Food and Agriculture Organization of the United Nations

BRIEFING NOTE – MAY 2022

Private Sector Engagement

This brief explains the relevance of private sector engagement to SCALA, outlines proposed interventions to address this topic in the SCALA country work plans and summarizes useful resources as well as support available from the global team.

1	**Information and assessments used by national stakeholders to identify and appraise transformative climate actions to advance NDC/NAP priorities in land use and agriculture**	2	**Climate risk-informed land use and agriculture sector priorities integrated into national and sectoral planning, budgeting and monitoring**	3	**Private sector engagement in climate action in land use and agriculture increased**
Output 1.1 (Country): Evidence base for implementation of transformative climate action in land use or agriculture strengthened		**Output 2.1 (Country):** NDC and NAP priorities for land use and agriculture enhanced and integrated into sectoral planning and budgeting		**Output 3.1 (Country):** Enabling environment and incentives enhanced for private sector engagement in NDCs and NAPs implementation	
Output 1.2 (Global): Tools for assessing implementation options for transformative climate action disseminated		**Output 2.2 (Global):** Advocacy conducted to integrate transformative actions in NDCs and NAPs		**Output 3.2 (Global):** Knowledge expanded on opportunities and options for private sector engagement in transformative climate action	
				Output 3.3 (Global): Technical assistance facility to enhance private sector engagement through public-private sector collaboration in NDCs and NAPs implementation on land use and agriculture established	

CONTEXT

FINANCING GAP FOR CLIMATE ACTION

The IPCC estimates climate finance needs to range from US$1.6 trillion to US$3.8 trillion annually between 2016 and 2050 to address the climate crisis. However, climate finance flows averaged US$579 billion annually as of 2018, with private actors representing approximately US$326 billion of the share (56 percent)[1]. Although the sector comprising agriculture, forestry and other land use (AFOLU) is particularly vulnerable to climate change impacts, public climate finance allocation in this area is disproportionately small, comprising only 24 percent of total grants in 2017/2018[1]. In terms of private finance flows, this sector has been even more marginalized, with 85 percent allocated to renewable energy, 14 percent to low-carbon transport, and under 1 percent to all other sub-sectors including AFOLU.

There is, therefore, a major financing gap for AFOLU sectors, and scope for a more substantial role to be played by the private sector given the emerging investment opportunities in this space. While several opportunities for private investment have been identified on the mitigation side, there is growing recognition of viable adaptation-focused investment opportunities for the private sector in areas including climate resilient agricultural inputs, water resource management, information and technology services and weather index-based insurance.

WHAT IS THE PRIVATE SECTOR UNDER SCALA?

The term private sector encompasses a range of actors. Each SCALA country will identify the kind of private sector actors to engage with from the groups identified below. Different actors will have different roles to play under the program and will be targeted based on their relevance to the various activities and interventions.

- **Micro, Small and Medium Enterprises (MSMEs)** – The local private sector in developing countries consists primarily of MSMEs, which include sole proprietors, smallholder and family farms, and enterprises.
- **Large Enterprises and Multinational Corporations (MNCs)** – Large enterprises employing 50 or more people and are more prevalent in advanced developing countries. MNCs are increasingly active in developing countries as registered companies with in-country operations, and through indirect investments through their supply chains.
- **Capital Providers (Investors) and Market Facilitators** – Actors that make direct investments and provide financial services, respectively. They include banks, venture capitalists and angel investors.

Within the private sector, it is important to highlight the key role played by agri-businesses in ensuring the sustainable development of AFOLU sectors, given their impact on natural capital (deforestation and the loss of biodiversity), social issues (human rights, decent work, gender equality and land tenure security) and the livelihoods of communities on a local level[1]. At the same time smallholder farmers are key enablers of agri-business value chains. Developing viable resilient livelihood strategies, including through increased market access and market development opportunities for smallholders, is thus critical to ensure the growth and resilience of the AFOLU sectors, ultimately benefiting both agri-businesses and smallholder farming communities.

WHAT IS THE ROLE OF THE PRIVATE SECTOR IN NDCS AND NAPS FORMULATION AND IMPLEMENTATION

In addition to helping bridge the financing gap, the private sector is an important source of technical knowledge, human capital, and innovation. By working with the private sector, public sector climate change interventions can target changes at multiple entry points in the agri-food system. The NDCs and NAPs in particular are crucial vehicles to create enabling policy and regulatory environments and investment plans for increasing private sector participation in AFOLU sectors for climate action. However, the private sector is not sufficiently engaged in climate action due to factors such as companies' concern about the ability of governments to create strong enabling environments, lack of political will, lack of coordination and lack of incentives (UNDP, 2019a). Further, the private sector faces barriers to investment in the AFOLU space as well as risks (see Table 2 in Annex 4 for details) which lead to high financing costs (supply chain, sovereign, regulatory, infrastructure, financial and demand risks among others).

The private sector's lack of involvement in determining climate priorities at a policy level leads to a lack of ownership and understanding of how they can implement NDC- or NAP-recommended actions as part of their operations. In order to overcome barriers, risks and lack of engagement and successfully catalyze private finance, it is vital that government partners of SCALA (1) involve the private sector in the definition of climate priorities at a policy level to foster ownership and companies' understanding of how to incorporate additional NDC- or NAP-recommended actions into their existing value chains or programs and (2) identify and implement context-specific policy and financial de-risking instruments as part of the overall effort engage the private sector.

SCALA'S APPROACH

In recognition of its importance to scaling up effective climate action in the AFOLU sectors, private sector engagement (PSE) is a core component of SCALA's overall approach, featuring as a cross-cutting theme across each of the three program outcomes. As per the theory of change, SCALA will strengthen PSE through each of the three Outcomes, with Outcome 3 being entirely focused on private sector engagement. Crucially, the activities under the first two outcomes are necessary for laying the foundations to facilitate transformative PSE through Outcome 3.

In order to engage the private sector more effectively, the Programme will apply elements of systems leadership[1] especially to strengthen multistakeholder coordination, which combines collaborative leadership, coalition building and strengthened systems understanding to mobilize innovation and collective action across multiple groups of stakeholders, often with competing interests, toward a shared vision for systemic change. This will include engaging the private sector for (i) enhancing systems insights through cross-sectoral, systems-level analyses under Outcome 1; (ii) capacity building on systems leadership through multi-stakeholder workshops under Outcome 2; and (iii) collaboration and the co-creation of climate solutions through private sector engagement under Outcome 3.

More specifically, under **Outcome 1**, the private sector will play an instrumental role during the identification and assessment of transformative climate actions, and their engagement will ensure

[1] Systems leadership 'refers to a set of skills and capacities that any individual or organization can use to catalyze, enable and support the process of systems-level change' (Dreier, Nabarro and Nelson. 2019).

there is a consensus on the prioritization of transformative action (Output 1.1). Areas of priority will be brought forward for further analysis to strengthen the evidence base for pursuing these options (Activity 1.1.2), which will also inform Outputs 2.1 and 3.1.

Outcome 2 will involve the participation of the private sector as an integral part of multi-stakeholder planning, coordination and systems leadership processes. This will include discussions on private sector-related risks and barriers that could inhibit investments based on NAP/NDCs priorities which will help synchronize public and private investments to support climate action (Activity 2.1.1). This will also help inform the next NAP/NDCs and determine the transformative PSE interventions to be brought forward under Outcome 3 (Activity 2.1.3). (See the related brief, "NDC and NAP Governance").

Finally, **Outcome 3** will focus on fostering partnerships between the public and private sectors and identifying concrete private sector-oriented interventions by building on a number of different activities from Outputs 1.1, 1.2, and 2.1, and also develop one de-risking strategy per country to incentivize private investment (Output 3.1.1). This activity will also inform Output 2.1, as PSE interventions will be integrated into NAPs/NDCs, as well as Activity 3.1.2.

Throughout all outcomes, PSE will target both specific actors, such as SMEs and large companies which play a key role in the prioritized transformative actions (within food systems, landscapes or value chains), and also coalitions such as Chambers of Commerce who can help support coordination and convening of relevant private sector partners. By engaging with private sector actors from the onset and convening a diverse range of stakeholders at each step of the program, SCALA avoids the common programmatic pitfall of shoehorning the private sector at a late stage.

Instead, the proposed approach treats the private sector as an indispensable stakeholder in the planning, design and implementation process, greatly increasing the probability and effectiveness of their engagement by understanding their interests and aligning them with program objectives where mutually beneficial outcomes are possible.

Under current conditions in most program countries, there are significant barriers and risks (see Table 2 in Annex 4) deterring private sector engagement and investment in AFOLU sectors. SCALA's multi-stakeholder approach will methodically seek to eliminate or mitigate these barriers and risks by applying different tools, including UNDP's Operational Framework for de-risking private sector investment (see Annex for details on how this could be applied under SCALA).

In applying the above tools, the program will simultaneously develop the evidence base and guidance to assist participating countries to effectively engage with the private sector. In addition, SCALA will produce and disseminate knowledge products based on lessons learned from the program, including on PSE within the context of NAPs, NDCs a,nd national planning for both program countries and the wider development and climate change adaptation community. For a visual representation of SCALA's outputs and activities as related to PSE, please refer to Annex.

PROPOSED INTERVENTIONS

As part of their workplans, countries can implement actions under the following three broad areas related to PSE. Each area encompasses multiple program activities, reflecting the interlinked nature of SCALA's approach to PSE. These areas build on *UNDP's Private sector strategy* which focusses on supporting governments to establish enabling policy and regulatory environments while facilitating multistakeholder partnerships. They also build on *FAO's private sector engagement strategy* which presents three guiding pillars.[2] These areas are described in greater detail below, including specific objectives, relevant activities, scope and methodology, target stakeholders and final outputs. In addition, support from the global team will be available to implement the PSE-related activities.

1. Strengthening private sector engagement in NDC/NAP planning processes

SCALA will promote systems-level multi-stakeholder consultations and engagement across all outcomes, this being a key feature of the overall approach. Sub-activities under this area will focus on the inclusion and participation of relevant private sector entities in processes to determine transformative actions for NDC/NAPs (which will fall under outcome 1 and activity 1.1.2). Private sector actors that are interested in collaborating and investing in AFOLU sectors will be targeted and subsequently engaged in multi-stakeholder partnerships involving the public sector, civil society and academia. Engaging private sector in different stages of NAP/NDC processes will help to foster agreement among public sector actors and the private entities on type of climate risks, establish priorities, and develop de-risking and resource mobilization strategy for implementing climate solutions.

Countries can choose sub-activities from the suggested menu of options (in the box below) depending on private sectors' readiness to engage in different stages of NAP/NDC processes in the country (see Annex 2 which provides guidance on private sector engagement based on country readiness).

Global Support: The brokering of available guidance on private sector engagement and the provision of experts for mapping private sector ecosystems and preparing briefing notes to establish engagement entry points. Additionally, support will be available for capacity building on implementing systems-leadership and system-change approaches for multi-stakeholder processes.

Key Target: Each participant country to have engaged select private sector actors in relevant multi-stakeholder processes, with consideration of private sector priorities reflected in process outcomes including NDCs and NAPs.

[2] The Three Pillars of FAO's Private Sector Engagement strategy: (a) *Connect* with private sector using a proactive approach to dialogue, outreach and engagement; (b) *Support* private sector by enabling transparent business models with clear practical and operational engagement and finally c) *Sustain* influence by focussing on meaningful impacts through private sector engagement

Countries could plan to undertake following key sub-activities to strengthen private sector engagement in NDC/NAP processes:

1.1 **Identify private sector frontrunners**: mapping private sector ecosystem related to the AFOLU sectors and identify federations, coalitions and actors that have the potential to become climate active stakeholders.

1.2 **Engage private sector actors in existing multi-stakeholder processes:** enable processes to integrate representatives from private sector into NAP/NDC multi-stakeholder committees to allow them to highlight private sector priorities and ensure opportunities as well as investment barriers faced by the private sector in AFOLU sectors are considered when developing plans and budgets.

1.3 **Convene public-private plaforms and dialogues**: to identify areas for cooperation by bringing together chambers of commerce or business federations with climate relevant multi-stakeholder coordination bodies. Support platforms for private sector to grow into climate active stakeholders and develop mechanisms for joint action, collaboration and dialogues in climate action. Organisation of deliberations using systems-leadership/systems-change approaches bringing together actors in different parts of the value chain to discuss and identify risks and barriers, and co-create solutions.

1.4 **Enabling exchange between private sector actors:** on adaptation solutions, creating links between private sector, farmers and research centres and connecting farmers to climate focussed companies, global markets and climate resilient value chain actors.

1.5 **Formulating multi-stakeholder partnership agreements** to capture commitments and monitor action.

2. Identify business opportunities and practices around climate solutions

For this area, countries can carry out sub-activities to drive collaboration with the private sector and other actors to identify investment opportunities, risks and barriers related to PSE, using tools and guidance that have been developed specifically to foster increased PSE (under Outcome 2, Activity 2.1.3). By doing so, countries can develop a robust evidence base to support the design and implementation of de-risking instruments and overall intervention strategies to crowd in private sector investment.

Global Support: Global team support under this area of work will revolve around the provision of experts to guide and support implementation of selected private sector engagement tools that assist with identification and analysis of investment opportunities, risks, and barriers. Relevant tools include UNDP's recently developed framework for de-risking private sector investments in the adaptation space which presents a methodology and step by step guidance to identify approaches that can help crowd-in private capital for adaptation interventions (See Annex 4 for further details). *FAO's Climate Smart Agriculture sourcebook* further presents an approach on systems view of the risks and impacts of climate change and guides how a holistic approach can be used to design climate-smart agriculture solutions for sustainable value chains. *FAO- UNDP's toolkit for value chain analysis* can also help countries to select and analyze value chains for opportunities to improve climate resilience (See Annex 1 for further details).

Key Target: Each participant country to have identified and analyzed viable private sector investment options in addition to barriers and risks that are currently restricting investment.

Countries could choose to identify and undertake following key sub-activities to identify investment opportunities and co-create climate solutions whilst addressing risks:

2.1 **Analysis of key business models and production practices** around climate solutions appraised. Analyze existing investments made by private sector and evaluate potential for scaling these up, and identify other possible transformative private investments to support the AFOLU sectors which could include:
- Climate proofing business operations and investment portfolios,
- Climate resilient goods and services in line with priorties identified, and/or
- Opportunities for financing adaptation actions.

2.2 **Assess the optimal role of public and private actors** in implementing climate solutions and drive sustainable agriculture at scale in alignment with NDC/NAP.

2.3 **Conduct cost benefit and financial analysis** of the options to appraise economic costs of climate solutions.

2.4 **Analyse risk and barriers** to private sector investment for identified climate action interventions based on risk assessments and consultations as well as market and value chain analysis.

2.5 **Co-design concept notes** of identified options and agree on focus of the concept notes, design theories of change on options and bring a wide range of private sector actors to agree on potential proposals in agriculture and land use sector. Screen project ideas by ESS experts.

3. Develop an enabling environment and facilitate private sector investment for climate action

Under this workstream, countries can choose to continue their collaboration with the private sector, using the information and analysis from Area 2 to generate de-risking solutions and overall intervention strategies to develop an enabling environment for catalysing private investment into the AFOLU sectors. Sub-activities under this area will feature heavier collaboration with actors outside of the private sector, as focus shifts to facilitating multi-stakeholder interventions based on the preceding work done. These sub-activities will fall under Outcome 3, Output 3.1. Countries can take a three-pronged approach to catalyse private sector engagement in climate resilient agriculture 1) by catalysing an enabling environment 2) by de-risking or managing risks and 3) by reducing costs (of capital and transactions). If countries are aware of key barriers/risks to investing in shortlisted interventions, they can choose to work on identifying, costing, and analysing potential de-risking instruments that could be implemented to crowd-in private capital.

Countries have the option of implementing the following sub-activities to enable private sector investment.

3.1 Catalyse private sector engagement by supporting:

- Research, analysis and shaping of viable investment solutions to alleviate barriers
- Use of climate information for climate risk assessment. Strengthening private sector capacity to integrate climate risks in decision making
- Strengthening capacity of local farmers to innovate and adopt new technologies.
- Promotion of new business models and support for developing bankable climate projects.
- Certification of climate related products. Standardisation and quality control

3.2 Identify, cost and analyse de-risking instruments for different types of private sector actors

- Policy de-risking instruments could include: regulatory incentives, certification schemes, tax benefits.
- De-risking financiers: Risk guarantees, risk sharing, incubation financing, insurance schemes
- Managing risks at the end of the farmer: Identifying innovative instruments for addressing issues of collateral which small farmers and small businesses find difficult to provide. For example, by investing in farmers' cooperative models or invoice discounting schemes, etc.;

Choice of instruments will rely on stakeholder participation, collection of financial data, and the application of tools to identify and shortlist potential de-risking instruments for each of the top barriers and risks brought forward. De-risking instruments can be appraised based on both their cost and effectiveness in crowding in private investment.

3.3 Lower cost for private sector investments in climate actions by:

- Providing incubation support to climate investment vehicles
- Nurturing/supporting aggregation agencies to address issus of scale and transcation costs
- Encouraging use of blended finance for leveraging private finance
- Encouraging green credit lines and concessional finance to lower the cost of capital for investing in climate solutions.

3.4 Enabling public-private partnership: Assuming de-risking instruments have been selected for chosen adaptation investments, countries can choose to focus on selecting the most appropriate implementation partners and facilitative agencies in order to successfully carry out the identified strategies. Tailored technical support to identify the right partner and develop mutually beneficial terms of partnerships will be crucial to ensure effective implementation of climate actions

Global Support: Global support will involve the provision of experts to guide and support selection of catalytic instruments and de-risking products and the evaluation of intervention partners and the facilitation of partnerships.

Key Target: Each participant country to have developed a de-risking strategy and to have facilitated multi-stakeholder partnerships that include significant investment from private sector. The interventions to be implemented under these partnerships should be informed by prior engagement and analysis on viable investment options, barriers, risks, and de-risking instruments as relevant.

While countries may choose to identify most relevant sub-activities depending on the existing levels of private sector engagement, SCALA countries are advised to carry out PSE sub-activities in all three areas, choosing which ones are most relevant.

PARTNERSHIPS

Although most of SCALA's private sector stakeholders will be identified through the activities under Outputs 1.1 and 2.1? and particularly Output 3.1, the program will also be working with a wide range of other existing stakeholders and complementary initiatives for PSE-related actions in the AFOLU sectors.

At the national level, some of the primary PSE stakeholders outside of the private sector will be government implementing partners, including in the national NDC coordination units and the climate change units in Ministries of Agriculture and Environment. Other relevant government stakeholders include entities that coordinate the national response to climate change, national DRR and DRM agencies, as well as ministries with strong influence over the planning process and allocation of funds, including Ministries of Finance and Planning.

Other significant national partners will include civil society organizations and academic and research institutions who can support the implementation of the interventions described earlier. Key technical partners will include the UNDP Green Commodities Programme and FAO's Hand-in-Hand Initiative, while other groups may include the Global Agribusiness Alliance (GAA), hosted by the World Business Council for Sustainable Development.

Other possible partners include Multilateral Development Banks (MDBs) and funding institutions such as International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Climate Investment Funds (CIF), and Green Climate Fund (GCF), focusing on their agriculture and climate-focused private sector financing windows such as IFC's Global Agriculture and Food Security Program (GAFSP) and GCF's Private Sector Facility (PSF). National, regional, and international financial institutions also have a key role to play in the successful implementation of PSE activities by providing funding sources for identified intervention strategies, as do institutional and impact investors such as the Acumen Fund. Finally, SCALA will seek to collaborate with relevant coalitions and networks, including certification programs such as the Rainforest Alliance.

The table below provides an illustrative list of the kind of private sector partners that will be targeted and the anticipated scope of collaboration.

Potential Private Sector Partners	Collaboration Scope
Chambers of commerce	Partner with public sector to implement climate actions and facilitate coordination with private sector
Associations of private sectors / producers	Partner with public sector to implement climate actions and facilitate coordination with private sector
Large corporations and MNCs	Provide understanding of climate risks faced and possible support needed to de-risk further investments along agricultural value chains
SMEs along agricultural value chains including farmers' organisations and cooperatives, traders, wholesalers, and processors	Provide understanding of climate risks faced and possible support needed to de-risk further investments along agricultural value chains
Agricultural input suppliers	Provide understanding of climate risks faced and possible support needed to de-risk further investments along agricultural value chains
Financial institutions and institutional/impact investors	Provide financing for investments to improve resilience across land use and agricultural value chains
Technology firms including agri-tech and fin-tech companies	Develop technology/solutions to facilitate the adoption of resilient land use and agricultural practices

ANNEX 1: TOOLS AND RESOURCES

UNDP-FAO Toolkit for value chain analysis and market development integrating climate resilience and gender responsiveness aims at helping countries select and analyse value chains for opportunities to improve climate change resilience and reduce gender inequalities, and subsequently help identify and prioritize investments to promote market development in line with these opportunities. There is currently no other toolkit that incorporates climate change impacts and gender responsiveness within its analytical framework. In addition, the toolkit features elements particularly geared towards private sector engagement, such as conducting barrier/risk analyses along agricultural value chains at each step of the chain, example business models for upgrading value chains, identifying viable entry points in a value chain for private sector actors, and guidance on value chain financing.

http://www.fao.org/3/cb0699en/cb0699en.pdf

UNDP's operational framework for de-risking private sector investments in climate risk management provides a methodology and step-by-step guidance to identify approaches that can help crowd-in private capital for adaptation interventions. It helps users understand the various constraints and barriers to entry faced by the private sector in the adaptation space, and appraises if they should be removed and under what circumstances they should be removed. The de-risking approach adds an additional dimension in examining investor risks, but nonetheless remains linked to the underlying barriers. Lastly, the framework identifies viable opportunities for directing private sector capital into climate adaptation initiatives and explores how to maximize the returns on these investments through economic and financial analyses.

**Currently being finalized, but detailed description of framework can be found at the end of the Annex section*

The 10 Principles for Responsible Investment in Agriculture and Food Systems (CFS-RAI) offer a framework that covers the full range of social, environmental and governance issues that are material to corporate risks and opportunities, as well as important to agri-business stakeholders. The CFS-RAI is aligned with specific SDG targets that are material for agri-businesses, helping them to define a comprehensive and legitimate impact framework.

https://earthsecuritygroup.com/news/strategy-briefs/agribusiness-sdgs-cfs-rai

Toolkit for Engaging the Private Sector in National Adaptation Plans (NAPs) aims to help governments develop strategies for the effective engagement of private sector actors in the NAP process. This includes engaging them in all phases of the NAP process, as outlined in the *Technical Guidelines for the NAP Process*, developed in 2012 by the Least Developed Countries Expert Group (LEG) of the United Nations Framework Convention on Climate Change.

https://napglobalnetwork.org/wp-content/uploads/2020/06/napgn-en-2020-Toolkit-for-engaging-the-private-sector-in-NAPs.pdf

Guidebook: Mobilising private sector finance for climate change adaptation provides guidance on requisite tools and methodologies required for developing bankable adaptation projects along with information on alternate funding sources and investment models available to the private sector to mobilise funds for climate change adaptation.

https://www.weadapt.org/knowledge-base/climate-finance/guidebook-mobilising-private-sector-finance-for-climate-change-adaptation

Guidelines for Identifying Business Risks and Opportunities Arising from Ecosystem Change provides corporate managers with a proactive approach to making the connection between ecosystem change and their business goals. It introduces the Corporate Ecosystem Services Review—a structured methodology to help businesses develop strategies for managing risks and opportunities arising from their dependence and impact on ecosystems. It is a tool for corporate strategy development and can augment existing environmental management systems.

https://files.wri.org/s3fs-public/corporate_ecosystem_services_review_1.pdf

Adapting to Climate Change: A Guide for the Financial Services Industry summarizes how companies in the financial services industry are reporting on climate change risks and opportunities, and highlights current and emerging best practices and guidance for financial services companies on how to develop a proactive approach to climate change adaptation.

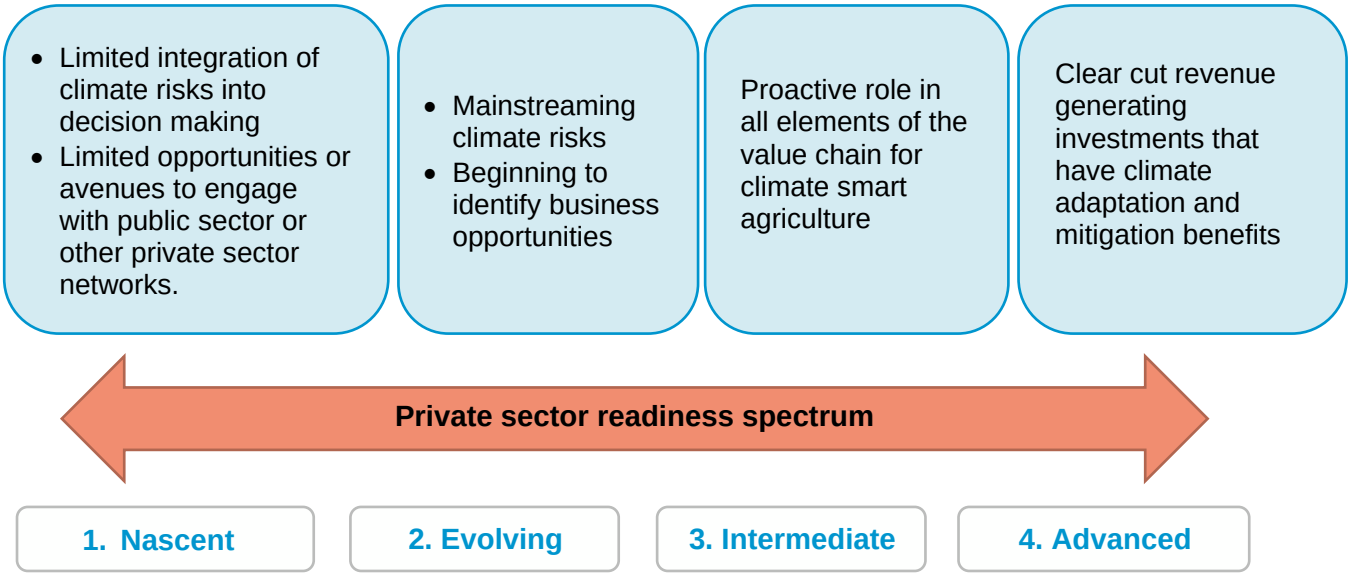
https://www.bsr.org/reports/BSR_Climate_Adaptation_Issue_Brief_Financial_Services.pdf

Principles for Responsible Investment in Agriculture and Food Security promote responsible investment in agriculture and food systems that contribute to food security and nutrition, thus supporting the progressive realization of the right to adequate food in the context of national food security. These principles provide value by promoting a multistakeholder, holistic, and consensus-driven approach which fosters global ownership and application.

http://www.fao.org/3/a-au866e.pdf

ANNEX 2: GUIDANCE ON PRIVATE SECTOR ENGAGEMENT BASED ON COUNTRY READINESS

Private sector readiness to engage in adaptation and mitigation action will differ across countries and across a wide range of private sector actors. In some countries the private sector might be in an early stage seeking for awareness on climate risks and ways to convene and engage with public sector and other private sector actors. Whilst in others private actors might already be strong climate champions (See figure).



Given private sector context and readiness levels for climate investment will differ in each country, the SCALA approach identifies four main avenues for Private sector engagement along the readiness spectrum and the countries may want to adopt a bespoke engagement models.

PSE 1: Convene and broker

Public-private:

- Enable private sector to engage with the government in CC planning and priortisation.
- Enable private sector to engage with MDBs, climate funds, development partners.
- Support platforms for private sector to grow into climate active stakeholders and develop mechanisms for joint action, collaborartion and dialogues in climate action.

Private-private:

- Foster exchange and collaboration of different private actors e.g in new crop dev processes.
- Creating links between private sector, farmers and research centres.
- Connecting farmers to climate focussed companies, global markets and climate resilient value chain actors.

PSE 2: Catalyse

R&D and technical assistance

- Risk and barriers analysis.
- Invest in research linking up climate change to productivity levels of crops and sharing that with business community.
- Using climate information for climate risks on businesses.
- R&D on weather resistant crops, etc.

Enabling environment

- Enabling environment for investing in climate action.
- Project development and conceptualisation.

Information, awareness and capacity development

- Strengthening private sector capacity to integrate climate risks in decision making.
- Strengthening capacity of local farmers to innovate and adopt new technologies.

PSE 3: Identify business models and opportunities

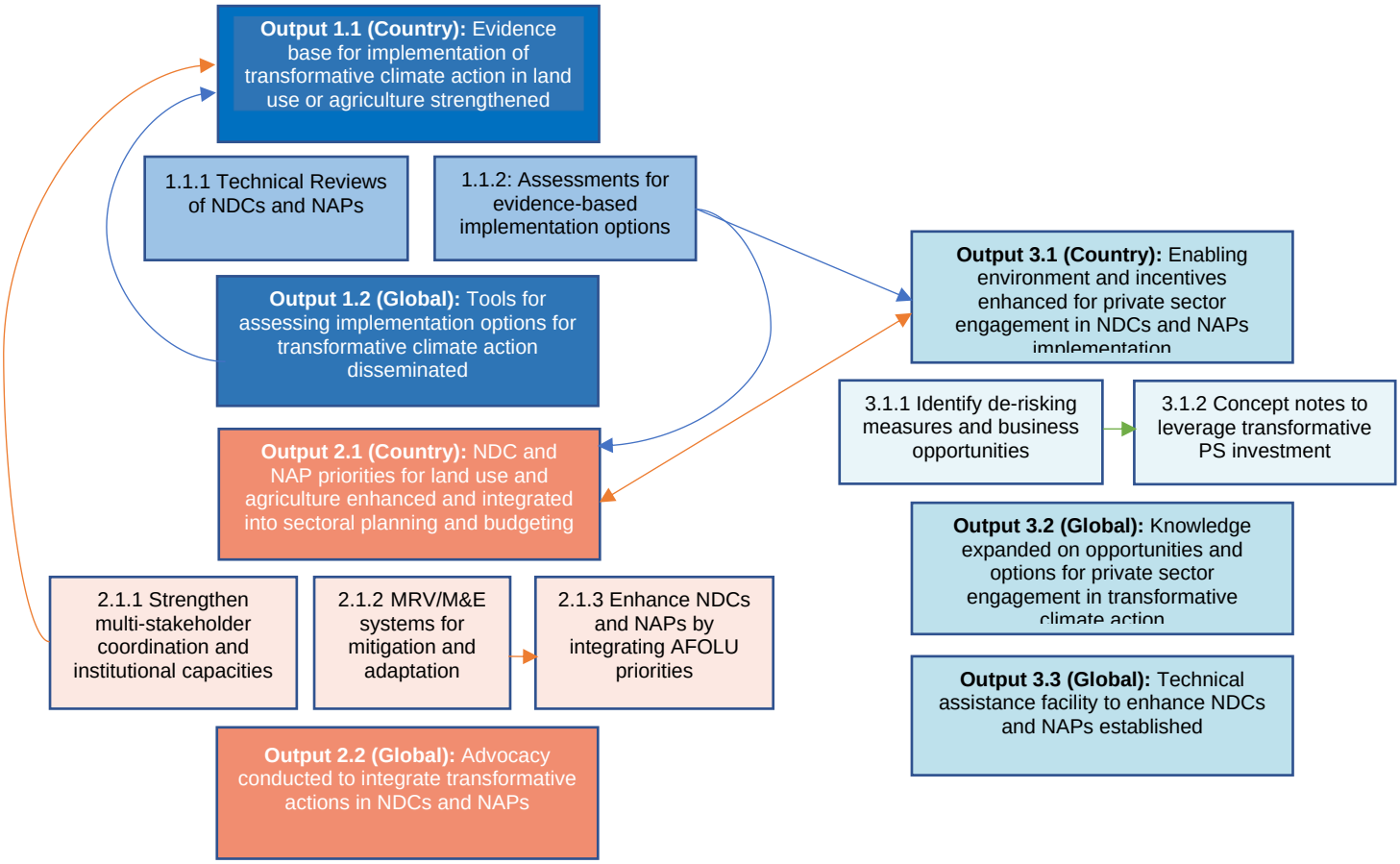
- Increasing productivity: Climate resistant crops, organic agriculture.
- Irrigation systems and water conservation technologies.
- Improved technologies for reducing post-harvest losses.
- Scaling up successful solutions and market development.
- Developing and technologies for nature-based solutions to adaptation
- Improving supply chain.

PSE 4: De-risk and capitalise

- Policy and regulatory measures for de-risking
- Use of blended finance for leveraging private finance;
- Use of risk guarantee schemes.
- Identifying innovative instruments for addressing issues of collateral which small farmers and small businesses find it difficult to provide. For example, by investing in farmers' cooperative models or invoice discounting schemes, etc.
- Risk sharing between different parties engaged in private sector operations.
- Regulatory incentivises and policy push within countries that can cover risks
- Green credit lines and concessional finance to purchase climate resistant crops.
- Certification of climate related products. Standardisation and quality control.
- Develop aggregation companies to address issus of scale and transcation costs.

ANNEX 3: MAPPING OF INTERLINKAGES BETWEEN PRIVATE SECTOR-RELATED ACTIVITIES AT COUNTRY LEVEL

The diagram below is a visual representation of SCALA's outputs and activities as related to PSE, with each arrow representing an action that involves the private sector. It demonstrates how closely embedded PSE is within the overall approach, and the intricate web of PSE-based dependencies throughout the program.



ANNEX 4: UNDP'S OPERATIONAL FRAMEWORK FOR DE-RISKING PRIVATE SECTOR INVESTMENTS IN CLIMATE RISK MANAGEMENT

One of them most relevant tools to support PSE under SCALA is UNDP's recently developed framework for de-risking private sector investments in the adaptation space (henceforth referred to as the *de-risking framework*). The framework presents a methodology and step by step guidance to identify approaches that can help crowd-in private capital for adaptation interventions. It helps users understand the various constraints and barriers to entry faced by the private sector in the adaptation space, and appraises if they should be removed and under what circumstances they should be removed. The de-risking approach features an additional dimension in examining investor risks, but nonetheless remains linked to the underlying barriers. Lastly, the framework identifies viable opportunities for directing private sector capital into climate adaptation initiatives and explores how to maximize the returns on these investments through economic and financial analyses.

The framework involves the following 5 steps, which are mapped to SCALA's outcomes: 1) Develop the climate rationale (Outcome 1); 2) Identify and shortlist adaptation options based on research and feedback from stakeholders regarding their feasibility (Outcomes 1 , 2 and 3); 3) Conduct risk/barrier analysis and identify de-risking instruments that can remove barriers and catalyse PS investment in adaptation options (Outcome 3); 4) Develop theory of change with finalized intervention strategy and facilitation of required partnerships (Outcome 3); 5) Select monitoring and evaluation metrics (Outcomes 2 and 3). Overall, the application of the framework will support the facilitation and synchronization of public and private sector investments to support climate action, with targeted public spending used to catalyze more private capital and spur market development. Below are some details that highlight the functionality of this framework.

Identifying and shortlisting adaptation options: Beyond reviewing baseline strategies, this will involve a consultative process with the private sector and other stakeholders (see below for sample questionnaire) to validate and add to the possible list of investment opportunities, and to ensure they are informed by the local context.

TABLE 1 Sample questionnaire for private sector actors

Subject	Question
General	What sector is your business in?
	What is the geographical scope of your business?
Climate Drivers/Risks and Impacts	**Has your business been affected by the following climate drivers and risks, and/or do you project it to be affected by them in the future? If yes, please briefly explain.**
	Increased precipitation
	Increased temperature
	Flooding
	Drought
	Cyclones/Storm Surge
	Sea Level Rise
	Other climate impacts faced

Adaptation Strategies	Is there awareness of climate change risks and impacts within your organization?
	Is there climate change relevant expertise/knowledge/skills within your organization?
	Are any of the following climate adaptation strategies in place to address current/future climate vulnerability of your organization based on the above risks? If yes, please describe these strategies.
	Agronomy (plant different crops, plant new crop and seed varieties etc.)
	Water resources development and management (construction of dams, reservoirs and boreholes, introducing/improving irrigation systems etc.)
	Soil fertility and management (soil conservation practices, intercropping, crop rotation, mulching, fertilizer use, agro-forestry etc.)
	Diversify livelihood opportunities (beekeeping, fish farming, non-timber forest products, livestock pass-on, post-harvest processing etc.)
	Climate information and knowledge enhancement (improved climate info modelling and infrastructure, targeted climate info dissemination etc.)
	Risk transfer (weather index based insurance etc.)
	Resilient value chains (value addition processes and facilities, improved market infrastructure)
	Other adaptation strategies

Identifying investment barriers and risks: Once potential private sector investments have been identified, users can move towards identifying investment risks and barriers (through stakeholder interviews, sector and country risk profiles, etc.) that are currently holding back PSE. Each risk/barrier will be analyzed in terms of contribution to incremental financing costs, and a 'risk waterfall' will be developed based on inputs from relevant private sector actors. The risk waterfall will present the most prominent risks, allowing subsequent identification and selection of 'de-risking' instruments that would lower the financing costs through the relevant risk being reduced or transferred.

TABLE 2 Sample private sector investment barriers and risks

Barrier/Risk Category	Underlying Barrier/Risk
Market Policy Risk Risks arising from uncertainties related to the market for the climate-resilient crop, and/or sub-optimal policies to address these uncertainties	Public sector budget constraints to promote climate resilient policies
	Uncertainty from possible future policy reversals
	Uncertainty related to policymakers' selection of climate-resilient crop to be promoted
	Economic incentives that promote maladaptation
Supply Chain Risk Risks arising from the farmer's decision, financial standing and technical capacity to proceed with the climate-resilient crop	Lack of awareness of farmers on impact of climate change
	Limited adoption of 'non-traditional' climate resilient agricultural practices due to lack of financial safety net
	Crop failure risk from extreme weather event
	Lack of knowledge on adaptation options
	Lack of technical capacity to effectively implement adaptation options

	Lack of availability/access to climate information and data needed for adaptation planning
	Lack of track record and uncertainties related to requirements, availability, quality and cost of agricultural inputs (seeds, fertilizers, equipment etc.)
Demand Risk Risks arising from lack of climate change awareness on part of upstream value chain actors and end-consumers leading to lack of demand for the climate-resilient crops	Limited awareness of/capacity to assess opportunities and risks associated with climate change
	Limited access to markets for climate-resilient products
	Uncertainty regarding market prices for climate-resilient products
	Unstable or insufficient demand for climate-resilient products
Infrastructure Risk Risks arising from quality or absence of public goods and natural resources needed to support adaptation	Uncertainties related to availability and cost of water for irrigation of climate-resilient crops
	Uncertainties related to availability and cost of electricity for production of climate-resilient crops
	Presence and durability of road network to support transportation of climate resilient products
Financial Risk Risks arising from the financial community's lack of awareness on climate change; a lack of track record related to the climate resilient crop; and systemic characteristics of lending to small farmers	Lack of track record and poor risk assessment capacity for climate-resilient investments
	Lack of tailored financial products and limited in-house expertise on climate-resilient agriculture
	High transaction costs to provide small loans to farmers
	Lack of appropriate collateral of farmers for bank loans and difficulty in assessing farmers' creditworthiness due to their lack of credit histories
	Lack of information, assessment skills, and track-record for adaptation investments in investor community
Sovereign Risk Risks arising from country-specific governance characteristics; and from the broader macro-economic environment	Uncertainty due to unstable macro-economic environment (inflation, interest rates etc.)
	Uncertainty caused by volatile local currency
	Uncertainty caused by political instability (poor governance, poor rule of law, civil unrest etc.)
Land Risk	Land regime uncertainties that can discourage long term investment

Identifying de-risking instruments: De-risking instruments will be appraised on whether they can raise return on investment (ROI) sufficiently to crowd-in private investment. If the ROI is determined to be too low for private investment, additional de-risking instruments can be appraised until the net-benefit is positive, and the case for implementation is sufficiently strong. Potential questions to private sector stakeholders on de-risking instruments are illustrated in the table below.

TABLE 3 **Sample questions to private sector actors on de-risking instruments**

Subject	Question
De-risking Instruments	What legal and regulatory drivers would help stimulate private sector investment in adaptation?
	What policies and incentive structures could engage private sector in adaptation?
	What economic and financial incentives could encourage and support private sector investment in climate resilience
	What market drivers could help create new opportunities for the private sector from climate change?
	What communication or information on climate change risks would be beneficial for adaptation?
	Do you have access to data, knowledge and information on climate change risks and impacts? If not, what would be helpful?
	Other questions

The Support Programme on **Scaling up Climate Ambition on Land Use and Agriculture through Nationally Determined Contributions and National Adaptation Plans (SCALA)** is a five-year initiative led by FAO and UNDP, with funding from the German Federal Ministry for Economic Affairs and Climate Action (BMWK) through the International Climate Initiative (IKI). SCALA responds to the urgent need for increased action to cope with climate change impacts in the agriculture and land use sectors. The twenty million euro programme supports at least twelve countries in Africa, Asia and Latin America to build adaptive capacity and to implement low emission priorities.

Country support includes strengthening policies, adopting innovative approaches to climate change adaptation and removing barriers related to information gaps, governance, finance, gender mainstreaming and integrated monitoring and reporting. To achieve this shift, the programme engages the private sector and key national institutions.

SCALA supports countries to develop the capacity to own and lead the process to meet targets set out in their National Adaptation Plans and Nationally Determined Contributions under the Paris Agreement, and to achieve the Sustainable Development Goals. The SCALA initiative builds on another FAO-UNDP led programme, Integrating Agriculture in National Adaptation Plans (2015-2020) which has closed.

Food and Agriculture Organization of the United Nations
https://www.fao.org/in-action/scala/en

United Nations Development Programme
https://www.adaptation-undp.org/scala

International Climate Initiative (IKI)
www.international-climate-initiative.com

Germany's Federal Ministry for Economic Affairs and Climate Action (BMWK)
www.bmwk.de

Federal Ministry
for Economic Affairs
and Climate Action