Global Donor Platform for Rural Development

# Financing Agrifood Investment at Scale

## OPPORTUNITIES AND CHALLENGES

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*The paper and its contents do not necessarily reflect the positions or views of all GDPRD members.*

# Acronyms

| | |
|---|---|
| BRIC | Brazil, Russia, India, and China* |
| DAC | Development Assistance Committee (of the OECD) |
| DFI | development finance institution |
| FAO | Food and Agriculture Organization of the United Nations |
| GDP | gross domestic product |
| GDPRD | Global Donor Platform for Rural Development |
| HIC | high-income country |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| IFI | international financial institution |
| LIC | low-income country |
| LMIC | lower middle-income country |
| MDB | multilateral development bank |
| MIC | middle-income country |
| NRA | nominal rate of assistance |
| OECD | Organisation for Economic Cooperation and Development |
| ODA | official development assistance |
| OOF | other official flows |
| SDG | Sustainable Development Goal |
| SME | small- and medium-sized enterprise |
| SOFI | State of Food Security and Nutrition in the World |
| UMIC | upper middle-income country |
| UNEP | United Nations Environment Programme |
| UNFSS | United Nations Food Systems Summit |
| WFP | World Food Programme |

** In this paper, the four BRIC countries (Brazil, Russia, India, and China) are separated out, but South Africa is not included in this group. See page 35 for more details.*

# Executive summary

This report examines the financing challenges and opportunities for agrifood systems transformation. The world spends far more coping with the negative consequences of its current agrifood systems than it would cost to fix them. The hidden costs of those systems – for health, the environment and society – are estimated at US$12 trillion a year, while the annual investment needed to transform them is in the order of US$1.2 trillion.

Official development assistance reached a historic high of US$223.3 billion in 2023 but has since fallen sharply, and the architecture that delivered it is being restructured. At the same time, geopolitical tension, accelerating climate impacts and worsening food insecurity risks are raising both the cost of acting and the cost of not acting. The central argument of this report is that the response cannot be more of the same: donors must use a shrinking pool of concessional finance to shift far larger flows of public and private capital into systems transformation and be realistic about where that leverage will and will not work.

## Key issues and financing gaps

Hunger and malnutrition are not receding, and the financing available to address them is contracting. Conflict, climate change, natural disasters and the long-term effects of the COVID-19 pandemic have raised costs and driven food insecurity higher. The State of Food Security and Nutrition in the World 2026 (SOFI)[1] report estimates that 7.8 per cent of the global population, around 645 million people, faced hunger in 2025, with 2.1 billion people moderately or severely food insecure, and about 2.7 billion unable to afford a healthy diet. Agrifood systems are responsible for nearly one third of global greenhouse gas emissions and much of global biodiversity loss.

Financing for agrifood systems transformation falls well short of the estimated needs, and its composition matters as much as its volume. Global agricultural subsidies, for example, far exceed official development assistance (ODA) for agrifood systems, yet much of that support is inefficient and misaligned with nutrition, sustainability and climate goals. Only about 4 per cent of climate finance reaches agriculture, forestry and related sectors.

The evidence on mobilising private capital is sobering: only 5 to 10 per cent of development finance institution (DFI) and multilateral development bank (MDB) investments in agriculture mobilise private finance, and DFIs often use their own concessional funds to leverage their own commercial lending, so headline leverage ratios overstate how much genuinely additional capital blended finance brings in. This is not an argument against blended finance, but for clarity about what it delivers and for concentrating it where additionality is real.

## Seven priorities for donors

1. **Better articulate and promote the security, prosperity and investment benefits of agrifood systems transformation:** The challenges facing agrifood systems and the benefits from transformation are rarely a top-tier political issue globally or domestically. To drive the policy changes and investments needed, this must change. The benefits from investing in agrifood systems transformation, and the risks of not doing so, need to be articulated in relation to the impact on wider security and prosperity issues, in ways that can create political engagement and action. The narrative

[1] The Food and Agriculture Organization of the United Nations (FAO), International Fund for Agricultural Development (IFAD), United Nations Children's Fund (UNICEF), World Food Programme (WFP) and World Health Organization (WHO). 2026. *The State of Food Security and Nutrition in the World 2026: Understanding and Addressing the High Cost of a Healthy Diet*. Rome, FAO. https://doi.org/10.4060/cd8306en.

should lead with opportunities and returns rather than gaps and needs, if it is to shift the thinking of finance ministries and private investors.

2. **Use ODA and enhanced donor coordination catalytically:** Traditional donor funding approaches – often project-specific and fragmented – are inadequate to meet the scale of transformation required. The report calls for a shift toward a catalytic approach, where ODA is leveraged to attract additional public and private investments. Effective donor coordination is vital, particularly in fragile and conflict-affected areas, where resources are limited, and needs are significant. Donors will also need a higher tolerance for risk in the settings where need is greatest, since the investments most likely to be transformative are rarely the safest.
3. **Leverage blended and innovative finance mechanisms:** Blended finance combines concessional funds (e.g. grants and concessional loans) with commercial finance to attract private capital into higher-risk projects, particularly in low-income and conflict-prone regions. Mechanisms such as green bonds, impact investing and multi-donor trust funds can help bridge financing gaps, by de-risking investments. The report highlights the need for scaled-up private sector engagement, and the role of public finance for de-risking such investments.
4. **Reform public financing and policies:** For agrifood systems transformation to succeed, governments need to reform public finance systems, increase public expenditure for agrifood systems, and repurpose agricultural support toward improved nutrition, productive infrastructure, sustainability, and climate-resilient practices. Currently, global agricultural subsidies far exceed ODA for agrifood systems in volume, but are often inefficient and misaligned with long-term sustainability goals. Donors can also help tackle the structural constraints behind the financing gap: the marginalisation of low-income countries (LICs) in the global financial system, chronic underinvestment by national governments, weak enabling environments, and the low-risk appetite of international financial institutions (IFIs).
5. **Support smallholders and small and medium-sized enterprises (SMEs) in the agrifood sector:** Small-scale producers and SMEs are central to agrifood systems in LICs and middle-income countries (MICs), yet they face significant barriers to accessing finance, due to high perceived risks and limited collateral. DFIs and MDBs are crucial in providing concessional finance, equity investments, and guarantees to bridge the funding gap for these SMEs. The report advocates for scaling up support to address the "missing middle" by ensuring greater access to affordable finance for smallholders and SMEs. This last mile is the enduring test of agrifood finance: it is where the whole ecosystem — brokers, intermediary organisations, technical assistance and de-risking capital — has to come together, and where donors are best placed to help.
6. **Increase climate finance for agriculture:** Agriculture is a major contributor to greenhouse gas emissions and is dramatically impacted by climate change; yet the sector's transformation is crucial for climate resilience. However, only a small a fraction (about 4 per cent) of climate finance currently supports agriculture, forestry and related sectors. The report calls for significantly increased climate finance directed toward agriculture and agrifood systems, with an emphasis on sustainable practices that enhance resilience to climate change.
7. **Be realistic about where commercial finance can work**. Commercial capital will not flow at scale into fragile and conflict-affected settings, or into enterprises where returns are marginal. Recognising this is not defeatism: in those contexts, tackling poverty, inequality and food insecurity requires sustained public support and effective social protection, not a search for bankable deals.

## Innovative financing models

A range of instruments now supports agrifood investment: blended finance, impact bonds, green and climate bonds, multi-donor trust funds, and ICT-enabled insurance that lowers risk for smallholders and SMEs. Many have been created in recent years and show promise, but they remain small relative to the need. The more important lesson is that instruments alone do not deliver. What matters is an integrated financing ecosystem connecting capital markets, ODA, brokers and intermediaries, technical assistance, value chain development and policy reform — underpinned by better and more harmonised data on financial flows and results, so that donors, DFIs and recipient countries can see what is actually working.

## Conclusion

Closing the financing gap for agrifood systems will not come from any single instrument or actor. It requires public money used more catalytically, agricultural support repurposed toward nutrition, sustainability and resilience, private capital mobilized where it can genuinely be mobilized and sustained public provision where it cannot. This transformation is crucial for ensuring long-term food security, improved nutrition and sustainable livelihoods for rural communities.

Donors can make a difference; however, they will need to re-orient their investments to be more coordinated with others and more supportive of leveraging private finance, in particular through risk mitigation. Further, they need to support policy reform within global financial systems, IFIs, national governments, and within their own countries, to create a better enabling environment for the integration of public and private financing for the transformation of agrifood systems.

# 1 Introduction

Financing the transformation of agrifood systems remains one of the most critical challenges the world faces. This challenge has been exacerbated over the 2025-2026 period with dramatic changes to the development financing landscape. Yet, the future of any country's national security and prosperity hinges on a sustainable and resilient food supply that delivers healthy and affordable diets for all citizens. The fragility of the current agrifood systems and their failure to deliver healthy diets, operate sustainably or ensure fair conditions for those who produce food, is still not treated as a top-tier political issue. Consequently, the scale of investment needed to future-proof agrifood systems is not being made. The global food system is extremely fragile: a cascading set of climate, disease, market or geopolitical events could, at any moment, trigger widespread food security crises. With business-as-usual practices further degrading the resource base on which food production depends, risks escalate, and the poorest remain the most vulnerable.

> ***Box 1: What do we mean by "agrifood systems"?***
>
> In this report we use the term agrifood system to refer to all aspects of food production, processing, distribution and consumption, including fisheries and related non-food agricultural production – this terminology is used interchangeably with food systems, and for the purposes of this report the two terms are taken to have the same meaning.

Bringing together work done by the Global Donor Platform for Rural Development (GDPRD) over the period 2022-2026,[2] this background paper sets out the imperative for significantly increased investment in agrifood systems transformation and explores the emerging challenges and opportunities for donors and development partners. This paper was originally prepared to underpin discussions at the GDPRD 2024 Annual General Assembly,[3] held under the theme of "*Financing Food Systems Transformation and Rural Revitalization: Opportunities and Challenges*". Since the first draft, the operating environment for development finance has shifted markedly, with multilateral initiatives evolving and levels of bilateral official development assistance (ODA) tightening, even as food, climate and rural livelihood needs intensify. Against this backdrop, this updated 2026 edition synthesizes insights from the GDPRD's recent work and the latest literature, to identify ways forward that emphasize strategic coordination, smarter use of public resources, and the catalytic power of innovation to leverage additional finance. The core message remains: **agrifood systems are central to economic stability, climate resilience, health and global security**. In a constrained financing environment, well-targeted catalytic finance – paired with policy and market reforms – offers the highest return for long-term, systemic impact.

**Providing a background perspective**. This report is intended to provide a broad background perspective on the importance, opportunities and challenges of financing agrifood systems transformation. It outlines the overall challenge, explores the basics of development finance and the sources and scale of finance for agrifood systems, looks at emerging innovative and blended financing mechanisms, and outlines ways forward. One difficulty in sourcing finance for agrifood systems is a lack of understanding about the sector

[2] In 2022, GDPRD published a white paper, Transforming Food Systems: Directions for Enhancing the Catalytic Role of Donors, highlighting the need for a more catalytic approach to ODA. Underlying the debate about finance is the importance of effective donor coordination, as articulated by the 2023 GDPRD report From Rhetoric to Reality, Donor coordination for food systems transformation. Building on the recommendations of the white paper, in 2024 the GDPRD and the Shamba Centre for Food and Climate published a report, Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2, which investigated how donors, philanthropic organizations, public funds and blended capital funds can make their funding act as an incentive for achieving SDG2. Finally, GDPRD also produced a new White Paper in 2025, entitled Financing Agrifood Systems for People, Planet and Prosperity as a contribution to the 4th Financing for Development Conference that took place in Seville, Spain, in June 2025.

[3] https://www.donorplatform.org/event/gdprd/annual-general-assembly-2024.

from the finance sector, and lack of understanding about the finance sector from agrifood specialists. In part, this report is an attempt to close this gap. As a background report this analysis is intended to complement the other work and reports of the GDPRD on the topic, and provides context for the Platform's 2026 work on analysing return on investment (ROI) in agrifood systems. This report draws on a literature review of recent reports and studies on financing for agrifood systems and rural development, a webinar series organized by the GDPRD on critical issues in agrifood systems financing, and a series of key informant interviews with experts, practitioners and development partners from across the public and private sectors. These interviews were conducted under Chatham House Rules to encourage open discussion; accordingly, individual participants and their affiliations are not identified in the report.

**Financing for development has reached a critical juncture.** Despite ODA increasing to its highest level in 2023, at US$223.3 billion, progress on major development priorities remains significantly behind expectations.[4] That historic high proved short-lived: the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) ODA fell by 6.0 per cent in 2024 and then by a further, record 23.1 per cent in 2025, to US$174.3 billion – the largest single-year decline ever recorded – with a further fall of around 5.8 per cent projected for 2026.[5] Rising conflict, natural disasters, increased migration, and the lasting impacts of the COVID-19 pandemic have stretched public budgets. The 2024 Financing for Sustainable Development Report estimates that global financing gaps have escalated from US$2.5 trillion before the pandemic to US$4 trillion. The report warns that the current "business-as-usual" approach, without significant economic, social, and technological shifts, will be insufficient to meet long-term development goals, even by 2050.[6]

*"There is a serious risk that agrifood systems, agriculture, food security, and nutrition are [being]…a bit forgotten. We need to spend money on these sectors and on these activities that will deliver on many of the Sustainable Development Goals (SDGs) now. We are dealing with a complicated story. Agrifood systems are much more complicated than energy or health systems, they are risky, and sometimes they are messy…but there is also potential here and we cannot just avoid dealing with the problem because it is complicated."* **Report interviewee**

While the financing gap continues to widen, millions of people around the world are facing debilitating poverty and inequality, with food insecurity, hunger and malnutrition rising at alarming rates. The United Nations' State of Food Security and Nutrition in the World 2026 (SOFI) report (see full citation in footnote 1) estimates that in 2025, 7.8 per cent of the world's population faced hunger, down from 8.6 per cent in 2022. Globally, an estimated 25.8 per cent of the world's population – about 2.1 billion people – were moderately or severely food insecure. Access to safe and nutritious food continues to be out of reach for millions, especially women and children in rural and conflict-affected parts of the world. The report draws urgent attention to the need for governments, donors, the private sector and other actors to accelerate and scale up financing and investments towards ending hunger, malnutrition and food insecurity.

Meanwhile, shifts in major bilateral development finance have significantly increased uncertainty. In the United States, the near-complete dismantling of the U.S. Agency for International Development (USAID) in early 2025 resulted in the termination of roughly 80 per cent of its programmes and substantial staff reductions, disrupting longstanding development and humanitarian assistance efforts. This change occurred against a backdrop of broader ODA reductions across several major donor countries. These changes have implications for food security, health and rural development programmes that have historically depended on stable bilateral support, and raise heightened importance for more catalytic, coordinated finance mechanisms.

[4] According to the United Nations Department of Economic and Social Affairs (DESA) Financing for Sustainable Development Office (FSDO) Financing for Sustainable Development Report 2024, the world is "severely off-track" to achieving the SDGs by 2030 with approximately half of the 140 SDG targets for which adequate data is available deviating from the needed path.
[5] DESA FSDO, Financing for Sustainable Development Report 2026.
[6] Ibid.

**A transformation of agrifood systems (including agricultural production, processing, transport and consumption) is essential** for advancing progress across a wide range of development priorities, especially ending hunger and improving nutrition. Over three billion people globally depend on agrifood systems, at least in part, for their livelihoods,[7] and these are mostly the poorest people in societies. Agrifood systems are also – according to the SOFI 2024 report – not delivering affordable diets for over a third of the world's population,[8] food insecurity is rising and escalating levels of overweight people and obesity risk massive future health costs for society. Furthermore, agrifood systems contribute about a third of greenhouse gas emissions[9] and agricultural production is the biggest contributor to biodiversity loss. Climate change and environmental degradation are ricocheting negatively back onto the world's ability to ensure food security and reduce poverty, resulting in increased extreme weather events, natural disasters, and declining agricultural land productivity.

**The gravity of this situation calls for a profound rethink of how limited ODA can be used more catalytically.** Conventional approaches that channel donor funding are fragmented, individual projects at the country level only have a marginal impact, and will not lead to the scale of systemic and structural change needed to transform agrifood systems and create more prosperous and resilient livelihoods for rural communities. Financing must be more significant, robust and catalytic to meet the scale of development challenges, and create a just and resilient response to climate change. It also requires a fundamental rethinking of how ODA and development finance can dovetail with public and private sector funding to support country-level transformation pathways more efficiently. Addressing fragile and conflict-affected areas is an especially urgent challenge in this context.

**A positive narrative of the return on investment in agrifood systems is required**. The challenges facing agrifood systems have been well articulated as have the costs of bringing change. However, to mobilise investment from national governments and the private sector a more positive narrative on the potential returns from investing in agrifood systems is required. Presenting the agrifood sector as a "costly problem" to ministers of finance or institutional investors is unlikely to unlock the required investments. In this light, GDPRD is current working on a how returns on investment in agrifood systems could be better articulated using a multi-dimensional framework across economic, social, environmental and resilience factors.

**Development finance and ODA are in a state significant flux**, and the changes over the 2025-2026 period have not yet been fully captured in official statistics. Consequently, this report is largely based on data prior to 2025. However, understanding the relative scales of financing for agrifood systems and the costs of transformation from this earlier data remains highly relevant today. It is clear that the financing situation will have worsened, making the key messages from this report even more important.

[7] Davis, B., Mane, E., Gurbuzer, L.Y., Caivano, G., Piedrahita, N., Schneider, K., Azhar, N., Benali, M., Chaudhary, N., Rivera, R., Ambikapathi, R. and Winters, P. 2023. *Estimating global and country-level employment in agrifood systems.* FAO Statistics Working Paper Series, No. 23-34. Rome, FAO. https://doi.org/10.4060/cc4337en.
[8] FAO, IFAD, UNICEF, WFP and WHO. 2024. The State of Food Security and Nutrition in the World 2024 – Financing to end hunger, food insecurity and malnutrition in all its forms. Rome. https://doi.org/10.4060/cd1254en.
[9] Chiriac, D., Vishnumolakala, H., Rosane, P. 2023*. Landscape of Climate Finance for Agrifood Systems*. Climate Policy Initiative.

# 2 The challenges and costs of financing agrifood systems transformation

The cost of transforming agrifood systems to achieve better health, improved livelihoods and environmental sustainability is substantial—multiple orders of magnitude beyond current spending. At the same time, the hidden health, environmental and social costs (market externalities) of how food is produced, processed and consumed equals almost the entire monetary value of the global agrifood sector.

Almost one-third of the world's population (31.9 per cent) cannot afford a healthy diet[10] and food insecurity continues to rise. At the same time, 3.83 billion people – many of whom are among the poorest in the world – depend on agrifood systems for their livelihoods.[11] These interconnected pressures highlight both the fragility of current agrifood systems and the scale of the externalities they create.

Despite these challenges, there are also substantial economic opportunities in producing and distributing healthy and environmentally sustainable food for a growing population that is increasingly wealthy. In terms of societal social and economic benefits, as well as long-term returns on investment, there is a clear investment case for transforming agrifood systems. Although the required investments may appear high in comparison to current levels of ODA, the amount is relatively modest when viewed against global economic wealth and GDP.

Transforming agrifood systems is critical for addressing major global challenges, including food security, nutrition, livelihoods, equity and environmental sustainability. Food production, processing, distribution and consumption are deeply interconnected, and pressures such as climate change, conflict, rising costs, and limited access to healthy diets continue to expose systemic weaknesses in many countries. The SOFI 2026 report highlights the fact that in absolute terms, there are still large numbers of people – some 2.1 billion – facing moderate or severe food insecurity.[12] In addition, many people facing moderate food insecurity and lacking access to healthy diets could benefit from agrifood system transformation, not just targeted interventions addressing food security and basic nutrition.

Within this broader landscape, Sustainable Development Goal 2 (SDG2) on "Zero Hunger" remains relevant for its objectives related to reducing hunger, improving nutrition, boosting agricultural productivity and strengthening resilience. However, the hunger and nutrition components captured under SDG2 represent only a subset of the much wider transformation needed. Achieving healthy, sustainable, and inclusive agrifood systems requires coordinated action that extends well beyond these targets, and is important for countries at all income levels, including middle-income countries (MICs). Opportunities for private sector engagement are substantial, although they are more constrained in fragile and conflict-affected contexts.

## 2.1 The hidden costs of agrifood systems

Today's agrifood systems are fundamental to food security, livelihoods and economic development. While advances in agricultural productivity, transport, storage and preservation have vastly expanded food production and availability, the way these systems currently operate also generates large, unpriced health, environmental and social impacts, stemming from the economic consequences of diet-related diseases, productivity losses, pollution, greenhouse gas and nitrogen emissions, land use change, and water depletion. In the SOFA 2023 report, the United Nations estimated that the hidden annual costs of agrifood systems

[10] IFAD, UNICEF, WFP and WHO. 2025. *The State of Food Security and Nutrition in the World 2025 – Addressing high food price inflation for food security and nutrition*. Rome. https://doi.org/10.4060/cd6008en.
[11] Davis, B., Mane, E., Gurbuzer, L.Y., Caivano, G., Piedrahita, N., Schneider, K., Azhar, N., Benali, M., Chaudhary, N., Rivera, R., Ambikapathi, R. and Winters, P. 2023. Estimating global and country-level employment in agrifood systems. FAO Statistics Working Paper Series, No. 23-34. Rome, FAO. https://doi.org/10.4060/cc4337en.
[12] SOFI 2026. https://doi.org/10.4060/cd8306en

amount to at least US$12.7 trillion,[13] equivalent to nearly 10 per cent of global GDP and more than the global GDP of the agrifood sector (estimated at US$10 trillion, or 12 per cent of global GDP).[14] More than 70 per cent of these hidden costs originate from unhealthy dietary patterns, particularly in high-income countries (HICs) and upper-middle-income countries (UMICs), while around 20 per cent are linked to environmental degradation.[15] In low-income countries (LICs), poverty and undernourishment constitute the most significant share of these impacts. The distribution of these costs varies across income groups: the United Nations' analysis shows that LICs face hidden costs exceeding a quarter of their GDP, compared with less than 12 per cent in MICs and under 8 per cent in HICs.[16]

According to the Food and Land Use Coalition, investing in transforming food and land use systems could unlock over US$4.5 trillion in new business opportunities annually.[17]

These figures capture the extent to which current agrifood systems generate further spending on healthcare, lost productivity and environmental remediation. They also highlight how existing agrifood systems place mounting pressure on national budgets, particularly in countries where fiscal space is already constrained.

When substantial public resources are spent on such secondary impacts, less finance remains for investments in other areas, including making agrifood systems more sustainable and resilient. Over time, reducing these underlying burdens could ease pressure on national budgets. Conversely, not doing so will exacerbate financial pressures.

These hidden costs are also likely to increase as climate-related disasters become more frequent and severe. Without greater investment in resilient agrifood systems, governments are likely to face rising expenditure on disaster response, humanitarian assistance, infrastructure recovery and social protection, further reducing fiscal space for long-term development investments.

## 2.2 The estimated costs of financing agrifood systems transformation and the financing shortfall

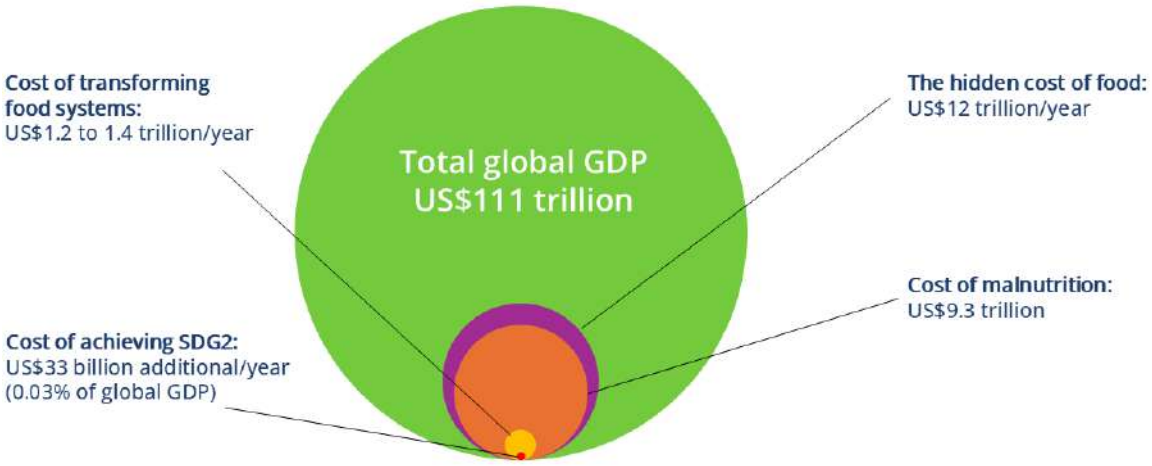
While agrifood systems are central to addressing climate change, tackling poverty and protecting biodiversity, ODA grants to the agriculture, forestry and fisheries sectors have remained flat since 2017, at 5-6 per cent of total ODA,[18] amounting to only US$14.1 billion globally in 2022. By comparison, the annual National Health Service budget in the United Kingdom was approximately US$227 billion in 2022.[19] Climate finance amounted to approximately US$1 trillion in 2022, yet less than 4 per cent of this financing is directed towards agriculture,[20] and less than 1 per cent supports small-scale agriculture.[21] Furthermore, ODA to the sector is just a fraction of global spending on agricultural subsidies – even the most generous estimates of ODA to agriculture is only 10 per cent of global subsidies, which most often do not directly support activities aligned to sustainable development.

To address these issues, it is critical for governments, donors, development partners and the private sector to be clear about the scope of the challenge. Financing to address only hunger and nutrition specifically looks very different to financing for agrifood systems transformation. One key point from the SOFI 2024 report is that

[13] FAO. 2023. *The State of Food and Agriculture 2023. Revealing the true cost of food to transform agrifood systems*. Rome. https://doi.org/10.4060/cc7724en.
[14] SOFI 2024. https://doi.org/10.4060/cd1254en.
[15] SOFI 2023. https://doi.org/10.4060/cc7724en.
[16] Ibid.
[17] Food and Land Use Coalition. 2019. Growing Better: Ten Critical Transitions to Transform Food and Land Use.
[18] OECD Data Explorer • Aid (ODA) by sector and donor [DAC5].
[19] Public Expenditure Statistical Analyses 2018 (publishing.service.gov.uk).
[20] Climate Policy Initiative. 2023. Global Landscape of Climate Finance.
[21] Climate Policy Initiative. 2023. 44% drop in climate finance to small-scale agrifood systems reveals need for action. Press Release. 22 November 2023.

shifting from a narrow focus on food security and nutrition to a broader agenda of agrifood systems transformation dramatically increases the financing required, from billions of dollars to trillions.

***Figure 1: Cost of transforming agrifood systems and hidden costs of food relative to global GDP***




*Note: This figure illustrates the approximate investments needed to transform food systems relative to the hidden costs of not taking action and was originally developed for the GDPRD's 2025 White Paper "Financing Agrifood Systems for People, Planet and Prosperity". Based on 2024 data.*

Figure 1 highlights the relative scale of costs associated with agrifood systems compared to total global GDP, estimated at about US$111 trillion.[22] The Ceres2030 Report estimates that ending hunger by 2030 would require around US$33 billion each year (with US$14 billion in ODA and US$19 billion from LICs and MICs),[23] while the cost of fully transforming agrifood systems is larger, at approximately US$1.2–1.4 trillion annually.[24]

Despite these differences, both the cost of ending hunger and the cost of transforming agrifood systems remain small in comparison to the massive hidden costs generated by current agrifood systems. The hidden cost of food amounts to roughly US$12.7 trillion per year, which includes about US$9.3 trillion in hidden costs of health, US$2.9 trillion in environmental costs, and US$0.5 trillion in social costs.[25] This figure thus illustrates that the economic burden of inaction far exceeds even the highest estimates of transformation costs. This stark contrast emphasizes that while investments in food system improvements may differ in magnitude, and that estimated costs vary, they are ultimately modest relative to the scale of the hidden costs they could help reduce, making a strong case for decisive and sustained action. Box 2 provides a complementary breakdown from an earlier analysis, illustrating how these hidden costs arise across health, environmental and social dimensions.

[22] See: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?most_recent_value_desc=true&year_high_desc=true.
[23] Laborde, D., Parent, M. and Smaller, C. 2020. Ending Hunger, Increasing Incomes, and Protecting the Climate: What Would It Cost Donors? Ceres2030. International Institute for Sustainable Development and International Food Policy Research Institute.
[24] The estimated costs of transforming agrifood systems vary substantially depending on which factors are being included and the timeframe over which the investments are being made: see SOFI 2024, chapter 4.1.; and Von Braun, J., Chichaibelu, B.B., Laborde, D., and Torero, M. 2024. "Cost of Ending Hunger – Consequences of Complacency, and Financial Needs for SDG2 Achievement. In these two papers, US$1.2-1.4 trillion per year till 2030 is taken as an indicative level of investment that would enable substantial progress towards overcoming malnutrition in all its forms while tackling the structural constraints to more sustainable and equitable agrifood systems. It is important to note that the costs are a global total and not just for low- and middle-income countries.
[25] SOFI 2023. https://doi.org/10.4060/cc7724en

How donors, governments, the private sector and development partners approach the financing challenge thus significantly impacts the solutions for addressing such gaps. Public and private sector financing for hunger and malnutrition only is more concrete and targeted, as it tends to focus on specific outcomes that are measurable in the short- to medium-term, making it easier to determine countries' progress and estimate the scale of financing required to close the gaps. On the other hand, transforming agrifood systems requires structural, normative and systemic changes in food production, distribution and consumption. Achieving this requires multistakeholder engagement and more diversified financing approaches, such as climate and blended finance, as well as public-private partnerships. Each approach requires tailored solutions and will entail different levels and modalities of funding.

At a macro level, a key challenge for financing is not only defining the issues, but ensuring that these are consistently understood by everyone involved in making investments, including governments, donors, private sector and international financial institutions (IFIs). In this context, it is essential to acknowledge that ending hunger and overcoming food insecurity is just part of the wider challenge of transforming agrifood systems.

***Box 2: The hidden cost of food***

"*Over half of the hidden costs (US$6.6 trillion) arise from the impacts of obesity, undernutrition and pollution. An additional US$3.3 trillion arise from the negative impacts of current food and land-use systems on the climate and natural capital …. The remaining US$2.1 trillion of hidden costs comprise the economic costs of food loss and waste, fertilizer leakage, and the negative impacts on rural welfare from unequal income distribution and people's inclusion within the value chain*."

FAO, United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). 2021. *A Multi-Billion-Dollar Opportunity – Repurposing Agricultural Support to Transform Food Systems*.

## 2.3 Challenges

**So why aren't development and investment goals being met? Transforming agrifood systems, and mobilising investments to do so, presents several challenges**, including:

1. **Risk**: weather, natural disasters, commodity price fluctuations, currency fluctuations and policy uncertainty all make investing in the agrifood sector inherently risky.
2. **High costs associated with serving smallholders and small and medium-sized enterprises (SMEs)**: In LICs and MICs, the agrifood sector is predominantly made up of SMEs, whose owners often have limited financial understanding. The small loans sizes needed, along with the necessity for intermediary financing and technical support institutions, generates high costs to serve these groups.
3. **Informality and lack of collateral**: Much of the agrifood sector still operates with informal market structures, and many farmers and enterprises have limited or no collateral for securing loans.
4. **Impeding domestic policy environment**: Inadequate, excessive or poorly enforced regulations combined with corruption add additional complications and disincentives for investors.
5. **Macroeconomic conditions**: Monetary policy, export regulations, exchange rate volatility, credit ratings, inflation dynamics, weak property rights, poor infrastructure and geopolitical tensions are all factors that make it difficult for countries to attract investments into the agrifood sector.
6. **Political economy factors**: Ensuring populations have enough affordable food is a highly political issue. Furthermore, addressing the needs of large numbers of rural producers and urban consumers, both of whom experience high rates of poverty in many parts of the world, means that agricultural policy is highly influenced by political pressures. This can swing policy and government investment towards short-term political goals and away from focusing on long-term sustainability and sound economic strategies.

7. **Distorting agricultural support mechanisms**: Historically, support to the agrifood sector has prioritized the production of high calorie staples, often at the expense of the environment or more nutrient dense production. This, along with creating other market inefficiencies, adds further disincentives for transforming agrifood systems.

## 2.4 Repurposing Agricultural Support

Governments worldwide provide enormous sums to the agricultural sector, reaching US$851 billion annually in 2020–2022 across the 54 countries covered by OECD analysis.[26] The majority of this support is directed toward producers rather than general services or consumer support, and is often poorly targeted, disproportionately benefiting larger and wealthier farmers, particularly where support is linked to production volumes or area under cultivation.[27] As a result, existing support systems frequently reinforce inequalities within the agricultural sector while failing to align with broader development, environmental and nutrition goals. Evidence from joint FAO, UNEP and UNDP analysis (see also box 2) shows that repurposing even a portion of agricultural support and subsidies towards sustainable, climate-smart solutions and research and development could go a long way towards increasing productivity, reducing environmental impacts and improving livelihoods.[28]

However, redirecting and repurposing agricultural subsidies is far from straightforward. In many agrarian economies, farmers represent politically influential constituencies, creating strong disincentives for governments to disrupt established support systems. Consequently, political considerations often constrain reform efforts, even where existing policies are inefficient or misaligned with broader development objectives.

The current structure of agricultural support generates significant negative outcomes across multiple dimensions. In particular, production-linked payments encourage the expansion of emission-intensive activities and the intensive use of inputs, amplifying environmental pressures while concentrating benefits among those already best positioned to scale production.[29] At the same time, the focus of market price support and budgetary payments on a narrow range of staples and protein-rich foods may have disproportionately encouraged production of calorie-dense foods relative to pulses, seeds, fruits, vegetables and other nutritious foods, with prices for fruits and vegetables rising relative to processed foods derived from cheap staples since the 1990s.[30] Repurposing this support could simultaneously reduce greenhouse gas emissions, improve equity and make healthy diets more accessible.[31]

A range of options exist for redirecting existing agricultural expenditure, though trade-offs between socioeconomic, environmental and health goals are inevitable.[32][33] Some of the most substantial rewards could come from redirecting public support towards research and development in technologies that could simultaneously strengthen resilience and boost productivity while reducing emissions, supporting rural infrastructure, and paying farmers to supply public goods such as ecosystem services or carbon

[26] OECD. 2023. Agricultural policy monitoring and evaluation 2023: adapting agriculture to climate change. Paris, OECD Publishing. https://doi.org/10.1787/b14de474-en.
[27] Damania, R., Balseca, E., de Fontaubert, C., Gill, J., Kim, K., Rentschler, J., Russ, J. and Zaveri, E. 2023. *Detox development: repurposing environmentally harmful subsidies.* Washington, DC, World Bank.
[28] FAO, UNDP and UNEP. 2021. A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems. Rome, FAO. https://doi.org/10.4060/cb6562en.
[29] Laborde, D., Mamun, A., Martin, W., Piñeiro, V. and Vos, R. 2021. Agricultural subsidies and global greenhouse gas emissions. *Nature Communications,* 12: 2601.
[30] FAO, IFAD, UNICEF, WFP and WHO. 2022. *The state of food security and nutrition in the world 2022. Repurposing food and agricultural policies to make healthy diets more affordable.* Rome, FAO. https://doi.org/10.4060/cc0639en.
[31] Gautam, M., Mamun, A., Martin, W. and Vos, R. 2022. *Repurposing agricultural policies and support: options to transform agriculture and food systems to better serve the health of people, economies, and the planet.* Washington, DC, World Bank and International Food Policy Research Institute.
[32] Ibid.
[33] Laborde, D. and Piñeiro, V. 2023. Cited in: Gautam, M., Mamun, A., Martin, W. and Vos, R. 2022. *Repurposing agricultural policies and support.* Washington, DC, World Bank and IFPRI.

sequestration.[34] Importantly, even reallocating budget transfers in a way that reduces costs for farmers and boosts productivity over the longer term can reduce farming household incomes in the short term, meaning transitional assistance and extended social safety nets may be needed to bridge this period, particularly for poorer farming households.[35]

Despite the theoretical potential of repurposing, there are substantial political economy barriers to reform, as illustrated by recent farmer protests in Europe and India.[36/37] Opposition can come from interest groups benefitting from the status quo, and momentum for reform can be stalled through lack of information, concerns about government capacity, and governance structures that impede deeper reform.[38] For LICs and LMICs, where public funds to support agriculture are severely constrained, there is even more pressure to use those funds in a way that maximises inclusivity and sustainability while minimising trade-offs,[39] and tools such as FAO's Monitoring and Analysing Food and Agricultural Policies (MAFAP) framework can help optimise budget allocations accordingly.[40] Ultimately, repurposing alone will not be sufficient, and complementary policies – such as carbon pricing, food taxation and expanded development finance flows to LICs – will also be required alongside inclusive reform processes that incorporate distributional, participative and recognitional justice.[41]

## 2.5 Addressing private sector investment challenges

Private sector financing in agrifood systems is critical to supplement limited public resources. However, at the country level, private sector investment in agrifood systems and agriculture remains challenging, especially for local investors and banks, due to the perceived risks associated with volatile markets, climate impacts and regulatory uncertainties. In addition, the limited availability of investable business models and large-scale bankable projects, alongside the perceived risks associated with early-stage business models that have long lead times and high levels of technical assistance (in particular those focused on smallholder farmers in developing countries) significantly dampens investor interest.[42]

*"Not all countries have access to the same amount of finance, and unfortunately the most vulnerable countries, the ones that have also been hurt by recent shocks like the climate and economic crisis, are also those that appear to be the riskiest. Financial actors do not like to invest in risky places. We really need to change the incentives."*
**Report interviewee**

The public sector has a role to play in creating a more supportive environment for private sector investment, particularly in more fragile and conflict affected contexts. De-risking mechanisms, clear and consistent policy frameworks, and long-term government commitment to agricultural development strategies are essential to build investor confidence. Policy predictability is especially important, as it allows private actors to make longer-term investment decisions with greater certainty.[43] Strengthening data systems and improving risk assessment tools

[34] Valin, H., Henderson, B. and Lankoski, J. 2023. *Reorienting budgetary support to agriculture for climate change mitigation: a modelling analysis.* OECD Food, Agriculture and Fisheries Papers, No. 206. Paris, OECD Publishing.
[35] Ruggeri Laderchi, C. et al. 2024. *The economics of the food system transformation.* Food System Economics Commission (FSEC), Global Policy Report.
[36] Ibid.
[37] Reuters. 2024. Why are farmers protesting in India? *Reuters,* 14 March 2024. https://www.reuters.com/world/india/why-farmers-are-protesting-new-delhi-2024-03-14/
[38] Locke, A. and Lowe, A. 2021. *Shifting finance towards sustainable land use: repurposing public support to agriculture.* London, Sustainable Development Solutions Network.
[39] Pernechele, V., Fontes, F., Baborska, R., Nkuingoua, J., Pan, X. and Tuyishime, C. 2021. *Public expenditure on food and agriculture in sub-Saharan Africa: trends, challenges and priorities.* Rome, FAO.
[40] Sánchez, M.V. and Cicowiez, M. 2022. *Repurposing agriculture's public budget to align healthy diets affordability and agricultural transformation objectives in Ethiopia.* FAO Agricultural Development Economics Working Paper 22-04. Rome, FAO.
[41] Lahn, G. and Schroeder, P. 2023. *If the SDGs are to survive, multilateral development banks must embrace reform.* London, Chatham House.
[42] Asian Development Bank. 2021. Financing Sustainable and Resilient Food Systems in Asia and the Pacific.
[43] Commercial Agriculture for Smallholders and Agribusiness. 2023. Policy Brief: Private Sector and Food Security. June.

can further support investment by reducing information asymmetries and enhancing transparency, helping to build investor confidence and attract more private sector financing.[44]

Ultimately, unlocking private sector financing will be key to addressing the broader agrifood financing gap. However, this will require coordinated efforts to align public policies with private investment incentives, alongside targeted interventions to mitigate risk and expand the pipeline of viable investment opportunities.

## 2.6 The critical role of ODA, the challenge of donor coordination and the need for better data and monitoring

Official development assistance is a critical piece of the food financing puzzle. Globally, ODA grants and loans remain one of the major sources of development finance for agriculture and food security. It is estimated that the global volume of ODA grants for agriculture and food security increased significantly from US$8.9 billion per year in 2007 to US$14 billion in 2021,[45] while total ODA and other official flows (OOF) for core investments in food security and nutrition totaled US$50 billion.[46] Investing in agrifood systems requires a long-term vision and approach that acknowledges that investments today will bear fruit over time. However, amid multiple crises, economic uncertainty, rising inflation, mounting debt and increasing demands for short-term humanitarian assistance, governments appear less willing and more risk averse to making long-term investments that could strengthen resilience to crises and shocks in a more sustainable manner. With less donor funding available, especially where it is most needed and in sectors where it can be the most transformative, donors need to be more willing to take risks and work towards mobilizing their resources more catalytically, so that they can attract domestic and private sector resources.

At the country level, the misalignment of country and donor financing mechanisms often makes delivering assistance on the ground challenging. The frequent incompatibility between the financing, budgeting and reporting cycles of different donors complicates coordination and increases transaction costs for partner governments. The lack of good data on available sources of financing – domestic public finance, international development finance and private sector finance – also challenges coordination. Effective monitoring and evaluation of new and innovative modalities of financing can help identify conditions for success, as well as failure, and provide opportunities for understanding which approaches work best and under what conditions.

These challenges are reflected across the recent literature on agrifood systems financing. Boxes 3–6 summarize the key findings of selected reports that inform the analysis in this paper, including evidence on financing gaps and allocation, coordination and transparency, the catalytic role of ODA, and opportunities to mobilize private capital.

[44] Asian Development Bank. 2021.
[45] Perera, O., Smaller, C., El Harty, K. and Lefebvre, L. 2024. *Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2*. Global Donor Platform for Rural Development and Shamba Centre for Food & Climate.
[46] SOFI 2024. https://doi.org/10.4060/cd1254en.

***Box 3: Key messages from the State of Food Security and Nutrition in the World 2024 report***

- **The world is off track to achieve SDG2**: 2.33 billion people are moderately or severely food insecure and 30 per cent of the world's population is unable to afford a healthy diet.
- There is currently **no clear picture of the level of financing for food security and nutrition** – neither that available nor that additionally needed.
- Food security and nutrition receive < 25 per cent of ODA and OOF – approximately US$76 billion per year (2017-2021) – of which only 34 per cent addresses drivers of food insecurity.
- **The financing gap to drive food system transformation is up to several trillion US dollars per year;** however, the cost of eliminating hunger is significantly lower than cost of ensuring everyone can afford a healthy diet.
- **Low-income countries are much less able to access financing flows** for tackling food insecurity and malnutrition despite high prevalence in these countries.
- For **countries with limited ability to access financing flows,** grants and concessional loans are the most suitable financing options.
- **Countries with moderate ability to access financing** can increase domestic tax revenues, linking taxation to food security and nutrition outcomes and utilise instruments such as green, social, sustainable and sustainability-linked bonds.
- The **current** food security and nutrition **financing architecture is highly fragmented** and needs a shift from a siloed approach to a more holistic perspective.
- **Transparency and harmonizing data collection are crucial** for improving coordination and targeting financing effectively.
- **Donors** and other international actors need to increase their risk tolerance and be **more involved in de-risking activities**.
- **Governments can invest in public goods**, increase food security and nutrition expenditure and consider repurposing policy support.

***Box 4: Key messages of the GDPRD White Paper "Financing Agrifood Systems for People, Planet and Prosperity"***

**Transforming agrifood systems is one of the smartest investments the world can make for prosperity, security, sustainability and resilience. Agrifood systems must become central to the global financing agenda.**

- The investment **opportunity in agrifood systems is immense** and the **cost for transformation is affordable.** About US$1.2 to US$1.4 trillion annually is estimated for transforming agrifood systems, which is a fraction compared to the current system's invisible cost of around US$12 trillion per year.
- **Responsible private investment** in agrifood systems can unlock as much as **US$4.5 trillion** annually in new business opportunities.
- Improving agrifood systems offers **substantial economic and social benefits** for governments, businesses, and communities. Conversely, a failure to invest will result in far-reaching costs, with **the poorest suffering the most.**
- ODA and OOF for agrifood systems remain **highly insufficient** and the **mobilization of private capital is increasingly essential**. However, the core challenge lies not in the funding availability, but rather in **prioritization and strategic allocation.**
- Transforming agrifood systems must be designed to r**each and benefit those who are most critical to the system's resilience and sustainability:** small-scale producers and enterprises, women, youth and Indigenous Peoples.
- Overall, **investing in agrifood systems represents the most strategic lever for sustainable development**. Impactfully transforming climate, health, biodiversity, and peace, while serving as the primary engine for inclusive economic growth and global stability.

***Box 5: Key messages of the joint GDPRD and Shamba Centre report "Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2"***

**If donors and DFIs take higher risks** with their grants and lending, **every donor dollar has the potential to mobilize four dollars in commercial finance,** unlocking more finance and domestic lending for SMEs.

- **Blended finance** is the use of concessional finance from donors and philanthropic foundations to mobilize commercial finance from DFIs and private investors to invest in projects that are too risky and lack sufficient returns for private investors.
- **Blending** public and private sources **of finance is nascent** and taking it to scale requires **widespread changes by donors, development finance institutions (DFIs) and their beneficiaries**.
- Blended finance can make the biggest contribution to SDG2 by **focusing on the financing missing middle** for SMEs of US$50,000 to US$2 million.
- **Additional public investment to achieve SDG2 is estimated at US$33-50 billion per year.** The required donors' share is about US$28 billion – double current levels of spending.
- **ODA for agriculture and food security has been static** at US$12-15 billion per year since 2010.
- Only **around 2-3 per cent of ODA (all sectors) is directed towards blended finance** and the entire blended finance market (all sectors) has a median annual financing of approximately US$14 billion, with about half (US$7.69 billion) dedicated to climate-focused deals. The proportion of transactions (not value) targeted to agriculture was about 41 per cent in 2022.
- **DFIs are governed by rules that discourage them from taking risks** to provide finance that would otherwise not be available from commercial lenders.

***Box 6: Key messages from other relevant reports on financing for food systems, agriculture and rural development***

**Financing for Sustainable Development Report 2026: Implementing the Sevilla Commitment**
**United Nations Inter-Agency Task Force on Financing for Development**

- Stresses the **enlarging finance gaps** to support the achievement of the SDGs, aligned with **global impacts pressuring multilateralism under risk.**
- Demonstrates the **financial instability in least developed countries exacerbated by low tax revenue, fall in ODA and squeeze in international investments.**
- Highlights the importance of Sevilla Platform for Action (SPA), which supports voluntary **collaboration between governments,** public resources and private businesses, to **re-boost multilateralism in a fragmented world**.

**Financing for Regenerative Agriculture 2024. The Rockefeller Foundation**

- A massive "**bankability gap**" exists — annual transition financing need is US$200-450 billion, but current funding flows are only about a tenth of that.
- The shortfall stems not from lack of capital but from **pricing failures**, **entrenched government policies**, and a **data deficit that undermine financier confidence**.
- **Concessional capital is critical** now, catalysing early deals and crowding in commercial investment via instruments like operating loans, blended finance and outcomes-based funds.

**Global Landscape of Climate Finance 2025. Climate Policy Initiative**

- Provides a **comprehensive overview of global climate flows**, highlighting **innovation from public development banks, emerging markets and developing economies and private investments, and identifies gaps.**
- Emphasises that while climate investment is increasing, it is **insufficient to avoid the worst impacts of climate change**.
- Notes that agriculture and forestry finance has the potential **to create a catalytic effect, driven by continued growth, technological advancements, and policy support.**
- Underscores the importance of **country-tailored investment roadmaps** and **transparent invest tracking process** to accomplish national climate goals and achieve a net-zero balance.

**State of Food Security and Nutrition in the World 2025 report**

- Delivers an in-depth analysis of the **current state of food security and nutrition**, highlighting a **slow recovery** that remains inadequate to offset, and explaining the cause of soaring food prices related to recent global events.
- Underscores the importance of countering food inflation through **fiscal policies focusing on macroeconomic stability** and the implementation of **effective social protection systems.**
- Emphasizes investing in data as **Market Information Systems (MIS)** to counter market instability on the verge of global crises. Such efforts contribute to **long-term resilience, requiring continuous investment and financing** to establish a sustainable agrifood system.

**Financing Food for a Better Future**. FAO 2025

- Serves as a milestone through an overview of financing in agrifood systems, outlining an engaged approach to navigating **overlapping crises and the growing demand for sustainability.**
- Illustrates necessity on **increasing finance,** marking its insufficiency in current terms to **end hunger, improve sustainability and resilience,** as well as **generating economic growth and decreasing inequality.**
- Emphasizes that financing on agricultural production and strengthening social safety nets is catalytical, however it is also **crucial to consider institutional capacity of countries, which might mitigate efforts at a large-scale finance direction**.
- Highlights the role of **innovative financial instruments** as key drivers for leveraging long-term, ambitious investments aimed at rural and remote populations.

# 3 Understanding development finance

The food and agriculture and finance sectors are two different worlds where the practical realities, concepts and language of each is not necessarily well understood by actors in the other. This itself creates difficulties for financing food and agriculture.

This section provides a brief overview of the development finance world and introduces key concepts, main funders and financial instruments.[47]

## 3.1 The basics of financing

Every business requires capital as financial resources essential for operations and growth. This capital includes cash, assets, investments and retained profit. Business capital can come from revenue, loans or equity investments in the business. Capital structure is the combination of debt (concessional and commercial) and equity (via private or public investment) as well as mezzanine finance (a combination of debt and equity) that a business uses to operate and grow.

In development finance, donors, development banks, foundations and impact investors help to lower the cost and/or risk of financing business development, as well as help to make finance more accessible. Figure 2 illustrates how donor (member) capital is combined with borrowings to finance development that reflows from this financing. The intended catalytic effect of development finance is illustrated in the following ways:

(1) Providing **grants** for certain aspects of business development, which reduces the amount that needs to be borrowed and helps create a more enabling and profitable operating environment.

(2) Providing **technical assistance,** so that businesses can have viable business plans and necessary knowledge and skills, making them more attractive and viable for investors.

(3) Providing **concessional finance** with loans at below market rates to reduce borrowing costs.

(4) Taking **equity** in an enterprise and accepting a higher risk and/or low returns.

(5) Providing **equity guarantees** for other investors who may take equity in an enterprise (i.e. covering the loss if a business fails or if it does not provide the expected return on the equity).

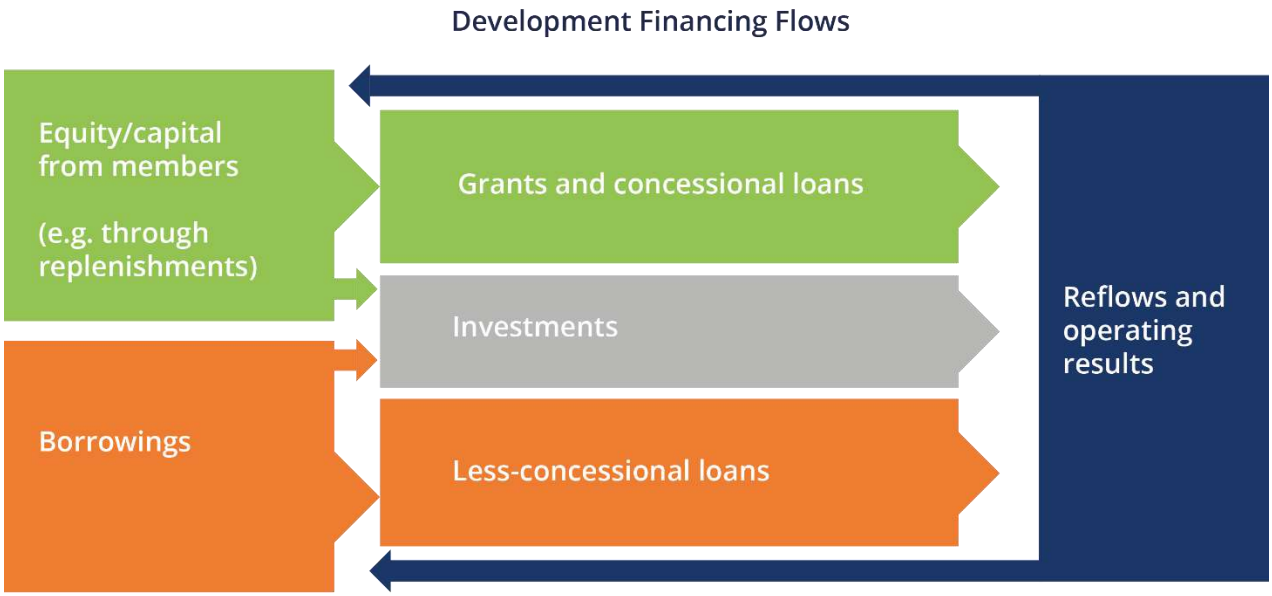
(6) Providing **debt guarantees** for other investors who make a loan to enterprise (i.e. covering investor losses if the business goes broke or if it does not provide expected return on the equity).

(7) Establishing **insurance mechanisms** to help protect a business and hence the equity and debt held by others from extreme events, such as floods or droughts.

(8) Providing **commercial finance** with loans at market rates, with interest supporting further investments.

[47] This section draws on the GDPRD Webinar Decoding the Fundamentals of Development Finance, including the presentations of Natalia Toschi (Head of Funding, IFAD) and Mita Samani (Senior Consultant, Development and Climate Finance).

***Figure 2: The structure of development finance***




There are **three fundamental issues in financing the food and agriculture sector**. The first is the cost of serving the **large number of small enterprises**. It is dramatically more expensive to administer many small loans or equity investments than single large ones, and this raises the cost of capital. Second are the **high levels of risk, particularly in agriculture, related to weather variability and market fluctuations**. Third, is the **poor enabling environment for agrifood businesses,** including poor infrastructure, lack of market transparency, corruption and ineffective or unenforced regulations.

All these factors mean that effective financing of the agrifood sector generally requires an integrated package of interventions involving government, the finance sector, field-level development organizations and larger scale agrifood enterprises. Part of such an integrated and coordinated approach is blended finance, which will be discussed below in section 4. It also means that intermediaries are often needed between the commercial financing or banking sector and individual enterprises. These include micro-financing institutions, cooperatives, value chain development initiatives and supporting NGO or community organizations, who can offer business services.

***Figure 3: Capital structure of development finance***



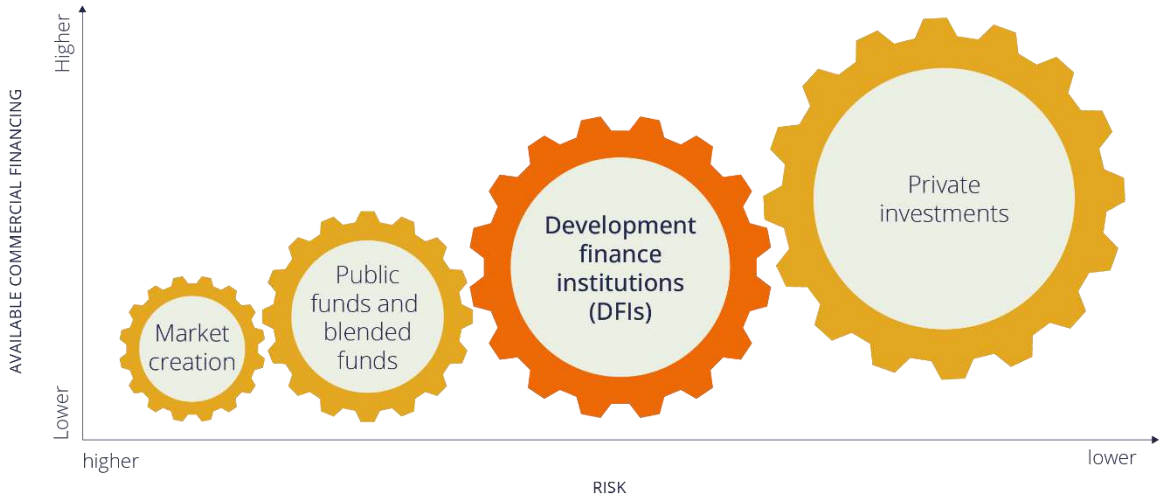

Development finance is based on the idea that by making finance more accessible and less risky, there will be wider **public benefits** related to poverty reduction, economic development, enhanced food security and nutrition and environmental sustainability. This justifies public sector contributions to development finance, which can be seen as a response to **market failures** related to social and environmental outcomes.

The principle of **additionality** in development finance refers to the idea that financing from development institutions (i.e. MDBs, DFIs and other aid agencies) should lead to change beyond what would otherwise happen without their involvement. This principle ensures that development finance does not merely substitute for private sector funding but instead provides additional impact, resources or outcomes that would not be achievable through private capital alone.

***Figure 4: Additionality and the catalysing of private investment***

***HOW DEVELOPMENT FINANCE INSTITUTIONS VIEW THEIR ADDITIONALITY***

*DFIs view themselves as anchor investors: providing cofinancing along with private investors and supporters of blended funds and public funds in market creation.*




*Source:* Adapted from FMO Entrepreneurial Development Bank (2022), as reproduced in GDPRD and the Shamba Centre (2024).

## 3.2 Development finance institutions

Development finance institutions are not-for-profit entities with a mission-driven purpose of fostering social and economic progress in LICs and MICs. They are established and backed by one or more sovereign state. Multilateral development banks, also called international financial institutions, are formed by multiple sovereign states and operate under international law. National development finance institutions are created by a single sovereign state and operate under the law of that country. Some DFIs are banks and borrow from capital markets to lend and make a margin to cover costs. Others have regular replenishments from their sovereign members enabling them to deliver grants and offer loans at concessional rates. The terms IFIs and DFIs are often used interchangeably, and not very precisely. "Vertical" funds are a development funding mechanism that is multilateral (in terms of funders) and focused on a specific issue or sector rather than distributing funds across a range of development issues. Examples of all types of IFIs are included in Table 1.

***Figure 5: An overview of development finance institutions.***

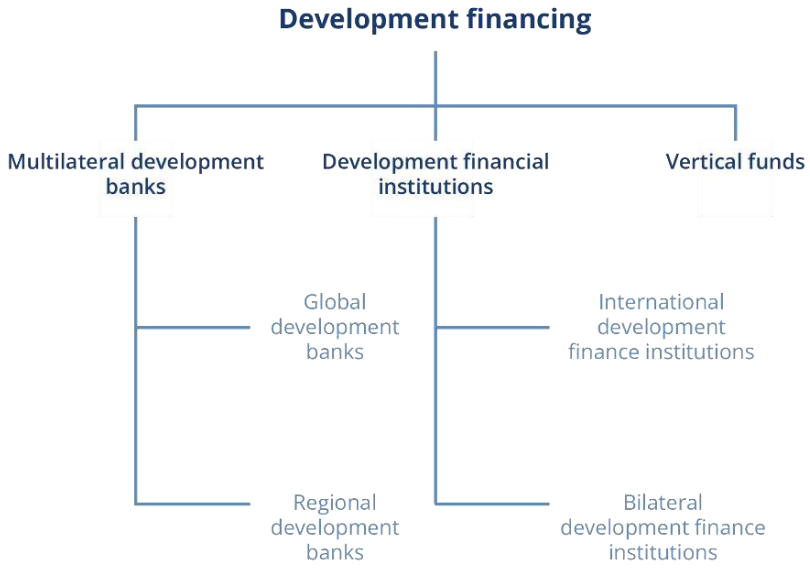



***Table 1: Main development finance institutions***

| Multilateral development banks | International development finance institutions | Bilateral development finance institutions | Vertical funds |
|---|---|---|---|
| International Bank for Reconstruction and Development (World Bank Group) | International Development Association (World Bank Group) (IDA) | KfW (Germany) | Global Environment Facility (GEF) |
| International Finance Corporation (IFC) (World Bank Group) | African Development Fund (AfDF) | Brazilian Development Bank (BNDES) | Global Agriculture and Food Security Program (GAFSP) |
| Asian Development Bank (ADB) | Asian Development Fund (AsDF) | Development Bank of South Africa (DBSA) | Green Climate Fund (GCF) |
| African Development Bank (AfDB) | International Fund for Agricultural Development (IFAD) | Small Industries Development Bank of India (SIDBI) | Adaptation Fund |
| Inter-American Development Bank (IDB) | OPEC Fund for International Development | Industrial Development Bank of India (IDBI) | Climate Investment Funds (CIF) |
| European Bank for Reconstruction and Development (EBRD) | | FMO | Global Fund to Fight AIDS, Tuberculosis, and Malaria |

## 3.3 Development finance instruments and mechanisms

There are multiple financing instruments that donors and development finance institutions can use to raise capital, support development initiatives, and catalyse greater private sector investment. Often these are used in combinations as explained in Section 5. Table 2 describes the main instruments used in development finance.

***Table 2: List of main financing instruments and mechanisms***

| Instrument | Description |
|---|---|
| **Grants** | Cash contributions for development projects, often targeted to create favourable conditions for enterprises, enabling them to become commercially viable or improve access to loans. |
| **Non-concessional loans** | Loans provided at market rates, typically to projects or countries with lower risk. These loans must be repaid with interest and are generally offered by development finance institutions or commercial banks. |
| **Concessional loans** | Loans offered at below-market rates, with longer repayment periods and lower interest rates to support projects with significant social or environmental impact, often in lower-income countries. |
| **Equity** | Direct investment in an enterprise, providing ownership stake rather than debt. This approach allows for potential return on investment and can help catalyse private-sector investment in development projects. |
| **Bonds** | Debt securities issued by governments or institutions to raise funds for development projects. These can include green bonds, social bonds and impact bonds aimed at financing specific development outcomes. |
| **Guarantees** | Financial promises to cover loan defaults, mitigating risks for lenders and encouraging investment in high-risk areas or projects by protecting against potential losses. |
| **First loss capital** | Investment or funding that absorbs initial losses in a project, reducing risk for other investors and attracting additional capital by providing a safety buffer to de-risk investments. |
| **Insurance** | Financial products that protect against specific risks, such as natural disasters or political instability, allowing development projects to proceed by mitigating potential losses. |
| **Results-based finance** | Funding that is disbursed based on the achievement of predefined results or outcomes, incentivizing efficiency and effectiveness in project implementation. |
| **Blended finance** | Combining concessional funds (grants or concessional loans) with private investment to increase resources for development projects, typically by de-risking and making investments more attractive to private investors. |
| **Trust funds** | Pooled funds managed by institutions or governments to finance targeted development projects, often focused on specific sectors or regions. |
| **Micro-finance institutions** | Organizations that provide small loans and financial services to low-income individuals or small enterprises, supporting financial inclusion and economic development at the grassroots level. |

# 4 The Sources and Scale of Financing for Agrifood Systems

To understand how additional financing for agrifood systems transformation could be catalysed, and the leveraging potential of blended financing mechanisms, it is necessary to understand the current sources of financing. This section considers development finance, national government finance and private finance. For the latter, a distinction needs to be made between investments from capital markets, large agrifood sector firms and smaller-scale farming and agrifood sector enterprises.

Significant challenges remain in assessing financing for agrifood systems. First, there is no universally agreed understanding of what constitutes a "food system" or what outcomes should be included within agrifood systems financing. Depending on the framing, agrifood systems outcomes may encompass food insecurity and associated social protection in low-income countries, emergency food aid in fragile contexts, addressing malnutrition linked to both under and overconsumption of balanced diets, supporting adaptation to climate hazards and risks, and growing the commercial agrifood sector to strengthen food supply and economic development.

As a result of this lack of definitional clarity, financing and accounting frameworks struggle to capture agrifood systems as a coherent category. National and global accounting systems do not treat agrifood systems as a distinct sector or entity; instead, reporting is often fragmented across agriculture, food and beverage sectors, and broader manufacturing categories that include food processing. Similarly, OECD Development Assistance Committee (DAC) categories for ODA financing are difficult to map directly onto agrifood systems as an overarching category, as they are also reported across separate purpose codes.

As emphasized in the SOFI 2024 report, what is included in the definition of "financing for food systems" significantly influences estimates of the resources currently available. In one set of estimates, the average annual total of ODA for food security and nutrition varied almost 10-fold, from US$6.9 billion to US$62 billion, depending on the definition of agrifood systems investments.[48] To address the challenge of characterizing both current flows and estimated future needs, methodologies like the one piloted in the SOFI 2024 report as well as the Financial Flows to Food Systems (3FS) tool (see box 7 below) provide a more explicit and systematic structure to defining what counts as funding for agrifood systems.

This section therefore looks across differing definitions and information sources to provide as much clarity as currently possible regarding the overall financing ecosystem for agrifood systems, globally and specifically for LICs and MICs. Table 3 summarizes available estimates of development finance and private finance flows to agrifood systems. The estimates highlight that investments by producers and SMEs themselves, as well as domestic public support from LIC and MIC governments, substantially exceed international development finance flows.

***Box 7: The Tracking Financial Flows to Food Systems (3FS) Tool***

Established by IFAD and the World Bank, this tool is designed to track the public sector, ODA and private sector flows to food systems. It integrates five areas of investment – agricultural development and value chains, infrastructure for food systems, nutrition and health, social assistance, and climate and natural resources. The tool is being piloted in three countries: Kenya, Niger and Peru. The tool aims to create the data needed for game changing policies for food systems financing.

Find out more about 3FS here.

***Table 3. Estimates of annual financing for agrifood systems in LICs and MICs by source and type of finance***

<table>
<tr><th>Instrument</th><th>Official development assistance and other official flows</th><th>DFIs</th><th>Private finance</th><th>LIC and MIC national governments</th><th>Climate finance</th></tr>
<tr><td>Grants</td><td rowspan="2">US$50 billion in 2021[a]<br>With narrower definition, US$23 billion in 2021 and US$25.5 billion in 2024</td><td></td><td>US$4 billion[a] (philanthropy)</td><td>US$276 billion (subsidies estimated in 2030)[b]</td><td>US$10.83 billion[d]</td></tr>
<tr><td>Concessional loans</td><td rowspan="2">US$29 billion[c] (regional development banks)</td><td></td><td></td><td rowspan="2">US$12.5 billion[d]</td></tr>
<tr><td>Commercial loans</td><td></td><td>US$19 billion[a] (foreign direct investment)</td><td></td></tr>
</table>

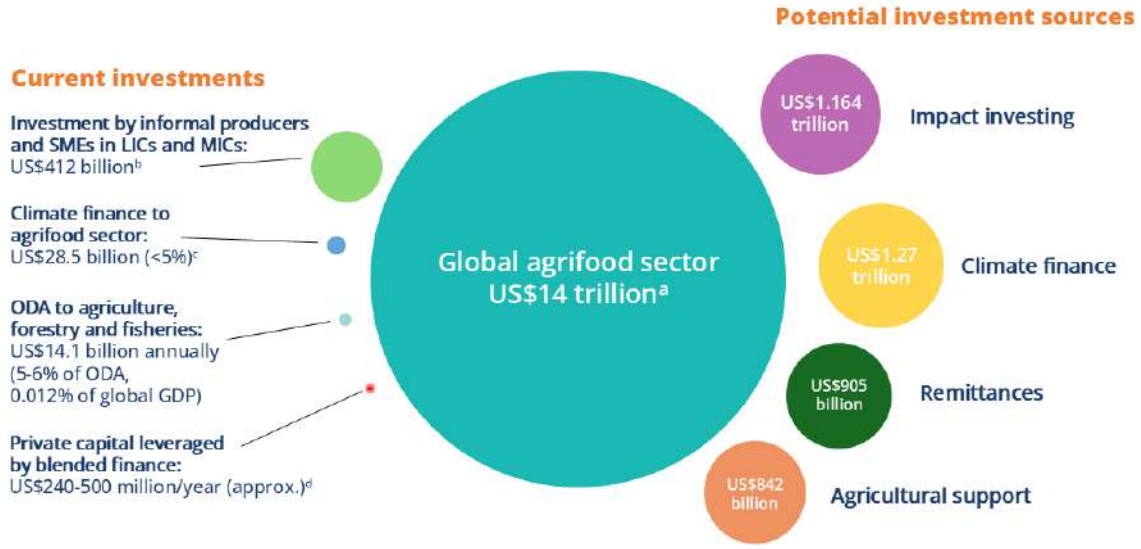
[48] The methodology piloted in the SOFI 2024 report (see here) expands the set of DAC codes that count, and utilizes an extensive list of keywords to try to expand the definition and add precision the geography and purpose of financing flows for food security and nutrition.

| Instrument | Official development assistance and other official flows | DFIs | Private finance | LIC and MIC national governments | Climate finance |
|---|---|---|---|---|---|
| | | | US$2 billion[a] (domestic banks) US$630 million in private equity[e] | | |
| **Blended finance** | US$1.2 billion[a] (concessional) US$1.9 billion in 2024 | US$523 million[c] | | | US$8 billion[c] US$4.6 billion in 2024 |
| **Remittances** | | | US$371 billion[a] ($341 billion for food consumption, US$30 billion invested in agrifood systems) | | |
| **Individual farmer/SME investment** | | | US$412 billion[a] | | |

[a] SOFI 2024.
[b] FAO, UNDP and UNEP. 2021. "A Multi-Billion-Dollar Opportunity – Repurposing Agricultural Support to Transform Food Systems." FAO, UNDP, and UNEP. https://doi.org/10.4060/cb6562en.
[c] Perera, O., Smaller, C., El Harty, K. and Lefebvre, L. 2024. *Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2: Technical note.* GDPRD and Shamba Centre for Food & Climate.
[d] Chiriac, Daniela, Harsha Vishnumolukala, and Paul Rosane. 2023. "Landscape of Climate Finance for Agrifood Systems." Climate Policy Institute.
[e] Planet Tracker. 2023. "Financial Markets Roadmap for Transforming the Global Food System." Planet Tracker.

Figure 6 places current investment in agrifood systems in the context of the wider financing landscape. While ODA and DFIs play an important catalytic role, they represent only a small fraction of the overall agrifood economy and the financial resources that could potentially be mobilized. The comparison highlights why transforming agrifood systems cannot rely on aid alone, but requires stronger alignment between public expenditure, private investment, climate finance and other financing sources. Rather than focusing solely on increasing ODA, the challenge is to use limited concessional resources strategically to leverage much larger flows of finance.

***Figure 6: Indicative scale of current and potential financing sources for agrifood systems***




[a] Planet Tracker, "Valuing the global food system", 21 February 2023.
[b] See SOFI 2024, chapter 4.1. https://doi.org/10.4060/cd1254en.
[c] Chiriac, D., Vishnumolakala, H. & Rosane, P. (2023). Landscape of Climate Finance for Agrifood Systems. Climate Policy Initiative.
[d] IFC, 2021. Using Blended Concessional Finance to Invest in Challenging Markets: Economic Considerations, Transparency, Governance, and Lessons of Experience. World Bank. Accurate data on this figure is difficult to ascertain; this is a rough estimate based on IFC (2021) data. However, relative to other investments and sources of capital, it currently remains small.
*Note: This figure was originally developed for the GDPRD's 2025 White Paper "Financing Agrifood Systems for People, Planet and Prosperity".*

## 4.1 Funding from: official development assistance and other official flows

The scale of agrifood systems-related official development assistance and other official flows varies significantly depending on how agrifood systems investments are defined. The SOFI 2024 report estimated that investments in core food security and nutrition activities accounted for approximately 14–16 per cent of total ODA and OOF between 2017 and 2021. When "extended" activities linked to the drivers of food security and nutrition are included, this rises to 22–25 per cent of total ODA and OOF over the same period. Estimates suggest that agrifood systems-related ODA is distributed relatively evenly between multilateral development institutions and bilateral financing, which is further split between grants (58 per cent) and concessional loans (42 per cent).[49]

Figure 7 illustrates the composition of ODA and OOF investments in food security and nutrition in 2021, directed toward both core (main determinants of food security and nutrition) and extended (major drivers and structural underlying factors) agrifood systems activities.[50] Investments in food security and food aid accounted for nearly half (45 per cent) of total flows. Even when applying an extended definition of agrifood systems investments linked to SDG 2 and its associated drivers (including agricultural productivity, rural livelihoods, resilience and support to small-scale producers) more than one-quarter (28 per cent) of financing was directed

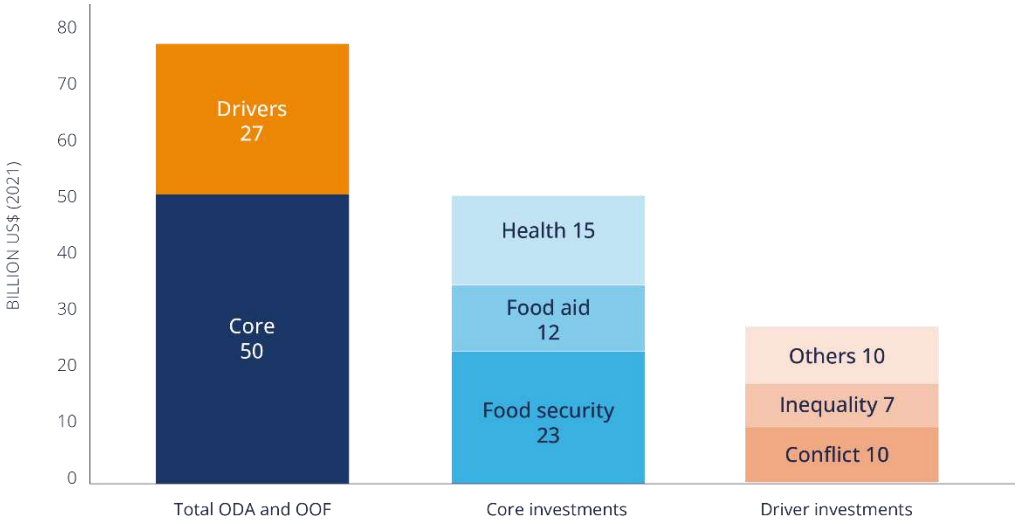
[49] Laborde, D., Parent, M. and Smaller, C. 2020. Ending Hunger, Increasing Incomes, and Protecting the Climate: What Would It Cost Donors? Ceres2030. International Institute for Sustainable Development and International Food Policy Research Institute.
[50] Full definition of core and extended found in Figure 15 of the State of Food Security and Nutrition in the World 2024 report.

toward highly vulnerable settings, including conflict response and food aid, while a similarly large share focused more broadly on food security interventions.

Although SDG 2-related investments include important objectives, the composition of current flows demonstrates the continued predominance of immediate food security and humanitarian priorities within ODA financing for agrifood systems. With steady and even increasing numbers of people globally experiencing moderate or severe hunger, and increasing conflict and climate hazards,[51] meeting immediate needs related to hunger and malnutrition will likely continue to be a key proportion of ODA for the sector without substantial increases in overall flows and improved coordination to allow for more diversification in investments.

***Figure 7. ODA and OOF investments in food security and nutrition in 2021 (SOFI 2024 report estimates)***

In billions of United States dollars




Since early 2025, there has been significant turmoil in ODA, including the closure of USAID, which was formerly the largest donor of ODA. The Financing for Sustainable Development Report 2026 reported the largest annual drop in the history of ODA, marking a 23.1 per cent decline in real terms from 2024 to 2025; cuts by the five biggest ODA providers (Germany, the United States, the United Kingdom, Japan and France) accounted for 95.7 per cent of this decline.[52] While these reductions have already had strong immediate impacts, the full implications of this situation are not yet visible.

Even prior to the historic drop in ODA in 2025, the overall trend in recent years still points to a weakening of relative prioritization of agrifood systems investments. Using a narrower definition of food security than that applied in SOFI 2024 (focused on agriculture, forestry, fisheries, nutrition and food aid activities), overall ODA and OOF increased by 20 per cent, while ODA and OOF for agrifood systems increased by only 10 per cent, reducing their share of total ODA and OOF from 7 per cent to 6 per cent. Philanthropic investments in agrifood systems also declined by 22 per cent, from US$1 billion to US$800 million; however, because overall philanthropic investments fell even more sharply (34 per cent), agrifood systems still appear to have remained a relative priority area.[53] At the same time, the share of cross-cutting blended finance transactions directed to agriculture declined sharply, falling from 63 per cent in 2019–2021 to 32 per cent in 2022–2024.[54]

Taken together, these trends suggest that while agrifood systems continue to represent a significant component of development finance, increasing pressure on ODA budgets, combined with growing humanitarian demands and declining relative prioritization of agriculture-focused investments, risks further

[51] GDPRD. 2021. *Donor Contributions to Food Systems*. Global Donor Platform for Rural Development.
[52] https://financing.desa.un.org/sites/default/files/2026-04/FSDR2026_ODA%20data%20update.pdf.
[53] All data above from OECD-DAC CRS database. Sourced – but reflects 2024 spending normalised to 2023.
[54] See here.

constraining the financing available for longer-term agrifood systems transformation. Without substantial increases in overall financing volumes, alongside improved coordination and diversification of financing instruments, immediate response needs related to hunger, conflict and climate shocks are likely to continue dominating agrifood systems-related ODA and OOF flows.

## 4.2 Funding from development finance institutions

Development finance institutions, including multilateral development banks and regional development banks, play a central role in financing agrifood systems through concessional and commercial lending, climate finance, guarantees and blended finance mechanisms. However, estimating the total scale of DFI financing for agrifood systems remains challenging because flows are reported across multiple instruments and financing channels. Some ODA contributions to MDB-managed projects are already captured within broader ODA and OOF estimates, while general replenishment contributions to development banks are reported separately and later allocated across sectors, including agriculture and agrifood systems. In addition, MDBs provide a substantial proportion of global climate finance, and investments related to agriculture and land use can simultaneously be categorized as agrifood systems financing and climate adaptation or mitigation finance.

Despite these limitations, available estimates demonstrate the significant role played by IFIs in agrifood systems financing. In 2021, MDBs provided approximately US$29 billion in financing for agrifood systems through regional development banks.[55]

Alongside MDB financing, several vertical funds, primarily focused on climate and environmental objectives, also support agrifood systems-related investments. Table 4 summarizes the scale of commitments from selected vertical funds and, where possible, the proportion directed toward agrifood systems-related activities. Together, these major vertical funds have pledged roughly US$32 billion in total financing commitments, although only a proportion of these resources is directly allocated to agriculture, agrifood systems, or rural development activities. These include mechanisms such as the GEF, GCF, the Adaptation Fund, CIF and GAFSP (see table 4 below for more information).

These financing mechanisms demonstrate the growing importance of DFIs and climate-oriented vertical funds within the broader agrifood systems financing landscape. However, financing remains fragmented across institutions, instruments and objectives, with a large share concentrated in climate-related or infrastructure-focused investments rather than broader agrifood systems transformation.

[55] Perera, O., Smaller, C., El Harty, K. and Lefebvre, L. 2024. *Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2: Technical note*. Global Donor Platform for Rural Development and Shamba Centre for Food & Climate.

***Table 4. Total commitments and commitments for agrifood systems in vertical funds***

| Fund | Total committed |
|---|---|
| Global Environment Facility | US$5 billion |
| Global Agriculture and Food Security Program | US$681 million |
| Green Climate Fund | US$12.8 billion (US$2 billion for health, food, and water) |
| Adaptation Fund | US$1.25 billion (13 projects for agriculture, food security and rural development) |
| Climate Investment Funds | US$12 billion |

## 4.3 National government budgets

National governments support agrifood systems through a combination of price incentives, fiscal subsidies and public investment programmes, as well as through national development banks and domestic financial institutions. Globally, government support to agricultural producers has averaged around 15 per cent of total agricultural production value.[56] However, the scale, composition and objectives of the support varies widely across countries and regions. In many low-income countries, public support to agrifood systems is primarily focused on lowering food costs for consumers, which can have a negative impact on producer livelihoods and the environment. This impact on producers is measured by an index called the nominal rate of assistance (NRA), an indicator measuring the extent to which public policies support or tax agricultural producers relative to world prices. Between 2005 and 2018, the NRA was negative in LICs in all but two years, indicating that, overall, public policies tended to reduce rather than increase producer returns.[57] By contrast, MICs maintained a slightly positive NRA, averaging just below 10 per cent in the same period. Figure 8 shows the total value and composition of public support for agrifood systems globally, across HICs, "BRIC" countries – that is, Brazil, Russia, India and China[58] – and all other LICs and MICs. Estimates from FAO suggest that, in a business-as-usual scenario, LICs and MICs would spend about US$276 billion annually on agricultural subsidies by 2030. However, the impacts of this support on agrifood systems transformation depend heavily on how these resources are allocated. Even when adjusted for projected population growth,[59] BRIC countries are estimated to spend roughly US$73 per capita on agricultural support by 2030, compared to US$10 per capita in all other non-BRIC LICs and MICs.

This difference illustrates the wide disparities in fiscal capacity across developing countries. While larger MICs may be able to provide substantial support to agricultural producers, many LICs operate with significantly more constrained public budgets, limiting their ability to invest in the sector at similar levels. Although agricultural support and public expenditure are not directly equivalent measures, the relatively low levels of per capita support observed in many non-BRIC LICs and MICs are indicative of broader fiscal constraints affecting public investment in agriculture and rural development.

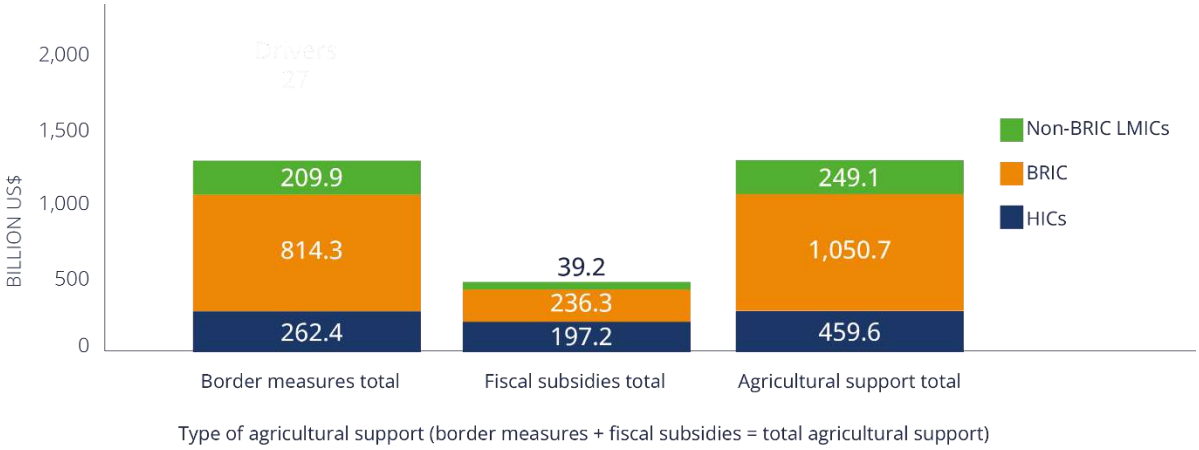
These disparities highlight the constraints that many lower income countries face in adequately supporting their agricultural sectors, including commitments such as the Comprehensive Africa Agriculture Development Programme (CAADP) target of allocating 10 per cent of public expenditure to agriculture and rural development. In addition, CAADP emphasizes the importance of using targeted public investment to mobilize

[56] FAO, UNDP, and UNEP. (2021). *A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems*.
[57] Ibid.
[58] In the referenced report, the four BRIC countries are separated out, but South Africa is not included in this group.
[59] UNESA. 2024. World Population Prospect. Population Division, United Nations Economic and Social Affairs. https://population.un.org/wpp/Graphs/Probabilistic/POP/TOT/643

private finance, an objective that remains particularly difficult in high-risk and vulnerable contexts where commercial investment incentives remain weak.

***Figure 8. Projected agricultural support in 2030 under the business-as-usual scenario****

*In billions of United States dollars*




* UNESA. 2024. World Population Prospect. Population Division, United Nations Economic and Social Affairs. https://population.un.org/wpp/Graphs/Probabilistic/POP/TOT/643.

As noted throughout this report, agrifood systems in most LICs and MICs are primarily comprised of small producers and SMEs, and more investment in local agrifood systems (via both public support and private loans) could support local food security.[60] Although it is difficult to quantify the exact proportion of their budgets allocated to agriculture, the combination of data on NRA and per capita spending on agricultural support suggests that investments in agriculture in most LICs and MICs are not currently prioritizing areas that would strengthen local agrifood systems, food security and producer livelihoods.

Estimating domestic flows to agriculture and broader agrifood systems can be challenging within individual countries, as well as when comparing or aggregating across countries. To address this challenge, IFAD and the World Bank developed the "3FS" Tool, through a working group initiated during the 2021 United Nations Food Systems Summit (UNFSS).

## 4.4 Private sector investment in the agrifood sector

Globally, private finance accounts for nearly two-thirds (63 per cent) of the total asset value of the agrifood sector, representing approximately US$9 trillion of an estimated total sector value of US$14 trillion,[61] much of which consists of equity and retained earnings. In addition, an estimated US$630 billion in private capital is potentially available for agrifood systems investment each year.[62] However, most of this capital is concentrated in large agrifood companies located in HICs and UMICs. In addition to formal private capital flows, informal investments by producers and SMEs in the agrifood sector in LICs and MICs are estimated at approximately US$412 billion per year.[63]

Given the scale of available resources, private finance is widely viewed as essential for agrifood systems transformation, particularly as public development finance alone is insufficient to meet estimated investment

[60] Perera, O., Smaller, C., El Harty, K. and Lefebvre, L. 2024. *Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2*. Global Donor Platform for Rural Development and Shamba Centre for Food & Climate.
[61] Planet Tracker. 2023. "Financial Markets Roadmap for Transforming the Global Food System." Planet Tracker.
[62] Ibid.
[63] SOFI 2024. https://doi.org/10.4060/cd1254en.

needs. However, unlike public development finance, private capital is primarily driven by risk-adjusted financial returns, creating major barriers for investment in many agrifood systems activities in LICs and MICs, where returns are often uncertain, fragmented across actors, and exposed to significant climate and market risks.

Recent analysis by the World Economic Forum and Bain & Company[64] identifies four major constraints limiting the flow of commercial capital into agrifood systems transformation. First, uncertainty regarding financial returns continues to discourage long-term investment. Second, food production remains highly fragmented, with approximately 600 million smallholder farmers producing around one-third of the world's food, often requiring technical assistance and other support mechanisms to become investable. Third, inconsistent and inefficient impact measurement frameworks make it difficult for investors to assess outcomes and compare opportunities. Fourth, weak coordination across value chains limits the ability to scale investment efficiently across production, processing, logistics and distribution systems.

These constraints are particularly significant in LICs and MICs, where financing gaps for producers and agrifood SMEs remain substantial despite the importance of these actors within local agrifood systems. As a result, innovative approaches to de-risk investment, strengthen local financial ecosystems, and improve the bankability of agrifood systems activities are increasingly seen as necessary to mobilize private capital at scale for agrifood systems transformation and climate resilience.

## 4.5 Blended finance

Blended finance is widely regarded as a key mechanism for de-risking commercial lending and mobilizing private capital, especially in vulnerable, fragile, or otherwise high-risk countries and parts of the agrifood system.[65] It combines concessional finance from ODA or DFIs with commercial capital from private investors and financial institutions in order to reduce investment risk and improve the attractiveness of investments. Total amounts of blended finance are difficult to estimate, because concessional capital is often already counted in ODA flows, and commercial investments mobilized through blended structures are not consistently tracked across institutions and sectors.

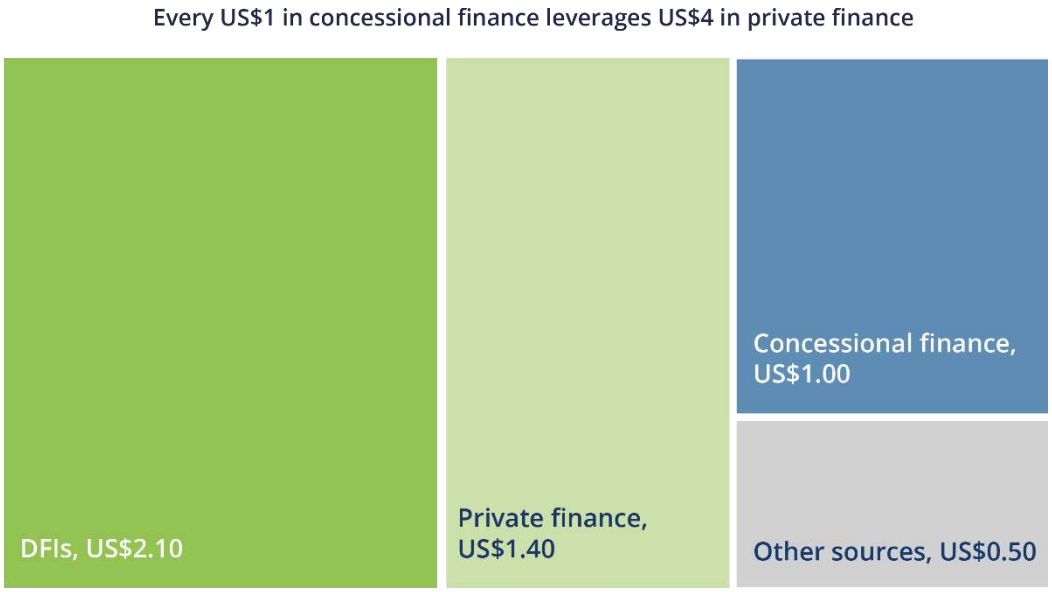
Existing estimates suggest that concessional finance used within blended finance transactions remains relatively limited compared to overall agricultural ODA flows. One estimate found that only around 2 per cent of annual ODA for agriculture is currently used as concessional financing within blended finance structures.[66] Despite its relatively limited use, blended finance continues to attract significant attention because of its potential to mobilize additional commercial capital beyond the initial concessional investment.

Figure 9 illustrates the potential leverage effect of concessional finance, showing that it can mobilize several times its value in additional commercial capital within blended finance structures. However, mobilization rates in agriculture remain significantly lower than in other sectors. Current estimates show that only 5-10 per cent of investments by DFIs and MDBs in agriculture mobilize private finance,[67] highlighting the difficulty of crowding commercial capital into higher-risk agrifood investments. Furthermore, analysis by the GDPRD and Shamba Centre for Food & Climate[68] highlights that DFIs use their own concessional funds to leverage their own commercial financing, noting that blended finance that uses concessional loans from DFIs is not necessarily crowding in new investors, nor expanding the overall pool of capital. Thus, leverage ratios alone

[64] "Putting Food on the Balance Sheet: Financing Strategies to Scale Investment in Food Systems" — WEF & Bain & Company (2025) - https://reports.weforum.org/docs/WEF_Putting_Food_on_the_Balance_Sheet_2025.pdf.
[65] IFC, 2021. *Using Blended Concessional Finance to Invest in Challenging Markets: Economic Considerations, Transparency, Governance, and Lessons of Experience*. World Bank.
[66] Perera, O., Smaller, C., El Harty, K. and Lefebvre, L. 2024. *Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2: Technical note*. Global Donor Platform for Rural Development and Shamba Centre for Food & Climate.
[67] IFC, 2021. *Using Blended Concessional Finance to Invest in Challenging Markets: Economic Considerations, Transparency, Governance, and Lessons of Experience*. World Bank.
[68] See footnote 71.

may overstate the extent to which blended finance mobilizes truly additional private capital that would otherwise not have been invested.

***Figure 9. Potential leverage created by concessional finance***




As discussed in previous sections, much of the investment available to agrifood systems globally remains concentrated in lower-risk and higher-return investments. Consequently, agrifood SMEs and small-scale producers in LICs and MICs continue to face major barriers in accessing finance. Several reports identify a substantial financing gap for SMEs requiring between US$50,000 to US$5,000,000 in financing (otherwise known as "the missing middle"), because commercial lenders frequently perceive these investments a high risk, with some studies estimating average losses of around 10 per cent on these loans.[69] As such, flexible, patient capital remains essential to support investments in these segments. Re-orienting even a small proportion of private finance toward higher-risk investment opportunities, using both concessional financing and other innovative finance approaches (see

[69] IFC, 2021. *Using Blended Concessional Finance to Invest in Challenging Markets: Economic Considerations, Transparency, Governance, and Lessons of Experience*. World Bank.

***Table 2*** above and Section 5 below), could significantly expand overall access to capital for food system actors in LICs and MICs

Alongside traditional DFI-led blended finance structures, several innovative blended finance vehicles have emerged to support sustainable agriculture, land use and agrifood systems transformation. Examples include:

- **Land Degradation Neutrality (LDN) Fund,**[70] which closed in 2021 with **US$208 million** in commitments to finance sustainable land management, agroforestry and regenerative agriculture investments.
- **The AGRI3 Fund**, which mobilizes **US$145 million in concessional financing** with the objective of leveraging up to **US$900 million** in commercial investment for climate-smart agriculture and sustainable supply chains.
- **Aceli Africa,** which works to mobilise private capital for agri-SMEs, reaching US$440 million with a ten-fold leverage.
- **AgDevCo,** which manages **around US$90 million in concessional capital** alongside a broader portfolio of leveraged investments worth roughly **US$280 million**, supporting agribusiness development across Africa.
- **The Food Securities Fund,** which aims to raise just over **US$50 million in concessional capital** to catalyse **US$734 million in commercial financing**.
- **The Acumen Resilient Agriculture Fund (ARAF),** launched in 2022, which combines concessional first-loss capital with commercial equity to support climate-resilient agribusinesses serving smallholder farmers.
- **The Financing Agricultural SMEs in Africa (FASA) Fund**, launched in 2023 by development partners including USAID and Norad, which aims to unlock financing for agricultural SMEs through blended capital structures and local financial intermediaries.
- **Mobilising Finance for Forests (MFF)**, a blended finance programme capitalized with about **£150–225 million** in public funding to mobilize up to **£850 million** in private investment for sustainable forest and land-use projects in tropical regions.

Overall, blended finance has significant potential to help mobilize additional private capital for agrifood systems transformation, particularly in areas linked to climate resilience, sustainable land use, and agricultural SMEs. However, current financing volumes remain insufficient, and blended finance alone is unlikely to close existing investment gaps without broader increases in concessional funding, stronger domestic financial ecosystems, and improved mechanisms for reducing risk and transaction costs in agrifood investments.

## 4.6 Climate finance

Food and agriculture systems are responsible for roughly one-third of total greenhouse gas emissions[71], while also holding the potential to mitigate up to 20 per cent of emissions.[72] Yet, climate finance directed to agrifood systems remains disproportionately low.

In 2019/2020, agriculture and forestry received an estimated US$28.5 billion, representing around 4 per cent of total climate finance. Within these flows, financing is fragmented, with approximately 42 per cent directed to agriculture and 41 per cent to forestry, with the remainder supporting multiple areas, as well as fisheries, diet,

[70] https://www.unccd.int/land-and-life/land-degradation-neutrality/impact-investment-fund-land-degradation-neutrality
[71] Crippa, M., E. Solazzo, D. Guizzardi et al., "Food systems are responsible for a third of global anthropogenic GHG emissions", Nature Food, vol. 2, 2021, pp. 198-209, https://www.nature.com/articles/s43016-021-00225-9#citeas.
[72] Global Alliance for the Future of Food, Untapped Opportunities Climate Financing for Food Systems Transformation, 2022, https://futureoffood.org/wp-content/uploads/2022/10/climatefinancereport-english.pdf.

and national policy. Additionally, US$4.8 billion of private climate finance was invested by companies within their supply chains or supply sheds.[73]

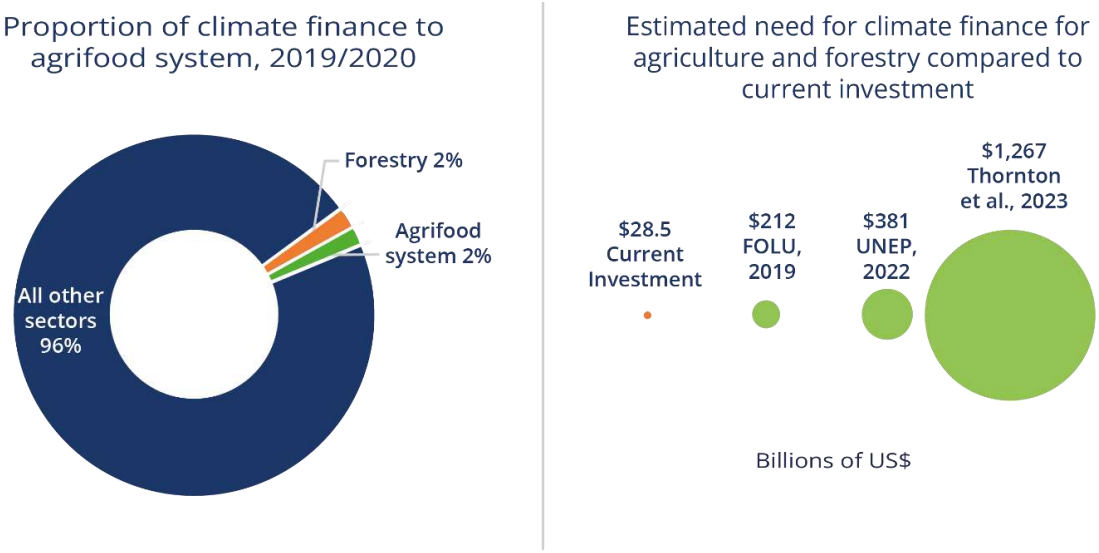
Despite these already modest levels, more recent evidence suggests that the relative share of climate finance for agrifood systems has further declined, dropping to 2.5 per cent (about US$16.3 billion) in 2022, as investment in sectors such as energy and transport expanded more rapidly.[74] Estimates suggest that climate finance for agriculture and agrifood systems would need to increase by a factor of 10 to 45 to meet global needs.[75]

While overall climate finance has increased in recent years, with public flows surpassing US$100 billion,[76] these gains have not translated into a proportional increase for agrifood systems. Moreover, the limited finance that reaches agrifood systems remains heavily concentrated in public resources, estimated at 86 per cent of total climate finance to agrifood systems in 2023.[77] This underscores both the central role of public actors and the persistent challenge of mobilizing private capital investments.

One approach to addressing this gap has been the use of blended climate finance for agrifood systems. For example, the International Finance Corporation has used US$624 million in concessional donor funds to mobilize US$1.7 billion in its own financing and US$5.1 billion in private investment, leveraging approximately US$10 in commercial finance for every US$1 of concessional funding.[78] However, overall funding levels remain insufficient to significantly scale such mechanisms or crowd in private capital at the level required.

Figure 10 illustrates both the limited share of climate finance directed to agriculture and forestry and the scale of the financing gap identified across recent studies.

***Figure 10. Proportion of current climate finance focused on agriculture and forestry, and additional estimated needs****




[73] Chiriac, D., Vishnumolakala, H. and Rosane, P.], 2023. *Landscape of Climate Finance for Agrifood Systems*. Climate Policy Initiative

[74] Global Alliance for the Future of Food. Public Climate Finance for Food Systems Transformation (2024 update). N.p.: Global Alliance for the Future of Food, 2024. ga_climatefinancereport_2024.pdf

[75] Chiriac, D., Vishnumolakala, H. and Rosane, P.], 2023. *Landscape of Climate Finance for Agrifood Systems*. Climate Policy Initiative

[76] Mitchell, I., and Wickstead, E. 2024. "Has the $100 Billion Climate Goal Been Reached?" Center for Global Development.

[77] Naran, B, Buchner, B., Price, M., Stout, S., Taylor, M., and Zabeida, D. 2024. *Global Landscape of Climate Finance 2024*. Climate Policy Initiative.

IFC, 2021. Using Blended Concessional Finance to Invest in Challenging Markets: Economic Considerations, Transparency, Governance, and Lessons of Experience. International Finance Corporation, World Bank Group.

* Chiriac, D., Vishnumolakala, H. and Rosane, P.], 2023. *Landscape of Climate Finance for Agrifood Systems*. Climate Policy Initiative.

# 5 Emerging innovative and blended financing mechanisms for the agrifood sector

As reflected throughout this paper, existing public and private financing flows are not aligned to meet the scale of investment required for agrifood systems transformation, and to shift from small-scale projects and pilots to financing the sector on a much larger scale. In response, a growing range of innovative mechanisms have emerged to mobilize additional resources, improve access to finance, reduce investment risk, and incentivize social and environmental outcomes.

Reflecting the SOFI 2024 report,[79] innovative finance is used to refer to an instrument or initiative with at least one of the following characteristics: developed in recent years; adapted to meet new purposes; newly applied to the agrifood sector; or involves new actors or combinations of instruments.

While some funds associated with innovative financing are quite large, the overall value of these mechanisms remains small relative to the scale of resources needed, and the total volume of ODA funding for the sector. Further, the scale of private finance mobilized is still extremely modest. Nevertheless, experience and lessons from the emerging range and diversity of innovative financing mechanisms provide an excellent foundation for creating a new ecosystem of financing for agrifood systems, with the potential for substantially scaling up the deployment of private capital into the sector. At the same time, there must be clear-eyed realism about the extent to which private finance can substitute the public finance needed for public good outcomes. Additional public investment in public goods, such as infrastructure, is often essential to attract private capital.

The United Nations Food Systems Summit in 2021 played an important role in advancing global discussions on financing for agrifood systems transformation. It convened a wide range of stakeholders (governments, DFIs, private sector actors and civil society organizations, etc.) to assess financing needs and identify solutions to close persistent investment gaps. Through its Action Tracks and associated dialogues, the Summit generated a substantial body of analytical and policy-oriented work, highlighting not only the scale of required investment but also the limitations of traditional public financing approaches. In doing so, UNFSS helped to elevate the importance of innovative financing mechanisms as critical tools to mobilize resources at scale. The post-Summit process has sustained this momentum through coalitions and national pathways that continue to refine financing strategies, with a growing emphasis on integrated approaches that address structural barriers such as risk perception, access to capital, and institutional capacity constraints, helping to position innovative and blended finance at the centre of efforts to accelerate sustainable and inclusive agrifood systems transformation.

There are also a range of networks and alliances focused on innovations for agrifood systems financing (see Box 8).

[79] See here.

***Box 8: Networks and alliances***

**Networks and alliances supporting innovative financing for food systems**
(In alphabetical order)

**Agricultural Public Development Bank Coalition (Agri-PDB Platform)**
The Agri-PDB is hosted by the International Fund for Agricultural Development in partnership with the French development agency "Agence française de développement" (AFD). Access is free for public banks or institutions which have a public mandate to finance agriculture. The platform has 141 members and provides training, technical expertise, and peer-to-peer exchange to assist Agri-PDBs in sharing best practices and applying innovative solutions to their challenges and climate finance.

**Blended Finance Task Force**
Launched by the Business & Sustainable Development Commission in 2017, the Blended Finance Taskforce was established to help mobilize largescale capital to support the United Nations' SDGs. As well as supporting the finance lever of the United Nations' Food Systems Summit, the task forces has produced a report "Better finance, better food" with a series of innovative case studies.

**Council on Smallholder Agricultural Finance (CSAF)**
Founded in 2012 as a forum for lenders to share learning, CSAF now includes 17 members and affiliates committed to market growth and impact.

**Good Food Finance Network (GFFN)**
GFFN brings together a large network of banks, insurers, investors and capital market influencers to collectively catalyse capital and create an enabling financial environment for the transition to sustainable and just food systems. Launched in September 2021, GFFN aims to take forward the finance outcomes of the United Nations' Food Systems Summit. During the 2021 summit, the "Food Finance Architecture: financing a healthy, equitable and sustainable food system" report and policy brief were published.

**Smallholder and Agri-SME Finance and Investment Network (SAFIN)**
SAFIN is an inclusive partnership of actors working in different parts of the global ecosystem for agricultural development and related SME finance and investment. It is hosted by IFAD with a membership of over 50 institutions working on finance in agriculture and food systems. As well as holding network meetings, it produces research and reports on innovative financing.

Other networks and alliances that partly focus on innovative financing include:

- World Economic Forum's (WEF) Food Action Alliance
- Food and Land Use Coalition
- Global Alliance for Climate-Smart Agriculture (GACSA)
- Agri-SME Learning Collective
- Convergence – Global Network for Blended Finance
- Food Systems Economic Commission

## 5.1 Examples of innovative financing mechanisms and funds

As illustrated in

Table **5**, there is a rapidly expanding wide range of innovative financing mechanisms and funds serving the agrifood sector. Many funds or initiatives combine several different financing mechanisms, making a simple categorisation difficult. The examples given are largely drawn from: (i) the Blended Finance Task Force's "Better Finance, Better Food" report (see link in box 6); (ii) the GDPRD and Shamba Centre report "Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2" (see here); and the SOFI 2024 report. The table is meant to be illustrative and not comprehensive.

The examples show that a diverse range of mechanisms are increasingly being deployed to raise private and public capital, de-risk investments (which is related to raising capital), create incentives for sustainable practices, pay for environmental services, improve access to finance for SMEs, and provide the technical assistance needed for bankable and commercially viable operations. What makes financing innovative is not a specific mechanism, but rather how mechanisms are integrated and the formation of new partnerships between financing and delivery entities.

The Blended Finance Task Force's 2020 Better Finance, Better Food case study report provides a broad-based review of financing mechanisms for the agrifood systems available at the time. Case studies of innovative financing initiatives can also be found in the joint GDPRD and Shamba Centre Report and the SOFI 2024 report. More recently, the 2025 GDPRD White Paper on "Financing Agrifood Systems for People, Planet and Prosperity" provided a list of innovative approaches that demonstrate significant potential for scalability.[80]

These initiatives include pioneering initiatives which have successfully brokered significant private sector engagement in agrifood systems transformation, new generation of blended financing funds for agrifood systems, as well as insurance schemes and other data-related analysis tools and platforms.

***Table 5: Description and examples of innovative financing mechanisms****

| Financial Mechanism | Description | Examples |
|---|---|---|
| **Paying for nature** | Farmers or landowners are paid for maintaining practices that protect natural environments, such as reducing deforestation, improving soil health or enhancing biodiversity. | **Reducing emissions from deforestation and forest degradation (REDD+)**: A UN-backed framework that provides financial incentives to developing countries for reducing emissions from deforestation and forest degradation while promoting conservation and sustainable forest management.<br>**Costa Rica's Payments for Environmental Services Program**: A pioneering national payment for ecosystem services programme that compensates landowners for maintaining forests and environmental services.<br>**Watershed payments in Mexico**: A national programme where water users pay for watershed conservation services provided by upstream communities and landowners. |
| **Bonds** | Bonds can finance sustainable farming practices, irrigation systems, renewable energy in agriculture, and other eco-friendly innovations in agrifood systems. | **European Investment Bank (EIB) Sustainability Awareness Bonds**: Debt instruments issued by EIB that focus on raising funds for sustainability projects with clear environmental and social benefits.<br>**International Finance Corporation's Green Bonds**: Financial instruments that fund climate-smart agriculture projects globally through IFC.<br>**The World Bank's Green Bonds**: Fixed-income securities that raise funds for projects addressing climate change and environmental challenges.<br>**Africa GreenCo's renewable energy bonds**: Specialized bonds supporting renewable energy infrastructure development across Africa.<br>**Louis Dreyfus Company's sustainability-linked bond:** A bond whose terms are connected to the company's sustainability performance indicators. |
| **Blended finance** | Public and private financing packaged together including grants, concessional loans and commercial loans | **IDH FarmFit**: A blended finance facility that helps make investments in smallholder farming more efficient and bankable.<br>**Aceli Africa**: A combination of financial incentives and technical assistance designed to increase lending to agricultural SMEs in East Africa. |

[80] "Financing Agrifood Systems for People, Planet and Prosperity: Towards a new pact for mobilizing capital, reforming systems, and driving transformation at scale", https://www.donorplatform.org/wp-content/uploads/2026/02/GDPRD-White-Paper_FEB2026.pdf. Page 24.

| Financial Mechanism | Description | Examples |
|---|---|---|
| | designed to de-risk and scale up private investment. | **Agri3 Fund:** A blended finance facility that mobilizes public and private capital to support sustainable agriculture and deforestation-free supply chains.<br><br>**Root Capital:** A social impact lender providing credit and financial training to agricultural enterprises working with smallholder farmers.<br><br>**Food Securities Fund**: An investment fund providing working capital loans to agricultural companies that source from smallholder farmers.<br><br>**Proparco**: The French private-sector development finance institution that provides financing and support for sustainable development projects.<br><br>**Africa Enterprise Challenge Fund**: A catalytic funding facility that de-risks innovative agribusinesses and attracts private investment.<br><br>**RK-FINFA**: A financial inclusion facility specifically designed to improve access to finance for rural communities in Kenya. |
| **Investment facilitation and partnership platforms** | Platforms that identify investment opportunities, develop pipelines of bankable projects, coordinate public and private actors, and mobilize finance across agrifood value chains. | **FAO Hand-in-Hand Initiative**: Supports nationally led investment opportunities through public-private partnership building.<br><br>**FAO AgrInvest Initiative:** Helps attract responsible private investment into agrifood systems aligned with the SDGs.<br><br>**Grow Asia**: Facilitates multi-stakeholder partnerships that mobilize investment for sustainable agricultural transformation.<br><br>**Zero Hunger Private Sector Pledge**: Coordinates private sector commitments and partnerships to accelerate progress towards ending hunger. |
| **First loss** | First-loss capital can incentivize investments in high-risk agricultural innovations, such as new crop technologies or smallholder farming projects, by mitigating risk for other investors. | **Agri-Business Capital Fund (ABC Fund):** Initiated by IFAD, in partnership with the European Union and the African, Caribbean and Pacific Group of States, the fund uses first-loss financing to support smallholder farmers and agribusinesses.<br><br>**AgDevCo:** An impact investor focused on African agribusiness, which often includes first-loss capital from DFIs or foundations.<br><br>**Land Degradation Neutrality Fund**: An investment vehicle that blends public and private funding to support sustainable land management and land restoration projects. |
| **Guarantee fund** | The fund helps mitigate lenders' risks by covering a portion of potential loan defaults, enabling financial institutions to extend more credit to farmers and agribusinesses. | **ARIZ Fund**: A guarantee fund managed by the French development agency, AFD, that facilitates access to bank financing for African SMEs. |
| **Equity investment** | An equity investment involves purchasing ownership stakes/shares in a company, which can provide the capital for startup and reduce the need for loans. | **Africa Agriculture and Trade Investment Fund**: A public-private partnership providing debt financing to support agricultural value chains in Africa.<br><br>**ARCH Cold Chain Solutions**: An investment platform focused on developing cold storage infrastructure across emerging markets. |
| **Securitization** | Agricultural loans or receivables can be bundled into securities, allowing investors to support smallholder farmers or agricultural infrastructure | **Credit Suisse/Althelia Ecosphere Nature Conservation Notes**: impact investing product for reducing carbon emissions and promoting sustainable agriculture. |

| Financial Mechanism | Description | Examples |
|---|---|---|
| | indirectly through financial products. | |
| **Impact investing** | Impact investors target sustainable agriculture projects, supporting agrifood systems that improve food security, reduce waste, and enhance environmental sustainability. | **Acumen Resilient Agriculture Fund**: An impact investment fund supporting innovative agricultural enterprises that help smallholder farmers adapt to climate change.<br>**TPG Rise Fund**: A large-scale impact investing platform that includes significant investments in agricultural technology and sustainable agrifood systems.<br>**Moringa Fund**: A specialized investment fund focusing on sustainable agroforestry projects in Africa and Latin America.<br>**Livelihoods Carbon Fund:** A social impact investment fund for ecosystem restoration, clean energy, and agroforestry projects.<br>**Nutritious Food Financing Facility:** An impact investment initiative supporting businesses that improve access to nutritious foods through innovative financing. |
| **Sustainability-linked loans and financial products** | Farmers or agribusinesses can access better loan terms by improving environmental performance, like reducing fertilizer use or increasing biodiversity on farms. | **Danone's sustainability-linked loan**: A credit facility where interest rates are tied to a company's environmental and social performance metrics.<br>**Olam's sustainability-linked revolving credit**: A financing facility where terms improve as the company meets sustainability targets.<br>**Barry Callebaut's sustainability-linked loan**: A credit instrument tied to the company's progress on sustainable cocoa sourcing and carbon reduction. |
| **Supply chain finance** | Enables small farmers or suppliers to receive early payments for their produce, reducing financial strain and improving efficiency in the food supply chain. | **Unilever's supply chain finance programme**: A financing scheme that offers better terms to suppliers meeting sustainability criteria.<br>**ECOM's coffee farmer finance**: A targeted programme providing working capital to coffee farmers in their supply chain.<br>**Rabobank's "Kickstart Food"**: A programme combining financing and technical support for sustainable food production.<br>**Nestlé's Responsible Sourcing Programme**: aims to help build the foundations to advance regenerative agrifood systems at scale. |
| **Insurance** | Crop insurance helps farmers mitigate risks from natural disasters, while livestock insurance covers the health and productivity of animals in agrifood systems. | **Index-based crop insurance in Kenya**: A weather-based insurance product that automatically pays out based on predetermined weather triggers.<br>**Rwanda's National Agricultural Insurance**: A government-backed scheme providing crop and livestock insurance to farmers.<br>**Africa Risk Capacity**: A specialized agency offering parametric insurance to African countries for climate-related risks.<br>**Pula's agricultural insurance**: A tech-enabled insurance provider offering innovative coverage solutions for smallholder farmers.<br>**ACRE Africa**: A microinsurance intermediary developing affordable insurance products for smallholder farmers. |
| **Technical assistance** | Provision of technical and management expertise and advise to farmers and agrifood enterprises. | Wide range of ODA funded programmes and projects from bilateral donors, IFIs, NGOs and foundations. There will often be a technical assistant component in loans and investments. |
| **Fintech and mobile services** | Mobile banking services or digital platforms provide smallholder farmers with access to credit, savings, | **M-Pesa**: Kenya's pioneering mobile money platform that revolutionized financial access for rural communities. |

| Financial Mechanism | Description | Examples |
|---|---|---|
| | and insurance, improving financial inclusion and resilience. | **Agri-wallet**: A digital platform providing farmers in East Africa with access to finance and inputs.<br>**Hello Tractor**: A digital platform connecting smallholder farmers with tractor owners through a mobile app.<br>**FarmDrive**: A credit scoring application using alternative data to assess creditworthiness of smallholder farmers.<br>**DigiFarm**: Safaricom's integrated mobile platform providing farmers with access to financial services, inputs, and markets. |
| **Global funds** | Financial mechanisms that pool and channel resources from donor countries and IFIs to support sustainable development initiatives, poverty reduction programmes, in low- and middle-income countries. | **Food Systems 2030**: World Bank multi-donor trust fund that helps countries build better agrifood systems.<br>**Global Agriculture and Food Security Program (GAFSP):** A multilateral partnership for food and nutrition financing, including concessional loans, grants, and technical assistance.<br>**IFAD Private Sector Financing Programme:** Supports increased private sector investment in rural economies through blended finance and risk-sharing approaches.<br>**IFC Food Crisis Response Facility:** Supports private sector investment to strengthen food security and resilience during global food crises.<br>**Global Alliance Against Hunger and Poverty**: Mobilizes and aligns public and private financial resources to scale evidence-based programmes addressing hunger and poverty. |
| **Results-based financing** | Private entities are paid by public funds if specific development outcomes are achieved but the private entity must meet all or part of the upfront costs/investments. | **Roots of Impact**: Designs and implements innovative impact finance solutions.<br>**Agresults**: Multilateral initiative using pay-for-results prizes to pull in private sector investors. |
| **Sovereign wealth funds** | State-owned investment funds, often funded by revenue from natural resources, trade surpluses, or other government sources, used to benefit countries' long-term development. | **Agaciro Rwanda Sovereign Wealth Fund**: created by citizen investments and considered innovative.<br>**Nigeria Sovereign Investment Authority**: makes significant investments into the agriculture sector. |

* This table provides an overview of selected financing mechanisms and related investment approaches. For a more comprehensive discussion of scalable financing solutions, see *Financing Agrifood Systems for People, Planet and Prosperity* (GDPRD White Paper, 2026), Section 6.

## 5.2 An emerging agrifood systems financing ecosystem

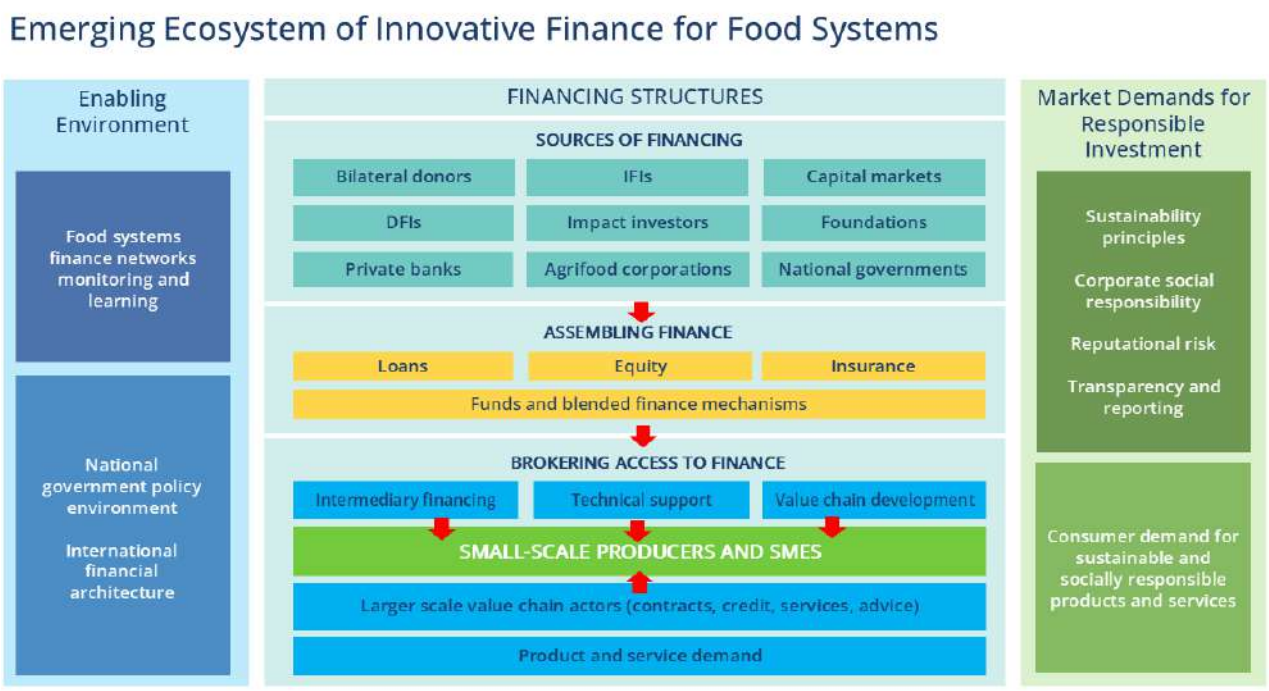
Financing sustainable and equitable development of the agrifood sector is arguably more difficult than for most other sectors, due to the complexity of risk factors and the high costs required to serve the large numbers of smallholders and SMEs involved. Many of these smallholders and SMEs have limited managerial and technological capabilities, limited assets, and poor access to financial, business and advisory services. Further, the agrifood sector has highly complex dynamics in terms of public and private goods and market externalities. The centrality of food security for social and political stability and the very large numbers of poor people employed in the agrifood sector of LICs and MICs also creates high levels of political economic complexity and sensitivity.

In this context, effective financing requires a highly interconnected and coordinated network of systems, entities and processes. This includes creating incentives for sustainable practices and investment, raising capital, managing complex risk dynamics, brokering blended financing mechanisms, connecting financing with new business models and improved value chain functioning, providing “last mile” financial services, optimising fintech services, and matching financial services with the necessary technical assistance for enterprises to operate profitably.

Looking across the diverse range of emerging innovative financing initiatives, all these different elements are being considered and put in place to varying degrees by various initiatives, trusts and organizations. However, in terms of establishing a fully functional “ecosystem” capable of achieving impact at scale, efforts are still in the early stages. Success over the longer-term will require system-wide thinking, learning and coordination, which requires investment. Large numbers of individual and fragmented innovative financing initiatives could be counterproductive, leading to the same criticisms and problems traditional donors face, particularly at the national and local levels. For the whole ecosystem to function effectively, the right scale of effort and investment is needed across all the different functions and processes.

Figure 11 illustrates this emerging financing ecosystem, and emerging issues and ways forward are discussed below and in Section 6. The centre of the figure illustrates financing structures from raising finance to assembling it, which involves both different sources of finance and integrating different financial mechanisms, often done through blended finance or other types of funds. This assembled finance is then used to provide finance for small-scale producers and SMEs, often through specialised intermediary financing institutions, which need to be connected with technical support and value chain development. At this level, larger-scale enterprises also play a critical role in financing, including through credit for inputs and contracts for offtake (contracts set at the beginning of the growing season that guarantee purchase of production, which provides individual producers with financial stability knowing that they have a buyer for their production). The willingness of the financial sector to provide finance is partly driven by an increasing consumer-driven demand for corporate social responsibility, transparency, and accountability, and to avoid reputational risk. The left of the diagram illustrates the critical role that an enabling environment for finance plays both domestically and internationally, and also illustrates the emergence of networks to support learning and innovation around financing agrifood systems.

***Figure 11: Illustration of key elements of an agrifood systems financing ecosystem****




* Source: Authors' own.

## 5.3 Reflections on the state of innovative financing

The number of innovative and blended financing mechanisms has expanded rapidly over the last decade. There is currently no substantial meta-level monitoring or evaluation of this field. In that context, based on existing reports, available data and interviews, the following reflections are offered for further discussion.

(1) The scale of private sector finance mobilized remains modest, relative to the scale of the challenges and public sector financing.

(2) A wide diversity of new funds and initiatives have been established by IFIs, private sector companies and not-for-profit development organisations. These are forging new partnerships between different actors.

(3) Private sector engagement in financing these initiatives appears to be mainly from HICs/international corporations.

(4) Most initiatives engaging private sector finance are targeted to higher potential areas and sectors where risks are lower and operating costs are more manageable.

(5) While many of these initiatives have their own comprehensive monitoring and reporting mechanisms, there remains a significant gap in understanding collective lessons learned and overall impact.

(6) Many initiatives are relatively new, which means that their impact and long-term sustainability is still to be fully proven.

(7) While blended finance is a term being used to cover many of the emerging initiatives/funds, there is a very diverse range of financial instruments being employed.

(8) Connecting the raising of finance with "last mile" financial access and technical support for smallholders and SMEs is critical to success and is a key component of many initiatives; however, this has significant costs requiring public financial support.

(9) For impact and longer-term scaling, the financing mechanism needs to relate to effective and efficient value chain development on one end, and a demand for meeting and reporting on environmental and social responsibility principles and objectives, at the other.

(10) There is often a knowledge and understanding gap between actors and organisations of the finance sector and those of the agrifood sector. Intermediaries who understand both and can broker innovative solutions and viable deals are critical.

(11) There is a rapidly growing level of experience and lessons from innovative financing for agrifood systems; however, this remains fragmented, and poorly synthesised and shared.

# 6 Ways forward

This section outlines some broad ways forward for the financing of agrifood systems. These have been derived from the conclusions and the recommendations of the reports covered in this document and insights from the key informant interviews. The perspectives presented below are tentative and intended for stimulating debate during the GDPRD Annual General Assembly.

## 6.1 Shifting the narrative

Change requires, and is driven by, storylines or narratives that resonate with people and provide coherent articulation of the potential benefits. This lesson is increasingly evident in political shifts across the globe. So, what is the narrative that will bring investors to the table for agrifood systems transformation? A more positive and opportunity-oriented narrative is likely needed, one that puts more emphasis on the potential returns on investment.

### Key issues and ways forward include:

**Broadening the narrative**: There is an urgent need to change the narrative from one that is looking at food security and nutrition as an isolated challenge, to one that sees investment in agrifood systems as a critical opportunity to future-proof livelihoods and support the realisation of a host of global public goods, including better health, nutrition, livelihoods, biodiversity conservation, migration and climate resilience. Donors, private sector entities and DFIs should approach agrifood systems funding as a long-term investment opportunity with substantive returns in addressing global public goods issues such as health, food security and migration. Shifting the conversation from a gap mindset to one that sees investing in agrifood systems transformation as an opportunity could potentially be a much more effective means to bring in greater financing and investment and build constituencies of support at national, regional and international levels.

**Balancing risk and reward**: Changing the narrative around financing for agrifood systems involves highlighting the investment rewards in addition to the risks. Investing in agrifood systems and rural development is often seen as a risky endeavour, particularly in fragile and conflict-affected contexts where countries face high debt burdens and political instability. However, the focus tends to be more on the risks associated with these investments rather than the potential rewards, such as building greater resilience, enhancing economic security and promoting social stability. Governments, donors, DFIs and other stakeholders need to put as much emphasis on the rewards as they do on the risks. This balanced approach can help attract both private and public investment in agrifood systems and rural development.

**Redirecting and reinventing financing mechanisms**: Instead of focusing on meeting a set cash figure, which can quickly feel overwhelming and unrealistic, reinventing how existing financial flows from the public and private sector are channelled, coordinated and used as efficiently and effectively as possible will allow stakeholders to meet specific and varied challenges in different geographies and points in the food system. This involves leveraging diverse financing tools not only to address core food security and nutrition needs but

also to build broader resilience and security outcomes that relate as well to climate change, human conflict, and other hazards.

**Highlighting good examples and best practices**: As highlighted in this paper, while there are undoubtedly several challenges, there are a number of emerging examples and best practices when it comes to innovative financing tools, approaches and initiatives. To get more donors, governments and the private sector to support these solutions, there needs to be a greater emphasis on highlighting what is working, rather than what is not.

**Bringing citizens and governments on board**: A focus on solutions and best practices can also help to build greater public support for investments in the agrifood space among both citizens and policymakers. What is the narrative to get parliamentarians, politicians and citizens on board? A sense of common good, identity, understanding and emotional connection may be key to garnering communal support.

This reframing encourages a transition from a short-term crisis management approach that focuses on the financing gap for food security and nutrition in vulnerable, fragile and high-risk settings, to a focus on how the substantial resources that are available could be better utilized to build a more robust and sustainable food system overall. Part of shifting the narrative is making it apparent to all players involved that the costs of inaction far outweigh the costs of action, and that investments in agrifood systems transformation today will deliver benefits for generations to come.

## 6.2 Mitigating risk in the agrifood sector

As outlined in this paper, one of the fundamental financing challenges for agrifood systems is managing risk. At the national level, local banks and investors still limit their involvement in the agriculture sector, viewing it as an area where the upfront investment costs, sectoral risks, high transaction costs and lengthy timeframes required to see a return on investments don't match the investment proposition. This needs to change. De-risking investments in agrifood systems and rural development requires donors, governments and other stakeholders to commit to understanding the range and diversity of risks within the sector, while investing in and leveraging the wide range of innovative de-risking instruments and solutions.

### Key issues and ways forward:

**Recognizing and managing multiple forms of risk:** The agrifood sector inherently faces a wide and intersecting range of risks including:

- **Variability in yields and production:** Weather and climate change induced factors, pest infestations and disease outbreaks can significantly affect crop yields, leading to unstable production levels.
- **Limited capital and uncertainty in the return on investments:** Access to capital for the upfront costs associated with agriculture and food production requires significant upfront investment, which is out of reach for many farmers. The uncertainty of the return and timeframe for returns makes it a risky proposition for local investors and banks, making it a no-win situation.
- **Market access and price fluctuation:** Market prices for agricultural products can vary dramatically due to global demand-supply imbalances, trade policies and market disruptions. Disruptions in market access due to poor infrastructure, logistics and lack of access to information can further skew market access and cause price variability.
- **Policy unpredictability:** Frequent and unpredictable shifts in government priorities and policies including debt waivers, farm subsidies, procurement and trade policies can create unstable and uncertain environments for domestic and international investors.
- **Transition risks in changing practices:** There are also financial, social, and cultural risks associated with shifting to more sustainable or innovative agricultural practices, which can be expensive and difficult to implement.

These and other risks combine to make investment in the sector challenging, even where there are viable business opportunities. Addressing these risks requires a tailored approach and set of solutions.

**Investing in innovative de-risking instruments:** There are several emerging innovations that are designed to de-risk investment in the agrifood sector, such as **weather and flood indexed insurance** – helping to protect farmers from the financial impact of crop losses due to unpredictable weather and climate events; **guarantee funds** – designed to provide guarantees to lenders and low the risk of lending to farmers and agribusinesses; **credit enhancement mechanisms** – designed to help improve access to finance by providing partial risk guarantees and making it easier for smallholders and agricultural enterprises to secure loans; and **incentive-based risk sharing systems** – aimed at increasing access to finance and risk sharing in agricultural value chains. In addition to these established risk instruments, there are range of emerging innovative financing mechanisms in the field of regenerative agriculture. These instruments include **regenerative operating loans** that typically finance farm expenses to bridge seasonal illiquidity of farmers from preparation to harvest; **climate risk-adjusted insurance** that aligns insurance with risk assessments that include regenerative practices; **blended funds that help increase access to finance** by combining private investments with strategies that spread out risk, making it safer for private investors and guarantee mechanisms that seek to mobilize private capital by insuring a proportion of investment losses in the event of default.[81] These and other derisking instruments illustrate how targeted financial products can help mitigate the risks that investors and farmers face in the agrifood sector.

**Building a holistic financing ecosystem to mitigate risk:** To effectively manage the various risks in the agrifood sector, **it is essential to view risk mitigation as part of a broader financing ecosystem**. This means moving beyond standalone solutions and ensuring that players across the entire system – financial institutions, governments, private investors and development organizations – work together to reduce risk. Blended finance is a key component of this ecosystem, combining public and private funds to lower risks for investors. For example, blended finance mechanisms can help bridge the gap between commercial investment and development goals, by reducing the exposure to risk for private investors. This approach has proven particularly effective in fragile and conflict-affected contexts where traditional financing models are less viable.

**Increasing financing to support risk mitigation**: Given the complexity of managing risk in the agrifood sector, donors have a critical role to play. There is a clear need for increased investment in risk mitigation mechanisms. Donors can contribute by:

- **Funding de-risking instruments:** Supporting the development and scaling of financial instruments that reduce risk for both investors and agricultural producers.
- **Strengthening public-private partnerships:** Facilitating collaborations that leverage both public and private resources to create more resilient financing ecosystems.
- **Scaling up transition finance:** Private sector financing is not a magic bullet. Transition finance will be needed to provide incentives and capital to farmers and small-scale producers to spur the transition to and adoption of more ecologically and climate sound approaches.
- **Investing in knowledge and innovation:** Supporting research and initiatives that focus on new approaches to risk management in agriculture.
- **Investing in better data, monitoring and evaluation, and risk assessment:** Supporting investments in and access to better data and information, as well as monitoring and evaluation of the performance and impact of de-risking innovations and instruments, is critical to ensuring the validity of these schemes, understanding their relative advantages and disadvantages, and enhancing their scalability and replicability.

[81] Rockefeller Foundation. 2024. Financing for Regenerative Agriculture.

Donors can help build a more sustainable and resilient agrifood sector that attracts private investment even in challenging contexts by focusing more resources in these areas.

## 6.3 Tackling the last mile of smallholder and SME finance

The ultimate enduring challenge for agrifood sector financing is being able to provide financially viable lending to large numbers of small-scale producers and SMEs. This is where the entire financing ecosystem must come together in an integrated way.

### Key issues and ways forward include:

**Mobilising domestic banks**: For most domestic banks, lending to the agrifood sector is a very small proportion of their portfolio, often significantly less than 10 per cent. Given the inherent risks and costs of lending to the sector, there is little incentive for this to change. However, domestic banks are potentially a significant source of financing for agrifood systems transformation. For this potential to be unlocked, there is a need to better couple domestic banks with blended finance and risk management mechanisms, financial intermediaries and improved fintech. There is also a need for domestic banking and financial regulatory changes to shift incentive structures.

**Better integrating finance into the supply chain**: Improving supply chain management and contractual arrangements is a way of both enabling producers and SMEs to gain direct access to finance or to have guaranteed markets that make financing through other means easier. This requires general upgrading and formalization of markets, underpinned by transparent market information and supported by innovative market information technologies.

**Cascading risk management**: As mentioned repeatedly in this brief, risk is the most fundamental barrier to being able to finance the "last mile" of the agrifood sector. Reducing the risk requires an integrated and cascading system. At the immediate enterprise level are mechanisms, such as micro-insurance, property rights and collateral, formalised contracts, and access to technical assistance. Moving up the chain are mechanisms for underwriting the risk of collectivised financing instruments and funds, including blended finance. IFIs financing national agrifood sector programmes and multi-country natural or climate-related disaster funds are also part of this cascading risk management. Strengthening and better integrating all these mechanisms across scale is a key way forward.

**Strengthening the intermediary function for aggregating servicing financial needs**: Efficient and effective intermediary institutions which can aggregate financial demands and receive larger ticket loans are essential in the financing ecosystem. These can be cooperatives, specialised micro-finance institutions, out-grower mechanisms (groups of producers growing on contract), specialised banks, or blended finance funds. The challenge is to optimize the efficiency of such mechanisms, through innovative financial technologies and for these mechanisms themselves to be able to spread and mitigate risk. Supporting such institutions is likely to remain a key opportunity and need for donor and public financing to be catalytic.

**Providing technical and business support**: Ultimately, no financing system is going to work if producers and SMEs are not optimising their returns and profits through utilising the best technologies and management approaches available. This also extends to having the necessary business, accounting and IT skills. Consequently, integrating technical support with financial support is vital. This is another dimension of necessary coordination that needs to be strengthened, between value chain development, government advisory services, technical support from input supplier and off takers and technical support from financing institutions.

## 6.4 Tackling structural constraints

Deep structural constraints to the financing of agrifood systems need to be recognized and tackled. These include the way low-income countries are marginalised in the functioning of the global financing system, the low-risk appetite of IFIs, the unintended consequences of agricultural support and the large market externalities of the food system. **Overall, investors of all types need to ensure that agrifood systems finance is incentivizing production practices and systems that integrate health, environmental protection, and social equity concerns, and that agrifood systems finance is fit-for-purpose for SMEs, in fragile contexts, as well as for the ensuring the availability and accessibility of nutritious food for the growing population.**[82]

*"We tend to forget one important thing, and that is related to the prices of food, which remains stubbornly high in most developing countries. And that brings us down to the reality that if you are growing fruits and vegetables for the domestic market, you are practically left out of the financial system. It is very difficult to raise money, whereas if you're growing tea and coffee commodities or green beans for export and you have a purchasing order in in a foreign currency, then raising money becomes easier. That brings us back to the point that to provide money for SMEs and farmers that will solve the food security problem, we need domestic financing in local currencies."* **Report interviewee**

### Key issues and ways forward include:

**IFIs and the funds within them need to expand their risk appetites and portfolios to support investments in places and parts of the food system where transformation is most needed but where risk remains high, in part due to the lack of resources currently available.** For example, a specific action would be to lower the required debt-to-equity ratio to support investments in riskier environments.[83] This is especially important for global development banks, and there are examples of how even a change in debt-to-equity ratio of 1 per cent can have implications for the ability to lend.[84] Continued reflection on how the Basel III banking rules,[85] which set requirements for banks on topics like debt-to-equity ratios, can further support innovative finance and increased risk in IFI portfolios is needed to ensure that capital is available where it is needed most.[86] IFIs should also expand direct lending to subnational governments and local financial institutions, and consistently integrate climate, nutrition and gender indicators into all financing criteria and project appraisals to ensure investments contribute to systemic transformation.

**National governments in LICs and MICs (especially in LICs), need to increase their investments in the agrifood sector and ensure that those funds are focused as much or more on national development priorities as on export-oriented food system activities**. National governments should ensure that subsidies provide general support to the agrifood sector and rural communities.[87] Subsidies in MICs are often going to areas that are creating unintended negative outcomes (through commodity crop production using excessive external inputs) rather than investing in infrastructure and local financial institutions to make it more attractive for the private sector to invest in agriculture. Instead, governments should improve their nominal rate of assistance in LICs in a way that supports agrifood systems transformation in terms of production practices, nutrition, and local food system development. MICs can also focus resources on nutrition-sensitive policies and

[82] World Bank. 2021. "Food Finance Architecture: Financing a Healthy, Equitable and Sustainable Food System." World Bank.
[83] Perera, O., Smaller, C., El Harty, K. and Lefebvre, L. 2024. *Unleashing the Catalytic Power of Donor Financing to Achieve Sustainable Development Goal 2*. Global Donor Platform for Rural Development and Shamba Centre for Food & Climate.
[84] World Bank. 2023. "Ending Poverty on a Liveable Planet: Report to Governors on World Bank Evolution." https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf.
[85] Basel III: https://www.bis.org/committees/bcbs/standards
[86] Gottschalk, Ricardo, Lavinia B. Castro, and Jiajun Xu. 2022. Should National Development Banks Be Subject to Basel III? *Review of Political Economy 34* (2): 249–67. https://doi.org/10.1080/09538259.2021.1977541.
[87] FAO, UNDP, and UNEP. (2021). *A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems*.

investments, including a focus on food labelling and taxes on unhealthy foods. More broadly, national governments should introduce tax incentives and regulatory frameworks that actively encourage sustainable agrifood investment, promote financial inclusion through local financial institutions, and strategically allocate public budgets to crowd in donor and private sector finance.

**Donors can facilitate these structural changes by supporting the processes and dialogues that examine the unintended consequences of the current food finance environment, as well as exploring opportunities to expand and enhance innovative finance mechanisms**. Donor investments, via ODA as well as in blended finance, vertical funds and other innovative approaches, can help de-risk changes for the broader financial system and leverage capital from a wide range of sources. In particular, donors should support strategic policy dialogue and provide concessional finance and guarantees to catalyse private investment, fund technical assistance for regulatory reforms around land tenure and rural financial markets, and support debt restructuring in lower-income countries.

**Private financial institutions and domestic banks** should recognise the strategic importance of agrifood systems as a profitable and stable sector that contributes to long-term growth. They should expand tailored financial products to agrifood SMEs and rural clients, offer preferential lending for investments meeting climate resilience, nutrition and sustainability standards, and partner with IFIs and donors to develop de-risking instruments that unlock access to credit for smaller-scale agrifood enterprises. Strengthening land tenure security and rural infrastructure remains a foundational prerequisite that both public and private actors must address to unlock investment at scale.

## 6.5 Scaling up innovative and blended finance mechanisms

Although there has been a significant upsurge in innovative and blended finance initiatives serving the agrifood sector, the scale of additional finance being mobilized remains relatively modest at this stage. Further, such initiatives remain much more difficult to establish in marginalised or fragile contexts, particularly in LICs, where the highest levels of hunger are concentrated.

### Key issues and ways forward include:

**Clarifying the "territory" of innovative finance**: As illustrated above, there is a wide range of financial mechanisms being deployed and being integrated into fund mechanisms in various combinations. Blended finance has started to become a general term of initiatives that integrate different mechanisms, although, strictly speaking, blended finance is a risk mitigation mechanism. There would be value in a more comprehensive mapping of different instruments and how they are being combined in different ways and to what effect. For those without a finance background, the terminology can quickly become quite confusing, yet it is vital that those in the agrifood systems space do have a better comprehension of innovative financing and the implications for their work.

**Strengthening the incentives for investors**: Besides meeting shorter term profit objectives, there is a need to demonstrate more clearly how innovative financing in the agrifood sector can help financial institutions and other investors meet corporate environmental and social responsibility principles and guidelines, gain market share, be prepared for policy shifts, and avoid reputational risk.

**Learning lessons**: With the growing experience of innovative finance, it is critical to ensure lessons are learned and shared, which requires investment. There is already a range of networks and initiatives supporting blended and innovative finance, and these groups need the mandate and resources to effectively create a learning network.

**Demonstrating impact**: Ultimately, the investment of donors and financial institutions into innovative finance approaches requires demonstrated impact. Meta-level monitoring and reporting on impact and translating findings in ways that are convincing to investors can be strengthened.

**Pooling and coordination of bilateral funds**: The bulk of donor funding still flows to individual projects, which are often fragmented and poorly coordinated. Scaling innovative finance will require greater pooling and coordination of donor funds. However, coordination and integration must also align with individual donor policy priorities and their requirements for showing the direct impact of their investments.

**Avoid fragmentation**: Having many small innovative financing funds/mechanisms runs the risk of duplicating the same coordination problems that donors have. Further, there are clearly economies of scale and transaction costs when considering the appropriate size of funds. This is an overarching issue and challenge for the sector to consider.

**Buy-in from national governments, and domestic banks and agrifood sector firms:** With notable exceptions, most innovative financing is coming from international and HIC institutions. A next phase of development is clearly to get greater buy-in from LIC and MIC national governments and domestic private sector players.

*"I know that's an unpopular thing to say, but unless we reinvent donor financing and pull all the tools that we have available to us, we will still be talking about the US$33 to US$50 billion gap rather than the ability to reposition food system and food security as an incredible investment opportunity for the 21st century. A lot of donors are existing in a 20th century model, where they need to upgrade to a 21st century model. Politics is always difficult, but we need institutional change."* **Report interviewee**

**Scaling climate finance to the agrifood sector:** A major priority is to substantially increase the flow of climate finance to the agrifood sector and to small-scale producers in particular. All actors should align their strategies to this goal: donors and IFIs by ensuring bilateral investments are designed to leverage climate finance streams; national governments by building the policy environments and project pipelines that attract climate capital; and private financial institutions by exploring underused tools such as green bonds and sustainability-linked lending that channel commercial finance toward climate-smart agrifood investments.

**Strengthening SME access and value chain bankability:** A persistent gap is the inability of small-scale producers and SMEs to access finance on viable terms. Donors and IFIs should substantially increase their support for the business services, value chain coordination, and technical assistance that make these actors bankable. National governments should support mechanisms that incentivise domestic banks to increase their agrifood loan portfolios, establish national or regional guarantee facilities, and prioritise aggregation and professionalization of local agribusinesses to reduce transaction costs. Private financial institutions should design SME financing tools around the actual needs of local entrepreneurs — with lower barriers to entry, faster disbursement, and revenue-based lending structures — and scale these with a specific focus on enterprises led by women and youth.

**Drawing on proven models:** Efforts to expand and coordinate innovative financing should be informed by a growing set of initiatives that demonstrate significant potential for scalability. These include pioneering public-private brokering models such as the aforementioned FAO Hand-in-Hand Initiative, IDH Sustainable Trade Initiative, and Grow Asia, as well as a new generation of blended finance funds specifically designed for the agrifood sector, including ACELI Africa, Root Capital, the Africa Agriculture and Trade Investment Fund, and the Nutritious Food Financing Facility (see more examples in table 5 above). Learning systematically from both the successes and limitations of these models — including through rigorous impact assessment and cross-regional knowledge sharing — is essential for scaling what works.

## 6.6 Accessing climate finance

The data presented above in Section 4 show a substantial disconnect between the volume of climate finance committed globally (estimated at over US$1 trillion in 2023)[88] and the proportion of that finance focused on agriculture, forestry and land use, as well as other parts of the food system. This gap exists for several reasons, some of which are unique to climate finance and some of which reflect more general challenges in financing agrifood systems transformation.

### Key issues and way forward:

**Most climate finance comes from the private sector, but most climate finance for agrifood systems comes from the public sector**. This means that the overall pool of funds that could focus on food system transformation is substantially lower than the US$1 trillion available globally to finance climate change mitigation and adaptation. Private climate finance tends to be focused in sectors where regulatory requirements mean climate change mitigation investments will generate returns through market incentives or avoided penalties, or where there are strong market signals showing a return on investment through consumer spending. Agrifood systems, especially in LICs and MICs, do not necessarily provide a high-value proposition for private climate finance in terms of a return on investment.

**Climate finance often uses blended mechanisms, and there are challenges in directing blended finance into higher-risk and lower financial return settings and projects**. However, innovative finance mechanisms tend to focus on climate, so there are opportunities to pilot these approaches using public climate finance to de-risk private investments.

**The climate change mitigation potential of agrifood systems is not nearly as simple nor as consistent over time and space as compared to the potential for mitigation through investments in the energy and transport sectors.** Climate finance seeks not only (and often not even primarily) a financial return on investment, but also a carbon dioxide equivalent return on investment. Agriculture's current and future contributions to climate change suggest that mitigation in the sector should be a key focus of investment;[89] however, the mitigation potential of changing production practices varies widely across contexts, making it challenging for development projects and investors to quickly and consistently assess the mitigation potential of specific investments. It is likely for this reason that most climate finance for agriculture focuses on adaptation or co-benefits, which are generally the focus areas of public rather than private finance.

**Most climate finance focuses on investments that generate public goods (decreased emissions and mitigated risks associated with climate change) as well as returns on the investments. Investments in agrifood systems to drive climate change mitigation will require more financial flows focused on the public good outcomes, and the willingness and ableness to accept lower returns on that investment.** Increasing climate finance flows into agrifood systems will require increased investment in public and private research and development to clearly quantify mitigation potential of practice changes and investments in new technology, and public finance to de-risk and underwrite investments that do not directly lead to returns or increased revenues. Enabling environments that include both pull factors, like consumer demand and corporate commitments, and push factors like increased regulation on emissions from agricultural production and supply chains, can also incentivize increased private investment in the sector.

[88] Naran, B., Buchner, B., Price, M., Stout, S., Taylor, M., and Zabeida, D. 2024. *Global Landscape of Climate Finance 2024*. Climate Policy Initiative.
[89] Yi Yang et al. (2024). Climate change exacerbates the environmental impacts of agriculture. *Science 385*, eadn37. DOI:10.1126/science.adn3747.

## 6.7 Disentangling social protection, fragile contexts and commercial agrifood sector development

The uncomfortable truth is that in many LICs and MICs, a significant number of small-scale farmers are unlikely to be able to make a commercial return on investments or repay loans. This situation arises from a broad range of factors such as the size of their land holdings, land tenure issues, commercial viability, debt levels and poverty. Therefore, when donors, governments, and the private sector consider investing in agrifood systems and rural development – regardless of the type of financing (ODA, grants, concessional loans, private investments, blended finance, etc.) – it is crucial to clarify whether these investments are aimed at social protection measures or at developing the commercial agrifood sector.[90] This distinction becomes critical in fragile and conflict-affected areas, where there are fewer financing and investment opportunities. In such contexts, funding for both social protection and commercial development is essential as is mobilizing private finance that is carefully structured and heavily backed by public resources.

### Key issues and ways forward:

**Balance investments in social protection with investments in agricultural development interventions for greater impact:** Donors and governments should balance their agricultural development interventions to target both commercially viable farmers and the most marginal smallholder farmers. It cannot be an either-or approach. While it is important to support those who can scale and become market participants, there also needs to be stronger social protection mechanisms for those who are unable to make that leap. Development efforts should address this dual challenge to create more inclusive and sustainable agricultural systems.

**Leverage market development programmes to drive economic growth:** There are a growing number of innovative market development programmes that are blending public, private and multilateral efforts. By linking smallholder farmers to larger markets through aggregation, storage and distribution networks, these programmes can create sustainable economic pathways for smallholder farmers away from mere subsistence. For example, IFAD's Agri-Business Capital (ABC) Fund is providing financing solutions including loans, equity and technical assistance to help scale agribusinesses and improve market access for farmers. In Asia, Grow Asia is a multistakeholder partnership with the World Economic Forum, Association of Southeast Asian Nations countries and the private sector focusing on value chain development, market access and capacity-building for smallholder farmers. In Africa, the Alliance for a Green Revolution in Africa's Partnership for Inclusive Agricultural Transformation in Africa (PIATA) brings together multilaterals and the private sector and seeks to improve smallholder farmer productivity, market access, and income levels across sub-Saharan Africa by strengthening agricultural value chains and expanding access to inputs, markets and finance. Scaling and leveraging these efforts, with strong donor support, can help build more resilient smallholder farmers, local markets and economies. (See more examples of organizations and funds in table 5 above.)

**Focus on tailoring private sector finance for fragile contexts:** Attracting private sector investment in fragile and conflict-affected areas requires a tailored approach. Due to weak infrastructure, limited capacity, policy instability and poor market conditions, these contexts need unique private sector engagement strategies. Public and donor support will remain vital in attracting and building private sector confidence and in helping to underwrite some of the risks associated with these market conditions.

**Expand the use of blended finance in high-risk areas:** Blended finance should be further utilized in fragile contexts to de-risk private investments. By combining concessional finance with private capital, governments and development institutions can reduce investment risks and attract more private sector engagement. In fragile areas, this model must rely on a greater share of public and donor funding to create the necessary conditions for private investment to thrive.

[90] Interview with key report informant.

**Reform agricultural policy to support structural transition:** Agricultural policy and financing support must evolve beyond serving as a default social protection mechanism. Policymakers and donors need to prioritize reforms that support structural transition, enabling those who cannot sustain livelihoods in agriculture to transition into other sectors, while continuing to provide social protection to those on the margins. This will require carefully balancing social protection systems with economic diversification strategies to create new opportunities for the rural poor.

## 6.8 Enhancing an integrated agrifood systems financing ecosystem

As discussed above in Section 5, the effective financing of agrifood systems transformation requires a sophisticated alignment of not only financing mechanisms but also value chain coordination, technical assistance and policy support. For many initiatives, this requires coordination and integration from local to global scales. To establish blended financing mechanisms and enable access to finance at a local level, a range of brokering and intermediary organisations are also necessary.

### Key issues and ways forward include:

**Mapping out and clarifying the key functions and interlinkages of the overall financing ecosystem**: There is still much to learn about optimising the overall financing ecosystem for agrifood systems transformation. A starting point would be to use existing experiences to provide a clearer mapping of key functions and interlinkages. Such a mapping needs to be made simple and user friendly so that actors across both financing and agrifood systems can better understand the opportunities for engagement.

**Clarifying the functions and complementarities of supporting networks**:

Table **5** lists a range of different networks, alliances and initiatives involved in supporting the financing of agrifood systems. There would be value in reviewing the current work of these efforts to identify complementarities and assess the scale of resources needed for them to be effective.

**Investing in research networking and learning**: There is a need to more clearly identify an overall research and learning agenda for agrifood systems financing and, through collaborative funding mechanisms, ensure that such research can be done and shared through appropriate networks.

**Investing in brokering**: It is increasingly clear that the development of innovative financing mechanisms requires individuals and organisations who can play effective brokering, fund development and coordination roles. Such intermediaries need understanding and experience of both the financing and the agrifood sectors and experience that gives them credibility. The costs of such brokering and assembling of finance will often require at least some public funds.

**Investing in capacity development**: For the food financing ecosystem to be developed and work effectively, there is a broad set of capabilities that individuals and organisations require. This includes knowledge about how financing works, in-depth knowledge about risk and risk mitigation in the agrifood sector, understanding corporate social responsibility and reputational risk, knowledge of climate finance, ability to broker deals, multi-stakeholder facilitation skills, financial regulations, agrifood systems analysis, and abilities to communicate across the finance and agrifood sectors. More could be done to offer short courses, masterclasses, online resources, policy seminars, and to embed such capabilities into university curriculums.

**Establishing collaborative agrifood financing agreements:** A key gap in the current financing ecosystem is the absence of structured, multi-actor agreements that align diverse financing streams behind shared national or regional investment priorities. Collaborative agrifood financing agreements — voluntary frameworks that map how each actor's contribution can unlock or de-risk others — offer a practical mechanism to address this. These agreements should be adaptive, evolve with experience and evidence, and be embedded within existing national, regional and global mechanisms to avoid creating new layers of duplication. National governments should establish such frameworks as part of their national agrifood systems transformation pathways; and

bilateral donors and IFIs should make their development a central strategic priority, resource the facilitation needed at national, regional and global levels, and support ongoing learning platforms that capture lessons from innovative financing initiatives. Private financial institutions, philanthropic foundations and agrifood firms should actively engage in these agreements to align their efforts and identify co-investment opportunities. Regional platforms anchored in continental institutions such as the African Union and related Regional Economic Communities should be leveraged to foster political alignment, policy coherence and cross-border investment coordination.

## 6.9 Supporting effective target-setting, monitoring, and reporting

**To track and quantify financial flows to agrifood systems more fully, definitions, targets and reporting systems must continue to converge and align**. The current core approach to tracking ODA and OOF, as well as some IFI flows, is to utilize the OECD DAC's Creditor Reporting System. DAC codes are applied to donor-reported finance based on the geography and sector ("purpose") to which funds flow, as well as the funding mechanisms used (grants, various types of loans, etc.). DAC codes have continually expanded to reflect global development priorities and frameworks, but there is not a consistent, agreed-upon set of codes used to define investments in food security and nutrition, let alone a consistent set of codes for the much more expansive and complex tracking of investments across the entire food system.

Both the methodology piloted in the SOFI 2024 report[91] and the 3FS methodology,[92] developed as an outcome of the United Nations Food Systems Summit 2021, seek to standardize and characterize financial flows to different elements of the food system. The SOFI methodology takes a broader view of what counts as investment in food security and nutrition as well as drivers of change by relying not only on standard DAC codes, but also on keywords associated with specific projects and funding flows. The 3FS approach specifically tries to expand these categories beyond food security and nutrition to include commercial market development, subsidies, investment in research and development, and other activities in public (national government) budgets focused on the agrifood system. However, these methodologies are in their early stages and will require more deliberation and alignment with existing methodologies before being adopted as shared standards.

**Donor coordination and prioritization of funding flows needs to start with a shared definition of "what counts" as investment in agrifood systems, and will require agreement on methodologies to track, report and analyse these flows.** Donors should be explicit and consistent in their own target-setting and reporting around investments in agrifood systems and should align donor definitions with those being developed with LIC and MIC governments to track domestic spending. Consistent definitions and monitoring of flows across donors and national governments, as well as IFIs and the private sector, will enable a more accurate and detailed assessment of where there are gaps and additional needs for funding. Having a more accurate understanding of financial flows into agrifood systems is also an important first step in estimating the impact and the potential risks and returns of investments, which is necessary information for leveraging private sector investments and ensuring that public sector spending is leading to the intended outcomes. Bilateral donors should cooperate to ensure long-term institutional support for core monitoring and data gathering, review existing initiatives for gaps, work with United Nations agencies to clarify roles and responsibilities, and build collaborative mechanisms with private sector financing institutions to improve tracking of private financing flows to agrifood systems. All actors should enhance transparency and traceability in environmental, social and financial reporting across value chains and support research and development and innovation platforms focused on sustainable agrifood systems. Outcome-driven metrics should be adopted to communicate returns on investment clearly — including cost per person reached with healthy

[91] See https://doi.org/10.4060/cd1254en.
[92] IFAD. 2023. "Food Systems Transformation for and by Rural People."

diets, jobs created in rural and agribusiness economies, and carbon or soil health improvements per dollar invested — while keeping frameworks practical and avoiding unnecessary administrative burdens.

## 6.10 Harnessing and optimising the potential of innovations and new technologies

Innovations and technology of all forms can be powerful enablers of investment in agrifood systems, but their development and use must be inclusive and targeted. Technologies including artificial intelligence (AI), blockchain, robotics, biotechnology, remote sensing, packaging, processing, alternative proteins, personalised nutrition, and energy systems are all developing rapidly, and their adoption will fundamentally reshape the future of food production and distribution. AI and other digital technologies in particular have massive potential for increasing access to financial services and lowering the costs of dealing with large numbers of small enterprises, while also improving coordination and efficiency along value chains. Production and processing technologies can reduce waste, create investable ecosystem services, and improve nutrition — all of which reduce the hidden costs of food while creating new and higher-value markets.

However, a profound and accelerating technology divide is opening up within global agrifood systems. While these technologies are transforming agrifood sectors in high-income countries, the small-scale farmers and SMEs who produce the majority of food consumed in the Global South are largely excluded from these advances. The implications for a fair, sustainable and healthy food future are severe. The World Bank's *Digital Progress and Trends Report 2025* is clear: access challenges prevent small firms and farmers from achieving the scale needed for collective AI investment, and information asymmetries — particularly in low-income countries — limit awareness of AI's applicability and access to localised models.[93] Left unaddressed, these market failures will concentrate AI's benefits among advanced nations, large corporations and high-skilled workers, thereby widening global inequality.

From a financing perspective there are two critical dimensions of the technology challenge: technology can be deployed to make the financing of small-scale producers and SMEs more cost effective, but the small-scale sector must also adopt a full suite of technologies to be competitive, commercially viable, and able to manage risk. Realising this potential requires coordinated packages of technology development that specifically serve the needs of small-scale producers and SMEs, with access to technology designed in from the outset rather than treated as an afterthought.

### Key issues and ways forward include:

**Investing in inclusive and coordinated technology initiatives:** Development and private sector actors should align efforts to invest in digital public goods, open standards, data governance and locally adapted technologies as a foundation for inclusive innovation. This means promoting AI and digital solutions that improve financial access, reduce operational costs and enhance value chain coordination; investing in technical assistance and digital capacity-building for inclusive agri-finance; and supporting open digital platforms for market access, credit scoring and climate advisory services. These initiatives must be coordinated and designed for the contexts in which smallholders and SMEs actually operate — including low-connectivity environments and adapting to local language requirements.

**Reforming and scaling inclusive financial services for underserved groups:** Private financial institutions and domestic banks should reform financing models to specifically de-risk technology access for smallholders and agrifood SMEs, prioritising tailored financial products that leverage digital technologies to improve access to credit, insurance and payments. They should scale up inclusive financial services targeting underserved groups — especially women, young people and Indigenous producers — and fund equity-centred initiatives

[93] World Bank. 2025. Digital Progress and Trends Report 2025: Strengthening AI Foundations. Washington, DC: World Bank. https://openknowledge.worldbank.org/entities/publication/8f5d2cb9-92d4-42fd-a4ad-fa538f081488.

that strengthen these groups' ownership and market position within agrifood value chains. Where commercial models are not yet viable, public funding and blended finance should be used to demonstrate and de-risk these services.

**Scaling cooperative and collective models:** Cooperative and collective models should be scaled as vehicles for technology aggregation and shared access, enabling small-scale producers and SMEs to pool resources, share the costs of technology adoption, and achieve the scale needed for collective investment — addressing directly the access challenges the World Bank identifies as a barrier to AI adoption among small firms and farmers.

**Harnessing innovation to reduce hidden costs and reach the most excluded:** Beyond finance, a broader set of innovations — in processing, packaging, cold chain logistics, and energy — can reduce the hidden environmental and health costs of current agrifood systems while creating new investable opportunities. Donors and governments should invest in developing and disseminating these technologies as public goods, ensuring they are accessible to agrifood SMEs in low- and middle-income countries, and should design participatory, gender-responsive, and youth-centred capacity-building that reaches the most excluded. Public-private partnerships that share the cost and risk of technology development — with explicit conditions on access and affordability for smaller enterprises — offer the most promising path to scaling impact.

# 7 Conclusion

It is increasingly clear that preventing further setbacks in global development, and ensuring meaningful progress, will require deep, systemic changes in agrifood systems, supported by investments proportional to the scale of the challenge. The level of resources needed is vastly greater than what is currently being invested, but relatively small in comparison to global wealth and the likely future costs of a business-as-usual approach. An investment cost of approximately US$1.2-1.4 trillion per year, which would transform agrifood systems, could deliver at least a tenfold economic, social and environmental return. Investing in agrifood systems advances climate, health, jobs, gender, biodiversity and peace, simultaneously. No other sector offers this level of cross-cutting return and this level of progress towards global development goals and future prosperity.

The last decade has seen many new innovative and blended financing mechanisms emerge. These show promise and there is much to learn from them, but they are yet to catalyse large-scale private sector financing.

As articulated in the SOFI 2024 report, context is critical. The capacity to finance agrifood systems transformation varies dramatically between low-income and middle-income countries, with countries experiencing fragility and conflict facing particularly difficult challenges. At the same time, in MICs, rural areas that have poor infrastructure and natural resources also face significant difficulties in attracting larger scale private sector investment.

Although future opportunities for growth in the agrifood sector, combined with blended financing, has the potential to drive significant private sector investment, this is far from a universal solution. Governments and the donor community must face the reality that change still requires significant public investment, along with substantial policy reforms that transform agrifood systems, and address health and market externalities.

Despite being under severe pressure, development assistance must remain the bedrock instrument for catalysing action on agrifood systems transformation – supporting LICs and MICs, responding to crises and building long-term resilience. The multilateral system has a critical and irreplaceable role in ensuring that global public goods are available to respond to agrifood systems crises, particularly in low-income and fragile contexts, achieving economies of scale that no bilateral programme can match. Development resources targeted at agrifood systems must be maintained and increased, but they must also be deployed far more catalytically and in a coordinated manner to leverage other financing sources and to drive systemic reforms at global and national scales.

This means bilateral donors and IFIs shifting from fragmented, short-term projects to long-term systems-based programming, harmonizing requirements to reduce transaction costs for recipient countries, and strategically reorienting development assistance to crowd in private capital. National governments need to integrate agrifood systems resilience into national development plans and strategically allocate public budgets to attract donor and private sector co-investment. Private financial institutions and domestic banks, for their part, need to develop financial products that reflect the realities of smallholder and SME finance, ensuring the financial system actively supports sustainable agriculture, food security and resilience.

### Key implications for donors are:

1. Engage in a much deeper debate about how to optimize the impact of limited development financing in years ahead.
2. Increase the use of innovative financing mechanisms, which can potentially be more catalytic than fragmented grant-funded bilateral projects, while being realistic about the scale of private finance that can be leveraged.
3. Increase the risk appetite for investments to more effectively de-risk private sector financing into the sector.
4. Advocate for increased ODA for agrifood systems transformation, given the wide range of global public goods than can be generated and the high future costs of not making change.
5. Invest in policy support initiatives which can assist countries, in particular MICs, in reorienting public financing to better support agrifood systems transformation.
6. Support the improvement of the monitoring of financing flows for agrifood systems and the effectiveness of innovative financing mechanisms.
7. Support brokering capabilities and processes needed to bring public and private sector actors together for innovative financing.
8. Recognize and respond to the growing challenges in LICs, particularly those experiencing fragility or conflict.

As articulated in this report, the logical and economic case for the global community to ensure effective financing of agrifood systems transformation is clear. However, further work could be done to provide more evidence on the specific return on investment for development investments. This requires a framework that would integrate perspectives on direct economic return, social returns in terms of food security, peace and stability, comparative development returns with other development investments, and on mutual benefits for donor and partner countries. Such analysis could also look at potential returns for different value chains, types of investment and geographic locations. This is an area of work that the GDPRD will explore during 2026.

The solutions to critical global challenges including tackling climate change, reducing inequality, protecting biodiversity and ensuring human health, all depend on transforming agrifood systems. Agrifood systems are the foundation for stability and peace and core to national security, especially in conflict-affected areas. Now is the time to invest in agrifood systems and the potential future returns for governments and business are large. Not making these investments risks undermining the foundations for future global prosperity, health, peace and stability.

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