



## REVIEW OF AND RECOMMENDATIONS ON REU'S WORK IN EUROPE AND CENTRAL ASIA IN 2024-2025 IN A SELECTED TECHNICAL AREA – REGIONAL PRIORITY PROGRAMME: TRANSFORMING FOOD SYSTEMS AND FACILITATING MARKET ACCESS AND INTEGRATION – TRUE COST ACCOUNTING

### Revealing the Hidden Costs: FAO SOFA 2023 and 2024 Insights for Agricultural Policy

#### Background<sup>1</sup>

Agrifood systems are invaluable to society, providing essential nourishment, employment, and economic benefits to people. However, these systems face challenges due a combination of unsustainable practices, climate change, conflict and economic pressures. These factors not only contribute to environmental degradation, and the rising unaffordability of healthy diets but also further exacerbate vulnerabilities with impacts for food insecurity and livelihoods. Together with various social and environmental benefits, such as ecosystem services or community well-being, agrifood systems also produce costs, such as environmental degradation, biodiversity loss, greenhouse gas emissions, and public health impacts. Many of those costs and benefits are “hidden” as they are not reflected in the price. Internalizing these "externalities," reveals the actual economic, social, and environmental costs of food production, helping policymakers, businesses, and consumers make informed and more sustainable choices.

The State of Food and Agriculture (SOFA) 2023<sup>2</sup> and the 2024<sup>3</sup> both examined the true cost of food to inform sustainable transformation of agrifood systems and emphasized the analysis, respectively.

The 2023 report introduced the concept of hidden environmental, health, and social costs and benefits in agrifood systems proposing True Cost Accounting (TCA) as a tool to assess them. TCA enables decision-makers to estimate these hidden costs and benefits, providing key evidence to drive sustainable agrifood system transformation that ensures food security and nutrition without compromising the well-being of future generations.

The SOFA 2024 edition<sup>4</sup> emphasizes the importance of TCA in setting and prioritizing policies for sustainable and inclusive agrifood systems transformation. It highlights the flexibility of TCA through various country case studies, ranging from entire national agrifood systems to specific value chains. These case studies covered several countries in FAO region for Europe and Central Asia including the South Caucasus, Central Asia, Switzerland, and the United Kingdom of Great Britain and Northern Ireland. The SOFA 2024 report demonstrated the importance and challenges of incorporating hidden costs into decision-making to assess policy and management options for transforming agrifood systems.

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<sup>1</sup> This background document is based on data and analysis presented in 1) FAO. 2023. *The State of Food and Agriculture 2023. Revealing the true cost of food to transform agrifood systems*. Rome, and 2) FAO. 2024. *The State of Food and Agriculture 2024 – Value-driven transformation of agrifood systems*. Rome.

<sup>2</sup> <https://doi.org/10.4060/cc7724en>

<sup>3</sup> <https://doi.org/10.4060/cd2616en>



The SOFA 2024 report estimates ***the total hidden cost for FAO region for Europe and Central Asia is approximately USD \$2.7 trillion, with health-related costs estimated at USD \$ 2.2 trillion, and environmental costs around USD \$ 0.5 trillion*** and underscores the importance of TCA and stakeholder engagement in tackling these issues. The countries of the FAO region for Europe and Central Asia face significant challenges including related to soil degradation, water scarcity, and biodiversity loss. TCA can play a crucial role in quantifying the costs of these impacts, guiding policies toward more sustainable land and water management. Additionally, poor dietary habits and food safety issues contribute to widespread health problems. TCA highlights the economic burden of these health impacts, encouraging greater investment in healthier and more sustainable food systems. The approach also helps address social disparities, ensuring that the hidden costs borne by marginalized and vulnerable communities are recognized and addressed through inclusive growth policies. In Central Asia, TCA has been used to assess the true cost for potato and cotton value chains, enabling policymakers to better understand the trade-offs and benefits of different agricultural commodities and practices. Meanwhile, in South Caucasus, TCA has revealed the high hidden costs related to health, associated with eating unhealthy processed food and high sodium products. By integrating TCA into policy making, policymakers can redistribute these costs more fairly, ensuring, for example, that there is smaller environmental footprint and impact in Central Asia or supporting more affordable and nutritious food availability for consumers in South Caucasus.

With data provided by TCA analysis, policymakers in the region can improve their understanding of whether public support is reinforcing sustainable practices or encouraging harmful ones. As many existing agricultural subsidies support input-intensive or resource-depleting practices, leading to unintended negative impacts, repurposing funds based on TCA insights can redirect support toward sustainable practices, such as: incentives for climate-smart agriculture and agroecology, payments for ecosystem services, investment in sustainable value chains and innovation. This shift should ensure just transitions for farmers, balancing economic viability and sustainability goals. Thus, aligning budget support with TCA insights can drive a value-driven transformation of agrifood systems, ensuring food systems contribute to sustainable development and long-term well-being.

### **Activities undertaken in the region**

The REU case studies<sup>5</sup> related to South Caucasus and Central Asia were commissioned to validate the findings of the SOFA 2023, address knowledge gaps, and identify entry points for transformative actions. They serve as key accelerators for agrifood system transformation, offering insights into the challenges, opportunities, and trade-offs that policymakers and stakeholders face. Additionally, they play a crucial role in strengthening agrifood systems thinking, facilitating the translation of TCA results into policy actions and regulatory frameworks for FAO Member States.

The TCA-themed side event<sup>6</sup> at the 34<sup>th</sup> FAO Regional Conference for Europe (14-17 May) aimed to build momentum to scale up TCA as a tool for agrifood system transformation. The session focused on presenting and discussing the results of the SOFA 2023, highlighting key findings for Europe and Central Asia region, with case studies from various countries. Policymakers, experts, and other stakeholders to

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<sup>5</sup> The case studies were done in collaboration with the International School of Economics (ISET) in Georgia and the Westminster International University in Tashkent (WIUT) in Uzbekistan

<sup>6</sup> <https://openknowledge.fao.org/items/65717c00-e23f-42ac-b447-5d87f66a73da>



examine the report's findings and explored how phase-two TCA assessments—tailored to national policy priorities—could help fill existing gaps. The event also facilitated dialogue with country representatives on leveraging national data for phase-two assessments and collected feedback to strengthen FAO's efforts to promote TCA as a tool for country-level dialogues and decision-making in support of agrifood system transformation.

Furthermore, REU supported several TCA awareness-raising events targeted at countries, experts, FAO country office staff, and professionals. As such, a special TCA-themed event took place during the Regional Technical Workshop<sup>7</sup> under the framework of the Technical Cooperation Programme “Transforming agrifood systems in the Europe and Central Asia region” in Budapest, Hungary (21-23 May), and a dedicated session was held at the Regional Think-Lab meeting (25 May).

To further support these efforts, REU collaborated with the SOFA team in FAO Headquarters to coordinate a series of TCA-themed publications. A Policy Brief on True Cost Accounting (2023 version) was translated into Russian to broaden its accessibility. Additionally, country briefs were developed for Albania, Armenia, Georgia, Kazakhstan, Republic of Moldova, Serbia, Türkiye, and Uzbekistan in English, with selected versions translated into Russian (Armenia, Kazakhstan, Republic of Moldova, and Uzbekistan). These publications have been instrumental in facilitating dialogues with experts and stakeholders across multiple Members.

The Agrifood Systems (AFS) approach as well as the TCA conclusions and calculations have also been utilised in the ongoing Common Country Analysis (CCA) United Nations Sustainable Development Cooperation Framework (UNSDCF) analytical support initiative to the country offices in the new CCA/UNSDCF cycle, to facilitate Agrifood system diagnostics and identification and prioritisation of FAO interventions in the region.

### **Work ahead**

The FAO Regional Office for Europe and Central Asia (REU) will continue working with its members in the coming years to advance intra-regional learning on the application of TCA methodology. REU will also provide guidance on how new evidence can be effectively utilized in public consultations and decision making, contributing to an enabling environment for a green, fair transition and the sustainable transformation of agrifood systems. The following constitutes a list of activities where FAO REU sees opportunities and will seek to emphasize key TCA-themed policy in regional and country level activities, including projects, workshops, and consultations.

1. Integrating TCA into national and regional strategic planning and policies:
  - Conduct comprehensive TCA assessments at both national and regional levels to inform policy decisions.

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<sup>7</sup> <https://www.fao.org/europe/events/detail/workshop--coherent-policies-and-collective-action-across-agrifood-systems-in-europe-and-central-asia/en>



- Continue working with governments and organizations in the region to facilitate the integration of TCA into national and regional strategies, addressing the complex challenges of agrifood systems.
  - Continue to utilise the AFS approach and TCA conclusions to improve the evidence base and optimise Agrifood system diagnostics as well identification and prioritisation of FAO interventions in the region.
2. Investing in research, technology, and sustainable practices:
- Promote subsidies and support mechanisms for sustainable farming practices that reduce hidden costs, emphasizing stronger institutional cooperation and capacity development.
  - Enhance data collection, research, and the use of advanced tools to measure and analyze hidden costs, improving the region's ability to address critical challenges.
  - Leverage AI and digital technologies to streamline TCA processes, enabling real-time insights and improved policy outcomes.
3. Enhancing Public Awareness and Stakeholder Collaboration:
- Increase awareness of the true costs of food among consumers, value-chain actors, and stakeholders, including NGOs, to drive demand for sustainable products.
  - Strengthen collaboration among governments, the private sector, and civil society to ensure that TCA becomes a key driver of sustainable food system transformation in Europe and Central Asia.

Raising awareness and expanding the application of TCA in Europe and Central Asia will pave the way for more sustainable, resilient, and inclusive agrifood systems. By addressing the hidden costs of food production and consumption, via its three Regional Priority Areas and cross-cutting working, the region will be able to make significant progress toward sustainability goals, contributing to the broader sustainability agenda of the 2024-2025 and 2026-2027 programming periods, in support of FAO's Strategic Framework and the Four Betters and the Sustainable Development Goals (SDGs). Ensuring long-term prosperity for all requires continued collaboration, innovation, and policy action guided by and rooted in true cost accounting.