Invitation
G20 GPFI SME Sub-Group
Workshop: Climate smart financing for rural MSMEs – enabling policy frameworks
When: Feb 23rd, 2017 from 10:30am to 3.30pm
Venue: House of Finance, Theodor-W.-Adorno-Platz 3, Frankfurt am Main

I – Introduction

Rural micro, small and medium enterprises (MSMEs), including primary producers, processors and traders, face increasing asset loss risks due to the changing climate in general and more frequent disasters in particular. This affects not only producers themselves, but also the communities within which they produce and food security systems in general. Investment in climate-smart MSMEs is therefore needed to adapt and build resilience of rural communities, as well as to reduce greenhouse gas emissions from rural areas.

MSMEs are not equipped to absorb the economic effects of losses climate change may bring. Most rural MSMEs already face ongoing challenges of scarce or costly inputs, changing and uncertain output markets and market expectations, regulations, standards and taxes. Climate change compounds this problem, as it disrupts the product flows and even viability of many rural MSMEs. Moreover, many rural MSMEs are as of yet unaware of the true risks of climate change to their businesses and livelihoods. Even when they are aware and wish to adapt, they often lack the know-how on how to assess their climate risk exposure and how to define an appropriate adaptive strategy.

Climate risk makes it harder for MSMEs to access finance. Financial institutions and investors are concerned about climate risk and therefore increase the cost of finance to MSMEs, often excessively if they also lack information on how to assess the risks. This can make access to finance even more costly for rural MSMEs. In addition, climate smart investments (including in new business opportunities related to climate change mitigation) need sources of longer term financing which may be unavailable for those without collateral.

Policy makers wishing to preserve resources and mitigate climate change face the challenge of designing policies and regulations that help MSMEs to adapt to and strive in a context of a changing climate. They need to design policy frameworks that enable and incentivize MSMEs to access climate smart financing, adapt their business models and make their businesses more resilient.

The overall **purpose of the workshop** is to assess policy options that will help to overcome market failures which prevent rural MSMEs to adapt to climate change. A set of potential policy options will be presented and discussed in the workshop, and complemented by inputs from experts in the field of climate smart financing for rural MSMEs.

II - Agenda

09.30 – 10.30	Registration & Welcome Coffee	Saskia Kuhn
10.30 – 10.45	GPFI SME Finance SG Chair Opening Remarks • Purpose and Role of this Policy Paper in SME Finance Sub-Group • Relevance for Financial Inclusion Action Plan (FIAP)	Moderator: Matt Gamser
10.45 – 11.00	Introduction and Presentation of Policy Paper Messages • Background, Purpose, Role, place in GPFI • Methodology • Policy Options	Ulrich Hess (GIZ) Eva Csaky (World Bank) Roland Gross (GIZ)
11.00 – 11.30	Panel discussion of five climate-smart policy framework cases: • China – review of key policies • India – financing climate resilient MSMEs • Zambia – Climate smart financing for agricultural MSMEs • Mexico – CSA MASAGRO – financing MSME climate smart agriculture adoption • UNEP-FI and UNEP Inquiry work	
11.30 – 12.00	Discussion	
12.00 – 13.30	Lunch	
13.30 – 14.15	4 Breakout sessions for four main policy areas • Review of policy options, • adding of additional policy options • and adding policy implementation experience from countries	
14.15 – 15.00	Reporting back from policy groups – policy options identified	
15.00 – 15.30	Feedback and responses from Policy paper team Way forward: presentation and discussion of planned consultation process	Eva Csaky, Ulrich Hess

III – Detailed Workshop Description and Outline

The purpose of the workshop is to consult **GPFI SME Finance sub-group members** as well selected stakeholders (including from non-G20 countries) on potential policy options, and reflect on their relevance, salience, and efficiency and effectiveness, as well as their potential impact.

Questions for discussion include:

Q1: Are the 18 potential policy options (listed below under IV) relevant and salient given your country experience? Please choose one of the four policy types below and reflect on the relevance and salience of the potential policy options under this policy type.

Q2: Which policies or policy measures applied in your country were most effective in increasing access to climate smart financing for rural MSMEs? Can you refer us to cases pertaining to these policies?

Q3: Which additional policy options can you recommend to G20 policy makers generally?

The topic will be introduced and illustrated through **four cases** (China, Mexico, Zambia, India) as well as key findings from the Green Finance Study Group as well as UNEP-FI and UNEP-Inquiry work on Green finance for SMEs. Each case will be presented in approximately five minutes, and then discussed for about half an hour to distill main concepts. A more detailed description of the cases presented will be sent in advance of the workshop.

IV – Potential policy options

Potential policy options to be discussed include**:**

POLICY TYPE	TOOLS	POTENTIAL POLICY OPTIONS FOR RURAL MSMEs
LEGISLATIVE/ REGULATORY	Codes, zoning rules, permitting, reporting, impact assessments	1. **Intellectual property rights** or royalty systems to fully compensate for investments in R&D 2. Regulatory requirements or incentives to encourage financial institutions to assess and **report environmental and social risks** in their portfolio by issuing guidelines and proper reporting standards, and also to promote "green" lending (e.g. Sustainable Banking Network). 3. **Insurance regulatory guidelines** and/or incentives that encourage insurance coverage for MSMEs affected by climate risks.

ECONOMIC/ FISCAL	Taxes, tax credits, Government spending on subsidies, investments in funds, grants	4. **Government financial support for catastrophic risk insurance** to catastrophic, multi-year, climate risk insurance programs that provide risk insurance accompanied by risk prevention measures to vulnerable households and MSMEs to support their risk reduction and risk transfer strategies. 5. Public sector financial support for **climate risk insurance and risk financing** for adaptation to protect against climate risk~~s~~ that adversely impact MSME operations. 6. **Public grants** to provide technical assistance to build the capacity of market actors so that the private sector is better able to respond to the changing market conditions created by climate change. 7. **Blended funds** (grants with commercial finance) to promote entrepreneurship for helping MSME's become more "climate-smart". 8. **Climate smart "pull mechanisms"**, such as competitive R&D grants to spur innovations. 9. Grants, securitization of loans or on-lending facilities, can increase the expected return of investments in adaptation activities, while **guarantees** and insurance can improve their risk profiles.
AGREEMENT/ INCENTIVE BASED	Tax credits, utility pricing Investment of public savings, guarantee programs	10. Public finance/funds to **bring down the cost of capital** for adaptation investments and increase the expected return on investment. 11. Public funds to establish **seed capital facilities** for technological innovation in adaptation and climate resilience. These funds would kick in before a company or technology has been able to establish commercial acceptance. Such a facility would reduce the risk faced by the innovator or SME and encourage more investment in adaptation and mitigation activities and technologies. 12. Incentives to ensure the supply of **long-term credit** to match the timescale of climate smart technology investments, i.e. through a guarantee to the financers of the adaptation investment or longer term credit lines. 13. **Risk-sharing or partial guarantee facilities** for promoting investments that would lead to

		better climate risk resilience for rural MSME operations 14. **Utility pricing policies** as to encourage adaptation to climate risks, particularly utility pricing related to energy and water as to encourage conservation and efficient use of resources.
INFORMATION/ COMMUNI-CATIONS BASED (directly or outsourced through grants)	Awareness campaign, capacity building, data collection, data sharing, forecasting, citizen monitoring / reporting, research, innovation	15. Promotion and funding of **research, pilot projects and scaling up strategies** to test and promote new technologies and uncover investment opportunities for funding. 16. Establishment of an **"open data" center**, with participation of relevant private stakeholders, a PPP type of structure that would provide access for all stakeholders to agronomic and climatic data. 17. **Improved data collection** on the potential impacts of climate change on communities, sectors and industries, improved climate forecasting capacity or citizen monitoring and reporting schemes for farmers / rural communities or the establishment of public private dialogue platforms 18. Creation of **awareness raising** programs to disseminate information around technologies and investments that promote climate smart investments for MSMEs to assist in stimulating the demand side for financing and address incomplete information.