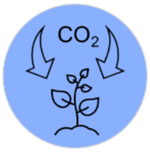
Climate Finance - funding climate-resilient agribusiness

What is "Climate Finance"?

Climate Finance is part of the so-called *Green Finance* which refers to investments providing environmental benefits in general. *Climate Finance*, however, is more specific as it relates to local, national, or transnational financing – drawn from public, private, and alternative sources of financing – dedicated to adaptation to and mitigation of climate change. It aims at less vulnerability, increased resilience of ecological systems, reducing emissions, and enhancing sinks of greenhouse gases (GHG). There are dedicated financial products for agribusinesses related to:

Climate Change Adaptation  

Mitigation of Climate Change

Who is granting Climate Finance for agripreneurs?

Climate Finance can be provided by (micro)financial institutions, producer organizations and trader or buyers. They themselves may receive incentives from climate-related investors to extend climate finance through concessional loans, subsidies, funds, grants or (upfront) payments. Access to finance has long been insufficient for small-scale agripreneurs due to suppliers' perceptions of low profitability, high risks, missing land titles and substantial transaction cost. Climate change related vulnerability of agribusinesses adds to this mix of challenges as financial institutions need to factor in climate-related risk exposure of their clients. This has resulted in a substantial climate finance gap.

Transformational changes are required to improve productivity and foster the capacity of agripreneurs to adapt to climate change and contribute to mitigation by reducing or removing CO_2 and/or other GHG. Agripreneurs can make the necessary climate-smart investments to preserve natural resources and livelihoods and benefit from them, e.g. increase in yields, production of enough food and restored land.

Climate Finance poses opportunities for enterprises in agriculture-based value chains to cost-efficiently fund such investments and to close the existing gap of adaptative measures and financial incentives to reduce emissions and sequester carbon.

How can agripreneurs fully utilize the economic and financial benefits of climate-smart agribusiness?

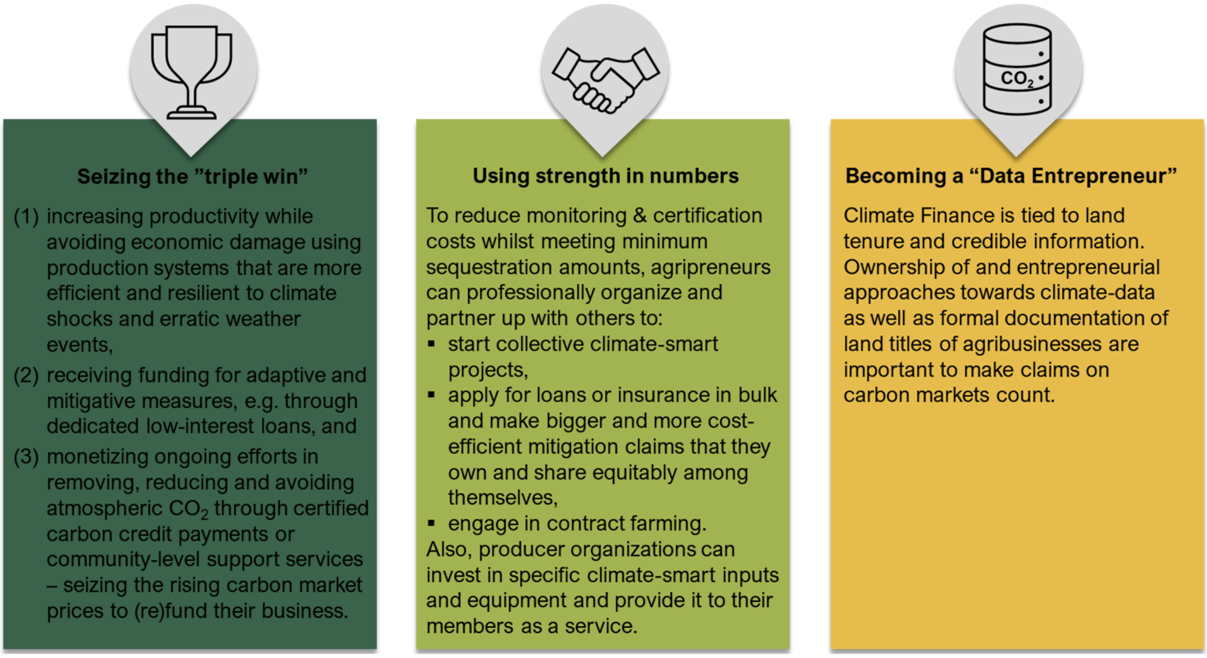


Figure 1: Opportunities for agripreneurs

Climate Adaptation Finance for ecosystem-based adaptation measures

Why is Climate Adaptation Finance needed?

Climate finance is important for adaptation, as significant financial resources are needed to adapt to the adverse effects and reduce the impacts of a changing climate. Climate change related challenges and opportunities add to the already existing investment needs of Micro, Small and Medium sized enterprises (MSMEs) to render their production systems resilient, i.e. less vulnerable to weather and climate induced risks.

What specific climate adaptation activities can be financed?

The following *short-term* adaptation measures[1] may qualify for financing:

Subscription to weather forecast and climate information services

Changes in tillage practices (for example, conservation tillage)

Use appropriate varieties for annual crops (e.g. drought resistance)

Optimized fertilizer usage e.g. manure, coated fertilizer

Portfolio (crop/livestock) diversification

Livestock management e.g. rotational grazing

…

Easy to implement

More demanding to implement

The following *long-term* adaptation measures may qualify for financing:

Improved crop mix and harvesting e.g. continuous commercial crop with cover crop, intercropping, incorporate fungal or microbial inoculant or other soil probiotic

Irrigation systems and water management practices

Agroforestry (incl. shade management benefits and protection against soil erosion, e.g. through hedgerows)

Shift to climate-resilient planting materials, crops, varieties and/or breeds

Construction activities e.g. cisterns, terraces, water reservoirs

Improving land use management

…

Why insurance is of interest to agripreneurs

If risk avoidance and reduction is not enough, agribusiness can choose to transfer risk to an insurance. Insurance, especially index insurances, protects agribusinesses against the financial loss incurred by erratic weather and climate incidents and constitutes an important adaptation measure. Insurance may also help agripreneurs access (climate) finance more easily and at better conditions because it has the potential to de-risk loan products[2].

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[1] For more adaptation and mitigation activities, please use Agri-Business Facility for Africa's climate tool which identifies activities for your specific context.

[2] For more information on indemnity and index insurances, please have a look at Agri-Business Facility for Africa's overview of [financial products and services for agripreneurs](). For more information on risk management please visit the [Agriculture as a Business]() course.

Climate Mitigation Finance for the reduction, avoidance, and removal of CO_2

Why is Climate Mitigation Finance needed?

Climate finance is critical for mitigation because large-scale investments and incentives are required to significantly reduce, remove and avoid emissions. As the reduction and avoidance potentials for African agripreneurs with low emissions level are low, removal strategies can generate new business opportunities. The fundamental adjustments of production systems such as changes of land use patterns and crops grown often mean short-term revenue losses that can be compensated by climate finance.

What specific climate mitigation activities can be financed?

The following mitigation measures may qualify for financing:

Reforestation and landscape restoration

Agroforestry and silvopastures (trees on grazelands)

Reduce tillage, improved crop residue retention (conservation tillage, strip-till, mulch-till, no-till)

Other ecosystem services, e.g. biodiversity and water conservation

Efficient storage facilities (reducing post-harvest losses)

Smart irrigation and water harvesting

Optimized fertilizer application and organic fertilizer application (e.g. manure, compost)

Cultivate climate-friendly crops with a low carbon-footprint

Energy-efficient equipment e.g. solarized water pumps and cooling solutions, egg incubators, clean cooking stoves and other energy efficient technologies

Adjust grazing management, e.g. rotational grazing, adaptive multi-paddock grazing, multi-species grazing or grazing of agricultural residues post-harvest and cover crops

What is a carbon credit?

A carbon credit is not a loan! It is an emission reduction traded in a formalized transaction between those mitigating and those emitting. The entitlement to a carbon credit is assured in the form of a certificate which is usually issued by a carbon standard.

Some things to consider when planning a climate mitigation project:

- Costs incur largely upfront, e.g. for the registration under a particular carbon standard and especially for the required investments, e.g. in trees or pruning. The climate-smart transition, though profitable in the long run, can cause a temporary income reduction.
- Payments through carbon credits may only materialize after a few years. Prices for carbon are volatile driven by supply and demand. Demand is expected to pick up and increase prices in the future though.
- Pre-financing is provided by some carbon standards. Upfront and expected carbon credit payments can serve as collateral to secure additional adaptation and mitigation loans.
- Normally a share of 60 to 80% of the carbon credit payment – dependent on the carbon standard involved – is provided to the mitigating party in cash or in-kind, e.g. in the form of training. Choosing the right standard is important!
- Carbon Standards often require reductions in emissions to be “additional”, that is above business as usual to issue a carbon certificate.

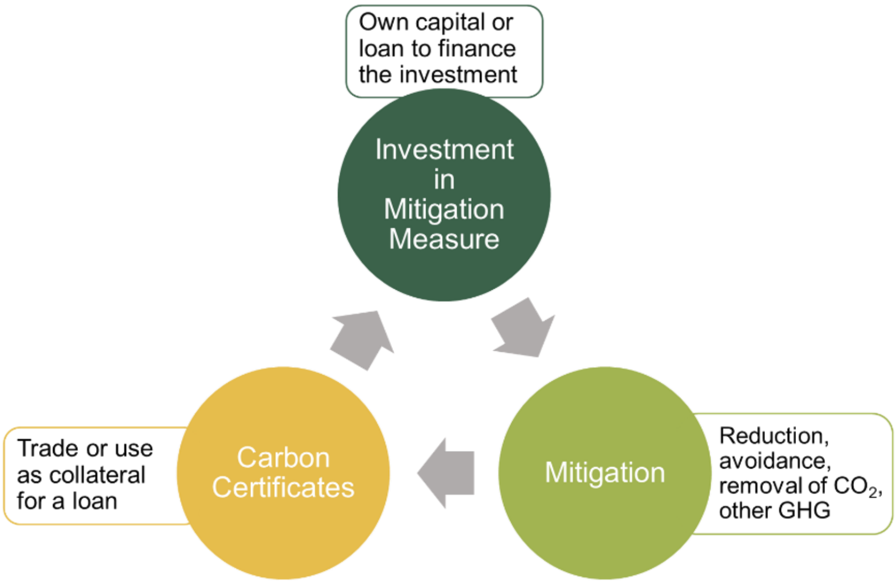

Figure 2: The mitigation investment cycle

Climate Finance enablers for agripreneurs

Awareness & Knowledge
Providing technical assistance to lenders and borrowers to help both make the right choices. For example, selected climate-friendly products and value chains such as tree crops, trees suitable for agroforestry systems are particularly promising for climate finance.

Institutional Innovations
Producer organizations save transaction cost and are central actors to enable access to finance. They can design, own, and drive climate-smart projects and related financial opportunities as a service to their members.

Planet, People & Profit
For climate-smart agripreneurs, finding the right balance between secured livelihoods, food security and climate finance, monetization is key. They should profit from climate finance and not be burdened by it.

Land (use) rights and data ownership
Who holds a claim for mitigation finance and is entitled to receive payments? The owner or steward of the land or the entity collection and owning the underlying data? Inclusive data systems that provide opportunities to women, men and youth alike are paramount.

Annex

Resources and further reading

Climate Finance
Climate Finance Gap for Small-Scale Agriculture

Climate-smart agriculture
FAO: Understanding climate-smart agriculture
CSA-Measures

Carbon Markets
Plan Vivo – Community-level carbon market engagement
Plan Vivo – Project eligibility criteria
Plan Vivo – Project requirements
Voluntary carbon market dashboard

Carbon prices
EU Carbon Permit price history

Carbon Standards
Verra
Gold Standard

Land restoration
- AFR 100
- Land Accelerator
- REDD+
- ACORN

Clean energy
- The D-REC Initiative
- EnDev - Energising change
- Green People's Energy for Africa

Climate-Smart Livestock
- ISFL BioCarbon Fund
- ISFL BioCarbon Fund - Oromia Forested Landscape Program
- The World Bank: Opportunities for Climate Finance in the Livestock Sector

Climate Risk Insurance
- Insuresilience
- Etherisc

Adaptation, mitigation measures and measures belonging to both

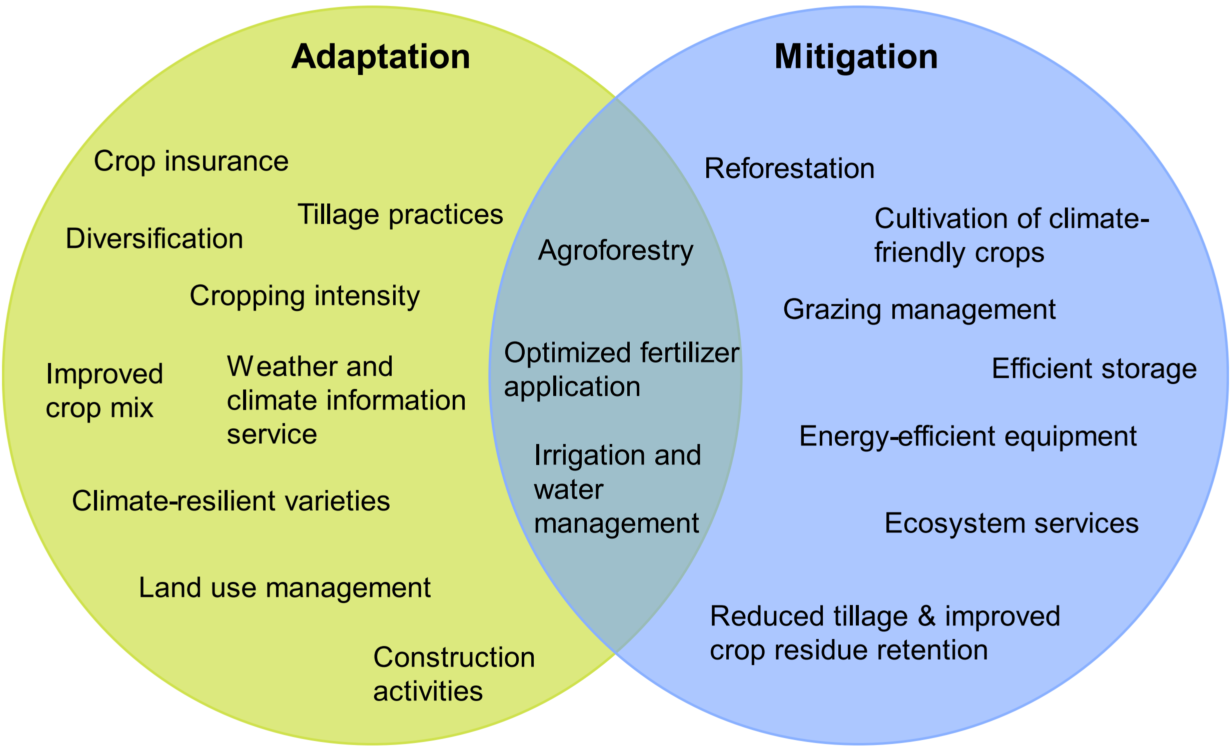

Figure 3: The adaptation and mitigation nexus