Briefing Paper

The East African Community Private Sector Development Strategy (EAC PSDS)

Enhancing the Private Sector's Role in Addressing Climate Change

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Summary

This briefing paper broadly assesses the private sector's place in addressing climate change with a particular bias to the agro- processing sector within the EAC context. Ultimately, the paper seeks to inform the EAC PSDS (2018 -2022) development process to ensure that the strategy contributes to a more climate aware agro-processing.

PROMOTING AGRICULTURE, CLIMATE AND TRADE LINKAGES IN THE EAST AFRICAN COMMUNITY – PHASE 2

The PACT EAC2 project builds capacities of East African stakeholders for climate-aware, trade-driven and food security enhancing agro-processing development in the region. Web: www.cuts-geneva.org/pacteac2

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Background

A dynamic private sector is an integral component of economic growth within any given region. It greatly contributes to employment creation, provision of goods and services, revenue flows and overall poverty reduction. Within Africa, the private sector generates about two thirds of the continent's investment, 75 per cent of its economic output and more than 90 per cent of its formal and informal employment.[1]

The EAC recognizes the significance of the private sector and identifies it as the community's engine towards economic growth. The community has set up mechanisms to include the private sector in its decisions making processes and activities.[2] In terms of policy, it has in place the 2006 Private Sector Development Strategy (PSDS),[3] which is due for renewal to cover the 2018 – 2022 period. One of the objectives of this policy is to increase the space of the private sector in the development of the regional economy.

The PSDS identifies agriculture and agribusiness as priority sectors for development. The strategy seeks to promote investments in these areas by improving incentives, infrastructure and technology and building institutional and human capacities.[4] This is attributable to EAC's comparative advantage in these sectors and its perception of the sectors as strategic areas where significant private sector investment is needed to unlock potentials.[5]

Since the PSDS was developed in 2006, climate change has emerged as a leading threat to agriculture and agribusiness. There is need for concerted efforts by every relevant player in curbing this scourge. Universally, there is increasing recognition of the private sector as a key player in combatting climate change.[6] However, the current PSDS fails to capture this reality and has a glaring omission of climate change issues.

As the EAC embarks in developing the EAC PSDS (2018 -2022), it is important that the strategy reflects on the impacts of climate change and expounds on the critical role that the private sector can play in alleviating them. Accordingly, this briefing paper broadly assesses the private sector's place in addressing climate change in the East African context with a particular bias on the agro- processing sector. Ultimately, the paper seeks to inform the EAC PSDS (2018 -2022) development process to ensure that the strategy contributes to a more climate aware agro-processing.

Climate Change Impact on Private Sector Development and Agro-processing

Climate change poses substantial risks to economic growth and development efforts across the world. According to the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report, climate change is already affecting African ecosystems with future impacts expected to be substantial.[7] A recent report by the World Bank

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[1] 'Supporting the Transformation of the Private Sector in Africa – Private Sector Development Strategy, 2013 -2017' African Development Bank Group (2013)

[2] For instance, through the EAC consultative dialogue framework. The EAC also works closely with the private sector organizations like the East African Business Council (EABC), the East African Chamber of Commerce, Industry and Agriculture, the Eastern Africa Association and the member states' national private sector associations.

[3] PSDS is available at https://goo.gl/2gpp5h

[4] See PSDS objectives, available at https://goo.gl/2gpp5h

[5] EAC (2017). Preparations in High Gear for the 2nd East African Manufacturing Business Summit and Exhibition in Kigali, Rwanda. Press Release. https://goo.gl/o7ni97

[6] UNFCCC (2017). Yearbook of Global Climate Action 2017

[7] IPCC Fifth Assessment Report - Climate Change 2014: Impacts, Adaptation and Vulnerability, Part B: Regional Aspects – Africa (pp1202, 1211)

estimates that more than 10 million people in East Africa could be displaced by 2050 as a result of climate change.[8]

The private sector is not immune to these climatic changes. A 2014 survey by the Carbon Disclosure Project (CDP) indicates that private entities are weary of anticipated effects. The survey assessed over 780 global private actors and found that: 32 per cent feared disruptions to their production capacity caused by extreme weather events; 31 per cent worried that such events would increase their operational costs or generate new costs; 3 per cent feared a reduction in demand for goods and services and; 10 per cent feared inability to conduct business operations due to extreme weather incidents.[9] A similar survey conducted in Kenya indicated that 82 per cent of Chief Executive Officers (CEOs) in the country admitted that climate change affects their business.[10]

Nonetheless, there is minimal research that assesses the actual impact of climate change on private sector development, particularly within the EAC context. Generally, the extents to which private sector operations are affected depend on vulnerabilities at the producer level and along the value chain.[11]

For East Africa, agriculture is the most dominant sector with an estimate of 36 per cent of the region's GDP and accounting for the livelihood of about 80 per cent of EAC citizens. It is the basis for agro-processing and in the EAC region agricultural value addition contributes more than 80 per cent of the total manufacturing.[12]

East Africa' production is about 98 per cent reliant on rain-fed agriculture which makes it highly vulnerable to climate change.[13] The IPCC indicates that continued warming and precipitation changes have led to the frequent East African droughts and heavy rainfall. Observed impacts include emergence and spread of pests and diseases, soil erosion, low crop yields and delayed planting patterns.

These impacts are compounded by the limited capability of East African enterprises to address the effects. The East African private sector is largely composed of Micro, Small and Medium Enterprises (MSMEs) which make up 98 per cent of the private sector's contribution to the region's GDP.[14] MSMEs are considered highly vulnerable to climate change as they are amongst the most affected by extreme weather events yet have inadequate resources and information to respond to such events. [15]Adverse impacts of climate change on the MSMEs are likely to have deep social - economic costs as they provide the most job opportunities and integrate women and youth in their operations.

The United States Agency for International Development (USAID), warns that failure to address emerging needs and challenges brought by climate change within EAC drastically stunts economic growth and increases vulnerabilities. [16]It is imperative that the private sector, specifically agro-processors, take into account expected impacts of climate change which could negatively affect the sustainability of their operations.

Role of Private Sector including in the EAC in Addressing Climate

[8] 'Regional Economic Outlook – Sub -Saharan Africa: Domestic Revenue Mobilization and Private Investment,' 2018
[9] See more details at https://goo.gl/QsZCHa
[10] https://goo.gl/wrce6N
[11] 'Climate change, private sector and value chains: Constraints and adaptation strategies,' Working paper, PRISE (Pathways to Resilience in Semi- arid Economies) (pp 30)
[12]'Development of Agro-Industries ad Agro-Enterprises in the EAC Region,'Report on Regional Workshop and Policy Dialogue, Kilimo Trust (pp 3)
[13] 'Is the Changing Climate Changing African Ecosystems?' Ibrahim Thiaw
[14] The EABC Business Agenda, Volume 1: Deepening Private and Public Sector Participation in the EAC Integration 2016 report (pg 129)
[15] 'Enabling Private Sector Adaptation in Developing Countries and their Semi-arid Regions – Case Studies of Senegal and Kenya,' Centre for Climate Change Economics and Policy Working Paper No. 291, December 2016
[16] 'East Africa Regional Development Cooperation Strategy 2016 – 2021' (pg 28)

Change

Universally, the private sector is progressively taking action on climate change. In fact, the sector was more represented in the Paris Agreement Conference of Parties (COP) than any prior COP. Major corporations and financial institutions made commitments to decrease their carbon footprints, engage in sustainable resource management and finance climate action.[17]

However, private sector entities are heterogeneous in nature ranging from formal to informal or MSMEs to multinational companies. Consequently, not all businesses possess the ability to address climate change issues. This is particularly so for East Africa's MSMEs who are known to be young, with limited capacities and a high mortality rate.[18]

Globally, the private sector players are addressing climate change in different ways such as committing to 100 per cent renewable energy and energy productivity. Businesses are also setting concrete targets in line with the 2015 Paris Agreement. Cross- sectoral business initiatives are recognizing and addressing impacts of supply chains and resource use on agriculture among others.[19]There are also initiatives such as the Non – State Actor Zone for Climate Action (NAZCA) that tracks mobilization and climate action of non-state actors including the private sector.[20]

In Sub-Saharan Africa, countries have identified agriculture as a priority for adaptation and there is greater engagement of private sector, including smallholder farmers and medium sized business in adaptation projects.[21]East African countries and experts have also identified a number of priority adaptation options in agriculture such as promoting crop insurance systems, crop switching, enhanced rangeland management practices, sustainable land-use management, improved weather forecasting for farmers, irrigation and water management systems and the adoption of climate resilient agricultural practices.[22] [23]

National private sector associations also have a critical role to play. For instance, the Kenya Private Sector Alliance (KEPSA) established the Climate Business Information Network (CBIN) and is in the taskforce spearheading the development of Kenya's second National Climate Change Action Plan (2018-2022). It also undertakes assessments of climate change impacts on Kenya's private sector and produces the 'Climate Change and Your Business' briefing note series. KEPSA also provides information to businesses, including a list of climate change funds and programmes available to businesses and a report of publicly available tools and frameworks that businesses can use to access climate risk. [24]

Notably, there is limited research on the impact of private sector adaptation activities. In addition, national adaptation plans across a majority of developing countries have traditionally paid limited attention to the role of the private sector and how governments can create an enabling environment to stimulate and incentivize domestic private sector adaptation.[25]

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[17] https://goo.gl/zZSSof
[18] n16 above
[19] UNFCCC (2017). Yearbook of Global Climate Action 2017
[20] For more details, see http://climateaction.unfccc.int/about
[21] 'What Roles Could Private Actors Play in Agricultural Adaptation in Sub-Saharan Africa? Insights From Publicly Funded Projects,' Stockholm Environment Institute (SEI) Brief August 2017
[22] http://adaptation-undp.org/explore/eastern-africa
[23] n 21 above
[24] ' Climate Change and the Private Sector,' KEPSA Climate Change and Your Business Briefing Note Series, April 2014
[25] n 17 above

Climate Change Financing

According to the UNFCCC 2017 Yearbook of Global Climate Action, the global volume of climate finance by non-state actors is on the rise.[26]The total domestic and international investment by the private sector, national and subnational governments in 2014 was approximately USD 741 billion up 15 per cent from 2011.[27] The private sector accounts for the greatest share of climate finance. [28] However, there is still a gap in the funding needed to attain the Paris Agreement goals which can only be filled from investment from non-state actors from all sectors. [29]

There are several international funds linked to climate change adaptation such as the Special Climate Change Fund (SCCF) and the fund of Strategic Priority on Adaptation (SPA) from the Global Environment Facility; the Adaptation Fund; the Climate Investment Fund which includes the Strategic Climate Fund; and the Green Climate Fund. At the continental level, there is the Africa Climate Change Fund (ACCF). The GCF and the Pilot Program for Climate Resilience (PPCR) have specific strategies to engage and fund private actors but so far, little of that money has gone to sub-Saharan Africa.[30]

Regionally, there is the East African Climate Change Fund which aims to increase the capacity of EAC partners to mobilize existing, new and additional climate change funds from both international and domestic sources.[31] The EAC secretariat has noted that that substantial funds will be required to support EAC's mitigation and adaptation initiatives/programmes. The EAC will mobilize sustainable funding from the development partners and the private sector.[32]

There are other examples of financing initiatives such as a special window on renewable energy within the Africa Enterprise Challenge Fund that provides grant financing through an open competition for projects based on low-cost clean energy and climate technologies that help smallholder farmers access energy services and adapt to climate change.[33] The Alliance of Regulators and Capital Markets in Africa is also mobilizing funds dedicated to green infrastructure to finance projects in Africa.[34]

Incentivising Private Sector to Address Climate Change

In order to promote private sector investment in climate change efforts, policymakers need to have an understanding of private sector motivation and tailor incentives accordingly.

In a lot of agricultural adaptation projects, there is a presumption that there are no commercial aspects thus locking out the private sector. Project developers should identify means of involving private actors from the start in order to create stronger partnerships and more effective mechanisms and incentives to promote further engagement and investment. Commercial opportunities for private actors should also be identified along the entire value chain, and not only on the production side[35]. Equally important is to illustrate the commercial

[26] UNFCCC (2017). Yearbook of Global Climate Action 2017
[27] UNFCCC (2017). Yearbook of Global Climate Action 2017
[28] https://goo.gl/zZSSof
[29] UNFCCC (2017). Yearbook of Global Climate Action 2017
[30]n 21 above
[31] EAC. EAC show-cases regional climate change initiatives at the ongoing UNFCC in Marrakech, Morocco
[32] n 33 above
[33] OECD. Private Sector Engagement to Address Climate Change and Promote Green Growth
[34] UNFCCC (2017). Yearbook of Global Climate Action 2017
[35] n 21 above

viability of adaptation through feasibility assessments and pilot projects. [36]

In many publicly funded projects, private actors can play a key role in providing inputs and services to smallholder farmers and producers to reduce their vulnerability to climate change. Examples include private actors providing training to farmers, especially on ways to add value through the production process (e.g. cleaning, sorting, drying, packaging) and in marketing and commercialization. Private actors may also provide new inputs (e.g. seeds for drought-resistant crop varieties, fertilizers) and services (e.g. irrigation, veterinary care).[37]

In most instances, the private sector possesses inadequate information and awareness of the importance of efficiency and building resilience.[38]To address such situations, initiatives such as knowledge sharing forums, business roundtables and training sessions are appropriate.

Another approach is the development of value chains and markets for environmental services and goods.[39]In addition, various donors such as the multi-donor Green for Growth Fund have used credit and concessional finance as incentivizes to promote private investment in environmental solutions.[40]

There are also social factors that influence private sector engagement such as the desire for companies to stand out from their competitors through taking a lead in climate change efforts. Consumers appear to be interested in companies' profiles in this regard. [41]For example, in Kenya, a recent survey showed that 57 per cent of Kenyans will buy products from sustainable companies.[42]

Mainstreaming Climate Change within EAC PSDS with Focus on Agro-processing

For the private sector to effectively engage in climate change efforts within the agricultural and agro-processing sectors, there is need for the EAC to create an enabling policy environment. Accordingly, the process for the development of PSDS (2018 – 2022) must be inclusive and consultative, giving adequate opportunities to the private sector, particularly the agro-processors, to provide its inputs. Similarly, tapping the views, knowledge and expertise of civil society and women and youth groups will be invaluable.

Based on the on-going work under the PACT EAC2 (Promoting Agriculture, Climate. Trade Linkages in the EAC – Phase 2) project, following preliminary suggestions are also offered that should be considered in the PSDS (2018-22) development process:

- Identifying climate change as a priority cross cutting area for private sector operations in the region
- Promoting efficiency as a mitigation tool and investment on agricultural productivity and agro-processing value chain development as well as research as a means to adapt to adverse effects of climate change

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[36] n 21 above
[37] n 21 above
[38] 'Private Sector Engagement to Address Climate Change and Promote Green Growth,' OECD Private Sector Peer Learning Policy Brief 4
[39] n 12 above
[40] n 39 above
[41] WEF (2017). Climate change cannot be solved by governments alone. How can the private sector help?
[42] n 11 above

- Promoting substitution of environmentally – degrading agricultural inputs and practices with more sustainable methods
- Encouraging Public-Private Sector Partnerships (PPP) that integrate low carbon development in their project activities
- Encouraging climate change mitigation and adaptation projects that include private sector as part of their results, especially in frameworks that monitor and evaluate outcomes.[43]
- Endorsing cogeneration of energy from industrial and agricultural sectors where feasible in order to mitigate climate change
- Recommending the establishment of self-regulation emission standards for the private entities to abide by.

CUTS International, Geneva

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SWEDEN

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[43] n 21 above