trade agreements emphasize sustainability, aligning with the broader objectives of the EU Green Deal. Simultaneously, the imperative of environmental sustainability is underscored, necessitating a delicate balance between food production and mitigating environmental impacts.

The Common Agricultural Policy (CAP) has made strides, yet non-uniform progress persists across EU Member States. Embracing a digital transformation becomes paramount for sustainable competitiveness, with advanced technologies offering solutions from precision farming to digital traceability and e-commerce. Challenges in digitalization, including data access rights and cybersecurity concerns, necessitate attention. Nonetheless, there is a growing recognition of the potential of digital tools to enhance transparency, traceability, and customer confidence, opening avenues for a more sustainable and resilient agri-food ecosystem.

The concept of sustainable competitiveness in the agri-food sector revolves around the capacity to generate inclusive wealth without compromising future resources. This multifaceted challenge intersects with economic stability, environmental resilience, and social equity. The stability of the agri-food supply chain, dependent on a resilient farming community, directly influences economic sustainability. Disruptions caused by climate events and resource constraints result in economic shocks, affecting supply availability and price volatility. Despite being a leading sector in the EU, the food and drink industry encounters challenges such as low R&D investment, talent shortages, and rising costs exacerbated by geopolitical crises. The sector's global competitiveness is sustained through exports, making international trade a critical factor. The EU's commitment to sustainable trade relations, evidenced by regulations like the deforestation-free products rule, aligns with the broader goal of the EU Green Deal⁹.

Investments in the agri-food sector are driven by three core dynamics: modernization of farms and machinery, expansion of production, and adaptation of practices to comply with regulations, consumer preferences, and the impacts of climate change.

⁶ <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

⁷ European Council (2023). *Food security and affordability*

⁸ SWD(2023) 263 final. COMMISSION STAFF WORKING DOCUMENT. Co-creation of a transition pathway for a more resilient, sustainable and digital agrifood ecosystem. <https://data.consilium.europa.eu/doc/document/ST-12301-2023-INIT/en/pdf>

⁹ Ibid.



Despite being an attractive industry for investments, a financing gap exists, particularly affecting small and medium-sized enterprises (SMEs). These SMEs require financing to manage their daily operations, procure raw materials, and repay liabilities upon selling processed foods. However, they face challenges in accessing finance due to their lower equity ratios, which make it difficult to provide sufficient collateral¹⁰.

The European Agriculture Fund for Rural Development (EAFRD) is a significant financial vehicle supporting investments in the agri-food sector, especially through the Rural Development Programme (RDP) measure 'Support for investments of processing and marketing of agriculture products.'

One of the key challenges in the sector is the skepticism of financial intermediaries towards innovations in smaller and new agri-food enterprises, driven by low equity ratios and a lack of benchmark data. This skepticism hinders the progress of innovation in the agri-food sector compared to other industries. Additionally, small-sized agri-food enterprises often face loan rejections due to a lack of collateral and unfavorable loan conditions¹¹.

The financing gap varies across Member States. To address this challenge, it is recommended to leverage EAFRD resources to strengthen existing guarantee instruments or create targeted ones, focusing on investment loans with long-term maturities. Risk-sharing structures for loan funds and efforts to enhance financial literacy among micro and small-sized enterprises are also suggested. For Member States with a high inclination towards innovation, the development of equity or quasi-equity instruments is proposed. Furthermore, the new legal framework provides opportunities for managing authorities to design dedicated support packages, combining financial instruments and grant support to address the specific needs of the agri-food sector¹².

¹⁰ Fi-compass, 2020, Financial needs in the agriculture and agri-food sectors in the European Union, Summary report, 94 pages. Available at: https://www.fi-compass.eu/sites/default/files/publications/financial_needs_agriculture_agrifood_sectors_eu_summary.pdf.

¹¹ Ibid.

¹² Ibid



2. Financial Instruments for green agrifood system

The agri-food sector in the European Union (EU) has received an annual investment of approximately €3 billion in 2019, which is considerably lower than other sectors such as health, which received €41 billion.¹³

Relative to revenue, European agri-food companies spent only 0.2% on innovation, trailing behind their US and Japanese competitors with investments of 0.44% and 0.65%, respectively (160). The COVID-19 pandemic has highlighted the need for investments in the sustainable competitiveness of the EU's agri-food sector, underscoring the significance of public investment for sector sustainability.

The reformed Common Agricultural Policy (CAP) plays a key role in this regard, aiming to transition towards a smart, sustainable, competitive, resilient, and diversified agricultural sector. The policy supports viable farm income, introduces eco-schemes to encourage sustainable farming models from 2023, and provides specific support for young farmers and those in areas facing natural constraints (157). The CAP Strategic Plans for

2023-2027 will mobilize over €35 billion in EU and national funding to support investments, particularly at the farm level but also extending to processing and marketing projects (162). This support includes not only grants but also financial instruments like loans and guarantees, leveraging additional support beyond the European Agricultural Fund for Rural Development (EAFRD) grant budget.

The reformed CAP has included a new financial reserve of at least €450 million per year, and member states have recognized the need to address future crises. In response to the Russian invasion of Ukraine, a €500 million support package has been outlined, utilizing crisis reserves to assist affected producers. Furthermore, EU Member States play a crucial role in providing financial assistance through mechanisms such as the Temporary Crisis Framework for State Aid measures (TCF) and the European Maritime, Fisheries, and Aquaculture Fund (EMFAF) crisis mechanism, which supports fishers.

The Technical Support Instrument (TSI) offers tailored assistance for member states' reforms, including those in the agri-food sector, with a budget of €864 million from 2021-2027. The EU's broader financial framework, including the Multiannual Financial Framework (MFF) and NextGenerationEU recovery instrument totaling over €2 trillion, provides essential resources. The Recovery and Resilience Facility (RRF) program, funded through NextGenerationEU, is crucial for channeling these resources to support the agri-food ecosystem. Additionally, the Single Market Programme (SMP) allocates €4.208 billion for 2021-2027, focusing on governance strengthening and supporting competitiveness, particularly for micro, small, and medium-sized enterprises.

Under InvestEU, a significant EU guarantee of €26.3 billion is expected to catalyze €372 billion in additional investments for the EU economy. This support extends to agriculture, agri-food, rural businesses, and digitization, presenting a diverse array of financial products. The European Investment Fund (EIF) under its Framework Operations has created financial products worth €7.8 billion, providing support for the agri-food sector. BlueInvest contributes to early-stage businesses, SMEs, and scale-ups in the blue economy, aligning with the European Commission's Smart Specialisation Platform for Agri-Food (S3P Agri-Food). Horizon Europe, the world's largest public R&I program, allocates around €9 billion for Cluster 6, focusing on 'Food, Bioeconomy, Natural Resources, Agriculture, and Environment.' This comprehensive strategy aligns with the EU's commitment to mobilize at least €1 trillion in sustainable investments over the next decade, with 30%

¹³ <https://data.consilium.europa.eu/doc/document/ST-12301-2023-INIT/en/pdf>



of the multiannual budget dedicated to green investments and Member States mandated to allocate 37% of Recovery and Resilience Facility financing to climate objectives.

The financial tools for the greening agrifood sector are diverse and could vary from grants, subsidies, microfinance, public and private procurement to crowdfunding, green bonds, and so on. After the EU Green Deal, the EU and national policies have developed various financial mechanisms for supporting green and sustainable agriculture. There are income support schemes (e.g. eco-schemes), but also financial Instruments that can be used for greening agrifood businesses.

2.1 Public subsidies

A subsidy represents a benefit given to an individual, business, or institution by the government.

Public subsidies in the agrifood sector involve both front-end subsidies (e.g. subsidised fertiliser prices or diesel prices) and back-end subsidies (e.g. support for export or eco-packaging). The subsidies are from EU funds (mainly from the European Agricultural Guarantee Fund) or national/ regional budget.

Governments may encourage green and sustainable growth in the agri-food sector by reforming subsidy schemes. This is the case with the CAP policy, where the EU decided to promote the measures from the EU Green Deal and 40% of the funds will be dedicated to climate actions between 2021 - 2027.

The common agricultural policy in EU countries is supported by two funds:

1. European Agricultural Guarantee Fund (EAGF) (1st pillar of CAP) - with an allocation of €291.1 billion between 2021 - 2027. More than 90% (up to €270 billion) are for income support schemes and the rest for supporting agricultural markets.
2. European Agricultural Fund for Rural Development (EAFRD) (2nd pillar of CAP) - allocation of €95.5 billion for 2021 - 2027. Around 8.5% (€8.1 billion) of the allocation is from the next generation EU recovery instrument to help address the challenges posed by the COVID-19 pandemic.

The income support schemes (direct payments) funded by European Agricultural Guarantee Fund (EAGF) are public subsidies and include¹⁴:

- basic payment scheme
- payment for sustainable farming methods (“green direct payments”)
- payment for young farmers

In general, the income support scheme is based on the farm’s size in hectares, but all EU countries also have to offer **eco-schemes** which is a payment for the climate, environment, and animal welfare to promote sustainable farming practices. The eco-schemes represent one of the new measures introduced by CAP 2023 - 2027 to support sustainable farming models that adopt practices friendly to the environment and climate.

The eco-schemes represent the EU mechanism for supporting and rewarding farmers who preserve the natural resources and provide public goods with benefits that are not reflected in the market price. For the eco-schemes are defined at the EU level a common list of action areas and the practices that could be supported and rewarded are¹⁵:

- organic farming
- agro-ecological practices
- high nature value farming
- precision farming
- agro-forestry

¹⁴ https://agriculture.ec.europa.eu/common-agricultural-policy/income-support/income-support-explained_en

¹⁵ List of potential AGRICULTURAL PRACTICES that ECO-SCHEMES could support - https://agriculture.ec.europa.eu/system/files/2021-01/factsheet-agri-practices-under-ecoscheme_en_0.pdf

- carbon farming
- animal welfare improvements

The eco-schemes support agricultural practices that:

- cover activities related to climate, environment, animal welfare and antimicrobial resistance;
- are defined based on the needs and priorities identified at national/regional levels in CAP Strategic Plans;
- contribute to reaching the EU Green Deal targets.

2.2 Microfinance

Microfinance primarily encompasses micro-loans, typically less than €25,000, designed for micro-enterprises (firms that employ fewer than 10 people), which constitute 91% of all European businesses. It serves individuals aspiring to be self-employed but encountering challenges accessing traditional banking services.

Relative to microfinance markets in South Asia, South America, and Africa, the European microfinance market is relatively young, highly diverse, and expanding. Growth is particularly notable in new Member States and certain Western countries, typically where regulatory frameworks facilitate such activities. Micro-credit institutions within this sector aim for self-sustainability, increased micro-lending capacity, and, in some instances, aspire to transform into banks.

Microfinance is a vital tool for those who are excluded from traditional banking systems due to various reasons. In 2010, the European Progress Microfinance Facility (Progress Microfinance)¹⁶ was launched under the EaSI program¹⁷ to make microcredit accessible for small businesses that aim to establish or grow. Instead of directly financing entrepreneurs, the EaSI program provides guarantees to selected microcredit providers in the EU, sharing the potential risks.

The microfinance ecosystem comprises of various actors, such as the final recipients with diverse financial and social needs, social investors, financial intermediaries, policymakers, and social services providers. To understand this ecosystem better, a 'social impact investment' framework is used. Social impact investment involves providing finance to organisations that address social needs, with the expectation of both measurable social and financial returns. This framework is increasingly supported by national governments, especially in the EU.

Figure 1. Dimensions of social impact investment

	<p>Social: social impact investment's primary objective and starting point is to tackle social needs which include ageing, disability, health, families, affordable housing and unemployment. Microfinance may represent a more flexible and sustainable alternative to grants, reaching a wider range of final recipients.</p>
	<p>Impact: social impact investment looks to produce social change and an improvement in final recipients' lives. To continue to improve its effectiveness, and gain visibility to attract investors, the impact of microfinance has to be measurable and monitored during the financial instrument's entire life cycle.</p>
	<p>Investment: while addressing social goals, the recipient is expected to return the money invested.</p>

Source: Fi- compass ESF- Financial instruments working with microfinance

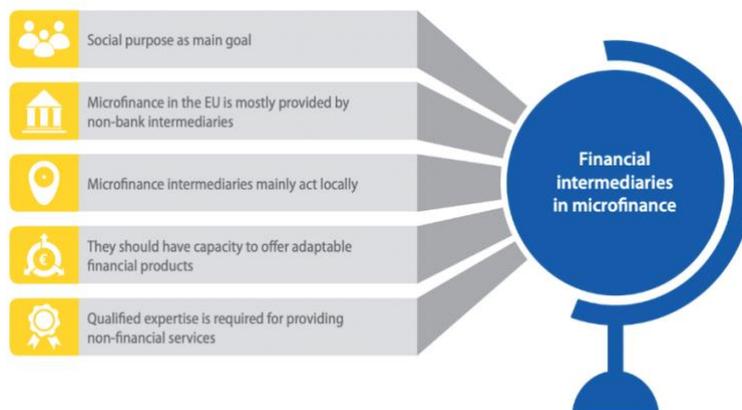
¹⁶ https://www.eif.org/what_we_do/microfinance/progress/progress_Q_and_A_for_Individuals_and%20Micro-enterprises.pdf

¹⁷ <https://ec.europa.eu/social/main.jsp?catId=1081>

Microfinance institutions are designed to cater to the social needs of individuals and communities, while also promoting financial operations that create a positive impact on society. Traditional commercial lenders often find it unprofitable to provide small loans to people with low income, inadequate collateral or projects with limited financial sustainability.

Microfinance services aim to balance both social impact and financial sustainability. However, they often come with higher management costs and risks, leading to relatively higher interest rates. NGOs, foundations, and government bodies play a significant role in markets where financial services are not yet widely available, helping to address the financial needs of socially excluded groups. Financial intermediaries with localised operations establish close relationships with borrowers, ensuring that they receive tailored solutions.

Figure 2. Characteristics of financial intermediaries working with microfinance



Source: Fi- compass ESF- Financial instruments working with microfinance

Microfinance institutions are specially designed to cater to the social needs of individuals and communities while promoting financial operations that create a positive impact on society. Traditional commercial lenders often find it unprofitable to provide small loans to people with low income, inadequate collateral, or projects with limited financial sustainability.

Credit unions in Lithuania, Romania, and Bulgaria have a significant role in providing loans of smaller amounts, which commercial banks are less interested in approving. Credit unions are more flexible towards their clients and adapt to their needs compared to commercial banks. Microcredit organizations in Romania and Bulgaria serve small farms by disbursing both business and personal micro-loans. They generally offer short-term credit products for working capital, investment purposes (with short maturity), and leasing. Microfinance institutions are more open to financing the agricultural sector and especially small-sized farms because they have adjusted credit analysis, focus on assessing farmers' repayment capacity and adapting collateral requirements, even if the farm is family-owned and semi-professional. They have also adapted delivery channels and a higher presence in the rural area. Moreover, they have simplified credit procedures with less documentation and bureaucracy.¹⁸

In Hungary, small-sized farms are supplied with loans through a solution developed by "integrators" who play an important role. Integrators act as intermediaries between banks and farmers, buying and distributing seeds and chemicals, providing advisory services, and selling commodities. They obtain loans from banks and distribute them to contracted producers, mostly micro and small-sized farms. Although these loans are more expensive, they are often the only option for farmers who lack collateral or are ineligible for bank loans. This system allows banks to concentrate larger loans with reliable enterprises, benefiting them and the integrators.

¹⁸ Fi-compass, 2020, Financial needs in the agriculture and agri-food sectors in the European Union, Summary report, 94 pages. Available at: https://www.fi-compass.eu/sites/default/files/publications/financial_needs_agriculture_agrifood_sectors_eu_summary.pdf.



Microfinance products can be customized to cater to varying social needs and, when combined with non-financial services such as business development, become even more effective. **Green microfinance** broadly refers to the operational practices of microfinance institutions (MFIs) that support environmental sustainability while serving low-income clients. While commonly associated with microloans for clean energy solutions, MFIs can adopt a range of green strategies, from "do no harm" policies to initiatives with positive environmental impacts. These strategies include managing internal and external environmental risks, fostering green opportunities, and adopting a formal environmental strategy.

EaSI Technical Assistance for social enterprise finance

The European Fund for Strategic Investments has recognised the potential impact that social economy enterprises can have on society and has launched various financial instruments to support them. One such initiative is the provision of technical assistance under EaSI, which was initially intended for microcredit providers but has since been expanded to include support for social enterprise finance intermediaries. A consortium led by the European Center for Social Finance, in collaboration with experts, delivers these services on behalf of the European Commission.

The technical assistance services provided under EaSI include capacity building through analysis, training in financial instrument design, tool application, quality assurance, mutual learning, exchange of best practices, networking, partnering, and monitoring and evaluation.

There are two types of support services available under EaSI:

1. Provision of Targeted Capacity Building Services: This is a 1:1 format that focuses on investment readiness, impact assessment, fundraising, or strategic and operational topics.
2. Exchange and Dissemination of Good Practices: This includes peer-to-peer trainings, study visits, and thematic workshops covering operations, finance, impact, and market-related aspects.

2.3 Public and private procurement

The large number of people at risk of poverty and social exclusion, of those that are facing in-work poverty, the increased risks associated with insufficient environmental protection have led at the EU level to the introduction of legislation on public procurement of the possibility of making acquisitions with social impact and green acquisitions. Stimulating public institutions to make purchases with social and environmental impact is one of the measures provided in the strategies of social inclusion and environmental protection and contributes to the achievement of sustainable development goals.

If in other European countries the procurement with social and environment impact is widely used by public institutions, but also by companies, in the Eastern and Central Europe countries the situation is not the same. The majority use the lowest price criterion in public procurement. Limited knowledge of how to make social and green procurement, lack of rapid mechanisms to identify entities eligible for reserved contracts, lack of information and education on the effects of these types of procurement on society are main causes of the limited implementation of these measures in public procurement.

Public or private procurement is a tool to achieve public policy objectives of governments as well as business development objectives. The high level of procurement spending in general makes it extremely important for the achievement of public and business sustainability objectives. The business community has understood this, and big companies have been introduced environmental, transparency or social evaluation criteria in their choice of suppliers (e.g. ESG criteria - see the section below).



With a share of around 14% of GDP at the EU level, public procurement has become an important tool for achieving the public policy objectives of EU countries. The 2014 EU public procurement regulation responds to this increased importance of the field for the European Union's public policy objectives and introduces provisions for social and environmental clauses that can be used to help implement social and environmental policy objectives in the context of the development of the European Pillar of Social Rights and the European Green Pact.

Socially responsible procurement is the procurement of products/services/works that aims to achieve a positive social impact from the purchasing process, intending to bring social benefits, and reduce social risks or existing inequalities.

Green procurement aims at a reduced environmental impact throughout the life cycle of the goods, services and works contracted. There are specific criteria developed for green procurement for 14 economic fields of activity at the EU level¹⁹. The EU Ecolabel logo certifies the quality of a product while meeting the highest environmental standards and could be used as an award criterion in green procurement.

2.4 Financial Instruments of the European Commission

European Commission developed a range of financial Instruments that can be used to stimulate and increase the capacity of the agrifood sector²⁰. These financial instruments co-funded through EAFRD are implemented in all EU countries²¹ and include²²:

- Loans
- Guarantees
- Equity
- Quasi-equity

Loans may be available where no institution (e.g. banks, credit unions) provides them commercially or may be offered on better terms commercially (e.g. with lower interest rates, longer repayment periods, or with less collateral required). In case of agri-food sector, where the small farmers have small incomes and from a unique source, loans could help them to diversify their sources of income by developing new related activities (e.g. agritourism, local gastronomic points, restaurants selling local food). Also, loans could provide investment support for young farmers, or in increasing the production capacity (e.g. investment in agricultural machineries).

Microcredits represent smaller loans made to people sometimes excluded from access to finance, often provided over a short term and with no or low collateral required (e.g. loans to farmers to purchase inputs or equipment).

Guarantees is an assurance given to a lender that his/her capital will be repaid if a borrower is not able to repay a loan (e.g. may be beneficial for enterprises aimed at investing in the bio-economy or in resource efficiency). They are “Written commitment to assume responsibility for all or part of a third party’s debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default”.²³

¹⁹ https://green-business.ec.europa.eu/green-public-procurement/gpp-criteria-and-requirements_en

²⁰ <https://www.fi-compass.eu/info/new-to-financial-instruments>

²¹ <https://www.fi-compass.eu/country-data>

²² <https://www.fi-compass.eu/sites/default/files/publications/ESIF-factsheet-FI-products.pdf>

²³ European Commission (2015). Guidance for Member States on Financial Instruments – Glossary



Equity represents a capital investment in return for total or partial ownership of a firm; the equity investor may assume some management control of the firm, may share the firm's profits and may sell at a later stage, the acquired shares realising again profits. It is a "Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits"²⁴.

Financial instruments could be implemented in combination with grants, subsidies and other forms of financial assistance. The main benefits of the financial instruments are²⁵:

1. Money is paid back and may be used over and over again for other investments.
2. Increase attractiveness for other private investments (e.g. so-called 'business angels' may invest in small businesses alongside EU-funded instruments; Banks may lend to entrepreneurs unable to offer collateral because of an EU-backed guarantee fund).
3. More expertise from private investors who want to secure the investment.

²⁴ Idem

²⁵ <https://www.fi-compass.eu/info/new-to-financial-instruments>

3. Green finance for agrifood system

“Green finance” then refers to any financial instruments whose proceeds are used for environmentally sustainable projects and initiatives, environmental products and policies under the single goal of promoting a green economic transformation toward low-carbon, sustainable and inclusive pathways. The objectives of these financing mechanisms are to reduce climate footprints while taking care of market-based economic return.

Sustainable finance is crucial for achieving the goals outlined in the European Green Deal and the EU's international commitments on climate and sustainability. The European Union emphasizes the importance of sustainable finance in channeling private investment towards building a climate-neutral, resilient, resource-efficient, and fair economy, complementing public funds. This approach is seen as vital for ensuring that investments contribute to economic resilience and a sustainable recovery from the impact of the COVID-19 pandemic. The EU has been a leader in fostering a financial system that supports sustainable growth.

Transition finance²⁶, a subset of sustainable finance, focuses on financing both existing environmentally friendly initiatives (green finance) and those transitioning to eco-friendly practices over time. It involves funding private investments aimed at reducing current greenhouse gas emissions and other environmental impacts, facilitating the shift toward a climate-neutral and sustainable economy. Transition finance supports investments in environmentally conscious production methods and efforts to minimize environmental footprints, particularly in cases where green technologies are not yet available. This financing is urgently required to achieve a 55% reduction in greenhouse gas emissions and environmental impact by 2030. Transition finance is particularly relevant for companies seeking to become sustainable gradually, allowing them to finance their journey toward a sustainable future, taking steps over time based on their unique starting points. The European Commission underscores the significance of sustainable finance, aligning with its commitment to fostering a low-carbon, resource-efficient, and sustainable economy.

Green finance includes a range of financial instruments that are used to fund sustainable development, climate action, and policies that aim to promote low-carbon, sustainable, and equitable pathways. The core objectives of green finance are:

1. to lower the perception of risk,
2. to internalize environmental externalities.

There are a variety of potential financial products for green finance for the agrifood sector: green bonds, green loans, green asset finance, green insurance etc. (see Figure 3).

²⁶ https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

Figure 3. Potential financial products for green finance to the agrifood sector

Green finance products	Important features
1. Green bonds	These bonds are created to fund projects that have positive environmental and/or climate benefits, which may include land and water use, agricultural production systems, etc.
2. Green loans for sustainable farming	These are loans that can be used to fund a range of environmentally sustainable farming with reduced GHG emissions. These loans may be structured as bilateral loans or syndicated loans (blended).
3. Sustainability-linked loans	The attractiveness of sustainability-linked loans is their linkage between pricing and a borrower's ESG performance. These loans are structured to offer a pricing discount when a borrower meets or outperforms its ESG targets.
4. Green asset finance	This type of finance is a subset of asset financing (mitigation infrastructure, etc.) that supports sustainable agricultural and forestry development.
5. Green insurance	Green insurance includes a large spectrum of insurance products which are either related to climate risk insurance (in agriculture), or a bundled package that includes credit to promote energy-efficient investments, or macrolevel insurance among regions or states that seek to pool risk against large-scale catastrophic events (such as hurricanes, earthquake, tsunami etc.).
6. Other allied financial products <ul style="list-style-type: none"> • Blue finance • Landscape finance • Livelihoods finance • Green credit cards 	These are financial products offered to consumers and businesses that either provide environmental benefits or reduce negative environmental impacts. Examples include financing for fisheries, landscapes, livelihoods, green agricultural machinery loans, energy efficient mortgages, green credit cards, and ecosavings deposits.

Source : Das, P.K. & Cungu, A. 2023. Green finance as a critical lever for delivering sustainable agrifood systems – A global landscape study. Rome, FAO, p. 62. <https://doi.org/10.4060/cc7402en>

3.1 ESG

ESG (Environmental, Social, and Governance) investing serves as a financial tool utilized by socially conscious investors to evaluate and screen potential investments based on a company's commitment to responsible business practices. The three pillars of ESG criteria provide a comprehensive framework for assessing a company's impact on the environment, its relationships with stakeholders, and the quality of its governance structures.²⁷

Environmental criteria delve into a company's efforts to safeguard the planet, encompassing policies addressing climate change, energy use, waste management, pollution control, and conservation of natural resources. This includes evaluating a company's carbon footprint, use of renewable energy sources, and

²⁷ OECD (2021), ESG Investing and Climate Transition: Market Practices, Issues and Policy Considerations, OECD Paris, <https://www.oecd.org/finance/ESG-investing-and-climatetransition-Market-practices-issues-and-policy-considerations.pdf>.



compliance with environmental regulations. Given the increasing urgency of global environmental issues, such assessments gain significance in the context of mitigating climate change and preserving ecosystems.

Social criteria focus on a company's interactions with both internal and external stakeholders. This involves evaluating how a company treats its employees, engages with suppliers, serves its customers, and contributes to the communities where it operates. Considerations encompass workplace conditions, diversity and inclusion practices, community engagement initiatives, and adherence to ethical supply chain standards. Socially responsible investing (SRI) aligns closely with this aspect of ESG, emphasizing themes such as social justice, diversity, and ethical corporate behavior.

Governance criteria pertain to the structure and practices of a company's leadership. This includes assessing the transparency and accuracy of accounting methods, the integrity and diversity of leadership, and the accountability to shareholders. Governance standards aim to ensure that companies operate ethically, avoid conflicts of interest, and uphold principles of transparency and fairness.

ESG investing has gained substantial traction in recent years, with mutual funds, brokerage firms, and robo-advisors offering investment products aligned with ESG principles. Investors are increasingly seeking to integrate their values into their portfolios, and institutional investors, such as public pension funds, are also incorporating ESG considerations into their investment strategies.

While ESG investing can contribute to positive societal and environmental impacts, it comes with certain trade-offs. Investors may not have access to the full universe of stocks available in the market, as certain industries, like tobacco and defense, are often excluded from ESG portfolios. Additionally, ESG-friendly investments may trade at a premium, potentially impacting returns. The ultimate success of ESG investing depends on whether it effectively encourages companies to adopt sustainable and responsible practices or merely leads to checkbox compliance and superficial reporting. As investors navigate the ESG landscape, various financial firms provide ESG ratings and scoring systems, offering insights into a company's compliance with ESG standards and initiatives. In conclusion, ESG investing represents a dynamic and evolving approach that seeks to align financial goals with environmental, social, and governance considerations, reflecting a broader movement toward responsible and sustainable investment practices.

Investing in ESG has the potential to revolutionise the concept of smart villages, which are self-sufficient communities that rely on technology and innovation to improve living standards, education, and healthcare. Through funding infrastructure, education, and healthcare, ESG investment can support the development of these communities, which help reduce poverty, increase resource access, and promote sustainable living.

ESG investment can drive positive changes in agro-tech innovation. By integrating technology in agriculture, we can enhance yields, reduce waste, and improve efficiency. Agro-tech has the potential to transform food production and distribution, making it more sustainable and efficient. Precision agriculture, for instance, leverages sensors and data analytics to optimise crop growth, reduce waste, and conserve water.



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