Agriculture and Climate Change: The Role of Finance

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1. How Much? Adaptation

Estimating the needs

- Total flows likely to rise then plateau over time - as mitigation action becomes effective and sunk investments have been made.
- Greatest need for public finance in short to mid-term to:
  - Encourage adaptation to be integrated into development planning in longer-term.
  - Provide public goods (e.g. R&D in crop resistance, monitoring tools, etc).
- Some role for private finance – esp. insurance market.
- Magnitude of needs large but very uncertain:
  - UNFCCC say $28-67bn by 2030.
  - UN HDR report says $83bn by 2015.
- Agriculture in developing countries a big component – IFPRI $7bn/yr.

Enabling poor rural people to overcome poverty - IFAD.
1. How Much? Mitigation

- Total flows rise over time as the price of carbon rises
- Carbon market plays increasing role – could provide $100bn by 2030 (UNFCCC)
- Greatest need for public finance in short-term:
  - To finance RD&D
  - To finance deployment of new technologies
  - To finance forestry in transition to carbon market ($13-26bn by 2020)
  - To overcome market failures (e.g. and create enabling frameworks (e.g. Remove fuel subsidies) to leverage other private flows and carbon market in longer-term
  - To build capacity
- Possibly still some role for non-market flows by 2050 (e.g. R&D, efficiency standards, etc)
- Agriculture – FAO paper – 1.5Gt CO2e/yr in non-OECD countries from four major mitigation categories (crop and grazing improvements, organic soil and degraded land restoration) = US$30bn at $20/tonne CO2e.
2. Sources

- Carbon market
- Automatic international taxation – AAUs, CDM levy, shipping, maritime
- National public transfers from general revenue
- Private – catalysed by above, and by necessity
3. Delivery Mechanisms

• Various specific mechanisms
  - Adaptation: Adaptation Fund, various existing or new funds – e.g. LDCF, SCCF, PPCR
  - Mitigation:
    • Funds – GEF
    • CDM extension? Source and delivery
    • NAMAs to carbon markets - funding?
    • REDD+? Partial coverage

• General development and agriculture programmes – e.g. US$210 billion annual investment demand in agriculture in developing countries
4. Governance and delivery

• Issues not compartmentalised on the ground – funding systems should not deepen in **coherence**. Agriculture ‘**co-benefits**’.
• **Additionality** - source-delivery interlinkage
• **Accountability** + impacts – how should this differ between mit and ada? Transaction costs of MRV (FAO paper) – results-based aid. Sovereignty and ownership.
• **Predictability** and commitment term
• Flexibility and **choice** - when provided – up-front investment and/or operations and/or risk coverage. Instruments – e.g. loans vs grants (and guarantees?)
• **Equity** issues – smallholder access/poverty impacts