



Concept Note

Financing the Agroecological Transition

Agri-PDB Coalition - Agroecology Thematic Area August 2026

What do we mean by agroecology?

Agroecology, as defined by the FAO, is an integrated approach that combines ecological and social concepts and principles to design and manage food and agricultural systems. It aims to optimise interactions between plants, animals, humans and the environment, while considering the social aspects necessary for a sustainable and equitable food system. Agroecology is not a new concept: it has historical roots dating back to the 1920s and has long been practised by family farmers and grassroots social movements before being incorporated into public policies in various countries.

For IFAD, agroecology is an integrated, comprehensive and promising approach to transforming food systems and systematically resolving the problems associated with agricultural and food production and trading systems, within an enabling policy environment. AFD defines agroecology as an agricultural production system that combines economic, social, environmental and health performance, one that must converge with the economic interests of producers, recognise the risks associated with changing practices, and remain compatible with food and nutritional security objectives.

What distinguishes agroecology from other approaches to sustainable development is its bottom-up, territorial nature. It focuses on contextualised solutions to local problems through participatory processes, and it addresses the root causes of unsustainable practices rather than simply adjusting them at the margins. It places particular emphasis on the rights of women, young people and indigenous peoples - groups who are often central to farm labour and local food systems across the Global South yet historically underserved by formal agricultural finance.

Why does this matter to your institution?

Public agricultural banks in the Global South were, in most cases, created in the wake of the Green Revolution to finance the technological package that intensive agriculture requires: improved seeds, synthetic fertilisers, plant protection products, and mechanisation. Even where these institutions have since evolved into broader "universal" banks, a significant share of their loan portfolios often remains concentrated in seasonal credit for these same inputs.

This concentration exposes your institution to a specific and growing set of risks:

Climate exposure

Intensive, often mono-cropped systems are increasingly vulnerable to unpredictable droughts, floods and storms, directly threatening farmers' capacity to repay loans.

Price volatility

A narrow crop base leaves farmers - and by extension your loan book - exposed to commodity price swings, with limited room to diversify income.

Resource constraints

Resource constraints. Water scarcity and soil degradation are steadily eroding the productive base on which intensive systems depend.

Rising input costs

The cost of imported fertilisers and agrochemicals continues to climb while availability becomes less predictable, squeezing farmer margins and repayment capacity.

Taken together, these pressures mean that continuing to finance intensification "as usual" is itself a source of portfolio risk. The agroecological transition should not be understood as a return to pre-modern farming, but as a deliberate investment of human and financial capital to improve practices and restructure supply chains and food systems. The right approach will always be contextualised: on degraded land, for example, soil restoration is a long-term investment that may still require some use of fossil fertilisers to rebuild organic matter; in markets with thin margins, appropriate mechanisation remains an important lever to improve labour productivity and reduce drudgery. Agroecology is therefore not opposed to modernisation; it redefines what modernisation should optimise for.

What can your bank finance and support?

Agri-PDBs can integrate agroecology into their business strategy along four complementary lines:

Adapted financial products

Preferential-rate loans, partial guarantees or blended finance for organic seeds, organic fertilisers, conservation-agriculture equipment and water-efficient irrigation; flexible mechanisms such as extended or deferred repayment schedules to match the transition period during which yields and income may temporarily fluctuate.

Advisory and technical support

Integrating agroecology expertise into advisory teams, or partnering with public agricultural technical services, to help farmers with soil management, biodiversity, crop rotation and other practical dimensions of the transition.

Training and capacity building

Organising or mobilising qualified institutions, agricultural colleges, research institutes to deliver workshops, field demonstrations and peer-to-peer exchange on agroecological techniques.

Partnerships and networks

Building alliances with producer organisations, research centres, line ministries, specialised NGOs and certified-supply-chain buyers, and fostering farmer networks that exchange knowledge and experience.

Practices that can be financed under this approach include, among others: conservation agriculture and no-till sowing; agroforestry and sylvo-pastoral systems; water management infrastructure (small dams, terraces, drip irrigation, rainwater harvesting); crop rotation; organic fertilisation; and biological pest control and integrated pest management. Each of these reduces input dependence while building the resilience of the farms your bank finances.

What challenges should you anticipate?

Honest planning requires naming the obstacles clearly:

Resistance to change, both among farmers and within institutions, is often rooted in fear of economic risk or limited familiarity with agroecological practices. Awareness-raising and internal training are essential, and a supportive national agricultural policy (incentives, regulation) makes this transition considerably easier.

Uneven access to resources and technologies, particularly for smallholders in rural or disadvantaged areas, will require coordinated financial and technical support from government, international partners and technical services.

Accountability and traceability gaps. Unlike easily identifiable investments (renewable energy, localised irrigation), most agroecological investments are tied to farming and livestock practices that require a more sophisticated monitoring system: a taxonomy of practices, tracking mechanisms and impact measurement - which is essential to justify subsidies or green bond issuance.

Risk and return assessment. Agroecology tends to rely on diversified long-term strategies whose returns and externally driven risks (notably climate) can be harder to quantify with conventional credit tools. This calls for adapted evaluation methods.

Inter-institutional coordination. Meaningful integration of agroecology usually requires closer collaboration with producer organisations, research institutes and government agencies than traditional lending models demand, which may require organisational adjustment.

How can your bank move forward?

A credible starting point is adopting an internal "green and social" strategy with a roadmap aligned with your bank's mandate. From there, action can proceed on several fronts simultaneously: awareness-raising and education for farmers and staff; technical support delivered directly or through partnerships with public technical services; adapted financial products with preferential terms or partial guarantees; strategic partnerships with agroecological actors; and recognition mechanisms, certification, eco-labelling, dedicated marketing channels that reward farmers who make the transition and encourage others to follow.

Tools available to support your assessment of the transition

A recurring challenge identified above is the difficulty of measuring and monitoring agroecological performance with the rigour that credit decisions and reporting to regulators, shareholders or green-bond investors require. Several tools have been developed specifically to close this gap and can be adapted for use by Agri-PDBs at different stages of the credit cycle, from screening a loan application to monitoring impact over the life of a portfolio.

TAPE, Tool for Agroecology Performance Evaluation (FAO). Developed by FAO, TAPE provides a structured methodology for assessing the extent and performance of agroecological transitions at farm or territorial level. It combines a "core characterisation" of farming practices against FAO's 10 Elements of Agroecology with a set of performance modules covering environmental, social, economic, and governance dimensions. For an Agri PDB, TAPE can serve as a baseline diagnostic tool at the loan appraisal stage and as a monitoring instrument to track a client's progression over time, offering a common language and comparable indicators across a diversified portfolio of agricultural clients.

B-ACT, Business Agroecology Criteria Tool (Biovision). Developed by the Swiss foundation Biovision, B-ACT assesses how far an enterprise's business model, operations and strategy align with the 13 principles of agroecology established by the High-Level Panel of Experts on Food Security and Nutrition (HLPE). Unlike TAPE, which is oriented towards farm-level practice, B-ACT is designed for assessing enterprises and value-chain actors, including agri-food SMEs, cooperatives, and agricultural input or processing businesses, making it a useful complement for Agri-PDBs financing agroecological enterprises further along the value chain, not only primary producers. The assessment (typically 2–3 hours per enterprise) produces a visual agroecology score, flags potential conflicts with agroecological principles, and generates concrete suggestions for improvement, information that can directly feed into credit risk assessment, investment screening, and portfolio-level reporting. A lighter "Agroecology Check for Enterprises" is also available for rapid screening of a larger pipeline before a fuller B-ACT assessment.

Participatory Guarantee Systems (PGS) Agroecological Assessment. PGS are locally focused, peer-to-peer quality assurance systems in which producers, and often consumers, technicians, NGOs or local

authorities, jointly define and verify compliance with organic and agroecological practices, without relying on costly third-party certification. Because they are low-cost, trust-based and rooted in local knowledge, PGS are particularly relevant for smallholders in the Global South who would otherwise be excluded from certification-dependent markets. For an Agri-PDB, active PGS membership or certification can serve as a practical, low-cost proxy indicator of a borrower's genuine engagement with agroecological practices, useful for screening loan applications, informing preferential terms, or supporting farmers' access to differentiated markets. Evidence from Vietnam, for example, shows that PGS participation has been associated with significant gains in farm profitability and measured agroecology performance, alongside greater diversification of sales channels.

Taken together, these three tools address different points in an Agri-PDB's due-diligence and monitoring chain: **TAPE for farm-level diagnostic** and performance tracking, **B-ACT for assessing enterprises and value-chain investments**, and **PGS for a locally verified, cost-effective signal of practice at the level of individual borrowers**. Agri-PDBs do not need to choose a single tool: many institutions are likely to find it useful to combine a lightweight screening instrument (such as a PGS certificate or the Agroecology Check for Enterprises) at the point of loan origination with a more detailed diagnostic (TAPE or full B-ACT) for larger exposures or for monitoring over the life of a project, in order to satisfy internal risk management needs as well as external reporting requirements linked to subsidies or green bond issuance.

The medium- and long-term case for your institution

Economic benefits

Agroecology strengthens farm resilience through diversification and reduced dependence on external inputs, which lowers credit risk for your bank. It diversifies farmer income and improves resilience to market shocks. It reduces production costs by cutting reliance on costly chemical inputs. And it opens access to differentiated markets, where growing demand for sustainably produced food often commands higher prices, improving farmers' capacity to repay and generating a positive institutional image that can attract new investors and partners.

Environmental benefits

Agroecological practices preserve agricultural biodiversity through crop diversification, polyculture and agroforestry, and the conservation of local and traditional varieties. Reduced reliance on ploughing, nitrogen fertilisers and chemical inputs lowers greenhouse gas emissions, while improved soil structure enhances water retention, increasing the resilience of the farms in your portfolio to extreme weather events.

Social benefits

Social benefits. The transition can generate employment across agricultural production, local processing and marketing, related services and infrastructure (short supply chains, training centres, certification systems) and research and innovation - contributing to broader rural development goals that align with the public mandate of your institution.

An institutional example

Banco Nacional de Desenvolvimento Econômico e Social (BNDES), Brazil - a national development bank comparable in mandate to many PDBs in the Global South has established dedicated credit lines for agroecological projects. Its "BNDES Pro-Sustainable Agriculture" programme offers preferential-rate loans to farmers and agricultural businesses adopting agroecological practices such as agroforestry, sustainable irrigation and organic production, and the bank works in partnership with research organisations and NGOs to promote agroecology nationally. This experience illustrates that a public development bank in the Global South can integrate agroecology into its core strategy without abandoning its financial sustainability objectives.

In summary

For the leadership of an agricultural development bank, the agroecological transition is best understood not as an additional obligation, but as a risk-management and portfolio-resilience strategy: it reduces exposure to climate shocks, input-price volatility and resource scarcity among the farmers you finance, while opening new market opportunities and reinforcing your institution's public mandate. The transition requires deliberate strategic choice, adapted financial and technical tools, and sustained partnerships, but the experience of peer institutions shows it is both achievable and compatible with financial sustainability.

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