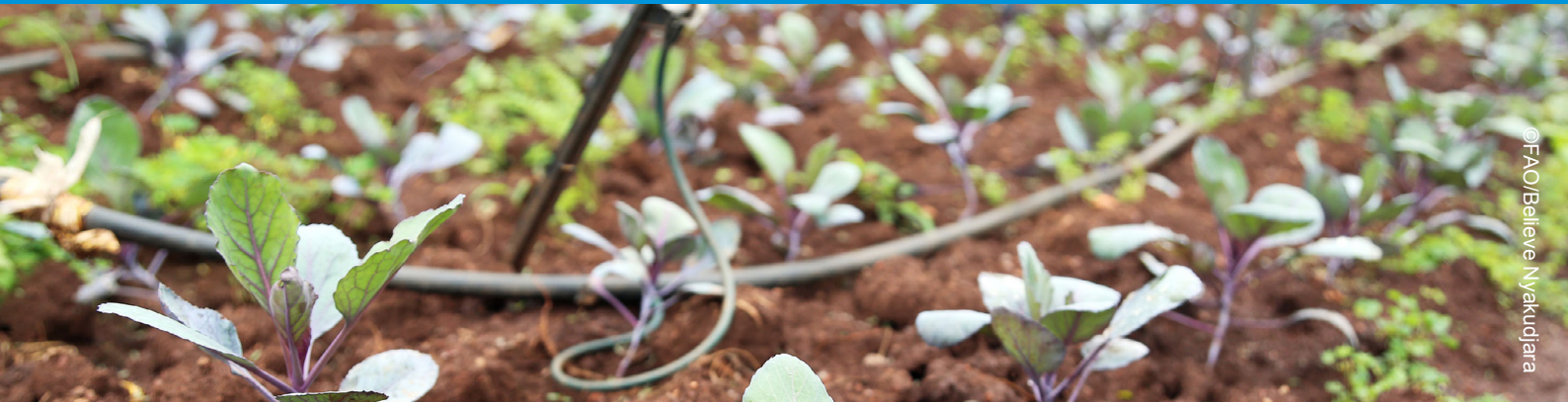




Strengthening country capacities for climate change adaptation and mitigation and finalization of country work programme for the Republic of North Macedonia



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Private sector engagement in climate action in the Republic of North Macedonia

Starting in June 2020, the Republic of North Macedonia is benefiting from the [Second project under the Green Climate Fund \(GCF\) Readiness and Preparatory Support Programme](#) aiming at “Strengthening country capacities for climate change adaptation and mitigation and finalization of country work programme for the Republic of North Macedonia”, implemented by the Food and Agriculture Organization of the United Nations (FAO) under guidance and leadership of the Cabinet of the Deputy President of the Government of the Republic of North Macedonia in charge of economic affairs, as National Designated Authority to the GCF. The project is based on the progress achieved under the country’s [First GCF Readiness project](#) “Support for the management of an effective national coordinative mechanism regarding the Green Climate Fund” implemented in 2019. The second readiness grant targets, among other things, the facilitation of private sector engagement in climate action in the Republic of North Macedonia, by mapping and understanding the enabling environments required and barriers to enhanced and catalytic participation of the private sector in climate mitigation and adaptation efforts.

What is climate change?

Climate change according to the United Nations Framework Convention on Climate Change (UNFCCC) means a change of climate, which is attributed directly or indirectly to human activity, that alters the composition of the global atmosphere and which is, in addition to natural climate variability, observed over comparable time periods.

[Climate Adaptation](#) refers to adjustments in ecological, social, or economic systems in response to actual or expected climatic stimuli and their effects or impacts. It refers to changes in processes, practices, and structures to moderate potential damages or to benefit from opportunities associated with climate change.

[Climate Mitigation](#) refers to efforts of both, public and private sector to reduce greenhouse gas (GHG) emissions released into the atmosphere and in reducing the current concentration of carbon dioxide (CO₂) by enhancing GHG sinks (e.g., increasing the area of forests).

North Macedonia’s vulnerability to climate change

The Republic of North Macedonia is an [upper middle-income country](#) that is particularly [vulnerable to climate change](#). The country’s economic growth is dependent on climate-sensitive natural resources, including land, forestry and water, leading to relatively high adaptation and mitigation costs. According to North Macedonia’s National Determined Contribution (NDC) to the UNFCCC¹, almost 80 percent of the total CO₂ emissions, originate from fossil fuels combustion, with dominant share from energy supply, buildings and transport. Even though emissions from agriculture, forestry and other land uses, as well as industrial process and waste have relatively small share in total GHGs; agriculture and food sector, plays an important role in the country’s economy, and is among the most vulnerable sectors to climate change.

These sectors are included under the [initial sectorial prioritization](#) during the first GCF Readiness project, including: Energy, Transport, Water Resources, Agriculture, Waste, Biodiversity, Health, Forestry and Cultural Heritage. These priority sectors will be the basis for the development of a GCF Country Work Programme for North Macedonia under the second Readiness project, including the identification of an initial pipeline of projects (from public and private sectors) in any of these sectors, later evaluated according to the prioritization procedure developed under the first Readiness project.

Why is climate change relevant for the private sector?

Climate change is a business risk. Climate risks will have major implications for most sectors of our economy. They impact revenues, cash flows and operating costs, asset values and financing cost, and ultimately the competitiveness and profitability of firms and financial institutions. The physical effects of climate risk tend to materially impact **industries with physical assets** in risk-prone areas (e.g., real estate in coastal areas or wildfire-prone areas); **industries where infrastructure resiliency and business continuity are societal necessities** (e.g., health care delivery, telecommunications / Internet, utilities); and **industries dependent on natural capital** (e.g., those that rely on productive land and availability of water, such as agriculture, meat, poultry, and dairy). Given that businesses face these risks, **rational self-interest** of businesses should be a major driver of climate change adaptation actions.

¹ United Nations Framework Convention on Climate Change

What is climate finance?

According to the UNFCCC, **Climate finance** refers to local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.

Various funds and facilities exist globally to facilitate the provision of climate finance. The UNFCCC established **financial mechanisms** to provide financial resources to developing country Parties. The financial mechanism also serves the Kyoto Protocol and the Paris Agreement. These include: [Global Environment Facility](#), the [Green Climate Fund](#), the [Special Climate Change Fund](#), the [Least Developed Countries Fund](#), and the [Adaptation Fund](#). These various **Climate Funds** and regional/country-led programmes have led to a vast array of possibilities for companies to access finance. Global trends show that larger enterprises (including state-owned/state-participated) have greatly managed to take advantage of these financing mechanisms.

Green Climate Fund Private Sector Facility

The Green Climate Fund is the world's largest dedicated fund helping developing countries reduce their greenhouse gas emissions and enhance their ability to respond to climate change. It was set up by the UNFCCC in 2010.

Globally, the private sector manages USD 210 trillion in assets, while only a small part of it can be categorized as climate investment. To stir private sector climate investment in developing countries, GCF attempts to de-risk investment by the private sector through its [Private Sector Facility \(PSF\)](#). As with public sector, GCF provides funding for private sector through [accredited entities](#). GCF attempts to mobilize private sector including institutional investors, project sponsors and financial institutions.

So far GCF has supported **27 projects** for the private sector worth USD 2.2 billion, entailing co-financing of USD 7.2 billion by accredited entities with an impact of 1.1 billion tons of CO₂ to be reduced. Two projects focusing on multiple countries are in the area of **adaptation**, and the rest of the projects are focused on **mitigation** or **cross-cutting themes**. Most of the projects for private sector are in the area of **energy**. The **Private Sector Facility** offers:

- **concessional instruments** such as low-interest and long-tenor project loans;
- lines of **credit to banks** and other financial institutions;
- **equity investment** and risk mitigators such as **guarantees**;
- **first loss protection** and **grant** based capacity building.

Through the GCF, North Macedonia is involved in [international climate initiatives](#) aiming to support the private sector engagement and creating enabling environment for climate finance opportunities.

The way forward

National efforts for engaging private sector in climate and green investment

The Republic of North Macedonia is working nationally to engage private sector in climate and green investment through number of policies: [Law on financial support of investment](#), [Energy Strategy](#), [Law on energy efficiency](#), [Industrial Policy](#), [Smart Specialization Strategy](#), and funding schemes of the [Fund for Innovation and Technological Development](#) and lending schemes through the [Development Bank of North Macedonia](#).

Macedonian private sector in light of the European Union Green Agenda for the Western Balkans

Stirring private sector engagement is emerging as a key priority for the Government, particularly in light of the European Union accession process. The latest European Union Commission's [Green Agenda for the Western Balkans](#), as foreseen in the European Green Deal, focuses on five broad areas: decarbonization, depollution of air, water and soil, circular economy, farming and food production, and protecting biodiversity. **The Green Agenda** will include a private sector dimension, aimed at boosting private companies active in the green and circular economy and moving all sectors of the economy towards sustainability, whether in energy, mobility, or agriculture. The EU will engage with the region to promote sustainable production patterns and food systems. The Commission will also promote funding schemes for businesses operating in the field of green innovation and technologies to further this objective. IPARD² will also be extended to boost private sector in rural areas.

² European Union Instrument for Pre-accession Assistance for Rural Development



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- Cabinet webpage: www.vicepremier-ekonomija.gov.mk ; NDA webpage: www.greendevlopment.mk

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