PRINCIPLES FOR ENGAGING MSEs IN ADAPTATION

This section provides a summary of the process by which policymakers can seek to develop interventions that will enhance investments in adaptation by MSEs. It outlines a set of six principles that may be used as a guide during the policy formulation process. Every country is unique in its specific circumstances—economic profile, actors, challenges, and opportunities. Accordingly, strengthening business engagement in adaptation might be adopted as a stand-alone policy objective or as part of a larger adaptation policy process, such as the formulation of a national adaptation plan (NAP). It might also constitute an element in efforts to address a specific climate-resilient development objective, such as providing water services or building local seed banks.

Whatever the circumstances, it is hoped that the principles described in this section can be universally applied and prove useful in the policy formulation process (see Figure 6). This section focuses on the principles of stakeholder engagement, sector prioritization, and implementation and scale-up. The principles of identifying drivers and barriers and designing interventions were covered in depth in earlier sections, and are revisited only briefly.

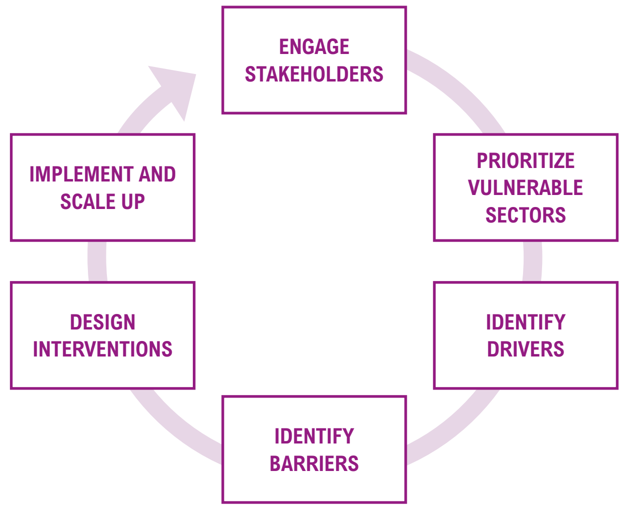
Six Principles for Policy Formulation

- Engage stakeholders
- Prioritize vulnerable sectors
- Identify drivers to invest in adaptation
- Identify barriers preventing investment in adaptation
- Design interventions to catalyze MSE investment in adaptation
- Implement and scale up

1. Engage Stakeholders

Involving relevant stakeholders from the start of the policy process is a prerequisite for effective policymaking. Despite the relevance of private sector actors, an analysis of the NAPA process showed

Figure 6 | **Designing Successful Interventions to Catalyze MSE Investment in Adaptation**



that the private sector was represented in only 43 percent of the NAPA teams (Pauw and Pegels 2013). Cross-sector representatives from MSEs and vulnerable communities need to be involved early on in the policy design process in order for policymakers to understand which sectors to prioritize and the relevant drivers and barriers that will affect the design of effective policy options. Policymakers also need to assess and learn from the knowledge and innovative ideas of MSEs themselves.

Because climate impacts cut across many sectors, it is important that a broad range of stakeholders is involved in the design and implementation of adaptation policies. For example, a policy to protect land should be devised with the input of multiple sectors such as forestry and agriculture, even if the principal benefiting sector might be tourism. Good coordination across sectors helps to prevent duplication of government effort and is necessary to streamline activities. MSEs can also learn from each other, so horizontal (among businesses) and vertical (among national and sub-national actors) coordination will be worthwhile. It is important to note that engaging stakeholders can be difficult, given that many

Table 2 | **Overview of Private Actors at Global to Local Level**

	PUBLIC SECTOR	PRIVATE SECTOR		CIVIL SOCIETY
Global	International development agencies, international financial institutions	Multinational companies, institutional investors, commercial banks	Agricultural industry and commercial associations	International NGOs
Regional	Regional institutions and trade blocs, international financial institutions	Multinational companies, international financial institutions, institutional investors, commercial banks	Agricultural industry and commercial associations	International NGOs
National	National governments	National companies, banks, insurance companies	Agricultural industry and commercial associations	Domestic NGOs, national agricultural associations, chambers of commerce
Sub-national	Provincial governments	Small- and medium-sized businesses, cooperatives	Agricultural industry and commercial associations	Local NGOs, agricultural groups and community organizations
Local	Local governments	Small- and medium-sized businesses, cooperatives	Agricultural industry and commercial associations	Local NGOs, agricultural groups and community organizations

Source: Becker-Birck et al. 2013.

groups, particularly MSE owners, have business priorities and will be very short of time to travel and attend stakeholder meetings. Some stakeholders might not be interested or willing to engage with the public sector in policy planning. In some cases, it would be useful to use intermediaries such as CSOs and popular media channels.

Private sector organizations exist at many levels and in many affiliations. Table 2 provides an overview of the main categories of private sector actors that could be involved in adaptation discussions.

The public sector, in cooperation with the private sector, can bring these different groups together and ensure good representation. With a good coordination system in place that focuses on sharing information and raising issues, the government can start to identify barriers and bottlenecks and develop sector-specific policies and interventions. Engaging MSEs and the informal economy can be difficult because of the lack of formal channels; it will therefore be vital to engage with CSOs and NGOs who operate in the same communities as MSEs. These organizations are an important channel for reaching MSEs and they can help to ensure that the informal sector is not overlooked.

2. Prioritize Vulnerable Sectors

Every country has a diverse base of economically important sectors. Climate change will affect most economic activities either directly or indirectly. To target indirect risks that affect all sectors, policies might need to be cross-sectoral in order to create a general enabling environment for business growth.

However, in other cases, where direct risks affect a particular sector or industry, policies will need to target that specific industry. Blanket policies that aim to engage "the private sector" are not likely to be effective because the drivers and barriers to successful adaptation differ among sectors and even within a sector. Therefore, when starting the process of designing policies to catalyze MSE engagement, policymakers need to prioritize sectors for engagement. They can do this by engaging stakeholders in public discussions. In some instances, when engagement with stakeholders is especially difficult, it could be useful to use market surveys to identify vulnerable sectors and specific barriers facing the relevant MSEs.

Several other approaches can be used to prioritize sectors, including the use of existing policy frameworks, such as NAPAs, national five-year plans, or other climate strategies.

In cases where the main climate impacts are known but there is no specific ranking of sectors within a national adaptation strategy or vulnerability assessment, policymakers can prioritize sectors based on two factors: (i) the economic importance of different sectors, including importance to livelihoods of vulnerable groups; and (ii) climate sensitivity and adaptive capacity. Economic importance can be determined by the sector's production value and the number of people it employs (IFC and EBRD 2013; PwC 2013). When making this analysis it is important to take into account the importance of a sector for the livelihood and income of different groups, gender considerations, aggregate current and future macroeconomic vulnerability of the country, and different segments of communities that are particularly vulnerable to the impacts of climate change. Sectors might be emphasized because they face impacts in terms of net economic losses if adaptation measures are not implemented.

When there is no detailed information on climate impacts, sector assessments can be made based on expert opinion, in consultation with affected communities and stakeholders, ranking the sectors based on high, medium, and low risk or sensitivity. The outcome of the process will be a list of priority sectors that are highly sensitive to climate impacts, provide an important contribution to the economy, employ a large number of people that are vulnerable to climate change, and/or operate in highly sensitive geographical areas.

3. Identify Drivers to Invest in Adaptation

The report identifies two main drivers that encourage an MSE to invest in adaptation, namely:

- Increasing climate resilience
- Leveraging business opportunities

Although these drivers apply to any business in any sector, it is important to understand the specific combination of factors that drive investment in a particular sector. This will determine whether government intervention is necessary at all and, if it is, how policies and incentives should be chosen and designed.

4. Identify Barriers Preventing Investment in Adaptation

MSEs face many barriers that generally fall into the following categories:

- Lack of awareness and knowledge of climate risks
- Limited availability or knowledge of adaptation options
- Lack of technical capacity to implement
- Lack of financial capacity to implement
- Policy and regulation that hinder adaptation
- Social attitudes toward adaptation

Blanket policies that aim to engage “the private sector” are not likely to be effective because the drivers and barriers to successful adaptation differ among sectors and even within a sector. Therefore, when starting the process of designing policies to catalyze MSE engagement, policymakers need to prioritize sectors for engagement.

Understanding the particular set of barriers faced by MSEs in a particular sector is essential to targeting policy interventions that will reduce or remove those barriers. Creating a common understanding of the most important barriers has to be done in cooperation with stakeholders from the sector through a continuous dialogue.

5. Design Interventions to Catalyze MSE Investment in Adaptation

The public sector should design policies and interventions that create an enabling environment for MSEs to adapt to climate change. This is necessary for successful private sector engagement, and it is an integral part of addressing the barriers facing MSEs. A range of possible interventions have been used to help incentivize adaptation in different contexts:

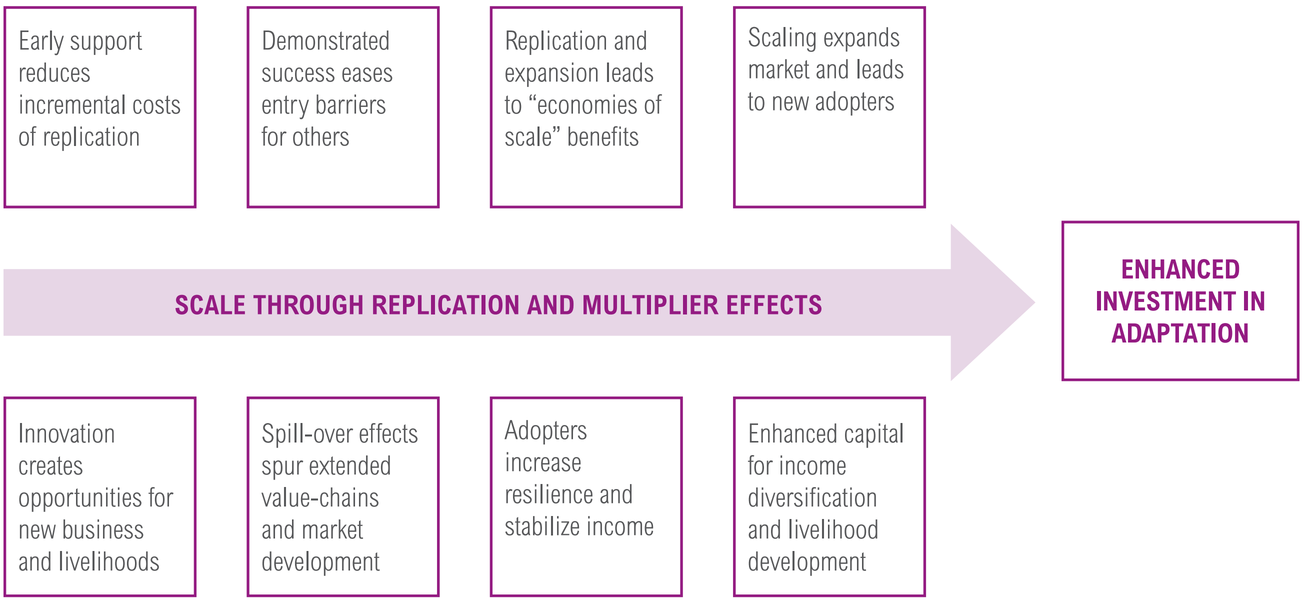
- Business-relevant climate information and risk analysis
- Technical assistance and training
- Government policies
- Market and business development
- Partnerships and cooperatives
- Financial instruments

Cost-benefit analyses might be helpful in determining which intervention to choose, including the use of ecosystem service valuation where appropriate. Based on such analyses, policymakers can more easily assess the cost of each intervention at various scales.

6. Implement and Scale Up

It will take time for the public sector to create an enabling environment in which MSEs are more willing and able to invest in climate change adaptation. If priority is given to efforts to strengthen the resilience of MSEs, the results could be transformative for countries as a whole. Because many of these MSEs operate in vulnerable communities, investing in adaptation will strengthen the resilience of these communities, build strong local economies, and impact the national economy and value chains around the world.

Figure 7 | **Example of Combinations of Replication and Multiplier Effects Leading to Enhanced Private Sector Investment in Adaptation**



The implementation and scale up of these actions will be part of the process of creating sustainable development pathways in developing countries.

Governments, development partners, and NGOs have a major role to play in facilitating adaptation by MSEs. They implement the interventions that can eliminate market and policy failures that prevent MSEs from investing in adaptation. While policymakers are the final decision-makers in the process, they require close partnerships with businesses, NGOs, civil society organizations, and international organizations if they are to be effective. Using targeted interventions, governments can help to safeguard businesses in climate-sensitive sectors, and expand business opportunities in goods and services oriented toward adaptation.

Scaling up transformative investments by MSEs will be achieved through a combination of replication and multiplier effects. For example, to accelerate the process, governments can identify successful pilot interventions and scale them up in other regions, where appropriate (see Figure 7). The report identifies several pathways that governments can use to scale initiatives. Ensuring an open, active dialogue with MSEs on what works and what does not work is essential to understanding whether a chosen approach is successful in addressing a certain barrier. Entrepreneurship and innovation will also play a key role in creating transformative change and scaling up adaptation practices throughout the private sector. Creating sustainable economies will spur competition, partnerships, best practice business techniques, and new business opportunities, while also building resilience in communities. A continuous process of working through the principles outlined in this report should lead to the creation of a sustainable economy in which MSEs have the resources to address climate risks and invest in new opportunities, while also building resilient communities.


MALHER
Yus
Tamarindo
Fresa
Strawberry
Maggi