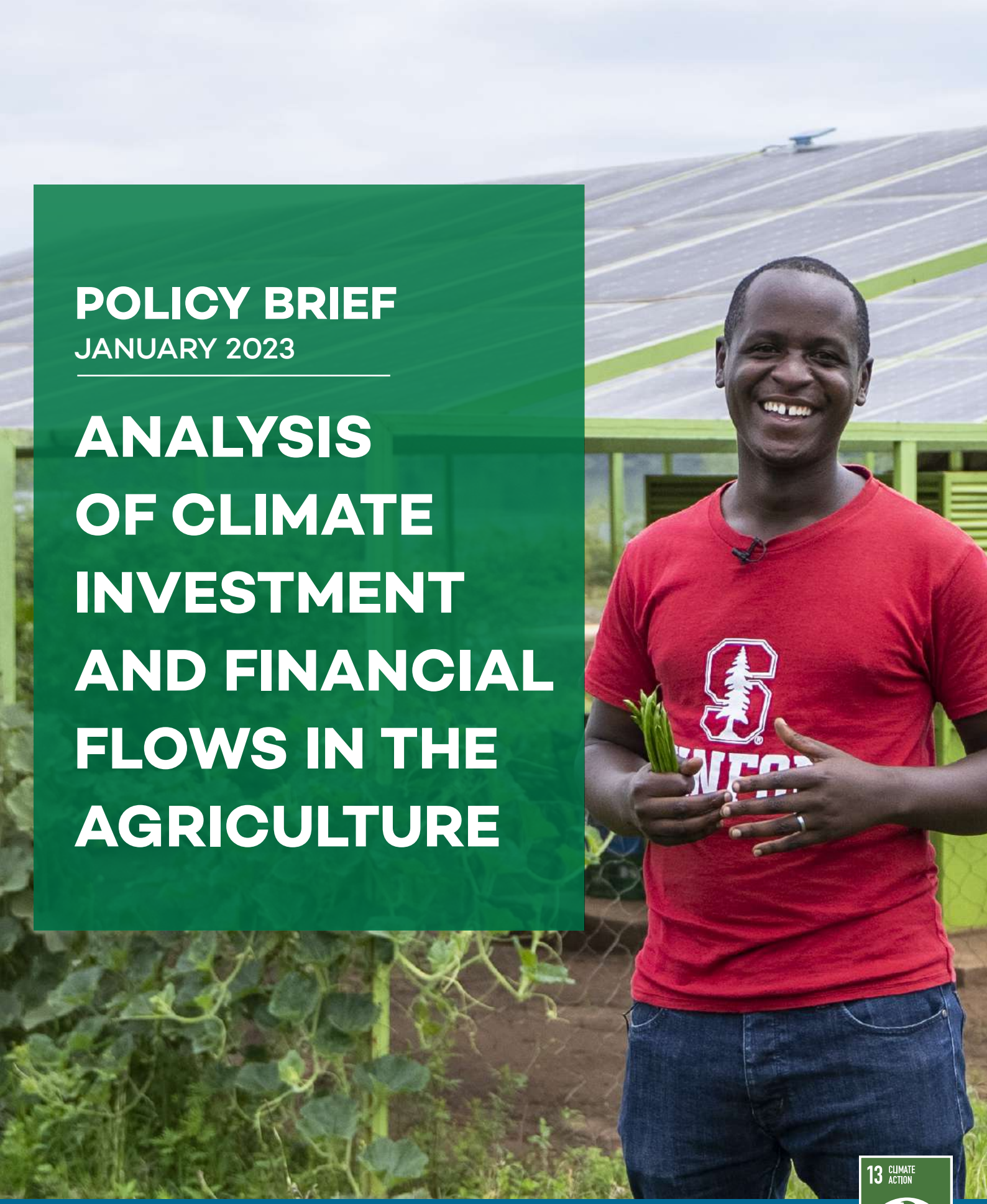
POLICY BRIEF
JANUARY 2023

ANALYSIS OF CLIMATE INVESTMENT AND FINANCIAL FLOWS IN THE AGRICULTURE



13 CLIMATE ACTION

Republic of Rwanda
Ministry of Agriculture and Animal Resources

UNDP

Deepening efforts to accelerate NDC implementation in Rwanda

@ UNDP

1. Introduction

> **The agriculture sector remains a vital sector the Rwanda's economy. It contributes about 26 % to the Growth Domestic Product (GDP) and 65% of the labor force, which justifies an important contribution of the sector to the national efforts for poverty reduction in Rwanda**
>
> (NISR,2020).

According to the Vision 2050, Rwanda aims at transforming agriculture into a modern market-oriented and climate resilient sector that is nearly 15 times more productive than it is today. Indeed, it is expected that by 2050, less than 30% of Rwandans will work as farmers in a market-led and high-technology agriculture sector supported by strong irrigation infrastructure covering around 600,000 hectares, with an irrigation rate of 100% of irrigable land.

GDP is estimated at about **26%** and **65%** of the labor force

By 2050, less than **30%** of Rwandans will work as farmers

(NDC) is estimated to require new investments of **USD 11 billion**

The GoR commits to take urgent and appropriate actions to mitigate and adapt to the effects of climate change

2. Justification

Over the 30 years of implementation of the vision 2050 agriculture will continue to play a prominent role in both economic growth and poverty reduction as it has important implications for food security, nutrition, exports, and has backward and forward linkages to both industry and services sectors. It is also anticipated that in 2050, the agriculture is expected to be totally transformed with professional farmers and commercialized value chain.

Despite efforts being put in place to ensure that agriculture sector keeps its pace in contributing to the country's economic development, climate change remains a big challenge contributing to ecosystem degradation and its negative effects on food security. Rainfall has become aggressively intense, and the variability is predicted to increase by 5% to 10% . Increase in average temperature and precipitation and their distributions are the key drivers of climate and weather-related disasters that negatively affect Rwandans and the country's economy. Producing food for a rapid growing population leads farmers to put pressure on scarce land resources.

There is a need for continued efforts toward agricultural productivity growth through increased adoption of sustainable agriculture practices and technologies. Increasing crop production will require among others protecting agricultural land against fragmentation, controlling erosion and degradation, and shifting production toward higher-value products. While the increase of animal resources production requires sustained efforts of improved breeds, sourcing animal feed, and fighting animal diseases. Hence, there is a need to build resilience and response mechanisms against adverse effects in agriculture sector .

As a party of the United Nations Framework Convention on Climate Change (UNFCCC), the country pursues to contribute to the ambitious goal of limiting temperature rise to 2°C with efforts to reach 1.5°C agreed under the Paris Agreement.

In this framework, the Government of Rwanda pledged to reduce GHG emissions by 38 % through unconditional and conditional measures in agriculture, energy, waste, and industrial processes and product use and to drive adaptation through 24 interventions across eight sectors including water, agriculture, and forestry, human settlement, health, transport, mining, and cross-sectional.

To implement NDC, Rwanda will require finance, capacity building and technology transfer for fully implementation of mitigation and adaptation measures. The total estimated cost identified in NDC is estimated at USD 5.7 billion USD for mitigation measures and 5.3 billion USD for adaptation actions, representing a combined funding requirement of 11 billion USD. For both mitigation and adaptation, unconditional measures account for around 40% of the total estimated funding requirements whereas conditional measures represent around 60%.

In this context, the GoR through the Ministry of Agriculture and Animal Resources received financial and technical support from UNDP to assess climate investments and financial flows in the agriculture sector in the period from 2014 to 2021.

This policy brief presents summary of findings and recommendations from above-mentioned study.

3 Situational analysis of climate investment in agriculture

Ministry of Finance and Economic Planning is responsible for mobilizing resources to finance climate related interventions across sectors.

It capitalizes on available funding opportunities including, green funds like the Green Climate Fund (GCF) GEF and Adaptation Fund and through engagement with its development partners either bilateral, multilateral, national, regional and international organizations
including United Nations (UN) organizations.

Role of partners in agricultural sector

Multi-donor trust fund

Sector support

Project support

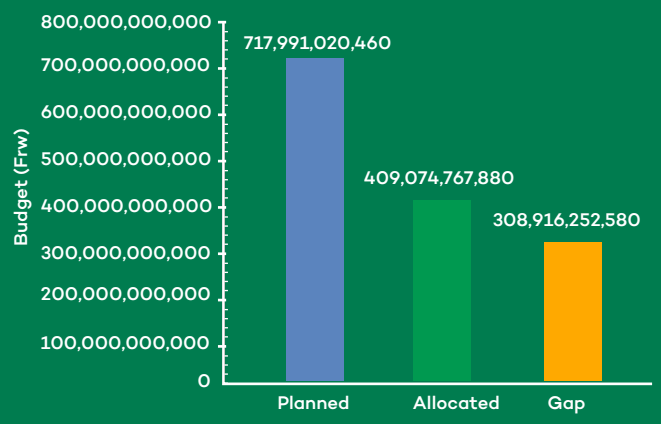
4. Gaps Analysis in Climate Investment and Financial Flows in Agriculture

Budget gap analysis was conducted with budget data, generated from MINECOFIN's Integrated Financial Management Information System (IFMIS) on the budget allocated for financing climate related interventions in the agriculture sector from the financial year 2014-2015 and to 2020-2021. Gaps were therefore obtained by comparing the annual budget allocated to these activities with the corresponding planned budget in the PSTA3 and PSTA4.

Similarly, comparisons between the budget allocations and the estimated budget in NDC were made to identify the required climate investment and financial flows in agriculture sector for the next nine years from 2022 to 2030. Moreover, the analysis was conducted by comparing the planned budget in the PSTA3 (2014-2015 – 2017-2018) and PSTA4 (2018-2019 – 2020-2021) with the allocated budget over the same period through annual budgets.

4.1. Budget Gap under PSTA 3&4

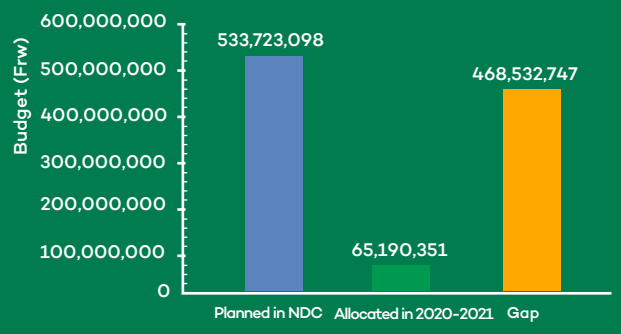
The analysis under PSTA 3& 4 highlighted that, approximately Frw 718 billion were planned to be invested in the climate resilient agriculture interventions between 2014-2015 and 2020-2021 while about nearly 409 billion were allocated, representing 57% of the planned resources. This implies that the overall financing gap is estimated at 43%



Source: MINECOFIN, Budget from financial year 2014-2015 to 2020-/2021
Budget gap under PSTA 3&4 (2014-2015 to 2020-2021)

4.2. Budget Gap under NDC

The analysis under NDC revealed that, the revised NDC (2020) proposed an average annual budget allocation of USD 533.7 million for both adaptation and mitigations interventions. The analysis underlined that an equivalent of USD 65.2 million were allocated, representing 12.2% of the expected budget. This implies a funding gap of 87.8%

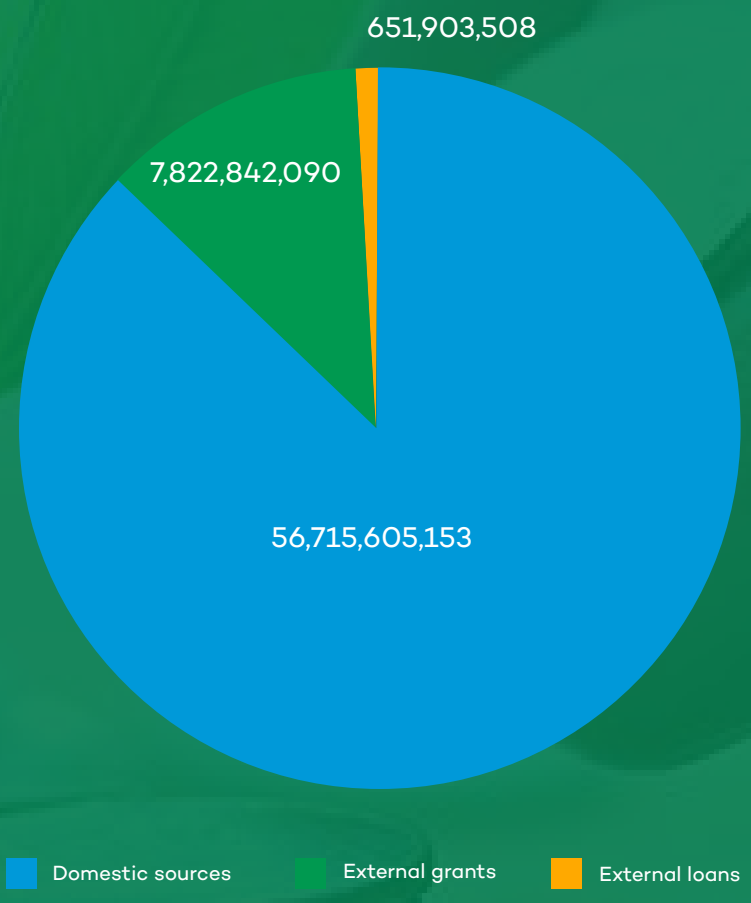


Source: MINECOFIN, Budget from financial year 2014-2015 to 2020-/2021
Budget gap under NDC (2020/21)

5. Funding sources for climate related agriculture interventions

The assessment suggested that about Frw 65.2 billion were recorded as investment and financial flows in the agriculture sector in 2020/21

with internal and external financing representing 87% and 13% respectively. The proposed allocation will comprise Frw 56.7 billion from domestic budget, Frw 7.8 billion from external grants and 652 million form external loans to finance the budget gap identified



Source: Analysis of the national budget, financial year 2020-2021

Figure 3. Funding sources (Frw) for climate resilient agriculture interventions

6. Recommendations

As clearly highlighted throughout this analysis, there is still a wide financing gap to implement climate agriculture interventions. Therefore, there is a need for additional resources to help the agriculture sector tackle challenges posed by climate change:

i. Engage financial sector and capitalize on existing funding opportunities:
Strengthen the engagement of domestic financial institutions with the aim to boost their participation in financing climate related agriculture interventions; Rwanda needs to capitalize on international funding opportunities such as Green Climate Fund and Green Environment facilities. There is a need to building the capacity of actors in the agriculture sector to take advantage of very important funding opportunities.

ii. Establish and operationalize the agriculture development fund:
Prioritize the establishment and the operationalization and develop financial-products that are accessible and affordable to the private sector. Priority should be given to the climate financing in the agriculture sector.

iii. Strengthen the role of the private sector in agriculture through existing framework:
Ensure that the private sector is actively engaged in all Value Chain Platform Sub-sector Working Groups, Agriculture Sector Working Groups and Joint Sector Reviews. This should be done by establishing a Secretariat designed to coordinate those forums.

iv. Develop a centric financial products and services:
Establish a financial facility that is accessible and affordable to youth, women and people with disabilities. The financial product would be design in a way that addresses issues related to the lack of collateral that affect effective access to finance for youth, women and people with disabilities willing to invest in the agriculture sector.

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