GrAinS

Greening Agrifood in Social Economy

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Financial instruments for greening agrifood in social economy

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Financial instruments

- 40% of the CAP funds (from European Agricultural Guarantee Fund - EAGF or European Agricultural Fund for Rural Development -EAFRD) will be dedicated to climate actions between 2021 – 2027
- More financial tools for green/ sustainable agriculture and agri-food will be developed at EU or national/ regional level

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- Public & private procurement
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1 Public subsidies

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

Public subsidies in the agrifood sector involve:

- front-end (e.g. subsidized fertilizer price or diesel price)
- back-end subsidies (e.g. support for export or for eco-packaging)

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

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

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- is a payment for the climate, environment, and animal welfare to promote sustainable farming practices.
- a new measure introduced by CAP 2023 – 2027 to support sustainable farming models that adopt practices friendly to the environment and climate.
- represent the EU mechanism for supporting and rewarding farmers who preserve natural resources and provide public goods with benefits that are not reflected in the market price.

Eco-schemes

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The action areas and the practices that could be supported and rewarded are:

- organic farming
- agro-ecological practices
- high nature value farming
- precision farming
- agro-forestry
- carbon farming
- animal welfare improvements

The eco-schemes support agricultural practices that:

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

Eco-schemes

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2 Microfinance

Microfinance primarily encompasses micro-loans, typically less than €25,000, designed for micro-enterprises (firms that employ fewer than 10 people), which constitute 91% of all European businesses.

It serves individuals aspiring to be self-employed but encountering challenges accessing traditional banking services.

To make microcredit more accessible for small businesses that aim to establish or grow, EC developed EaSI program that provides guarantees to selected microcredit providers in the EU, sharing the potential risks.

Microfinance requires balancing social impact and financial sustainability.

Financial intermediaries with localized operations establish close relationships with borrowers, ensuring that they receive tailored solutions.

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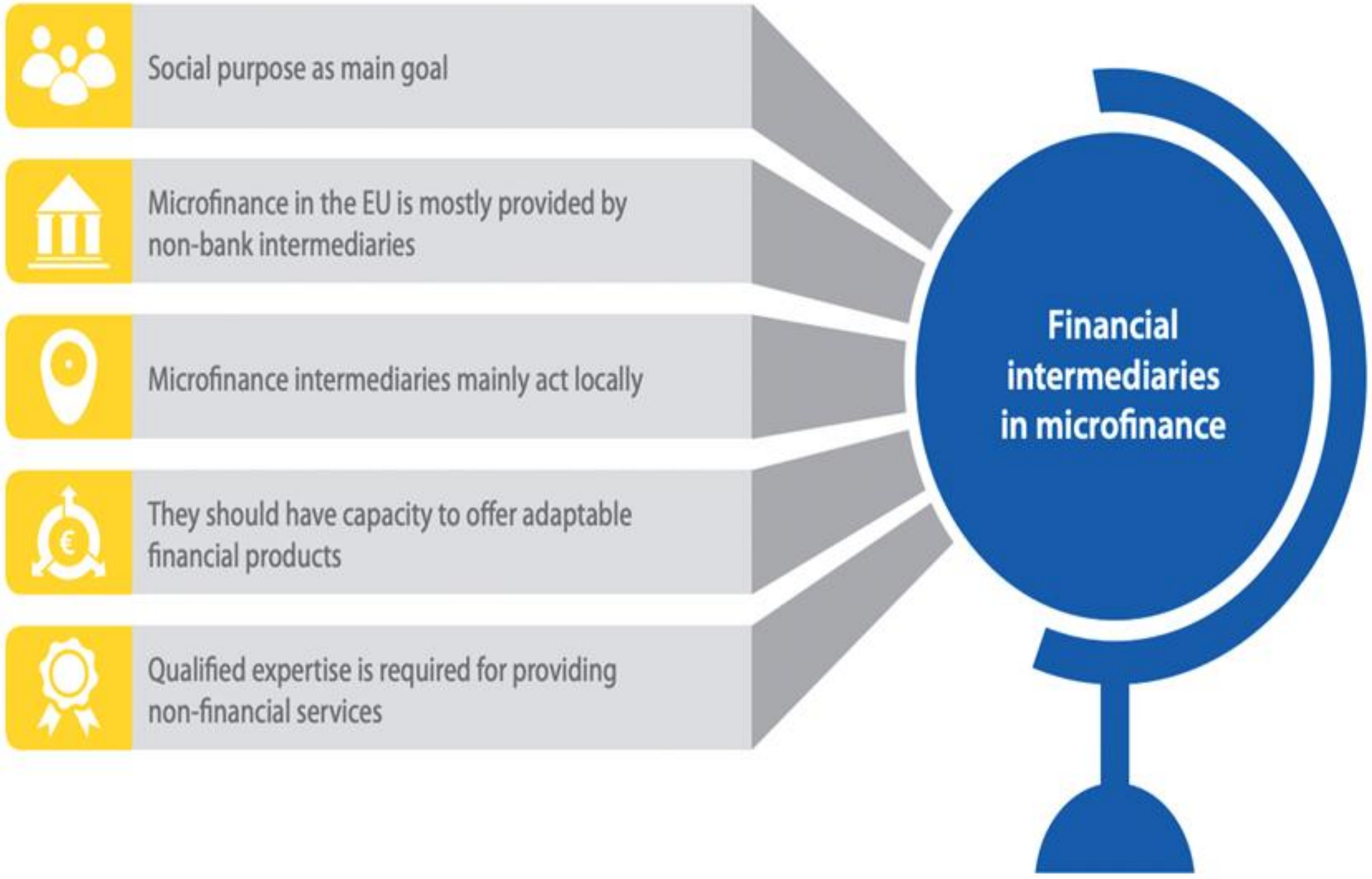
Microfinance



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Green microfinance broadly refers to the operational practices of microfinance institutions (MFIs) that support environmental sustainability while serving low-income clients.

MFIs can adopt a range of green strategies, from "do no harm" policies to initiatives with positive environmental impacts.

These strategies include managing internal and external environmental risks, fostering green opportunities, and adopting a formal environmental strategy.

Green microfinance

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3 Public & private procurement

Public or private procurement is a tool to achieve public policy objectives of governments as well as business development objectives.

Public procurement has a a share of around 14% of GDP at EU level.

The business community has understood this, and big companies have been introduced environmental, transparency or social evaluation criteria in their choice of suppliers (e.g. ESG criteria).

Green procurement aims at a reduced environmental impact throughout the life cycle of the goods, services and works contracted. There are specific criteria developed for green procurement for 14 economic fields of activity at the EU level.

The EU Ecolabel logo certifies the quality of a product while meeting the highest environmental standards and could be used as an award criterion in green procurement.

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4 Financial instruments of EU

- Loans
- Guarantees
- Equity
- Quasi-equity

The main benefits of the financial instruments are:

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

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Loans may be available where no institution (e.g. banks, credit unions) provides them commercially or may be offered on better terms commercially (e.g. with lower interest rates, longer repayment periods, or with less collateral required). In case of agri-food sector loans could help small farmers to diversify their sources of income by developing new related activities (e.g. agritourism, local gastronomic points, restaurants selling local food).

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

Financial instruments

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Guarantees is an assurance given to a lender that his/her capital will be repaid if a borrower is not able to repay a loan (e.g. may be beneficial for enterprises aimed at investing in the bio-economy or resource efficiency).

Equity represents capital investment in return for total or partial ownership of a firm; the equity investor may assume some management control of the firm, may share the firm's profits and may sell, at a later stage, the acquired shares realising again profits.

Financial instruments

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5 Green finance

Refers to any financial instruments whose proceeds are used for environmentally sustainable projects and initiatives, environmental products and policies under the single goal of promoting a green economic transformation toward low-carbon, sustainable and inclusive pathways.

The objectives of green finance mechanisms are to reduce climate footprints while taking care of market-based economic return.

Sustainable finance refers to the process of considering the impact of ESG (environment, social, governance) criteria during investment decisions for long-term investments in economic activities and projects.

Transition finance, a subset of sustainable finance, focuses on financing both existing environmentally friendly initiatives (green finance) and those transitioning to eco-friendly practices over time.

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	Green finance products	Important features
1.	Green bonds	These bonds are created to fund projects that have positive environmental and/or climate benefits, which may include land and water use, agricultural production systems, etc.
2.	Green loans for sustainable farming	These are loans that can be used to fund a range of environmentally sustainable farming with reduced GHG emissions. These loans may be structured as bilateral loans or syndicated loans (blended).
3.	Sustainability-linked loans	The attractiveness of sustainability-linked loans is their linkage between pricing and a borrower's ESG performance. These loans are structured to offer a pricing discount when a borrower meets or outperforms its ESG targets.
4.	Green asset finance	This type of finance is a subset of asset financing (mitigation infrastructure, etc.) that supports sustainable agricultural and forestry development.
5.	Green insurance	Green insurance includes a large spectrum of insurance products which are either related to climate risk insurance (in agriculture), or a bundled package that includes credit to promote energy-efficient investments, or macrolevel insurance among regions or states that seek to pool risk against large-scale catastrophic events (such as hurricanes, earthquake, tsunami etc.).
6.	Other allied financial products • Blue finance • Landscape finance • Livelihoods finance • Green credit cards	These are financial products offered to consumers and businesses that either provide environmental benefits or reduce negative environmental impacts. Examples include financing for fisheries, landscapes, livelihoods, green agricultural machinery loans, energy efficient mortgages, green credit cards, and ecosavings deposits.

Green finance products

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