



ADAPTING FROM THE GROUND UP

*Enabling Small Businesses in Developing
Countries to Adapt to Climate Change*

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FOREWORD

Adaptation to climate change is not optional, but an essential element in the pursuit of prosperity in the long term. In the face of a changing climate, vulnerable communities benefit by being more resilient to extreme weather; businesses thrive when they better manage risk and harness new opportunities; and governments succeed when they lead resilient and strong economies. As climate patterns shift and weather events become more severe, the cost of adaptation will increase. The latest findings of the United Nations suggest that adaptation will cost between US \$200 billion and US \$500 billion per year even if climate negotiators strike a deal to avoid crossing the critical threshold of a 2°C of temperature rise above pre-industrial levels. If they fail, the cost will be exponentially higher.

Developing countries need significant financing to adapt to climate change. Governments and development partners have an important role to play in safeguarding vulnerable communities and helping to develop the capacities to manage risks. Existing public funds and likely future funding from global agreements and compacts, however, are nowhere near sufficient for the task.

All forms of finance—public and private, domestic and international—are essential for the transition to inclusive, low-emission, and climate-resilient development. As public finance is limited, a critical challenge is to ensure that it is used in the best possible ways with the aim of catalyzing finance from other sources.

Adapting from the Ground Up highlights the business case for why governments should focus on creating an enabling environment which will

encourage micro and small enterprises (MSEs) in developing countries to invest in adaptation. In most countries, the private sector accounts for more than 60% of GDP, and MSEs in developing countries provide around 60% of all employment, supporting the livelihoods of billions globally.

Policymakers need to engage with MSEs in a targeted way. Policies which direct and redirect investments toward appropriate products and services will support, facilitate, and advance adaptation at scale. For businesses, it is in their best interests to invest in adaptation because they must ensure business continuity and profitability in a changing climate. WRI's and UNDP's analysis, based on numerous case studies, shows that there are many opportunities for the public sector, with assistance from development partners, NGOs, and others, to create the conditions in which MSEs can re-orient their investments in ways which more effectively safeguard their current assets against climate change risks. The public sector should send the right signals, and create the right incentives, for the promotion of new economic opportunities which are resilient. The products and services which private entities provide will also be critical for supporting the resilience of the wider community. Through this type of engagement, the public and private sectors can become more active agents of change in advancing resilience in the post-2015 development process.

The unmet financing needs for adaptation reveal an urgent need for new approaches to catalyze the changes required to support transformative adjustments. This report unpacks what it means to engage the private sector from the micro level up as an agent of change. We hope the evidence and the ideas presented in this report will spur further thinking and action in countries around the world on different ways in which resilience to climate change can be promoted.



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EXECUTIVE SUMMARY

Global estimates show that the costs of climate change adaptation in developing countries will far exceed the public sector's financial resources.¹ In order to build climate-resilient societies, both public and private stakeholders need to contribute. To maintain the development pathways of developing countries, urgent action is needed from the public sector to form sound policies that address climate challenges and focus especially on the private sector, which more directly supports the livelihoods of the majority of people living in vulnerable communities. Although leveraging finance from donors is important for adaptation efforts, it will be fundamental to encourage the private sector to invest in adaptation and, in so doing, also minimize business risks and strengthen the resilience of vulnerable communities.

Engaging the private sector in adaptation to build resilient societies must necessarily start from the ground up, from micro and small enterprises (MSEs), which constitute the bedrock of economies where most vulnerable communities exist.

Adapting from the Ground Up seeks to enhance private sector engagement in adaptation by identifying drivers of and barriers to MSE action in this area, and by outlining a set of interventions that public actors can adapt to create an enabling environment in which MSEs not only become more climate resilient but also contribute toward the resilience of others (Figure ES-1). The report aims to influence policymakers, development partners, and climate funds to support and design policy interventions that unlock, catalyze and/or direct investments by and for MSEs to take into account current and impending climate change risks and opportunities. It provides guidance for policymakers to design interventions to incorporate into their national adaptation plans (NAPs) and long-term development planning.

Adapting from the Ground Up draws upon a growing body of research and projects on private sector adaptation. It shares examples from case studies² of interventions in Cambodia, Nicaragua, Tajikistan, and Zimbabwe, which successfully catalyzed

MSE investment in climate adaptation measures in the agriculture sector. The report also presents a number of shorter case studies from projects and initiatives in Benin, Cook Islands, Ethiopia, Honduras, India, Namibia, Rwanda, and Tanzania. Our conclusions are necessarily preliminary. Most adaptation projects that target the private sector are still under development, or in the process of being implemented, making results difficult to assess or predict. Therefore, there are only a few completed cases from which we can draw lessons at this time.

Micro and Small Enterprises (MSEs): The Engines of Growth and Livelihoods in Developing Countries

MSEs play a vital role in community livelihoods and resilience but they tend to have fewer resources to adapt to climate change than do larger enterprises. They have limited capacity to assess risks and take advantage of opportunities associated with climate change. Given these challenges, there is considerable scope to increase the contribution that MSEs can make to adaptation. With public sector assistance, MSEs could be incentivized to catalyze investment in risk management and resilience, and thereby become the most direct means of supporting vulnerable communities as they adapt to climate impacts. *Adapting from the Ground Up* describes

Figure ES-1 | **Overview of Drivers, Barriers, and Interventions to Catalyze MSE Investment in Resilience**

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