

# Just Rural Transitions Support Programme: Repurposing agricultural subsidies to deliver a Just Rural Transition

Policy Brief  
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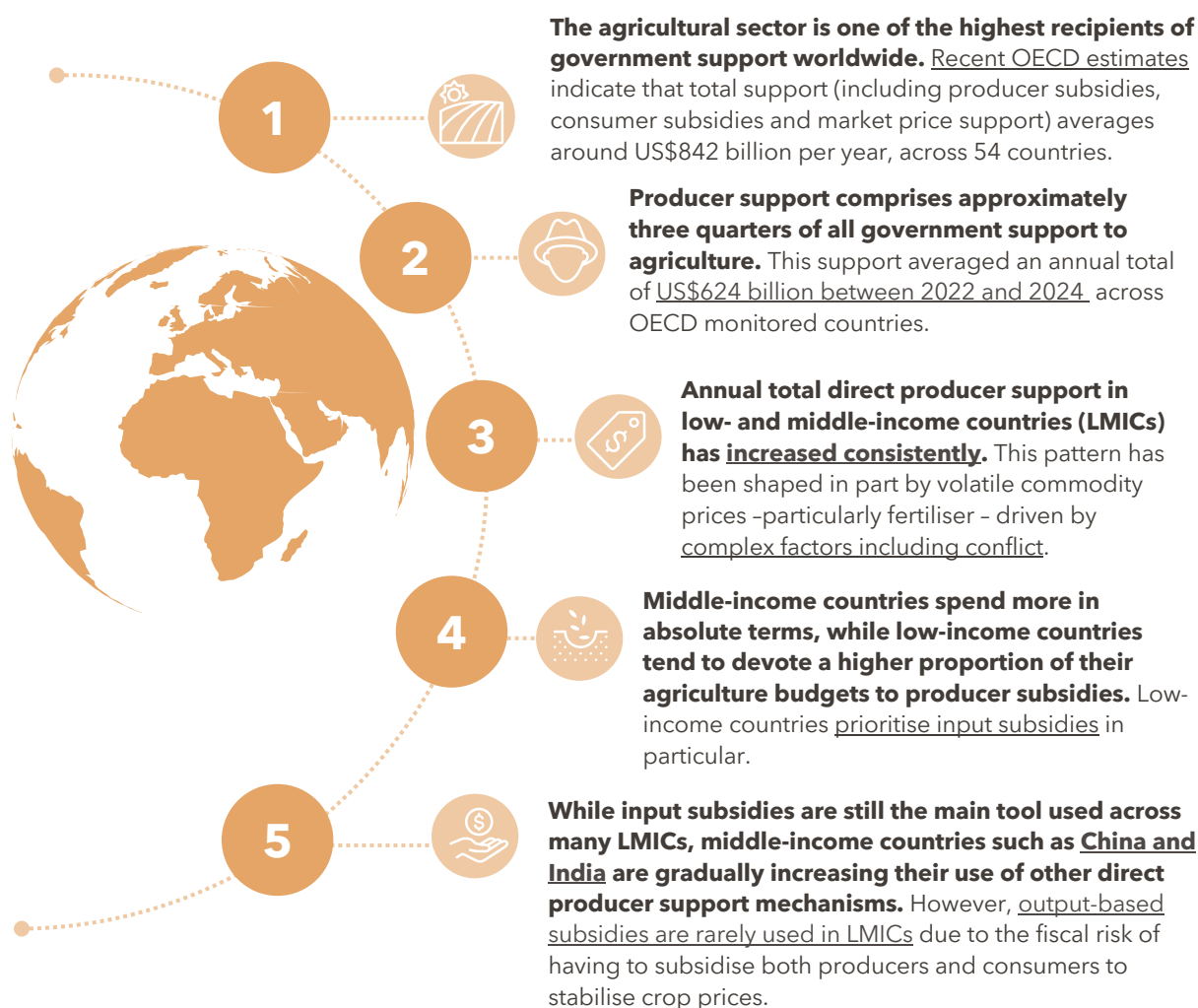


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## Introduction

Global agriculture and food systems today face cross-cutting challenges impacting people, climate and nature. While food systems are the cornerstone of nutritional security and account for the livelihoods of half of the global population, they also contribute to more than one-third of greenhouse gas emissions, as well as land degradation and biodiversity loss. Yet these systems offer a solution to emerging climate and biodiversity crises if an urgent shift towards nature-positive, regenerative agriculture is achieved. This shift can also benefit vulnerable rural populations by addressing rising food insecurity and malnutrition – both exacerbated by climate shocks – as well as boosting rural livelihoods. Targeted reforms which prioritise social equity and inclusion alongside environmental protection and climate action can constitute a wider “just rural transition” that delivers “triple wins” for people, climate and nature. As part of this transition, existing government agricultural policies and finances should be reassessed to ensure resources are directed where they can generate the most co-benefits. Given that governments already dedicate substantial fiscal resources to agricultural subsidies, significant opportunity exists to repurpose these resources for accelerating a just rural transition.

## Subsidies: trends and dynamics



**Input subsidies may be prioritised by LMIC governments for a number of reasons, including to address food insecurity, to mitigate the effect of high input prices, and out of political convenience.** These priorities have led to a higher share of GDP going on input subsidies for low-income countries (0.4%), where food availability and affordability of agricultural inputs are more pressing concerns, compared to high-income countries (less than 0.1%).<sup>1</sup>

**Figure 1: Key features that make input subsidies attractive to policymakers**

Simplicity	Immediate benefits	Visibility to voters	Private benefits
<ul style="list-style-type: none"> <li>Relatively easy and quick to roll out through existing distribution networks</li> <li>Less regulatory oversight needed</li> </ul>	<ul style="list-style-type: none"> <li>Effective at increasing farmer input use</li> <li>Boost yields in the short term</li> </ul>	<ul style="list-style-type: none"> <li>A high-visibility good that earns political credit, especially where trust in public services is low</li> </ul>	<ul style="list-style-type: none"> <li>Can be selectively allocated across districts for political benefit</li> <li>Can be selectively allocated to favoured private companies</li> </ul>

Source: [IFPRI](#)

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## Why should subsidies be reconsidered?

While in-depth studies are limited, there is some evidence to indicate that input subsidies can achieve their immediate objectives of increasing input use and boosting productivity, as well as generating spillover effects for the broader economy. Similarly, there is some evidence that output subsidies have a positive effect on output growth. However, experiences across a range of country contexts indicate that subsidy policies result in several key failures that undermine their longer-term objectives and are unlikely to support the goals of a just rural transition – these are discussed in the following sections.



### Subsidies don't always reach the right people

When poorly targeted, both input and output subsidies tend to disproportionately benefit larger producers that have both the capacity to purchase more inputs and have greater production capacity that allows them to capture a larger share of payments. Delivery delays due to government inefficiencies are also common.



### Subsidies can create perverse incentives leading to environmental degradation

Input subsidies, without adequate extension support to guide application, can incentivise the overuse of fertilisers and other inputs. This can harm biodiversity through polluting the water supply and create an imbalance of nutrients that undermines soil health and leads to a decline in crops' response to fertilisers. In addition, energy and irrigation subsidies can lead to water depletion, and deforestation is a major risk.



### Subsidies can crowd out private sector

Input subsidies can displace private sector input providers, hampering commercial growth and locking users into long-term dependency on the public sectors. Evidence of this effect exists for Zambia's Farmer Input Support Programme (FISP), Nigeria's e-voucher subsidy programme, Kenya's fertilizer subsidy programmes, as well as in Malawi.



### Coupled subsidies crowd out the production of nutritious crops

Coupled producer support – whether inputs- or outputs-based – tends to focus on the commonly grown staple crops, both in the interests of reaching more farmers and to support national food security. This approach risks incentivising monoculture and diverting resources away from the production of fruits, vegetables, and legumes, contributing to lower dietary diversity among consumers. Studies of Malawi's FISP scheme, for instance, failed to find evidence of improved nutrition.

## What are the alternatives?

The shortcomings of subsidies as a policy instrument are currently generating discussions about alternative uses of public budgets. The following section presents the key alternatives.

### Improved functioning of subsidies

**Arguably, the least disruptive alternative to repurposing subsidies involves improving the details of policy design to directly counteract the four main negative consequences.** Subsidy reforms in several low- and middle-income countries have attempted to address one or more of the challenges typically affecting subsidy schemes through improved design:

Problem	Solution	Design options	Examples
Subsidies don't always reach the right people	Improved targeting	<ul style="list-style-type: none"> <li>Vouchers rather than universal subsidies</li> <li>Digital services to increase transparency, reduce delivery cost, tailor recommendations</li> <li>Community-based targeting</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Nigeria's E-Wallet system (2012-2015)</a></li> <li><a href="#">Zambia's E-Voucher pilot (2015-2017)</a></li> <li><a href="#">Rwanda's Smart Nkunganire System (SNS)</a></li> <li><a href="#">Ethiopia's Productive Safety Net Programme</a></li> </ul>
Subsidies can create perverse incentives leading to environmental degradation	Subsidies as a package of services	<ul style="list-style-type: none"> <li>Soil testing to provide more nuanced recommendations for inputs</li> <li>Soil and water conservation support</li> <li>Extension services</li> <li>Credit services</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Malawi's recent reform of the Affordable Input Subsidy Programme</a></li> <li><a href="#">Bangladesh input subsidies and extension services</a></li> </ul>
Subsidies can crowd out the private sector	Limiting the role of the public sector; creating specific opportunities for private businesses	<ul style="list-style-type: none"> <li>Voucher schemes allowing for multiple providers to act as distributors</li> <li>Time-limited subsidies for new or unknown technologies to raise awareness</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Kenya's National Accelerated Agricultural Inputs Access Program</a></li> <li><a href="#">Nigeria's E-Wallet system (2012-2015)</a></li> </ul>
Coupled subsidies can crowd out nutritious foods	Explicit targeting of finance to the production of nutritious foods	<ul style="list-style-type: none"> <li>Subsidised seed for production of nutritious crops</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Inclusion of legume seeds in Malawi's Farm Input Subsidy Programme in 2008</a></li> </ul>

However, while improvements to subsidy design are possible in theory, there is very limited evidence to date of any scheme that has successfully addressed these challenges, even partially. Programmes that claim improved targeting often shift toward productivity-based criteria that favour larger farmers (e.g. Malawi's [recent reforms](#)), rather than succeeding in reaching the poorest. The few attempts at digital targeting reforms (Nigeria's e-wallet, Zambia's e-voucher) either were discontinued<sup>2</sup> or showed disappointing results in rigorous evaluation.<sup>3</sup> The most successful examples of government support – such as Ethiopia's Productive Safety Net Program – represent a shift from a traditional subsidy approach to a poverty-focused safety net involving cash transfers and public works.

## Alternative subsidies: Payment for Environmental Services

**Payment for Environmental Services (PES) are payments to individual producers to incentivise them to manage their land in ways that provide ecological services, which can also contribute to improved rural livelihoods and food and nutrition security in the long term.**

In this, they share some common features with subsidies. PES programmes provide financial incentives to landholders and local communities for management practices that are expected to produce environmental benefits, such as preventing deforestation, managing water resources, and avoiding soil erosion. These are all critical components of restoring degraded agricultural lands, which will be fundamental to reducing pressure on existing natural land while also meeting growing demands for food across developing countries.



The **Bolsa Floresta programme in Brazil** has resulted in avoided deforestation in the Amazon while also supporting cassava farmers to improve productivity on existing land.



An initiative under the **World Bank's Sustainable Land and Water management Project in Ghana** successfully incentivised farmers to plant and maintain trees to address soil erosion and topsoil quality issues.



**Ecuador's Socio Páramo PES programme** involved local communities entering 20-year voluntary conservation agreements that linked payments to reduced grazing and abstention from hunting within the protected areas. The payments to communities were used to invest in genetically improved livestock, park rangers, socioeconomic alternatives as part of adaptation away from traditional agriculture activities, and community improvements.

## Alternative subsidies: Ecological Fiscal Transfers

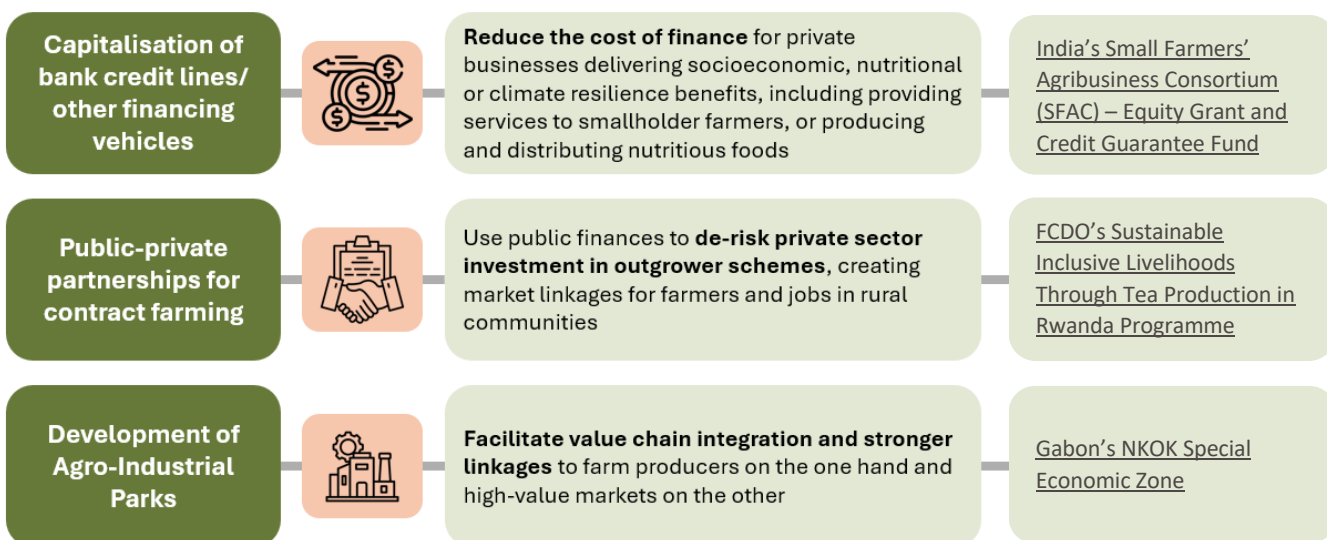
**Ecological fiscal transfers (EFTs) - policies used to incentivise subnational governments to prioritise sustainable development - are an increasingly used tool which has the potential to contribute to rural transformation.** By linking fiscal transfers to ecological outcomes (e.g. amount of land under sustainable land management practices), they create financial incentives for regions to prioritise activities that support environmental sustainability.<sup>4</sup> An important feature of EFTs is that local governments have flexibility in how they use the funds if outcomes are achieved, enabling them to draw on local expertise and knowledge. Beyond serving as a tool to protect the environment, EFTs linked to soil restoration and water resource management also contribute to sustainable agricultural intensification and livelihood improvements. Despite growing from US\$350 million in 2007 to US\$23 billion in 2020, EFTs are still relatively untested as a tool to support rural transformation in most developing countries.<sup>5</sup> However, new EFTs in Indonesia, Mongolia, and Uganda indicate expanding interest.<sup>6</sup>

**Brazil represents a notable success story, with the first EFTs established in 1992 in the Brazilian state of Paraná following concerns about managing national water and biodiversity protection areas:**

- In response to demands for political and technical support, Paraná incorporated protected areas for biodiversity conservation and watershed protection in its criteria for redistributing revenue from the Tax on Commerce and Services.
- As a result of the EFT programme, the total area in conservation units in Paraná grew by over one million hectares between 1992 and 2001, representing a 165% increase. This success led to a spread of the use of EFTs across Brazil.
- Subsequent EFTs have established ecological indicators around critical resources for farmer livelihoods, such as water protection in São Paulo and soil conservation in Tocantins.
- As recently as 2020, ecological indicators have been included in the tax revenue formulations of 18 of Brazil's 27 states.

## Facilitate private sector solutions

Since the primary purpose of subsidies is to incentivise production that would otherwise be too expensive or not profitable enough, alternative uses for public budgets could involve initiatives that address these challenges through private sector channels. This primarily requires de-risking private sector investment through a range of financial mechanisms and direct public investment. Examples include:



## Investment in public goods for the agricultural sector

**Government investments in uncoupled agricultural public goods and services have a good record of delivering positive outcomes for people and planet while avoiding distorting production.** These can include:



Public investment in **irrigation, storage, and market infrastructure** that can increase productivity and reduce food losses across a range of value chains;



Ensuring **public extension services** are well funded and able to provide farmers with training in good agricultural practices and use of appropriate inputs and technologies that will both boost their productivity and reduce greenhouse gas emissions associated with farming;



**Research and development**, e.g. into climate-resilient crop varieties or green technologies suitable for a specific country context.

These agricultural public goods and services are non-distortionary as they are not coupled to the production of specific crops, while also demonstrating better value for money over the long term in supporting climate, nutrition, and livelihood outcomes.<sup>7,8</sup> According to some estimates, investment in agricultural public goods can produce returns two to six times greater than input subsidy spending.<sup>9</sup>

**Current government investment in general agricultural public goods and services globally is low compared to coupled support, especially in low-income countries (e.g. sub-Saharan Africa).** Compared to approximately US\$624 billion annually in net producer support in 2022-2024, governments across the world spent only US\$112 billion on agricultural public goods and services. Furthermore, public expenditures on agricultural innovation and research and development (R&D) have declined over time relative to the value of production, from 0.9% in 2000-02 to 0.6% in 2020-22.<sup>10</sup> Although there has been a shift away from distorting market price incentives towards funding for general sector services in countries such as Brazil and China, they make up a very low proportion of government agricultural support in low income countries (e.g. sub-Saharan Africa) where fiscal space is limited.<sup>11</sup> This further highlights the need for repurposing away from coupled support towards agricultural public goods and services and green subsidies.

## How can policy alternatives support Just Rural Transition?

While the exact design of the policies, as well as the contexts in which they are applied, can vary substantially, all the policy alternatives presented in the previous section have the potential to contribute to a just rural transition and improved outcomes for people and planet. However, **purposeful policy design is essential - without an explicit focus on social inclusion, gender equity, environmental protection or climate resilience, any policy instrument risks leaving the poorest and the most vulnerable behind, undermining the just angle of the repurposing agenda.** The following section sets out the key design aspects of each policy instrument that could be deployed as an alternative to traditional subsidies, identifies the potential risks, and proposes purposeful design features that can ensure that “triple wins” are supported.

### 1. Better subsidies

Reforming traditional subsidies can benefit vulnerable groups by re-correcting policy design to not only mitigate existing inequitable outcomes but also prioritise a pro-poor lens. Repurposed subsidies can boost rural investment, livelihoods and productivity if they are targeted to the right population segment, the delivery systems are non-distortionary for local markets, and the subsidy payments are supplemented with agronomic and other forms of support to directly address climate resilience aspects.

Design elements	Risks to Just Rural Transition	Design requirements
1. Definition of intended subsidy recipients	<ul style="list-style-type: none"> <li>The poorest and most vulnerable farmers - i.e. those on marginal land, with no formal land rights, with smaller farms, with fewer resources for other inputs, including labour - may not be those best equipped to leverage the subsidy for productivity benefits</li> </ul>	<ul style="list-style-type: none"> <li>Analysis to identify the farmers who i) are still relatively economically and/or socially disadvantaged, yet ii) demonstrate potential for productivity improvements</li> <li>Use of digital solutions, where appropriate, to identify locations of qualifying farmers and confirm their suitability</li> <li><i>Alternative policy solutions for the poorest farmers, e.g. social safety nets</i></li> </ul>
2. Vehicle for delivering subsidies	<ul style="list-style-type: none"> <li>In-kind subsidies can be sold<sup>12</sup>, appropriated, and/or not reach the intended recipient</li> </ul>	<ul style="list-style-type: none"> <li>Vouchers/ cash specifying individual recipients</li> <li>Ability to redeem vouchers at a variety of agrodealers to support competitive input markets</li> <li>Additional considerations given to the reach of agrodealer distribution networks, as well as farmer access to relevant technology (e.g. mobile phones<sup>13</sup>) to ensure the target recipients are not excluded by default due to poor accessibility</li> </ul>
3. Target crops	<ul style="list-style-type: none"> <li>Subsidies may be used to incentivise production of staple crops which may come at the expense of more nutritious produce for land-constrained farmers</li> </ul>	<ul style="list-style-type: none"> <li>Additional policy analysis would be required to analyse food consumption patterns and likely market effects resulting from crop-specific subsidies to understand likely effects on availability, affordability and accessibility of nutritious foods as well as staples</li> </ul>
4. Use of subsidised inputs	<ul style="list-style-type: none"> <li>Without additional guidance, agri-inputs can be overused, leading to soil depletion, adverse environmental outcomes, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Subsidies should be accompanied by agronomic support and climate resilience programming, as in Malawi and Bangladesh (see Section 3)</li> </ul>

## 2. Payment for Environmental Services (PES)

PES schemes have the potential to support a just rural transition by aligning sustainable land management with co-benefits for participating communities, including livelihoods improvements and resilient ecosystems. To achieve beneficial outcomes for people and planet, PES schemes must navigate risks that primarily include formal clarification of land tenure rights, high opportunity costs of environmental protection and insufficient incentives for poorer farmers to enrol. To address these risks, PES schemes must lower the costs of participation for farmers by establishing clear legal and regulatory frameworks, as well as provide a mixed payment approach (i.e., cash payments, in-kind contributions, and technical assistance) in line with needs.

Design elements	Risks to Just Rural Transition	Design requirements
1. Ability to participate	<ul style="list-style-type: none"> <li>Lack of formal land titles can prevent vulnerable communities or individuals from enrolling in PES schemes</li> <li>Inadequate land-leasing regulations (e.g. short-term leases) can be misaligned with longer return horizons of agroforestry projects</li> <li>Inexperience and lack of education may exclude disadvantaged farmers from being considered candidates for PES schemes<sup>14</sup></li> <li>Poorer households that lack ownership of televisions or radios may miss out on communications about PES opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Clarify and establish land tenure rights among local communities to ensure poorer households do not face barriers to entry, and protect those rights with clear regulatory and monitoring frameworks to ensure markets are valued and compensation schemes can be formalised</li> <li>Provide technical assistance (e.g. expert support, training, advisory services) to improve farmer knowledge and skills</li> <li>Conduct GEDSI analysis to identify the hardest-to-reach farmer segments and develop outreach strategies tailored to community contexts</li> </ul>
2. Attractiveness of the scheme to marginalised farmers	<ul style="list-style-type: none"> <li>Small farm sizes can mean poorer farmers are unable to participate in PES schemes as a new revenue opportunity due to prohibitive transaction costs<sup>15</sup></li> <li>Poorer households can face high opportunity costs in transitioning from existing techniques to new land-use practices, serving as a barrier to participation</li> <li>When level of payments depends on carbon markets, participating farmers and communities are exposed to the volatility of global carbon prices<sup>16</sup></li> </ul>	<ul style="list-style-type: none"> <li>Organise payments through established intermediary organisations (e.g. cooperatives, producer organisations) that group individual farmers together, lowering transaction costs per farmer</li> <li>Offer a range of eligible land use options farmers can select from under PES schemes, helping farmers to choose what suits their risk appetite</li> <li>Provide farmers with up-front payments, flexible payment structures (e.g. in-kind vs cash) and adequate payment levels (i.e. at minimum, compensate potential income losses from time not invested in alternative land uses or off-farm work)<sup>17</sup></li> </ul>
3. Contractual arrangements	<ul style="list-style-type: none"> <li>Long-term contract periods may disincentivise enrolment in PES schemes by poorer farmers that are averse to adopting innovations with unknown returns<sup>18</sup></li> <li>PES programmes may struggle to secure financial support during the implementation of conservation contracts</li> </ul>	<ul style="list-style-type: none"> <li>Provide farmers with the option of shorter contract periods</li> <li>Support sustainable rural income by identifying multiple funding sources (e.g. private users of services, private sector, state and municipal government budgets)<sup>19</sup></li> </ul>

### 3. Ecological Fiscal Transfers (EFTs)

EFTs have the potential to support a just rural transition by incentivising local governments to take a holistic approach to ecological and social well-being in their public investment decisions. The design and implementation of EFTs must navigate challenges that include limited institutional capacity, competing priorities, need for accountability, and the need for funding decisions to align with the needs and capabilities of local communities. EFTs must therefore be designed to be inclusive of poorer municipalities at the intergovernmental level, as well as taking into account community preferences during the design and execution of conservation initiatives. Robust monitoring and reporting mechanisms must also be established for transparency on use of funds.

Design elements	Risks to Just Rural Transition	Design requirements
1. Budget redistribution	<ul style="list-style-type: none"> <li>Municipal governments which are unwilling or unable to prioritise environmental performance due to weaker management capacity or competing priorities are unlikely to benefit</li> </ul>	<ul style="list-style-type: none"> <li>Support municipal governments with additional TA to build institutional capacity for identification of win-win opportunities to benefit the economy and the environment, and for stronger fund management</li> <li>Ensure EFT fund applications are highly transparent and well publicised to enable all municipalities to apply and to avoid budget redistributions being concentrated towards wealthier municipal governments</li> </ul>
2. Ecological criteria	<ul style="list-style-type: none"> <li>In regions of poverty, EFTs can undermine the financial resilience of poor households by imposing stringent land-use restrictions that limit their livelihood activities and access to natural resources</li> <li>The use of EFTs at the local level can be vulnerable to elite capture, with use of funds not reflecting the preferences of the whole community</li> </ul>	<ul style="list-style-type: none"> <li>Conduct GEDSI analysis to better understand the accessibility and likely impact of the scheme on different stakeholder groups</li> <li>Involve affected communities in policy design through a formal and transparent consultation process</li> <li>Compensate farmers in the short term for income lost when local governments implement land-use restrictions</li> <li>Allocate funding from EFTs towards encouraging livelihoods that are compatible with introduced land-use restrictions (e.g., soil conservation in Tocantins, Brazil)<sup>20</sup></li> </ul>
3. Monitoring	<ul style="list-style-type: none"> <li>Poor municipalities that receive EFTs often lack financial capacity and may be under pressure to allocate large portions of EFT funds towards paying municipal employee salaries<sup>21</sup></li> <li>Lack of accountability and institutional capacity can undermine effective application of EFTs towards supporting disadvantaged communities</li> </ul>	<ul style="list-style-type: none"> <li>Ensure EFT expenditure is made explicit to local communities through billboards and public announcements</li> <li>Establish reporting mechanisms to federal government to demonstrate accountability towards local communities</li> </ul>

## 4. Private sector support

De-risking private sector support can benefit vulnerable groups by helping the growth of enterprises that provide vital services for smallholder farmers and have the ability to stimulate local economies, contributing towards a virtuous cycle that uplifts productivity and incomes. However, the need for commercial sustainability often comes into conflict with the just rural transition objectives of socioeconomic inclusion, environmental protection and climate resilience. These contradictions can only be resolved to a certain degree.

Design elements	Risks to Just Rural Transition	Design elements
1. End customer profile	<ul style="list-style-type: none"> <li>The need for long-term commercial sustainability means that business decisions on the product and service offering, price points, and marketing are likely to be geared towards serving larger or more professionalised farmers with a higher willingness and ability to pay</li> </ul>	<ul style="list-style-type: none"> <li>Where feasible and where demonstrated proof of concept for business models can stimulate replication and market growth, grant and subsidy mechanisms can be considered to de-risk business investment in the development, piloting and scaling of smallholder-facing products and services</li> <li>When designing financing schemes targeting these types of businesses, the degree of concessionality could be scaled depending on the end consumer profile of the enterprise</li> </ul>
2. Supplier profile	<ul style="list-style-type: none"> <li>Contract farming schemes and agroindustrial park supply chains are likely to favour larger and more professionalised farmers</li> <li>Investors are less likely to consider fragile states or Least Developed Countries more broadly</li> </ul>	<ul style="list-style-type: none"> <li>While there is a limit to which the most marginalised farmers and rural community members can be integrated into private-sector led schemes with strict volume and quality requirements, public sector grant funding can be used to provide training, subsidised inputs, or otherwise bring these marginalised groups up to the desired production standard – as was the case for the <a href="#">SILTPR programme</a></li> </ul>
3. Demand creation for new products (e.g. nutritious foods)	<ul style="list-style-type: none"> <li>Private-sector led provision of nutritious foods (e.g. fortified flour mixes, vitamin-enriched crop varieties) may be hampered by embedded consumer preferences for the default products with a poorer nutrient profile</li> </ul>	<ul style="list-style-type: none"> <li>Governments may consider providing additional policy support to facilitate the production and distribution of nutritious foods by private sector actors. This can include funding nutritional education and marketing programs to enable consumers to make informed food choices, regulating ultraprocessed foods or foods high in salt, fat and/or sugar that may compete with more nutritious alternatives, launching public tenders for provision of nutritious meals to schools, hospitals, prisons, etc.</li> </ul>
4. Environmental risks	<ul style="list-style-type: none"> <li>Outside of businesses that offer products or services with explicit climate resilience or environmental protection objectives (e.g. those providing climate technology, weather forecasting services, etc.), private sector activity may generate environmental/ climate risks, e.g. through incentivising land conversion towards monoculture</li> </ul>	<ul style="list-style-type: none"> <li>Environmental and Social Impact Assessments (ESIA) should be part of any large-scale private sector project requiring construction or use of natural resources (as is standard practice with, for instance, agro-industrial parks)</li> <li>For smaller-scale business ventures, risks to climate and the environment may be prohibitively difficult to monitor or mitigate as the business evolves – at a minimum, ESIA assessments should be a compulsory part of any applications for public sector grants or other forms of financing</li> </ul>

## 5. Investments in public goods

Investments in public goods have the potential to support a just rural transition by improving access to essential services for skills development and higher-income opportunities in rural areas. Risks to navigate will depend on the type of public investment being considered and may include challenges in reaching smaller and more remote rural communities, as well as managing potential conflicts of interest – such as those between local economies and the ecosystems they rely on. To address these risks, public investments must prioritise pooling of resources and expertise to widen the reach of services, as well as conduct assessments to evaluate the social impact of potential expenditures.

Design elements	Risks to Just Rural Transition	Design requirements
1. R&D	<ul style="list-style-type: none"> <li>• Small-scale farms are less likely to benefit from technology transfer and adoption when training and technical assistance is primarily targeted towards large-scale producers (e.g. Brazil’s Low-Carbon Agriculture Plan)<sup>22</sup></li> <li>• Improving agricultural technology via R&amp;D poses high transaction costs for farmers that adopt them</li> </ul>	<ul style="list-style-type: none"> <li>• Aggregate medium- and small-scale farmers into innovation networks (e.g. China’s Science and Technology Backyards moved researchers to rural areas<sup>23</sup>) that pool resources to disseminate knowledge within and between members of networks<sup>24</sup></li> <li>• Identify and support avenues for agricultural knowledge transfer (e.g., training, advisory) that mitigate transaction costs for farmers</li> </ul>
2. Infrastructure	<ul style="list-style-type: none"> <li>• Infrastructure projects may displace affected communities and harm local ecosystems (e.g. construction of Akosombo dam in Ghana led to loss of traditional livelihoods due to flooding)<sup>25</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Conduct ESIA assessments to ensure any negative risks for communities or the environment are addressed</li> </ul>
3. Investment into secure land and natural resource rights	<ul style="list-style-type: none"> <li>• When introducing land and resource rights, disadvantaged groups (e.g. households headed by women) can be at-risk of inequitable distribution of benefits, particularly when those rights are not clearly assigned</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct GEDSI analysis to identify likely issues with accessibility or allocation of benefits across stakeholder groups</li> <li>• Enable farmers to trade clearly assigned and monitored natural resource allocations with other farmers or businesses (e.g. water trading in California and northern Mexico)<sup>26</sup></li> <li>• Allocate governmental funding to compensate communities for land-use change (e.g. harmonising land reform with PES schemes) where resource rights cannot be converted into tradeable assets</li> </ul>

Lastly, it is worth re-emphasising that any subsidy repurposing process – cutting across policy instruments and design aspects – could involve the displacement of entrenched elites who had benefitted from the “traditional” subsidy design. This could include private input suppliers who had received preferential treatment in the public procurement process, local government officials who had successfully lobbied for a larger subsidy allocation to their districts, or richer farmers who had benefitted from inefficient targeting and could sell the inputs they had received on the black market. The availability and suitability of compensation options for these stakeholders will heavily depend on the specific context – and, indeed, such options may not exist within a just rural transition framework. Nonetheless, this is a risk that should be explicitly highlighted and integrated into any discussions of policy alternatives.

## Way forward for donors and development partners

### Strategic options for repurposing subsidies



These strategies could be considered in isolation or in combination, over different time horizons, and as pilot schemes that could generate lessons on what works and what does not and inform any necessary course correction. The achievement of the “triple win” goals of positive outcomes for livelihoods, climate and nutrition will likely require a combination of policy instruments and an explicit design focus on these goals. Any subsidy repurposing approach will also necessitate a consideration of the appropriate measures to compensate the possible “losers” to ensure political sustainability.

### Priority support areas



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## Glossary

Key term	Definition
Decoupled payments	Transfers to farmers that are not linked to production output or farm size but can be conditional on adopting certain farming practices (e.g. climate-smart approaches).
Ecological fiscal transfers (EFTs)	Policies used to incentivise subnational governments to prioritise sustainable development by linking fiscal transfers to ecological outcomes (e.g. amount of land under sustainable land management practices).
GEDSI analysis	Gender Equality, Disability and Social Inclusion analysis.
Input subsidies	Transfers that reduce the price of inputs (e.g. fertilisers, pesticides, or seeds), fixed capital, or credit.
Just rural transition	Refers to inclusive and equitable efforts to transform food systems, resulting in a global food system that works better for people, nature and the climate.
Output subsidies	Direct transfers to farmers linked to the volume of a specific agricultural commodity produced (e.g. MT of wheat).
Payment for Environmental Services (PES)	Payments to individual producers to incentivise them to manage their land in ways that provide ecological services, which can also contribute to improved rural livelihoods and food and nutrition security in the long term.
Subsidies based on factors of production	Direct transfers to farmers based either on a commodity criterion (e.g. area planted or livestock numbers) or non-commodity criterion tied to environmental or landscape outcomes.

**(Source: Meridian, UNEP, UNDP & FAO, World Bank, World Resources Institute)**

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