

Financing Sustainable Agribusiness in a Changing Climate: Investment, Incentives, and Levers for Food System Transformation

Babarinde Taofeek Olajide ¹; Taiwo Akinkunmi Mojeed ¹; Christopher Chibuike Nzekwe ²; Dorcas Imoh Udo ³; Samuel Fawedikimo ⁴; and Olachi Azino⁵

¹Department of Agricultural Economics, Ladoke Akintola University of Technology, Ogbomoso, Nigeria.

²Department of International Business/Finance/Economics, Ulster University. ³Department of Public Administration, Abia State Polytechnic, Nigeria. ⁴Department of Banking and Finance, Delta State Ministry of Finance / Department of Planning and Research Statistics (DPRS), Nigeria. ⁵Department of Economics, University of Maiduguri, Nigeria.

Corresponding author: babarindeolajide88@gmail.com

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Abstract

The global agrifood sector faces a dual challenge: ensuring food security for a growing population while adapting to and mitigating the effects of climate change. Agriculture is among the most climate-sensitive industries and a major contributor to greenhouse gas emissions, yet it remains chronically underfunded in terms of sustainability-focused innovation and resilience-building. Despite increasing awareness of environmental risks, sustainable agribusiness continues to struggle with financing gaps due to short-term investment priorities, risk aversion, limited institutional capacity, and misaligned policy frameworks. These challenges are particularly acute in the Global South, where smallholder farmers and climate-smart enterprises face persistent barriers to accessing capital. This review explores the financial architecture supporting climate-resilient agriculture, with a focus on three critical areas: (1) emerging investment models such as blended finance, impact investing, and ESG-aligned funds; (2) market-based incentives like carbon markets, certification schemes, and value chain branding; and (3) economic and policy tools, including green subsidies and sustainable procurement. Drawing on case studies from Africa, Southeast Asia, and Latin America, it highlights both opportunities and structural bottlenecks within the current system. Despite growing interest and new financial instruments, issues like data scarcity, risk management deficiencies, and the lack of inclusive, scalable business models continue to hinder progress. The review offers practical recommendations for aligning finance with sustainable development goals, calling for a systems-based approach that integrates environmental, social, and economic priorities. Without bold reforms and inclusive capital mobilization, global food security and climate resilience will remain out of reach.

Keywords: Sustainable Agribusiness, Climate-Smart Agriculture, Climate Finance, Agricultural Finance, Impact Investing.

Introduction

One of the most important worldwide issues of the twenty-first century is ensuring food security while protecting the environment. For millions of people, especially in the Global South, food security—which the FAO defines as the availability, affordability, and accessibility of food—remains elusive. Malnutrition remains a major public health concern, with the UN estimating that over 735 million people experienced hunger in 2023 (FAO et al., 2023). At the same time, agricultural practices are having an unsustainable negative impact on the environment. Existential risks to ecological balance arise from the existing trajectory of food production systems, which includes deforestation, soil degradation, and freshwater depletion. Due to its high emissions of greenhouse gases (GHGs), especially nitrous oxide and methane, agriculture also plays a major role in climate change. Agriculture, forestry, and other land uses are responsible for about 24% of the world's GHG emissions, according to the IPCC (2019). Unsustainable farming methods, an over-reliance on artificial fertilizers and pesticides, and the spread of agricultural land into carbon-rich ecosystems are the main causes of these emissions. Ironically, by making droughts, floods, and insect outbreaks more frequent and severe, climate change then feeds back into food systems, resulting in a vicious cycle of susceptibility and decline.

The importance of incorporating ecosystem-based approaches into agricultural investment plans is being emphasized more and more by emerging research. Agroecology, reforestation, and wetland restoration are examples of nature-based solutions (NbS) that can provide long-term benefits by enhancing biodiversity, soil health, and water retention—all of which are essential components of drought resistance. (Seddon et al., 2021) claim that these solutions are beneficial for both climate adaptation and mitigation, particularly when incorporated into community-led agribusiness projects. Furthermore, developments in AI-powered farm monitoring systems, satellite photography, and remote sensing are assisting investors in reducing information asymmetry and quantifying ecological impacts (Bonilla et al., 2020). These technologies have the potential to enable climate-aligned financial products and draw investment into previously unconsidered or opaque sectors, especially in agricultural zones that lack data or are vulnerable. It is not only desirable, but also necessary to change the world's food systems in light of these two imperatives.

Two interrelated objectives must be pursued by this transformation: lowering the environmental impact of agricultural operations and boosting productivity and resilience to feed the world's expanding population. It is becoming more and more clear to investors, experts, and policymakers that tackling environmental sustainability and food security separately is no longer feasible. To fulfill the complex demands of a planet that is changing quickly, a systems-level strategy that integrates social, environmental, and economic goals is required. To close these gaps, new investment strategies are becoming more and more promising. In developing nations, blended finance—a combination of commercial and concessional capital—is assisting in lowering the risk of sustainable agricultural investments (Convergence, 2020). Agribusinesses that generate social and environmental returns are also receiving funding from impact investors and ESG-integrated funds (UN PRI, 2021).

Smallholders' access to climate-adaptive solutions is being further expanded via digital finance platforms, such as weather-indexed insurance and mobile-based microcredit (IFAD, 2020; AgFunder, 2023).

In order to create financial systems that promote inclusivity and resilience, these innovations are essential. In order to support climate-resilient agriculture in a changing climate, this analysis looks at how financial systems, investment strategies, and economic policies might be better matched. Through a synthesis of international literature and case studies from Africa, Latin America, and Southeast Asia, it investigates three interconnected pillars: investment models, market incentives, and economic levers. The study identifies important obstacles to scalability and effect and presents workable strategies for unlocking resources, drawing on insights from organizations including the World Bank, FAO, IFC, and GIIN. Finally, in order to improve the global food system in the face of climate change, it promotes audacious, inclusive, and coordinated financial reform.

Statement of the Problem

The Global Climate Fund (GCF) has adopted a predominantly public sector-led strategy in support of CSA projects, with the majority of finance to CSA provided through grant financing, and with an explicit focus on adaptation. Yet, the agriculture sector in many countries is driven by the private sector, typically smallholder farmers. The high level of co-funding – with finance from public and private sources outside of the GCF – is a unique feature of the GCF CSA project portfolio. In contrast, the World Bank has adopted a private–public partnership approach, relying largely on concessional loans and infrastructure investments. For CSA, the portfolio is dominated by projects targeting mitigation.

The global agribusiness system is under increasing pressure from climate change, food insecurity and unsustainable farming practices. Innovative finance tools such as blended finance, ESG investing, and carbon markets, some challenges continue to hinder scalable investment, particularly in world's developing and underdeveloped countries. Some of the challenges include: Limited access to finance, scarcity of data and weak monitoring frameworks, lack of scalable business models and bankable projects.

Objective of the Review

The general objective of this study is to determine the financing strategies, investment models, market incentives and levelers for transforming food systems. The specific objectives are:

1. To determine the financial barriers faced by small holder farmers and agribusiness owners in developing and underdeveloped countries
2. To know the role of data availability and strong monitoring framework in guiding sustainable agribusiness investments and evidence-based financial decision making.
3. To evaluate the constraints to developing scalable and sustainable agribusiness models for improving their bankability.

Scope and Structure of the Review

In light of climate change, this review aims to examine the complex field of sustainable agricultural finance. Economic levers, market incentives, and investment models form its three primary pillars. Financial systems can facilitate the shift to a sustainable global food system through each of these essential mechanisms. The evaluation looks at emerging financial instruments, regulatory frameworks, and real-world case studies in order to give investors, policymakers, and development professionals useful information. We examined investment models that are promoting sustainable agribusiness in the first section. This covers topics including impact investing, venture capital, public-private partnerships, and blended finance. The focus will be on how these models may spur innovation throughout the agrifood value chain, mobilize resources, and reduce investment risk. We'll use case studies from Asia, Latin America, and Africa to show how various investment approaches can be tailored to local conditions. Market-based incentives for sustainability are covered in the second part. This involves examining how agribusiness behavior is influenced by carbon pricing, ecolabels, certification programs, and procurement regulations. We look at how markets might encourage accountability, transparency, and climate-smart activities. Lastly, the final section explores economic levers that can be in line with sustainability goals, including trade policy, taxation, and subsidy reform. In order to provide a comprehensive vision of the future of sustainable agribusiness in a changing climate, we highlight throughout the review the connections between finance, policy, and environmental consequences.

Conceptual Framework

Agribusiness as a Key Lever in Transforming Food Systems

There is a great deal of potential for systemic change in agribusiness, which includes businesses that produce, process, distribute, and market food and agricultural goods. Agribusiness has the size, resources, and clout required to adopt innovative production methods and technology that support both economic viability and environmental sustainability, in contrast to traditional, subsistence-level agriculture. Modern agribusinesses may minimize environmental damage and maximize resource utilization by utilizing data analytics, precision farming, and climate-smart inputs (World Bank, 2020). Additionally, by connecting rural produce to urban and international markets, agribusiness serves as a conduit between farmers and consumers. Through product innovation, branding, and sustainable sourcing methods, agribusiness can influence consumer demand and market dynamics thanks to this intermediate role. In addition to having an impact on their supply chains, agribusinesses that embrace sustainability—whether through regenerative agriculture, food waste reduction, or biodiversity support—also establish standards for industry-wide change. Although there are still large implementation and accountability gaps, companies like Nestlé, Unilever, and Danone have already started to link business strategies with sustainability and climate resilience targets (WBCSD, 2021). However, social equality must be addressed as part of agribusiness's revolutionary role.

Sometimes smallholder farmers have been forced out of business by large agribusiness companies, and other times, abusive labor practices have been maintained. In order for smallholders, women, and indigenous people to profit from agribusiness investments, a truly sustainable food system must be inclusive. It is possible to guarantee that agribusiness acts as a stimulant for widespread growth rather than a cause of marginalization by promoting fair partnerships, local value addition, and cooperative business models (IFAD, 2021). Given this, it is both strategically and morally necessary for agribusiness to transform into a sector that is socially and environmentally responsible.

Rising Need for Innovative, Inclusive, and Climate-Aligned Finance

Even while the value of sustainable farming is becoming more widely recognized, one significant barrier still exists: financing. Agribusiness models that are climate-aligned can entail long-term investments, include perceived risks, and call for additional infrastructure or expertise. Conventional financial institutions usually lack the resources or motivation to support these kinds of endeavors, particularly in developing nations where capital markets are still in their infancy and risk perceptions are high. Smallholder farmers and sustainable businesses are disproportionately underserved as a result of the significant finance gap (OECD, 2021). To fill this void, new financial products are starting to appear. To reduce the risk of sustainable agriculture projects and draw in commercial investors, blended finance—which blends private investment with public or philanthropic capital—is being utilized more and more. Similarly, there are ways to direct funds toward climate-smart behaviors through carbon credits, sustainability-linked loans, and green bonds. There is optimism that financial markets will support the shift to sustainable food systems as investment funds centered on impact and environmental, social, and governance (ESG) criteria are growing (GIIN, 2022). But without inclusiveness, creativity is insufficient on its own. Since smallholder farmers are the backbone of agriculture in many areas, financial systems must be made to reach these groups. These communities can have better access to credit, insurance, and savings through digital finance, mobile banking, and decentralized finance (DeFi) networks. However, these solutions need to be supported by investments in infrastructure, legislative reform, and financial literacy. Since the resilience of the global food system depends on the resilience of its most vulnerable actors, climate-aligned finance must be both transformational and egalitarian.

Defining Sustainable Agribusiness: Economic, Environmental, and Social Dimensions

Businesses involved in agriculture and food production that run in a way that is socially conscious, environmentally responsible, and economically feasible are referred to as sustainable agribusiness. Fundamentally, sustainable agribusiness aims to strike a balance between social justice, natural resource conservation, and productivity and profitability. By taking a three-pronged approach—economic, environmental, and social—agricultural value chains are guaranteed to support equitable growth, respect ecological boundaries, and contribute to long-term food security. Economically, sustainable agribusiness must increase resilience to shocks like market volatility or climate catastrophes while producing

enough returns for all participants in the value chain, including farmers, processors, distributors, and consumers. This includes methods that increase value through processing and branding, lower input costs through efficiency, and gain access to a variety of markets through certifications or traceability systems. In addition to ensuring a company's existence, profitability is crucial for drawing in the capital required for renovations focused on sustainability (Porter & Kramer, 2011). The environmental dimension entails implementing climate-smart and regenerative strategies to reduce agriculture's ecological imprint. Enhanced water management, soil conservation, integrated pest management, decreased use of chemical fertilizers, and ecosystem restoration are a few of these. Through practices like agroforestry and carbon sequestration, and biodiversity preservation, sustainable agribusiness is also essential to climate adaptation and mitigation (FAO, 2019). Socially speaking, sustainable agribusiness places a strong emphasis on gender parity, labor rights, inclusion, and equitable revenue distribution. This entails establishing respectable employment opportunities, assisting smallholder and indigenous producers, and guaranteeing that women and young people have fair access to land, capital, and education. Initiatives for corporate responsibility that involve local communities and uphold human rights across supply chains are also included (IFAD, 2021). Together, these elements serve as the cornerstone of an agribusiness that is just, regenerative, and productive.

Defining Climate Finance, Green Investment, and Blended Finance

Climate finance is any local, national, or international funding that is expressly intended to help climate change adaptation and mitigation efforts. It can come from public, private, or alternative sources. According to the UNFCCC, it is money intended to lower greenhouse gas emissions or increase resilience to the effects of climate change. Climate finance is essential for agriculture in order to introduce drought-resistant crops, increase irrigation efficiency, scale up sustainable land use, and construct climate-shock-resistant infrastructure (UNFCCC, 2022). A more general term for investments made in assets or programs that support environmental goals, such as combating climate change, is "green investment." Sustainable agriculture, waste minimization, ecosystem restoration, and renewable energy are frequently the focus of green investments. Green investments in agriculture could include financing for organic farming, solar-powered cold storage, or environmentally friendly supply chain management. Green bonds, sustainability performance measurements, and environmental, social, and governance (ESG) criteria are some of the instruments that investors use to inform their choices (OECD, 2021). Blended finance is a calculated strategy to raise private money for sustainable development by lowering the risks associated with investing in developing nations or frontier industries through the use of concessional financing, usually from public or charitable sources. It deals with the inability of markets to provide enough funding to industries that have a lot of potential for impact but poor initial profitability or significant risk. In order to entice private investors into climate-resilient farming or food processing, blended finance in sustainable

agriculture can take the shape of first-loss capital, guarantees, technical assistance grants, or results-based payments (Convergence, 2020). Blended finance mechanisms help close the gap between development objectives and commercial investment expectations by sharing risk and increasing profits.

A Framework Linking Capital Sources → Financial Instruments → Sustainability Outcomes

Developing a conceptual framework that connects capital sources, financial instruments, and sustainability outcomes is useful for financing sustainable agribusiness. With the help of this framework, stakeholders—including governments, investors, and development organizations—can comprehend how various forms of funding might contribute to certain economic, social, and environmental effects within the agrifood system. Public finances (such as government budgets and climate funds), private investors (such as banks, venture capitalists, and agribusiness firms), and philanthropic organizations (such as foundations and non-governmental organizations) comprise the capital sources at the top of the framework. An important intermediate role is also played by multilateral development banks, such as the World Bank and IFAD. The kinds of instruments that each capital source supports are influenced by its unique time horizon, return expectation, and risk tolerance (GIIN, 2022). The financial instruments, which act as means of managing and allocating capital, come next. These include commercial debt and equity (private sector), guarantees, insurance products, green and sustainability-linked bonds, grants and concessional loans (mostly public/philanthropic), and mixed finance arrangements. Agrifood systems are also seeing an increase in the use of cutting-edge instruments, including revolving funds, carbon credits, and results-based finance. These tools vary in how risk is distributed, performance is rewarded, and accountability is maintained (OECD, 2021). Sustainability results, the last element, must be in line with important development and climate goals. Higher production, income stability, and market access are examples of economic outcomes; decreased emissions, higher biodiversity, and better soil and water health are examples of environmental outcomes; and inclusion, empowerment, and livelihood resilience are examples of social outcomes. Stakeholders can guarantee that finance becomes a lever, not an obstacle, for restructuring agribusiness in the era of climate change by creating financing strategies that match financial sources and instruments with desired objectives (UNDP, 2021).

Economic Levers and Policy Instruments

The financial environment around sustainable agribusiness is significantly shaped by governments and multilateral organizations. When subsidies are in line with environmental and climate goals, they can encourage constructive behavior change. Subsidies that promote climate-resilient seed adoption, less pesticide usage, or better water use, for instance, aid in the transition of incentives from extractive to regenerative practices. Performance-based assistance, as opposed to general fertilizer and fuel subsidies, improves both financial efficiency and environmental effect (OECD, 2021). Policies pertaining to

public procurement are also effective levers. Governments establish steady demand for climate-aligned agriculture by giving preference to sustainably produced items in military contracts, hospitals, and school feeding programs. The balance is further tipped in favor of sustainable investments by fiscal incentives, such as tax credits for carbon sequestration techniques or VAT exemptions for solar-powered irrigation (World Bank, 2021). Agrifood investment strategies are being impacted globally by legal frameworks such as sustainability reporting standards and climate disclosure obligations. Organizations like the International Sustainability Standards Board (ISSB) and the Task Force on Climate-related Financial Disclosures (TCFD) are establishing standards that influence investor expectations and compliance needs. In addition to funding, multilateral organizations like the World Bank, IFAD, and FAO also offer technical frameworks and policy recommendations (IFC, 2020). Regional blocs like the African Continental Free Trade Area (AfCFTA) are supporting cross-border standards and climate-smart trade corridors (World Economic Forum, 2022).

Methodology

The materials analyzed in this review were obtained primarily from different peer-reviewed journals, review papers, conference proceedings, and other relevant research works that directly addressed the focus of this study all of which were from reputable and credible academic databases, including Google Scholar, Epubs, Scopus, Cambridge, Springer, tandfonline, Researchgate. The reviewed papers were either available as open-access (free to readers) or subscription-based access (available only to subscribers); this was done to ensure a comprehensive and exhaustive approach to the available information, as it concerned my search focus, an approach that provided a balanced perspective across the spectrum of current research. To narrow down the search for appropriate literature, relevant keywords and phrases were employed. These included: "Financing" "Sustainable Agribusiness" "Changing Climate" "Investment Models" "Market Incentives" "Economic Levers" "Transforming" "Global Food System". These terms were used with Boolean operators such as AND, OR, and NOT to refine the search process. AND and OR were used to get a broad list of relevant materials, while NOT was used to exclude unrelated or less useful materials. Although there was no strict restriction on publication year, more recent studies that built upon earlier findings were prioritised, especially those that offered new insights or updated perspectives. Initially, articles were screened by their titles and abstracts to eliminate those that lacked relevance to the subject matter. Only those that engage meaningfully with the link between financing, changing climate and sustainable agriculture were retained for full-text review. Papers that focused entirely on investment models without paying attention to broader sustainable agribusiness in a changing climate were not considered, as they fell outside the scope of this review. Once relevant studies were identified, the data were carefully analyzed to uncover common patterns in financing approaches, policy frameworks, and adaptive investment strategies within sustainable agribusiness. Emphasis was placed on climate-resilient economic mechanisms such as

blended finance models, climate-smart subsidies, innovative insurance schemes, and investment in nature-based solutions. These patterns were then categorized into broader themes to highlight transformative financial trends and examine how such strategies can be integrated into agribusiness development programs. The goal is to enhance the resilience and productivity of agricultural systems, particularly in the global world.

Discussion

Table 1: Overview of Research on Financing Strategies for Sustainable Agribusiness under Climate

Author / Source	Focus / Research Area	Methodology Summary	Key Findings	Relevance to Climate-Resilient Agribusiness
GIIN (2022)	Impact investing in agriculture	Investor survey on ESG and impact-driven portfolios	Increased ESG integration and demand for measurable sustainability impacts	Drives investment in regenerative and climate-smart farming, benefiting drought resilience
Convergence (2020)	Blended finance for sustainable agriculture	Global review of blended finance mechanisms	Concessional capital reduces risk and unlocks private investment	Supports CSA projects that would otherwise be underfunded due to high risk (e.g., drought resilience)
FAO (2019)	Payments for Ecosystem Services (PES)	Implementation analysis of PES in agrifood systems	PES compensates for biodiversity, soil, and water conservation	Encourages sustainable land use and water retention practices critical in drought-prone areas
IFAD (2020)	Weather-indexed insurance & inclusive finance	Case studies in Kenya, India, Ethiopia	Climate-indexed insurance builds resilience and reduces post-shock poverty	Protects farmers against crop failure during droughts and improves credit access
World Bank (2021)	Financing climate-smart agriculture	Toolkit and global implementation review	Identifies green bonds, CSA subsidies, and sustainable procurement as enablers	Facilitates adoption of irrigation systems, drought-resistant seeds, and CSA infrastructure
UN PRI (2021)	ESG integration in agricultural investing	Policy guidance and investment framework	ESG practices enhance transparency, de-risking and long-term value	Supports agribusinesses aligned with sustainable and drought-adaptive goals
AgFunder (2023)	AgriFoodTech innovation	Investment trend analysis	Growing funding in climate-smart tools (e.g., AI irrigation, mobile finance)	Provides smallholders with tech-driven tools for precision water use and climate prediction
UNCTAD (2022)	Certification and market access	Case study-based market analysis	Certifications improve access to finance, premium markets, and ESG credibility	Promotes sustainable practices that build resilience in drought-affected regions
Gold Standard (2022)	Voluntary carbon markets in agriculture	Technical and market integration analysis	Carbon credits fund agroforestry and methane-reducing practices	Supports sustainable income for farmers implementing drought-adaptive methods
OECD (2021)	Economic levers and subsidy reform	Policy analysis on blended finance and subsidies	Encourages redirection of subsidies toward climate-aligned outcomes	Facilitates regenerative practices like water efficiency and low-emission inputs
FAO et al., (2023)	Food insecurity and agrifood transformation	Global assessment report	735M people face hunger; calls for sustainable food systems	Highlights urgency of financing climate-resilient agriculture in food-insecure, drought-prone regions
IPCC (2019)	Climate change and agriculture	Global scientific assessment	Agriculture responsible for ~24% of GHGs; vulnerable to climate shocks	Emphasizes urgency of CSA and funding systems that support drought and emissions adaptation

Table 1: Contd.

Author / Source	Focus / Research Area	Methodology Summary	Key Findings	Relevance to Climate-Resilient Agribusiness
IFC (2020)	Inclusive agribusiness and rural investment	Sector report and investment case analysis	Blended finance and long-term credit are key to inclusive growth	Supports expansion of CSA to underserved rural communities vulnerable to drought
WBCSD (2021)	Corporate sustainability leadership	Business case studies and strategic policy brief	Major agrifood companies aligning supply chains with climate goals	Encourages industry-wide adoption of drought-smart practices and sourcing standards
World Economic Forum (2022)	Regenerative agriculture investment	Global policy recommendations	Institutional investors increasingly backing soil health and biodiversity projects	Attracts capital to regenerative farming models that increase drought resilience
UNDP (2021)	Finance-policy alignment frameworks	Development finance guide	Capital strategies must align with climate, economic, and social targets	Helps governments integrate drought adaptation goals in financial policy frameworks
Porter & Kramer (2011)	Creating shared value in business	Conceptual framework and case discussion	Shared value links profitability with social/environmental benefits	Promotes inclusive agribusiness models that deliver both resilience and equity

The research carried out by Food and Agriculture organization (FAO, 2019) adopted an implementation analysis approach to assess the use and outcome of payments for ecosystem services (PES) within agrifood systems. This method involved evaluating real-world deployment of PES initiatives focusing on how financial compensation for ecosystem conservation contributes to long term agricultural sustainability and resilience. This study aligns with and builds upon earlier study carried out by Wunder, (2005) but differs in term of methodological approach and scope. While Wunder (2005) provided a foundational theoretical framework for PES, emphasizing the importance of conditionality and clearly defined services, the FAO (2019) study goes further by assessing how these principles are applied. The Agfunder (2023) study aligns with the recent research trends emphasizing the growing role of technology in agricultural finances, particularly in climate smart agriculture. The study of (FAO et al., 2023) focused on food insecurity and agrifood transformation, while the early research carried out in 2011 by FAO primarily focused on hunger metrics and food availability, lacking the integrative emphasis on transformational financing mechanism that define the 2023 report. The world economic forum (2022) based its findings on global policy recommendations supported by multi-stakeholder consultation. The methodological focus was on identifying institutional investor behaviors towards sustainable agriculture and recommending enabling policy framework. This aligns closely with the work of Toth and Rendall (2017), where they explored the potential impact of investment in sustainable agriculture. Both studies emphasize the important impact of mobilizing capital for environmental and social return in agriculture.

The International Fund for Agricultural Development (IFAD, 2020) employed on a case study methodology, analyzing data from Kenya and Ethiopia. The focus was on understanding how weather-indexed insurance schemes and inclusive finance models have

supported small holder farmers in reducing the adverse effect of climate variability and enhancing financial inclusion. This study aligns with the previous research of Hazell et al., (2010) where they examined the effectiveness of weather-indexed in low agricultural economies.

Emerging Investment Model

New investment models have surfaced to match money flows with sustainable agricultural goals in response to the shortcomings of conventional financing. Impact investing, which focuses on businesses that produce quantifiable social and environmental benefits in addition to financial rewards, has been increasingly popular among these. For example, early-stage agribusinesses that promote smallholder livelihoods, climate adaptation, and food system resilience in emerging markets are invested in by funds such as AgDevCo and the Acumen Resilient Agriculture Fund (GIIN, 2022). Additionally, blended finance has emerged as a crucial instrument for closing the financial gap. Blended financing arrangements can stimulate investments into high-impact but financially marginal projects by utilizing concessional capital from public or charitable sources to reduce the risk associated with private participation. Innovative projects that might normally find it difficult to obtain funding, such solar-powered irrigation, the manufacturing of organic inputs, or sustainable cold chains, can be supported by investors through mechanisms like first-loss guarantees, matching grants, and technical assistance facilities (Convergence, 2020). Similar to this, climate-smart subsidies are being redesigned to reward sustainable activities like carbon sequestration, cover crops, and water efficiency, moving away from input-based assistance and toward results-based funding. The increasing focus on ESG (Environmental, Social, and Governance) factors in investing choices is a fundamental aspect of these new models. Agribusiness projects are evaluated for their carbon footprint, water use efficiency, biodiversity impacts, labor practices, and governance structures in addition to profitability via ESG-integrated portfolios. Global frameworks that encourage sustainable and transparent capital deployment, such as the Principles for Responsible Investment (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD), are gaining traction among institutional investors, including pension funds and sovereign wealth funds (UN PRI, 2021). This signals a change to more comprehensive investment strategies that promote long-term value generation throughout the agrifood chain.

Institutional Investors and AgTech Startups

Through their backing of AgTech startups and regenerative agriculture, in particular, institutional investors are increasingly contributing to the transformation of the agribusiness environment. Private equity (PE) and venture capital (VC) businesses have been investing more in technology advancements that have the potential to improve agriculture's productivity, sustainability, and data-drivenness. These include climate-risk analytics, blockchain-based traceability systems, vertical farming, AI-powered crop monitoring, and precision farming technologies. A new generation of climate-smart agritech entrepreneurs is being fostered in places like Southeast Asia and Sub-Saharan

Africa via tech accelerators and innovation centers like Thrive Agrifood, Village Capital, and The Yield Lab (AgFunder, 2023). Additionally, private equity firms are joining the market, focusing on regenerative agriculture, which is a set of farming practices that improve biodiversity, restore soil health, and sequester carbon. Funds that buy farms or collaborate with them to shift them to regenerative methods are being structured by companies such as Farmland LP and Regenerative Investment Strategies. These funds then monetize sustainability outcomes through carbon credits and other premium markets. Similarly, family offices and mission-driven investment firms are prioritizing food innovation ventures that produce alternative proteins, recyclable packaging, and low-emission food processing technologies. In addition to increasing the amount of capital accessible to agribusinesses, the increasing interest from institutional investors is promoting accountability, professionalization, and data transparency. But there are still obstacles to overcome, particularly when it comes to growing inclusive investments that help marginalized communities and smallholder farmers. Unless combined with inclusive business strategies, venture capital's preference for tech-intensive, scalable models may exclude low-income producers. In order to guarantee fair access and shared benefits within the agrifood system, it is imperative that institutional capital be combined with inclusive design principles and regulatory frameworks (World Economic Forum, 2022).

Trends in Agribusiness Finance and Investment Traditional Financing Mechanisms

Traditional methods have historically dominated agribusiness funding, especially through commercial banks, development finance institutions (DFIs), and microfinance institutions (MFIs). These channels have mostly provided short- and medium-term credit products, including trade finance, equipment financing, and working capital loans. Microfinance organizations usually assist smallholders and operators in the unorganized sector, whereas commercial banks service larger agricultural firms and cooperatives. DFIs, which include organizations like the International Finance Corporation (IFC) and the African Development Bank, offer long-term concessional loans and guarantees with the goals of enhancing food security, bolstering agribusiness value chains, and developing rural infrastructure (IFC, 2020). Nevertheless, these methods frequently fail to provide the complete financial requirements of sustainable agribusiness transformation, despite their fundamental importance. Traditional lending methods continue to be risk conservative due to limited collateral, high transaction costs in rural locations, and worries about weather instability. Many financial institutions underinvest in innovation and long-term resilience because they lack the specialized knowledge necessary to evaluate the risks and rewards of climate-smart or regenerative operations. Furthermore, even though microloans are widely available, they are usually short-term and high-interest, which makes them less appropriate for capital-intensive sustainable improvements (World Bank, 2021). Furthermore, traditional finance providers' measures typically prioritize financial returns over social or environmental impact factors. Practices that may not provide immediate financial gains but are essential for long-term sustainability, such as soil regeneration, emissions reduction, or

community empowerment, are rarely taken into consideration in credit evaluations. Alternative financing methods that are more in line with environmental and developmental goals are therefore required, as this limited focus limits the amount and type of funding available to agribusinesses achieving sustainability goals (OECD, 2021).

Challenges and Barriers

Even though there is increasing support for sustainable agriculture finance, a number of intricate issues involving market structures, institutional capacity, financial inclusion, and climate vulnerability continue to impede the shift.

Limited Access to Finance for Underserved Groups

Smallholder farmers are still mostly shut out of official financing channels, especially women and young people. Women make up about half of the agricultural workforce in developing nations, but they suffer structural obstacles when trying to obtain loans, land, and inputs, reported to the FAO (2022). These include social norms that limit mobility or access to cooperatives, discriminatory inheritance laws, and a lack of land titles, which are necessary for collateral. Similarly, despite the demographic opportunity they represent in places like Sub-Saharan Africa, young agriculture entrepreneurs face a lack of mentorship and risk capital.

Data Scarcity and Weak Monitoring Frameworks

The creation of strong green finance tools is hampered by the absence of trustworthy data on soil health, carbon sequestration, biodiversity results, and climate threats. Investors find it difficult to evaluate effect and de-risk portfolios appropriately, and agribusinesses frequently lack the ability to track and report on ESG (Environmental, Social, and Governance) criteria (UN PRI, 2021). Despite agriculture's extremely localized and variable consequences, the majority of climate financing tracking tools are made for the energy or transportation sectors. Furthermore, climate risk information—such as drought, flood, and temperature variability projections—is either unavailable or too imprecise to be useful in making decisions at the farm level. This reinforces the financial exclusion of disadvantaged producers by preventing lenders and insurers from customizing products to real-world vulnerability (IFAD, 2020).

Short-Termism in Finance and Misaligned Incentives

The extended time horizons needed for sustainable land restoration or ecosystem recovery clash with the short-term return expectations of many agricultural investors. The majority of investment horizons are less than five years, and it frequently takes five to ten years to see quantifiable returns on investments in regenerative methods like agroforestry, composting, or holistic grazing (GIIN, 2022). Innovation is discouraged by this mismatch, particularly for institutional investors that oversee sizable portfolios.

Agrifood systems incentive structures are likewise out of alignment. For instance, market distortions caused by input subsidies for fossil fuels or synthetic fertilizers render

sustainable alternatives unappealing from a financial standpoint. Green financing methods are not sufficiently competitive until detrimental subsidies are phased out in a coordinated manner and incentives are redirected (OECD, 2021).

Policy Fragmentation and Weak Institutional Coordination

Integrated approaches that connect economics, climate change, and agriculture are lacking in many governments. The environment, finance, and agriculture ministries frequently work independently, issuing contradictory orders or overlapping regulations. The private sector may receive conflicting signals, for example, if one ministry supports organic farming while another subsidizes industrial fertilizers. This policy fragmentation causes inefficient climate financing allocation and slows change (World Bank, 2021). Further impeding the development and implementation of novel financial instruments like green bonds or blended finance vehicles are institutional capacity limits, particularly in low-income countries. The absorption capacity of climate money is diminished and private co-financing is discouraged by regulatory bottlenecks, sluggish approval procedures, and inadequate public financial management systems (Convergence, 2020).

Climate Shocks and Fragile Contexts

Droughts, floods, and pest outbreaks are examples of climate-related calamities that continue to destroy infrastructure and agricultural productivity. These shocks combine with political unpredictability, migration, and poor governance in fragile and conflict-affected environments to undermine investor trust and impede project execution. Agribusiness is a high-risk industry in many vulnerable countries due to its limited adaptive ability and sensitivity to many hazards, which hinders the flow of both domestic and foreign capital (IFC, 2020).

Lack of Scalable Business Models and Bankable Projects

A lot of agribusiness sustainability projects are still pilot-scale, with little chance of replication or expansion. Converting successful little projects into bankable, investment-ready models that can draw in commercial funding is the difficult part. This need for specialized financial structuring, producer aggregation (for example, through cooperatives), and standardization of processes. However, scale-up is limited, particularly in rural areas, by poor extension systems, a lack of expertise in business planning, and low digital penetration (World Economic Forum, 2022).

Case Studies

Africa: Blended Finance for Climate-Smart Agriculture (CSA)

Blended financing has become a key tool in Africa for attracting investment in Climate-Smart Agriculture (CSA), especially in nations like Nigeria and Kenya. These financing arrangements reduce the risk of investments in sustainable agricultural methods that increase resilience, productivity, and carbon sequestration by combining private capital

with concessional public funds. For instance, the World Bank and other partners' Kenya Climate-Smart Agriculture Project (KCSAP) uses grant funding in addition to private loans to encourage agroforestry, water harvesting, and drought-resistant crops (World Bank, 2021). In a similar vein, Nigeria has witnessed the growth of blended finance platforms that transfer capital to smallholder cooperatives for the adoption of CSA technologies, assisting in the removal of obstacles such as low collateral and elevated perceived risks (IFC, 2020). These programs demonstrate how blended financing can help smallholder farmers develop their capacity and share knowledge while balancing financial gains with social and environmental goals.

Latin America: Carbon Markets in Coffee and Cocoa Sectors

By utilizing sustainable production to produce both market premiums and climate benefits, Latin America has led the way in integrating carbon markets into agribusiness industries such as coffee and cocoa. Voluntary carbon markets provide financial incentives for farmers and cooperatives to embrace agroforestry, shade-grown coffee, and reforestation practices that absorb carbon while preserving biodiversity (Gold Standard, 2022). In nations like Peru and Colombia, producers can enhance their market positioning and access new revenue sources by combining carbon credit trading with certification programs. For example, a number of coffee cooperatives take part in carbon offset schemes that are validated by globally accepted criteria, drawing in impact investors and high-end brands that cater to consumers (UNCTAD, 2022). By promoting more robust rural livelihoods and diversifying sources of income, these marketplaces also aid in addressing price volatility. Standardizing measurement techniques and guaranteeing fair benefit-sharing for smallholders are still difficult tasks, though.

Southeast Asia: Digital Financing for Regenerative Rice Farming

In terms of digital technologies for funding regenerative agriculture, particularly in the rice industry, Southeast Asia is a vibrant frontier. Fintech platforms and mobile-based credit systems are growing in countries like Vietnam and Thailand, providing small-scale rice farmers with customized financial products including climate risk insurance and loans for sustainable inputs (AgFunder, 2023). These online platforms lower transaction costs, increase transparency, and offer real-time data for tracking sustainability metrics at the farm level. Furthermore, collaborations among government organizations, microfinance organizations, and agritech companies are promoting the expansion of regenerative rice techniques such as organic fertilization, integrated pest control, and alternative wetting and drying (AWD) irrigation (GIIN, 2022). This ecosystem draws impact investors looking for scalable climate solutions while helping farmers increase yields and lower greenhouse gas emissions. However, widespread adoption is still constrained by digital literacy issues and infrastructure deficiencies.

Future Pathways and Research Gaps

Despite growing momentum in aligning agricultural finance with climate resilience, some gaps still exist, many of which are shown in the comparative review in table 1. The central research gap lies in the scalability of successful model. As seen in table 1, IFAD (2020), and Convergence (2020) focused on geographical and institutional based projects, but there is still inadequate evidence on how these models can be spread across broader agro-ecological zones. This is particularly evident in the limited translation of weather-indexed insurance or blended finance beyond developed countries.

Addressing the gaps require a forward looking strategies, involving technological innovations, inclusive finance and favorable policy. Future research should explore the integration of fintech, de-risking tools for sustainable investment, interdisciplinary framework that integrates finance, policy, technology and the environment. Lastly, inclusive business ecosystems through investment in capacity building, financial literacy, and business development in developing and underdeveloped countries.

Innovations in Fintech and Blockchain for Traceability and Finance

Technological advancements like blockchain and financial technology (fintech) have great potential to improve agrifinance's efficiency, financial inclusion, and transparency. For example, blockchain can facilitate smart contracts that reduce transaction risk and enhance traceability in agricultural value chains, which is essential for sustainability certifications and carbon accounting. Fintech platforms can provide smallholder farmers and agribusinesses, especially in underserved areas, with customized credit, insurance, and savings products. But research is required to:

- Examine these tools' accessibility and scalability in low-resource settings.
- Determine the necessary digital infrastructure and enabling policy.
- Analyze the long-term effects on market accessibility, food system resilience, and financial equity.

De-risking Tools for Sustainable Investment

High levels of perceived and actual risk are present in sustainable agribusiness, ranging from market volatility and regulatory uncertainty to climatic variability. Although they are becoming more popular, de-risking strategies including impact-linked returns, blended financing, climate insurance, and guarantees are still not being fully utilized. Additional effort is needed to:

- i. Create region-specific de-risking models that take into consideration the socioeconomic and agroecological circumstances of the area.
- ii. Examine public-private collaborations that fairly divide risk.
- iii. Calculate the return on investment (ROI) of de-risking tactics used to advance climate-resilient farming.

Interdisciplinary Frameworks Integrating Finance, Policy, Technology, and Environment

The intricacy of funding sustainable food systems necessitates a multidisciplinary, integrated strategy. It is urgently necessary to:

1. Create multidisciplinary frameworks that link climate research, agricultural development, environmental policy, and financial innovation.
2. To align resources and lessen policy fragmentation, encourage cross-sectoral cooperation.
3. Create pilot projects to evaluate integrated investment models and collect data on their effects on the system.

Market Incentives for Sustainability

Carbon Pricing and Payments for Ecosystem Services (PES)

How sustainability is regarded and rewarded is changing as a result of the incorporation of market-based environmental incentives into agricultural finance. Agriculture is becoming more and more interested in carbon pricing systems, such as carbon taxes or emissions trading programs, especially as regenerative practices' capacity to sequester carbon is acknowledged. VCMs are growing to incorporate credits from agroforestry, reduced methane rice farming, and the use of biochar, despite the fact that agriculture is frequently left out of compliance markets (Gold Standard, 2022). By implementing such strategies, agribusinesses can produce and exchange carbon credits, enhancing the feasibility of investments and generating an additional revenue stream. By compensating farmers for providing ecological advantages including enhanced soil health, biodiversity preservation, and water retention, Payments for Ecosystem Services (PES) further encourage sustainable land management. These payments, which can be set up through private contracts or public initiatives, have been successfully used to assist agroecological transitions in Africa and Latin America (FAO, 2019). When included into agribusiness finance, PES plans reduce risk and increase profits for projects focused on sustainability, particularly when combined with technical support or concessional loans. Strong measuring, reporting, and verification (MRV) systems are necessary to mainstream carbon and ecological service markets. Standardizing carbon baselines and environmental impacts is being aided by technological developments in remote sensing and satellite monitoring. In order to match loan conditions with climate-positive results, financial institutions are progressively integrating carbon valuation into their credit assessment and underwriting procedures (World Bank, 2021).

Certification, Premium Markets, and Value Chain Branding

Agribusinesses can follow sustainability guidelines and get access to premium markets through certification programs like Rainforest Alliance, Fair Trade, and Organic. In addition to offering farmers increased market access, enhanced income stability, and reputational advantages, these certifications frequently fetch higher prices in global marketplaces. Additionally, they work as stand-ins for ESG compliance, drawing in investors who want to use verifiable, traceable sustainability indicators to reduce portfolio risk (UNCTAD, 2022).

Better pricing premiums, stronger buyer ties, and adherence to governance norms are some of the reasons why certified agribusinesses frequently have improved creditworthiness from a financial standpoint. In their lending criteria, several banks and impact funds specifically provide preference to accredited businesses. Additionally, certifications affect producer behavior by promoting gender-inclusive labor norms, biodiversity preservation, and the usage of organic inputs. When combined with assistance for market access and capacity building, these changes have the potential to spur systemic improvements throughout value chains (FAO, 2022). With food brands putting more and more demands on suppliers for traceability and climate transparency, value chain branding plays a complementary function. Carbon footprint indicators are now incorporated into procurement choices by companies such as Nestlé and Unilever, which encourage upstream suppliers to comply with sustainability objectives. This encourages farmers and processors to make investments in climate-smart technologies and practices, particularly when backed by financial solutions designed to cover transition costs (World Bank, 2021).

Conclusion

Agri-food systems must be strategically transformed to meet the dual imperatives of environmental sustainability and food security. This research has demonstrated that there is increasing compatibility between financial flows and sustainability outcomes in agriculture financing, as evidenced by recent developments ranging from impact investment and blended finance to digital innovation and carbon markets (GIIN, 2022; Convergence, 2020; Gold Standard, 2022). Systemic challenges still exist, though. These include fragmented regulatory frameworks (World Bank, 2021), inadequate financial access for smallholders (FAO, 2022), and investor short-termism that impedes regenerative methods with longer payout periods (GIIN, 2022). This transformation can be accelerated by a variety of governmental and economic factors. In Africa and Asia, blended finance structures have already shown promise in reducing the risks associated with climate-smart agriculture (IFC, 2020; AgFunder, 2023). Market incentives for climate-aligned actions are being created by carbon pricing, ecosystem service payments, and sustainability certifications (FAO, 2019; UNCTAD, 2022). In the meanwhile, institutional investors are assessing agricultural endeavors using ESG criteria in addition to conventional profitability measurements (UN PRI, 2021).

Call to Action

Researchers must prioritize evaluating scalable financial models and understanding context-specific barriers to investment. Investors should integrate long-term sustainability criteria and proactively seek partnerships that create shared value. Policymakers need to implement cohesive strategies that link finance with climate and food system goals.

Mobilizing capital for sustainable agribusiness is not only an economic necessity—it is a moral and environmental imperative. Without bold, coordinated action, the goals of ending

hunger, mitigating climate change, and preserving biodiversity will remain out of reach (FAO et al., 2023; IPCC, 2019).

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