CLIMATE INDUSTRY SPOTLIGHT

Climate Finance for Micro,Small and Medium-sized Enterprises (MSMEs) in Africa: Barriers and Solutions

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HIGHLIGHTS

• MSMEs are the backbone of the African economy, accounting for 80-90% of all businesses and providing employment to around 85% of the continent's workforce (AU, 2023). They are also the driving force behind innovation, playing a significant role in the development of new technologies, products, and services. This means their response to climate change adaptation and mitigation policies for the private sector in Africa can make a difference in low carbon transitions on the continent.

• Supporting MSMEs to be climate resilient and innovative is essential to help facilitate the private sector's transition to a low carbon economy. Configuring the MSME policy space to enable new and existing businesses to offer climate services, especially in the technology space, can drive mitigation and adaptation solutions in Africa and across the globe.

• As at the year 2022, global climate finance had hit over USD 1.3 trillion per year on average – a formidable feat according to the Climate Policy Initiative (CPI) report published in 2023. However, such an amount represents only 1% of global GDP. To prevent the world from experiencing grave climate change effects, about five-fold, minimum, of that amount is to be targeted globally every year, on average (CPI, 2023).

• Adaptation finance in developing countries is lagging; though it reached USD 63 billion, increasing by about 28% from 2019/2020, it is significantly short of the estimated needs of USD 212 billion per year by 2030 for emerging economies (CPI, 2023).

• According to CPI (2022), Africa needs about USD 2.5 trillion of climate finance to fund mitigation and adaptation projects on the continent. About USD 250 billion is needed every year to meet climate finance needs of the continent, between 2020 and 2030. As at the year 2020, total annual climate finance flows to the continent were only USD 30 billion in total, accounting for about 12% of the USD 250 billion needed every year (CPI, 2022).

• The capacity for MSMEs to realize their potential role in climate action is restricted by a lack of access to climate finance. This is due to three factors: weak enabling environments; limited knowledge and awareness of investment opportunities; inadequate financial products (CDKN, 2015).

INTRODUCTION

In this brief, we provide insight into the climate finance landscape concerning Micro, Small andMedium-size Enterprises (MSMEs) in Africa. We highlight some of the major barriers to MSME'saccess to climate finance. We also point out some of the capacity needs of MSMEs in Africa regarding access to climate finance.

The private sector must be more involved in climate action since it is the primary energy consumer, emits greenhouse gases, and will need improved climate resilience to safeguard its commercial interests. Since MSMEs make up 90% of all private business enterprises in developing nations, even little adjustments to their business practices might have a big influence on how the private sector responds to climate change policies. Yet, MSMEs in Africa still have trouble obtaining climate funding. Due to weak enabling environment, a lack of understanding and awareness of climate finance mechanisms, inadequate climate finance products, they often have restricted access to climate financing (CDKN, 2015). Low uptake of climate finance opportunities may be partially attributed to ignorance of the options for climate funding that are already available. Furthermore, financial products may not be well suited for MSME investments due to high costs and risks associated with MSME loans or because finance is hard to come by for MSMEs and intermediaries that facilitate access to business finance (CDKN, 2015).

It is estimated that the world economy would suffer considerable losses because of climate change by 2050 (Chaudhury, 2020). There is a growing agreement that climate financing is the best way to fund the costs of supporting climate action. Traditionally, discussions on global climate finance have been based on the principle of "common but differentiated responsibility and respective capabilities (CBDR)," which suggests that developed countries should share greater liability and compensate developing countries for the disproportionately adverse impacts of climate change they face (Chaudhury, 2020)

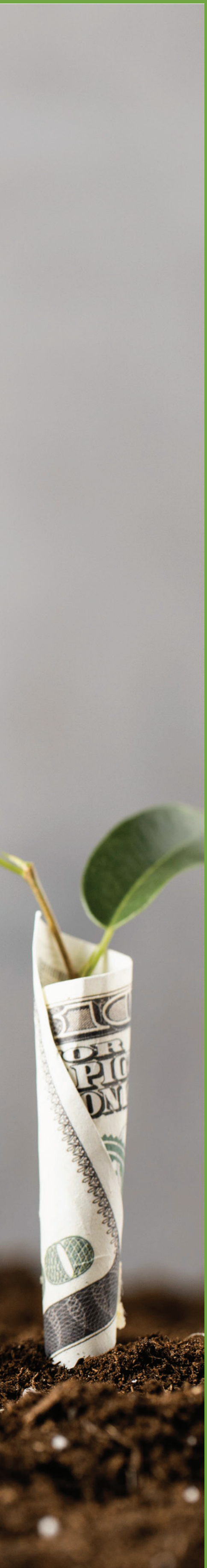
In the context of the UN Framework Convention on Climate Change (UNFCCC), several climate finance projects have laid the framework for the formalisation of the Global Climate Fund (GCF)mechanism. The GCF mechanism was developed via a collaborative effort between the Global Environment Facility, the Least Developed Countries Fund, the Special Climate Change Fund, andthe Adaptation Fund. The GCF has been developing mechanisms to address MSMEs' needs inaccessing climate finance – we offer more information on such mechanisms in this brief.

Further in this brief, we define what MSMEs are in Africa's context, look at the landscape of climate finance, discuss some of the key mechanisms that GCF has in place to address the climate financing needs of MSMEs, highlight some of the barriers and solutions for MSMEs' access to climate finance. We then provide indications on some of the capacity building needs of MSMEs in accessing climate finance. Finally, we offer insight into some of the policy configurations needed to enable a thriving environment for MSMEs to access climate finace in Africa.

WHAT ARE MSMES?

The World Bank and the Africa Development Bank have indicated that micro, small, and medium-sized companies (MSMEs) are critical to the economic growth and development of Africa's low-and middle-income countries. They also serve as a breeding ground for entrepreneurial knowledge, skills, and innovation, contribute to employment creation, and are regarded as the global economy's backbone. According to the World Bank, formal MSMEs account for up to 45% of total employment and up to 33% of GDP in developing nations. These figures exclude informal sector organisations, which would greatly increase if they were included. There is no universal definition of what MSMEs are (or are not), although the Organisation for Economic Cooperationand Development (OECD) defines MSMEs as organisations with up to 249 employees. Micro organisations employ 1 to 9 individuals; small organisations employ 10 to 49 people; and medium organisations employ 50 to 249 people.

Although definitions may change, taking the OECDs definition into account allows for the greatest comparison given the differing data collection practices across different jurisdictions. The Alliance for Financial Inclusion (AFI) carried out a two-phase study to examine definitions of MSMEs acrossits global network. The number of workers, sales turnover, and asset size were the major criteria in MSME classifications among AFI member institutions, with little to no regional trends in criteria utilisation. AFI members include central banks and other financial regulatory agencies from 82 developing nations, home to majority of the world’s unbanked. Smaller enterprises are particularly sensitive to shocks due to the high degree of informality in Africa's MSME sector,which has access to relatively little assets and money. According to UNDP (2022) and based on data from the COVID-19 Business tracker and COVID-19 Agribusiness tracker surveys, 92.2 percent of micro enterprises saw a reduction in sales during the first wave of COVID-19, compared to 45.1percent of bigger firms in the same area.



LANDSCAPE OF CLIMATE FINANCE

Global costs associated with climate change are estimated to be well over hundreds of billions of dollars each year (World Bank, 2010). By the middle of the century, these costs might rise to trillions because of greater droughts, floods, and crop failures that impede infrastructure development and growth. Developing nations are most affected by climate change while having made little contributions to it. This is because of their location, dependence on climate-sensitive resources like agriculture and aquaculture, and limited ability to adapt (Conway and Mustelin, 2014). Without the necessary financial backing, climate change measures become difficult in poor nations, which are already saddled with massive development deficits and cannot afford these extra expenses (Stern, 2007).

As Chaudhury (2020) reports, although an agreement is developing on the definition of climate finance as those resources required expressly to pay the costs of supporting climate action, nations have not yet agreed upon a clear difference between climate finance and general development aid. The concept of "common but differentiated responsibility and respective capabilities (CBDR)," which was presented via Principle 7 of the Rio Declaration of 1992, has traditionally served as the foundation for discussions around global climate financing (Chaudhury, 2020). According to the CBDR principle, industrialised nations have traditionally put more pressure on the environment to grow and command larger levels of economic, social, and technical capital, even though all nations share and have shared responsibility for the environment. Therefore, affluent nations need to bear a larger percentage of the responsibility and make up for the disproportionately negative effects of climate change those poor nations experience (Smith et al., 2011). By virtue of their greater vulnerability and financial weakness, developing countries are entitled to more financial aid from wealthy nations, as per the UNFCCC and the Paris Agreement, which is based on the CBDR concept.

Prior to the GCF, many UNFCCC climate financing projects laid the foundation for the GCF mechanism's formalisation. The first fund in the series was the Global Environment Facility, which was created at the Rio Earth Summit in 1992 to act as the official operating body for the climate finance management system (Chaudhury, 2020). To offer targeted and prompt assistance to meet the unique requirements of the most vulnerable nations, the Least Developed nations Fund and the Special Climate Change Fund were created in the 2001 Conference of the Parties (COP) 7 in Marrakesh. In 2010, the UNFCCC's Kyoto Protocol established the Adaptation Fund, which is used for resilience and climate adaptation initiatives.

Donor contributions and 2% of the Certified Emission Reductions (CERs) granted under the Protocol's Clean Development Mechanism projects serve as the fund's main sources of revenue. Due to low carbon prices, the fund, which is dependent on CERs, has struggled and now needs outside investment to survive (Chaudhury, 2020). The fund established the practice of dealing directly with national bodies via a thorough accreditation procedure, which served as a model and source of invaluable knowledge for the GCF's adoption of the direct accreditation system(Schafer et al., 2020). This meant that the fund had to engage national companies rather than only foreign ones, which was a big change. The worldwide picture of climate financing is provided in detail by the Climate Funds Update 2019 and the Climate Policy Initiative 2019 (Watson and Schalatek, 2019).

The UNFCCC's official finance system has had varying degrees of success. Although these institutions have made it possible for poor nations to formally access climate cash via international pledges, the amount of financing provided has been meagre (Chaudhury, 2020). As Chaudhury(2020) indicates in his research report that there is a greater need for transparency in funding allocation to the vulnerable in an equitable way due to the growing demands for funding from vulnerable countries due to increasing climate impacts and the growing likelihood that developed countries will back away from their commitments (e.g., the United States pulling out of the COP funding commitment) due to the current health crisis and global economic downturn. The other funds are playing a less important role since that the GCF is the primary UNFCCC financing source.

Multilateral development banks administer climate funds outside of the UNFCCC's institutions, and partnerships between governmental and corporate fund managers are emerging. BlackRock's Climate Finance Partnership (CFP) is an excellent illustration of a mixed finance partnership since it includes both governments and philanthropists (Chaudhury, 2020). The World Bank-led Climate Resilience Pilot Programme, the Clean Technology Fund, and the Climate Investment Funds are examples of funds administered outside UNFCC’s ambit. Several bilateral, national, and multinational organisations also oversee their own independent climate funds; however, information about funding pledges and payments is often deficient.

The Green Climate Fund (GCF) was designated by the United Nations Framework Convention on Climate Change (UNFCCC) in 2010 as the official operational entity for the financing mechanism outlined in Article 11. In 2015, after many rounds of discussions over operational modes and financial commitments, it began running at maximum capacity. The board of directors and independent secretariat of the Global Climate Fund (GCF), an autonomous institution, are both headquartered in South Korea. It acts via intermediaries for implementation on the ground and is governed by equal representation of developed and developing countries in its 24 board seats. There are twenty-four board positions in all. The Green Climate Fund (GCF) has promised to provide the same amount of money to initiatives that try to lessen the consequences of climate change and adapt to them. The Least Developed Countries, Small Island Developing States, and African countries will get at least 50% of the adaptation money (Chaudhury, 2020).

The Global Climate Fund (GCF) oversees the use of a direct access method to raise project funding. Countries may use national and subnational organisations approved by the fund to get direct access to GCF project funding under this arrangement. Forty-three countries pledged a total of 10.3 billion USD during the inaugural resource mobilisation (IRM) phase in 2014. However, official agreements negotiated with the countries that have pledged their assistance have made a total of 7.2 billion USD available for commitment throughout the IRM period (Chaudhury, 2020).

Despite the fund's early success and enthusiasm as the biggest official instrument for supporting climate change, it has faced many challenges, according to Chaudhury (2020). These challenges include a demand for project funding that is greater than the amount of money available, a decrease in the amount of money committed by developed nations, an uneven distribution of funding between mitigation and adaptation efforts, a strict accreditation procedure, and a biased distribution of projects and funding to foreign organisations.

Chaudhury (2020) observes that through creative collaborations between public organisations and fund managers in the private sector, a new generation of financing is also developing. One example of a mixed finance relationship is the Climate Finance parternship (CFP), which brings together governments and donors, notably France and Germany, with BlackRock, the biggest asset manager in the world (Chaudhury, 2020). The governments will secure the first $100 million of the $1 billion CFP fund, which will be used to minimise and mitigate the risks associated with institutional capital in climate change. Lastly, with climate change as a primary emphasis problem, we are seeing a tremendous development in responsible, impactful, and sustainable investing via specialised private-sector investment funds (Chaudhury, 2020).

THE GREEN CLIMATE FUND AND MSMES

The Green Climate Fund (GCF) has recognised the importance of engaging MSMEs and has approved the creation of a specific MSME Program within its Private Sector Facility to increase MSME involvement in climate action.

The CDKN (2015) reports that the GCF's objective is to "promote the paradigm shift toward low emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change". The fund prioritises financing for African nations, small island developing states (SIDS), and least developed countries (LDCs) with a goal of striking a 50/50 balance between adaptation and mitigation initiatives. In addition, the GCF seeks to maximise private sector involvement and provide a substantial portion of funding to the private sector.

Funds intended for the private sector will flow via a Private Sector Facility (PSF), which the Board designed to promote private sector involvement. Through the PSF, the GCF will be able to raise private sector funding and fund mitigation and adaptation initiatives. Establishing an MSME Programme to encourage local actors, such as small and medium-sized businesses and local financial intermediaries, to participate in climate mitigation and adaptation efforts is one of the main goals of the PSF. It was suggested that the Board develop an MSME Program, set up a specific MSME Investment Strategy, and allot certain resources to MSMEs in order to do this. By means of these initiatives, the GCF has the potential to considerably augment the quantity of climate funding accessible to MSMEs and enhance MSME participation in climate change endeavours.

A total of 10.3 billion USD in contributions from 43 nations, as well as a few regions and towns, were pledged to the GCF during its initial resource mobilisation (IRM) phase in 2014. A total of 7.2 billion USD has been made available for commitment during the IRM term to date via formal agreements with the committed governments.

MSMES' ACCESS TO CLIMATE FINANCE IN AFRICA: BARRIERS

The Climate and Development Knowledge Network (2015) has identified the following as major challenges confronting MSMEs regarding access to climate finance:

Mismatch between climate finance products and MSMEs' needs – Climate finance products do not match the MSMEs' demand characteristics in terms of size and kind. One major difficulty facing Africa is the gap between the requirements of MSMEs and the structure of climate funding. Smaller-scale finance that fits their company size and project scope may be necessary for many MSMEs. However, many climate financing channels are more appropriate for bigger projects due to their complex application procedures, high transaction costs, and strict restrictions. Smaller businesses find it challenging to get the funding they need because of this mismatch, which makes it more difficult for them to adopt environmentally friendly or climate-resilient practices. To solve this problem, financial instruments must be created that are suited to the various requirements and capabilities of MSMEs. Additionally, financing channels must be made flexible, and application processes must be made simple to guarantee efficacy and inclusiveness.

Limited awareness of the mechanics of climate financing - due to a lack of knowledge and awareness among consumers, MSME owners, and financial intermediaries, the sector is unable to access climate-related funding. MSMEs struggle to satisfy application, eligibility, and reporting requirements due to inadequate technical competence and poor communication between intermediaries and MSMEs on funding prospects. Ineffective lines of communication between intermediaries and investors – this problem causes investors to be unaware of funding options. Investments in intermediaries who provide loans to MSMEs are less appealing and more expensive for investors due to the high risks involved. The participation of intermediaries in the MSME sector is restricted by a scant financial infrastructure and restrictive legal and regulatory frameworks. Intermediaries find it challenging to get financing due to stringent investor eligibility and reporting requirements, and their limited capacity prevents them from providing an honest assessment of MSMEs.

Weak financial infrastructure and limiting legal and regulatory frameworks limits intermediaries' involvement in the MSME market. Strict investor eligibility and reporting criteria make it difficult for intermediaries to access funds, and limited capacity in intermediaries means they cannot accurately assess MSMEs.

High transaction costs of MSME investments make investing in MSMEs unattractive and unprofitable. Weak legal frameworks and prohibitive international trade laws in emerging. markets limit MSME access to markets.

Insufficient collateral or credit history makes it difficult for MSMEs to access finance – MSMEs find it difficult to get financing because of a lack of collateral or credit history, and the financing that is offered is usually too short-term for them to find it appealing. Green investments will be encouraged by strengthening the financial system and implementing climate policies and plans.

Weak climate policies reduce the attractiveness of climate-related investments. Many developing countries do not have a clear climate change strategy, making it difficult for investors to make long-term climate investments. Counterproductive fossil-fuel subsidies still exist in many countries, and in general taxes fail to adequately price pollution. Some subsidies for green technologies exist, but they tend to be limited in availability and accessibility and could further increase the competitiveness of green investments. The development of national strategic plans for climate change could reduce investment uncertainty for investors. Well-defined national climate change polices should allow investors to identify government backed green opportunities. Good policies should also identify ambitious renewable energy and adaptation targets and identify investment opportunities to meet these targets. to meet these targets.

Addressing MSMEs' challenges in accessing climate finance in Africa: solutions Creating match-making platforms will help to inform investors about green financing opportunities and help to facilitate these investments. It can also help connect intermediaries with green capital, and technical assistance programs and improve their ability to lend funds to MSMEs.

Enabling climate policies - One of the major barriers limiting climate related MSME investments is that the business environment and climate investment policies do not support or encourage climate compatible investments in MSMEs. Weak policies, inadequate financial infrastructure and political instability can limit the attractiveness of MSME climate investments by increasing bureaucracy or reducing profitability. Overcoming these challenges will require policies that address the challenges associated with financing MSMEs and the lack of regulations and incentives around providing green finance. Such policies range from administrative simplification and control of corruption to tax and regulatory regimes to support MSME and green investments. These could be implemented by the government in close consultation with the private sector and civil society.

Financial incentives to encourage green investment and discourage brown investments could help to make returns on climate investments more attractive relative to traditional investments. Tax credits and waivers could actively encourage green investment by offsetting the below-market return rates associated with some green investments, as is done in the Green Funds Scheme in\ the Netherlands. Policies that discourage traditional brown investments, such as a carbon tax, can help to redirect investment from brown to green technologies. Also, policies that ensure the price of carbon remains high and stable could also help to change behaviours and investment decisions in the long term. Weak financial infrastructures in some developing countries limit the pool of finance available to MSMEs, and regulatory frameworks often reduce the attractiveness of MSME investments. Interest rate ceilings, weak insolvency regimes and collateral requirements are poorly aligned with MSME needs and capacities and restrict expansion of intermediaries into MSME markets.

Investment regulations and insolvency regimes could be improved to increase the viability of MSME investments. International and national investment regulations could be adjusted by reducing MSME capital and collateral requirements, simplifying accounting, auditing standards and credit reporting requirements for MSMEs, and removing interest rate ceilings. These adjustments could make it easier for intermediaries to on-lend finance to MSMEs. Additionally, by updating insolvency regimes to outline a clear method for liquidation in which creditors are repaid and debts are discharged, intermediaries could be encouraged to invest in new and unproven MSME green business models.

Adjusting legal and regulatory frameworks and creating priority sector lending policies for MSMEs could encourage and push intermediaries into the market. The enabling environment could also be improved through pro-sector lending policies – the development of regulations that require a fixed percentage of lending to go to a particular sector. Governments could establish policies that require intermediaries to lend a certain proportion of credit to green projects and MSMEs. If these policies are coupled with regulations that allow increased entry of intermediaries into the market to promote competition and reduce margins on traditional lines, intermediaries could start to offer attractive products for green MSME activities. Pro-lending policies have been implemented in India, and the credit supply to agriculture, export and MSME sectors has been increased by an average CAGR of 20% in the last decade.

Facilitating and incentivising the use and production of high-quality climate technologies could encourage MSME involvement in climate action. The use of drones in agribusiness to collect and process agro-climatic data, for example, can demonstrate the use of AI in monitoring crop responses to changing climate conditions which can be of value to agro-enterprises in climate risk mitigation decision making. Exposing MSMEs to climate tech and their use value can enhance their uptake of climate innovation, thereby motivating them to seek the appropriate climate finance opportunities to fund their adoption of climate tech services and products; this also creates opportunities in the market for new start-ups to emerge in the climate solutions industry who may also need climate finance to fund their initiation and growth stages.

Creating tailored MSME financing products could increase MSME demand for financing and improve their ability to access the finance. As a major barrier to climate finance, mismatched climate finance solutions to the needs of MSMEs can drive down their interest in seeking climate finance support. It is essential for intermediaries and climate finance providers to understand the peculiar needs of MSMEs – the dynamics of their operations, size and income cycles – so they candesign suitable financial products to support them.

Capacity Building Needs and Opportunities for MSMEs in Climate Finance
According to research by Bhim and Lolita (2023), there is a compelling case for increasing private sector capacity to help companies create bankable adaptation ideas to draw in private investment for climate adaptation through participatory engagement. However, the strategy must be customised to the various requirements of various private sector actors as well as the various project types. For instance, MSMEs may only work on initiatives that are relevant to their industry and maybe severely impacted by climate change. Climate-proofing is necessary for enterprises in the forestry, agricultural, and water sectors, especially (Atteridge et al. 2016). These businesses may not be in a position to handle the growing complexity of climate concerns. We outline some of the capacity building needs and opportunities for MSMEs below, based on our expert opinion. There is dearth of research that ascertains the capacity needs of MSMEs in accessing climate finance in Africa's context.

NEEDS:

Financial Literacy – Enhancing understanding of climate finance mechanisms, terms, and requirements; MSMEs need to be aware of the different climate finance instruments such as grants, loans and equity, and their implications and appropriateness. CSOs and private training providers and universities can develop programs based on the needs assessment of MSMEs to design and implement financial literacy programmes aimed at helping businesses in Africa understand climate finance. Familiarity with financial terminology specific to carbon credits and green bonds may be necessary for MSMEs to explore them as vehicles of accessing climate finance.

Project Development Skills – Building the capability to develop bankable projects aligned with climate goals. Training in the development of comprehensive project proposals that outline climate benefits, mitigation/adaptation strategies, and financial viability can help MSMEs stand a chance of courting the attention of climate finance providers. MSMEs also need to be able to incorporate innovative and sustainable technologies into project design.

Data Management – Improving data collection methods and management for measuring and reporting on climate impacts; MSMEs need to build capacity to harness business and climate data to demonstrate the commercial viability of proposed projects that are bankable and meet climate finance requirements of investors and intermediaries like banks and micro-finance institutions.

Risk Management – Developing skills to identify and manage climate-related risks associated with projects. MSMEs in Africa need to be equipped to assess climate impacts on their ventures and should be able to craft strategies to mitigate any associated climate risks. They need to also have skills to communicate such risks and mitigation measures to climate finance providers.

Networking and Partnerships - Facilitating connections with climate financiers, governments, and other stakeholders. MSMEs need to have the capacity to build relationships with stakeholders in the climate finance space such as governmental institutions, finance intermediaries and climate-focused civil society organisations including research universities.

OPPORTUNITIES:

Green Technologies – MSMEs in Africa can embrace sustainable and climate resilient technologies to align with climate finance criteria. For example, they can adopt new technologies in renewable energy, energy efficiency, and other eco-friendly technologies to align with climate finance objectives.

Policy Alignment – Aligning business strategies with national and regional climate policies can enhance MSMEs' readiness for climate finance. They are to stay informed about national and regional climate policies and discourses and seek to leverage policy incentives and support mechanisms to enhance eligibility for climate funding.

Innovation – Embracing innovative business models that address climate challenges and attractive investors; embracing a culture of innovation within MSMEs to develop unique solutions to climate challenges; exploring new business models that integrate climate resilience and attract environmentally conscious investors.

Capacity Building Programs – Engaging with tailored capacity-building programs offered by government, NGOs, and financial institutions; actively participating in workshops, training sessions, and mentorship programs provided by governments, NGOs, and financial institutions; seeking opportunities for continuous learning and staying updated on evolving climate finance trends.

Carbon Markets – Exploring opportunities in emerging carbon markets and mechanisms to monetize emission reductions; participation in carbon markets by implementing emissions reduction projects; understanding the potential revenue streams from carbon credits and other market-based mechanisms.

WAY FORWARD – CLIMATE FINANCE POLICY IN AFRICA

Climate finance reached over USD 1.3 trillion per year on average in 2021/2022, a significant milestone according to CPI (2023). This sum, however, represents just around 1% of global GDP and must be increased at least fivefold annually to avoid the worst effects of climate change. To mobilise money at the scale necessary, there is a need to boost both the amount and quality of climate financing by focusing on resource utilisation that is more efficient and effective. There are growing chances for a major change towards meeting our common climate and sustainable development goals while simultaneously protecting environment. The CPI (2023) outlines four priorities to capitalise on upcoming opportunities: 1) Transforming the financial system; 2) Bridging climate and development demands; 3) Mobilising domestic capital; and 4) Improving data. These priorities seek to leverage concessional financing to increase private flows, reinforce the net zero integrity of the private financial sector, and guarantee that climate finance is used efficiently and effectively.

Climate and development objectives should be viewed as mutually reinforcing and interconnected paths. This entails employing a systems approach to ensure long-term sustainability while making better use of existing resources. Harnessing synergies between development and climate action, mainstreaming climate adaptation and resilience into financial institutions, and phasing out fossil fuels through a just transition are key areas to focus on.

Domestic capital mobilisation is critical for emerging nations because 84% of climate finance (USD 1 trillion) was raised and spent locally (CPI, 2023). Governments and international organisations can work on aligning NDCs with 1.5°C scenarios and enhancing the local ecology for climate investment. Moreover, it is critical to promote climate financing through a balanced strategy that takes into account the implications on all stakeholders, including workers, communities, employers, governments, and financial institutions. This can be accomplished by connecting National Development Goals with 1.5°C scenarios, improving local ecosystems for climate investment, and encouraging sustainable development.

High-quality climate finance data is critical for identifying investment gaps for MSMEs in Africa, developing effective solutions, alerting investors, and assessing collective progress (CPI, 2023). Despite almost a decade of progress in data efforts, significant data gaps remain. Countries must harmonise and increase the interoperability of climate financing frameworks and reporting technologies in order to improve data. The G7 and G20 are critical for fostering cooperation among major economies on reporting and disclosure. Existing projects can be used to standardize climate finance reporting methods and provide decision-making data. Governments must reach an agreement on a new, standardised, and centralised method for recording climate funding data for MSMEs in Africa. Private data suppliers can consider harmonisation and collaboration, whilst civil society organisations can form alliances and exchange analysis and data. The Global Stocktake process for implementing the Paris Agreement, as well as the growing political push to overhaul global financial architecture, are both expected in the future.

The Annual Micro, Small, and Medium-sized Enterprises Forum is one of the efforts supporting the African Union's Small and Medium-sized Enterprises policy. Start-up Acts can greatly promote private sector development and, as a result, economic development by providing a predictable framework and business environment that makes it simpler for start-ups to operate (AU, 2023b). The Acts contain a collection of regulations designed to encourage young people to start businesses, investors to invest in potential companies, and other ecosystem actors to help where it is needed. Tunisia and Senegal were the continent's first movers in this field, passing Acts in 2018 and 2019, respectively. These initiatives are part of broader government strategies to position their countries as innovation hubs by capitalising on a burgeoning tech environment to boost economic development. The purpose of the AU MSME Annual Forum is to promote, upskill, and strategize for a better, more inclusive African SME sector in order to realise Africa's industrialization in the framework of the integrated market (AU, 2023b). Climate finance for MSMEs should be a key factor in the African Union's bid to catalyze technical assistance for MSMEs through various financing and climate resilience training.

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