

Submission by the International Fund for Agriculture Development on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation

Rome, 26th May 2023

Subject: response to the call for inputs from the UNFCCC Standing Committee on Finance on “Information from Parties and stakeholders in the financial sector regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation”

Preamble: The International Fund for Agricultural Development (IFAD) is pleased to present its perspectives to the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance (SCF). As a specialized agency of the United Nations and an international financial institution (IFI), IFAD has a unique mandate to collaborate with developing countries and direct resources towards their agricultural development. IFAD is committed to investing in rural individuals, empowering them to enhance their food security, improve their families' nutrition, and increase their incomes. This distinctive focus on rural development shapes our contribution to the discussions and deliberations of the SCF.

Introduction: Over the last decade, the agriculture, forestry, other land uses, and fisheries sectors were responsible for 13-21% of global greenhouse gas (GHG) emissions¹. Food system-related emissions account for a significant 34% of total annual greenhouse gas (GHG) emissions. Populations such as smallholder farmers, indigenous peoples, women, and youth in developing countries are exceptionally susceptible to the effects of climate change. Simultaneously, these groups, particularly the smallholder farmers, are integral to climate solutions. They could potentially contribute to an annual emission reduction or removal of up to 15 GtCO₂e by 2050.

From 2013 to 2020, climate finance directed to agriculture, forestry, other land uses, and fisheries (AFOLU*) reached an estimated USD 16.3 billion per year. This represents a mere 2.5% of the total tracked climate finance, illustrating the underfunding of AFOLU sectors compared to others. In 2017/18, only around USD 10 billion, or 1.7%, of global climate finance was aimed at small-scale producers². Current tracked AFOLU climate finance pales in comparison to the estimated funding needed to align these sectors with the Paris Agreement. To transition to a low-carbon and climate-resilient trajectory, AFOLU sectors need a 26-fold increase in annual funding - approximately USD 423 billion per year by 2030, compared to the annual average of USD 16.3 billion in 2019/20³.

Nearly every country provides some preferential treatment to their agricultural sector. From 2017-19, member countries of the Organisation for Economic Co-operation and Development (OECD) and 11 major developing economies provided approximately USD 619 billion per year in public support for agriculture. This figure is almost twice the value received by the sector a decade prior and 56

¹ IPCC, 2022, IPCC AR6 WGIII, Chapter 7

² <https://www.climatepolicyinitiative.org/publication/climate-finance-small-scale-agriculture/>

³ <https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-for-agriculture-forestry-other-land-uses-and-fisheries/>

times the USD 11 billion in climate finance support aimed at land use. However, only around 5% of the USD 619 billion delivered annually was explicitly linked to environmental goals⁴.

Meanwhile, typical private finance for agriculture, forestry, and fishing totalled USD 191.6 trillion from 2010–16. Additionally, global investments in meat and dairy activities, which along with rice production are the top GHG emitters in agriculture, exceeded USD 478 billion from 2015–20.

IFAD's approach on aligning its own financial resources with the objectives of the Paris Agreement

IFAD aims to align its activities and investments with the goals of the Paris Agreement, assisting countries in reaching the targets outlined in their Nationally Determined Contributions (NDCs), within the scope of sustainable development and food security. IFAD's approach could serve as a model for other financial institutions, which involves:

To aid countries in executing and enhancing their national climate plans, particularly concerning small-scale agriculture and the rural sector, IFAD is developing a Paris Alignment Roadmap. This will be finalized and implemented as part of IFAD's 2025-2027 (IFAD13) commitments. Currently, proposed measures to boost IFAD's Paris Alignment include:

- Improving the evaluation of climate risks in project designs and assessing climate resilience outcomes achieved by projects;
- Fortifying IFAD's ability to mobilize climate finance through initiatives like the IFAD Climate Facility, continued mobilization of climate finance through IFAD's flagship Adaptation for Smallholder Adaptation Programme (ASAP+), and through climate and environment funds (AF, GEF, and GCF);
- Building on a recently completed foundational assessment of the greenhouse gas (GHG) impact of IFAD's investments at the portfolio level, to guide the creation of future climate change mitigation commitments and help identify the most suitable agricultural investment options based on their climate adaptation-mitigation synergies and mitigation potential.

All of IFAD's Country Strategic Opportunities Programmes (COSOP) are derived from national priorities and plans, including their NDCs and National Adaptation Plans (NAPs). These documents, which are developed in collaboration with the countries we support, form the foundation for IFAD's investment programming in our client countries. This method ensures that all IFAD's Program of Loans and Grants (POLG), as well as Supplementary Funds (SF), are in line with these national priorities and targets, as defined by Parties to the Paris Agreement.

IFAD's Executive Board is progressively elevating the institution's "climate ambition," from 25% to 40%, under the programming cycles of IFAD 11 (2019-2021), IFAD 12 (2022-2024). There is consideration to further increase the climate finance target to 45% under IFAD 2025-2027. Additionally, by 2030, 30% of this will be allocated to nature-based solutions. To monitor progress against this commitment, IFAD adopted the Multilateral Development Bank methodologies for

⁴ Searchinger, T. D., Malins, C., Dumas, P., Baldock, D., Glauher, J., Jayne, T., et al. (2020). Revising Public Agricultural Support to mitigate climate change. World Bank Group. Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/33677/K880502.pdf?sequence=4&isAllowed=y>.

tracking climate change adaptation and mitigation finance (MDB Methodologies), used by major MDBs since 2011 to report jointly on their climate finance.

IFAD is one of the first IFIs to [pilot mechanisms](#) to track nature finance within the climate sector, aligning with the growing acknowledgment of the close nexus between nature & climate and rising MDB commitments to invest in nature.

A crucial requirement in the design of IFAD investments is to systematically assess the impact of our investments on climate and nature, achieved through the Social, Environmental and Climate Assessment Procedures (SECAP), and by promoting investments and activities that are positive for climate and nature, such as sustainable agricultural production and green value chains.

In addition to mobilizing and utilizing climate finance from various sources, IFAD also promotes the alignment of international, domestic, public, and private financial flows. This work is directly related to Article 9 of the Paris Agreement. IFAD accomplishes this in several ways:

- From 2019 to 2021, IFAD pledged US\$1.2 billion in climate finance, primarily to assist small-scale farmers to adapt to climate change as rising temperatures and severe weather events such as droughts, floods, and cyclones threaten their existence and livelihoods. A number of practices encouraged by IFAD, including agroecology, agroforestry, soil management, rotational grazing, and low methane livestock and rice production, help small-scale farmers adapt while also sequestering carbon in soils and trees and reducing GHG emissions. The research indicated that the management of annual croplands has the most significant mitigation potential, with carbon sequestration in soils being the largest sink. Furthermore, increasing carbon in soils not only aids in mitigating climate change but also improves water infiltration, increases the availability of nutrients, and enhances soil biodiversity. [A recent study found⁵](#) that these investments sequestered more carbon and reduced more greenhouse gas (GHG) emissions than they emitted. The assessment report, a component of the Paris Alignment Roadmap of IFAD concluded that IFAD's investments are net-negative contributors to GHG emissions. As part of Paris Roadmap, IFAD will continue to track its GHG emissions in projects.
- IFAD primarily focuses on adaptation, its specific attention to smallholder farmers and vulnerable populations in developing countries also leads to investments that contribute to reducing carbon emissions and enhancing carbon sinks. Here are some examples of IFAD's investments in this regard:
 - i. Reduction of deforestation and forest degradation: IFAD supports projects like the "Reduced Emissions through Climate Smart Agroforestry" in Vietnam, which aims to mitigate CO2 emissions by combating deforestation and forest degradation.

⁵ using a Tier 1 approach for Scope 1 GHG emissions. The study considered the likely impact of IFAD projects on carbon stock changes and greenhouse gas emissions. In doing so, it considered the impact of IFAD's investments in project activities in the AFOLU sector, the sector on which IFAD's mandate is focussed. It used a representative sample of 27 projects based on the geographic distribution of IFAD's investments to estimate the likely portfolio-level impact.

- ii. Adoption of improved cropland management practices: IFAD invests in initiatives promoting soil conservation and improved cropland management, leading to reduced CO2 emissions.
- iii. Improvement of animal production and livestock waste management: IFAD collaborates with organizations like FAO, the global dairy platform, and the methane hub in projects such as "Pathways for Dairy Net Zero." These investments focus on enhancing animal production and effective management of livestock waste to reduce methane (CH4) and nitrous oxide (N2O) emissions.
- iv. Efficient management of irrigation water in rice paddies: Projects like the "Climate Adaptive Irrigation and Sustainable Agriculture for Resilience in Cambodia" are developed jointly by IFAD, AIB, and the GCF. They aim to improve the management of irrigation water in rice paddies, reducing methane and nitrous oxide emissions.
- v. Restoration of degraded soil and carbon-rich soils: IFAD supports various projects related to the Great Green Wall Initiative in the Sahel, focusing on the restoration of degraded soil, including carbon-rich soils such as peat.
- vi. Increase in organic matter inputs to cropland: IFAD promotes practices that enhance organic matter inputs to cropland, contributing to carbon sequestration.
- vii. Improvement of forest management practices: IFAD invests in projects aimed at improving forest management, leading to the enhancement of carbon stocks.
- viii. Afforestation and reforestation: IFAD supports initiatives that involve afforestation and reforestation, which contribute to increasing carbon stocks.
- ix. Agroforestry: IFAD promotes agroforestry practices, which combine agricultural and forestry techniques to enhance carbon sequestration.
- x. Improvement of grassland management: IFAD invests in projects focused on improving grassland management, leading to increased carbon storage.

By investing in these activities, IFAD plays a crucial role in both adaptation and mitigation efforts, benefiting smallholder farmers and vulnerable populations while contributing to global climate goals.

- IFAD leads the Agricultural Public Development Banks Coalition (Agri-PDBs Coalition) in the context of the Finance in Common initiative and the UN Food System Coalitions. These efforts aim to align financial flows with the 2030 Agenda and the Paris Agreement on Climate Change. In this context, IFAD, in partnership with the Agence Française de Développement and the Cassa Depositi e Prestiti d'Italia, launched the Agri-Public Development Banks Platform for Green and Inclusive Food Systems in 2021. This platform is open to existing regional PDB networks. Its primary objective is to enhance and refine the volume and quality of green finance dedicated to agriculture, ensuring carbon-neutral impact from the credits issued by the banks to their clients.

- IFAD supports national financial institutions, such as agricultural banks, in aligning their financial flows with the goals of their respective countries, as reflected in their respective Nationally Determined Contributions (NDCs). Examples of these efforts include the Inclusive Green Financing initiative ([IGREENFIN](#)) project in the Sahel and a similar initiative in Mexico.
- IFAD assists private financial intermediaries to invest more resources into adaptation activities. This includes the establishment of new credit lines and a specific investment taxonomy, as demonstrated by the [ARCAFIM](#) project.
- IFAD is launching a new initiative to address global warming by reducing methane emissions from small-scale farming. This new initiative aims to generate global benefits while improving livelihoods for rural communities. By providing policy and financial support, the program will enable smallholder farmers to decrease methane emissions, increase food production, and boost their incomes. The initiative will assist countries in integrating methane emission reductions into their Nationally Determined Contributions (NDC) and national planning processes. IFAD will offer technical assistance to 15 countries to facilitate the inclusion of methane reductions in their updated NDC submissions to the United Nations Framework Convention on Climate Change. Additionally, IFAD will support the design of projects and blended finance solutions to reduce methane emissions in agriculture and food systems. The program aims to showcase the multiple advantages of different solutions for methane reduction, including improved animal feed and cultivation techniques for rice production.

Challenges faced in these endeavors include the lack of a common understanding of the scope of Article 2, paragraph 1.c), the need to account for country-specific development pathways and national circumstances, and the complexity, time, and effort required to reformulate existing policies and incentives while ensuring a just and equitable transition.

The most promising strategies that IFAD has observed for promoting financial flow alignment and implementing Article 2, paragraph 1(c), of the Paris Agreement include aligning national policies with NDCs and long-term low emission development strategies, building national capacities to implement and finance climate resilience activities, fostering public-private partnerships, creating investment taxonomies, establishing green budgeting and expenditure systems, and demonstrating the multifaceted benefits of investing in nature-based solutions.

Contact Details:

Jahan Chowdhury
Global Lead for Environment and Climate
j.chowdhury@ifad.org

Pierre-Yves Guedez,
Senior Climate Finance Specialist and focal point to the Green Climate Fund
p.guedez@ifad.org