

Presenter's Guide for

Module 4: Private Sector Engagement for NDC Implementation

This document will guide the presenter through module 4 of the training course.

SLIDE 1: MODULE 4: PRIVATE SECTOR ENGAGEMENT FOR NDC IMPLEMENTATION

This module introduces the typology of private sectors, the importance and role of their active participation, and the enabling environment that is needed to support NDC implementation. This includes strategies, policies, frameworks and instruments, as well as the capacities needed to support a robust private sector engagement. Then the module focuses on the different private financing sources that exist, as well as the importance of blended finance approaches to leverage additional capital. Finally, the module addresses the typology of SMEs in Africa, the role they play and their financing needs, providing of set or recommended actions that can increase their access to climate finance to support NDC implementation in Africa. Numerous African case studies of African are presented to invite the audience to learn and understand how other peers have done it and to invite cross collaboration.

SLIDE 2: OBJECTIVES

1. Discuss advantages of engaging the private sector in the development and implementation of NDCs in Africa
2. Describe how the access of micro, small, medium and large enterprises to climate finance can be enhanced to support NDC implementation in Africa

This module requires a high level of interaction given the nature of the topic. Hence, the presenter should ask participants to contribute to the discussion throughout the presentation, by providing examples of previous relevant private engagements of which they are aware, by giving ways in which different types of entities might be engaged, etc.

SLIDE 3: KEY PRIVATE SECTOR ACTORS IN THE AGRICULTURE VALUE CHAIN ECOSYSTEM

For the agriculture value chain ecosystem to work effectively, is critical to have a conducive enabling environment that promotes an inclusive and dynamic business climate. Such business climate refers to policies, regulations and market structures that allow value chain actors to operate efficiently. Value chain actors are input providers, producers, storage and transportation service providers, traders and off takers, processors and distributors and marketers.

In addition to the business climate and the value chain actors, it is critical to have an ecosystem or actors that allow value chain actors to operate efficiently to maximize their resources and capacities. That ecosystem is known as the support services providers, who focus on providing finance, information, technology, water, power and infrastructure services among others.

It is critical for participants to understand the diversity of private sector actors that can invest much more capital (private) in the agriculture sector. Furthermore, some of them can act as aggregators, and can also

access climate finance and channel it to those actors that have more difficulty accessing it, but that will be their suppliers or connected to them through agriculture value chains.

SLIDE 4: IMPORTANCE OF PRIVATE SECTOR ENGAGEMENT

In most countries, the agricultural sector and the economy as a whole is driven by private enterprises. These actors ultimately have to implement climate actions, so while the public sector sets the NDC, private sector ultimately implements it. To define this clearly, the term 'private sector' is used in this presentation to refer to all actors which do not operate under state control and take part in commercial activities. This includes therefore actors ranging from small-scale farmers to multinational corporations.

The policies that flow from the NDCs do not only stimulate adaptation and mitigation, they can also drive economic growth and attract investments. To make sure the NDCs play this beneficial role, it is important to engage the private sector in its development and implementation. Engaging the private sector in the NDC process can help bridge part of the financing gap, support sustainable economic growth, social inclusion and environmental conservation by:

- Aligning long-term public and private strategies. To maintain their business under climate change, enterprises will have to implement adaptation measures, especially in the agricultural sector. Many of these adaptation measures can have extra benefits, such as increased production, quality or ecological services. The same counts for mitigation measures, which can contribute to increased production.
- Mobilising domestic and international private capital and technical capabilities. It is clear that much more capital will be needed to implement NDCs and contribute to achieve UN SDGs and Paris Agreement. Furthermore, with limited public budgets, private financing can provide a complement or substitute for government-funded activities, lessening the need for public expenditure and enabling more strategic use of public resources. The NDCs have the capability to attract domestic and international private investments by laying out a long-term private sector engagement strategy for certain sectors. Such a point on the horizon gives enterprises more assurance to invest in capital and development. In addition, the private sector, both domestic and international, can play an instrumental role in helping transfer technical capabilities that the public sector may find complementary or not have at all.
- Create numerous job opportunities. Engagement the private sector can generate enormous opportunities for job creation. For instance, 80% of Africa's food consumption is marketed and handled through private operators. 40% of rural employment time is in self-employed farming whereas food system employment in the midstream (processing, wholesale, and logistics) and downstream (farming) generates another 25% of rural employment. Business opportunities in the implementation of the SDGs related to food could be worth over US\$2.3 trillion annually for the private sector by 2030. Investment required to achieve these opportunities is approximately US\$320 billion per year. These business opportunities could generate almost 21 million jobs in Africa by 2030.
- Leverage the efforts of governments, civil society and community efforts. All stakeholders have a critical role to play to engage private sector and support it to deliver solutions that can help advance the implementation of NDCs in Africa. Collaboration is key to use all resources available (financial, human, etc.) in an efficient and cost-effective manner. While international support is critical, there is a huge opportunity to strengthen collaboration among all actors in country to create the right

conditions and environment for private sector to prosper and for international support to be more effective.

- Develop innovative climate mitigation and adaptation technologies. Promote technology transfer, as private companies provide technology solutions and business innovations that can support climate change adaptation and mitigation, as well as economic development goals. Engaging the private sector can accelerate access to these solutions, build local expertise with new technologies, and introduce new business models.

SLIDE 5: PRIVATE SECTOR INVESTMENT FOR EFFECTIVE NDC IMPLEMENTATION

According to the International Food Policy Research Institute (IFPRI), at least USD7 billion per year in additional funding is required to finance the research, rural infrastructure, and irrigation investments needed to offset the negative effects of climate change on human well-being. The mix of investments differs by region: Sub-Saharan Africa requires the greatest overall investment and a greater share of investments in roads, Latin America in agricultural research, and Asia in irrigation efficiency.

To make sure that USD 7 billion per year in additional funding goes to agriculture, it is important to not solely rely on public funds. Instead also private investments should be directed to the sector, as these are of a comparable magnitude. Illustrative is that for every USD 1 spend on official development assistance (ODA) in Africa in 2016, USD 2 was spent as foreign direct investment, and USD 10 by the private sector as whole. In the same year, for every USD 1 of official development assistance, government spending was estimated at USD 11 in Africa.

In addition, \$48.737 billion was invested in the African food and agriculture sector by foreign private-sector investors between 2003 and 2017. For instance, only 200 companies pledged US\$10 billions of investment commitments in 12 countries, with 70% of those commitments coming from African agribusinesses. Moreover, the private sector in output value chains handles 80% of Africa's food consumption. Hence, besides ODA and public sources, the private sector can be an important source of climate finance.

SLIDE 6: ASSESS AND ENHANCE THE DOMESTIC INVESTMENT ENVIRONMENT

In order to mobilise and attract additional private sector investment, either domestic or international, as well as public investment, it is critical to have a conducive and supportive domestic investment environment. To develop such environment, its imperative to identify what the barriers to private sector investment across relevant priority actions are. Some of these barriers may be inadequate or lack of policy and regulatory environment, actual or perceived risks, high transaction costs, etc. It is also important to identify what interventions are needed to address such barriers to increase private sector investment:

- Non-financial interventions: strengthening the rule of law, support competition and policy reform, reduce government intervention, strengthen investment policy, etc.
- Financial interventions: risk-mitigation instruments, tax breaks, feed-in tariffs, public-private partnerships, financing to value chain actors (i.e. grants, concessional debt, etc).

As we have seen before, collaboration is crucial if we want to engage private sector, both domestic and international. A key strategy to do so, it's to develop public-private financing structures and launch pilot projects to showcase viable business models that can attract further climate investment. In such way,

government funds can be used very strategically to catalyse private investment, but without taking the burden of having to invest large volumes of capital.

It is also critical to foster south-south collaboration and to review approaches used by peer countries. There is no need to start things from scratch, as there are many successful examples in Africa and beyond that can be considered, adapted and replicated based on the needs of the country.

SLIDE 7: STRENGTHEN THE CAPACITY TO DEVELOP FINANCIALLY VIABLE OPPORTUNITIES

To be able to attract additional capital at scale, specifically domestic and international private capital, it is critical to identify viable opportunities that are not only commercially attractive, but that also generate robust developmental and environmental impact. To do so, it's essential to enhance capacities to support government officials to identify and develop financially viable opportunities for the private sector. This will require a solid understanding of how projects are financed and how to build financial models that can support such projects; capacity and knowledge of the adequate financial and investment terminology to be able to engage with the private sector; solid understanding of the main constraints that investors face and their requirements; knowledge of financial and non-financial mechanisms available to reduce risks and increase the financial viability of projects for the private sector; and finally to increase skills and experience in conducting commercial negotiations with the private sector.

SLIDE 8: INCREASE PRIVATE SECTOR ENGAGEMENT IN POLICIES AND STRATEGIES

An ongoing coordination process should drive progress and decision-making and ensure accountability. NDC implementation spans across government levels and sectors, so all plans should be documented to encourage coherency and cooperation. Sharing these documents with governments and the general public encourages alignment of activities and favours a national dialogue on the NDC. To promote engagement with the private sector even further, the NDC can be translated into sectoral action plans, so companies and other private sector actors can look specifically what the NDC will mean for them. Sectoral action plans can therefore kick-start developments and invite feedback.

In addition, it is essential to involve and consult the private sector in the implementation of national climate change policies and strategies, as this will help better identify and address any investment barriers and opportunities that may arise. The private sector might accept policies if they understand them, but they will only endorse them when the policies benefit them. This goes from the very lowest level of a farmer on the ground up to the highest level of multinational corporations. A farmer will not adopt a CSA practice to reduce GHG emissions for his/her country if he/she will not see economic returns. Similarly, corporations will be much more willing to adhere to regulations when they understand how their bottom line will benefit.

There is a wealth of methods available to consult the private sector. Promoting greater public-private dialogue on climate finance through regular forums and specific investment platforms will be key. Examples of qualitative consultation methods are focus groups (mostly to target a specific interest group),

interviews and workshops with sector or regional representatives and public meetings. Such meetings can take place live and on place, but also online, through surveys or online fora.

It is also useful to also consider successful approaches already being used by other countries and by international financial institutions and development institutions, such as the African Development Bank, International Finance Corporation, etc. For instance, the World Bank Group has developed approaches and frameworks like “Maximizing Finance for Development” and “Country Private Sector Diagnostics” that can be critical to help increase private sector engagement and investment.

The presenter can ask participants to share their previous experiences in engaging with the private sector for agricultural development or climate change adaptation and/or mitigation.

SLIDE 9: CASE STUDY: PRIVATE SECTOR ENGAGEMENT AND COORDINATION FRAMEWORK IN KENYA

In response to the challenges posed by climate change, Kenya has developed the Climate Change Act, 2016, the National Policy on Climate Finance, the National Climate Change Action Plan, and the Climate Change framework policy among others.

As a signatory to the Paris Agreement and the UNFCCC, Kenya has presented an ambitious Nationally Determined Contributions (NDC). The implementation of the NDC will require both domestic and international public and private capital. Understanding the critical role that the private sector will play, the Ministry of Environment and Forestry has continuously involved the private sector in planning and implementing climate change initiatives and plans.

It has also engaged the private sector through an inclusive and consultative process to develop the “Private Sector Engagement and Coordination Framework”. This framework seeks to strengthen private sector engagement in climate change actions and enhance national actions on climate change. The engagement framework will enhance communication, coordination and tracking of resources while promoting investments in climate change actions by private sector

SLIDE 10: USE “MFD” APPROACH TO ATTRACT AND ENGAGE PRIVATE SECTOR

As seen in previous slides, the “Maximizing Finance for Development” approach, developed by the World Bank, is a critical and efficient approach to mobilize additional capital to achieve ambitious climate and development goals. This approach provides a clear pathway showing how scarce public and concessional funding can be strategically used to crowd in additional financing from different sources. It emphasizes how, while domestic public funding remains a vital and often the largest source of development funding, the largest potential lies in private businesses and catalysing private finance.

This approach focuses on undertaking a detailed private sector diagnostic, as well as a public-private dialogue that prioritizes a structured and inclusive process to help inform a robust private sector engagement and investment strategy. Such diagnostics and dialogue will allow the government to identify and address the market failures that lead to greater private sector participation and provision of goods and services to accelerate the achievement of development and climate goals.

SLIDE 11: IMPROVING OPPORTUNITIES THROUGH CASHE VALUE CHAINS IN COTE D'IVOIRE

Although Côte d'Ivoire produces 23% of the world's cashew supply, worth \$800 million, fewer than 7% of raw cashew nuts are processed domestically. This was due to the lack of finance to invest in upgrading or building the necessary infrastructure, such as modern processing facilities, and the lack of access to working capital. Plantations were poorly maintained which, added to weak extension services, lack of adequate inputs and quality stock, and losses in storage and post-harvest, led to low yields and quality.

Through the MFD approach the World Bank's investments will help the government concentrate scarce public funds on sector policy, institutional, and infrastructure development. IFC will provide innovative financing to catalyse local private credit across the value chain. As a result, about 225,000 cashew farmers are expected to benefit from these interventions, and through improving quality, raise their annual raw cashew yields by 20%.

SLIDE 12: POLICIES AND INSTRUMENTS TO UNLOCK PRIVATE FINANCE

To unlock additional capital, it is vital to understand the risk-return profile that an investment represents and what policies and instruments can be used to motivate a diverse range of investors. To that end, the following approaches can be used based on whether the focus is mainly on increasing returns or on reducing risk:

- Return-enhancing policies and instruments: increase returns for investors, such as financial policies (i.e. feed-in-tariffs, generation-based incentives, tax incentives, accelerated depreciation). These will be particularly critical when the perceived/real risk is too high when compared to the potential expected returns that a given investment could generate. The application of such policies and instruments will help increase the potential expected return bringing the investment closer to the risk return profile of a given investor (or set of investors).
- Risk-reducing policies and instruments: lower investment risks, such as financial policies (i.e. transparent investment policies, bankruptcy codes) or instruments (i.e. credit enhancement mechanisms, guarantees). These will be particularly critical when the perceived/real risk is too high when compared to the potential expected return (often too low for that level of risk). The application of such policies and instruments will help lower the perceived/real risk bringing the investment closer to the risk return profile of a given investor (or set of investors).

SLIDE 13: CASE STUDY: SOUTH AFRICA'S CARBON TAX BILL

In 2006, the government of South Africa initiated a national dialogue on Long-Term Mitigation Scenarios with representatives from the government, industry, civil society and academia. These scenarios provided information on mitigation potential, costs, and benefits. The Long-Term Mitigation Scenarios helped inform the development of the 2011 National Climate Change Response Policy. One of the outcomes of this extensive consultation process was the need for a carbon tax.

The carbon tax was debated a long time, and even after it was passed the implementation date was postponed three times. Eventually, it came into effect on 1 June 2019.

The Carbon Tax Act gives effect to the polluter-pays-principle for large emitters and contributes to ensure that consumers and companies consider the negative adverse costs when making decisions about their future investments, production and consumption. In addition, companies receive incentives to adopt cleaner technologies.

The carbon tax was designed to be applied in different phases. For instance, in the first phase, generous tax-free emissions allowances are given to all activities, but additional allowances can be given based on how the company conducts its operations and how it deals with its emissions (i.e. using carbon offsets to reduce tax liability, reducing emission intensity, complying with the reporting requirements, etc.). The impact of the carbon tax will be reviewed before initiating the second phase, which is expected to be at least three years after the tax started being implemented and taking into account how much GHG emissions have been reduced and the alignment with the NDC. Subsequent changes to the Carbon Tax will be made following a consultative and transparent process.

The presenter can ask for other examples of hard policy instruments that participants are familiar with.

SLIDE 14: UNDERSTANDING MAIN PRIVATE SECTOR FINANCING SOURCES (1/3)

As we have seen in the previous chapter, there are numerous potential sources of private finance, such as smallholder farmers, agribusinesses, microfinance institutions, impact investors, foundations, family offices, commercial and national banks, private equity and venture capital, institutional investors, etc. Understanding well each source of finance and its characteristics is critical to be able to engage with them and attract their capital.

There are three key factors that are essential: time horizon, risk tolerance and deal size. Each investor will have a different risk-return profile and, based on that, will only be keen to engage in deals of a certain size, with a very specific level of risk and a determined time horizon. For instance, family offices are willing to take much more risk over longer time horizons, but their deals with often stay between USD6Mio and USD23Mio. However, institutional investors (like pension funds) will be risk adverse and expect short time horizons, with larger ticket sizes ranging from USD13M to USD53M. This type of investors will prefer to deploy capital in businesses that have already proven their business model and are mature enough to push through the growth phase.

SLIDE 15: UNDERSTANDING MAIN PRIVATE SECTOR FINANCING SOURCES (2/3)

In addition to what we have learnt in the previous slide, each source of finance or financial structure has a different target investment size and direct connection with smallholder farmers. The target investment size can go from less than USD100K to well above USD50Mio. Whereas the direct connection to smallholder farmers can go from underlying investments, through strengthening the market and generally “riding the tide” to developing new mid-market infrastructure or technologies, or directly building new linkages with smallholders.

For instance, there are wholesale multisector or agriculture funds (USD14 billion) that focus on moving large blended pool of capital into the sector, often through financial intermediation or large direct investments. They expect capital preservation or low returns and may have low to medium direct connection to smallholder farmers. Examples of these are GAFSP, Green Climate Fund, AATIF (KfW) etc. On the opposite side are the so called “Frontier Plus” agriculture funds. Their mission is focused on smallholder farmers and SMEs, leveraging blended capital to reach underserved segments of the market. Their expected returns are below market. Examples of these are Root Capital or Rabobank Foundation and Rural Fund. These will have a much more direct connection to smallholder farmers.

SLIDE 16: UNDERSTANDING MAIN PRIVATE SECTOR FINANCING SOURCES (3/3)

Finally, each source of finance has a different expected market return and will only deploy capital in those investments (i.e. farm/enterprise) that meet their expected level of commercial maturity. For instance, development partners and public sector grants will look for no or very low returns and will focus on non-commercial or very early stages of the enterprise/farm. However, venture capital will be looking for very high returns and will only invest in those farms/enterprises that are in early stages and that have strong potential for growth. This will differ to the case of local and international commercial banks that will expect robust financial returns while only focusing on farms/enterprises that have a solid proven business model and that are about to reach a solid and late stage of commercial maturity.

Hence, it is critical to understand what level of commercial maturity and financial return a given farm/enterprise can generate to then approach the right type of private sector financing source.

SLIDES 17- 18: CASE STUDY: ETHIOPIA’S CLIMATE RESILIENT GREEN ECONOMY (CRGE) FACILITY

Ethiopia has put in place a Climate Resilient Green Economy (CRGE) strategy to align its country’s growth with sustainable development principles. The main goals of the CRGE are: i) Economic growth; ii) Net-zero emission; and iii) Climate resilience.

The CGRE Facility, is the national financing mechanism created to support the implementation of the CRGE, which is led by the Ministry of Finance and Economic Development and the Ministry of Environment, Forestry and Climate Change. This Facility coordinates closely with other institutions, such as the National Planning Commission (NPC) and the Prime Minister Office (PMO). In addition, the Facility aims to achieve the following objectives:

1. Financial allocation and mobilization: the objectives are to effectively access, mobilize and allocate domestic and international public and private climate finance
2. Stakeholder coordination: There is a strong coordination among a wide range of stakeholders, including the government, development partners, private sector, civil society, etc.
3. Unlocking capital at scale: blending and leveraging investment sources

The CRGE Facility mobilises and allocates all sources of finance (public, private, domestic and international) to finance those actions that have been approved, using a wide range of financial instruments, such as conditional and un-conditional grants and up-front financing, guarantees, loans and results-based payments. To that end, the Facility is responsible for:

1. Helping to attract and secure funding that can be allocated to CRGE actions;
2. Guide and advise parties interested in submitting SRAPs and investment proposals for funding;
3. Help determine the optimum allocation of available funds to approved actions;
4. Monitor, evaluate, verify and report on the results achieved by funded actions; and
5. Provide fiduciary assurance to the providers of finance.

SLIDE 19: BLENDED FINANCE: STRUCTURING APPROACH TO INCREASE PRIVATE INVESTMENT

Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development. The main objective (from a financial perspective) is to create investment opportunities in emerging and developing countries that present an attractive risk/return profile for a wide range of private investors. Blended finance does so by leveraging development funding (public and philanthropic capital) at below market terms. It allows organizations with different objectives to invest alongside each other while achieving their own objectives (whether financial return, social and environmental impact, or both)

Blended finance specifically focuses on those projects/investments that are bankable or near bankable, but not on those that are not unbankable. In the case of bankable projects, blended finance provides the necessary supply of capital to financial intermediaries to increase the number of projects that can receive financing. Those that are near bankable will, in most cases, need risk mitigation solutions to to credit enhance transactions, and turn near bank able in bankable projects.

Blended finance can support transactions at project (single or multiple projects) level and at portfolio level (the most common type in blended finance). Likewise, blended finance can be used in a wide range of financial structures, such as: i) private equity or debt funds with concessional funding to attract institutional investment; ii) grant funding to build capacity of investments to achieve expected financial, social and environmental return, etc.

SLIDE 20: UNLOCKING CLIMATE FINANCE FROM THE PRIVATE SECTOR

As seen in the previous slide, the strategic use of public capital can be critical to lower investment-risks and unlock private climate finance investments. In addition, we have learnt how different sources of private finance will only provide financing based on the level of commercial maturity or bankability of the project. Hence, each stage of the investment project represents a different risk/return profile and requires different financial instruments (grants, equity, loans, bonds, etc.) from different financing sources (donors, DFIs, commercial capital, etc.).

For instance, in the early stage of a project, high investment risks will most likely prevent the project from becoming bankable and accessing commercial and institutional investment. Commercial capital will only come in when the project is already bankable, whereas the institutional capital will only come in when the project is already mature.

This is where blended finance or dedicated public and/or philanthropic capital can be essential to reduce investment risks, which will help early stage projects move on to bankability, unlocking the commercial capital and later on the institutional capital.

SLIDE 21: CASE STUDY: IFC, GAFSP AND SOCIETE GENERALE INVEST IN BURKINA FASSO

IFC, GAFSP and Société Générale investment of €70 million to Burkina Faso's biggest cotton company, SOFITEX, sought to help farmers in its supply chain address productivity, water scarcity, and climate resilience concerns.

As part of the IFC's Global Warehouse Finance Program, the facility allowed SOFITEX to purchase raw cotton from more than 160,000 farmers in Burkina Faso to process and increase their exports to international markets. This was particularly critical for the economy of Burkina Faso, as while cotton represented its main cash crop, cotton companies were struggling to access finance due to shifts in global demand and commodity prices.

The Facility used a blended finance approach to provide liquidity to SOFITEX, against warehouse commodities, to finance its crop purchases. Working with local farmers, suppliers and distributors, SOFITEX played a significant role in job-creation, accounting for nearly 80% of Burkina Faso's cotton production. Donor partners to GAFSP (Canada, Japan, the Netherlands, the U.K. and the U.S) made possible for IFC to invest in riskier projects with strong potential to promote food security and reduce poverty.

SLIDE 22: GOOD PRACTICE FOR PRIVATE SECTOR ENGAGEMENT

There are some general good practice guidelines for engaging with the private sector, whether for NDC implementation, meeting the Sustainable Development Goals, or other purposes. These guidelines come from an OECD report titled "[Private sector engagement for sustainable development](#)".

- Engage the private sector as a means, not an end: It is not enough to work with the private sector simply to say the government is working with them. The engagement—whether it's a formal partnership, a dialogue, or other form—must have a purpose. Working with the private sector is a mean to achieve a goal, not the goal in itself.
- Ensure institutions are fit for purpose: Be clear on what needs to be done and the best placed institution to do it. If an institution is meant to play a role that it currently does not fulfill, examine what change needs to occur to make sure that all institutions are fit for purpose.
- Invest in the business-enabling environment: Engaging with the private sector will be easier if businesses are operating in an environment that has facilitative norms, policies, regulations and infrastructure.
- Develop a flexible portfolio of private sector engagement mechanisms: Not all formats of engagement will work with all types of enterprise. Be flexible in how the public and private sector interact for different types of goals.
- Work with a wide range of stakeholders: Don't leave out civil society groups, farmers' associations, academia and other groups that may be beneficial to the collaboration and should not be ignored.

- See partnership as a relationship, not a contract: The interaction must be a two-way street. You are both in it to benefit. It is not meant for one side to serve the other.
- Take risks if you want others to do so: Related to the above, you will get out what you put in. Acknowledge that both sides are taking risks.

SLIDE 23: MICRO, SMALL AND MEDIUM ENTERPRISES

As stated before, private sector actors range from smallholder farmers to large multinational corporations. Micro, small and medium-sized enterprises (MSMEs) account for 90% of businesses in developing countries and so greening MSMEs will be essential to help move the private sector to a climate-proof pathway. This is particularly true in the agricultural sector in developing countries, where MSMEs dominate. As the energy and technological efficiency of MSMEs is generally lower than that of larger enterprises, there is a high potential gain to be obtained through climate-smart measures. However, as MSMEs are dispersed and smaller, it is more difficult to engage with these companies. MSMEs often do not have the capacity to engage directly with the government, so these can best be engaged with on a local level and through financial intermediaries and other investors. This is particularly important with regard to financing, as MSMEs often have limited access to affordable credit, insurance and other financial services.

It is important to note that, in general, a divide can be made between micro, small and medium-sized enterprises, based on the number of employees, assets and annual sales they have. According to the World Bank, a business is classified as a MSME when it meets two of the following criteria:

1. **Micro:** It has less than 10 employees, less than USD 100K in assets and annual sales lower than USD 100K
2. **Small:** It has less than 50 employees, less than USD 3million in assets and annual sales lower than USD 3million
3. **Medium:** It has less than 300 employees, less than USD 15million in assets and annual sales lower than USD 15million

Please note that these definitions may change depending on the country, sector, etc.

SLIDE 24: FARMER SEGMENTATION

When considering how to engage the private sector and specifically farmers/MSMEs, it is key to understand the different types of farmers that exist, their characteristics and their needs. For instance, the IFC considers that there are subsistence farmers, semi-commercial smallholders, commercial smallholders, medium-sized farmers (emerging) and large farmers. Each segment has a different annual farm net income, different access to land, labour, technology, resources, production, capacities and value chains.

For instance, a subsistence farmer has access to land that is relatively small (i.e. <2ha); the labour is primarily based on family; uses low technology and has little access to know how; she/he has limited resources (capital, skills, labour, risk management, etc.); focuses on production of subsistence commodities, with part of their income coming from off-farm activities; she/he also has limited capacities or marketing, storage and processing; and extremely limited or no linkages to supply chains.

A commercial smallholder, however, has access to a medium size cultivated land of (20-500ha); uses a combination of family members and external labour; her/his access to technology is larger being partially mechanised; in terms of resources, she/he still has limited access to formal bank loans; the production is largely commercial; with a reasonable market access but limited access to information; and a weaker position in the value chain, though stronger in cash crops.

Having a robust understanding of the characteristics and needs of MSMEs will make easier to design strategies that can help access climate finance, either directly or through financial intermediaries.

SLIDE 25: AGRICULTURE ENTERPRISES IN AFRICA

MSMEs and larger enterprises play a fundamental role in the development of the agriculture sector and can, therefore, play a catalytic role in NDC implementation. The performance of value chains, in which they operate, determines the profitability, investment incentives and productive capacity of small farms. 40% of rural employment time is in self-employed farming, whereas food system employment in the midstream (processing, wholesale, and logistics) and downstream (farming) generates another 25% of rural employment.

The output value chain post-farmgate is composed nearly entirely of private sector enterprises—from small and medium enterprises (SMEs) to emerging large enterprises in the midstream (wholesale, logistics, and processing) and the downstream (retail and food service).

To fully understand the critical role that private enterprises play in the African food system, it is important to note that 80% of Africa's food consumption is marketed and handled mostly through private operators. The private sector is thus crucial for food security.

There has been rapid growth and proliferation of SMEs in the midstream, who in the aggregate are the biggest investors, creating markets for farmers, which indicates that SMEs are likely to play an increasingly key role over the next 10–20 years.

SLIDE 26: SUPPLY OF AGRI-SME FINANCE IN SUB-SAHARAN AFRICA

We have seen in previous slides how agricultural enterprises, and specifically SMEs, are essential in driving economic growth and prosperity in rural areas. They play a fundamental role not only aggregating farmers and creating employment opportunities, but also providing a whole set of services that range from access to markets and finance, to inputs training, information, etc. However, despite numerous efforts from governments and financial service providers that specifically target SMEs, the majority still lack access to working and investment capital to grow and reach their potential.

This is due to a myriad of factors, such as the perception of high risk and low returns, insufficient collateral, poor management capacities, etc. This causes an estimated annual USD100 billion gap in agricultural SME lending in sub-Saharan Africa. Such gap affects all micro, small and medium businesses and affects their access to working capital, long-term debt, mezzanine and equity. This also translates to the climate finance space, where most of the current initiatives and resources don't reach MSMEs, being particularly acute in the case of micro-businesses.

SLIDE 27: CASE STUDY: AGRI-BUSINESS (ABC) CAPITAL FUND

ABC Fund is an independent private impact investment fund, managed by Bamboo Capital Fund, with Injaro Investments Limited as investment advisor. It has also received public capital from the European Commission, IFAD, the Organization of Africa, Caribbean and Pacific States, IFAD, Luxembourg and the Alliance for a Green Revolution in Africa (AGRA).

This fund catalyses blended capital and provides technical assistance to investees. Its investments are specifically adapted to the needs of rural SMEs, farmers' organizations, agripreneurs and rural financial institutions in Africa. It aims to provide capital (loans and equity) to rural areas and agribusinesses that are underserved and lack access to finance.

It targets commercial ventures that can create numerous job opportunities and improve rural livelihoods. To do so, it prioritizes projects that promote climate smart practices for sustainable production. To identify bankable and impactful projects, ABC Fund will work with IFAD and AGRA to leverage their current portfolios.

ABC Fund will use a blended structure to mobilise EUR 200 million from public and private investors over the next ten years. Through its investments, it will aim to reach around 900,000 households.

SLIDE 28: CASE STUDY: IMPACT INVESTORS USE CLIMATE-SMART CREDIT IN KENYA

F3 Life is a start-up that provides a unique credit solution to smallholder farmers in developing countries. When clients take a loan from F3 Life, the business helps them improve the management of their land in a way which builds soil fertility for generations to come, protects watersheds, rivers and lakes from pollution by fertilisers and pesticides and removes harmful greenhouse gases from the atmosphere.

In Kenya, the microcreditor Juhudi Kilimo, which has already 32,000 clients, adopted the system of F3 Life. One of the reasons is that climate-smart practices decrease the risk of crop failure and thereby increases the chance that farmers can pay back the loan. Therefore, it is profitable for investors to promote climate-smart agricultural practices.

As farmers improve their land management by introducing climate-smart practices they become eligible for loans with lower interest rates as well as higher credit limits, as can be seen on the picture. Clients also receive farming advice which helps them boost their crop yields and farm incomes.

SLIDE 29: INCREASING PRIVATE SECTOR ACCESS TO CLIMATE FINANCE (1/3)

The private sector needs access to climate finance to realize their role in climate action. For this reason, it is vital to:

1. **Develop adequate enabling environment:** A conducive policy, regulatory, strategy and support framework that encourages private sector participation will be key to increase private sector investment at scale

2. **Strengthen support for project identification and development:** A strong pipeline of bankable projects is key to attract public and private climate finance. This may require policy and regulatory changes and readiness support.
3. **Build capacity of domestic financial institutions:** It will increase access to international public and private capital to finance projects and SMEs with strong climate potential. It will also help them better understand agriculture and climate risk
4. **Enhance risk appetite of domestic financial institutions:** Using a wider range of risk-mitigating instruments (i.e. guarantees, insurance, credit enhancement mechanisms, etc.) and risk capital will help unlock investments

SLIDE 30: INCREASING PRIVATE SECTOR ACCESS TO CLIMATE FINANCE (2/3)

5. **Encourage domestic financial institutions to mainstream climate change:** It will increase their capacity to identify climate risks and investment opportunities, and will also increase lending to climate related projects
6. **Prioritise blended finance:** This structuring approach has an enormous potential to use scarce public and philanthropic resources to leverage private investment
7. **Promote impact investing:** There is a wide range of private investors that can invest climate finance in SMEs if the projects generate attractive financial, social and environmental returns
8. **Develop innovative financial mechanisms:** Countries can develop their own innovative mechanisms to attract international and domestic public and private capital (i.e. green bonds, national climate funds, etc.)

SLIDE 31: INCREASING PRIVATE SECTOR ACCESS TO CLIMATE FINANCE (3/3)

9. **Secure direct access to climate funds:** Support domestic institutions to fulfil the requirements needed to access climate finance
10. **Design MRV systems:** These will be key to implement to efficiently attract, track, allocate and report the impact of climate finance spending
11. **Replicate and standardize proven climate approaches:** This can include regulatory, programmatic and technical approaches, as well as proven business model and financing tools

SLIDE 32: KEY MESSAGES

1. Develop an enabling environment that facilitated private sector engagement
2. Increase dialogue with domestic and international private sector
3. Integrate climate action with long-term government policies and strategies
4. Build capacity of national (including financial) institutions to address the needs of micro, small and medium-sized enterprises
5. Create a pipeline of low-carbon projects that generate acceptable financial return for upscaling

SLIDE 33: AVAILABLE RESOURCES

Additional reading material

In addition to this guide and the PowerPoint presentation, the following additional reading material is recommended:

- [NDC Support Programme: Finance and Investment](#)
- [Planning for NDC Implementation](#)
- [Engaging the Private Sector in National Adaptation Planning Processes](#)
- [Fund for Private Sector Assistance \(FAPA\): Private Sector Investment Initiative for Nationally Determined Contributions \(NDCs\) in Africa](#)
- [Strategy for Private Sector Engagement](#)
- [What you need to know about impact investing](#)
- [Convergence Blended Finance](#)
- [Blending Climate Finance through National Climate Funds](#)