

INVESTMENT CLIMATE REFORM AND THE ADAPTATION FINANCE GAP

MOBILISING PRIVATE INVESTMENT FOR
CLIMATE ADAPTATION IN AFRICAN,
CARIBBEAN, AND PACIFIC COUNTRIES

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EXECUTIVE SUMMARY

Many ACP countries are highly vulnerable to climate change and yet face shortfalls in funding for adaptation. Engaging the private sector and mobilising its investment is therefore vital to deliver climate adaptation in these countries. ACP countries typically have weak investment climates, however, hindering the private sector from playing a role in climate adaptation and putting at risk the countries' ability to achieve their sustainable development challenges.

In theory, enterprises can benefit from investing in adaptation either (a) by using adaptation solutions to manage risk and maintain business continuity—that is, as consumers of adaptation solutions—or (b) by fulfilling others' growing need for new technology products and services—that is, becoming producers of adaptation solutions. In practice, however, private sector investment in climate adaptation faces many, often overlapping economy-wide barriers. This report shows how investment climate reform and climate change adaptation can be complementary, supporting delivery of the objectives of each and ultimately accelerating the achievement of Sustainable Development Goals in ACP countries.

KEY FINDINGS



More investment is needed to support climate change adaptation in ACP countries, and most of that investment will need to come from the private sector.



Many barriers to private sector engagement and investment in adaptation have roots in general private sector development issues, including the need for investment climate reform, business environment reform, and access to finance. Enhancing cooperation and learning between adaptation and private sector development efforts can increase the efficacy of both.



To prioritise their efforts to remove barriers to private investment in adaptation, ACP countries must better understand the motivations, opportunities, and barriers that enterprises face in the context of the countries' specific economies and adaptation needs.



Access to finance and lack of supportive financial ecosystems are serious bottlenecks impeding private sector investment.



Given ACP countries' vulnerability to climate change and their weak investment climates, increased development assistance should be made available to support them on the specific issue of mobilising private finance for adaptation.



BACKGROUND

The Investment Climate Reform (ICR) Facility supports the partner countries and regional institutions of the Organisation of African, Caribbean, and Pacific States (OACPS) in creating a more conducive business environment and investment climate via public-private dialogue.

The ACP countries represent some of the world's countries most vulnerable to the effects of climate change. To support the OACPS in responding to climate change, the ICR Facility is delivering a series of knowledge products on the role of ACP governments in enabling private sector investment in climate change adaptation. This ICR report examines why private sector investments in climate change adaptation must be urgently encouraged and what role enterprises will play in delivering national climate adaptation strategies. Building on the contributions to and proceedings of two online workshops (details and recordings of which are available on the ICR Knowledge Hub),¹ this report looks at different types of business cases that can support private sector efforts as well as at the barriers currently preventing such investment.

The paper addresses ACP country governments and international institutions seeking to accelerate private sector involvement to deliver climate change adaptation within their countries. It also aims to help stakeholders involved with ACP countries' investment climate reforms or private sector development more broadly to identify how stakeholders can best align their economy-wide efforts to support climate adaptation, one of the most critical sustainable development issues these countries face. The perspectives explored in this paper can help stakeholders deliver climate adaptation plans and policies faster and more effectively through better engagement and dialogue with the private sector and a policy and budget focus on catalysing private sector investment on climate change adaptation.

The paper focuses on the private sector actors investing in and implementing adaptation measures within ACP countries. It does not cover their financiers.

¹ <https://www.icr-facility.eu/knowledge-hub>.

INTRODUCTION

INCREASING PRIVATE INVESTMENT IN CLIMATE ADAPTATION: A PRIORITY FOR ACP COUNTRIES

The ACP countries include some of the most vulnerable countries in the world to the effects of climate change. Former ACP Secretary General Dr. Patrick Gomes has described climate change as “the most significant challenge to achieving sustainable development” in ACP countries. Indeed, over the past two decades, ACP countries have already been significantly impacted by climate-related disasters, with devastating consequences both for the lives of their citizens and for their economies (see Box 1). The need

is clearly urgent for increased investment to support climate change adaptation in these countries.

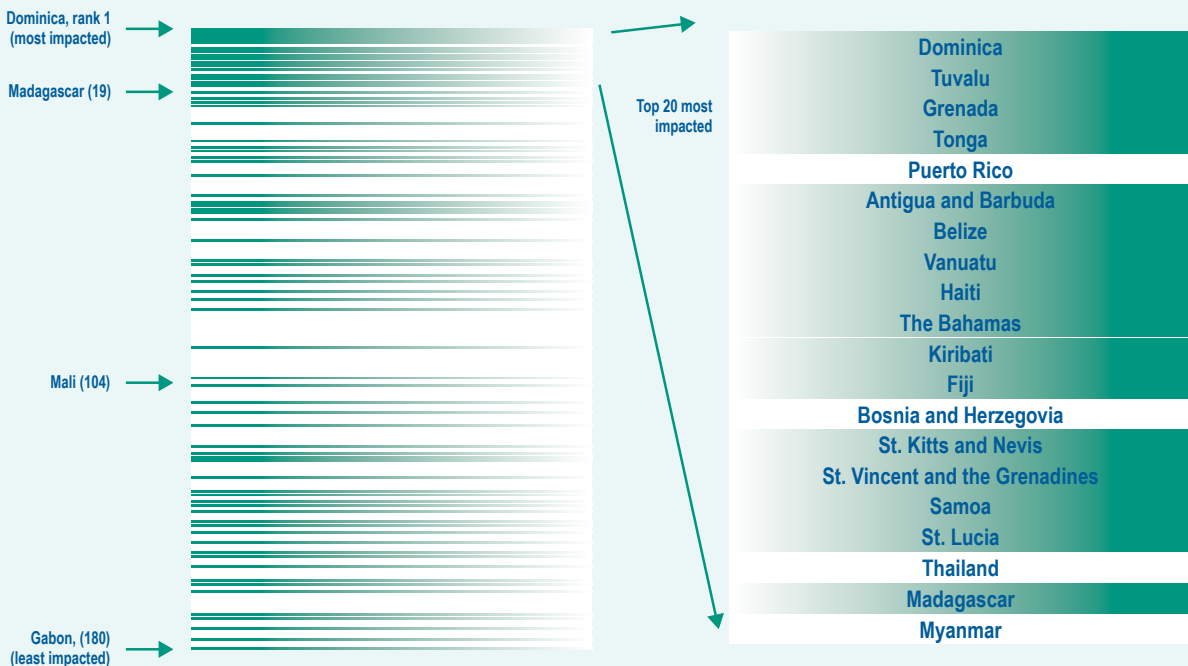
Despite wide variation in the geographic and economic context of ACP countries, many share similar adaptation priorities. ACP countries have put great effort over the last decade into developing and prioritising climate adaptation plans that speak to their specific needs and circumstances. These are set out in documents such as the countries’ National

BOX 1:

Lives and economies in many ACP countries are already impacted by climate change

Germanwatch’s Global Climate Risk Index measures and ranks countries based on the impacts of climate-related extreme weather events over the past 20 years. Ranked by GDP-adjusted economic losses between 1999 and 2018, 16 of the top 20 most affected were ACP countries.

This graphic depicts this clearly. Each bar represents the world’s countries, with the most impacted country at the top. ACP countries are filled in green, some of which are labelled by name and rank. At the right, the figure zooms in on the 20 most impacted countries, illustrating many ACP countries’ high vulnerability to climate change.



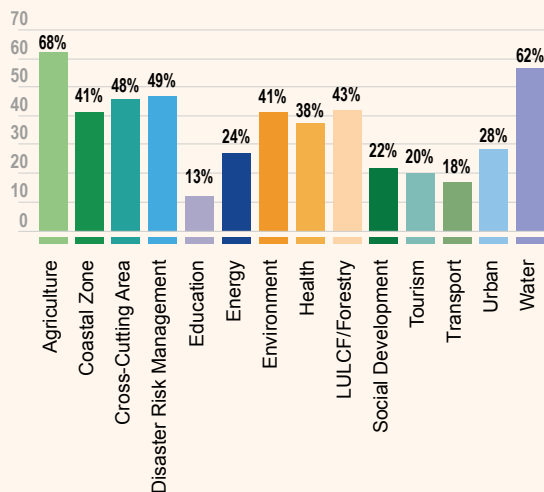
Source: Adapted from Eckstein et al. (2020).

Adaptation Plans (NAPs) or their Nationally Determined Contributions (NDCs).² While the heterogeneity of the ACP countries naturally leads to differing needs, some commonalities arise. For example, two-thirds of ACP countries include agriculture and water in their NAP or NDC strategies, making these the highest priority sectors for climate change adaptation across ACP countries. **Figure 1** shows the sectors prioritised for adaptation in the ACP countries' NDCs.

More investment is needed to support climate change adaptation in ACP countries, and most of this new investment will need to come from the private sector. Despite increased domestic and international financial flows in recent years,³ climate adaptation investment remains insufficient. Analysis shows that the overall share of finance

flowing toward adaptation and resilience falls far short of international needs and targets as specified in the Paris Agreement, leading to what has been widely termed the “*adaptation finance gap*.”⁴ Globally, these flows for climate adaptation reached US\$30 billion on average in 2017/2018,⁵ far below the estimated annual US\$180 billion needed from 2020 to 2030.⁶ The unmet adaptation implementation costs of around US\$150 billion are five times the current climate finance for adaptation, much of which goes toward spending in developed countries. Even if existing commitments by developed countries to developing countries were to be met—a promise of US\$50 billion per year for climate adaptation as established in the Paris Agreement—the remaining gap would still be more than double the available finance. With limited domestic and international public financial resources, the expertise and innovation of the private sector must be catalysed to develop the technologies, products, and services required to adapt to climate change and tap into the financial investment and leverage such responses can provide. Some of this innovation and investment may occur autonomously, but the adaptation finance gap is so large that ACP countries must work toward creating business environments that encourage the private sector to make climate change adaptation investments at the scale required. Strengthened business environments are the focus of this series of ICR reports.

FIGURE 1:
Despite geographic and economic heterogeneity, ACP countries have similar priorities for climate adaptation (% of ACP countries identifying each sector as a priority for adaptation in their NDCs)



Source: GCCA+ (2018), *Climate Ambitions: An Analysis of National NDCs in the ACP Group of States*.

ACP countries must proactively mobilise private investment for climate adaptation. This will first require that they (a) understand where to find opportunities to engage the private sector on adaptation, (b) better match different types of enterprises with appropriate funding sources and financial instruments, and (c) overcome the barriers unique to their individual business environments. While the private sector has a key role to play in delivering national adaptation priorities, enhancing its ability to do so has received little emphasis to date. Climate finance and international development cooperation has historically focused on adaptation through the lens of planning and the public sector. This is slowly changing; however, stimulating private sector investment in adaptation remains complicated due to its diversity. Private sector investment ranges from individuals, through MSMEs, to corporations, all collectively referred to here as enterprises. Therefore, countries must have a clear understanding of the motivations of, opportunities for, and barriers to private sector investment in climate adaptation in their specific

2 Nationally determined contributions (NDCs) are nonbinding, nationally determined plans that highlight climate-related actions the governments aim to implement in response to climate change and as their contribution to achieving the global targets set out in the Paris Agreement. NAPs and NDCs are publicly available for every country at the UNFCCC's NAP central portal (unfccc.int) and the NDC interim registry (unfccc.int), respectively.

3 CPI (2019), *Global Landscape of Climate Finance 2019* (London: Climate Policy Initiative).

4 See, for example, UNEP (2016), *The Adaptation Finance Gap Report 2016* (Nairobi, Kenya: United Nations Environment Programme). It must be noted that, when using these numbers, it should be with the caveat that adaptation finance is constrained by definitional challenges that make it difficult to distinguish it from broader development finance and that it is not always clear to which sector the finance should be assigned.

5 CPI (2019), *Global Landscape of Climate Finance 2019* (London: Climate Policy Initiative).

6 These estimates are from Global Commission on Adaptation (2019), *Adapt Now: A Global Call for Leadership on Climate Resilience* (Rotterdam: Global Commission on Adaptation). UNEP 2016 estimates a requirement US\$140–300 billion annually by 2030.

context. This exploration has typically not been done or remains at very nascent stages.

Some countries have set up a resource mobilisation strategy, like Ethiopia did with its National Adaptation Plan.⁷ However, comprehensive financing for countries' adaptation plans, including public budgets and international cooperation, are rare. Some adaptation actions are unlikely to ever produce commercial returns, instead generating public and social goods. These must remain the focus of public expenditure, but some adaptation actions can be commercially viable, and private sector investment should be mobilised to undertake them. Identifying these adaptation actions will require clarity concerning the diversity of private sector actors—including their motivations and business models and the investments they already make in adaptation—as well as developing opportunities to engage with and support the private sector in implementing additional adaptation actions. Strategies to mobilise investment in adaptation financing also need to accord with other financial processes and strategies. For example, Agenda 2030, a multilateral plan of action for sustainable development, points up the need for Integrated National Financing Frameworks (INFF).⁸ These identify the full range of financing sources—domestic and international sources of both public and private finance—that can help countries develop their own strategies to increase investment, manage risks, and achieve sustainable development priorities in accordance with their national sustainable development strategies, NAPs, and NDCs.

ACP countries must design policy reforms and use domestic budget and blended finance skillfully to maximise their return on effort with respect to mobilising private finance for adaptation. Once opportunities have been identified to engage the private sector and address the barriers that enterprises face, ACP countries can use the tools at their disposal to solve them. To stimulate private investment for climate change adaptation where it does not already occur, ACP countries recognise the need to use public finance (both international and domestic), policy, and regulation skilfully.⁹ Appropriate use of public finance will be critical. The Helsinki Declaration, prepared by the Coalition of Finance Ministers for Climate Change, states:

“Measures which Finance Ministers could take to mobilise private sources of climate finance could include policies and practices which . . . promote climate finance in the real sector through grants, blended finance, R&D exemptions, national procurement policies, direct

fiscal stimulus, development and dissemination of rules for the disclosure of greenhouse gas emissions, risks and opportunities due to climate change, and capacity-building efforts, . . . and other measures which seek to provide an enabling environment for the private sector.”¹⁰

However, given their finite resources, ACP countries must maximise their own return on investment with respect to mobilising private finance for adaptation. Understanding is needed of the particular barriers different enterprises face when pursuing private sector engagement and investment. To help give ACP countries this understanding and to focus on the types of enterprises and adaptation activities to prioritise for private sector engagement and investment—and how—this ICR report covers the following:

1. The economic case for adaptation and a typology of potential markets and business cases for the private sector based on a country's adaptation priorities.
2. A typology for identifying the types of private sector actors who are or will be at the forefront of investing in or delivering these adaptation activities and understanding their needs and opportunities based on their characteristics.
3. Descriptions of typical barriers to private sector support for climate change adaptation.
4. An introduction to how investment climate reform and business environment reform efforts can be important steps toward overcoming these barriers.

To illustrate approaches to discussing with various enterprises their business cases for adaptation, this paper will focus on four sectors identified by many ACP countries in their NAPs and NDCs as national priorities: water and wastewater management; agriculture, forestry, and land use; disaster risk management; and coastal protection (see [Box 2](#)). These four sectors showcase some of the key differences among types of private sector enterprises, their business models, and their financial needs. The sectors addressed here are representative of the critical needs ACP countries face. Country governments must gain a clear understanding of the private sector and of their own specific adaptation priorities. The *Toolkit for Engaging the Private Sector in National Adaptation Plans* (Crawford, Church, and Ledwell 2020) and this report can help this process.

7 Completed in 2020, with support from the NAP Global Network.

8 See inff.org.

9 As recognised by the ACP countries in the “ACP Issues Paper on the Katowice Climate Change Conference (COP24)” (2018).

10 <https://www.financeministersforclimate.org/sites/cape/files/inline-files/Explanatory%20Note%20-final.pdf>.

BOX 2:
Four priority sectors for adaptation in ACP countries
Water and wastewater management

This is the sector with the highest adaptation costs, and Sub-Saharan Africa is the region with the highest costs. The bulk of current investment finance comes through domestic, bilateral, and multilateral development finance institutions, although the private sector shows growing interest. Investment needs and opportunities include:

- Municipal water supply and distribution
- Industrial water supply
- Wastewater treatment for industrial use or irrigation
- Desalination plants
- Multi-purpose water storage


Agriculture, forestry, and land use

Investments in agriculture are critical to delivering effective climate action while fighting hunger, increasing employment, and ensuring climate-resilient growth. The 2016–2020 ACP Action Plan on Climate Change recognises the promotion of climate-smart agricultural practices as a key effort. Smallholder farmers, so prevalent across ACP countries, dominate the supply chain but bring high transaction costs. Investment needs and opportunities include:

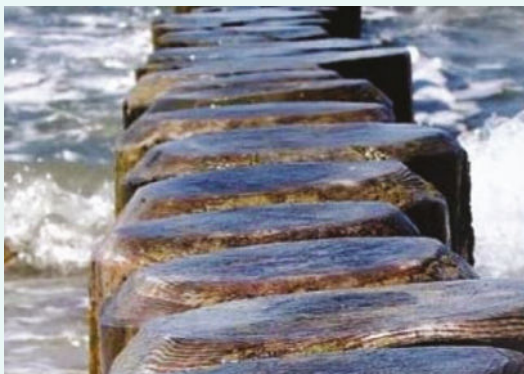
- Sustainable intensification of agriculture
- Improved livestock systems
- Reduced food loss and waste
- Irrigation efficiency and expansion
- Forestry landscape restoration

Disaster risk management (DRM)

Financing for DRM has grown fast in recent years, highlighting its importance to ACP countries. Challenges to further business engagement in DRM include an inadequate supporting infrastructure and difficulties maintaining systems beyond the pilot project stage.

Investment needs and opportunities include:

- Climate-proofed urban infrastructure
- Early warning systems
- Climate information services
- Insurance


Coastal protection

Coastal zones, whether in small island states, seaboard cities, or delta regions, are home to an ever-growing concentration of climate-vulnerable human settlements and economic activity. Coastal adaptation measures are usually government led, with limited private sector investment. Innovative public-private partnerships and financing arrangements are needed to catalyse more investment into this sector. Investment needs and opportunities include:

- Coastal flood control infrastructure
- Ecosystem-based solutions
- Port and harbour infrastructure
- Coastal protection and sustainable blue economies

THE ROLE OF BUSINESSES IN CLIMATE CHANGE ADAPTATION

THE BUSINESS CASE FOR ADAPTATION

The economic case for investment in climate change adaptation at a global level is increasingly clear, and the returns on investment for society as a whole are high. Global economic losses from climate-related extreme events between 1999 and 2018 amounted to around US\$3.54 trillion (in purchasing power parities) (Eckstein et al. 2020). Investing to protect against this damage and improve resilience in the future would save lives and limit economic damage. The Global Commission for Adaptation (2019) found that the global benefit from improved resilience in five critical activities is two to ten times higher than the investment; in some cases it is even higher. These investments align closely with those identified as highly relevant to many ACP countries (see Box 2). The investment need is huge, but so too is the potential return. The Global Commission for Adaptation also estimated that investing

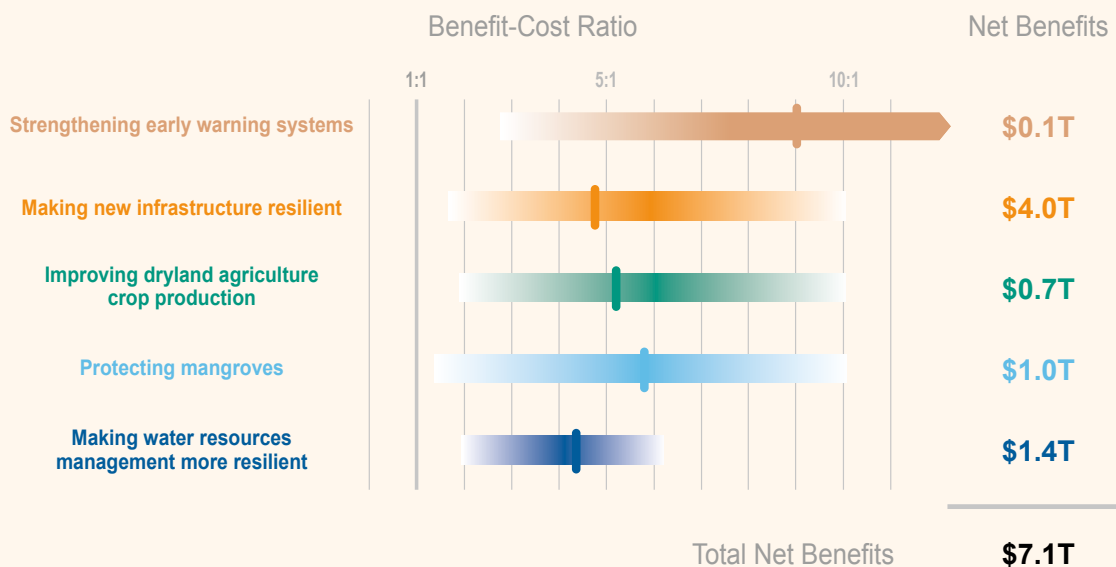
US\$1.8 trillion globally between 2020 to 2030 in these five areas could generate US\$7.1 trillion in total net benefits (see Figure 2). Broadly conceived, the economic case for investment in a range of adaptation activities is clear.

At an enterprise level, the business case for investment in adaptation is driven by the private sector in the role of either consumer or producer of climate adaptation activities.¹¹

- Businesses act as consumers of climate adaptation, when, to protect revenues, protect against future costs, or manage their risks from climate change, they invest in and adopt specific technologies, products, and services. These anticipated costs and risks derive from both direct impacts (climate impacts on the company itself, like heat stress, water scarcity, and extreme weather events) and indirect impacts (disruptions in infrastructure or supply chains and

FIGURE 2:

Globally, the public goods benefits from investment in adaptation are estimated as US\$7.1 trillion between 2020 and 2030



Source: Global Commission on Adaptation (2019).

¹¹ This framing is adapted from several sources, including Lightsmith Group's Adaptation Solutions Taxonomy and the EU's Sustainable Investment Taxonomy, both of which take the perspective of the financial sector rather than the developing country government, and Montmasson-Clair et al. (2019) and NAP Global Network (2017), both of which identify a third driver: regulation. Regulation, however, although it would force enterprises to act as consumer or producer, differs in that it is imposed upon the business rather than following from a voluntary business decision. The relevance for ACP countries is unclear; regulation is currently only an issue for companies operating or based in developed and some emerging economies.

impacts on communities or the workforce) (Pauw 2015).

- Businesses act as producers when they invest to develop, produce, or distribute technologies, products, and services that other businesses (as consumers) or public sector actors need in order to adapt to climate change. Examples include producing and distributing climate-resilient seed varieties, developing equipment and data for early warning systems, installing irrigation systems, and upgrading water and sanitation infrastructure (see Table 1).

For any given climate change adaptation activity, a business case might exist for both consumers and producers. Take the example of rainwater harvesting and storage, a market estimated as worth \$US10–20 billion over ten years in Sub-Saharan Africa (World Bank 2017). The business case for purchasing a system for consumers is the potential to increase yields or reduce losses during periods of low rainfall because crops can be irrigated during dry spells. The business case for producers in this example is the economic gain to be made by scaling up production and distribution of the systems that consumers need.

UNDERSTANDING ENTERPRISES THAT NEED TO SCALE UP THEIR ACTIVITIES

Engaging the private sector to contribute to achieving a country’s adaptation objectives requires a clear understanding of the diversity of enterprises, their motivations, and how their interests intersect with the countries’ adaptation priorities. Each of the actions identified in Table 1 could be undertaken by a different type of private

enterprise, with different investment capabilities and financial needs. The range extends from large domestic or multinational corporations down to smallholder farmers. This variety has implications for the type of support each enterprise might require from governments or the types of finance they would need from financiers. Because these enterprises differ in their needs, efforts to build a clear understanding of how the various types of enterprises can intersect with a country’s adaptation priorities are critical to learning how to support them and to identify appropriate strategies to catalyse their engagement with and investment in adaptation activities.

Further expanding on the consumer/producer framing in the ACP-specific context, private sector investments in adaptation can be characterised based on their business cases, on what the investments entail, on key aspects of the market for their activities, and on the context within which these enterprises function.

1. Enterprises that adopt solutions to adapt and mitigate risks

- ▶ **These enterprises are consumers.** They adopt existing or new technological solutions to adapt their businesses to climate-related risks.
- ▶ **The business case** is driven by the need to manage risks and losses and maintain business continuity and growth.
- ▶ **Investments here include** both the capital expenditures (CAPEX) or operational expenditures (OPEX) linked to implementing adaptation measures. For example, a farmer might invest in a new drip irrigation or an early warn-

TABLE 1:

Enterprises can drive climate adaptation solutions as either consumers or producers

Sector	Consumer	Producer
Water and wastewater management	Adoption of water-saving technology already in production, such as drip irrigation or rainwater harvesting and storage.	Scaling up production (and economies of scale) of drip irrigation or rainwater harvesting and storage systems.
Agriculture and land use / forestry	Additional costs of <u>accessing and buying</u> new climate-resilient seeds or livestock breeds.	<u>Research and development</u> of new climate-resilient seed varieties and livestock breeds.
Disaster risk management	Retrofitting an enterprise’s buildings to withstand climate change impacts such as heat stress.	Design and production of cladding materials and retrofitting processes.
Coastal protection	Strengthening wave breaks and coastal defences around ports or coastal infrastructure.	Developing new geosynthetics—manmade products to stabilise terrain and coastlines.

ing system (CAPEX), or she might invest in the ongoing annual additional costs of a new climate-resilient seed variety (OPEX).

- ▶ **Key aspects concerning these actors** include their existing cash flow and history of operation. They are investing in climate risk management, the returns on which might only be realised over a long time scale or which may be indirect (preventing losses from future extreme weather events, for example).

2. Enterprises that develop and distribute climate-adapted products

- ▶ **These enterprises form a subset of producers.** They develop and distribute technology, products, and services that *directly* contribute to climate change adaptation when adopted and implemented by others (the consumers). These investments lead to economic gain for the enterprise and hence an increased ability to meet the needs of other businesses and actors who need the resources to adapt.
- ▶ **The business case** is driven by the ability to fulfil new business opportunities that arise because of climate change.
- ▶ **Investments here include** increasing manufacturing and distributing capacity for existing solutions that require increased adoption by consumers or R&D investments to develop new solutions to address as-yet unmet de-

mands for climate adaptation solutions. These could include development, design, and production of water efficient technologies, new seed varieties and livestock breeds, or new geosynthetics materials.

- ▶ **Key aspects of these actors** include the relatively unknown scale of their market. Consumers may already be buying similar products (e.g., farmers already buy seeds) but simply lack or (lack access to) a solution to a climate change-related problem.

3. Enterprises that develop and market climate adaptation intelligence

- ▶ **These enterprises, another subset of producers,** primarily produce information—guidance, decision making, information, screening, decision support tools—to strengthen users’ ability to understand and respond to physical risks and related impacts or to capture related opportunities (rather than actually mitigating or responding to the risk). This category offers services to enterprises in both the consumer and the producer categories (and the public sector) and thus is “upstream” of them.
- ▶ **The business case** is driven by exploiting increased demand and necessity for (business-centric) information and intelligence related to climate adaptation.

BOX 3:

Not all business cases are B2B—the public sector is also a market for products and services

For some activities, the public sector may be the only (or the most likely immediate) off-taker or payer for climate adaptation goods and services. This does not exclude the other business cases described above; it simply indicates that in some areas the market is led by the public sector.

Activities in this category might include publicly-funded adaptation projects such as climate-resilient roads, early warning systems, and many coastal protection, water, and sanitation projects. Here investment by the private sector will be required to scale the capacity or skills needed to meet the increasing demands and needs of the public sector rather than of businesses. This type of investment may require enterprises to prefinance implementation, with payments made to them gradually over years or even decades, through public-private partnerships or private finance initiatives.

This provides government stakeholders with a clear opportunity to stimulate investment by the enterprises serving it by requiring climate-adapted products in their procurement policies and by clearly signalling to the private sector a policy of consistent future demand for publicly funded adaptation projects. These policies will ensure businesses of the value of investing in capacity to meet government priorities.

- ▶ **Investments here include** producing advisory services for companies on climate risk exposure and on identifying and assessing vulnerabilities; data management and operations, such as collation and provision of weather data sets; decision support tools, such as early warning systems or cost/benefit analysis software; spatial hazard and vulnerability mapping analysis; and disaster risk assessment tools.
- ▶ **A key aspect of these actors** is that they face an as yet underdeveloped market. Currently, enterprises do not typically pay for such services, making their production high-risk R&D with an uncertain market. Opportunity for high growth may lie in the scope for scaling information systems across a country and for south-south technology transfer, however, given that the supply chain has few physical aspects.

As a first step in designing a policy response to catalyse private engagement and investment in adaptation, countries should map the role of different enterprises at each stage of developing and implementing a specific high-priority adaptation solution. Each of the different business cases identified above has a different market, and governments will need to mobilise different enterprises to support the targeted climate change adaptation. For example, in agriculture, R&D of new production systems or technologies (varieties, irrigation systems, etc.) may be done by small enterprises, potentially in collaboration with government research institutes, and then adopted and implemented by millions of individual farmers or micro enterprises. Agricultural production itself might be dominated by smallholder farmers, and agricultural produce supply chains may be dominated by micro and small enterprises, some or many of which might be informal. For each ACP country, the ecosystem of private sector actors will differ based on the market system and unique socioeconomic and cultural context. [Table 2](#) provides an example of a mapping exercise for a specific adaptation need: climate-resilient seed varieties and livestock breeds.

TABLE 2:

How an ACP country can map enterprises and business cases: A fictional example of an effort to develop climate-resilient seed varieties and livestock breeds in an ACP country

Business cases for involvement in delivering a climate adaptation activity			
Enterprises that...	1. Adopt solutions to adapt to and mitigate risks	2. Develop and distribute climate-adapted products	3. Develop and market climate adaptation intelligence
Role of different enterprises in the country economy...	Predominantly smallholder farmers, some small enterprises, pastoralists; one larger-scale livestock producer has an integrated R&D team in the business.	Local (public) research institutions (sometimes in partnership with private sector or international institutions/NGOs); R&D center of the larger livestock company, and a few small international companies entering the input market investing in R&D locally.	Real-time climate intelligence producer to inform farmers (and public extension services) of the risks to production and about adaptation options (and costs) being developed in a Private Public Partnership (PPP) with a telecoms company; R&D centers obtain information on expected future climatic and environmental conditions (to inform the direction of breeding) using decades old low resolution climate forecasts.

BOX 4:

Some adaptation investments already taking place can supply learning to help improve the business environment for new investments

Despite the overall adaptation finance gap, some investments in adaptation already exist.

- Consumers' investments in mainstreaming risks are unlikely to be financed or managed as stand-alone projects; as a result, it is difficult to identify and measure the rising costs and levels of these investments (Pauw 2015; UNEP-FI 2016). Indeed, businesses around the world already invest in climate adaptation on a daily basis as part of their normal cycle of business investments and innovation, often without explicitly acknowledging that these efforts are contributing to their adaptations to climate change. UNEP-FI (2016) analysed 28 case studies on adaptation to climate change by private sector actors and found that some enterprises already explicitly refer to risks such as water scarcity and drought, flooding, and urban heat stress.
- In addition, many of the technologies, products, and services that these businesses need to adopt have already been developed by producers that have made the necessary investment to do so. The challenge for these producers now may be to invest in cost-effectively scaling up production and distribution.

The existence of these unnoticed investments is one of the reasons that taxonomies and frameworks such as the EU's Sustainable Investment Taxonomy and the Lightsmith Group's Adaptation Solutions Taxonomy are needed. **Identifying existing private sector adaptation investments brings needed attention to them and ultimately improves the business environment by enabling and incentivising similar investments at the country level.**

BARRIERS TO PRIVATE SECTOR ENGAGEMENT AND INVESTMENT IN ADAPTATION

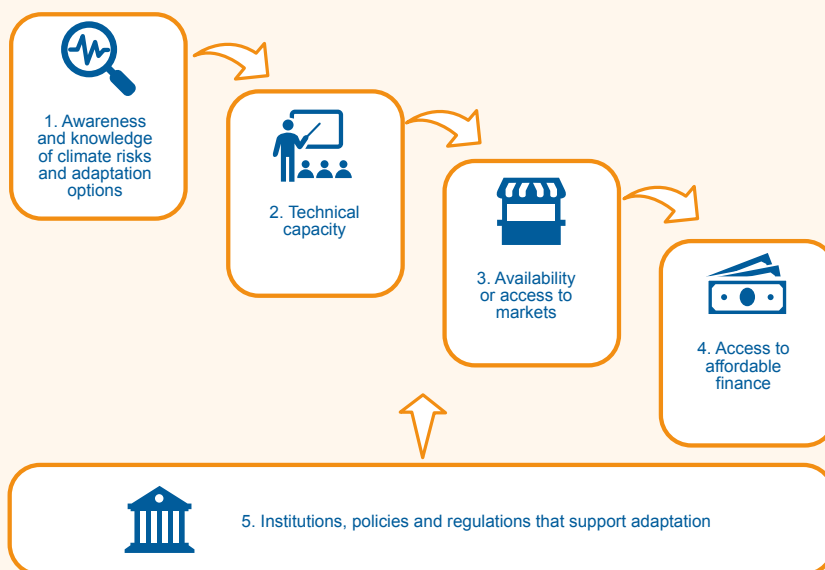
Significant public intervention is still required to overcome market barriers and create business environments that encourage and accelerate private sector engagement and investment in adaptation. Despite the clear global economic case for investment in adaptation and the business cases for many types of enterprises across many sectors, investment at the desired scale still does not occur. As a result, progress toward adaptation for climate resilience is slow. While the public sector might need the private sector to invest in climate change adaptation, it is critical to assess the motivation of the private sector—the business case—to do so. In the language of business or investment, the question is simply whether adequate risk-adjusted returns can be made through these activities: will the investment be earned back at a rate commensurate with the level of economic risk? The higher the risk, the higher the expected returns must be. Greater risks from implementation or the market lead to higher costs to deliver, lowering the risk-adjusted returns. Some of these risks are attributable to the normal process of market evolution when confronting changing needs and offerings (Miller and Swann

2019). However, in the urgent context of the need for climate resilient adaptation, this evolution must be accelerated, and hence public intervention through expenditure or policy reform is required.

It is clear that many barriers still exist to scaling up private sector investment in adaptation, increasing the risk or the costs (and hence, reducing returns) to investments. To support enterprises in unlocking the business cases for investment, increasing their own resilience, and exploiting market opportunities, it is vital to understand the barriers they face. This understanding will lead to the design and financing of appropriate support and reform packages. Evidence from numerous studies and projects¹² regularly identifies the following five categories of barriers faced by enterprises in low- and low-middle-income settings such as those in ACP countries: *awareness and knowledge, capacity, access to markets, affordable finance, and institutions and policy* (see Figure 3). Incremental progress in all of these categories is likely necessary to catalyse the scale of transformation required.

FIGURE 3:

Enterprises in ACP countries face five common barriers to engagement and investment in climate change adaptation



Barriers 1-4 can be considered in many cases to be sequential. Enterprises need awareness of the issue and options available to them, and then they need the technical capacity to respond. Once a business strategy is in place, they require access to markets to get the inputs they need or to sell their products, and they need access to affordable finance to enable investment. Supportive institutions, policies, and regulations are the foundation to this process.

¹² This list was curated from several high-level reports containing secondary data (Crawford, Church, and Ledwell et al. 2020; Dougherty-Choux et al. 2015; Montmasson-Clair et al. 2019; Schaer and Kuruppu 2018; World Bank 2017), as well as from implementation projects (CGIAR n.d.) and primary data (Commonwealth Secretariat, forthcoming).



1. Awareness and knowledge of climate risks and adaptation options. Lack of information on current vulnerabilities and predicted future impacts of climate change on business operations limits the demand for and ability of consumer enterprises to invest in adaptation. In addition, information and research about suitable adaptation responses to climate risks might also not be available to these consumer enterprises. There is often an information provision gap, particularly in countries with limited institutional capacity to collect and disseminate climate data. Where data does exist, “translating” it into sector-specific analysis or shorter time horizons is rarely facilitated. Climate data is often generated by, and designed for use among, research institutions or the public sector. The implications of the data may be lost to businesses, which are unlikely to have the climate-specific technical knowledge needed to interpret it (see Barrier 2). For example, climate projections are often long term—looking at scenarios 20 or 30 years ahead—and such data is not useful for companies making much more short-term decisions. **Box 6** describes the potential role for information-focused producer enterprises to produce and distribute such data and other climate information to other businesses.



2. Technical capacity. This includes both basic technical skills and tools for SME development and management but also climate-related capacity. As discussed above, businesses may lack the climate-specific capacity to interpret data (where available) and evaluate climate change risks alongside possible investment options to mitigate them or to properly take advantage of emerging opportunities. More generally, enterprises, particularly small or informal ones, are often limited by internal capacities. They may lack financial records and information, good governance, or effective accounting functions, all of which add investment risk for potential investors. This is particularly relevant in high-priority sectors for adaptation, such as agriculture, which are dominated by MSMEs.



3. Availability or access to markets. Companies may lack access to products and services that will allow them to adopt climate smart practices. In the agriculture sector, for example, these could include technologies such as solar pumps, water storage equipment, soil testing equipment, irrigation facilities, and new

seed varieties. Other examples are financial services (see Barrier 4, “Access to affordable finance”), digital and/or clean energy services, or bundles of such services. As these services are often new markets, support to develop and nurture a sustainable value chain is required to ensure access or even to coordinate demand and supply and kickstart the markets in the first place. This barrier also applies from the producer’s perspective; if supply chains are not in place or are hindered by public sector crowding-out (often the case for issues such as seed varieties and plant nurseries), businesses will be unable to market their products.



4. Access to affordable finance. Adaptation technologies face many of the same generic financial barriers as does private sector investment more broadly in developing countries, but they are magnified for adaptation products and services which often lack a track record, and there is a prevailing caution over financing early-stage technologies. Where finance is available and enterprises are eligible, finance may be unaffordable or packaged in unsuitable products. The high cost of capital in most ACP countries and the high transaction costs associated with disaggregated, often small, investments, often “niche” or unfamiliar to the investor, results in costly high interest rates. Short repayment periods, typically under 12 months, are standard for many developing countries’ banks, which are faced with their own capital constraints and likely to be unfamiliar with the cash flow of adaptation-specific businesses or investments. Collateral requirements from banks often disadvantage many small businesses, and as with the capital and prudential constraints placed on banks, many of these barriers derive from financial legislation (see Barrier 5, “Institutions, policies, and regulations that support adaptation”). Insurance markets are typically undeveloped and expensive, making the transfer of risk though insurance inaccessible or unaffordable. Lastly, many businesses have low capacity to build compelling investment propositions and articulate their case to investors (see Barrier 2).



5. Institutions, policies, and regulations that support adaptation. This category has several facets. First, the business enabling environment itself may have weaknesses requiring reform, such as taxation, fees, or misallocated subsidies (for example, subsidised water extraction leading to overuse); business regula-

tions, tariff and nontariff barriers, and planning and zoning regulations (for example, facilitating maladaptive coastal development); and weak property and intellectual property rights, which can be further compounded by weak contractual enforcement and access to legal support (something that might be especially critical for forming and delivering complex PPPs). Strong regulatory bodies are required to enforce these regulations as well. These requirements are underpinned by a second issue: inadequate provision of basic physical and institutional infrastructure, increasing the cost of business for small enterprises in particular. These are both general barriers to private sector development in ACP countries. A third barrier, specific to adaptation, is scarcity of policy incentives or a weak policy direction for climate adaptation, which reduces incentives for all actors to work through the barriers to achieve the broader societal objective. (This is also hindered globally by a lack of metrics for climate adaptation.) These barriers, and several others noted above, are exacerbated by a fourth: the lack of strong “business multipliers” to help enterprises overcome barriers. This includes commodity platforms for establishing a joint strategic direction or membership or convening organisations that support enterprises.

INVESTMENT CLIMATE REFORM HAS A ROLE IN REMOVING THESE BARRIERS

IMPROVING THE INVESTMENT CLIMATE IS CRITICAL FOR PRIVATE SECTOR DEVELOPMENT IN ACP COUNTRIES

Private sector development has become a key feature of efforts to achieve Sustainable Development Goals (SDGs). The critical role of business and private investment in achieving the SDGs is cemented in the Addis Ababa Action Agenda, a framework adopted by countries globally in 2015 to finance sustainable development by aligning all financing flows and policies with economic, social, and environmental priorities.¹³ Compared to previous similar frameworks, it is especially significant for this specific recognition of the private sector.

Many ACP countries have weak investment climates compared to non-ACP countries, limiting the ongoing

contributions the private sector can make to their sustainable development. The private sector is a key engine of growth, providing income and job opportunities and innovation. Investments need a favourable business environment. The investment climate plays a key role in attracting and retaining domestic and foreign investments. Investors' decisions to invest often depend on their perceptions of whether the current and future policy and regulatory mix, and its enforcement, will support the investment. Such investment can then facilitate an economic transformation by boosting the development and competitiveness of the private sector, creating jobs and deepening trade integration. As a result, a conducive investment climate is a necessary foundation for the country's path toward inclusive and sustainable growth. However, when compared to non-ACP countries, the investment climates and regulatory environments of many ACP countries are less conducive to establishing and operating enterprises and therefore for attracting investment (see Box 5).

BOX 5:

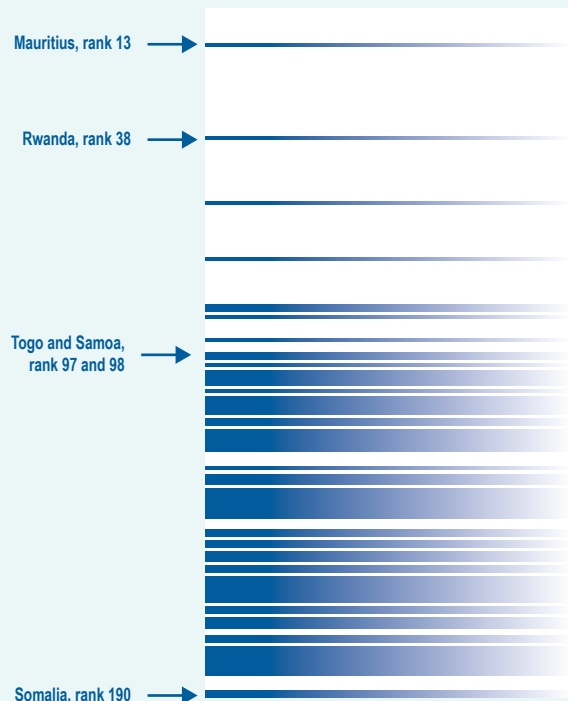
Doing business in ACP countries is often difficult

Parts of *investment climate reform and business environment reform* might be colloquially referred to as improving the *ease of doing business*, as measured by the World Bank's *Doing Business* index. This index is itself a results indicator of EU development cooperation in private sector development and business environment reform.

In the *Doing Business* index, economies are ranked on their ease of doing business. A high ranking means the regulatory environment is more conducive to starting and operating a local firm. The rankings are determined by scores on 10 topics, each consisting of several indicators.

The graphic to the right depicts the 2019 ranking. Each bar represents the world's countries, with the highest ranking at the top. **ACP countries are in filled in blue**, some of which are labelled by name and rank. The cluster of blue bars in the bottom half of the stack illustrates the comparatively low scores they receive in this index.

Source: Adapted from www.doingbusiness.org.



13 UN General Assembly Resolution A/RES/69/313, available at: https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/69/313.

Recognising the importance of improving the investment climate for sustainable development, investment climate reform and business environment reform are pillars of the long-standing cooperation between the EU and ACP countries. This is currently set out in the Joint ACP-EU Cooperation Framework for Private Sector Development,¹⁴ agreed to in 2014, which states:

“ACP states and the EU share the conviction that a competitive private sector and an enabling business environment are key conditions for achieving smart, sustainable and inclusive growth, creation of decent jobs and poverty reduction.”

This cooperation framework provides a “comprehensive approach for private sector development support in the ACP countries,” and investment climate reform and business environment reform are two of the four pillars of this effort, along with microfinance and catalysing commercial finance through blending.

1. **Investment climate reform** is a broader, or more macro, term that incorporates policy, legal, and institutional reforms intended to improve the functioning of markets and reduce direct and indirect transaction costs and risks associated with conducting business.¹⁵

2. **Business environment reform** is a component of investment climate reform (see Table 3) that encompasses more *micro* issues more directly related to business operations. Activities here include simplifying business registration and licensing procedures, improving tax policies and administration, strengthening the financial system, improving land titles and registers, improving labour laws and administration, improving access to commercial courts, and broadening public-private dialogue.

INVESTMENT CLIMATE REFORM AND BUSINESS ENVIRONMENT REFORM TACKLE MANY OF THE BARRIERS TO PRIVATE SECTOR ENGAGEMENT AND INVESTMENT IN ADAPTATION

Investment climate reform and business environment reform could have both an *indirect* and a *direct* impact on the level of investment by a country’s private sector and its engagement with climate change adaptation.

- **Indirect impacts** will have a broad and general positive impact on the investment climate for business in all sectors, not just those related to climate adaptation, by indirectly improving the conditions for private sector investments in climate change by increasing

TABLE 3: Examples of activities contributing to investment climate reform and business environment reform¹⁶

Investment Climate Reform		
Macroeconomic Stability	Business Environment Reform	Human-Centred Reform
<ul style="list-style-type: none"> • Stable macro policies • Debt management • Transparent public financial management and domestic revenue mobilisation • Political stability • Governance and rule of law, regulation and compliance, justice, anti-corruption 	<ul style="list-style-type: none"> • Simplified registration and licensing • Improved tax policy and administration • Attractive investment policy • Clear land and property rights • Trade facilitation • Better access to financial markets • Faster commercial justice and dispute resolution • Improved labour and employment laws • Reliable infrastructure, including energy • Broad public-private dialogue • Access to market information 	<ul style="list-style-type: none"> • Human development • Innovation • Addressing the environment, climate change, and migration

¹⁴ ACP/21/006/14. To prioritise essential policy reforms and enhance the quality and relevance of public policies, under the Joint ACP-EU Cooperation Framework for Private Sector Development the EU and the OACPS will encourage the strengthening of joint assessments, help improve the capacities of relevant public and private organisations (in particular, business associations, chambers of commerce, etc.), and support public-private dialogue at the country and regional level. It is with these objectives that the ICR Facility was established.

¹⁵ Within the framework, such activities are referred to under Pillar 2 as “providing support to the private sector in areas relevant for development.”

¹⁶ Adapted from DfID 2016, EU 2019, and World Bank 2015.

the general attractiveness of the investment climate. However, even this indirect impact has a particular relevance for climate change adaptation, because many of the most vulnerable countries in need of investment in adaptation and resilience are also markets perceived by investors to be among the riskiest (UNEP-FI 2016), suppressing their appetite to invest in such countries. Development and climate change literature has already highlighted that many of these reforms activities—reducing bureaucracy, improving judicial systems, and reforming labour and property laws—are ways the public sector can incentivise both domestic and international adaptation activities and investment (Pauw 2015). This might be especially important for smaller domestic enterprises, which are typical of ACP country economies, where incentives for investing in new products and markets, access to finance, and strong and a stable structure of “business multipliers” (such as business associations, training institutions, and financial institutions) are especially needed (Montmasson-Clair et al. 2019; NAP Global Network 2017).

- **Direct impacts** include countering firsthand evidence that investment climate issues can be barriers to private sector engagement and investment in adaptation. Frequently encountered barriers to private sector investments in critical climate adaptation activities, including in ACP countries, closely match the objectives of investment climate reform and business environment reform. As an example, Vivid Economics (2015) identified five barriers to developing more sustainable and climate-adapted water markets, all of which would come under the remit of investment climate reform: a lack of property rights, limits to transferability, legal and physical infrastructure, institutional shortcomings, and poor policy design. In many cases, the five barriers discussed above to private sector engagement and investment in adaptation can be addressed through *investment climate reform and business environment reform*.

Table 4 illustrates these points, and **Boxes 6 and 7** highlight examples in which investment climate reform activities have been proven to encourage private sector engagement and investment in adaptation.

BOX 6:

Enhanced public-private cooperation is needed to make climate information services commercially viable in East Africa

In a review of climate information services provided in three East African countries—Kenya, Tanzania, and Uganda—only nascent attempts at exploring commercialisation were found (in Uganda), and a large gap between information provision and user needs was identified; that is, climate information services were supply-led. In contrast, the review identified that best practice, demand-driven services that in other countries are offered mainly by private climate service providers can be more viable offered through public-private partnerships (PPP). It concludes:

“As demand for this type of weather information is increasing as a result of widespread negative impacts of climate change, more and more private sector players are entering the space. The market for Climate Information Services is already large globally but not yet well-established in East Africa. This PPP arrangement, where the public sector picks up the public services part of CIS and the private sector picks up the private services part, needs to be nurtured by all actors. Plausible business models for such partnerships can be explored, adapted, and adopted.”

Governments can seek to create a more conducive environment for private sector investment in adaptation by publicly providing climate and hydrological projections and data on the expected impacts of climate change, creating fora for public-private dialogue on private sector adaptation, and establishing long-term agreements and partnerships with companies regulating use and access to the data.

Source: CGIAR (2019).

BOX 7:
Recommendations from five Caribbean countries to enhance the public sector's mobilisation of private investment in climate adaptation

The diagram below comes from the recommendations of a report (Commonwealth Secretariat, forthcoming) on how the public sector in five Caribbean countries—Barbados, Belize, Jamaica, Saint Lucia, and Trinidad and Tobago—can better involve the private sector in delivering and financing adaptation. The four recommendations each include investment climate reform activities.



TABLE 4:
The contributions and impacts that investment climate reform makes to solving the known barriers to private sector engagement and investment in adaptation

Barrier	Investment climate reform contribution to solving barrier	Impact
1. Awareness and knowledge of climate risks and adaptation options	<ul style="list-style-type: none"> • Access to market information • Broad public-private dialogue 	<ul style="list-style-type: none"> • Basic lack of awareness and understanding can be overcome by generating and sharing information on vulnerabilities and climate change impacts. This might require public information campaigns or business-specific approaches, such as showcasing specific technologies. • Dissemination of currently available information can be facilitated by improving public-private dialogue, both to disseminate the information and to receive feedback on its uptake and usefulness to improve future information provision. • Production of public goods (or “pre-competitive”) resources and tools, such as feasibility studies, business risk assessments, technical assistance, and market studies, can help address private sector knowledge gaps.
2. Technical capacity	<ul style="list-style-type: none"> • Human development • Governance and rule of law, regulation and compliance, justice, and anti-corruption 	<ul style="list-style-type: none"> • Training, mentoring, and business incubation programmes can help solve many of the general technical barriers that prevent business engagement in adaptation, such as concerns over accounting and financial records and governance, thereby supporting adaptation indirectly. • Mainstreaming “climate-smart” criteria into existing product standards can help businesses by establishing clear expectations and by creating a curriculum that extension agencies or regulatory officers can adopt.
3. Availability or access to markets	<ul style="list-style-type: none"> • Innovation • Improved tax policy and administration • Simplified registration and licensing • Better access to financial markets • Trade facilitation 	<ul style="list-style-type: none"> • This has impacts both up- and downstream. Upstream, innovation and innovative use of tax policy can make vital technologies, products, and services available where they had been nonexistent or unaffordable. Increasing access to financial markets can do the same for finance as an input. • Downstream, trade facilitation, and licensing—simply allowing private sector actors to operate in certain areas of the economy, for example, or setting clear commodity standards—can create a market for businesses that want to invest in designing and delivering adaptation solutions.
4. Access to affordable finance	<ul style="list-style-type: none"> • Better access to financial markets • Attractive investment policy • Trade facilitation • Clear land and property rights • Broad public-private dialogue 	<ul style="list-style-type: none"> • Better access to financial markets and more attractive investment policies can help increase the provision and options of financial services for businesses. This might include access to international finance or regulations that improve the ability or willingness of domestic financial institutions to meet the needs of adaptation investments (such as regulations in various countries mandating that a certain percentage of a bank’s loan portfolio must go to specific sectors or to micro and small enterprises). • Creating specific provisions on technical banking issues, such as capital reserves for long-dated loans or for climate adaptation efforts, could remove many barriers to finance. • These would be underpinned through progress on trade facilitation and land and property rights, allowing progress on more innovative value-chain finance and collateral requirements for finance. • Broad public-private dialogue would allow faster progress on such issues.
5. Institutions, policy, and regulation that support adaptation	<ul style="list-style-type: none"> • Governance and rule of law, regulation and compliance, justice, and anti-corruption • Reliable infrastructure, including energy • Attractive investment policy • Faster commercial justice and dispute resolution 	<ul style="list-style-type: none"> • Ensuring that regulatory hurdles for MSMEs are not onerous and that contractual law is upheld is a fundamental condition for private sector development, whether for the micro- and small-sized enterprises that dominate the agriculture sector, for example, or for larger companies making larger, long-term investments in infrastructure. • Governments must ensure that adequate infrastructure is provided to small businesses as public goods, and where the state cannot afford large capital expenditure, other models, such as public-private partnerships, should be explored to make them viable. Adequate institutional frameworks for PPPs can also unlock engagement and collaboration between the public and private sector.

CONCLUSIONS AND RECOMMENDATIONS



1. To enhance private sector engagement and investment in adaptation, ACP countries need to understand enterprises' motivations, opportunities, and barriers in the context of their specific economies and adaptation needs.

Countries around the world, in particular those in the ACP, face a finance gap for their NAPs and NDCs, and more investment is needed to support their climate change adaptation. Given the high vulnerability of many ACP countries to climate change, this gap puts much of their existing and future sustainable development at risk. Most additional resources to fill this gap, for ACP countries as well as for others around the world, must come from the private sector. At present, however, the private sector is typically not engaged, or engaged enough, in this challenge. To best mobilise private sector engagement and investment in delivering climate adaptation, countries must clearly understand enterprises' motivations and opportunities and the barriers in their specific context that keep them from stepping forward. This includes identifying the climate adaptation activities that present the greatest commercial opportunities and the clearest business cases for private investment. Research on these points has typically not taken place or remains at a nascent stage. Individual countries must make this effort, tailored to their own priority adaptation activities—which they have typically put much effort into developing—their market system, and their unique socioeconomic and cultural contexts.

This report identifies how different climate adaptation actions could be undertaken by different types of private enterprises, with different investment capabilities and financial needs. Both large domestic or multinational corporations and smallholder farmers can participate, although they require investment at different stages of their business life cycles, from R&D to climate-proofing existing assets. This all has implications for their attractiveness to different potential financiers and for the types of support they might require from governments to overcome other barriers to making these investments. A clear understanding of this diversity will help countries develop an appropriate focus for their use of public resources and finance to improve their own “return on investment” from efforts to mobilise the private sector to address climate change adaptation. Simple analytical frameworks, such as those set out in this paper or provided by Crawford, Church, and Ledwell (2020), are accessible and quick first steps. This analytical process could

also be subsumed into or followed in parallel with the processes of integrated national financing frameworks.



2. Many of the barriers to private sector investment and adaptation and the key elements of private sector development more broadly overlap. Enhancing cooperation between the adaptation and private sector development communities can increase the efficacy of each other's efforts.

Investment climate reform, business environment reform, and access to finance are the key pillars of the ACP-EU joint cooperation framework. These issues are frequently found to be key barriers to enhancing private sector investment in adaptation. General broad efforts to increase private sector development will benefit many sectors and sustainable development objectives, although of course in the climate-vulnerable ACP countries climate adaptation and many other development goals overlap to a great degree. Such ongoing private sector development efforts are unlikely to be shaped solely by the needs of the adaptation community, as the private sector faces its own implementation complexities. Recommending full prioritisation around the needs of climate adaptation seems unreasonable, but two concrete avenues of enhanced cooperation may suggest a possible beginning:

- i. Engage others to prioritise (ongoing) reforms focused on a specific group of enterprises critical to climate adaptation. By focusing on a specific group of private sector actors whose engagement and investment are critical to adaptation creates a prioritisation of investment climate reform tasks. This could be on PPPs for water infrastructure, or new banking regulations that facilitate or prioritise lending to farmers for climate-smart investments, or many more. The key is to try to target at least some of the focus of private sector development on the most critical private sector actors.
- ii. Learn from private sector engagement and investment in other sectors and identify the reforms that have unlocked this. Other economic sectors, such as health, education, and energy, typically have much higher levels of private sector engagement

and investment, even if this has not always been the case. Within the context of each ACP country's market and governance system, learning from how these sectors achieved their results will provide examples and guidance on how a country can make similar progress toward adaptation.



3. Lack of access to finance and a supportive financial ecosystem are critical bottlenecks impeding deployment of private finance for adaptation and eventually reducing the climate-vulnerability of ACP countries. Further briefs in this series should focus on alleviating these issues.

This ICReport has looked at the potential role of investment climate reform and business environment reform in catalysing private sector engagement in adaptation. It begins to illustrate the diversity of enterprises and business cases that might contribute to climate adaptation, each of which has different financing needs and capacity and different sources of finance. Many enterprises will access domestic private finance from banks and other investors and financial institutions, including microfinance. The financial actors face their own constraints in financing adaptation activities and the enterprises involved in them. These include the fragmentation of investees, a lack of financial models and capacity to analyse adaptation investments, and the relatively high macroeconomic risk of many ACP countries. Therefore, identifying how financial regulation and policy in ACP countries can be better utilised is an important goal. Some larger enterprises and financial institutions, including microfinance institutions acting as intermediaries for smaller enterprises, can access international finance. Examining the possibilities is also important, including identifying the role of public finance in leveraging private finance. This is highly relevant given the developing status of ACP countries' economies and the emphasis on blended finance approaches alongside investment climate reform in the Joint ACP-EU cooperation framework.



4. ACP countries are typically very vulnerable to climate change, yet their unattractive investment climates mean they have difficulty attracting private finance to deliver their climate adaptation needs. Resolving this should be a priority for the international community, and more development assistance should be made available to support ACP countries on the specific issue of catalysing private finance for adaptation.

Germanwatch's *Global Climate Risk Index* (Eckstein et al. 2020) shows that some ACP countries are already among the most climate-impacted countries the world. The World Bank's Doing Business Index shows that ACP countries also have the least attractive investment climates for the private sector. As a result, the adaptation finance gap seems particularly difficult to close in these countries. To reduce the vulnerability of their populations, development assistance on these issues should be made urgently available.

The ICR Facility, one such resource, was created to support short-term requests for specific and targeted interventions at the economy-wide, sectoral, and value-chain level. It can provide resources to map, identify, and prioritise investment climate and business environment reform needs and to support ACP countries in identifying further sources of finance to undertake and implement the identified reforms. Finance might come from reallocation of domestic budgets as well as development assistance. Existing sources of development assistance that do support climate adaptation must also do better at engaging the private sector and should require that partner countries, projects, and policies be designed to further mobilise private sector investment and, ultimately, accelerate the implementation of activities to ensure the ACP countries' successful ongoing adaptation to climate change.

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This paper is part of a series of papers on Climate Smart Investments in ACP countries. One forthcoming report will explore the role and solutions that international concessional finance and blended finance can provide to stimulate private adaptation investment in ACP countries. Another will illustrate the role of domestic financial and fiscal policy in directing and incentivising private finance toward adaptation and away from investments that could introduce greater climate change vulnerability. A report on the role in climate financing for national development finance institutions, and how they could best be supported in playing this role, is available at www.icr-facility.eu/knowledge-hub/national-dfis-for-climate-action.

About the ICR facility

The ICR Facility is co-funded by the European Union (EU) and the Organisation of African, Caribbean, and Pacific States (OACPS), under the 11th European Development Fund (EDF), together with the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. The ICR Facility is implemented by GIZ, the British Council, Expertise France, and SNV.

The ICR Facility supports public and private stakeholders in ACP countries to improve their investment climate and business environment via public-private dialogue. The Facility supports specific and targeted interventions at the economy-wide, sectoral, and value-chain levels with Technical Assistance for up to 90 days based on requests. It also works to strengthen national and subnational development financial institutions and compiles and shares good practices for improving the business environment and investment climate.

For more details on the ICR Facility or to submit a request for Technical Assistance, visit:

www.icr-facility.eu

Tools and resources for businesses, governments, and practitioners

- Climate Expert. Developed by GIZ, this tool provides a practical four-step approach and working materials to help companies (SMEs) and industrial zones analyse climate change risks and opportunities and generate strong adaptation strategies. See www.climate-expert.org.
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