FINANCING

Emission Reductions in the Agriculture, Forestry and Other Land Use Sector (AFOLU)

Low Emission Development Strategies (LEDS) balance economic growth with climate change mitigation actions. The agriculture, forestry and other land use (AFOLU) sector is central to economic growth in many developing countries and is also a major source of emissions. Implementing LEDS in the AFOLU sector requires substantial financial resources from international donors and diverse public and private sources.

- AFOLU LEDS proponents should engage potential funders at an early stage and base activities around the kinds and amounts of financing expected.
- To scale up AFOLU LEDS, domestic public financing and private financing sources will both need to be mobilized.
- Public financing should be used to leverage private investments to maximize the impact of available resources.

The United States Agency for International Development Lowering Emissions in Asia’s Forests (USAID LEAF) program has published “Financing Emission Reductions in the AFOLU Sector” to promote development of sustainable financing strategies.

The report is available at: http://www.leafasia.org/library/financing-emission-reductions-afolu-sector
To achieve financial sustainability, an AFOLU LEDS needs both enabling and asset investments. Enabling investments create incentives for further investment in an activity, while asset investments produce a good or service (asset) that generates a financial return.

In early stages of LEDS development, public actors often provide funding through grants and concessional loans to establish an enabling environment. Asset investments may then be incorporated to help the initiative to become self-sustaining. Such investments may initially be financed through debt or equity, though funding would ultimately be derived from sales of the asset involved.


*PES: Payment for Ecosystem Services
Recommendations

To secure necessary public and private support, countries can address critical issues that hinder large-scale investments in AFOLU LEDS.

**Land tenure, governance and investment frameworks**

- Clarify land tenure rights of both smallholders and large investors, increase transparency and accountability, and strengthen enforcement of contractual rights to provide security to investors.

- Strengthen law enforcement to increase the cost of environmentally destructive behavior.

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**Regulatory and incentive frameworks**

- Reform subsidies to remove perverse incentives and redirect private finance towards sustainable production.

- Encourage banks and investors to invest in sustainable practices such as tightening banking regulations, mandating reporting standards, and training and capacity building.

- Incentivize companies to green their supply chains and operations, provide financial incentives to promote green investment and advocate uptake of voluntary standards.

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**Financial returns, co-benefits and risk sharing**

- Develop business plans for sustainable agricultural and forestry commodity production.

- Include non-carbon benefits such as climate change resilience and economic competitiveness to improve the investment case for LEDS.

- Provide risk mitigation measures such as insurance, guarantees and public-private partnerships to increase the attractiveness of investments in AFOLU LEDS to private investors.

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