

The voice of small business at COP27

Building climate resilience and competitiveness

for Micro, Small, and Medium Enterprises (MSMEs)

The low carbon transition

A priority policy for our time is achieving a transition to an inclusive, low-carbon economy. Governments are facing the challenge of both creating growth and employment whilst also responding to the climate crisis, in line with their commitments to the Paris Agreement.

The low carbon transition and the physical impacts of climate change are presenting firms in developing countries with new climate competitiveness challenges. Both the physical risks of climate change and transition risks pose significant threats to businesses. In many cases, particularly in developing countries, the extent of these risks (and opportunities) remain unclear or unknown due to a lack of awareness or access to information.

Information and technical assistance is therefore urgently required to support companies and trade policymakers to build their climate resilience and competitiveness and so successfully navigate the low-carbon transition.

Transitional risks

Transitioning to a low-carbon economy entails policy, legal, technology, and market changes that pose different levels of financial and reputational risks to organizations (and countries) depending on the nature, speed, and focus of such changes.

In terms of trade measures, commitments made to the Paris Agreement and SDGs are driving new trade-related climate change measures. The proposed Regulation on deforestation-free products, the Due Diligence Act, and the Carbon Border Adjustment Mechanism (CBAM) all have implications for the developing country's trade strategy. Furthermore, the private sector is increasingly requiring its suppliers to provide evidence of reducing emissions in line with science-based targets (SBTs), thus requiring exporters to invest in understanding methodologies and compliance protocols.



Physical risks

Significant and growing physical climate risks are also impacting MSMEs and their suppliers. Extreme weather events, flooding, higher temperatures, shifted seasonality, and ocean acidification are pervasive and result in a range of negative impacts on supply chains including damage to road infrastructure, processing and production facilities, reduced availability of water supplies, and reduction in soil yields and quality of output.

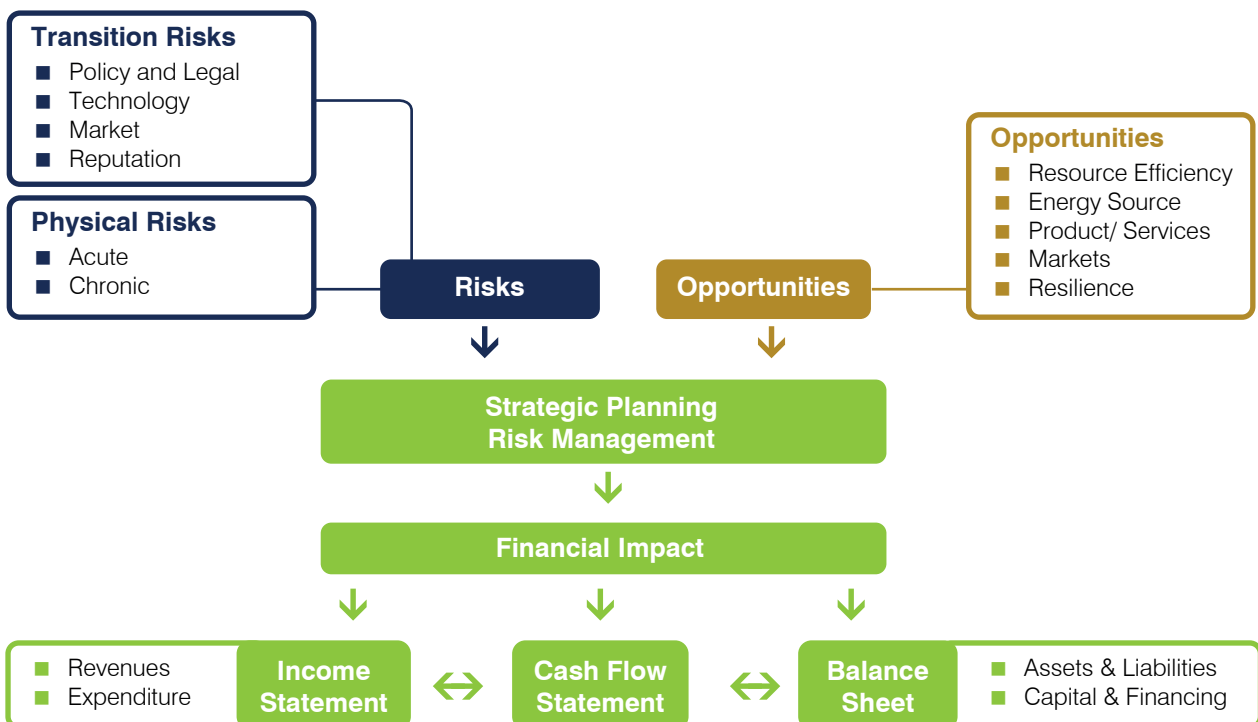
For businesses in diverse sectors including manufacturing, services, and agriculture, these impacts mean greater uncertainty, higher risks, and declining

profit margins. Firms face higher costs, fluctuating quality, and disruptions to the delivery of products to the market.

Climate-related market opportunities

Countries' transition to a low-carbon economy can also generate new opportunities for investment and trade in technologies and services to meet the challenges of both adaptation and mitigation. In product markets, consumers are increasingly willing to pay a premium for environmentally friendly products due to concern over environmental issues. Processing firms and exporters can capitalise on this trend by sourcing more sustainably and marketing certified products.

Climate-related Risks and Opportunities leading to Financial Impacts





An Aid for Trade response

ITC's core clients are MSMEs. They face a new resilience and competitiveness challenge that derives directly from these physical and transitional risks and new climate-related market opportunities. ITC is cognisant of the new climate competitiveness challenge and offers services to meet this challenge including:

- Providing public goods on physical, transitional risks, and market opportunities in the low carbon economy
- Providing capacity building for building MSME climate competitiveness
- Climate-proofing all large projects to ensure that climate-related risks and opportunities are mapped out and reflected in the project design

1. The Climate Competitiveness Assessment Tool (CCAT)

Providing a public good on physical, transitional risks, and market opportunities in the low carbon economy

The Climate Competitiveness Assessment Tool (CCAT) is a methodology for the analysis of climate-related risks and opportunities in agricultural value chains. It supports



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policy and investor decision-making on building climate resilience and competitiveness. It has been employed across 10 ITC projects in the last two years including the two largest EU-funded ITC value chain programmes, namely GRASP (Pakistan) and SAAVI (Iraq).

How does the tool work?

CCAT maps out the climate-related risks and opportunities through a literature review, analysis of trade and environment data, and primary data collected through surveys and key informant interviews with agro-business, farm organizations, and policymakers.

The analysis provides a detailed analysis of Physical and Transitional Risks in the value chain and emerging Opportunities in the environmental marketplace.

CCAT rates the level of risk and proposes priority actions to mitigate these risks.

The analysis is aligned with the Task Force on Climate-related Financial Disclosures (TCFD) methodology.

Benefits for the user

1. Supports policymakers and Business Support Organizations in identifying key levers to mitigate exposure of exports and key sectors to climate risk and exploit emerging opportunities. Informs development of policies, NDCs, NAPs, etc, and develops a menu of priority actions.
2. SMEs are able to identify the impacts of climate change through a scenario analysis. The analysis also provides a framework for MSMEs to create their own Climate Risk Management Strategies
3. Pathway of climate mainstreaming actions for project managers planning agriculture value chain projects



2. Climate Competitiveness capacity building

Providing capacity building for building MSME climate competitiveness

Module 1: Building a climate competitiveness strategy

In order to build the climate resilience and competitiveness of a country's sector, decision-makers require access to information on key climate-related risks and opportunities. This helps inform scenario planning, strategy preparation, and policy formulation.

Module 1 builds the capacity of trade policymakers, chambers of commerce, and business associations in the use of CCAT i.e. on how to access information on physical risks, to map out transitional risks, and analyse where there are market opportunities for the emerging climate-related goods and services markets. This results in an increased level of awareness for pathways to build climate resilience.

Module 2: Improving access to climate-smart agricultural practices and technologies

MSMEs and suppliers face high levels of climate change risks. Rising temperatures and extreme weather events have large negative impacts on yields and raise the costs of doing business. Access to climate-smart technologies (e.g., irrigation, seeds) and practices is vital to enable businesses to survive and maintain climate competitiveness.

Module 2 offers training to improve access and affordability of these technologies.

- Analysis of climate-smart technologies and markets
- Develop curriculum and training modules on climate-smart and organic agricultural practices and enhancing agricultural and livestock productivity
- Build the business case for adopting climate-smart technologies and practices.
- Build awareness and develop financial products with Financial Intermediaries (FIs) around selected climate technologies.



International
Trade
Centre

Contact: Alexander Kasterine
Senior Advisor, Green, and Inclusive Value Chains Section
kasterine@intracen.org

Postal address: Palais des Nations, 1211 Geneva 10, Switzerland

Website: www.intracen.org