BRIDGING THE GAP: WHY THE EU NEEDS A JUST TRANSITION FUNDING MECHANISM FOR AGRICULTURE

Publication date:
February 2025

Contact:
dbaldock@ieep.eu, mmuro@ieep.eu (IEEP)

Institute for European Environmental Policy

Authors

David Baldock and Melanie Muro (IEEP), Emil Fraas and Simone Højte (Concito)

INTRODUCTION

Europe is facing major challenges related to climate change, biodiversity loss and soil degradation. Agriculture and related land uses play a key role in addressing these challenges and must make a significant contribution to the EU's forthcoming 2040 climate target. Fortunately, the sector has great potential to reduce emissions and support a more sustainable transition(Agora Agriculture, 2024). At the same time, **European agriculture is under pressure**. Farmers are grappling with rising costs, extreme weather events and increasing market uncertainties, making the necessary transformation even more challenging (EEA, 2022; Guyomard et al, 2024). **A profound transformation of the sector is not just desirable but essential across all Member States in the coming decade**. The question remains: **how do we finance it?**

CURRENT FUNDING DOES NOT DELIVER

While the EU's Common Agricultural Policy **(CAP) provides substantial funding** for the agricultural sector, **current allocations are not directed strongly at the transition required**. The environmental segment of CAP spending is focused mainly on sustaining the status quo and making relatively modest improvements (CONCITO, 2024; European Court of Auditors, 2024). This is despite the latest CAP reform introducing the *New Delivery Model*, with the purpose of shifting towards a more flexible approach to funding, allowing individual member states to tailor schemes according to their needs and objectives, including meeting environmental targets (EU Commission, 2023). In effect there is **no funding line reserved for assisting effective step changes towards sustainability other than organic conversion**, as had been hoped for with the introduction of eco-schemes. Amongst other things, transition involves acquiring and applying new knowledge, adopting new practices and systems where needed, the diversification of production and investment in appropriate human resources, equipment and buildings. **Adopting new systems can involve both upfront costs**, such as new equipment and facilities a**nd a period of potential risks**, such as temporarily reduced yields, especially in the early years before unfamiliar practices have bedded down (Moret-Bailly and Muro, 2024). Some of the costs of change will be met by farmers themselves, by others in the food chain and by consumers but **there is also a need for public funds to play a part, particularly to support vulnerable farmers**.

The **full costs of change are difficult to estimate as there will be great variations between farms and timescales will vary** too. If every farm in the EU acted immediately to adopt a fully sustainable approach the costs would be large. One recent assessment concludes that the initial costs of implementing a suite of practices to improve soil quality and functionality, including widespread use of cover crops across all EU agricultural land would amount to €6.9 billion to €16.7 billion in the first year alone (FoodDrinkEurope, 2023). For comparison, the current total CAP expenditure for all interventions is approximately €53 billion per year from EU funds and around €61 billion annually when including national co-financing. If CAP funds were spent more strategically towards effective climate and sustainability objectives, they could play a significantly greater role in closing this investment gap and mobilise the necessary transformation of the agricultural sector, while ensuring a more efficient use of public resources. However, while improved soil management is important, it is not the only step towards transition and there is also the question of helping those who need to acquire new skills, re-purpose their assets or leave the sector entirely.

A funding programme would focus on supporting a first wave of farmers ready to be front runners in different production systems, regions and Member States and those in greatest need of support as transition proceeds.

Against this backdrop, **there is growing momentum behind the principle of establishing a dedicated funding mechanism.** The report of the Strategic Dialogue on the Future of EU Agriculture proposes a temporary Just Transition Fund for Agriculture to accelerate the transition by providing strategic investments in sustainable farming and business practices. The report states that it should be **additional to CAP funding so as to further support the sector's sustainability transition and should be combined with an effective bank lending framework**.

MAKING THE CASE FOR DEDICATED TRANSITION FUNDING

Both the Strategic Dialogue and IEEP (Baldock and Bradley, 2023) have highlighted the need to support new investment in the sector and have recommended the **establishment of a dedicated time-limited new EU fund as part of the solution**. However, while this would be a keystone element in a plan to accelerate transition it would not be the only funding mechanism deployed; it **would need to work with a spectrum of other public and private sector initiatives**. Other mechanisms for making transition funding accessible to farmers and relevant parts of the food industry, which can also mobilise private investments into the sector, include market-based policies, economic instruments, funding for new product development and blended approaches (Bognar et al. 2023).

Regardless of the chosen scope and design, **a transition funding mechanism would bring several advantages**:

- The **transition to sustainable agriculture in the EU is moving too slowly**, in the absence of sufficient targeted investments to accelerate change. A Just Transition Fund could address this challenge by supporting and conditioning the adoption of sustainable practices, innovative technologies, and capacity-building efforts, including advice and technical support. By complementing existing and emerging mechanisms, such as the recently announced programme of new EIB loans for agriculture and the bioeconomy, the fund could focus on strategic priorities such as reducing greenhouse gas emissions and reversing biodiversity loss. Experiences should be gathered regarding the effectiveness of the current EU just transition funding (e.g. the Social Climate Fund).
- **Farmers in vulnerable regions or those with limited resources often face significant barriers to accessing finance** (fi-compass, 2023). Looking ahead, future regulatory interventions that may be required to meet climate mitigation goals for the sector (e.g. an agricultural emissions trading system) could potentially have distributional impacts, which would need to be addressed. A dedicated fund could play a crucial role in addressing these challenges, ensuring more equitable access to support for those who need it most and helping to prevent sizeable groups of farmers from being left behind.
- Moreover, putting a well-focused strategic Just Transition Fund in place alongside the emerging spectrum of public and private sector initiatives could help **align public and private incentives, fostering coherence across funding streams**. By encouraging private sector investment while targeting public funds to achieve changes of the greatest environmental and social benefit, the fund would help to ensure a balanced and strategic approach to financing the agricultural transition.

KEY QUESTIONS FOR THE DESIGN OF A TRANSITION FUND

Establishing an effective and equitable funding mechanism requires a clear vision and careful planning. Critical design elements to consider include:

1. **Setting objectives:** What specific outcomes should the fund prioritise? How can it balance environmental, social, and economic goals? At a minimum it should both facilitate the transition required to meet EU sustainability objectives and accelerate the timescale on which this occurs. This includes **providing tailored support for those farms that take action and need it so as to facilitate a fair transition on an EU wide scale**. Specific objectives should include building skills, promoting investment, and facilitating diversification and re-skilling where required. It could also contribute to the broader goal of sustainable generational renewal by linking startup support to green conditionalities.

2. **Scope:** What actions should the fund support? The changes required to meet climate, biodiversity, and health goals while ensuring food production and livelihoods for farmers will vary in type across Europe and some will be achievable faster than others. Variations in biogeography, soil conditions, market dynamics, existing farming systems, and different starting points will not only shape the transition actions needed but also the nature and the scale of financial support required to implement them. Regardless of what individual transition pathways might look like, the scope of a new transition funding mechanism should include **costs arising from expenditure on mitigation technologies, planning, capital investments, risk management, changed operational expenses, capacity-building, buyout programmes targeting stranded production assets due to climate policies or environmental regulations, and reskilling**, especially for those moving within or out of the sector.
3. **Type of instrument:** Should the fund primarily provide grants, loans, guarantees, or a mix of these? **The fund could adopt a blended approach, combining** grants, loans, and guarantees **to effectively address the diverse needs of farmers and food system actors and utilise public expenditure in the most efficient way**. Grants should be used to support early-stage investments in new practices, knowledge development, innovation, and the adoption of sustainable business models for ecosystem services, as these areas often lack immediate financial returns but are crucial for long-term resilience and sustainability. Guarantees can de-risk private investments, encouraging banks and other financial institutions to provide more accessible credit to farmers. Loans - particularly those backed by EU guarantees - can facilitate capital expenditures, such as infrastructure and equipment upgrades, ensuring that farmers, land managers and food system actors have the financial means to transition effectively (OP2B, 2024).
4. **Funding Sources:** Where will the resources come from? Should the fund draw solely from EU funds, which are due to change as the overall EU budget, the MFF, is renegotiated for the period from 2028? Should it adopt a blended finance approach, leveraging a combination of national contributions, private sector investments, and innovative financial instruments such as green bonds? In future, should a second stage of the funding come as a response to needed policy interventions (e.g. an agricultural emissions trading system, which could be designed so as to help generate funds for farmers)? Given the scale of investment required for a just transition, **a substantial EU funding component is essential to ensure coherence and cohesion across Member State**s. However, structuring the fund so that it mobilised **private capital through private finance would enhance the overall financial leverage of the initiative**, attract higher levels of private investment, and provide greater long-term stability by reducing reliance on public funding alone.
5. **Eligibility:** Who should qualify for funding - clearly farmers should be key beneficiaries but how far should a fund extend to other food system actors such as food processors,

distributors, and agribusinesses that play a crucial role in enabling the transition to sustainable food systems? A larger and more ambitious fund could expand its scope to include actors across the value chain, creating stronger incentives for private sector engagement and unlocking synergies between public and private investments. **By strategically targeting a broader set of stakeholders, the fund could enhance the resilience of supply chains, support innovation in sustainable practices, and drive systemic transformation in the agri-food sector**.

6. **Accountability:** How can the process ensure clearly demonstrable results while also achieving fairness across diverse agricultural regions and practices, and reducing administrative burden? **A robust monitoring and evaluation framework should be established at the appropriate governance levels, incorporating clear performance indicators linked to sustainability outcomes, ideally streamlining and exploiting already existing monitoring and reporting systems established under related EU policy frameworks**. This requires linking measurable targets to the impact of the funding. A combination of, for instance, farm level plans, designated monitoring groups and broader system-wide mechanisms could be employed to track progress, support adaptive management, and ensure alignment with overarching climate and sustainability goals.
7. **Duration:** How long should the fund operate? What timeline aligns with both the transition's urgency and its long-term goals? **The key message is that it would be time-limited, designed to provide targeted financial support for accelerating the transition** rather than substituting long-term structural funding for agriculture and land management. A timespan of seven to ten years might be appropriate, and it might be prudent to allow for some Member States being able to move faster than others. To prevent a financial cliff-edge, a structured exit strategy should be incorporated, ensuring that public support catalyses long-term private investment and does not leave critical transition efforts underfunded at the fund's conclusion.
8. **Integration and coherence:** How would the fund interact with existing mechanisms like the CAP and potential new policy instruments, such Carbon Removal and Certification Framework (CRCF), a possible Emissions Trading System (ETS) for agriculture, private sector initiatives, and national programmes? How can duplication or conflict be avoided? **Ensuring policy coherence will require strategic alignment with the CAP, particularly with direct payments, rural development funding, and eco-schemes, as well as CRCF carbon credits**. It underlines that commitment to a fund is best made as soon as possible so that it can be developed alongside the revised CAP and the post 2027 Multiannual Financial Framework (MFF), ensuring a well-integrated and future-proof approach. The fund should also be designed to **supplement and support emerging mechanisms to address climate mitigation in the agri-food sector, such as an ETS for the agricultural sector**, so that it supports rather than distorts carbon pricing signals.

MOVING FORWARD

The European Commission's forthcoming **"Vision for Agriculture and Food" offers a critical opportunity to incorporate transition funding into the next MFF and CAP**. The new EU Commissioner for Agriculture and Food, Christophe Hansen, has been tasked with preparing the Vision. During his hearing before the European Parliament's Committee on Agriculture and Rural Development, he acknowledged the significant financing requirement in agriculture, estimated at € 62 billion to "close the investment gap" in relation to foreseen digital, green and energy transitions[1] (fi-compass, 2023). However, Hansen emphasised that instead of creating new funds it would be better to utilise existing resources, such as the EU Just Transition Fund (JTF). This might be a possible route. But, the JTF has not been oriented towards transition in the agriculture sector to date and currently there is no proposal to do so on the table. Better aligning the funding for CAP could also facilitate a just transition of the agriculture sector.

Regardless of the route the Vision will set out for the agriculture sector and whether dedicated funding for transition is achieved via the establishment of a new instrument or the revision of e.g. the existing transition fund, there are a number of crucial subjects that need to be considered in order to set up a fair and effective mechanism.

The **scale and speed of transition needed is beyond what previously has been attempted**. Fully grasping it and mapping out the critical elements will in all likelihood be one of the biggest challenges. **Involving a broad range of stakeholders in setting the objectives and scope** of the transition fund will be needed **to create legitimacy and ensure focus on critical issues** where many different actors can offer relevant expertise. However, the **notion of change, must be** embedded as central from the beginning, as it would be the very raison d'être of any measure in the forthcoming transition fund, new or old. It requires a different approach from the negotiations over the existing CAP funds where preferences for limited change and maintaining existing shares of the existing funds play a central role.

Those responsible for policy in the sector need to accept that, like any other major change in any other sector, transition will create both winners and losers. Some actors will gain new and better income opportunities, while others will experience reduced incomes from existing enterprises or to have to seek new livelihoods within or outside the sector. This is the fundamental **balance that the Just Transition Fund must strike - driving the development of new business opportunities while ensuring that farmers, land managers, and agrifood industry actors who cannot**

[1] The financing gap refers to the unmet credit demand resulting from constrained or absent access to bank financial products for the year 2022. The reported figure is based on a survey of financially viable farms and agri-food enterprises in 24 EU Member States. The survey collected information on short-, medium-, and long-term loans and credit, specifically examining: (a) loans applied for but not obtained, (b) financing refused by the potential borrower, and (c) loans not applied for due to fear of rejection (fi-compass, 2023).

continue their current operations receive the necessary support to transition into viable and sustainable alternatives. To suggest otherwise is to misrepresent the challenge.

It is the obligation of the European Commission and the EU Commissioner for Agriculture and Food in particular, to respond to the Strategic Dialogue's call for the development of a new transition fund which will recognise the direction of travel needed and mitigate the unwanted consequences of change while pursuing resilience for the food system, the environment, climate and people. While recognising the strength of feelings surrounding current uncertainties in the agriculture sector, it is essential to address the longer-term issues, including planning for the coming decade and building a case for a new funding mechanism to support innovation in the sector.

Just transition funding is not just an option - it is a necessity - whether in a separate fund or not - to ensure the agricultural transition is fair, strategic, and does not leave large numbers of farmers, land managers, and agrifood businesses behind. Without this focus, the drive to sustainability risks deepening inequalities rather than facilitating resilience and opportunities across the sector.

This analysis has been co-authored and supported by CONCITO.

CONCITO

This work has been produced with the financial support of the LIFE Programme of the European Union. The paper reflects only the views of its authors and not the donors.