



Financing Mitigation from agriculture in developing countries

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Context



- Agriculture up international agenda but financing unlikely to be available.
- Climate change resources a source of new and additional funds for sustainable AG development (through NAMAs)?
- Agriculture may be mentioned in Copenhagen outcome document but probably not in prominent way. Better understanding of interdependence of AG-CC goals needed.
- Challenge: adequate reflection of AG and AG-responsive financing mechanisms in outcome document, to enable timely post-Copenhagen action on mitigation with co-benefits.

Agricultural mitigation

Main opportunities



- Technical potential, especially soil carbon sequestration
- Development and environment co-benefits, mitigation/adaptation synergies
- Importance to successful mitigation in other sectors (REDD)
- Avoidance of perverse outcomes



Agricultural Mitigation

Main challenges

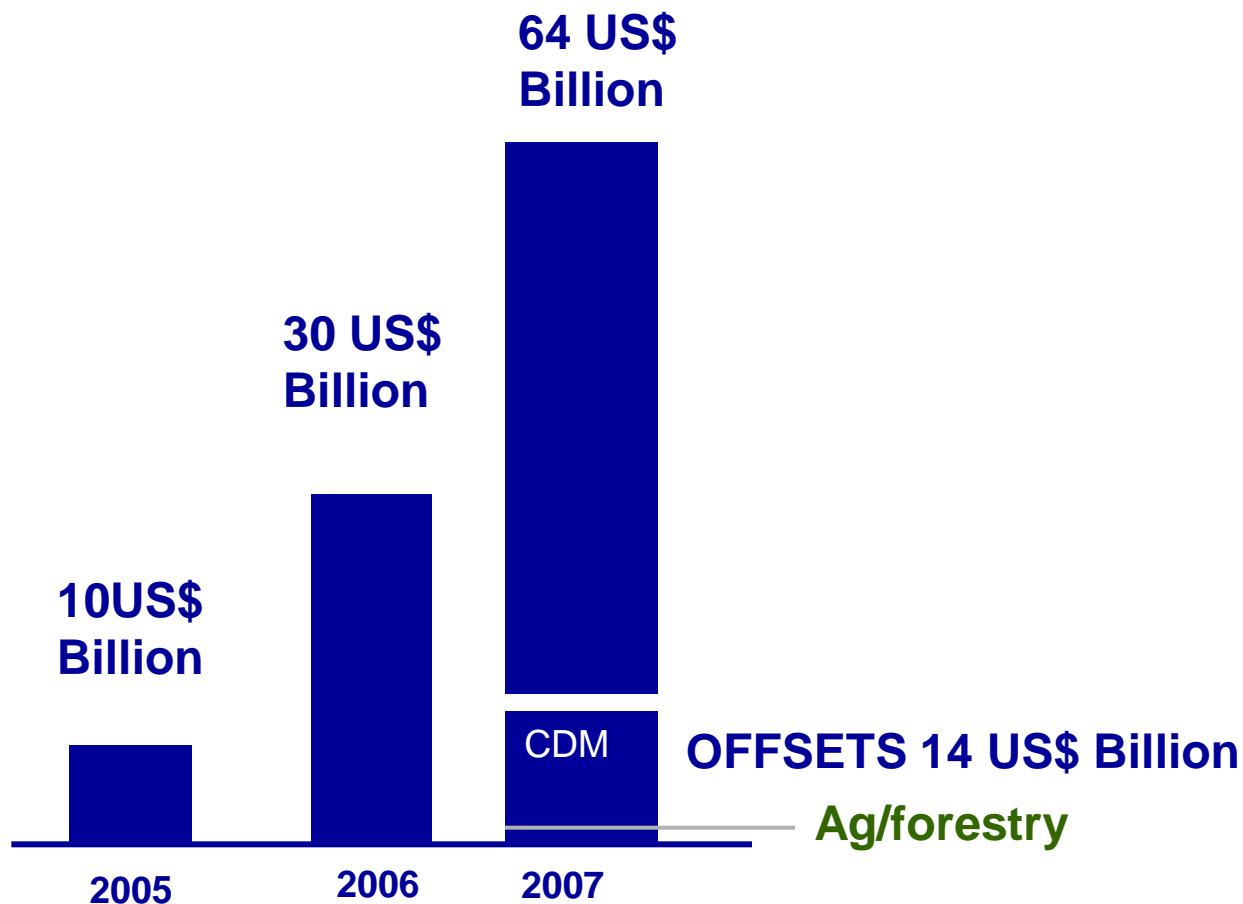


- Main financing mechanisms exclude AG (Voluntary market better)
- Some forms of mitigation from AG not cost effective for international compliance markets (low returns, high transactions costs or high risks)
- Farmer adoption of mitigation options.
- Difficulties and high costs in measuring, reporting, verification and crediting, due to complexity, diversity, lack of data, leakage and permanence

C Finance Opportunities



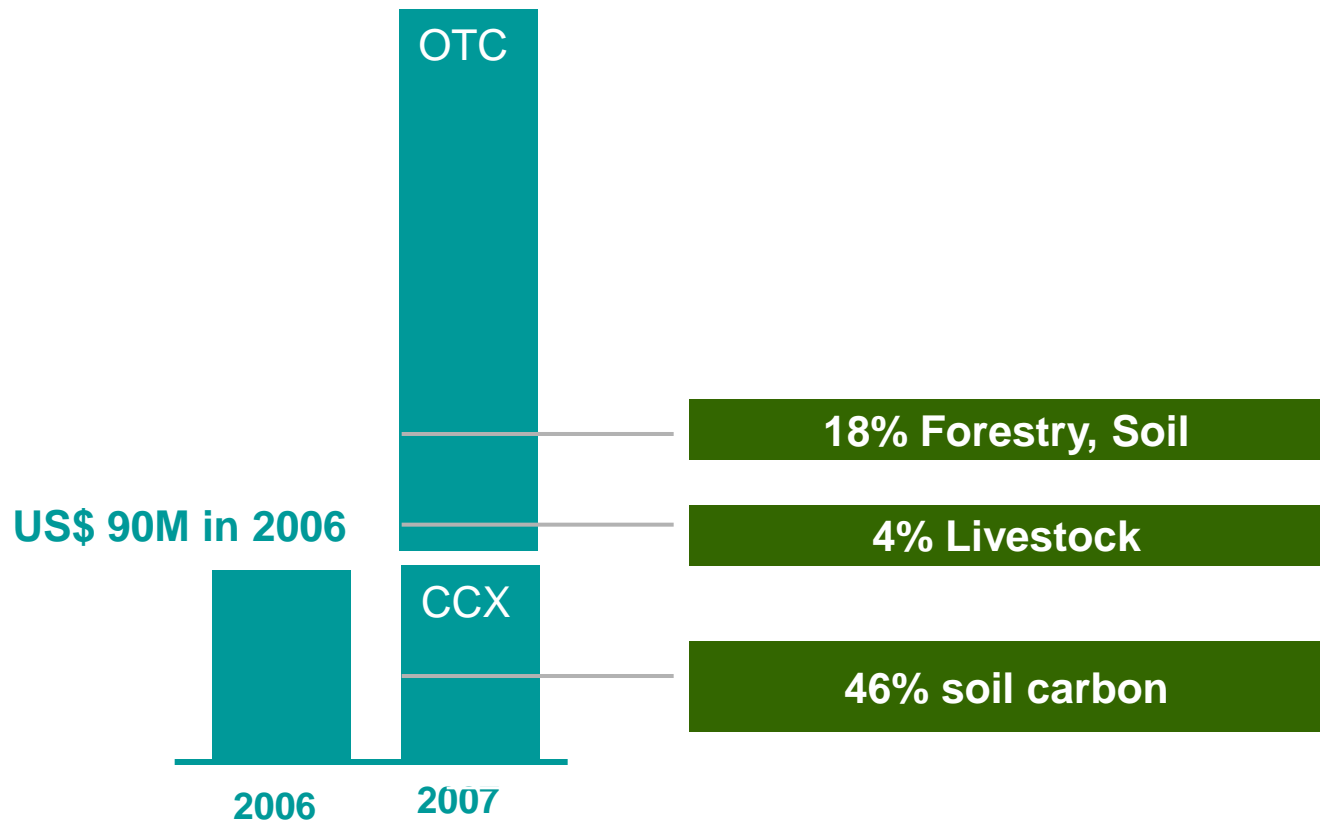
CAP&TRADE C MARKET





VOLUNTARY CARBON MARKET

US\$ 331M in 2007



Data from the State of the Voluntary Carbon Market, Ecosystem Marketplace and New Carbon Finance, 2008

What changes are needed for financing mechanisms?



- To tap mitigation potential of agriculture, changes in policy, institutions, & technologies required; mitigation financing just one component of a broader set of instruments
- Broaden scope of existing financing mechanisms (e.g. CDM) to include soil carbon sequestration
- Need new financing mechanisms with broader, more flexible approaches, multiple funding streams (public/private, ODA/CC), and innovative payment/incentive/delivery schemes to reach producers, including smallholders.



What specific design elements for financing mitigation from AG?



Much is known about mitigation from agriculture, but risks/uncertainties remain and we have little field experience in financing and crediting mitigation from agriculture;

Based on experience with PES, possible design elements might include:

- **Incentives responsive to farmer decision-making**
- **aggregation and up-scaling for simplification and cost-effectiveness**
- **phased/differentiated approach**
- **towards a comprehensive land use sector**



Incentives responsive to farmer decision-making



Factors/barriers influencing farmers adoption of mitigation options:

- **Opportunity costs** (temporary or permanent loss of revenue, savings, status)
- **Lack of capital/credit** (transaction costs, investment)
- **Risk aversion** (changes in pricing, regulation,
- **Lack of information**
- **Property rights**
- **Enabling environment**

Requires regulation and payment systems that include:

- **Front-loaded payments, simplified rules, reduced transaction costs**
- **Use of insurance/bonds/sector no-lose approaches for risk reduction and flexibility**
- **Recognition of community/individual; formal and informal property rights**
- **Institutional/capacity building**

What buyers want also important (Low cost; low risk, payment on delivery) **Important to find middle ground.**



FIGURE 7

Barriers to the adoption of improved management practices:
permanent decrease in farm income

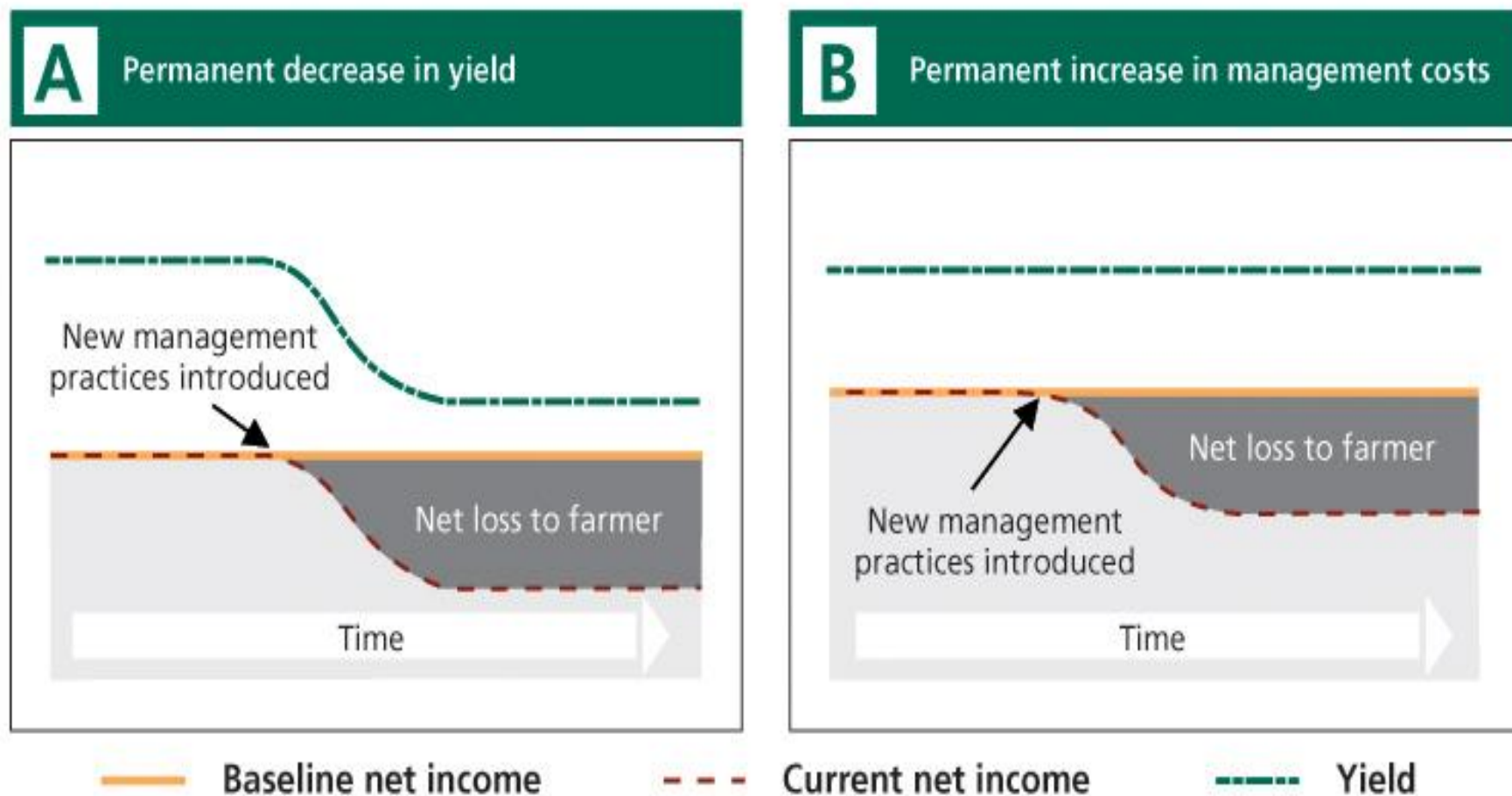
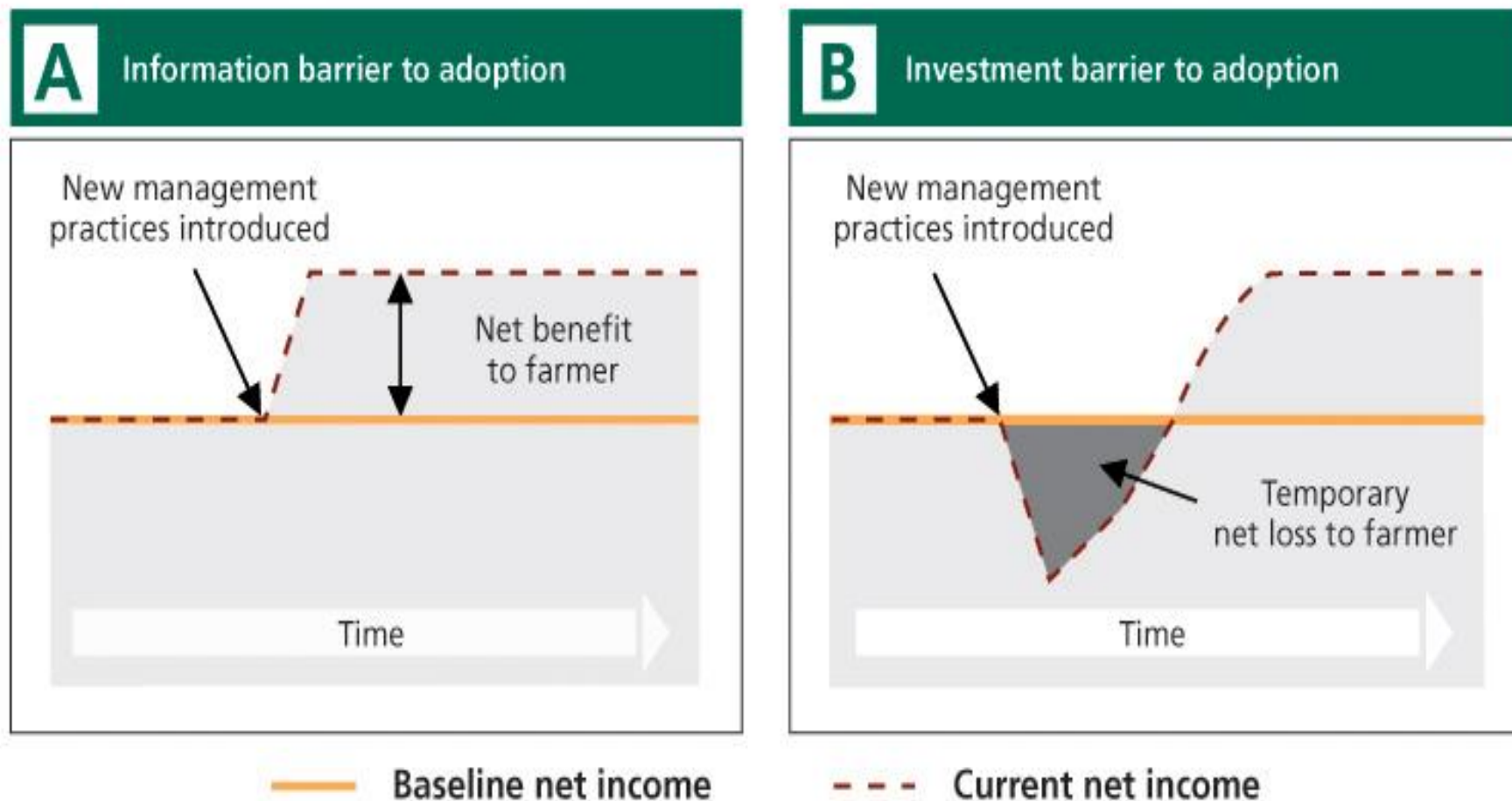


FIGURE 8

Barriers to the adoption of improved management practices:
information and investment constraints



Aggregating/up-scaling for greater cost-effectiveness and simplification



- bundling/upscaling activities of large numbers of farmers
- ways of measuring at larger scale for greater cost-effectiveness (programme of projects, sector, region, practice-based defaults)
- more simple accounting and crediting of agriculture management/land-use changes

Combining multiple funding streams with a phased approach



Potential funding sources:

- Carbon markets (compliance and voluntary)
- Public sector (voluntary/new climate change fund?)
- Carbon labels/certification schemes?
- ODA
- valuing (premium) mitigation options generating multiple benefits and mitigation/adaptation synergies

Phasing:

- transitioning from publicly funded phase to build confidence, capacity and national strategies through to phase with quantified emissions reductions, incentives from market mechanisms and based on the use of robust MRV methodologies
- gives time for field testing new measurement methodologies, payment schemes, gathering data and looking at food security and sustainable development implications of specific agricultural mitigation options.



...incorporating a differentiated approach



Different funding streams, modalities, levels of MRV methodologies used by different groups of countries.

- **LDCs:** public sector funds through NAMAs, priority to options with mitigation/adaptation synergies, simpler methodologies, lower transaction costs, frontloaded payment schemes (These countries may never transition to compliance markets)
- **Emerging economies:** combination of funding sources through NAMAs, carbon markets to reduce national level emissions and build more sustainable agricultural systems.
- **Developed countries:** carbon trading, to meet emissions targets, conserve and restore resources.





Terrestrial Carbon approach

- Comprehensive approach to terrestrial carbon in all land uses: enables management of synergies and trade-offs
- National level terrestrial carbon baseline includes:
 - (i) all terrestrial carbon pools (soil and biomass, above and below ground for related GHGs) or
 - (ii) all terrestrial carbon pools, but with a separate account for those that are already regulated under a national REDD baseline.



Making Agriculture part of the Copenhagen outcome



1) Advocacy from agricultural community essential for:

- An outcome that enables ag. mitigation and co-benefits to be realized
- Financing mechanisms are key

2) Cooperation between Ministries of Ag. and Environment

- Effective way to get ag. concerns into negotiations
- Both can call for early action to test ag.-relevant approaches to strengthen confidence and readiness
- stress interdependence of goals

3) Identification of action for inclusion in NAMAs within ongoing AG sector policy/planning