ADAPTATION FUND

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17 March 2025

Adaptation Fund Board
Project and Programme Review Committee
Thirty-fifth Meeting
Bonn, Germany, 8-9 April 2025

# PROPOSAL FOR INNOVATION LARGE GRANT FOR KENYA AND UGANDA

# ADAPTATION FUND BOARD SECRETARIAT TECHNICAL REVIEW OF PROJECT/PROGRAMME PROPOSAL

PROJECT/PROGRAMME CATEGORY: Regional Large Innovation Full Proposal

**Country/Region:** Kenya, Uganda
**Project Title:** Unlocking investments in gender and youth-inclusive early-grown stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda
**Thematic Focal Area:** Innovative adaptation financing
**Implementing Entity:** United Nations Industrial Development Organization (UNIDO)
**Executing Entities:** adelphi
**AF Project ID:** AF000276
**IE Project ID:**
**Requested Financing from Adaptation Fund (US Dollars):** 5,000,000
**Reviewer and contact person:** Naoki Uozawa
**Co-reviewer(s):** Alyssa Gomes
**IE Contact Person:**

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| Technical Summary | The project "Unlocking investments in gender and youth-inclusive early-grown stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda" aims to achieve transformational change in local financial markets in Kenya and Uganda to become more inclusive towards early-growth women- and youth inclusive adaptation SMEs for them to realize their full potential in providing innovative climate adaptation solutions to highly vulnerable groups, enhancing local climate resilience in the agriculture and water sector while addressing and rectifying gender and/or other socio-economic inequalities exacerbated by climate change. This will be done through the three components below:<br><br><u>Component 1</u>: Regional coordination platform (USD 487,150);<br><br><u>Component 2:</u> Blended finance and enterprise support mechanism (USD 3,323,450);<br><br><u>Component 3</u>: Financing Institution Capacity Development Programme (USD 340,500).<br><br><u>Requested financing overview:</u><br><br>Project/Programme Execution Cost: USD 394,355<br>Total Project/Programme Cost: USD 4,545,455 |

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| | Implementing Fee: USD 454,545<br>Financing Requested: USD 5,000,000<br><br>The first technical review raises several issues, such as clarification of proposed schemes and financial flows, full cost of adaptation reasoning, and budget breakdown, as is discussed in the number of Clarification Requests (CRs) and Corrective Action Requests (CARs) raised in the review.<br><br>The second technical review raises several issues, such as clarification of proposed schemes and financial flows, particularly guarantee scheme, full cost of adaptation reasoning, and budget breakdown, as is discussed in the number of Clarification Requests (CRs) and Corrective Action Requests (CARs) raised in the review |
| Date: | March 4, 2025 |

| **Review Criteria** | **Questions** | **Comments 1st Review (January 13, 2025)** | **Comments 2nd Review (March 4, 2025)** |
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| Country Eligibility | 1. Is/are the beneficiary country/countries a developing country/countries Party/Parties to the Kyoto Protocol? | **Yes.** | **-** |
| | 2. Is the participating country / are all participating countries developing countries particularly vulnerable to the adverse effects of climate change? | **Yes.**<br>Kenya and Uganda are located within a highly vulnerable area to climate change with increasing precipitation variability, extreme precipitation and droughts, and raising temperatures causing irreversible damage to the livelihoods of vulnerable communities. | **-** |
| Project Eligibility | 1. Has the designated government authority for the Adaptation Fund / Have the governments' designated authorities for the Adaptation Fund endorsed the project? | **Yes.**<br><br>As per the Endorsement letter dated August 29th, 2024 for Kenya, November 12th 2024 for Uganda. | **-** |
| | 2. Does the | **Not Cleared.** | **CR1: Cleared (Page 9).** |

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| | project/programme support concrete adaptation actions to assist the country or countries in addressing adaptive capacity to the adverse effects of climate change and build in climate resilience?<br><br>In case of regional project/programme, is there added value using the regional approach, compared to implementing similar activities in each country individually? | The proposed proposal defines adaptation SMEs and outlines barriers to their access to finance, such as the “missing middle”, lack of tailored investment business advisory, and the preference of commercial financial providers for small ticket size and shorter repayment periods (para. 41-47). These barriers, however, also apply generally to SMEs in Kenya and Uganda.<br><br>**CR1**: Please provide more details on the specific differences in the missing middle that uniquely affect adaptation SMEs compared to generic SMEs. This clarification would help in understanding the specific needs for tailored interventions designed for adaptation SMEs. | Further explanation of adaptation SMEs has been added in para 43. Many SMEs are already developing solutions that contribute to climate adaptation, even if they do not explicitly identify as adaptation-focused enterprises. Others may have the potential to tailor their products and services to meet local adaptation needs but lack the necessary awareness and support to make this transition. This project is based on the fundamental assumption that, with targeted capacity-building and financial support, these SMEs can refine their business models to better align with climate adaptation challenges. |
| | 3. Does the project/programme help spread innovative adaptation practices, tools and technologies that have demonstrated success in one country to another country, countries or regions; and/or<br><br>Does the project/programme pilot at larger scale innovative adaptation practices, tools or technologies generated that | **Not Cleared.**<br><br>The proposal aims to introduce an innovative finance mechanism including various financial flows, options/products, and stakeholders (p.22-28) under Component 2, with USD 3.3 million representing 80% of the total component budget. To improve clarity and justify the proposed mechanism, please address the following CRs and CARs.<br><br>**CAR1:** Please clarify the roles and responsibilities of stakeholders in the | **CAR1: Cleared (Page 63, Para 198)**<br>The revised proposal clarifies the roles and responsibilities of stakeholders in para 198.<br>a. adelphi:<br>The headquarter of adelphi in Germany will be the legal entity and responsible for making contracts and disbursing money.<br>b. Financial institutions (FIs):<br>The FIs and potential partners banks involved will be in-country based. The potential partner banks are listed in para 198.<br>c. Adaptation SMEs: |

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| | have demonstrated viability at a small scale? | proposed mechanism.<br>a. <u>adelphi:</u><br>adelphi, a think-and-do-tank based in Germany (para. 206), is identified as the EE for the proposed project, making a performance-based payment contract with SMEs and serving as the up-front loan repayment grant provider to Financial Institutions (FIs). Please clarify the legal entities responsible for making contracts and disbursing money. Will adelphi operate through its branch offices in Kenya and Uganda?<br>b. <u>Financial institutions (FIs):</u><br>Please clarify whether the financial institutions involved are local, regional, or the third country institutions. Please list the (potential) financial institutions, if possible.<br>c. <u>Adaptation SMEs:</u><br>Please clarify whether adaptation SMEs must be registered in the countries where they operate to enter contracts with the EE and FIs.<br>d. <u>The relationship between EE and EE partners:</u><br>Please clarify the term “partners” as used between the EE and EE partners. Please provide broad information regarding any financial | The adaptation SMEs would need to be registered in the countries where they operate to enter contracts with the EE and FIs.<br><u>d. The relationship between EE and EE partners:</u><br>The EE adelphi will be responsible of contracting the identified execution partners, KCV and Finding XY, as well as recruitment/supervision of national and international consultants and personnel and coordination with national executing entities. The roles and responsibilities of the Executing Partners will be to execute the activities defined in detailed Terms of Reference following the overall project programme of work and deliver the expected deliverables and services in a timely manner and in accordance with the approved budget.<br><u>e. Venture Funds:</u><br>Finding XY in Uganda does not have its own venture fund. KCV provides funding and technical assistance to commercially viable climate-tech SMEs. As part of its investment work KCV provides US$ 50,000 – US$ 200,000 in debt, convertible debt, and /or equity with maximum 7 years tenure for early-stage SMEs as well as US$ 100,000 – US$ 1 million in debt, convertible debt and /or equity with a maximum seven years tenure for Growth Stage SMEs. However, in the framework of this project, KCV will be mainly involved in |

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| | | agreements or arrangements among these entities, if applicable.<br>e. <u>Venture Funds:</u><br>EE partners: KCV in Kenya and Finding XY in Uganda own venture funds. To understand their investment appetite and capacity, please provide general information on these funds, including, fund size, year of establishment and duration, stage of investments, preferred sectors, and target ticket size.<br><br>**CAR2:** Please specify the currency used for financial flows between stakeholders: including EE and SMEs, EE and FIs, and FIs and SMEs.<br><br>**CAR3:** The proposed mechanism includes several financial products including grants, debts, convertible security; however, the utilization of AF grants is not clear. Provide a detailed breakdown of how AF grants are utilized within the proposed financial products and flows. Clearly state the proportion of each financial product and flow funded by AF grants.<br><br>**CAR4:** The explanation provided on the Loan Guarantee Scheme is insufficient (para. 86). Please provide more details on the scheme. | the provision of technical assistance for adaptation SMEs understanding that the risk and investment profile of adaptation SMEs in different to typical SMEs.<br><br>**CAR2: Not Cleared.**<br>The currency used for financial flows between the EE and FIs will be US-Dollars and the currency used for the financial flows between the FIs and SMEs will be local currencies (Page 39, Para 128). This is cleared.<br><br>However, the arrangements for transferring funds from Germany to Kenya and Uganda should be further clarified.<br>Please provide:<br>- A broad overview of regulatory considerations, such as compliance with anti-money laundering, financial transaction monitoring, and any potential legal restrictions on cross-border fund transfers<br>- Clarification on currency risk management – who bears the exchange rate risk in converting USD to local currencies?<br>- Tax responsibility if applicable.<br><br>**CAR3: Not Cleared.**<br>Table 5 indicates that the grant |

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| | | **CAR5**: Under the partial repayment scheme, please clarify the mechanism for the 25% up-front loan repayment grant in case where FIs are unable to make loan contracts with SMEs or disburse loans to SMEs during the project timeline. Will the project return this portion to the AF in cases where FIs are unable to disburse loans to SMEs during the project timeline?<br><br>**CR2:** The proposal emphasizes previous successful cases, such as the partial repayment scheme and cash-flow gap cover under the UGEFA. What does the term "success" imply in this context? Does it refer to the successful introduction of these mechanisms or does it indicate measurable enhancements in key indicators, such as a decrease in Non-Performing Loan (NPL) rates?<br><br>**CR3:** Table 5 mentions that 30 SMEs are targeted for blended finance instruments and performance-based mechanism, while the target is stated as 100 enterprises receiving finance. Explain the relationship between these figures.<br><br>The proposal mentions two options for blended finance instruments and performance-based mechanisms, with combinations possible (para. 89). However, the explanation lacks clarity. | allocated for blended and grant finance instruments is USD 3,048,000 (999,0001,050,000+999,000), and for performance-based mechanisms is USD 489,600(39,600+450,000). However, it is unclear how these grant amounts align with the output activities outlined in Project Components Breakdown (Table 2) and the detailed budget on pages 94 and 95. Please clarify and ensure consistency across the budget tables.<br><br>**CAR 4: Not Cleared.**<br>The updated explanation of the Loan Guarantee Scheme provides insights into its importance (para 86); however, the arrangements remain unclear. The amount allocated for the guarantee scheme is USD1,050,000, but further explanation is needed. Please clarify the following:<br><br>1. <u>Guarantee Type and Setup Process:</u><br>The proposal mentions portfolio guarantees OR individual guarantees. Please outline the planning and arrangement for setting up each scheme.<br>Note: Portfolio guarantees are typically more cost-effective. Establishing a portfolio guarantee scheme would take at |

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| | | For example, if SMEs receive Option 1 (partial repayment scheme) where the grant amount is 25-33% of the total loan, and Option a which specifies 20% of the total loan of partial repayment scheme, it is not clear how much SMEs ultimately receive as the concessional support.<br><br>**CAR6:** Please provide examples of different scenarios combining these options (e.g., partial repayment schemes and cash-flow gap covers), and illustrate how these combinations benefit SMEs and mitigate risks for stakeholders.<br>In addition, please provide a broad justification of the figures related to the concessionality, such as 25-33% of loan ticket size, three months of the cash-flow gap cover, etc. It would be helpful to consider key financial risks and indicators, such as currency, inflation, Non-Performing Loan rates, national average loan default rate, etc. These justifications would emphasize the innovative and unique aspects of the mechanism in addressing the challenges identified in the proposal.<br><br>**CR4**: Specify any capacity-building measures for FIs to understand and adopt adaptation finance practices. Explain how these measures ensure the long-term viability of adaptation financing within the participating | least 6–7 months, and this timeline may be longer if multiple FIs are involved.<br><br>2. <u>Risk Coverage & Financial Institution Engagement</u>:<br>The proposal assumes a 35% guarantee coverage for future expected capital net losses on defaulted loans, meaning that FIs would need to absorb the remaining 65% risk.<br>Have there been any discussions with FIs to determine what level of risk coverage would be sufficient to unlock lending?<br>Please clarify if aspects such as ticket size, liquidity, or investment purposes have been considered in structuring the risk-sharing arrangement.<br><br>3. <u>Justification for AF's Full Cost of Adaptation Reasoning:</u><br>Under a guarantee scheme, FIs typically conduct their own credit risk due diligence as part of standard banking procedures.<br>How does the proposed guarantee scheme align with AF's full cost of adaptation reasoning? (Refer to CR21) |

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| | | countries.<br><br>**CR5**: Clarify whether SMEs with a mixed focus on adaptation and other objectives are eligible for participation and how the project ensures that adaptation outcomes remain central. | **CAR5: Not Cleared.**<br>The response in the response sheet states that: "*In case the partial repayment scheme cannot leverage the grant amounts of the Adaptation Fund, then the grants will be disbursed as grants to the SMEs during the intended project timeline*." – Please incorporate the response into the proposal. However, the partial repayment scheme diagram and its process (para. 89) indicate that EE provide 33% of loan ticket size as grants to FIs after FIs provide the loan to SME.<br>Please clarify:<br>- How will the grants already disbursed to FIs be redirected or disbursed to SMEs?<br>- What happens if FIs are unable to disburse loans to SMEs during the project timeline?<br><br>**CR2: Cleared (Para 86 and 89).**<br>The project refers to UGEFA as "success" in terms of the successful implementation of the partial repayment schemes and cash-flow gap cover for green SMEs working with banks in Uganda.<br><br>**CR3: Cleared (Table 5 and Para 229).**<br>The target of Outcome 2.3 is corrected. The project will provide capacity |

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| | | | building to 100 selected adaptation SMEs, out of which 30 SMEs will receive funding.<br><br>**CAR6: Not Cleared.**<br>The percentage of up-front loan repayment has changed from 25% to 33%.<br>Please provide a brief justification for "33%" – why 33% is the appropriate level. The proposed scheme is innovative, as it aims to integrate market mechanisms by engaging commercial FIs. However, if a market-based approach is embedded, it is essential to justify the intervention does not overly subsidize private-sector financing. Alternatively, it would be beneficial if the proposal placed greater emphasis on the identification of adaptation SMEs—a specific category with distinct financial barriers—along with the rationale for intervention, ensuring that the support mechanism is tailored to their needs.<br><br>The average loan amount is USD 100,000 (para.89). Considering the budget limitation and the target number of SMEs (30), please provide the range of the grant amount allocated per deal/loan. |

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| | | | **CR4: Cleared (Page 38, 62)**<br>FIs will learn climate change adaptation through the Adaptation Finance Academy.<br><br>**CR5**: **Not Cleared.**<br>Please incorporate the response in the response sheet into the proposal. |
| | 4. Does the project / programme provide economic, social and environmental benefits, particularly to vulnerable communities, including gender considerations, while avoiding or mitigating negative impacts, in compliance with the Environmental and Social Policy and Gender Policy of the Fund? | **Cleared.**<br><br>The proposal outlines economic, social, and environmental benefits, including emphasis on the benefits to women and youth (para 123-125).<br><br>The proposal includes the Environment and Social Risk Management Framework in Annex I and will conduct a comprehensive ESMS for SMEs under Output 2.4. Maladaptation and any other negative developments will be prevented by the application of a comprehensive Environmental and Social Management System (ESMS) (para.125) | **-** |
| | 5. Does the project engage, empower and/or benefit the most vulnerable communities and social groups? | **Cleared.**<br><br>The proposal identifies women and youth as the main target groups, while also mentioning indigenous peoples and marginalized groups (para. 50) Additionally, the proposal includes some activities to encourage these | **-** |

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| | | groups to apply for the programs (para. 77). | |
| | 6. Does the project advance gender equality and the empowerment of women and girls? | **Cleared.**<br><br>One of the proposal's objectives is to foster women as entrepreneurs. The proposal also includes a Gender Assessment and Gender Action Plan (GAP) in Annex II. | - |
| | 7. Is the project/programme cost-effective?<br><br>In the case of regional project/ programmes, does the regional approach support cost effectiveness? Does the project engage, empower and/or benefit the most vulnerable communities and social groups? | **Not Cleared.**<br><br>The proposal includes a cost-effectiveness analysis (para. 126 – 129) and Table 6 shows a break-down of the budget shares dedicated for financial support to SMEs, technical assistance and ecosystem activities. This breakdown is very helpful; however, further clarification is needed.<br><br>**CR6:** Please specify which financial flows are categorized as financial support versus technical assistance. (Please refer to CARs and CRs under the Q.3 under Project Eligibility)<br><br>**CR7:** Please provide the broad assumption or scenarios underpinning the figures of USD 2.5 – 6M for leveraged private sector capital. Please clarify the underlying assumptions and mechanisms for determining these figures and how | **CR6: Not Cleared.**<br>All figures in Table 5 currently use a "." (decimal point). If the intended format is to use "," (comma) as the thousand separator, please correct them accordingly for consistency and clarity.<br><br>The updated Table 5 includes Alternative Grant Option: Direct Grant to SME with an allocation of USD 999,300. Please provide a detailed explanation of this option, including how it functions within the proposed solutions.<br><br>Table 6 shows the budget allocation for financial support to SMEs (USD 1.5 million) and technical assistance (USD 3,045,455). However, these figures are not clearly aligned with the budget outlined in Table 5. Please clarify.<br><br>**CR7: Cleared (Page 27)**<br>The leveraged private sector capital amount is updated to USD 1,998,000, |

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| | | private sector engagement is expected to be achieved. | based on the partial repayment scheme. |
| | 8. Is the project / programme consistent with national or sub-national sustainable development strategies, national or sub-national development plans, poverty reduction strategies, national communications and adaptation programs of action and other relevant instruments? | **Cleared.**<br><br>The proposal refers to relevant national and sub-national sustainable development strategies, including TNAs in both Kenya and Uganda (para 130-133). | **-** |
| | 9. Does the project / programme meet the relevant national technical standards, where applicable, in compliance with the Environmental and Social Policy of the Fund? | **Not Cleared.**<br><br>**CR8:** Specify how the project aligns with sector-specific technical standards in agriculture and water, particularly regarding the adaptation technologies supported by SMEs. Include the process for ensuring relevant certification or quality assurance mechanisms during implementation.<br><br>The proposal refers to relevant technical standards in Kenya and Uganda (para 134-137). However, youth related policies appear to be missing.<br><br>**CR9:** Considering that the definition of youth may influence the selection of SMEs, please include references to youth-related policies and standards in | **CR8: Cleared (Page 42)**<br>Table 8 includes the relevant technical standards in agriculture, water and land, health, biodiversity, and electricity.<br><br>**CR 9: Not Cleared.**<br>The response in the response sheet provides the definition of youth in Kenya (18 to 34 years) and Uganda (15 to 30 years). Please clarify whether each country's definition will be applied in the selection criteria for youth-led SMEs within the project. |

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| | | Kenya and Uganda. Explain how these policies influence the definition of youth and the selection criteria for SMEs. | |
| | 10. Is there duplication of project / programme with other funding sources? | **Not cleared.**<br><br>The proposal includes an analysis of potential duplication of the proposed project (Table 9). Regarding the potential duplication with UNIDO's AFCIA program, while AFCIA focuses on early-stage SMEs at a global scale, the proposed project targets growth-stage SMEs in Kenya and Uganda. The pipeline developed under UNIDO's AFCIA project may serve as a pipeline for the proposed project. (p.41)<br><br>**CR10**: Describe how the project will leverage synergies with existing adaptation initiatives in Kenya and Uganda. Include examples of complementary projects or programs and provide details on the financing associated with each organization and initiative, specifically the type of financing, the typical ticket size, and the conditions attached to the financing. | **CR10: Cleared (Page 44-47)**<br>The updated Table 9 includes the type of financing, the typical ticket size, and the conditions in each project. |
| | 11. Does the project / programme have a learning and knowledge management component to capture and | **Not cleared.**<br><br>Knowledge management and learning is mainstreamed throughout the | **CR11: Cleared (Page 49)**<br>The project's Regional Coordination Platform (RCP) will host an accessible digital knowledge hub that includes |

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| | feedback lessons? | proposal with dedicated outputs focused on sharing learnings. As part of Component III, the cross-country Adaptation Finance Academy will serve as an events-based knowledge hub. (p.40)<br><br>**CR11**: Explain how the project will ensure knowledge products (e.g., reports, case studies) are widely disseminated and accessible to diverse stakeholders, including vulnerable groups.<br><br>**CR12**: Please clarify related to metrics and methodology for evaluating the effectiveness of Adaptation Action Events and Adaptation Finance Symposia in achieving knowledge transfer and stakeholder engagement.<br><br>**CR13**: Please clarify the methodology for collecting sex-disaggregated data and how it will be used to inform decision-making and course corrections during implementation.<br><br>**CAR7**: Kindly elaborate on how lessons learned from M&E activities will be integrated into the project to inform future iterations or scale-up efforts. | reports, case studies, multimedia content, and databases. Project knowledge products will be tailored for diverse audiences. In collaboration with local community organizations, NGOs, and government agencies the project will ensure dissemination through community networks as well as traditional channels. Vulnerable groups, including women and youth, will be prioritized in these sessions (Para.150)<br><br>**CR12**: **Cleared (Page 49)**<br>The project will monitor the knowledge transfer through the number of stakeholders accessing and downloading materials from the RCP digital platform as well as pre- and post-event surveys. While doing this the project will gather attendance metrics, disaggregated by gender, age, and sector. The methodology will be based on the participant feedback during and after events to assess engagement and inform improvements as well as impact tracking to monitor follow-up actions by participants, such as new collaborations or policy developments resulting from event participation (para.150)<br><br>**CR13**: **Cleared (Page 49)**<br>The project will ensure that all project surveys, event registrations and SME application forms capture sex-disaggregated data. This data will be cross-checked through field visits and |

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| | | | stakeholder interviews to ensure accuracy. This data will be used to identify gender-specific challenges and opportunities (e.g., barriers to finance for women-led SMEs) and tailor interventions accordingly. The overall impact evaluations will track and analyze the outcomes for men and women separately to ensure equitable benefits from project interventions (para.150)<br><br>**CAR7**: **Cleared (Page 49)**<br>The project will utilize findings from the annual impact assessments and mid-term evaluations to refine project processes and activities. Lessons learned throughout the project will be identified through a structured process embedded within the project's governance framework through the Project Management Unit (PMU) and Steering Committee (para.150) |
| | 12. Has a consultative process taken place, and has it involved all key stakeholders, and vulnerable groups, including gender considerations in compliance with the Environmental and Social Policy and Gender Policy of the Fund? | **Not cleared.**<br><br>The proposed proposal includes overview of stakeholder consultations, including outcomes of each consultation (para 151 – 163). **CAR8:** Considering the project includes USPs, please describe provisions for consultations during implementation. | **CAR8: Cleared.**<br>The proposal includes stakeholder consultations (Table 10 and para.151-168). |
| | 13. Is the requested financing justified on the basis of full | **Not Cleared.** | **Not Cleared.** |

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| | cost of adaptation reasoning? | The AF project, on its own, should be capable of meeting its objectives without relying on additional funding. If the project has co-financing, it should be able to deliver its outcomes and outputs regardless of the success of the other project(s).<br><br>Based on the current AF's basis of full cost of adaptation reasoning, the proposed scheme requires improvement or redesign as additional financings – such as loans from FIs to SMEs - are embedded in the proposed scheme.<br><br>The following is just an idea to justify the full cost of adaptation reasoning. (please first address CARs and CRs related to Q.3 under Project to clarify the steps and flows of the proposed schemes)<br><br>Example - partial repayment scheme: The project's objective should be met without relying on funding from FIs. In other words, financial flows originating from FIs should be separated from the activities and budgets required to achieve the project's objectives.<br><br>If the source of 25% of the loan from FIs to SMEs is derived from the up-front loan repayment, and the up-front loan repayment is funded by IE/EE's own contribution, this might help | **CR19 (New):** Under the partial repayment scheme, the AF grant is used to cover 33% of the loan, which EE provides to FI after a loan agreement is made between FI and SMEs. Please confirm whether FI disburses the loan to SMEs only after receiving the 33% from EE. In this case, please provide the agreement between EE and FIs, ensuring it clearly defines this process. Additionally, please specify the contingency measures in case FIs do not disburse the loan to SMEs or EE does not transfer the money to FI as planned.<br><br>**CR20 (New):** The following is an idea to justify the full cost of adaptation reasoning for the partial repayment scheme:<br>Please provide an explanation that a portion of the total loan amount from EE to FIs serves as a replacement for what SMEs would otherwise pay to FIs.<br>This approach ensures that the project integrates market mechanisms while still addressing financing barriers for adaptation SMEs.<br><br>**CR21 (New):** The arrangement of the guarantee scheme is insufficiently detailed. Please further develop the scheme, ensuring that it aligns with the full cost of adaptation reasoning. Refer |

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| | | maintain alignment with the full cost of adaptation reasoning. However, if the proposal assumes the use of AF's grant as the source of the up-front loan repayment, the project may need to consider redesigning the activities and budget to ensure alignment with the full cost of adaptation reasoning. | to CAR4.3 |
| | 14. Is the project / program aligned with AF's results framework? | **Cleared.**<br><br>The project includes a table illustrating its alignment with the AF's results framework and budgets, which outlines key indicators such as the number of beneficiaries, outcome 2, 4, 7, and 8 (p. 81-85) | |
| | 15. Has the sustainability of the project/programme outcomes been taken into account when designing the project? | **Not cleared.**<br><br>The proposal provides an explanation of various arrangements—institutional, economic, financial, social, and environmental—designed to ensure the sustainability of the project (paras. 173–186).<br><br>**CR14**: Provide a strategy for key project stakeholders, including adelphi, KCV, and Finding XY, after achieving the milestones during this project. | **CR14: Cleared (Page 57)**<br>The revised proposal includes a strategy for key project stakeholders after the project in para 186. |
| | 16. Does the project / programme provide an overview of environmental and social impacts / risks identified, in | **Not cleared.**<br><br>The proposal project is categorized as a Category B. | **CAR9: Cleared.**<br>The revised Annex 1 includes the 15 principles mainstreamed across the selection process of SMEs. |

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| | compliance with the Environmental and Social Policy and Gender Policy of the Fund? | The proposed project includes Unidentified Sub-projects (USPs), such as the selection of SMEs, and the location and target communities.<br>The proposal provides an Environment and Social Risk Management Framework (ESMF) in Annex I. ESMF includes screening and assessment of AF's environment and social policy (Appendix 1) and a management plan: ESMP (Appendix 2).<br><br>**CAR9:** Given that the project includes USPs, the proposal should describe the process for screening against all 15 principles as and when projects are identified. | |
| Resource Availability | 1. Is the requested project funding within the parameters for large grants set by the Board? | **Yes.** | - |
| | 2. Is the Implementing Entity Management Fee at or below 8.5 per cent of the total project budget before the fee? Are the Project/Programme Execution Costs at or below 9.5 per cent of the total project/programme budget (including the fee)?<br><br>For regional projects/programmes, are the | **Yes.**<br><br>The EE fee is 8.7% and the IE fee is 10.0% of the total project budget. | - |

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| | administrative costs (Implementing Entity Management Fee and Project/ Programme Execution Costs) at or below 10 per cent of the project/programme for implementing entity (IE) fees and at or below 10 per cent of the project/programme cost for the execution costs? | | |
| Eligibility of IE | 1. Is the project submitted through an Implementing Entity accredited by the Board? | **Yes.**<br>United Nations Industrial Development Organization (UNIDO) accreditation Expiration Date: November 30, 2025. | - |
| Implementation Arrangements | 1. Are there measures in place for the management of for environmental and social risks, in line with the Environmental and Social Policy and Gender Policy of the Fund?<br>Proponents are encouraged to refer to the Guidance document for Implementing Entities on compliance with the Adaptation Fund Environmental and Social Policy, for details. | **Not Cleared.**<br><br>**CR15**: ESMP (Appendix 2 of Annex 1) states that no additional budget to implement mitigation measures. Please clarify where the budget for these activities is allocated. (Are these costs included under Output 2.4 EE fees, or another category?)<br><br>**CR16:** The grievance mechanism provided in Appendix 3 of Annex 1 states that all project stakeholders, including IE, EE and EE partners are encouraged to use the proposed process. Please clarify which entities will be responsible for addressing specific types of complaints. Considering that this project involves market-related aspects, please specify | **CR15: Cleared (Page 28-34, Annex 1)**<br>Table 4 in Annex 1 includes the budget for mitigation measures, specifying the relevant output under which these measures fall.<br><br>**CR16: Cleared (Page 35, Annex 1)**<br>In the processing of complaints in Appendix 3 of Annex 1, it was included a section that details the responsible entity in each step of the process.<br><br>Market dynamics topics can be investigated by the executing partners, or a team member from the EE, proficient to address market related grievances adequately, when the topics can be addressed from a project design perspective. The final processing stage |

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| | | how complaints related to market dynamics will be handled. For example, if competing SMEs raise complaints about the SMEs supported by the project receiving financing at rates inconsistent with market norms, who will handle such complaints?<br><br>**CR17**: Explain how the ESMS will be tailored to the local contexts of Kenya and Uganda to address country-specific environmental and social risks effectively. | of reviewing the investigation results and communicating the response will be conducted by the EE.<br><br>**CR17: Cleared (Appendix 2 of the Annex I)**<br>Further measures were included in Appendix 2 of the Annex I: future screening of risks through conducted through the social and environmental safeguards focal point or specialist, who is knowledgeable in the target countries' context.<br><br>It was also added in the introduction of Appendix 2 that the ESMS shall be tailored to the specific local contexts of Kenya and Uganda by proactively integrating mitigation measures to address the vulnerabilities specific to the target countries. |
| | 2. Are there measures for financial and project/programme risk management? | **Not Cleared.**<br><br>The proposal identifies six risks and provides corresponding the mitigation measures (para. 212)<br><br>**CR18:** Please describe contingency plans in case of contract non-compliance between SMEs and FIs / adelphi. Additionally, outline the measures to address scenarios where SMEs underperform or declare bankruptcy during the project. | **CR18: Cleared (Page 67)**<br>Para 212 includes the various measures to address scenarios where SMEs underperform or bankruptcy. It is cleared. |

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| | 3. Are arrangements for monitoring and evaluation clearly defined, including budgeted M&E plans and sex-disaggregated data, targets and indicators, in compliance with the Gender Policy of the Fund? | **Not cleared.**<br><br>The proposal includes a budgeted M&E plan, which includes mid-term and final evaluation (para. 227).<br><br>A Gender Action Plan is provided in Annex III.<br><br>GAP impact statement emphasizes improving access to innovative climate adaptation solutions and reducing the gender gap in access to finance and entrepreneurship. Results Framework impact focuses on enhancing climate resilience for all vulnerable groups (women, youth, and communities) but lacks a direct mention of addressing the gender gap in entrepreneurship or access to finance.<br><br>**CAR10:** The results framework impact does not explicitly state reducing the gender gap as a priority outcome. It should include language from the GAP to better emphasize this focus.<br><br>**CAR11:** Please ensure that all indicators and targets from the Gender Action Plan are integrated in the overall results framework, avoiding any discrepancies. Update the results framework to:<br>- Include explicit references to reducing the gender gap in | **CAR 10 and CAR 11: Cleared (Page 72-89 and Annex 3)**<br>The GAP impact statement has been included in the Results Framework, the numbers and indicators have been aligned and specified in the Gender Action Plan in Annex 3.<br><br>**CAR12: Cleared (Page 7 of Annex II)**<br>The monitoring mechanisms was further specified in Annex II. |

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| | | entrepreneurship and access to finance in the impact statement.<br>- The GAP consistently emphasizes 30 women-led enterprises securing loan agreements, while the results framework reduces this target to 25. This difference creates confusion and needs harmonization. Harmonize targets for loan agreements (25 vs. 30) and adaptation technologies (20 gender-inclusive vs. 50 total).<br>- GAP targets development and market readiness of 20 gender-inclusive adaptation technologies. Results Framework Outcome 2.3 mentions 50 new adaptation technologies without specifying how many are gender-inclusive. The results framework should specify the number of gender-inclusive technologies to align with the GAP.<br>- GAP mentions 3 gender-inclusivity modules developed. 200 participants in gender-related training. Results Framework Outcome 2.1 and 2.2 do not include gender-inclusivity modules or training targets explicitly. | |

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| | | - GAP mentions 50 women entrepreneurs mentored and 4 networking sessions. Results Framework does not specify mentorship or networking for women entrepreneurs. GAP mentions 3 women-only cohorts established and 50% participation rate of women in all workshops. Results Framework does not mention women-only cohorts or targeted participation rates for women. Add specific indicators for gender-inclusive training modules, mentorship, networking, and women-only cohorts.<br>- Integrate the women-youth business club and its targets into relevant outcomes or outputs.<br>- GAP mentions engaging a senior expert to ensure full compliance with gender mainstreaming standards. Results Framework does not mention this role. Mention the senior gender expert's role in overseeing compliance with gender mainstreaming.<br>- Review budget allocations to ensure alignment with GAP activities, particularly for gender-specific initiatives. | |

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| | | **CAR12:** Please clarify the monitoring mechanism for gender-related indicators to track progress against both GAP and results framework targets. | |
| | 4. Is a budget on the Implementing Entity Management Fee use included? | **Not Cleared.**<br><br>The proposal includes the breakdown of IE fee (p. 89).<br><br>**CAR13:** The budget figures should be rounded to a whole number (no decimals). Please correct each figure in the table. | **CAR13: Cleared (Page 96)**<br>The IE breakdown table is updated. |
| | 5. Is an explanation and breakdown of the execution cost included? | **Not Cleared.**<br><br>The proposal includes the breakdown of EE fee (p. 88).<br><br>**CAR14:** The budget figures should be rounded to a whole number (no decimals). Please correct each figure in the table. | **CAR14: Cleared (Page 95)**<br>The EE breakdown table is updated. |
| | 6. Does the M&E Framework include a break-down of how implementing entity IE fees will be utilized in the supervision of the M&E function? | **Cleared.**<br><br>M&E plan is budgeted at USD 10,000 as part of the IE fees (p.89). | **-** |
| | 7. Is the timeframe for the proposed activities adequate? | **Yes.**<br><br>. | **-** |

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| | 8. Is a summary breakdown of the budget for the proposed activities included? | **Not Cleared.**<br><br>The proposal includes a budget table (p.86-88); however, it does not include the budget by activities.<br><br>**CAR15:** Please include a detailed allocation of the budget by activities. Additionally, please specify which portion of each financial product offering is derived from AF grants. (please refer to CAR3)<br><br>**CAR16**: Include an activity-wise breakdown of the budget. Clarify allocations for all financial instruments and technical assistance components.<br><br>**CAR17:** Please note that the budget figures should be rounded to a whole number (no decimals). Kindly update each figure in the table accordingly.<br><br>**CAR18**: Specify the allocation of resources for training and capacity-building activities for FIs, SMEs, and other stakeholders. Provide a breakdown by activity and stakeholder group. | **CAR15: Not Cleared.**<br>For reference see CAR3.<br><br>**CAR16**: **Cleared.**<br>The budget table by activities on Page 97 has been provided.<br><br>**CAR17: Not Cleared.**<br>The detailed budget table on Pages 94–95 has not been updated. Please ensure that all budget figures are rounded to whole numbers (no decimals)<br><br>**CAR18**: **Cleared (Page 97-98)**<br>An activity-based budget with an overview of training and capacity-building activities for FIs and SMEs as well as an overview of capacity-building and ecosystem building activities targeting ecosystem stakeholders is included under section G. |
| | 9. Does the project/programme's results framework align with the AF's results framework? Does it include at least one core outcome indicator from the | **Cleared.**<br><br>The project includes a table illustrating its alignment with the AF's results framework and budgets, which outlines key indicators such as the number of | - |

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| | Fund’s results framework? | beneficiaries, outcome 8, and others (p. 81-85) | |
| | 10. Is a disbursement schedule with time-bound milestones included? | **Not Cleared.**<br><br>**CAR19:** The budget figures should be rounded to a whole number (no decimals). In addition, please address any discrepancies in the table. For example, the sum of yearly disbursement amounts is USD 1 larger than the total of USD 5,000,000. | **CAR 19: Cleared (Page 99)**<br>The budget figures have been revised. |

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# REGIONAL INNOVATION PROJECT/PROGRAMME PROPOSAL

## PART I. PROJECT/PROGRAMME INFORMATION

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| Title of Project/Programme: | Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda |
| Country/ Countries: | Kenya, Uganda |
| Thematic Focal Area[1]: | Innovative adaptation financing |
| Type of Implementing Entity: | Multilateral Implementing Entity (MIE) |
| Implementing Entity: | United Nations Industrial Development Organization (UNIDO) |
| Executing Entity: | adelphi |
| Executing Partners: | Kenya Climate Ventures (KCV), Finding XY |
| Amount of Financing Requested: | 5,000,000 (in U.S Dollars Equivalent) |

[1] Thematic areas are: Agriculture, Coastal Zone Management, Disaster risk reduction, Food security, Forests, Human health, Innovative climate finance, Marine and Fisheries, Nature-based solutions and ecosystem-based adaptation, Protection and enhancement of cultural heritage, Social innovation, Rural development, Urban adaptation, Water management, Wildfire Management.

## List of abbreviations

| | | | |
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| **APT** | Adaptation performance targets | **ICT** | Information and Communications Technology |
| **ASAL** | Arid & semi-arid landscapes | **IE** | Implementing Entity |
| **ASAP** | Adaptation SME accelerator Project | **IOM** | International Organization on Migration |
| **BDS** | Business Development Services | **IPCC** | Intergovernmental Panel on Climate Change |
| **BAU** | Business as usual | **ITCZ** | Inter-Tropical Convergence Zone |
| **CSA** | Climate smart agriculture | **MoFPED** | Ministry of Finance, Planning and Economic Development |
| **DFIs** | Development Finance Institutions | **MSME** | Micro, Small and Medium Sized Enterprise |
| **EE** | Executing Entity | **NCAP** | National Climate Action Plan |
| **ERS** | Economic Recovery Strategy for wealth and employment creation | **NDC** | Nationally Determined Contributions |
| **ESIA** | Environmental and Social Impact Assessment | **ROI** | Return on Investment |
| **ESMS** | Environmental and Social Management System | **SACCO** | Savings and credit cooperative organization |
| **ESSPP** | UNIDO Environmental and Social Safeguards Policy and Procedures | **SDGs** | Sustainable Development Goals |
| **FAO** | Food and Agriculture Organisation of the United Nations | **SME** | Small and Medium-sized Enterprise |
| **FI** | Financial Institution | **SOC** | Soil Organic Carbon |
| **GDP** | Gross Domestic Product | **SSA** | Sub-Saharan Africa |
| **GoK** | Government of Kenya | **UGEFA** | Ugandan Green Energy Finance Accelerator |
| **GoU** | Government of Uganda | **WRI** | World Resource Institute |
| **SSP** | Shared socio-economic pathways | **WRUA** | Water Resource Users Association |
| **TA** | Technical Assistent | | |
| **ToC** | Theory of Change | | |

# Project Background and Context:

This project takes an innovative approach in piloting a catalytic finance facility aimed to support early growth adaptation SMEs in Kenya and Uganda to scale their business models and adaptation impact on highly vulnerable target groups. The finance facility in combination with targeted business and post-investment advisory support will help these SMEs to overcome the missing middle financing gap and related challenges to grow and replicate their business operations, thus, widening the outreach and deployment of adaptation solutions to vulnerable groups. Vulnerable communities will benefit from an increased access to targeted and context-specific adaptation solutions, substantially increasing their resilience to climate change. The project will furthermore capacitate local FIs to gain a better understanding of adaptation solutions and technologies as provided by adaptation SMEs to raise their willingness and ability to provide tailored finance for adaptation businesses. Through its innovative approach, the project addresses both the finance supply (financial actors) and demand side (adaptation SMEs) to achieve transformational change in prevailing financing systems and mechanisms in the two target countries. A pre-screening of gender- and youth inclusive adaptation SME pipelines in Kenya and Uganda, the main target group of this project, conducted by the local executing entities (EE) showed that these SMEs operate across regions and counties, their adaptation business models tackling the diverse climate-related challenges of local customers and beneficiaries. At the same time, the SME market is highly volatile as business failures among early-growth enterprises are common and have been further exacerbated by the COVID-19 pandemic. The project will therefore take a cross-regional approach, inviting enterprises to apply from all regions in Kenya and Uganda. The final selection of participating adaptation SMEs will consider the extent the business model in question addresses specific vulnerabilities of the final customers/beneficiaries in the region of operation. To this end, a detailed scoring system with a positive list of eligible adaptation technologies/ approaches will be developed as part of the project's inception phase (see also Climate Risk and Adaptation SME Solution Matrix as a first guidance). Additionally, it is important to note that an initial gender assessment can be found in Annex 2 to give insight into how gendered challenges have been incorporated into the project planning and development.
Kenya and Uganda are heavily interconnected in trade, tourism, infrastructure development and in dealing with the effects of similar climate patterns, relying heavily on agriculture, which is susceptible to climate change. In the light of this, both countries have demonstrated commitment internationally and been proactive in developing and implementing climate policies and strategies. As members of the East African Community (EAC), both countries play a crucial role in shaping regional climate adaptation policies. Their efforts and success stories in climate adaptation can influence collective regional action and serve as benchmarks for other regions. Both countries feature diverse landscapes, from highlands and savannas to forests and lakes. Uganda and Kenya share critical transboundary ecosystems, such as Lake Victoria and the Mara-Serengeti ecosystem.Their varied ecosystems and insights on successful adaptation measures can inform broader regional adaptation strategies and provide role models for adaptation across Africa. Their experiences and lessons learned throughout the project implementation can provide valuable insights for other African nations.

**Background Information**

1. Geography & historical context: Located on the eastern coast of Africa, Kenya and Uganda lay adjacent to the Rift Valley and Lake Victoria. Kenya has a territory of approximately 580,000 km$^2$ and its landscape is predominantly characterized by drylands located in the north eastern and north western part of the country. In the south western part of the country mountain ranges, forested areas and large lakes define the main ecosystem structures. On the other hand, Uganda located west of Kenya is a landlocked country with relatively homogeneous landscapes of 241,555 km$^2$, characterized by large lakes, forested areas, savannahs and the White Nile. With high precipitation rates and large water bodies cover approximately 15% of the country surface area.
2. The populations within these two countries are young and rapidly growing (bottom heavy demographic models). According to the Kenya National Census (2019), the population was reported at 47.6 million people, a severe increase from the estimated 28.7 million in 2000[2]. Uganda's population was estimated at 40.3 million by midyear 2019 with an annual population growth rate of 3.1%[3]. Similarly, to Kenya the demographic model in Uganda is bottom heavy with children below the age of 15, constituting 48.1% of the population. Uganda also has a strong cultural diversity with the most recent census identifying 60 different tribal groups. Over 38.73 million (KE) and 34.3 million (UG) are classified as living in rural areas, accounting for over 76% of households.
3. Economic structures and trends: The economic landscapes of both countries have followed similar growth trends since their independence. In 2020, Kenya's Gross Domestic Product (GDP) was 101 billion USD, and Uganda's was 37.6 billion USD, an increase of 694.73% and 505.43% since the year 2000, respectively. However, despite the rapid increase in GDP, not all parts of the population have experienced these financial gains. According to the GINI[4] index in 2019, income inequalities were classified as high as their scores of 41.61 (Kenya) and 42.80 (Uganda), clearly representing an unequal distribution of wealth. Both countries have seen improvements in[5,]however, rural and remote regions have not yet benefitted from these financial gains due to the lack of markets, price fluctuations for the crops they produce, and increasing climate threats leading to crop loss and poor harvest. Despite the substantial growth and improvement in the economic conditions within Kenya and Uganda, economic structures are predominantly dependent on rain-fed and non-mechanised agricultural production.
4. Agricultural production is central to Kenya's socio-economic success, agriculture contributes to approximately 80% of the workforce and 23.05% of the annual GDP. Similarly, in Uganda 25% of the country's annual GDP comes from agriculture and employs approximately 75% of the total labor force. In addition, women constitute the majority of this labor force, as highlighted by the World Bank (2020), recording 49.2% (Kenya) and 49% (Uganda) of women employed in the agricultural industry. Crop production is the largest component and most important for food security with sugarcane (6.8 million tons), maize (3.8 million tons) and potatoes (1.9 million tons) being the

[2] Kenyan national census. (2019). 2019 Kenya Population and Housing Census - Population by County and Sub-County - openAFRICA

[3] Uganda national census. (2019). THE STATE OF UGANDA POPULATION REPORT 2019 | Ministry of Finance, Planning and Economic Development

[4] The Gini coefficient is a measure of the income distribution of a population. Higher values indicate a higher level of Inequality and values closer to 0 represent more equally distributed income. Source

[5] World Bank, World Development Indicators. (2020). URL: Employment in agriculture (% of total employment) (modeled ILO estimate) | Data (worldbank.org).

most produced crops in Kenya. Similarly, in Uganda, crops were also the largest contributor to this sector with sugarcane (3.9 million tons), plantain (3.8 million tons) and maize (2.9 million tons) being the three largest quantity produce[6].

5. In Kenya, crop production predominantly occurs in Central, Rift Valley, Western and Nyanza provinces. Within these regions, there is large-scale production of coffee, tea, floriculture and smallholder production of essential food crops such as potatoes, beans, corn, and wheat. Areas in Uganda with similar climates, predominantly in central, western and eastern regions are the core agricultural production sites. Livestock farming is widely spread throughout Kenya and Uganda due to cultural and traditional practices in pastoralism. However, drylands in the North Eastern and North Western part of Kenya and the cattle corridor (Uganda) are regions where pastoralism is a main source of income and nutrition[7].

6. Agricultural production within Kenya and Uganda is heavily focused on crop production for staple foods or exportation. Yet, despite the vast number of agricultural exports coming from large-scale producers for products such as tea or coffee, small-scale production is primarily focused on supplying local markets and accounts for 78% and 80% of the total agricultural production in Kenya and Uganda, respectively.

**Climate trends and projections**

7. Climate**:** Kenya and Uganda are located within a highly vulnerable area to climate change with increasing precipitation variability, extreme precipitation and droughts, and raising temperatures causing irreversible damage to the livelihoods of vulnerable communities. According to the Intergovernmental Panel on Climate Change (IPCC), the East Africa region, which includes Kenya and Uganda, has experienced a 1.5 °C increase in temperate since 1901 and projections foresee an increase by 1.7 ºC to 6 ºC by 2080. Uganda and Kenya have faced an increase in annual precipitation rates since the 1960s.

8. Kenya and Uganda are defined by a bimodal precipitation regime, with a short rainfall season occurring October- December (OND) and a long rainfall season between March and May (MAM). Precipitation is controlled by the movement of the intertropical convergence tropical zone (ITCZ), an equatorial band of low pressure where northern and southern trade winds meet, causing heavy rainfall. Due to changes in the annual movement of the sun's solar position, the band moves either north or south depending on the time of year.

9. According to Walter and Lieth climate graph analysis of Kenya and Uganda's climate data between 1989 and 2019, Uganda and Kenya have similar bimodal climates, with annual mean temperatures of 23.3°C and 21.1° respectively (Figure 1 & 2 below). This is represented by the red line illustrating the average monthly temperatures. Evidently, due to the countries' equatorial position, mean seasonal temperatures do not fluctuate significantly. In terms of precipitation, the ITCZ results in bimodal precipitation structures, the two rainfall seasons are clearly depicted by the blue line which presents the monthly average rainfall. Areas with red dotted shading are dry period, and the blue line shading illustrates a humid period, and the full blue shading is present there Is a wet period. However, due to a variety of factors (direction of wind, altitude, etc.) both countries receive regional variations in precipitation. In Uganda, annual mean precipitation rates are at 1264mm with the majority of the year having humid and tropical rainfall events. Precipitation is much stronger in the central and western parts of the country and arid seasons occur in the southern and northern parts of the country. On the other hand, Kenya has a much lower annual mean precipitation at 701mm and an arid period occurring in the two dry seasons This bimodal structure is very clear throughout Kenya with the exception of the arid regions in the east/northeast and north western arid and semi-arid regions where precipitation rates are much lower[8].

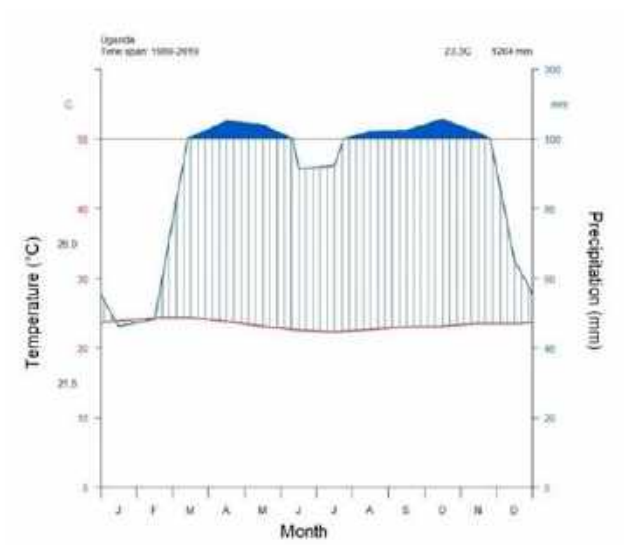

*Figure 1. Climate graph Uganda* (IPCC)

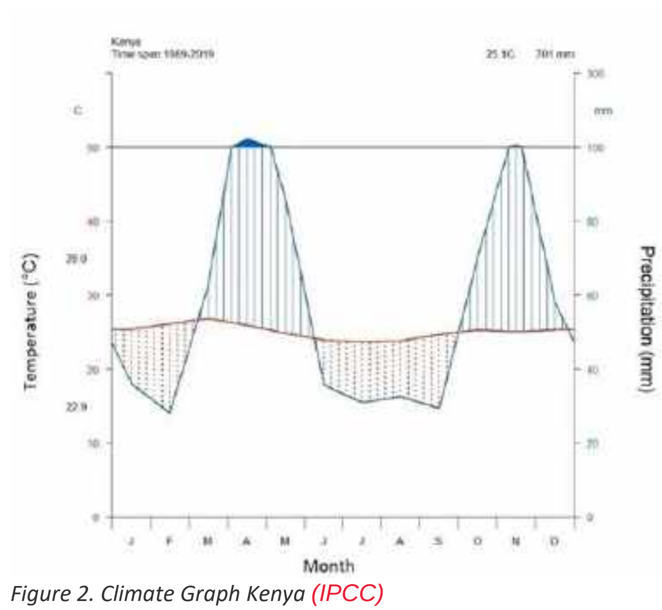

*Figure 2. Climate Graph Kenya* (IPCC)

10. Temperature: Extrapolating the World Bank Climate Portal data (2020) further, temperature variability plots indicate a statistically significant rise in temperature of 1.83°C (Uganda) and 1.7°C (Kenya) from 1901 to 2019. The data strongly suggest that a warming trend

[6] FAOSTAT. (2020). Crop and yield data. URL: https://www.fao.org/faostat/en/#data/QCL and https://www.fao.org/faostat/en/#data/QCL.

[7] Waithaka, M., Nelson, G. C., Thomas, T. S., & Kyotalimye, M. (2013). *East African agriculture and climate change: A comprehensive analysis*. Intl Food Policy Res Inst.

[8] Climate Risk Profile: Kenya (2021)

has occurred in both regions, which is in accordance with findings within (IPCC) reports, national and academic assessments, and several reports from non-governmental organizations.

11. Precipitation: Climate change poses a significant threat to East Africa's bimodal precipitation models, although mean annual precipitation variability plots indicate no significant trend changes in precipitation within the last 120 years. Anomaly plots derived from the World Bank Climate Portal (2020) show a trend to higher precipitation variability in recent years. Likewise, seasonal variability plots illustrate an altered seasonal occurrence of precipitation (Figure 3 & 4). In Kenya, both short dry seasons and short rain seasons are following a trend of increasing precipitation, whilst long rain seasons illustrate a slight reduction in mean seasonal rainfall over the time series. On the other hand, in Uganda all seasons presented an increasing mean precipitation trend, with the short dry season experiencing the most rapid and statistically significant increase. However, scholars have denoted three key variables that have changed in precipitation patterns in both Kenya and Uganda: (a) failure in the seasonality of rainfall, as precipitation is beginning to occur more erratically and outside of the defined bimodal seasonal structures; (b) higher frequency and severity of heavy rainfall events and droughts; (c) Increased occurrence of the El Niño and La Niña events[9] patterns[10].

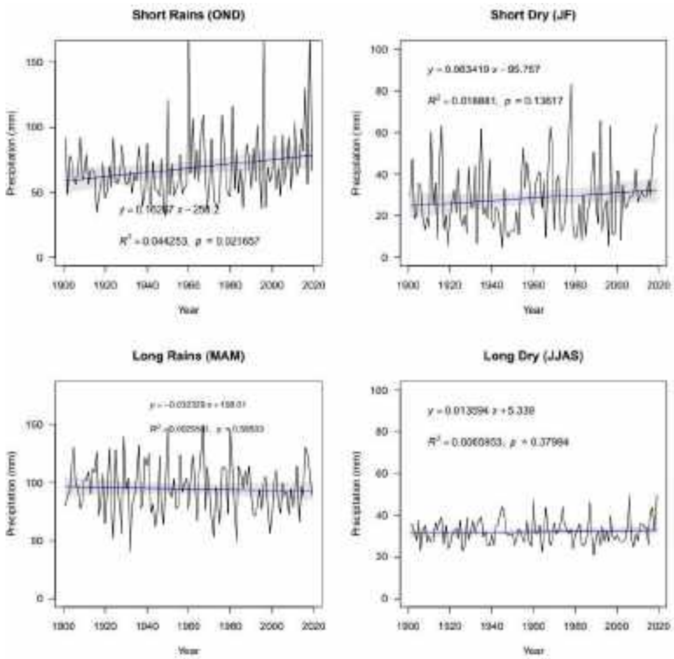

*Figure 3. Mean annual seasonal precipitation trends in Kenya in the time series 1900-2019 - World Bank Climate Portal (2020)*

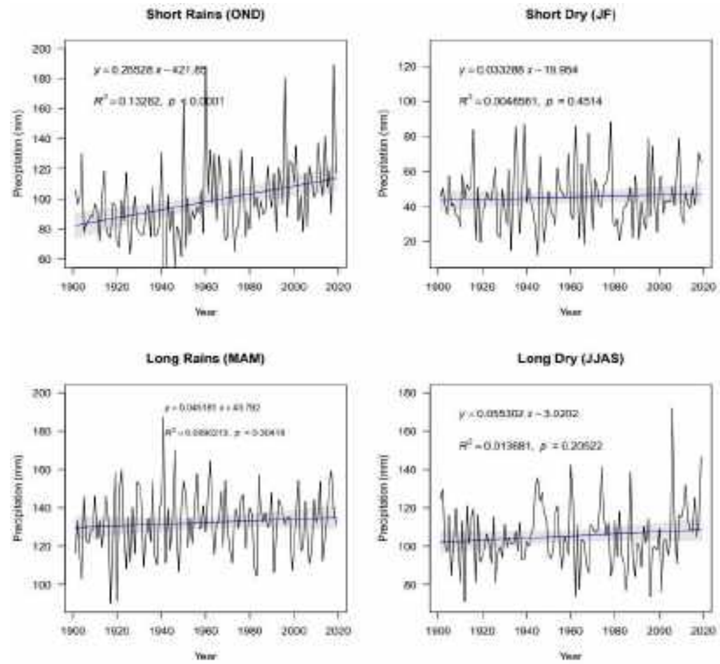

*Figure 4. Mean annual seasonal precipitation trends in Uganda in the time series 1900-2019 - World Bank Climate Portal (2020)*

12. Climate change projections: In terms of temperature, World Bank's shared socioeconomic pathways (SSP) projection 3 (Low mitigation efforts) projects a broadscale warming trend to continue, leading to average annual temperature of 27°C and 28.4°C by 2100 for Uganda and Kenya, respectively (Naing et al., 2014).[11] According to the World Bank, under all SSP scenarios Kenya and Uganda are projected to have a slight increase in temperatures towards the end of the century, particularly during the short rain season[12]. The World Bank and IPCC estimate that there shall also be an increase in "frequency duration, intensity and the proportion of heavy rainfall events" within both countries. However, the dry arid zones in northeastern and northwestern Kenya and northeastern Uganda are projected to experience a decrease in precipitation. Additionally, Kenya as a costal country faces pressures from changing sea level and flooding, it is especially at risk in the city of Mombasa (largest city in the province), Kwale, Mombasa, Kilifi, Tana River, Lamu[13].

**Current and future vulnerabilities, risks and impacts of climate change**

13. As presented above, Kenya and Uganda's economic structures are highly dependent on agriculture and the availability of water. These two sectors have been selected as their successes are paramount for ensuring adaptive capacity and resilience of vulnerable communities to current and future climactic changes. Kenya has a Human Development Index (HDI) value of 0.61 which puts the country in the medium range (142/189). Uganda ranked low on the HDI as it was valued at 0.483 (163/189). The difference in HDI scores can be attributed to variations in social support systems and economic success between the two countries. In Uganda GNI per capita values are low, with nearly half the value of per capital values in Kenya. As a result, the lack of financial resources halts access to natural resources. Financial availability has been strongly correlated with life expectancy, as individuals with lower incomes have less access to health care services, low food alternatives and high vulnerability to climate related food insecurity. The latter point particularly affects young children, newborn and elderly, as during moments of food insecurity they are most likely to face severe consequences[14].

[9] Niang et al. (2014)

[10] Kogo, B. K., Kumar, L., & Koech, R. (2020). Climate change and variability in Kenya: a review of impacts on agriculture and food security. Environment, Development and Sustainability, 1-21.

[11] Under SSP2 - 27.04°C (KE) & 25.49°C (UG). Under SSP1 – 25.61°C (KE) & 24.41°C (UG)

[12] Climate Risk Profile: Kenya. World Bank (2021); Climate Risk Profile: Uganda. World Bank (2021)

[13] Think Hazard. (2022). Coast of Kenyan risk map. URL: Think Hazard - Coast

[14] World Bank, World Development Indicators. (2020).

14. However, currently both countries have similar life expectancy despite the differences in GNI per capita, as values were estimated at 64 (UG) and 67 (KE)[15]. Education scores relatively high with 88% (Kenya) and 89% (Uganda) of 15-24-year-old being literate. This has been correlated to growing incomes and increased availability in affordable education. Therefore, all in all both countries have had significant improvements in their social conditions, however, low incomes coupled with insufficient access and availability of affordable health care and frequent food insecurity issues have resulted in these numbers remaining relatively low.

15. Agriculture, fisheries and climate change: With 75% to 90% of the population in Kenya and Uganda being dependent on rain fed agriculture, climate change is a threat to livelihoods especially for small holder farmers[16]. The growing frequency of droughts leads to collapse in food production systems as crops fail to grow and livestock die due to lack of water and pasture availability. These droughts have been a major driver of food insecurity and poverty rates throughout East Africa. The increasing occurrence of extreme precipitation events has caused erosion of crop lands and resulted in permanent alterations in crop productivity and yield potentials. Climate change also significantly impacts the fishery sector in Kenya and Uganda, particularly through alterations in water temperatures, weather patterns, and the health of aquatic ecosystems. In Lake Victoria, shared by both countries, rising temperatures and increased frequency of extreme weather events disrupt fish breeding cycles and reduce fish stocks, threatening the livelihoods of millions who depend on fishing. Additionally, changes in rainfall patterns lead to fluctuating water levels, affecting the availability of critical habitats for fish. The spread of invasive species and the occurrence of algal blooms, exacerbated by warmer waters, further degrade water quality and fish health. These combined effects necessitate urgent adaptation measures to sustain the fishery sector and protect food security and economic stability in the region.

16. Climate change negatively affects crop production as (1) flash floods wash away crops and soil; (2) Unpredictability and out of seasonal precipitation coupled with warmer temperatures increased the presence of pest and diseases occurrences; (3) Erratic rainfall damages the post-harvest processes for crops that require drying; (4) Heavy rainfall causing erosion that permanently damages plant growth; (5) Out of seasonal precipitation and cloud cover reduces growth rates by blocking solar radiation; (6) The increased frequency of drought experienced caused crop failure due to reduced soil moisture, fertility and quality.

17. Although the above-described climate agricultural shocks are felt throughout both countries, its effects have considerably differing productivity impacts depending on the crops under scrutiny. Warmer temperatures in Kenya, for example, negatively affect maize yields but positively affect tea production. Vice versa, increased precipitation has a positive effect on maize and negative results on tea yields[17.] In addition, the climate impacts on agriculture also include the growing risks and challenges associated with pest and disease management[18]. For example, Jaramillo et al. (2011) found that with increasing temperatures came increasing prevalence of the pest berry borer on coffee plantations in East Africa.

18. Evidently, drought-prone areas are highly vulnerable due to agricultural producers' dependency on rain-fed agriculture in both Kenya and Uganda. Droughts and failure in seasonal rainfall are a major challenge for farmers, as during these events crops fail to produce sufficient yield or die due to heat and water stress. However, long-term trends can also result in permanent damages to yields, while frequent droughts and unexpected heavy rainfall events reduce the soil moisture content and quality thus reducing the potential for farm production.

19. The above-described climate change and agriculture nexus can have further severe health implications. Food insecurity is directly linked to health in Kenya and Uganda as failure in agricultural production has a direct effect on communities' nutritional status, susceptibility to diet-related diseases, and overall health status. Currently, the majority of rural populations live below the poverty line and a further 70% is projected to live in food poverty. With changing climate conditions this region has become particularly sensitive to droughts or out of season rainfall. As a result, communities have seen an increase in prices of staple foods and reduced purchasing power due to lower incomes from crop failure. Parallel to this, the COVID-19 pandemic and the Ukraine-Russia conflict have further escalated price shocks and restricted movements within this region pressuring food prices to rise as supply reduced.

20. Water sector & Climate change: Altering seasonal precipitation patterns, extreme precipitation events, frequent droughts and floods are common problems that all sectors in Kenya and Uganda have to start creating adaptation practices towards. With rapid population growth, water availability is expected to dramatically decline in per capita availability regardless of climatic changes.[19] According to the World Resource Institute (WRI) Water Risk atlas, Kenya is considered categorized in a high-water risk scenario[20] with the exception of some areas in the rift value which are considered to have low water risk. On the other hand, Uganda is almost entirely in a medium water risk scenario, with the exception of regions around Lake Victoria.[21] Throughout both countries the following water-climate related challenges affect the population and water resources.

21. Water scarce regions' groundwater and freshwater supplies have been severely depleted or damaged by a failed water abstraction management leading to over-exploitation of water resources. Regions with limited or low water resource availability fail to incorporate co-management systems due to conflicting demands and requirements of different stakeholders. For example, in the cattle corridor, pastoralists migrating from region to region in search of vegetation and water result in growing conflicts between other pastoralists, water resources users, and management practices for regional water resources[22.]

22. Water availability in Kenya and Uganda is extremely variable across each region. The water resource in Kenya and Uganda is an integral part of vulnerable groups socio-economic standing. The majority of employment activities in these areas heavily depend on direct water

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[15] World Bank, World Development Indicators. (2020). URL: Employment in agriculture, female (% of female employment) (modeled ILO estimate) | Data (worldbank.org).

[16] World Bank, World Development Indicators. (2020). URL: Employment in agriculture (% of total employment) (modeled ILO estimate) | Data (worldbank.org).

[17] Ochieng, J., Kirimi, L., & Mathenge, M. (2016). Effects of climate variability and change on agricultural production: The case of small scale farmers in Kenya. NJAS-Wageningen Journal of Life Sciences, 77, 71-78.

[18] Jaramillo, J., Chabi-Olaye, A., Kamonjo, C., Jaramillo, A., Vega, F. E., Poehling, H. M., & Borgemeister,C. (2009). Thermal Tolerance of the Coffee Berry Borer Hypothenemus hampei: Predictions of Climate Change Impact on a Tropical Insect Pest

[19] GIZ: Climate Risk Profile Kenya (2020); GIZ: Climate Risk Profile Uganda (2020)

[20] This refers to the aggregation of all selected indicators from the Physical Quantity, Quality and Regulatory & Reputational Risk categories

[21] WRI. (2022). Aquaduct. URL: Aqueduct | World Resources Institute (wri.org)

[22] Nsubuga, F. N., Namutebi, E. N., & Nsubuga-Ssenfuma, M. (2014). Water resources of Uganda: An assessment and review. Journal of Water Resource and Protection, 6(14), 1297.

availability (i.e. agriculture, tourism, energy, manufacturing industries). Currently, it is estimated that per capita freshwater availability is projected to decline by 80% and 73% for Uganda and Kenya respectively[23.] This loss is not primarily due to projected climate changes but the sheer projected mass population growth in both countries is expected to double by the year 2060, thus reducing the overall freshwater availability[24]. The primary driver of this increased water insecurity is the enhanced usage and demand for water resources despite altering precipitation models.

*23.* The desk research and stakeholder interviews have revealed key vulnerable groups are those in water scarce/ dryland regions. Within Uganda the cattle corridor is particularly vulnerable due to its frequency of droughts. The low-income earning community members requiring water for their cattle are particularly at risk. These communities have very little access to boreholes or water storage technologies due to technological and financial restraints. This is clearly seen on the WRI water stress atlas, as both countries are considered to have extremely high inability to access to improved water sources[25]. At the same time, they predominantly practice agro-pastoralism making them highly dependent on predictable precipitation events for livestock and crops success. Failures in precipitation tend to go hand in hand with increase food insecurity, poverty rates and malnutrition in both countries according to the FAO.[26]

*24.* Climate change further presents a specific challenge for remote regions with low water access as during extreme rainfall events, waste matter, pollutants, chemical compounds and dangerous biological organisms are washed down into water systems at a more rapid rate[27]. Coupled with increasing temperatures, water-borne diseases are able to develop faster and, in more regions. According to the WHO, water-borne disease is the leading cause of child mortality (children under the age of 5) in Sub-Saharan African countries.

**Identified vulnerable regions**

*25.* Coastal regions:[28] Kenya's coast is an important economic zone for East Africa as its ports connect the region's produce with international markets. Currently, the province provides living spaces for 4.3 million Kenyans according to the 2019 national census, and contributed approximately $5.7 billion to Kenya's GDP in 2019 (Kenya National Bureau of Statistics, 2019; Kenya National Census, 2019). However, for the majority of these economic activities operating near coastal regions, sea level rise is a particular concern as it can damage water systems, wash away agricultural land and increase the risk and spread of water borne diseases. In other coastal locations, sea level rise is likely to render more acute the current water supply and salinization problems, as freshwater aquifers are contaminated with saline water. Water logging of soils and the resulting salt stress is likely to reduce crop production. Kenya's broader economy is also at risk from rising seas as coastal and marine resources are critical to economic development through tourism, fisheries, shipping and port activities. Despite these threats the coast has yet to be severely affected, however future projections predict a sea level rise of 0.3 meters has been projected to submerge 4-6km of the largest coastal city, Mombasa [29].

*26.* Key River/Lake watersheds: A watershed can be defined as the dividing ridge between two different drainage areas. These features are important as they determine the availability of water for certain counties, this proposal has identified 12 (KE) and 18 (UG) counties where the watershed for several important lakes and river is located. According to the desk research conducted, climate change impacts occur differently within these regions. Watersheds areas define almost all areas of land in both countries. However, several watersheds are essential for the provision of water to other regions and communities but remain highly vulnerable to climate change. For example, Lake Naivasha has increased its volume by nearly 30% between 2017 and 2020 due to changes in the hydrological cycle, this caused severe impacts to wildlife, tourism, agricultural production and housing infrastructure. Low income earners located near the shores were most affected as their small holder agricultural plots, fishing grounds and houses were flooded[30].

*27.* Within these watershed areas, smallholder agricultural producers are the dominant and most vulnerable group. Due to cultural traits, such as the intergenerational distribution of land and the lack of key resources (in all regards), these agricultural producers have very low adaptive capacities. At highlands, producers face yield losses from heavy rainfall, reduced water availability, erosion driven soil quality reductions and landslides. However, at low altitudes agricultural producers face production shocks from floods, droughts, and landslides.

*28.* Arid/Semi-arid landscapes: Arid and semi/arid regions (ASALs) are landscapes that are characterized by low precipitation rates, high temperatures (during the day and low temperatures during the night) and limited alternative water sources, thus preventing the growth of plant and animal life. The arid/ semi-arid landscapes within Kenya range from Northwestern counties Turukana and Marsabait to the north east counties of Wajir and Mandera. In Uganda, drylands occur in both the northern and southern parts of the country in the central and Karamoja districts. Within both of these countries' dryland areas, smallholder subsistence agriculture and pastoralism are dominant forms of livelihood strategies. Pastoralism is estimated to constitute about 15%of the total agricultural GDP in Kenya and employ more than half of the agricultural labor force. In Uganda pastoralism occurs predominantly within the cattle corridor region (hosting 90% of all cattle in Uganda), which is a stretch of land (43% of Uganda's total area) that runs from the northeast of the country down to the southwestern section. This area hosts an abundance of agro-pastoralists, approximately 27% of the total population, that practice both small holder crop production and pastoralism[31].

*29.* ASAL regions in sub-Saharan Africa are beginning to experience more frequent occurrences of droughts, altered/shorter rainfall seasons, and higher temperatures. In Kenya and Uganda cyclic drought events have occurred and caused severe crop and livestock losses, famine

[23] GIZ: Kenya (2020); GIZ: Uganda (2020)

[24] Ahmadalipour, A., Moradkhani, H., Castelletti, A., & Magliocca, N. (2019). Future drought risk in Africa: Integrating vulnerability, climate change, and population growth. Science of the Total Environment, 662, 672-686.

[25] WRI. (2022). Aquaduct. URL: Aqueduct | World Resources Institute (wri.org)

[26] FAO (2019)

[27] Wen, Y., Schoups, G., & Van De Giesen, N. (2017). Organic pollution of rivers: Combined threats of urbanization, livestock farming and global climate change. Scientific reports, 7(1), 1-9.

[28] As a landlocked country, this section is not relevant for Uganda

[29] Kebede, A. S., Nicholls, R. J., Hanson, S., & Mokrech, M. (2012). Impacts of climate change and sea-level rise: a preliminary case study of Mombasa, Kenya. *Journal of Coastal Research*, *28*(1A), 8-19.

[30] Odongo, V. O., van Oel, P. R., van der Tol, C., & Su, Z. (2019). Impact of land use and land cover transitions and climate on evapotranspiration in the Lake Naivasha Basin, Kenya. *Science of the total environment*, *682*, 19-30.

[31] FAO (2019)

and displacement. For example, despite food insecurity warnings in Uganda being relatively low this year, Kenya is set to experience a severe famine, as 26-50% lower rainfall was experienced in the OND rains at the end of 2021. Future projections for warmer temperatures, altered precipitation patterns and increased frequency of droughts are likely to hamper the availability of water resources, diminish livestock hers and increase competition over grazing lands in ASAL regions. Moreover, an insufficient land tenure system, poor infrastructure, and social factors (such as migration, low literacy and high poverty levels) limit the farmers' ability to cope with climate change and variability.

*30.* High Potential Agro-economic Zones: As most of the agricultural production is rainfed, yields are dependent on water availability from precipitation. Due to high operation costs, limited extension services, lack of credit, and insufficient supply of technical equipment, the adoption of irrigation related technologies has been low[32]. As a result of such factors, only 1% (KE) and 0.5% (UG) of cropland is irrigated in both countries (ibid). High potential agro-economic zones are responsible for ensuring steady supply of food in Kenya and Uganda, however, they are particularly sensitive to climate changes. These regions are located in central and western parts of Kenya, and are defined by moderate altitudes with bimodal precipitation structures (table 2). In Uganda, these agricultural zones are also spread throughout the central, western provinces and also adjacent to Lake Victoria (table 2).

*31.* Climate changes occurring in Kenya and Uganda presents high potential agro-economic zones with similar production and yield challenges. Overall, the agricultural industry faces challenges ensuring yields as (a) out of season rainfall and cloud covers hampers growing success; (b) increased frequency of droughts and floods results in permanent damage to soil and crop growth potentials; (c) damage to crops during extreme rainfall events reduces soil quality and harms the plant. It is important to note that not all crops are projected to experience losses and regional distribution should be observed as an important factor, as crops like cassava are projected to increase yields by nearly 25% in Kenya and reduce by 12% in Uganda[33].

*32.* Major cities and urban agglomerations: Urban areas are known to be more resilient to climatic changes than rural areas as they have greater financial resources, they do not primarily depend on climate factors for economic success, and they have strong water governance measures on abstraction. However, climate change is expected to increase temperatures most severely in urban areas due to the urban heat effect. For example, according to the climate risk profile assessment by GIZ, Uganda's heat-related mortality is projected to increase by a factor of four by 2080 thus increasing those at risk from 0.2% to 9.5% of the total population. Similarly, projections for Kenya indicate that this figure will increase from 0.6% to 6.0% of the total population by 2080[34].

*33.* Urban areas are also at risk of floods. The major cities including Nairobi, Mombasa, Kampala, Entebbe frequently face climate related floods and are areas of concern for the future. Table 1 further clarifies all high-risk areas that were identified for each country. The community members most affected are those living in unregistered housing areas (slums) as their low housing quality, lack of drainage systems and close proximity to rivers results in direct impacts during heavy rainfall events.

**Identified vulnerable segments of the population**

*34.* Smallholder Farmers: Smallholders have been highlighted by both national governments, NGOs, and academics as key to ensuring food security in developing countries. Unfortunately, these smallholder producers are generally the most vulnerable to climate-related shocks due to their low adaptive capacities. This lack of capacities to adapt is due to their inadequate access to resources (financial, technological, human), unstable markets, poor infrastructure and insufficient access to external expertise to guide them on adaptation practices.

*35.* Pastoralists: In terms of livestock production, Kenya and Uganda have cultural and traditional traits that are linked to pastoralism. The dominant tribal groups who practice pastoralism are the Maasai, Kalenjin, Somali, Turkana, Oromo and Rendile in Kenya, this group is wide spready but 50% is based in the north western and north eastern provinces; and the Bahima/Abanyankole, Karamojong, Basongora, Itesot, Baruli and Banyarwanda in Uganda, interestingly, pastoralism is stretched across 42% of the country in a pastoralist bank known as the cattle corridor. Animal husbandry is a highly climate sensitive industry as production success is determined by precipitation and grassland availability. With increasing frequency and severity in droughts and failure in seasonal rainfall, producing livestock has faced new challenges as accessing grazing lands, pressures from diseases, or lack of water sources for their animals to hydrate[35].

*36.* Women in agriculture: Although male and female farmers equally experience climate change-related effects, the adaptive capacities to in agriculture vary significantly among male and female-headed households. This is mainly a result of cultural and customary law barriers affecting the interaction with agriculture. Ugandan and Kenyan women usually grow annual food crops that are of less value and earn less money. Men are engaged in planting mostly high value crops (that earn more money) e.g. coffee and tomatoes and are involved in cattle rearing. When experiencing a climate shock, women tend to face larger financial burdens as to their already limited financial resources. Whereas, men engage are likely to be more financially equipped to tackle certain climate challenges.

*37.* In conjunction with this is their barrier to accessing financing from financial institutions (FI). FIs enable men and women to invest, improve and develop their agricultural resources to be further resilient to climate change. However, as men are the predominant owners of land they are able to take loans and utilize their land as collateral. However, women who already face restricted landownership, due to customary law, are unable to attain commercial finance due to their inability to provide collateral. This is a critical barrier for women as with reduced financial availability they are less likely to invest or develop their agricultural produce, especially during climate shocks.

*38.* Rural saving schemes (such as Chamma or Savings and Credit Cooperative Organisations (SACCOs) have been paramount to ensuring some form of financial services and lending for female farmers in Uganda and Kenya as they often offer more favorable lending conditions than commercial banks. This is due to high interest rates from commercial financing and that business plans ofren not adequately account for women's labor which makes farming less profitable for women and further hinders investments in CSA technologies and practices due to their high upfront costs. Additionally, spending patterns among male and female-headed households vary significantly. Informal loans were more likely to be utilized by female-headed households on food, health and education, while formal loans are more commonly utilized by male-headed households on agriculture/ livestock inputs, food and education.

[32] AQUASTAT (2002). URL: https://www.fao.org/aquastat/statistics/query/results.html

[33] GIZ: Kenya (2020); GIZ: Uganda (2020)

[34] GIZ: Kenya (2021); GIZ: Uganda (2021)

[35] Twinomuhangi, R., Sseviiri, H., Mfitumukiza, D., Nzabona, A., Mulinde C. (2022) Assessing the evidence: Migration, Environment, and Climate change nexus in Uganda. Makerere university center for climate change and innovations.

39. Youth and agriculture: The success of agricultural production can have direct impacts on children and youths' lives. In cases of agricultural failure, children can suffer from food-related illnesses that can directly affect their ability to perform in school or even lead to developmental delays. Failure in crop production can put financial constraints on family's abilities to pay school tuition for their children thus reducing their ability to search for other jobs outside of the agricultural or other low skilled jobs. As a result, youth in such scenarios tend to remain dependent on this subsistence agriculture if they choose not to migrate. Others may choose to move to urban centers with the hope of attaining higher paying stable jobs, however, the lack of education, low demand for low-skilled labor and high living costs tends to leave these individuals in low-income settlements.

40. Communities without access to improved drinking water: As presented above water access is highly dependent on individuals' access to drinking water, their regional location (urban/rural), the main ecosystem type (drylands, forested, etc.), and their demand. In Kenya and Uganda water access is strongly affected by the ecosystem type and evidently as presented above the arid/ semi-arid regions have the least available amounts of water. According UNICEF, 56% and 69% of people in Kenya and Uganda have access to safe drinking water[36] Despite these values being relatively high, rural areas are more secluded from access to improved drinking water sources due to an insufficient government investment in remote water infrastructure and technological challenges relating to storage and maintenance of fresh water that occurs in these regions. In Kenya and Uganda ASAL areas and low-income urban areas are high risk areas due to the unavailability of improved water sources (Table 1).

**Adaptation SME**

41. Role of SMEs in the economy of Kenya and Uganda: A small and medium sized enterprise (SME)[37] operates on a relatively small scale, both in terms of employment and the economic outputs they create (assets and annual sales). The project will use the official definitions according to the Micro and Small Enterprises (MSEs) Bill 2012 of Kenya and the definition provided by the National Micro, Small and Medium Enterprises Policy (2015). Despite their small scale, SMEs play a fundamental role, especially in developing economies as they help reduce poverty rates through job creation and substantially contribute to economic growth. Likewise, they are fundamental for providing decent jobs and entrepreneurship avenues for women, youth and other vulnerable groups. The SME sector can play a quintessential role in reducing the gender gap as it can promote and ensure the effective participation of women in national economies.

42. The SME sectors account for approximately 80% and 90% of the private sector and contribute 35% and 75% of the total GDP in Kenya and Uganda' respectively. Additionally, the SMEs in both the formal and informal sector have been found to be job engines. As a result, 14.9 million and +3 million people are estimated to be employed by this sector in Kenya and Uganda. In Kenya, according to recent survey by the Kenyan Banker's Association and JICA, these enterprises are spread throughout all sectors but were predominantly present in wholesale and retail trade, followed by information and communication technology and then agriculture. Similarly, in Uganda, enterprises are predominantly concentrated in the service sector, with agriculture closely following up. Representing the lion's share of enterprises in the two economies, these SMEs operate on community level and increasingly target vulnerable populations at the bottom of the pyramid, consisting of customers, employees or partners along their value chain. They further provide adaptation solutions that are locally sourced, affordable and tailored to vulnerable communities' needs.

43. **SMEs as providers of affordable local adaptation technologies, products and solutions:** National and large-scale approaches to generating adaptation solutions on a small-scale frequently fail to recognize the discrepancies that exist in different contexts[38]. Likewise, macro level planning has also been criticized for their failure to include marginalized groups. SMEs as the backbone of the Kenyan and Uganda economies are key to empowering vulnerable communities as they are aware of the context-specific climate challenges individuals and communities are facing. By providing affordable, and context-specific climate adaptation solutions, SMEs have a unique advantage over larger enterprises in effectively addressing the needs of vulnerable communities across the world. SMEs have local knowledge because they tend to operate, adapt and sell their products within the region they are based, this is particularly useful in terms of climate adaptation as they are aware of the intersections between location-specific climate, environmental and socio-economic factors and context-specific challenges communities are facing with regard to climate change. This can also be used as a force to educate as they can inform community members on the importance and benefits of operationalizing certain adaptation strategies[39]. Many SMEs are already developing solutions that contribute to climate adaptation, even if they do not explicitly identify as adaptation-focused enterprises. Others may have the potential to tailor their products and services to meet local adaptation needs but lack the necessary awareness and support to make this transition. This project is based on the fundamental assumption that, with targeted capacity-building and financial support, these SMEs can refine their business models to better align with climate adaptation challenges. By identifying and engaging such enterprises, the project will help unlock their potential to provide solutions that directly address the climate risks their communities face. A core barrier for adaptation SMEs is the "missing middle"—a gap not only in financing but in the business model refinement necessary to make adaptation solutions viable and scalable. Unlike traditional SMEs, adaptation-focused businesses require specialized support to structure their business models around climate adaptation needs. The project, therefore, does not merely provide funding but ensures that SMEs can clearly articulate their role in climate adaptation and position themselves as investable enterprises in this space. For instance, an SME developing irrigation systems may already provide value to farmers but may not yet have adapted its model to explicitly address climate-related water scarcity challenges in a particular region. Through this project, such SMEs will receive tailored technical assistance and business support to integrate climate adaptation rationales into their solutions. This approach will help ensure that adaptation financing directly supports SMEs that generate measurable climate resilience outcomes. Additionally, by focusing on inclusivity, the project will prioritize SMEs in rural areas, as well as those led by women and youth, ensuring that the benefits of adaptation

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[36] UNICEF. (2019). UNICEF Uganda annual report 2019. URL: UNICEF_UgandaAR2019-WEBhighres.pdf

[37] The project will facilitate access to finance for early-growth SMEs, excluding Micro enterprises as they are not be eligible for the loan sizes targeted nor in the position to absorb these. The project indirectly also benefits Micro enterprises as they form part of the beneficiary SME value chains respectively are their customers.

[38] Baker, I., Peterson, A., Brown, G., & McAlpine, C. (2012). Local government response to the impacts of climate change: An evaluation of local climate adaptation plans. Landscape and urban planning, 107(2), 127-136

[39] Naess, L. O., Newell, P., Newsham, A., Phillips, J., Quan, J., & Tanner, T. (2015). Climate policy meets national development contexts: Insights from Kenya and Mozambique. Global Environmental Change, 35, 534-544.

solutions reach the most vulnerable communities. Ultimately, this targeted support will create a pipeline of viable adaptation businesses that can access and effectively utilize financing, bridging the gap between innovation and impact.

*44.* Parallel to understanding the contextual challenges, SMEs provide products that are affordable and accessible to the surrounding community/ vulnerable target groups. SMEs can also frequently adapt and alter their products which makes them ideal providers of adaptation technologies, a feature that challenges larger corporates who must undergo bureaucracies that restrict timely changes. Furthermore, they develop market-based viable business models for the deployment of their adaptation products and services. All in all, SMEs that focus on providing adaptation solutions can ensure better integrated adaptation practices that support NCAP's and NDC's.

*45.* This project defines adaptation SMEs in accordance with the Adaptation Solutions Taxonomy framework developed by the Adaptation SME Accelerator Project (ASAP)[40] funded by the Global Environmental Facility (GEF): An Adaptation SME is a company providing technologies, products and/or services (TPS) that: Address systemic barriers to adaptation, by strengthening user's ability to understand and respond to physical climate risks and related impacts and/or capture related opportunities AND/OR contribute to preventing or reducing material physical climate risk and/or the adverse associated impacts on assets, economic activities, people or nature AND do no harm and generate long term value. The selection of adaptation SMEs for this project will be guided by the Climate Risk and Adaptation SME Solution Matrix (see Part I, Chapter 1.5) listing eligible adaptation solutions for the identified vulnerable regions and groups.

[40] https://lightsmithgp.com/wp-content/uploads/2020/09/asap-adaptation-solutions-taxonomy_july-28-2020_final.pdf

**Climate Risk and Adaptation SME Solutions Matrix**

*46.* The following matrix is a result of the Climate Risk and Vulnerability Assessment, as well as an in-depth market assessment of adaptation business model conducted in preparation of this fully-developed proposal. It gives a preview of eligible adaptation solutions for the vulnerable regions and groups identified under Part I. The selection of adaptation SMEs to receive support under this project will be guided by the identified adaptation solutions

*Table 1. Kenya's & Uganda's regional, sectoral and group vulnerability to climate change and identified solutions provided by adaptation SMEs*

| Region | Main counties | Main climate challenges | Most climate vulnerable socio-economic sector & group | Potential /Current solutions provided by adaptation SMEs |
|---|---|---|---|---|
| River/Lake watershed ecosystems | **Kenya:**<br>Nakuru, Baringo, Kajiado, Busia, Homabay, Kakamega, Kisumu, Siaya, Kericho, Migori, Nyandarua, Tana River<br><br>**Uganda:**<br>Hoima, Masindi, Nebbi, Gulu, Apac, Lira, Soroti, Kumi, Pallisa, Mpigi, Masaka, Fort Portal, Bugiri, Iganga, Mukono, Luwero, Mubende | **Kenya:**<br>**Overall**: Unstable hydrological flows<br><br>**Main variables:**<br>1) Extreme weather events (droughts/floods)<br>2) Altered and more extreme hydrological cycles<br>3) Altered precipitation and cloud cover patterns<br><br>**Uganda:**<br>*High elevation:*<br>1) Heavy and out of season precipitation causing landslides, flooding, erosion, and soil degradation<br>2) Increased occurrence and frequency of droughts<br>*Low elevation:*<br>3) Heavy precipitation events causing increased loading of chemical and organic compounds in lake ecosystems<br>4) Unstable precipitation patterns causing more variable lake and river ecosystems. | **Sector: Agriculture**<br>• Reduced crop yields for lake ecosystem agricultural industries due to flooding and out-of-seasonal rainfall (1 & 2)<br>• Crop failure from altered precipitation patterns (2 & 3)<br>• Changes in fish availability due to reduced water quality, eutrophication and poisonous compounds flushed into river systems (1,2).<br>*Key vulnerable actors:*<br>• *Agricultural producers near lakes and rivers or in low elevation areas*<br>• *Small holder agricultural producers without water storage or protected cultivation systems*<br>**Sector: Water**<br>• Lakes and rivers become more unstable from changing climatic conditions resulting in flooding and dropping water levels (1,2,3)<br>• Flooding-related damages to infrastructure (1)<br>• Low hydro-Energy Output (1 & 2)<br>• Pooling of water increases risk for water & vector borne diseases such as malaria, typhoid bilharzia, etc. (1, 2)<br>*Key vulnerable actors:*<br>• *Hydro energy producers and low-income earning energy consumers. Failure in hydro production can lead to fluctuations in energy prices*<br>• *Community members residing near lakes and rivers*<br>• *New born children, pregnant women, elderly and young children are highly vulnerable to agricultural failures and water borne diseases* | **Agricultural production and fisheries:**<br>• Weather & Climate Information Systems (WCIS, e.g. weather forecasting systems)*<br>• Protected cultivation systems (e.g. greenhouses)<br>• Integrated Soil Fertility Management (IFSM, e.g. organic fertiliser)**<br>• Fish stock reloading services<br>• Agricultural extension services (including intercropping techniques, agroforestry, climate smart agricultural practices, sustainable agricultural practices)***<br>• Bio pesticides<br>• Media educational programs for climate smart agriculture<br>• Index-based micro insurance for smallholders****<br>• Pest/disease and drought-resistant crops*****<br><br>• Farming Equipment Leasing<br>**Water management**<br>• Water storage and harvesting systems<br>• Drip irrigation and hydroponic systems******<br>• Water resource regulation (e.g. riparian management)<br>• Reforestation programs<br>• Smart sanitation and water purification systems |
| High Potential Agro-economic Zones | **Kenya:**<br>Likipia, Nakuru, Nyandarua, Kiambu, Nyeri, Uasin Gishu, | **Kenya:**<br>**Overall**: Unstable precipitation patterns<br>**Main variables:**<br>1) Extreme rainfall events | **Sector: Agriculture**<br>**Kenya:**<br>• Agricultural producers experience crop failure, lower yields, damaged soils (moisture, quality, carbon), and increased pressure from pests and diseases during extreme and out of season rainfall events (1, 2, 3, 4). | **Agricultural production**<br>• WCIS (e.g. weather forecasting systems)*<br>• Protected cultivation systems (e.g. greenhouses)<br>• ISFM**<br>• Pest/disease and drought-resistant crops***** |

| Region | Main counties | Main climate challenges | Most climate vulnerable socio-economic sector & group | Potential /Current solutions provided by adaptation SMEs |
|---|---|---|---|---|
| | Embu, Makueni, Kajiado, Machacos,<br><br>**Uganda:**<br>Apac, Masindi, Lira, Jinja, Soroti, Kumi, Kamuli, Luwero, Mukono,Mbarare, Masaka, Rukungiri, Bushenyi, Kabale, Kisoro | 2) Altered and more extreme hydrological cycles<br>3) Altered precipitation and cloud cover patterns<br>4) increasing frequency of droughts<br><br>**Uganda:**<br>**Overall**: Highest projected positive change in average temperatures, extreme heat<br>**Main variables:**<br>1) Extreme weather events (droughts/floods)<br>2) Altered and more extreme hydrological cycles<br>3) Altered precipitation and cloud cover patterns | **Uganda:**<br>• Reduced crop yields and quality (particularly for rainfed agriculture) due to higher temperature and/or lack of regular rainfall (1,3)<br>• Crops losses due to extreme weather events (2)<br>• Soil degradation due to increased temperatures and extreme weather events (1,2,3)<br>*Key vulnerable actors:*<br>• *Small holder agricultural producers without water storage, protected cultivation systems and other essential adaptation technologies*<br>• *Women involved in agricultural production, especially single mothers.*<br>**Sector: Water**<br>**Kenya:**<br>• Flooding related damages to infrastructure (1)<br>• Pooling of water increases risk for water & vector borne diseases such as malaria, typhoid bilharzia, etc. (1)<br>**Uganda:**<br>• Contamination of water sources (1, 2)<br>• Damage to already Insufficient water storage systems (1,2)<br>• Hydro-power production failures (1,2)<br>• Pooling of water increases risk for water & vector borne diseases such as typhoid and bilharzia, etc. (1, 2)<br>*Key vulnerable actors:*<br>• *Damage to roads reduces access to markets for agricultural producers*<br>• *Young children, elderly and pregnant women are most susceptible to these diseases*<br>• *Community members residing near lakes and rivers (Uganda)* | • Agricultural extension services***<br>• Farming equipment leasing<br>• Bio pesticides<br>• Media educational programs for climate smart agriculture<br>• Index-based micro insurance for smallholders****<br><br>**Water management**<br>• Flood protection technology<br>• Drip irrigation and hydroponic systems******<br>• Smart sanitation and water purification systems |
| Arid/Semi-Arid Landscapes of Northern Kenya<br><br>For Uganda, specifically the "Cattle Corridor" | **Kenya:**<br>Mandera, Wajir, Garissa, Isiollo, Marsabit, west pokot, Mandera.<br><br>**Uganda:**<br>Kotido, Moroto, Soroti, Lira, Apac, Kumi, Luwero, Kiboya, Kibale, Mubendu, | **Overall**: Increasingly drier climate; Droughts are becoming more extreme and frequent<br><br>**Main variables:**<br>1) Increasing frequency of droughts<br>2) Altered precipitation and cloud cover patterns<br>3) Cyclone driven locust swarms<br>4) rare but extreme rainfall events | **Sector: Agriculture**<br>• Crop failure and severe crop damage and livestock losses due to prolonged drought periods (1)<br>• Partial yield losses due to locust pests (3)<br>• Reduced soil quality due to intensified erosion dynamics (1, 2 & 4)<br>• Livestock losses and increased livestock stress due to lack of vegetation and water (1,2)<br>*Key vulnerable actors*<br>• *Pastoralist and agricultural producing communities.*<br>• *New born children, pregnant women, elderly and young children are highly vulnerable to fluctuations in food availability.*<br>• *Chronic dehydration can hamper childhood and prenatal development.*<br>• *Pastoralists are at risk of conflict related mortality.* | **Agriculture production**<br>• WCIS (e.g. weather forecasting systems)*<br>• Pest warning systems<br>• Protected cultivation systems (e.g. greenhouses)<br>• ISFM**<br>• Pest/disease and drought-resistant crops*****<br>• Animal feed storage facilities<br>• Farming equipment leasing<br>• Solar borehole solutions<br>• Bio pesticides<br>• Improved seed and livestock breeds<br>• Agricultural extension services*** |

| Region | Main counties | Main climate challenges | Most climate vulnerable socio-economic sector & group | Potential /Current solutions provided by adaptation SMEs |
|---|---|---|---|---|
| | Sembabule, Marare, Rakai | | **Sector: Water**<br>• Severe decline in fresh water availability both above ground and in underground storage (1)<br>• Contamination of water sources (1,3)<br>• Damage to already Insufficient water storage systems (3)<br>*Key vulnerable actors*<br>• *Pastoralist and agricultural producing communities with limited access to water sources.*<br>• *Chronic dehydration can hamper childhood and prenatal development.* | • Media education on adaptation avenues<br>• Index-based micro insurance for smallholders****<br>**Water management**<br>• Water storage and harvesting systems<br>• Drip irrigation and hydroponic systems******<br>• Smart sanitation and water cleaning systems<br>• Drought and food security early warning systems |
| Major cities, urban and rural agglomerations | No specified county: predominantly low-lying areas<br><br>High risk Cities Kenya: Nairobi, Mombasa, Naivasha, Kisumu, Nakuru,<br><br>High risk cities Uganda: Kampala, Entebbe, Jinja, Soroti. | **Overall**: damage to local infrastructure and communities from extreme rainfall events and high temperatures<br>**Main variables**<br>1) Increased frequency of extreme rainfall events causing flooding and landslides.<br>2) Severe warming caused by urban heat effect and Climate change<br>3) Altered and more extreme hydrological cycles (only Uganda)<br>4) Altered precipitation and cloud cover patterns (only Uganda) | **Sector: Agriculture**<br>• Limited damage due to the little amount of producers<br>*Key vulnerable actors*<br>• *Urban crop producers face financial losses from production failures*<br>**Sector: Water**<br>• Long term damage to water systems and storage (1)<br>• Communities living in low quality housing face damages and in some cases become displaced. These migrants face risks from food insecurity and other diet related issues. (1)<br>• Pollution of drinking water systems increases the presence of water borne diseases. (1,2,3)<br>• Old and young generations are at risk of heat stroke during high temperatures due to metal housing heat insulation (2).<br>• Pooling of water increases risk for water & vector borne diseases such as malaria, typhoid bilharzia, etc. (1, 2)<br>*Key vulnerable actors*<br>• *Low income earners living in low quality housing areas (i.e. Kibera slum)*<br>• *New born children, pregnant women, elderly and young children vulnerable to heat related mortality and water borne diseases.* | **Water management**<br>• Water storage and harvesting systems<br>• Improved drainage systems and flood barriers have been installed.<br>• Improved housing infrastructure (including ventilation/cooling systems, concrete walls, etc.).<br>• Irrigating gardens, urban farms-decentralised water storage facilities<br>• Flood protection technology<br>• Water infiltration and attenuation systems<br>• sewer system clean-ups<br>• Flood warning systems<br>• Smart sanitation and water cleaning systems<br>• Disease Surveillance Systems |
| **Example enterprises:** | | | Index-based micro insurance for smallholders****: Akaboxi Ltd. (Uganda)<br>Pest/disease and drought-resistant crops*****: Bakhonya (Kenya)<br>Drip irrigation and hydroponic systems******: Hydroponics Africa Ltd. (Kenya) | |

**Problem Statement**

*47.* The proposed project aims to specifically address three key barriers (a-c) and seven sub-challenges (1-7) in Kenya and Uganda:

***a) Lack of coordinated approach towards role of adaptation SMEs***

(1) **Vulnerable communities as identified in Part I have no or limited access to adaptation solutions** and are particularly susceptible to the negative effects of climate change due to insufficient adaptive capacities, a result of inadequate access to resources (financial, technological, human), unstable markets, poor infrastructure and insufficient access to external adaptation expertise. This is particularly relevant for vulnerable communities in high-vulnerability geographies such as ASALs or high potential agro-economic zones.

(2) **Kenya and Uganda's public institutions are overwhelmed by the task of increasing the resilience of vulnerable communities** due to the lack of funds, inadequate enforcement of national-level climate action policy frameworks and overlapping institutional competencies.

(3) The **private sector** has the potential to leverage climate change adaptation as an increasingly growing business case. **Its adaptation solutions, however, are not targeted towards the specific, contextualized needs of vulnerable groups**.

***b) Lack of access to appropriate finance and support growth-stage adaptation SMEs***

(4) **Kenyan and Ugandan SMEs face severe challenges to sustain, grow and replicate their business models due to shortages in available capital** as they are largely underserved by FIs – referred to as the "missing middle" financing gap[41]. Below figure further highlights this "missing middle", depicting how early-growth stage SMEs are too big for micro-financing but too small for commercial banks. Concrete obstacles for such SMEs to access commercial loans or equity finance include collateralization, prohibitive risk ratings for young and small enterprises, and high interest rates. Hence SMEs are hampered to move beyond the scale of "micro" and expand business activities.

(5) The **lack of gender and youth inclusive investment opportunities is exacerbated,** as, compared to enterprises led by men, women- and youth-led enterprises are disproportionally represented in the informal sector and suffering from a limited access to land and other collateral, lack of networks and knowledge resources, and legal and policy obstacles to business ownership and development.

(6) SMEs in the two countries also **lack tailored investment business advisory** for financial planning and management to move from grant and donation-based financing towards accessing commercial capital. Although there is a series of business incubators active in Kenya and Uganda, their focus is mainly on early-stage business support. Hence, there are few opportunities for SMEs offering pre- and post-investment support to develop the required financial records and management structures to access and absorb commercial capital investments.

***c) Financing institutions do not support adaptation SMEs***

(7) **High-impact SMEs that directly address climate change adaptation** through their tailored products and services **disproportionately experience the lack of appropriate commercial financing.** This is due in part to the unfamiliarity of FIs and investors with climate change-related business models and growth trajectories, which tend to involve (perceived) riskier technologies and longer timeframes to go to market. FIs and other investors struggle to understand and respond to the financing needs of adaptation SMEs with tailored financial products[42] that, for example, align lending requirements with readily available collateral, repayment periods with seasonality of businesses, enable investments in resource-efficient technologies and more.

(8) On the supply side of commercial capital providers, **available SME financing tends to be dominated by smaller ticket sizes, shorter repayment periods and a lack of diversity of financing models** tailored to SME needs[43]. Furthermore, larger-scale capital (above the scale of microfinance) needed to move beyond the start-up stage is mostly reserved for a small sub-set of high growth SMEs. Despite varying definitions, the capital typically needed to address this financing gap is for investments of between USD 20,000 – 500,000 per enterprise with a medium to long-term time horizon or tenure – typically above the scale of microfinance and below that of traditional lenders and equity investors[44].

(9) As stakeholder consultation with FIs in Kenya and Uganda have shown, there is increasing commitment of the banking sector to comply with international sustainability frameworks while regulatory pressures are also building up to incorporate climate change considerations into bank operations. At the same time, **adaptation-based lending in the two countries is insufficiently anchored in FI investment strategies** as FIs lack climate (adaptation) strategies that lay out lending guidelines and indicators for adaptation-based finance in line with national climate action policies.

# Project Objectives:

*48.* The project objective is to achieve transformational change in local financial markets in Kenya and Uganda to become more inclusive towards early-growth women- and youth inclusive adaptation SMEs for them to realises their full potential in providing innovative climate adaptation solutions to highly vulnerable groups, enhancing local climate resilience in the agriculture and water sector while addressing and rectifying gender and/or other socio-economic inequalities exacerbated by climate change. The project seeks to have a transformational impact on the agriculture and water sector, making them more robust and mitigating climate change impacts by introducing sector-specific, innovative adaptation practices that are financially viable and have a standing track record with FIs in the two countries. The showcasing of bankable adaptation SME business models intends to have a spill-over effect within the two sectors, promoting good adaptation practices as a market opportunity for SMEs while opening new avenues for adaptation SMEs to grow and scale their business models.

[41] This gap in financing is estimated to affect between 50-70% of formal SMEs in emerging economies. Source: World Bank Group (WBG, 2019): World Bank Group Support for Small and Medium Enterprises.

[42] International Finance Corporation. (2017). MSME Finance Gap.

[43] International Trade Centre (ITC, 2019): Big money for small business. Financing the Sustainable Development Goals.

[44] Dutch Good Growth Fund (DGGF, 2016): New Perspectives on Financing Small Cap SMEs in Emerging Markets.

49. The project will be structured around three Components:

I. Establishing a **Regional Coordination Platform (RCP)** that serves as a pioneering regional knowledge platform for Kenya and Uganda on adaptation entrepreneurship to connect actors in the fields of adaptation, climate-smart finance and entrepreneurship, promote knowledge management and cross-learning and encourage action to sustain and create markets for early-growth gender- and youth inclusive adaptation SMEs.

II. Implement **a blended finance and enterprise support mechanism** and pilot innovative performance-based payments to facilitate and leverage previously inaccessible commercial finance of partnering FIs to selected gender- and youth inclusive adaptation SMEs, supporting them to scale their adaptation impacts on vulnerable groups in Kenya and Uganda. A combination of unique financial instruments will be co-created and rolled out together with financers.

III. Execute a **Financing Institution Capacity Development Programme** by increasing local FI's awareness and knowledge on gender- and youth inclusive adaptation SMEs' business solutions and financing needs, and supporting FIs to develop tailored financial products and institutional climate strategies to anchor climate adaptation in their investment portfolios and internal structures.

50. **Definition of target group for this project:** This project focuses on gender- and youth[45] inclusive adaptation SMEs in Kenya and Uganda that provide climate adaptation solutions for the agriculture and water sectors in regions that are highly vulnerable to climate change. Gender- and youth inclusive adaptation SMEs combine characteristics typically associated with smaller enterprises such as local embeddedness and the inclusion of vulnerable communities in their value chains with an adaptation-geared business rationale. They contribute to rectify gender and/or other socio-economic inequalities by providing affordable products and services that close gender gaps or meet the needs of women, girls or youth as well as of indigenous people and marginalised groups, where applicable. Furthermore, they support gender diversity and the participation of youth and marginalised groups (e.g. as part of the workforce) and strengthen inclusion and diversity across their value chains (e.g. indigenous people). 100% of the SMEs supported by this project will be women- and/or youth-inclusive, meaning they aim for a 50% gender and youth balance in their work force and/or their primary customer base. The project directly targets Small and Medium-Sized Enterprises (SMEs) excluding Micro Enterprises as the latter – due to their comparatively small-sized operations, low turnover and profit margins – are not eligible for the target loan sizes (average ticket size is 75,000 USD) offered by commercial banks to be leveraged for participating enterprises under this project. However, Micro enterprises being part of the individual value chains of the participating SMEs will indirectly benefit from the project.

# Project Components and Financing:

*Table 2. Project components and financing breakdown*

| Project Components | Expected Outcomes | Expected Outputs | Coun-tries | Amount (US$) |
|---|---|---|---|---|
| 1. Regional coordination platform | 1.1 The project establishes a sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers | 1.1.1 Establishing a multi-stakeholder Adaptation Action Steering Committee<br>1.1.2 A strategic framework and digital infrastructure for the RCP is developed and endorsed | Kenya, Uganda | 487,150 |
| | 1.2 Key stakeholders, ministries, financial institutions (FIs), adaptation SMEs and the end-users (vulnerable groups) create and sustain market for adaptation technologies, services and products | 1.2.1 Six regional Adaptation Action Events are organised<br>1.2.2 Four Annual Adaptation Finance Symposia are held<br>1.2.3 Six knowledge products on market-based adaptation solutions and impact of gender- and youth inclusive adaptation SMEs are developed (including the benefits for vulnerable communities and target sectors) and widely disseminated | | |
| 2. Blended finance and enterprise support mechanism | 2.1 Developing and implementing enterprise support mechanism | 2.1.1 Scorecard (incl. final selection criteria) for the assessment of at least 250 early-growth gender- and youth-inclusive adaptation SMEs is co-created<br>2.1.2 Pipeline of at least 100 gender- and youth inclusive adaptation SMEs built for funding readiness support (100% of the SMEs will be women- and/or youth-inclusive, meaning they aim for a 50% gender and youth balance in their work force and/or their primary customer base) | Kenya, Uganda | 281,050 |
| | 2.2 Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management | 2.2.1 Two Catalyser Programme Cycles: Business advisory support in order to strengthen funding readiness for 100 selected gender- and youth-inclusive adaptation SMEs provided (50% of allocated budget) | Kenya/ Uganda | 1,010,350 |

45 Noting that there is no universally agreed international definition of youth and while recognizing that the UN Secretariat for statistical purposes defines 'youth' as those persons between the ages of 15 and 24 years, this project defines it as those between the age 15 and 32, taking consideration of other definitions in use by UN Agencies, Programmes and/or Member States without prejudice.

| | | | | |
|---|---|---|---|---|
| | | 2.2.2 Two Accelerator Programme Cycles: Post-investment support on growth and funding provided for 30 gender- and youth-inclusive adaptation SMEs (50% of allocated budget) | | |
| | 2.3 Designing and implementing blended financing and performance-based payment mechanism for gender- and youth inclusive adaptation SMEs | 2.3.1 Development and refinement of blended financing & performance-based payment mechanism<br>2.3.2 Mobilising at least 15 partner Financial Institutions (FIs)<br>2.3.3 Implementing blended financing & performance-based payments and portfolio management<br>2.3.4 Exit and scale-up strategy for innovative adaptation SME financing mechanism developed and operationalised | Kenya, Uganda | 1,932,050 |
| | 2.4 Potential environmental and social risks of selected SMEs screened, assessed and monitored within the framework of the Environmental and Social Management System (ESMS) | 2.4.1 A comprehensive ESMS for SMEs to receive technical and finance support is implemented | Kenya, Uganda | 100,000 |
| 3. Financing Institution Capacity Development Programme | 3.1: Local financing institutions support the dissemination of adaptation technologies, products and services | Output 3.1.1: An Adaptation Finance Academy training concept is developed and implemented | Kenya, Uganda | 340,500 |
| 4. Project/Programme Execution Cost | | | | 394,355 |
| 5. Total Project/Programme Cost | | | | 4,545,455 |
| 6. Project/Programme Cycle Management Fee | | | | 454,545 |
| **Amount of Financing Requested** | | | | 5,000,000 |

### Project calender

*Table 3. Project Calendar*

| Milestones | Expected Dates |
|---|---|
| Start of Project Implementation | July 2025 |
| Mid-term Review | July 2027 |
| Project Closing | July 2029 |
| Terminal Evaluation | October 2029 |

# PART II: PROJECT JUSTIFICATION

**A. Project components description**

51. At the core of the proposed project lies the support of adaptation entrepreneurship based on a multi-directional project design. Key to this design is the three-pronged approach of

1) Ensuring that adaptation entrepreneurship gains access to markets and partners and takes centre stage in national and regional policy and finance regimes (Component I)
2) Implementing a blended financing instrument and innovative performance-based payments coupled with targeted pre- and post-investment advisory support[46] (Component II) and thereby incentivising local Fis to bridge the missing middle financing gap for early-growth gender- and youth inclusive adaptation SMEs;
3) Training Fis in adaptation finance to develop their own climate strategies and prototype innovative finance instruments[47] tailored for gender- and youth inclusive adaptation SMEs (Component III), thus broadening investment product portfolios and anchoring adaptation finance institutionally;

**Theory of Change**

52. By introducing an innovative approach for the delivery of tailored financial support to adaptation SMEs and establishing a pipeline of scalable adaptation SMEs, the project addresses the missing middle financing gap for SMEs. The project will systematically transform the financial ecosystem in Kenya and Uganda. This will enhance the delivery of private sector adaptation solutions that are localised, affordable and tailored to the needs of climate change-vulnerable communities, resulting in substantially improved adaptive capacities for groups susceptible to the negative socioeconomic effects of climate change. The scenario of scaled gender- and youth inclusive adaptation SMEs support would have sizeable impact on the adaptive capacities of vulnerable groups in Kenya and Uganda – especially with regards to small-scale and rain-fed farmers as well as low-income communities susceptible to the effects of floods and droughts. Women and youth would directly benefit from the employment and economic empowerment opportunities that gender- and youth inclusive adaptation SMEs provide as well as from indirect effects of climate-induced shock mitigation.

53. Envisioned mid-term impacts foresee that Fis will invest in early-growth stage adaptation SMEs through an innovative catalytic finance facility that provides SMEs with investment advisory and finance to access markets and grow their business. At the same time, the national policy and regulatory environments in Kenya and Uganda foster adaptation solution investment and adoption in order toto increase resilience to climate change. On the Output and Outcome level, the project's Theory of Change is based on the following pathways of change and assumptions:

**Component I: Regional Coordination Platform**

- IF knowledge and awareness on the role of adaptation SMEs, including women-led adaptation SMEs, in increasing climate resilience and their finance- and market-related challenges is enhanced among key actors in finance, policy and business environment; and
- IF regional coordination on supporting adaptation SMEs, including women-led adaptation SMEs, in Kenya and Uganda is facilitated through networking and exchange (e.g. at Adaptation Action Steering Committee; Adaptation Action Events and Adaptation Finance Symposia); and
- IF a series of evidence-based knowledge products (e.g. Adaptation SME Taxonomy, Annual Impact Assessment, Action Plan Flagship Report) provides further insights into on the role of SMEs, their challenges and opportunities; and
- ASSUMING that the public and private sector in Kenya and Uganda fully recognise the potential role of adaptation SMEs, including women-led adaptation SMEs, in supporting the large-scale deployment of locally embedded adaptation solutions;
- THEN, a regional market of adaptation SMEs will be created that aims for equal paticiation of women and men entrepreneurs, allowing them to scale and replicate their businesses.
- Which in turn, leads to national policy and regulatory environment fostering market-based adaptation solution investment and adoption that contributes to gender equality and the empowerment of women.

**Component II: Blended finance and enterprise support mechanism**

- IF a blended financing mechanism and an innovative performance-based payment mechanism is introduced in the Kenyan and Uganda market to bridge the missing middle financing gap;
- IF at least 100 outstanding gender- and youth inclusive adaptation SMEs, including women-led SMEs, are selected based on a thorough scorecard co-created together with FIs and other ecosystem stakeholders and receive funding readiness support; and
- IF a minimum of 15 local FIs are mobilised to participate in the catalytic finance facility and co-create innovative blended finance instruments tailored to the needs of gender and youth-inclusive adaptation SMEs; and
- IF at least 30 of the selected SMEs (out of which 15 women-led SMEs) access innovative blended commercial financing instruments including a set of de-risking facilities coupled with performance-based payments, business advisory support and investment brokerage services
- THEN, at least 30 selected SMEs (out of which 15 women-led SMEs) will be able to access tailored financial products and make investments to grow and replicate their business models
- THEN selected SMEs will scale the deployment of adaptation solutions across the two countries and enhance the adaptation impact they have on local communities;

[46] The co-creative prototyping methodology foundational to Component III's interdisciplinary Practitioner Labs and commercial bank-focused Finance Academy are refined from over a decade of experience in adelphi's SEED policy and financial product prototyping sessions with key financial actors in Africa and Asia. See also: https://seed.uno/programmes/ecosystem-building/practitioner-labs-climate-finance

[47] Building on adelphi's and Finding XY's proven financial readiness support in the framework of the European Union-funded Uganda Green Enterprise Finance Accelerator programme. See: https://ugefa.eu/

- Which in turn, increases the familiarity and appetite of local FIs and other investors to invest in gender- and youth inclusive adaptation SMEs, including women-led SMEs, in Kenya and Uganda even beyond the project period.

**Component III: Financing Institution Capacity Development Programme**

- IF a minimum of 15 local FIs receive guidance on how to develop their own climate (adaptation) strategy and how to invest with a gender lens
- IF these local FIs understand the concept of climate adaptation (opportunities and risks) and how to integrate it into their investment structures and processes (operationalisation of gender-responsive climate strategy); and
- IF the FIs develop their own financial products targeting adaptation SMEs with a gender lens; and
- ASSUMING that through the co-creation and piloting of innovative catalytic financing instruments for adaptation SMEs (see Component II), local FIs are incentivised to invest into gender-responsive adaptation business models;
- THEN, pioneering local FIs integrate gender-responsive climate change adaptation into their lending strategies and offer suitable financing instruments to adaptation SMEs,
- Which in turn, leads to enhanced access to investment capital for adaptation SMEs in Kenya and Uganda and beyond.

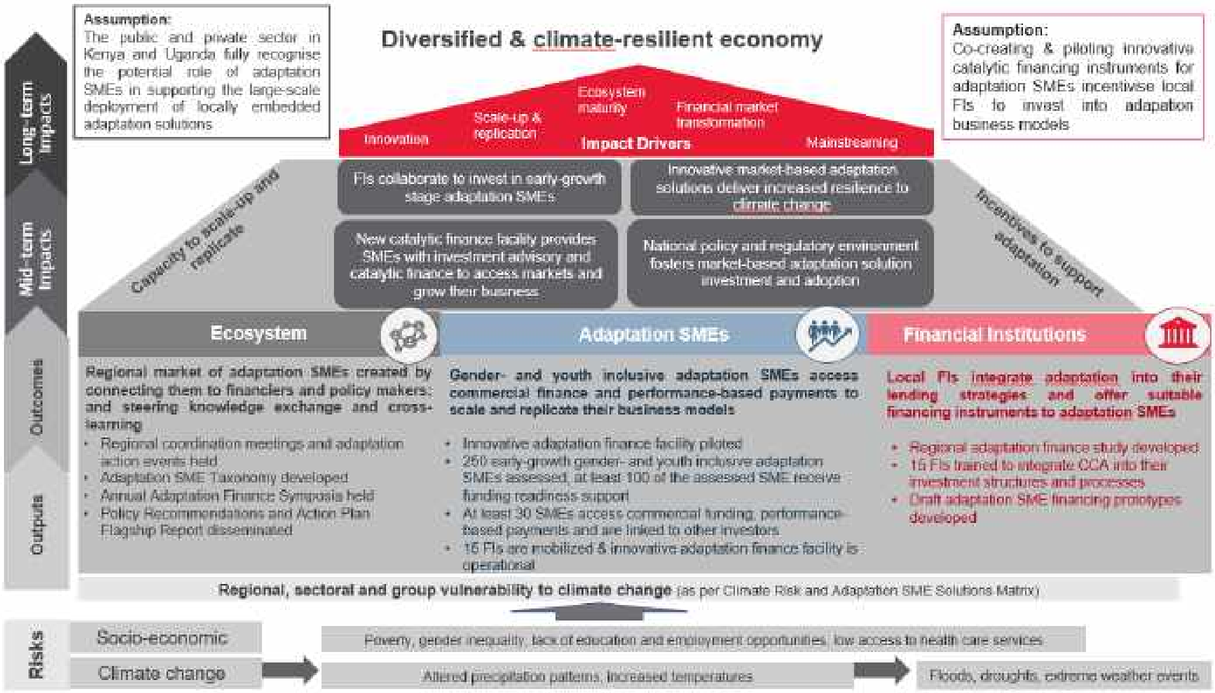
*54.* The **regional approach** of the project will be key to the achievement of intended outcomes and impact as it provides the following added value to the project components:

- Overall, the regional approach plays a crucial role in supporting the cost-effectiveness of the project leveraging economies of scale, synergies, and shared resources across both countries. This approach allows for the pooling of expertise, knowledge, and infrastructure, leading to efficiency gains and reduced costs. Additionally, a regional approach enables the identification and utilisation of regional strengths, resources, and capacities, optimising the allocation of resources and maximising the impact across a broader geographic area. By avoiding duplication of efforts, streamlining processes, and fostering collaboration among regional stakeholders, the programme can achieve higher cost-effectiveness and generate greater overall impact compared to isolated, single-site interventions. By considering these angles, the programme can strategically allocate resources, deliver impactful outcomes, and maximise its overall effectiveness in addressing climate challenges and supporting vulnerable communities.
- The Regional Coordination Platform (Component I) will establish a cross-country level adaptation entrepreneurship knowledge hub that extends Kenyan and Ugandan decision makers' national scope with insights on adaptation entrepreneurship insights and potential synergies between efforts and potential for collaboration. Through this, the project will support national policy makers and other ecosystem actors in Kenya and Uganda to provide conducive support systems and mechanisms to early-growth gender- and youth inclusive adaptation SMEs, including women-led SMEs.
- Several of the FIs interviewed as part of the stakeholder consultation process provide financial services in both project countries. Including regionally active FIs into the project activities widens the scope of investment opportunities offered to the participating gender- and youth inclusive adaptation SMEs (Component II) and hence multiplies positive outcomes and impacts of this intervention.
- Kenya being counted as one of Africa's "big four" tech countries[48] provides enhanced market opportunities to adaptation SMEs, for instance in accessing agriculture or financial technologies. Based on similarities in climate change challenges experienced in both countries, a regional approach provides the opportunity for co-innovation and partnerships between Kenyan and Ugandan early-growth SMEs.
- Similarly, FIs in Kenya are often more advanced in anchoring climate (adaptation) considerations institutionally and as part of their investment portfolios. The proposed Adaptation Finance Academy (Component III) will allow for a peer-learning exchange between Kenyan and Ugandan to integrate strategic climate (adaptation) considerations.

An overview of the Theory of Change of the action can be found in the chart below.

*Figure 5. Theory of Change of the proposed project*

[48] Collins, T. (2022). Can Uganda's tech scene compete with Kenya?


Long-term Impacts
Mid-term Impacts
Outcomes
Outputs
Assumption:
The public and private sector in Kenya and Uganda fully recognise the potential role of adaptation SMEs in supporting the large-scale deployment of locally embedded adaptation solutions
Diversified & climate-resilient economy
Assumption:
Co-creating & piloting innovative catalytic financing instruments for adaptation SMEs incentivise local FIs to invest into adapation business models
Innovation
Scale-up & replication
Ecosystem maturity
Financial market transformation
Mainstreaming
Impact Drivers
Capacity to scale-up and replicate
FIs collaborate to invest in early-growth stage adaptation SMEs
Innovative market-based adaptation solutions deliver increased resilience to climate change
New catalytic finance facility provides SMEs with investment advisory and catalytic finance to access markets and grow their business
National policy and regulatory environment fosters market-based adaptation solution investment and adoption
Incentives to support adaptation
Ecosystem
Adaptation SMEs
Financial Institutions
Regional market of adaptation SMEs created by connecting them to financiers and policy makers; and steering knowledge exchange and cross-learning
• Regional coordination meetings and adaptation action events held
• Adaptation SME Taxonomy developed
• Annual Adaptation Finance Symposia held
• Policy Recommendations and Action Plan Flagship Report disseminated
Gender- and youth inclusive adaptation SMEs access commercial finance and performance-based payments to scale and replicate their business models
• Innovative adaptation finance facility piloted
• 250 early-growth gender- and youth inclusive adaptation SMEs assessed, at least 100 of the assessed SME receive funding readiness support
• At least 30 SMEs access commercial funding, performance-based payments and are linked to other investors
• 15 FIs are mobilized & innovative adaptation finance facility is operational
Local FIs integrate adaptation into their lending strategies and offer suitable financing instruments to adaptation SMEs
• Regional adaptation finance study developed
• 15 FIs trained to integrate CCA into their investment structures and processes
• Draft adaptation SME financing prototypes developed
Regional, sectoral and group vulnerability to climate change (as per Climate Risk and Adaptation SME Solutions Matrix)
Risks
Socio-economic
Poverty, gender inequality, lack of education and employment opportunities, low access to health care services
Climate change
Altered precipitation patterns, increased temperatures
Floods, droughts, extreme weather events

### Component I: Regional coordination platform

55. **Baseline situation**: A core insight during the consultative process showed that early-growth gender- and youth inclusive adaptation SMEs in the region find it difficult to access finance due to 1) a lack of consideration by and visibility among finance, climate policy and business advisory actors, 2) insufficient coordination between actors in the ecosystem and 3) a lack of institutional knowledge on climate change adaptation and adaptation entrepreneurship (see Section J). Although consideration of adaptation action and SME support are two themes often identified in national development and adaptation plans and policies (see II.F and II.G, respectively), the nexus of adaptation and adaptation solution-oriented entrepreneurship is still nascent in the two target countries. Kenyan and Ugandan policy makers often develop national frameworks within the scope of their own organisational bodies, based on nationally-sourced information – inhibiting cross-country and -sector learnings to flow into policy development processes.
The dual lack of connections between adaptation action and the opportunities of private sector-based adaptation solutions as well as insufficient cross-country coordination translates into development and climate projects, that, although contributing substantially in supporting and coordinating sustainable SME solutions or adaptation projects, do not yet target adaptation SMEs as the common denominator. While climate finance is an increasingly important investment opportunity of FIs in both countries, climate-smart lending to SMEs is still an exception. The same applies to investing with a gender lens, which is also to be established as a common investment approach.

56. **Proposed interventions:** Component I aims at establishing a Regional Coordination Platform (hereby RCP) that 1) connects actors in the fields of adaptation, (climate-smart) finance and entrepreneurship; 2) encourages action to sustain and create adaptation markets and 3) serves as a pioneering regional knowledge and coordination platform on adaptation entrepreneurship focusing in particular at the nexus of the agriculture and water sectors as the most climate vulnerable socio-economic sectors in both target countries.

57. **Alignment with AF Strategic Results Framework (SRF):** Component I aims to strenghten the capacity of national and sub-national stakeholders and entities to capture and disseminate knowledge and learning (alignment with Output 3.2); it also aims to improve national policies and regulations that support adaptation SMEs to grow and scale, thus promoting and enforcing resilience measures (alignment with Output 7); it finally aims to generate key findings on effective, efficient adaptation practices, products and technologies developed an deployed by adaptation SMEs (alignment with Output 8.2)

*Outcome 1.1 The project establishes a sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers across Kenya and Uganda*

#### *Output 1.1.1: Establishing a multi-stakeholder Adaptation Action Steering Committee*

58. To ensure that gender- and youth inclusive adaptation SMEs take a more central role and are targeted and supported by such actors, an RCP will be set up with a set of key functions:
    1) Steer the interaction among different high-level stakeholders across countries, so as to encourage investments in proven adaptation technologies, products and services;
    2) Organize regular Adaptation Action Events that link adaptation SMEs with other stakeholders to establish business linkages, access to markets and technologies and exchange knowledge;
    3) Serve as a pioneering knowledge hub and distributor for profitable adaptation technologies and products in Kenya and Uganda, providing knowledge on the deployment and financing of adaptation products and services and offering replication business model profiles for future adaptation entrepreneurs

59. The RCP will be led and guided by the Adaptation Action Steering Committee, made up of core actors from finance, entrepreneurship, (including a representative from a women business association) governmental institutions and representatives of vulnerable groups (such as youth-based organisations and rural women associations). There shall be approximate gender balance among steering committee members. The steering committee overlooks the vision and strategy of the project, guides the development and implementation of Adaptation Action Events and high-level Adaptation Finance Symposia and facilitates the exit strategy of the project.

**Activity**

1.1.1.1 Formation of a multi-stakeholder Adaptation Action Steering Committee

60. The steering committee's formation will be led by UNIDO in consultation with the governments from Kenya and Uganda as well as the EE and EE partners. This ensures a committee composition that is highly competent in the interrelated fields of adaptation and entrepreneurship, provides access to high-level public and private networks to leverage participation of key actors in the RCP activities, is endorsed by the respectively critical governmental institutions and includes concerns from representatives of vulnerable groups. Approximate gender balance among steering committee members will be strived for, and UNIDO will advocate with governments and partners to that aim. To allow for a continuously committed and active committee, the list of committee members and overview of potential priority members will be reviewed and renewed on an annual basis.

#### *Output 1.1.2: A strategic framework and digital infrastructure for the RCP is developed and endorsed*

**Activities**

1.1.2.1 Endorsement of a strategic framework

61. The Adaptation Action Steering committee is tasked to develop a sustainable strategic framework for the project duration and beyond. The strategic framework acts as a guide for project implementation and for future government organisations to carry on the project post project maturity. It includes:
    - A rationale for achieving accurately defined project performance indicators such as the participation of women-led businesses and gender- or youth-inclusive entrepreneurship based on the project's theory of change (ToC)
    - A systemic analysis of the innovation mechanisms, focusing on regular feedback and refinement loops
    - An outreach strategy to meet key objectives of increasing female and youth participation and developing outreach collaborations with representatives of vulnerable groups (CBOs, rural women organisations, women business associations)

- An impact assessment strategy including a long-term vision of scale of impact, including the development of processes for government uptake post-project maturity
- An inclusion and participation strategy of vulnerable group representatives such as rural women-, youth- or migrant-focused groups as well as women business associations into the project design and refinement phases
- A regularly enforced synergy scouting guideline to screen regionally for existing innovations and/or organisations to integrate them into the project
- A process handbook (developed prior to project maturity) to facilitate efficient project takeover

1.1.2.2 Digital platform for adaptation entrepreneurship practitioners and ecosystem actors

*62.* One core component of the RCP is its digital platform for adaptation entrepreneurship practitioners and ecosystem actors. The digital platform will serve four main purposes:

1) Providing a quantified database of profitable and inclusive adaptation solutions with regularly updated and transparent journey insights (funding, impact, enterprise growth), sourced from regular impact assessments. This lends credibility to potential co-financiers and governmental organisations as future implementing entities.
2) Enabling regional community-building through participant profiles and contact information. This ensures that enterprises can reach out to each other, build networks and explore business linkages across countries. We would, however, refrain from integrating a fully-fledged communication operating system as maintaining communication on "new" systems is resource-efficient and tends to suffer from low usage rates. We thus opt for platform communication channels making use of existing communication tools such as WhatsApp, LinkedIn or emails.
3) Showcasing best practices of adaptation SMEs, including women-led SMEs, and offers access replicable business components. These originator profiles will include a step-by-step business development guideline as a "business-in-a-box" blueprint.
4) It serves as an openly available knowledge repository of relevant knowledge products (e.g. symposium reports, multimedia case studies etc.)

*Outcome 1.2: Key stakeholders, ministries, financial institutions (FIs), adaptation SMEs and the end-users (vulnerable groups) create and sustain market for adaptation technologies, services and products*

**Output 1.2.1: Six regional Adaptation Action Events are organised**

**Activity:**

1.2.1.1 Adaptation Action Events

*63.* The RCP will feature regular events aiming to facilitate adaptation SMEs' access to networks, markets and finance. Event types are:

- *Adaptation Roundtables* – multi-stakeholder dialogue fora on adaptation SME challenges and opportunities. Roundtable agenda points are inspired by insights from vulnerable groups (farmer associations, cooperatives, women and youth associations) and supplemented by evidence gained through project knowledge products such as the Adaptation Finance Study (Activity 1.2.3.3) and impact assessments of the project's direct enterprise support components (Outputs 2.2.2 and 2.2.3). These rountables will reflect gender balance and equitable representation of youth among speakers. Roundtable discussions are video recorded and summary videos are uploaded to the project website.
- *Sectoral study tours* – Study tours are guided to showcase selected direct enterprise support alumni for non-enterprise roundtable participants between countries. This increases knowledge on adaptation entrepreneurship in practice and strengthens cross-country learnings. Sectoral study tours will also be offered between enterprises, as networking events and platforms to exchange ideas and explore linkages was a key finding of adelphi's currently ongoing Uganda Green Enterprise Finance Accelerator (UGEFA).
- Further event types that will be implemented are *radio podcast shows*; adaptation breakfasts that are informal cross-country exchanges between adaptation SMEs reflecting on commonly experienced challenges and opportunities; access to market events through which supported enterprises enhance their networks and explore business linkages.

**Output 1.2.2: Four Annual Adaptation Finance Symposia are held**

**Activity:**

1.2.2.1 Annual Adaptation Finance Symposia

*64.* The Adaptation Finance Symposia will be annual multi-stakeholder events with high-level speeches, panel discussions, interactive break-out sessions, adaptation SME exhibitions[49] and pitches of the prototyped adaptation finance solutions developed during the Adaptation Finance Practitioner Labs (Activity 3.1.1.3). The symposia provide a platform for cross-country exchange between financiers, policy makers and adaptation SMEs. Aiming to be the leading adaptation finance knowledge hub in the region, the RCP's symposia will integrate into its agenda the presentation and dissemination of key insights of the Adaptation SME Finance Scoping Study (Activity 1.2.3.3) and Adaptation Market Analysis Report (Activity 1.2.3.1), as well as the developed evidence-based Adaptation SME Taxonomy (Activity 1.2.3.2).

**Output 1.2.3: Six knowledge products on developing the market for gender- and youth inclusive adaptation SMEs are developed and disseminated**

**Activities:**

1.2.3.1 Adaptation Market Analysis Report

[49] During the first symposium such exhibits are sourced from SEED's extensive enterprise database due to a lack of enterprise alumni at this project stage. The following symposia will feature enterprise exhibits with direct enterprise support alumni.

*65.* During inception phase, an evidence-based analysis of market-based adaptation solutions in Kenya and Uganda will be conducted. The report will take account of vulnerable groups' climate change risks and adaptation priority sectors with a focus on women and youth before exploring the challenges and opportunities of gender- and youth inclusive adaptation SMEs to scale their operations and adaptation impact for said vulnerable groups. It will also scope the prevalence and potential of women-led adaptation SMEs and identify gender-specific hurdles to adaptation entrepreneurship as there may be. The study expands on initial insights gathered during stakeholder interviews in the course of the consultative process. While its main purpose is to inform and tailor the direct enterprise support activities in Outputs 2.2.2 and 2.2.3, the report delivers critically needed insights into the still-nascent body of literature on adaptation entrepreneurship, and is thus suited for academia and practitioners active in this field, as well as for (future) adaptation entrepreneurs. It will be the first knowledge product to identify opportunities for successful adaptation entrepreneurship tailored to vulnerable communities as well as barriers to growth and scale for adaptation SMEs in the region.

<u>1.2.3.2 Evidence-based Adaptation SME Taxonomy</u>

*66.* Based on the pioneering taxonomy work on adaptation SMEs by the IADB's Adaptation SME Accelerator Project[50], this project will further refine and test the taxonomy assumptions with real enterprise data prior, during and after project completion. This ensures that definitional scopes of adaptation entrepreneurship and their provided adaptation solutions remain distinct and applicable in the context of enterprise support eligibility criteria. It therefore establishes a structured approach for transparently determine whether an SME qualifies as an "Adaptation SME" based on the type(s) of technologies, products and services offered. The adaptation taxonomy is integrated into the Adaptation Finance Academy curricula.

<u>1.2.3.3 Adaptation SME Finance Scoping Study</u>

*67.* Prior to the first Adaptation Finance Symposium (Activity 1.2.2.1), an interview- and desk research-based report on the state of adaptation SME finance in Kenya and Uganda will be conducted. The study will be published onto the project's digital platform, integrated into the Adaptation Finance symposia's curricula and used to inform the direct enterprise support activities in Component II as well as the Finance Academy (Output 3.1.1). It will provide key insights on:

- The financing needs of gender- and youth inclusive adaptation SMEs (e.g. ticket sizes, repayment periods, financial product type)
- Possible specific financing needs of women-led adaptation SMEs
- The volume of adaptation finance and the inclusion of the private sector
- An analysis of current green and adaptation finance product portfolios in the two countries mapping and engaging key adaptation finance stakeholders in interviews and consultations complementing findings with in-depth desk-research
- A status quo analysis of current adaptation finance policies and frameworks and their implications identyfing relevant national and international policy processes through additional scoping interviews validating desk-research based work
- The knowledge and view of FI executives on the financial needs of adaptation SMEs and on gender-lens investing

<u>1.2.3.4 Multimedia case study films to showcase adaptation business models and their impacts</u>

*68.* The case studies to be developed have the objective to promote and showcase the contribution of selected gender- and youth inclusive adaptation SMEs, including women-led SMEs, to the achievement of NDCs and SDGs. The case studies serve to provide visibility for actor groups with limited exposure to the lived realities, struggles and potentials of gender- and youth inclusive adaptation SMEs on the ground. Based on experience with case study films in previous projects, this product also serves as a critical advantage for enterprises, as they often use these films for marketing purposes and to attract finance.

<u>1.2.3.5 Policy Recommendations and Action Plan Flagship Report</u>

*69.* Insights on the needs of adaptation SMEs and solution pathways to effectively address those needs will be synthesized into a set of tangible policy recommendations for policy makers in Kenya and Uganda in the form of an Action Plan Flagship Report. Information is derived from the project's knowledge products (e.g. Activities 1.2.3.1, 1.2.3.3), impact assessment (Activity 1.2.3.6) and Adaptation Action (Activity 1.2.1.1) as well as Adaptation Finance Academy Events (Component 3). The report will be published on the RCP's digital platform.

<u>1.2.3.6 Annual Impact Assessment</u>

*70.* The project will include both an internal and external impact assessment, aiming at analysing and showcasing the efficient contribution of the project to the achievement of improved access to finance for adaptation SMEs, including women-led adaptation SMEs, to reach their potential. To increase adaptation action measurability and design robust performance and impact indicators, the project will develop a transparent and publicly available impact data section as part of on the digital platform that will be sex-disaggregated. This will be led by the Adaptation Action Steering Committee, who will establish an Impact Assessment strategy (as part of Activity 1.1.2.1), at its core serving as the project's impact framework. This includes:

- *Impact Methodology Strategy* – This strategy will detail how existing EE impact tools can be further tailored, improved and mainstreamed across the project
- *Impact Dashboard Tool* – for supported enterprises, supporting the planning, measurement and management of their economic, social and environmental impacts. This tool will include tailored indicators (sex-disaggregated, if applicable) to measure adaptation impacts. These impact dashboards will be filled by adaptation SMEs in the course of the capacity building support and on an annual basis post support, contributing to the monitoring of the additional long-term outcome KPIs.
- *Control groups* – Control groups will be established to be able to measure impacts of the direct enterprise and financial support vis a vis non-support, with women-led enterprises disaggregated. Shortlisted enterprises that are not selected for the programme are well suited to form a control group. The project will stay in close contact with these enterprises to monitor their development through the

[50] Trabacchi, C., Koh, J., Shi, S., Guelig, T. (2020) Adaptation Solutions Taxonomy.

annual impact assessment and interim monitoring efforts (interviews/ field visits). The enterprises from cycle one will be incentivised by the opportunity of becoming part of the second financing cycle of the project while enterprises from cycle one and two will be offered participation in Adaptation Action Events (Output 1.2.1) to encourage them to provide company data and insights into their business development.

71. *Lessons learned and Impact assessment reports* – Lessons learned will continuously feed into the program design and implementation throughout the project implementation period. Impact Assessment Reports will provide an evidence foundation for both internal learning and external communication activities during and after this project.

72. *Integration of feedback loops from vulnerable groups as customers of adaptation SMEs*: to gain insights on the impact the project and its concomitantly disseminated adaptation solutions have on vulnerable communities in Kenya and Uganda, the project will regularly collect adaptation SME customer feedback (disaggregated by vulnerability variables such as income, occupation, gender, age). The data generated through feedback loops be important markers for the re-adjustment of project components and activities, such as scorecard criteria (Activity 2.1.1.1).

### Component II: Blended finance and enterprise support mechanism

73. **Baseline situation**: There is a gap in the entrepreneurial support systems when it comes to SMEs phasing from grant-based funding to commercial growth-stage investments. Especially for adaptation enterprises, access to concessional finance is challenging[51] as described in the Problem Statement (see paragraph 59).) From a financial market perspective, climate change-related investments by international climate funds and multilateral development banks have increased,[52] but there is still a lack of suitable finance mechanisms to deploy the money through local FIs targeting early-growth SMEs, including those that are women-led. Climate adaptation and gender-lens investing and financing is a nascent field for bankers and is perceived as high-risk given the climate-induced uncertainties of adaptation market opportunities, lack of clear impact measurement frameworks and the innovative character of gender-responsive adaptation technologies or solutions that lack benchmarks. At the same time, the financing instruments offered by local FIs are barely suited for the SME market as they are often not accessible (e.g. because of high collateral requirements) nor attractive (e.g. due to high interest rates) for these small market players. This especially applies to women entrepreneurs. Lastly, commercial banks in Kenya and Uganda lack a suitable pipeline of bankable adaptation SMEs.

74.

75. **Proposed interventions:** Component II constitutes an innovative financial mechanism bridging gender- and youth inclusive adaptation SMEs' 'missing middle' financing gap in the two target countries. The combination of a blended financing and performance-based payment mechanisms will be pioneered, addressing the main accessibility barriers to commercial finance. The mechanisms core modules and processes are:
   1) *Selected pipeline of gender- and youth inclusive adaptation SMEs receive TA:* The EE will select a pipeline of eligible gender- and youth inclusive adaptation SMEs based on a thorough scoring process focusing on main financial, innovation, adaptation and socio-economic impact criteria (see Output 2.1.1). Through specific outreach and activities, the project will ensure that 50% of selected SMEs will be women-led. The selected adaptation SMEs receive tailored business advisory to achieve financial readiness.
   2) *De-risking of commercial bank financing*: The project will support adaptation SMEs in developing investment plans that serve as structured roadmaps for implementing their climate adaptation solutions. These plans will outline key components, including financing needs and the expected climate adaptation impact of each investment. Each plan will consist of a basic grant investment plan and a scale-up investment plan clearly detailing how to expand the adaptation solution. The basic grant financed investment plan will be financed through the Adaptation Fund grant, which will ensure that the solution is de-risked. Once completed, the investment plans will be submitted to the EE and partner banks (FIs) as the basis for selecting enterprises eligible for financing. To leverage potential scale-up finance, the project will connect selected adaptation SMEs with financial institutions using the partial repayment scheme with the intend to facilitate scale-up loans. see different financing options under Output 2.3.1).
   3) *Performance-based payments:* Upon achievement of individual APTs, the participating adaptation SMEs receive performance-based grant payments. Performance-based grant payments can be used for for additional investments. The performance-based payments will be tracked using APT-based milestones. The grants will be disbursed upon achievement and validation of the milestones.
   4) *Close monitoring of innovative climate adaptation ventures funded*: Participating SMEs that received funding will be accompanied through the Accelerator post-investment support programme that allows for a close monitoring of the investment and the overall company development. The performance-based payment scheme offers another touchpoint for monitoring the development of the business models and its adaptation impacts while an annual impact assessment together with the mid-term review round up the project's monitoring and evaluation efforts to adjust the finance facility design where necessary.

76. **Alignment with AF Strategic Results Framework (SRF):** By selecting innovative adaptation business models and supporting them to consolidate and grow, Component II aims to accelerate, scale-up and replicate market-based, innovative adaptation practices and technologies at regional level in Kenya and Uganda (alignment with output 8.2); Scaling up of adaptation SME business models is expected to result in diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas where adaptation SMEs operate (alignment with Output 6); Component II also aims at strengthening the institutional capacity of adaptation SMEs to reduce risks associated with climate-induced socioeconomic and environmental losses, decreasing their vulnerability to climate change impacts (alignment with Output 2.1); finally, participating adaptation SMEs will also be encouraged to conduct risk and vulnerability assessments for their company operations and monitor these continuously (alignment with Output 1.1). The SRF's four cross-cutting areas, i.e., i) Engaging and empowering the most vulnerable communities and social groups; ii) Advancing gender equality and the empowerment of women and girls; iii) Strengthening long-term institutional and technical capacity for effective adaptation; and iv) Building complementarity and coherence with other climate finance delivery channels are integrated into this approach.

[51] Cowan, A. (2019). The SME finance gap in Kenya: how are investors missing the 'missing middle'?

[52] https://afdb.africa-newsroom.com/press/multilateral-development-banks-mdbs-climate-finance-rose-to-66-billion-in-2020-joint-report-shows?lang=en

*Outcome 2.1: Developing and implementing the project's enterprise support infrastructure*

**Output 2.1.1 Scorecard for the assessment of at least 250 early-growth gender- and youth-inclusive adaptation SMEs co-created**

**Activity:**

2.1.1.1 Scorecard co-creation

To select a pipeline of 250 gender and youth-inclusive adaptation SMEs, including women-led SMEs, for the catalytic financing scheme, a scorecard with a set of robust and fit-for-purpose criteria will be developed jointly with experts from the Adaptation Action Steering committee (Output 1.1.1) and the participating FIs (Output 2.3.3). A positive list of eligible adaptation technologies/ solutions, taking into consideration regional vulnerabilities and socio-economic structures (see also Climate Risk and Adaptation SME Solution Matrix/ Part I, Chapter 1.5), will form the basis for discussion with FIs/ investors to ensure their eligibility for asset finance and the resulting loan products offered. The following overview provides an indication of the proposed scoring categories. The overaly agreed scoring criteria will be applied for the evaluation of at least 250 SMEs with the overall aim to select 100 adaptation SMEs receiving the Catalyser programme (Output 2.2.1). The selection of enterprises for the Accelerator programme (Output 2.2.2) will be based on a screening of the capacity building deliverables of the Catalyser programme facilitating the overall blended finance matchmaking and aligning the deliverables with the requirements of the partner financing institutions.

*Table 4: Draft scoring categories, as a foundation of the newly-developed selection scorecard.*

| Non-Financial scorecard criteria | | Financial scorecard criteria | |
|---|---|---|---|
| Impacts | Adaptation products/ services | Financial Status | Annual turnover |
| | Environ. Safeguards/Maladaptation | | Gross & operating profit |
| | Monitoring, assessment & reporting | | Debt Ratio |
| | Gender & Youth inclusiveness, non-exclusion of marginalised groups (e.g. indigenous people/ IPs) | | Quality of financial projections |
| Business Model | Value Proposition | Financial Systems | Financial controlling systems |
| | Product / Service | | Financial Statement |
| | Growth Potential | Investment Plans | Clarity of investment proposal |
| | Target Market | | Loan ticket size in line with project |
| Team & Expertise | No and expertise of Staff, level of representation of women in technical and leadership positions | | Investment influencing on business growth |
| | Ratio full time / temporary | | Job creation potential |
| | No of financial staff | | |

After the first financing cycle, the scorecard will be critically reviewed vis-à-vis the selected and supported enterprises to consider lessons learned for the second cycle.

**Output 2.1.2: The project builds a pipeline of 100 gender- and youth inclusive adaptation SMEs for funding readiness support**

**Activities**

2.1.2.1 Outreach campaign

*77.* Through a dedicated and gender-responsive outreach campaign, a pipeline of at least 250 high-quality applications will be generated building a broad pool of relevant adaptation SMEs for the intake of 100 selected SMEs into the two Catalyser programme cycles (Output 2.2.1). The action is promoted through a launch event and information campaign among relevant multipliers in the Ugandan and Kenyan ecosystem, making use of the contacts and network of the Adaptation Action Steering Committee (Output 1.1.1) as well as the EE and EE partners including: 1) Incubator programs for green and climate-smart enterprises[53]; 2) Women and youth groups (including village-based savings and loan groups); 3) Women- and youth-led / -owned companies from the EE's current portfolios; 4) Women/ youth empowerment programs like Kenya Women Finance Trust; 5) Impact investors, angel investors, donors and foundations and their networks; 6) Trade and business associations as an entry point to a broad network of enterprises including women's business organizations,. In order to reach these and other stakeholder groups, a marketing and communication strategy will be developed to select appropriate outreach channels and develop messages that address the selected audiences in the most effective way. The project will work with locally based communication experts that can provide contacts to local media outlets and advise on how to best scout widely for existing innovations. Each application cycle kicks off with a carefully designed hybrid marketing campaign for the respective Call for Applications that unites the benefits of an online approach with those of a classic "offline" promotional campaign. Targeted communication, among others, may include radio/ TV broadcasting; newspaper articles/ adverts; social media posts, roadshows, promotion at relevant trade fairs/ events, personalised mailing and mailing through multipliers. The project will make sure to pay specific attention to reach indigenous communities/ territories owned by indigenous groups (e.g. through radio podcasts in local languages, roadshows in remote regions, outreach through community support groups/ community-based organisations) for them to apply for participation in the enterprise support programmes.

2.1.2.2 Set-up of online application system and pre-application support

With the EE having implemented various selection schemes (e.g. adelphi has implemented the SEED global selection scheme[54] for almost 15 years, having handled over 6,000 applications, the Uganda Green Enterprise Finance Accelerator processed over 2,500 registrations; KCV has implemented a digitalized expert-managed investment applications platform for the past 6 years, with 100-150 applications annually. Finding XY handles hundreds of applications through its Women In Agriculture Impact Investment Fcaility and has

[53] Incubators and accelerators from Kenya/ Uganda: E4Impact - https://www.e4iaccelerator.org/; Pangea Accelerator - https://www.pangeaa.com/; Kenya Climate Innovation Centre - https://www.kenyacic.org/; Sinapis - https://www.sinapis.org/; Nailab - https://nailab.co/; Catalyst Fund - https://bfaglobal.com/catalyst-fund/; Selected Transaction Advisors for SMEs in Kenya & Uganda: Open Capital Advisors: https://opencapital.com/; PFAN: https://pfan.net/

[54] For details please see https://seed.uno/

built a digital loans applications platfom called CYK Financial. Building on these lessons learnt, applications will be handled through an online application system with user accounts, which allows for editing the application until the application deadline. A backend interface will be established to manage and monitor the online applications and to provide technical assistance remotely. One-day pre-application workshops will be offered to support applicants to clarify their business concepts and submit comprehensive and consistent applications. When applying, the enterprises are required to provide quantified information on their ownership and information on the expected beneficiaries in terms of existing and future workforce (number of full-time/ part-time employees, disaggregated by level, formal and informal contracts), current and future customer base/ target market estimation, value chain (suppliers, processing partners etc.), all disaggregated by gender.

2.1.2.3 Selection of funding-ready gender- and youth inclusive adaptation SMEs

*78.* Through an elaborated online scoring system and selection process at least 100 adapation SMEs will be selected. Each application is evaluated independently by two to three analysts contracted by the EE and EE partners along a scorecard that will be based on the publicly communicated eligibility criteria. The assessment is undertaken along four guiding principles: four/six eyes principle (each application is evaluated independently; where the two analysts' scores differ extraordinarily, a third analyst is drawn in); shared benchmark principle (prior to the evaluation period the facility objectives and the eligibility criteria are thoroughly introduced to each engaged analyst); capacity principle (analysts are engaged for sector and technology expertise, while an interdisciplinary composition of the team ensures an excellent delivery of the task); documentation principle (all inputs, changes and comments are documented). The final selection of enterprises will be executed by an independent expert jury composed by members of the Adaptation Action Steering Committee (see Output 1.1.1), which shall follow procedures in line with the UNIDO Grants Manual.

*Outcome 2.2: Supporting adaptation SMEs from funding readiness to investment and post-investment management*

**Output 2.2.1: Two Catalyser Programme Cycles: Business advisory support for selected enterprises to strengthen funding readiness**

**Activity**

2.2.1.1 Catalyser enterprise support programme (2 cycles)

*79.* At least 100 selected adaptation SMEs, out of which 50 women-led, will receive capacity-building support based on the proven EE's toolkit which consists of five peer-learning workshops in small groups combined with individual support for each enterprise. The capacity building support will be implemented by locally-based advisors carefully selected and closely managed by the EE and EE partners. The content of the capacity building support will be aligned with the specific needs of shortlisted applicants and will include:

- **Business planning:** Development of growth strategy with gender- and/or youth-related milestones, e.g. with regard to vulnerable groups as primary customer segments, their engagement along SMEs' value chains as well as inclusive approaches to increase the number of direct beneficiaries of adaptation products and services
- **Financial Reporting**: Review of financial systems/improvement of financial controlling and management
- **Financial Planning,** based on the developed growth strategy, and risk management
- **Investment Planning:** Financial growth scenarios, profitability analysis of planned investments
- **Impact Dashboard:** Setting up an impact dashboard, validating adaptation impact assumptions
- **Investment Plan Preparation**, including pitching and investment negotiation training

*80.* The Catalyser programme will also focus on enhancing the competitiveness of the selected enterprises. Gender equality and the inclusion of marginalised groups (including women and youth) will be facilitated by tailored tools to further sensitise the participating SMEs for gender aspects and the inclusion of marginalised groups. Based on 20 years of experience in supporting green and inclusive enterprises, adelphi has developed an easy-to-use advisory methodology and toolbox, which is continuously updated.

2.2.1.2 Developing Adaptation Performance Targets (APT)

*81.* An integral part of the Catalyser advisory package will be the development of the adaptation SME's theory of change, drafting of adaptation impact chains and identification of outputs and outcomes along their individual adaptation-related impact dimensions, taking into consideration the vulnerabilities of their target customers/ beneficiaries. Based on these impact chains, Adaptation Performance Targets (APT) and milestones will be developed for the participating adaptation enterprises to be achieved within a certain time-frame (e.g. 5km of drip irrigation pipeline sold to vulnerable smallholder farmers within the next 1.5 years). The selected APT milestones will form the basis for the performance-based payments (Outcome 2.3).

*82.* APTs need to be ambitious and meaningful to avoid the risk of setting goals, that if met, would not reflect a genuine improvement of the final beneficiaries' climate resilience. They need to be fit for purpose to ensure that the underlying adaptation metric is material to the SME's core business. Especially for businesses operating in the agriculture and to some extent also in the water sector, it will be crucial to build in precautionary measures to manage risks associated with extreme events (e.g. weather or other natural hazards), especially with the project focus being on highly vulnerable regions. To that end, several milestones will be developed to provide flexibility for performance-based payments.

*83.* APTs will be validated throughout the advisory process looking back at the enterprise historical trajectory (e.g. turnover and sales number in the past three years) and benchmark against industry peers, if available. As part of the advisory, adaptation enterprises will also develop a sound concept how to measure and monitor adaptation impacts and social inclusion targets using an impact dashboard including KPI's/indicators and an individual M&E framework to monitor their APTs and milestones in a cost-effective manner.

**Output 2.2.2: Two Accelerator Programme Cycles: Post-investment support for enterprise growth and loan repayment**

**Activity**

2.2.2.1 Business model and financial management advancement through one-on-one advisory (2 cycles)

*84.* Throughout two funding cycles (year 3 and year 4 of project implementation), the Accelerator Programme enables adaptation enterprises to secure loan funding moving them towards financial resilience and growth, building their in-house financial management capacities and processes, thus putting them in a better position to create jobs while contributing to an enhanced climate resilience. The accelerator support will apply a one-on-one support methodology and closely monitor the participating SMEs development.

85. The accelerator support will be provided to all enterprises receiving finance under this project, accompanying the financial support process to strengthen financial management capacity and systems according to FIs requirements while advancing and validating the enterprise growth strategy, investment roadmap and financial assumptions

*Outcome 2.3: Designing & implementing blended financing mechanisms & performance-based payments for adaptation SMEs*

**Output 2.3.1: Development and refinement of blended financing & performance-based payment mechanism**

**Activities**

2.3.1.1 Co-creative financial facility design

86. To achieve alignment between the project's financing facility and the standard procedures at partnering FIs and tailor the instrument to both their requirements as well as adaptation SME needs, a well-conceptualized co-design process will be implemented to develop and test the most effective blended financing instruments for the Kenyan and Ugandan market. Such instruments mainly need to remedy eligibility knock out criteria, such as irregular cash flows, and de-risk loan agreements with target enterprises from the view of the financing institution as well as increase affordability of finance to the enterprises. To overcome those key barriers to finance, the project will support the development of different innovative blended financing instruments (see table 5 below):

**Option 1: Partial Repayment Scheme**: Reducing both the risk of default for the FIs as well as the cost of finance for the enterprise, a grant of 33% of the total loan amount that is unlocked with any eligible loan agreement. This reduces the outstanding loan amount (principal) immediately after loan approval and thus allows the enterprise to access higher ticket sizes, reduces collateral requirements and the total interest amount to be paid by the enterprise. This innovative partial repayment scheme was already successfully implemented by the EE with six partner banks in Uganda facilitating more than 102 loans (by the end of the project in 12/2024) with green SMEs in Uganda in the framework of the UGEFA project. Building on this learning and success the project team will explore this option further with FIs in Uganda and Kenya.

**Option 2: Loan Guarantee Scheme**: Guarantee schemes buffering the risk of loans have worked well in various programs in Kenya and Uganda so far, sometimes hindered by exaggerated bureaucracy. A dedicated guarantee fund or cooperation with an existing fund, can work well to facilitate the flow of small-scale loans to green enterprises. Both individual, and portfolio guarantee instruments will be considered. The Loan Guarantee Scheme operates as a financial risk-sharing mechanism designed to encourage partner banks in Kenya and Uganda to extend loans to the selected adaptation SMEs that may otherwise be perceived as too risky or unproven for conventional lending. In case the option is implemented then it will provide a partial guarantee to banks, meaning that if an adaptation SME defaults on its loan, the scheme absorbs a pre-agreed percentage of the loss, thereby reducing the bank's exposure to risk. The percentage of the loan amount covered is making sure that the partner banks have a vested interest in carefully assessing and monitoring borrowers, while also giving them the confidence to support higher-risk sectors where adaptation SMEs are operating. This arrangement will create a safety net for partner banks in Kenya and Uganda, giving them the confidence to lend to SMEs in the adaptation space. From the banks' perspective, the scheme allows them to diversify their portfolios and explore new market opportunities without bearing the full risk. Over time, as partner banks gain experience with adaptation SMEs and witness their viability as borrowers, they are expected to develop greater familiarity and confidence, ultimately leading to more independent lending to this sector without reliance on guarantees. In addition, the Loan Guarantee Scheme will be complemented by the technical assistance provided in Component III and the Financing Institution Capacity Development Programme. This support will help loan officers and risk managers better understand the unique needs, technologies, and market potential of adaptation SMEs, further reducing perceived risks and improving decision-making processes. To participate in the scheme, partner banks will need to adhere to specific guidelines and criteria set by scheme in line with the overall project objectives. These criteria will ensure that the loans are directed towards adaptation SMEs that align with the project's objectives. The banks will conduct their usual due diligence and risk assessment processes, but the presence of the guarantee scheme will provide them with an additional layer of security. This will allow banks to extend credit to SMEs with irregular cash flows or insufficient collateral, which are common barriers for adaptation SMEs.

In case of the unlikely event that both blended financing instruments options are not implemented alternative grant options will be provided to the selected adaptation SMEs. In this case direct grants will be provided to the selected adaptation SMEs in order to finance the submitted projects of the adaptation SMEs.

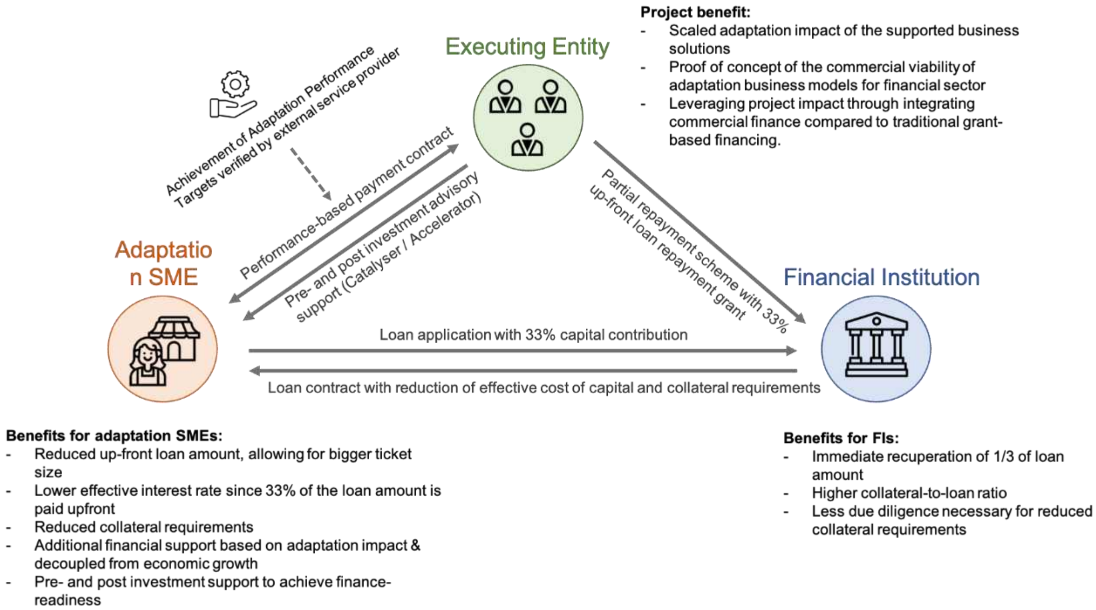



*Figure 1: Exemplary set-up for Loan-Attached Repayment Grants and Performance-based payments.*

87. In a dedicated workshop with FIs these financial instruments will be refined for implementation also capturing potentially promising new ideas for other approaches and instruments as well as a gender-lens investing/financing approach. Involvement of FIs in this process will not only guarantee alignment with existing processes and structures within the FIs, but also create ownership among FIs. These financial instruments will then be applied in collaboration with partnering FIs forming partnerships through MoUs with potential partner banks. Based on evaluation of the first cycle, instruments may be further refined, with a final evaluation at the end of the project. The action will aim to result in a solid and tested mechanism with potential to be scaled and/or replicated both nationally in Kenya and Uganda, and internationally.

88. Complementary to the blended financing mechanism the EE will implement additional performance-based mechanisms for participating adaptation SMEs to make commercial investment capital accessible and scale their adaptation impact further:

89. **Option a: Cash-Flow Gap Cover**: A cover for up to three months to continue repayment in times of low liquidity can close short-time gaps and upon successful repayment of this cover funding it can be accessed repeatedly by any eligible enterprise. A mechanism which was also successfully piloted in the UGEFA project context, which promises to be also relevant for this project context.
**Option b: Performance-based payments:** Upon achievement of individual APT milestones, the participating adaptation SMEs receive additional performance-based grant payments that will cover up to 15% of the overall loan size and can be used for the repayment of the loan and/or for additional investments.
Any combination of these instruments can be applied, whereas option 1 – 2 instruments aim at funding facilitation (leveraging additional private capital from the FIs) and option a-b as additional enabling instruments with adaptation SMEs (straight grant funding without private capital leveraging from FIs). The overall amount of grant financing to be allocated as blended or grant financing to adaptation SMEs will be approx. 1 Mio USD (see table 5) while an amount of approx. 0.5 Mio USD will be utilized for the development and refinement of performance-based payments. t

*Table 5: Overview of blended finance instrument options and the performance-based mechanism as well as the details about the options in the figures below*

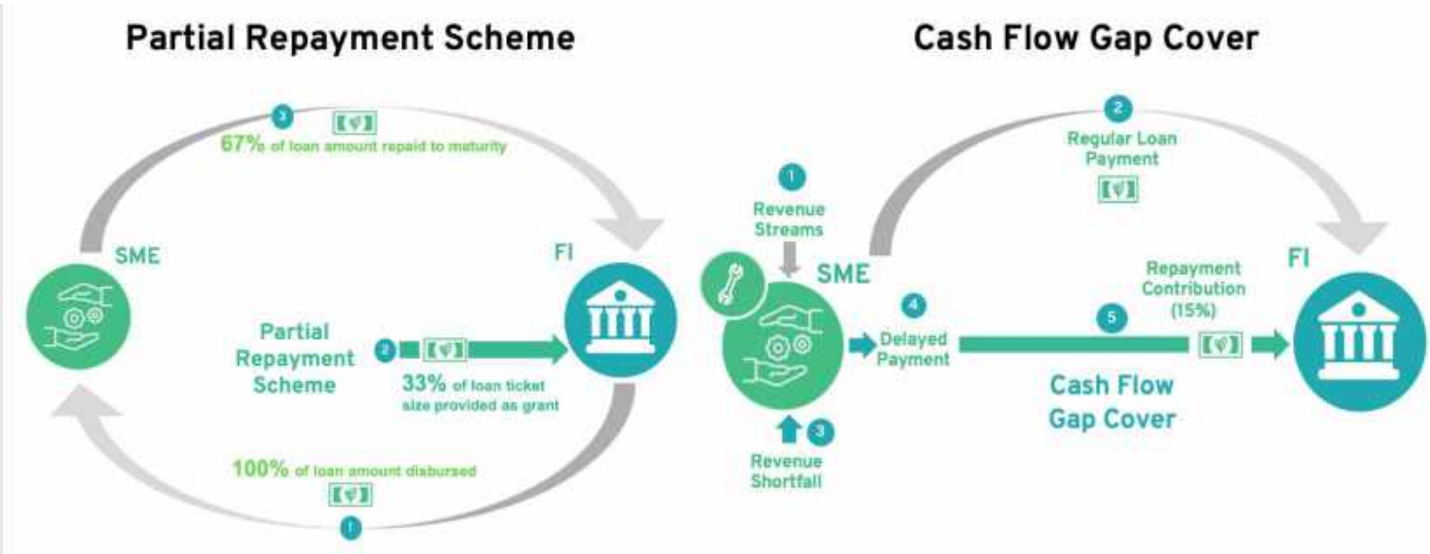
| Blended and Grant Finance Instruments | No of SMEs | Grant amount per SME | Total Grant amount (for 30 SMEs) | Leveraging effect** |
|---|---|---|---|---|
| ***Blended Option 1:*** Partial Repayment Scheme | 30 | *33 % of loan ticket size*<br>33.300 USD | 999.000 USD | 1.998.000 USD - Factor 2 |
| ***Blended Option 2:*** Guarantee Scheme | | *35% portfolio or individual guarantee* | 1.050.000 USD | 1.995.000 USD - Factor 1,9 |
| ***Alternative Grant Option:*** *Direct Grant to SME* | | 33.300 USD | 999.000 USD | N/A |
| **Performance-based mechanisms** | | | | |

| | | | | |
|---|---|---|---|---|
| *Option a:*<br>Cash Flow Gap Cover | 6 | *20% of loan ticket size*of Partial Repayment Scheme*<br>6.600 USD | 39.600 USD | N/A |
| *Option b:*<br>Performance-based payments | 30 | *Up to 15% of loan ticket size**<br>15.000 USD | 450.000 USD | N/A |

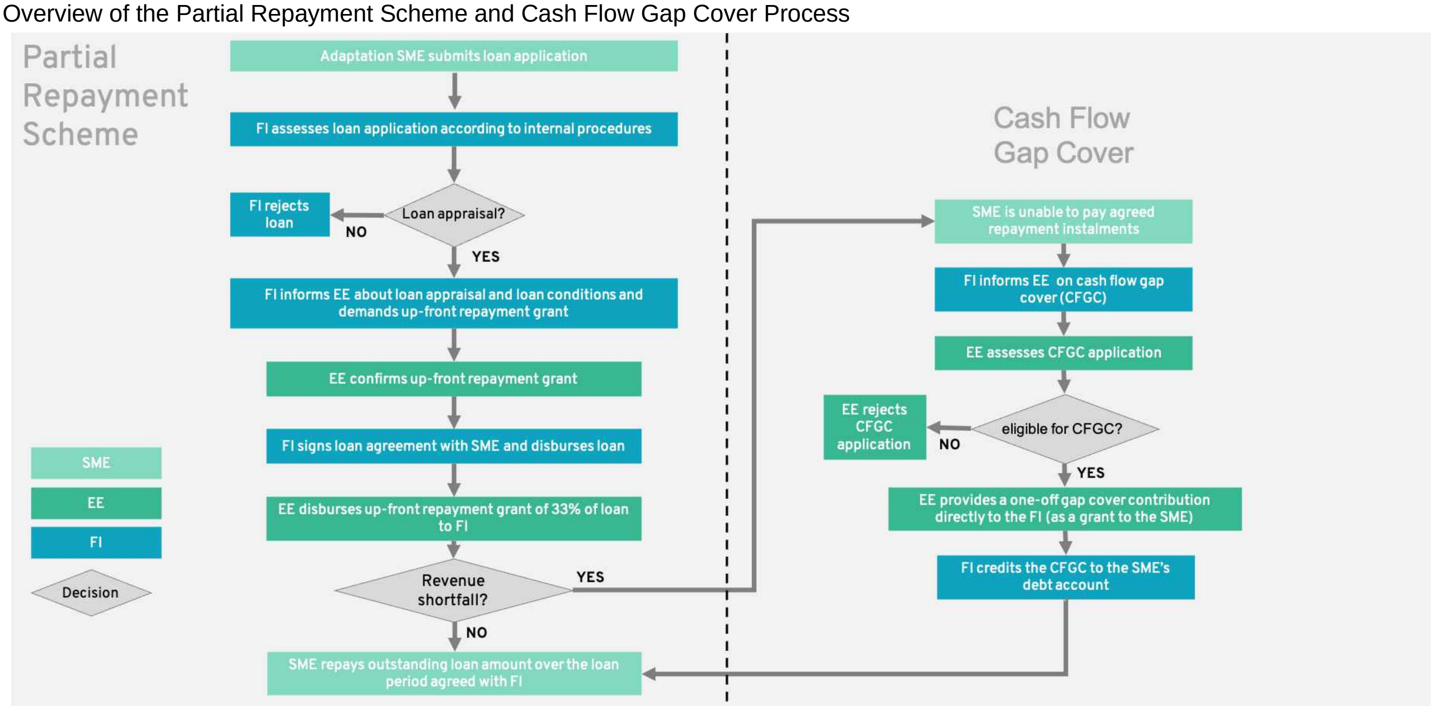
*Assumption: Average ticket size: 100.000 USD.

** The leveraging effect describes the amount of private capital, which is leveraged by the grants provided through this project. Calculated as: Number of loans * average ticket size - (total grant amount)

Visual Overview of the Partial Repayment Scheme and Cash Flow Gap Cover




Overview of the Partial Repayment Scheme and Cash Flow Gap Cover Process




**Output 2.3.2 Mobilising at least 15 partner Financial Institutions (FIs)**
**Activity**

<u>2.3.2.1 Building a portfolio of contractual partnerships with FIs and impact investors/ venture funds</u>

*90.* Formalized partnerships will be sought with at least 15 local FIs and impact investors/ funds that have already been part of the design process. The ability of FIs to demonstrate a gender-lens investing/financing approach will constitute a significant advantage in the selection of partners. The EE and EE partners will leverage their well-established networks with commercial banks and impact investors in Kenya and Uganda. The Kenyan EE, KCV Limited being an investment management company with an established fund to invest in climate-smart, early growth-stage enterprises, will be one key partner here and leverage its well established network of impact investors and local banks. adelphi and Finding XY have established partnership agreements with a number of local banks in Uganda under UGEFA that can be built upon (see also J. Consultative Processes). Specific alignment to the internal procedures, risk scorecards, due diligence and loan appraisal requirements of the partnering FIs and investors will be considered in jointly designing the catalytic financing facility.

*91.* For the implementation of blended financing instruments, a detailed outline of roles, responsibilities and transactional procedures will be agreed upon and refined over the course of the project. Memorandums of Understanding will be signed before the first presentation of enterprises to FIs and impact investors/venture funds. In the second cycle, also new partner institutions will be invited to come on board to increase outreach into the ecosystem and to enable these to benefit from the experience and learnings from the 1st cycle, and any conceptual refinements already implemented.

**Output 2.3.3 Implementing blended financing & performance-based payments and portfolio management**
**Activities**

2.3.3.1 Blended financing & performance-based payment mechanism implementation

*92.* Adaptation SMEs that have successfully completed the Catalyser program (Output 2.2.1) will be screened to benefit in the loan facilitation mechanism. The EE assesses the documents developed by the enterprise during the Catalyser support, which will be required for the matchmaking with the financial institution, including: business plan, financial plan, investment proposal, investment calculation, impact dashboard which includes the adaptation performance targets. The EE selection team then decides if the enterprise is selected to continue with the matchmaking and accelerator support. If yes, the enterprise is introduced to the financial institution, who then conducts their assessment as per their internal criteria and reach a decision on whether or not to approve the funding (further details on the selection process can be found in Annex 1). At least 30 participating SMEs out of which 15 women-led SMEs, successfully sign a financing agreement with the EE and thus, become part of the Accelerator programme. By signing a financing agreement with the EE the participating adaptation SMEs will benefit from the blended/grant financing schemes as described under Output 2.3.1.

*93.* For each successful financing agreement, an individual contract with the borrowing adaptation enterprises will be signed to agree on the performance-based grant payment that will be tied to the achievement of Adaptation Performance Target milestones (APT). APTs may relate to different business aspects such as sales targets, vulnerable customers/ beneficiaries served, the level of gender equality and intergenerational equity among technical and leadership staff and in women/youth representation in the enterprise value chain (e.g. as sales agents) etc. The individual amounts of performance-based grant payments will be determined based on the categorization of participating gender- and youth inclusive adaptation SMEs according to their growth and impact potential. Gender- and youth inclusive adaptation SMEs with a medium growth potential but a high adaptation impact potential, for instance, would receive higher performance-based grant payments than high-growth/low-to-medium impact profile enterprises. The performance-based grant payments will be released as a grant in one tranche after the final achievement of the defined APT milestones. It will support the enterprises in the repayment of the loans and incentivize the achievement of the APT targets. The time-frame for the achievement of the APT milestones will be tailored to the invidual SMEs and might stretch over a period of 6 months to 1 year. An integral part of every performance-based grant agreement is a APT roadmap, which describes practical matters related to the delivery of agreed work/activities, including milestones, budget, and payment schedule.

*94.* 2.3.3.2: Portfolio management:

Portfolio management of funding-eligible enterprises is coordinated through a central database for progress monitoring and documentation, supported by local BDS providers delivering the business support, in order to ensure that enterprises work effectively towards meeting FIs/ investors requirements on funding-readiness in terms of financial management systems and realistic investment plans along funding-readiness action plans. The PMU will monitor the borrowing SMEs' APT milestones by reviewing and verifying self-reporting efforts by SMEs. The verification of the APT milestone achievement will be based on the narrative, financial, photographical, and video documentation received from the beneficiary. Additional spot-checks, site-visits and interviews on the ground will be implemented as verification measures in case of questions. The performance-based payments will be made by the EE following the certification of the successful completion of the specific APT milestones. The Accelerator Support, as well as dedicated contingency planning sessions for enterprises benefiting from the cash flow gap cover instrument will mitigate the risk of defaults as much as possible. Since this financial facility engages and leverages funding provided by market-based financial institutions in an innovative manner, the facility can rely on due diligence and repayment monitoring processes conducted by financial institutions themselves.

**Output 2.3.4 Exit and scale-up strategy for innovative adaptation SME financing mechanism**

2.3.4.1 Exit and scale-up strategy development

*95.* Both the financing facility, which will raise the appetite and familiarize FIs with adaptation business models, products, services and technologies, as well as the Adaptation Finance Academy (outlined in 3.1.1) will prepare local banks and other FIs to deploy international climate finance capital provided by (international) DFIs. FIs will gain first-hand experience with adaptation SMEs, in particular women-led adaptation SMEs and adaptation SMEs with a gender- and youth-responsive approach, their investments and the integration of adaptation-related criteria into loan appraisal processes and scorecards.

*96.* Participating banks in this component II will increase their understanding of climate adaptation enterprises, establish clear criteria for assessing risks faced by these enterprises, and their credit-scoring in climate adaptation finance. Ultimately, this will generate a scaling-up effect that attracts more investment without relying on public finance subsidies.

*Outcome 2.4: Potential environmental and social risks of selected SMEs screened, assessed and monitored with the framework of the Environmental and Social Management System ESMS*

**Output 2.4.1 A comprehensive ESMS for SMEs to receive technical and finance support is implemented**
**Activity**

2.4.1.1 Application of an Environmental and Social Management System (ESMS)

97. A comprehensive ESMS will be set-up and implemented specifically for the screening, assessment and monitoring of environmental and social risks that potentially result from the activities of the SMEs that will be selected to receive targeted technical and financial support through the project. The ESMS is detailed in Annex 1, in line with the environmental and social principles as defined by AF's Environmental and Social Policy. The ESMS screening activities will be mainstreamed in the selection process (Output 2.1.2) and the technical advisory around the Catalyser (Output 2.2.1) and Accelerator programme (Output 2.2.2). This risk-based approach will complement and interact with the project's cross-cutting intersectional gender equality/women's empowerment and youth inclusion strategy which is mainstreamed across all project activities.

98. Further, the ESMS will include assessing any potential risks for maladaptation as a result of the SMEs introducing adaptation solutions such as any negative impact /externality on other groups, potential for future conflict, unwise trade-offs, short vs long term benefits, path dependencies or a technology lock-in that eliminate choices of future generations, or higher risk on other areas that the farmers livelihood depends on, etc. If the screening results in a high or moderate risk category for the sub- project, then additional steps might be taken to avoid or mitigate such risks.

99. Project and safeguard information will be disclosed to public and relevant stakeholders for their information and engagement as detailed in Annex 1. Regular monitoring of the compliance with required environmental and social management plan will be carried out and documented in the annual progress reports.

### Component III: Financing Institution Capacity Development Programme

100. **Baseline situation**: The financing of gender- and youth inclusive adaptation SMEs in Kenya and Uganda is limited by the lack of awareness and knowledge among local FIs about the business opportunities of accessing adaptation finance and channelling it into adaptation entrepreneurship. To enable effectively funnelled adaptation finance to locally-led adaptation entrepreneurs who target those most vulnerable to climate change, local FIs need to be capacitated and empowered in understanding gender- and youth-responsive adaptation, its funding criteria, and business cases.

101. **Proposed interventions:** The Adaptation Finance Academy serves as an events-based knowledge hub to tackle the insufficient FI portfolio of adaptation finance instruments tailored to gender- and youth inclusive adaptation SMEs, as well as to contribute to increasing efficiently channelled adaptation finance to local interventions and adaptation entrepreneurs. Adaptation Finance Trainings will provide tailored information and knowledge on climate adaptation and the private sector and the specific role of adaptation SMEs in building local resilience. The need for and benefits of gender-lens investing and financing will be included and highlighted as a central and integral part of the training. The trainings will be held back-to-back to Climate Strategy Workshops that will anchor strategic adaptation considerations within participating FIs, serving as the strategic foundation for adaptation action. The Adaptation Finance Practitioner Labs, are co-creative multi-stakeholder workshops in which innovative adaptation finance instruments tailored to early-stage gender- and youth inclusive adaptation SMEs are designed by local FIs. The Academy will not have a physical presence but work through a series of workshops and events where FIs meet to network and co-create ideas.

102. **Alignment with AF Strategic Results Framework (SRF):** Component III aims to develop prototypes of innovative adaptation financing instruments to be deployed and offered to adaptation SMEs by local FIs (alignment with Output 8.1.); it will also increase the readiness and capacity of local FI staff to respond to, and mitigate impacts of climate-related events to increase the resilience of their banking portfolios (alignment with Output 2.1); it will finally guide FIs to conduct and update risk and vulnerability assessments for their banking activities (alignment with Output 1.1).

*Outcome 3.1: Local financing institutions support the dissemination of adaptation technologies, products and services*

**Output 3.1.1: Adaptation Finance Academy**

**Activities**

3.1.1.1 Adaptation Finance Trainings

103. The banking sector in the two target countries is generally lacking awareness in the concept and prospects of adaptation finance as well as what financial products and services are required for gender- and youth inclusive adaptation SMEs to scale. The Adaptation Finance Trainings offers the opportunity to expand on nascent knowledge on adaptation finance and entrepreneurship as a lever for new financial business opportunities.

104. The interactive hands-on trainings will be facilitated by experienced advisors and target local FIs participating in small teams of three to four members. A specific focus of the trainings will be on gender-lens and inclusive financing to create additional awareness on the obstacles of women, youth and other marginalised groups to access finance. The workshops also act as showcasing events for gender- and youth inclusive adaptation SMEs as blueprints for investable business models. Furthermore, subnational government officials are invited to discuss possible cooperation for joint locally implemented adaptation finance projects.

3.1.1.2 Climate Strategy Workshops

105. In order to ensure that the suggested funding facility will be strategically anchored within partner FIs, Climate Strategy Workshops will be implemented, capacitating them to develop Climate Strategies, outlining strategic pillars for climate action, action fields for operationalisation as well as clear climate targets, both on mitigation and adaptation. The Climate Strategy Workshops will engage representatives from different departments, ranging from sustainability and partnership managers to communication teams as well as product developers, client solution managers and commercial departments to embark on co-creation sessions to jointly design Climate Strategies for their banks. Participants will further benefit from capacity building on climate impact measurement, to support sustainability-related reporting.

106. These Climate Strategy Workshops will aim at providing the foundation of stimulating the appetite of commercial banks and other FIs to engage with green clients. Furthermore, they will create awareness and stimulate interest to include an assessment of green investments (with a focus on adaptation impacts) as part of loan appraisal processes. In order to increase cross-country learning and exchange,

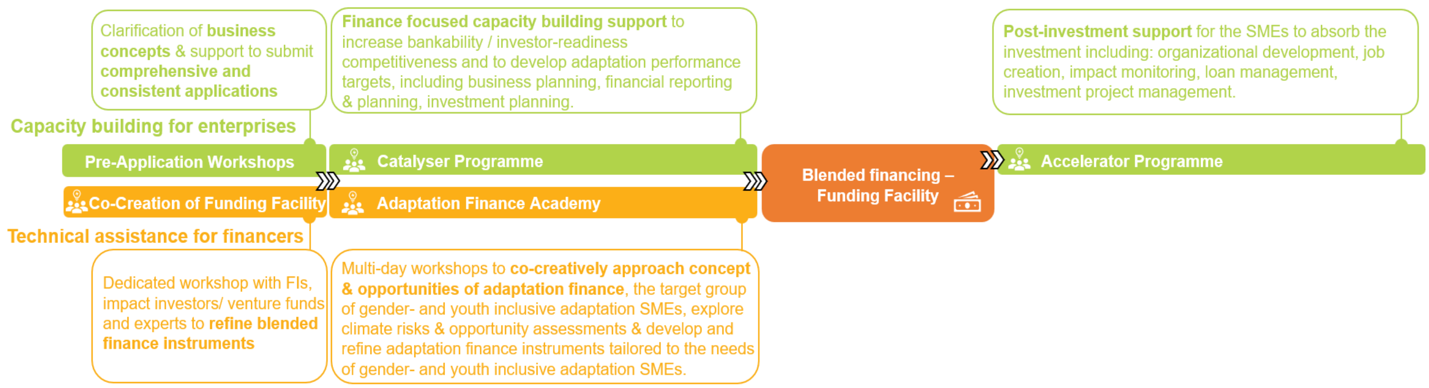
leading commercial banks from Kenya, with a Climate Strategy already in place, will share their experiences in developing and operationalising climate actions.

3.1.1.3: Adaptation Finance Product Innovation – Practitioner Labs

*107.* Practitioner Labs aim at prototyping adaptation finance instruments which tackle barriers to access finance facing women-led adaptation SMEs and gender- and youth inclusive adaptation SMEs. These adaptation finance instruments will provide innovative approaches to deploy and operationalise adaptation finance by investing in adaptation enterprises. Based on interactive and innovative learning and prototyping methodologies, the Labs will facilitate the development of instruments and products which increase access to adaptation finance for SMEs in Kenya and Uganda. The Practitioner Labs will emphasise the specific obstacles and needs of women, youth (and other vulnerable groups) entrepreneurs to access finance and seek the integration of inclusive financing elements in the prototyped financial instruments.

*108.* Prototyping is a bottom-up, demand-driven, iterative and human-centred approach to develop targeted and effective instruments, creating ownership among the prototype developers while ensuring that the needs of the target group are met. The Practitioner Labs will leverage the local and thematical expert knowledge and extensive networks of leading FIs and fortify a community of practice through hands-on and collaborative peer-learning opportunities. To maximise the chance of adoption, the validated prototype solutions are pitched and further discussed in high-level annual Adaptation Finance Symposia (Output 1.2.2).

*Figure 2: Intervention logic.*




**B. Promotion of innovative solutions to climate change adaptation**

*109.* The project will implement an innovative combination of blended financing instruments with a performance-based payment scheme while training local FIs in climate-smart financing. By both combining capacity building formats with financial support and providing tailored support to SMEs as well financers, it truly bridges the "*missing middle finance gap*" of adaptation SMEs in Uganda and Kenya. The project will not only replace "traditional" grants for enterprises by innovative and unique funding facilitation instruments which leverage private sector funding amounting up to more than two to three times the amount of grant funding provided, it will also apply an inclusive market-based approach of stimulating and scaling viable and sustainable private sector adaptation solutions with lasting impacts. In doing so, the project seeks to achieve a transformational change in the prevailing SME financing and support mechanisms. The innovation of tailored financing instruments will be sought through a co-creation process involving all core parties. The prototype financing instruments will then be tested throughout two financing cycles to distil those best fit-for-purpose. Access to tailored finance will allow adaptation SMEs, including women-led SMEs, to make the necessary investments in order to grow and scale their operations, leading to scaled deployment of adaptation solutions. The project seeks to achieve collaborative innovation, while at the same time building a community of practice across borders, ensuring the sustainability of the action.

*110.* The project will select the most innovative, finance-ready adaptation solutions offered by early-growth SMEs in Uganda and Kenya through regional calls for applications to participate in the catalytic financing scheme. All adaptation SME applications will be assessed against a set of adaptation **innovation criteria** including:

- **Fit-for-purpose**: The applicant's adaptation solution addresses the prevailing key vulnerabilities in the respective regions they operate in (see Climate Risk and Adaptation SME Solution Matrix). For example, enterprises offering/ running protected cultivation systems to address crop failure and severe crop damage due to prolonged drought periods in the arid/semi-arid landscapes of Northern Kenya.
- **Market viability**: The adaptation product or service offered meets the needs of the target market as the final beneficiaries.
- **Financial sustainability**: The applicant needs to demonstrate financial sustainability of the adaptation business model relating to specific characteristics of applicant SMEs enabling them to absorb the project's target average loan size of 75,000 USD and use the capital for growth including: Size of annual turnover; Number of employees (full time equivalent); Stage of enterprise (often in terms of market readiness or financial status); Registration status; Financial history (i.e. financial statements).
- **Different or Better** The market-based adaptation solution offered is an improvement over existing solutions or a new solution that is different from the existing adaptation solutions. It must have an added value over and above what the target beneficiary is currently using/practicing to address the adaptation problem faced. These innovative solutions comprise not only new technologies and approaches, but also build on and/or revive traditional knowledge of indigenous peoples and local communities. The application should also show potential for systemic and sustained improvement of such practices or approaches.
- **Inclusion of Women and Youth:** Applicants shall demonstrate that that their innovation is well adapted to the diverse needs of women, girls, men, boys and or groups of people with intersecting levels of vulnerability. It will be assessed to what extend their innovation ensures meaningful participation of women, men, boys and girls, and/or other groups of people in transparent information sharing, decision making and responsive feedback mechanisms.

- **Scale-up and replication potential:** The adaptation solution has a track record in the market. It has been tested and refined to meet the demands of the target market with the potential to reach out to new markets or regions. The applicant must provide proof of concept (growth plan) on how scale-up and replication of the product or service will be rolled out with the intended financing amount.
- **Transformational change potential**: The applicant's adaptation solutions provides proof of concept of system change or transformations achieved, disrupting existing default social biases that have an adverse effect on local climate resilience. For instance, this may refer to SMEs creating alternative livelihoods for marginalised pastoralist communities suffering from loss of cattle due to longer dry spells or businesses providing their product or service to remote and underserved markets.
- **Learning and knowledge capture**: The applicant has an effective system in place that ensures product or service feedback as well as ecosystem level information is captured from all relevant stakeholders (within and outside of the enterprise) and utilised to appropriately engage in product/service improvement activities or react to changes within the ecosystem (e.g. policies, climate, competitors).

*111.* The EE and EE partners understand innovation as impact-oriented and context-specific and innovations promoted by the action adhere to achieve systemic change to disrupt prevailing socio-economic structures or procedures that have an adverse impact on local climate resilience. Innovation will therefore be assessed under the overarching vision of the action to achieve adaptation impact at scale. The project focuses on product or service innovation, while organisational innovation is examined in the applicant's learning and knowledge capture systems.

*112.* Design thinking, prototyping and other highly collaborative formats will also be used for ecosystem building events such as the Adaptation Action Events or Annual Adaptation Finance Symposia to ensure that the ideas, knowledge and expertise of various ecosystem stakeholders are leveraged, while fostering cross-sectoral and cross-regional collaboration and facilitate peer-networking.

*113.* The regional approach of the project will allow to identify and promote innovations across borders, e.g. by co-inventing new adaptation solutions by SMEs from Kenya and Uganda. It also widens the scope of markets, investment and support opportunities for gender- and youth inclusive adaptation SMEs to share innovations for specific sectors and replicate these in different geographical areas. The project will further leverage local and national expertise to scale the impact at the regional level ensuring complementarities and synergies with the overall project efforts.

### C. Roll-out of successful innovative adaptation practices, tools and technologies

*114.* In order to create sustainable impact and meaningful benefits through innovative adaptation practices, tools and technologies; it is key to not only focus on developing, identifying, and promoting innovation but to also put emphasis on the roll-out and sustainability of such innovations. Therefore, the EE and EE partners will make use of a comprehensive and integrated approach to innovation that creates a bridge and flows from innovation sourcing and promotion (see above – Chapter B) to sustainability and long-lasting impact (see below – Chapter M). The EE's vision for the project is to achieve impact at scale through a multi-pronged approach to innovation roll-out.

*115.* There are several key elements how the roll-out of successful innovations will be supported. Firstly, at the core of this project is the financial system innovation which refers to the **implementation of the funding facilitation instruments, combined with performance-based blended financing mechanisms** (Output 2.3.1). The co-creatively designed financing mechanism will demonstrate its value to FIs for long-term usage, potential replication by other FIs and full-scale roll-out of such an instrument for financing early-growth stage gender- and youth inclusive adaptation SMEs.

*116.* The project will benefit from the experiences of the EE and EE partners with climate-smart and green financing instruments for the SME sector in Uganda and Kenya, for instance through the Uganda Green Finance Accelerator programme[55] led by adelphi in cooperation with Finding XY, and KCV's established fund to invest in climate-smart, early growth-stage enterprises in Kenya. In the framework of UGEFA the EE already facilitated more than 90 green SME loans through the proposed funding facilitation instruments. Based on the learnings of the EE and in a co-creation process with local FIs, blended financing instruments in combination with performance-based payments will be tested and refined during the proposed project implementation.

*117.* The testing of the innovative blended financing instruments and performance-based payment mechanism together with comprehensive monitoring and impact assessment will enable reconfiguring and incrementally refining the innovative finance mechanism in the process of two financing cycles to make full-scale roll-out as impactful as possible and encourage FIs to scale-up their lending to gender- and youth inclusive adaptation SMEs with proven and tested innovative mechanisms. Complementary to developing these new financing approaches with local FIs, the same FIs are supported to strategically anchor adaptation finance within their institutional set-up and operations.

*118.* A second key pillar for rolling out innovation will be the **support to the selected adaptation SMEs** themselves which builds on the selection criteria for SMEs described above (see Chapter C). Via the Catalyser (Output 2.2.2) and especially the Accelerator (Output 2.2.3), gender- and youth inclusive adaptation SMEs will be assisted in the scale-up and large-scale roll-out of their business model innovations and innovative adaptation products/services, tools and technologies in both target countries. Beyond the financing itself, the two non-financial pre- (Activity 2.2.1.1) and post-investment support elements will be instrumental for enabling adaptation SMEs to develop a clear growth strategy and scale-up plan that reinforces the roll-out potential and long-term viability of respective innovations in a sustainable manner and self-financed in the long run. Put differently, gender- and youth inclusive adaptation SMEs create new solutions and seek innovations. The project selects such enterprises to support the design and development of market-based, innovative and viable solutions through technical support while the enterprises pilot and demonstrate their products and services. The project then provides support to scale adaptation solutions and to replicate it in other areas and to reconfigure it wherever evidence from the piloting suggests the need for it.

*119.* Thirdly, the project will facilitate **system innovation through its multi-stakeholder approach** spanning across both target countries and beyond. Through various formats for network building, multi-disciplinary collaboration, and creation of sector linkages, a new regional system of support and community of practice for innovative adaptation SMEs with the participation of the private, financial and public sector will be mobilised and strengthened. With the support of the Adaptation Action Steering Committee and facilitated by the RCP, the project will develop a solid foundation for the roll-out of these system innovations and long-lasting networks and cooperation opportunities

[55] https://ugefa.eu/

that are set to remain active after the duration of the project and will be sustainable drivers of support and innovation in the adaptation space.

*120.* Beyond these three pillars, the project will have overarching and cross-cutting principles and systems in place for scaling up and rolling out successful innovative adaptation practices, tools and technologies. The system of continuous monitoring and impact assessment will provide a strong basis for the EE's principle of reiterative cycles of innovation, learning, testing, and improving in preparation and throughout the roll-out of innovations. For this reason, the project will have an approach with two implementation cycles in which insights and learnings from the first cycle inform the improvement of the second one. Examples include the selection criteria for identifying the right SMEs or the reconfiguration of the implemented innovative financing mechanisms.

*121.* This idea of constant optimisation as a driver for effective scale-up of innovations will be fostered by the RCP and the regional approach of the project across the two countries that will facilitate cross-border learning. Through comprehensively analysing and collecting learnings as well as documenting and broadly sharing these, the project will make best practices, lessons learned, and tested innovations available to a wide set of stakeholders. This will be instrumental for reconfiguring early stage innovations and developing new innovative solutions that are effective and market-ready on the basis of existing evidence, knowledge, and learnings.

*122.* Pathways to scale this project beyond this project to be funded by Adaptation Fund will be paved during project implementation: The capital injection facilitated through the project will result in catalysing enterprises to qualify for next-level finance (e.g. higher loan ticket sizes, impact / equity investments etc.). The financing facility as well as the Adaptation Finance Academy will prepare FIs to access and deploy international green finance and related climate finance instruments (such as green and sustainability bonds, blended finance, green credit lines, insurance microfinance, etc.), since they will not only be able to demonstrate an increased understanding of the climate finance landscape, instruments and requirements, familiarity with ESG assessments and a track record in deploying climate finance to adaptation enterprises. Once established and operational, the financing facility will set the benchmark of revolutionizing access to finance interventions for adaptation SMEs. The EE entity in cooperation with Finding XY and KCV, will explore further possibilities to scale its operations.

**D. Economic, social and environmental benefits**

*123.* Based on the analysis of climate change risks for the focal sectors and the resulting challenges for the affected vulnerable groups (Part I), the EE has identified various economic, social and environmental benefits the project will provide to direct beneficiaries that include gender- and youth inclusive adaptation SMEs and FIs and the indirect beneficiaries of vulnerable groups and communities who make up suppliers and consumers in the SME value chains as well as their wider communities (see table below). The project will assess and monitor beneficiary inclusion (disaggregated by gender) through the SME selection process (Outcome 2.1), the Catalyser and Accelerator programme (Output 2.2. - continuous monitoring through impact dashboard), the ESMS (Outcome 2.4) and an annual impact assessment (Output 1.2).

*124.*

| **Economic Benefits** |
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| **Expected economic benefits – direct and indirect:**<br>The technical team conducted a preliminary cost-benefit analysis (economy; efficiency; effectiveness and equity) on the selected technological, concluding that:<br><u>Livelihood Protection:</u> Many vulnerable communities depend on climate-sensitive sectors such as agriculture, fisheries, and water management. Climate adaptation measures that enhance the resilience of these sectors can safeguard livelihoods and prevent economic losses due to climate-related disasters. Stabilises and improve incomes and future livelihoods, ultimately strengthening the local and regional economy<br><u>Job Creation:</u> Adaptation SMEs maintain and create additional local jobs in their communities, reaching out to additional vulnerable groups to generate local income and integrating communities into local economies and value chains. Implementing adaptation projects requires a significant workforce, which will lead to job creation in local communities. This is particularly relevant in rural areas where alternative employment opportunities are limited.<br><u>Insurance Savings:</u> Climate adaptation can decrease the financial burden on vulnerable households by reducing the frequency and severity of climate-related damages. This can lead to lower insurance premiums and increased financial security.<br><u>Improved access to finance:</u> Increased access to adaptation finance for early-growth stage women-led SMEs as well as gender- and youth inclusive SMEs through training provided for FIs (Component III) on climate adaptation finance (e.g. incorporating ESG criteria in loan appraisals).<br><u>Shock preparedness:</u> Increased access to a wider variety of green and climate adaptive products and services increase the resilience of households and product and service users to climatic or economic shocks in the future.<br><u>Local economic development:</u> The growth of climate adaptation SMEs has a stimulating effect on the local economy. They application of climate-smart practices can increase productivity, can support the demand for locally produced goods and services and support additional employment.<br><br>**Specific benefits to local women:**<br><u>Women Economic Empowerment:</u> Adaptation SMEs often create job opportunities for women in sectors such as sustainable agriculture, renewable energy, and water management. By supporting women-led businesses and providing access to markets, these SMEs help women become successful entrepreneurs. In addition, women are significantly underrepresented as business owners and managers of adaptation SMEs and face gender-specific hurdles in access to finance and decision-making. The project will target a percentage of women-led adaptation SMEs above sector average, combined with sensitizing FIs on gender lens investing approaches.<br><u>Improved Livelihoods:</u> Adaptation SMEs provide women farmers with access to affordable climate-resilient crops, sustainable farming techniques, and agricultural technologies, leading to increased productivity and food security. Training in value addition processes (e.g., processing agricultural products) helps women increase their income and financial stability. |

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| **Specific benefits to youth:**<br>Youth empowerment: The adaptation SMEs implement innovative measures which will involve youth working in research centres and private companies as actors of designing, manufacturing and contracting. Adapation SMEs enage a broad set of community members in the value chain. Thus the project will stimulate further economic activity for youth.<br>Employment opportunities: Adaptation SMEs generate employment opportunities for young people agriculture andwater management sectors. Many adaptation SMEs offer internships and training programs specifically designed to equip young people with practical skills and work experience.<br>Skills Development: By supporting adaptation SMEs the project will provide technical training in areas such as climate-smart agriculture and water conservation technologies, enhancing the employability of young people. Training in leadership and management skills will prepare youth for various professional roles. |
| **Social Benefits** |
| **Expected social benefits – direct and indirect:**<br>The technical team conducted a preliminary cost-benefit analysis (economy; efficiency; effectiveness and equity) on the selected technological, concluding that:<br>Enhanced Food Security: Adaptation SMEs in agricultural production introduce affordable climate-resilient crops and farming techniques that ensure stable food production despite adverse weather conditions. Improved agricultural practices and technologies lead to higher yields, reducing the risk of food shortages. Reduction of food poverty and the stabilisation of food and water security for vulnerable groups will be improved tremendously through stable incomes.<br>Nutritional and Health Benefits: Ensuring a stable supply of fish contributes to better nutrition and health outcomes for communities reliant on fish as a primary food source. Adaptation SMEs supporting Climate-smart water Technologies reduce water pollution, leading to healthier aquatic ecosystems and safer drinking water. Improve the overall health and well-being of vulnerable groups and communities by freeing up time and resources typically spent on providing basic needs for themselves and enabling especially the youth and women to attend schools and other educational institutions for capacity building and upskilling.<br>Social Cohesion: Forming fishing cooperatives encourages collaboration and mutual support among fishers, strengthening community bonds. By promoting equitable access to fishing resources, SMEs help mitigate conflicts over resource use.<br>Social Equity: Adaption SMEs invest in water infrastructure projects, such as boreholes, wells, and rainwater harvesting systems, ensuring reliable access to clean water. Ensuring equitable access to water resources for all community members promotes social justice and reduces inequalities. Engaging communities in water management projects fosters a sense of ownership and collective responsibility.<br>Community Resilience: The availability of adaptation products and services strengthens the resilience of communities, enhancing their ability to withstand climate-related challenges. These measures directly protect the lives and livelihoods of vulnerable populations. Reduction of eco-social conflicts between settled communities and moving communities, like agri-pastoralists, on food and water resources through supported adaptative technologies on irrigation, water storage, soil treatment and drought-resistant crops.<br><br>**Specific benefits to local women:**<br>Women Economic Empowerment: Reducing the time spent on water collection allows women and girls to pursue education and economic activities. Contribute to eliminating key reasons for social inequalities that women, youth and marginalised groups face, through provision of access to financing and know-how about adaptation business development.<br>Leadership Opportunities: By involving women in decision-making processes and leadership roles within the adaptation SMEs, these enterprises promote gender equality and empower women to take on more significant roles in their communities. Greater gender equality leads to rise in professional advancement, income growth and consumer power of women, making them an influential target market<br>Community Engagement: Adaptation SMEs often engage women in community-based adaptation projects, enhancing their social standing and influence. Reduce the risk or need for forced migration of communities since using adaptative technologies and systems makes communities less likely to degrade the land or water resources.<br>**Specific benefits to youth:**<br>Skills Development: By supporting adaptation SMEs the project will provide technical training in areas such as climate-smart agriculture and water conservation technologies, enhancing the employability of young people. Training in leadership and management skills will prepare youth for various professional roles. |
| **Environmental Benefits** |
| **Expected environmental benefits – direct and indirect:**<br>The technical team conducted a preliminary cost-benefit analysis (economy; efficiency; effectiveness and equity) on the selected technological, concluding that:<br>Carbon Sequestration: Certain adaptation practices, such as afforestation and reforestation, contribute to carbon sequestration, helping mitigate climate change by removing carbon dioxide from the atmosphere.<br>Soil Health Improvement: Adoption of conservation tillage, crop rotation, and organic farming techniques improves soil structure and fertility. Use of compost and organic fertilizers reduces chemical input, enhancing soil biodiversity and health.<br>Sustainable Resource Management: Adaptation solutions often encourage more sustainable resource management practices, such as efficient water use, soil conservation, and responsible land use planning. These practices ensure the availability of essential resources for vulnerable communities over the long term. Eliminating conflicts between mankind and wildlife which will accelerate wildlife protection through the fostering of green adaptation solutions that reduces the distress on natural resources (e.g. water, soil, biodiversity). Increase the application of nature-based solutions that in turn replace other harmful technologies and systems. Support the regeneration of natural resources and also support biodiversity conservation through affordable green products and services |

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| provided by local SMEs will lead to more considerate and efficient usage and interaction with a fragile environment and scarce resources.<br>Water conservation and quality: Implementing drip irrigation and rainwater harvesting systems reduces water usage and enhances water-use efficiency. Techniques such as mulching help retain soil moisture, reducing the need for frequent irrigation. Protecting and restoring watershed areas improves water infiltration and storage, enhancing overall water availability. Implementing measures to reduce agricultural runoff improves the quality of surface and groundwater. Constructed wetlands and bio-filtration systems naturally treat wastewater, reducing the need for chemical treatments. Reduction of food poverty and the stabilisation of food and water security for vulnerable groups will be improved tremendously through stable incomes.<br>Ecosystem Conservation: Integrating trees and shrubs into agricultural landscapes increases biodiversity and provides habitats for various species. Planting a variety of crops reduces monoculture practices, promoting ecological balance and resilience. Protecting and restoring wetlands enhances their role in water purification, flood control, and habitat provision for diverse species. Establishing vegetation buffer zones along water bodies reduces erosion, filters pollutants, and provides wildlife habitats. Many adaptation strategies involve protecting and restoring ecosystems such as wetlands, mangroves, and forests. These ecosystems provide important services, such as flood control, water purification, and habitat for biodiversity. Protecting them benefits both vulnerable communities and the environment.<br><br>**Specific benefits to local women:**<br>Climate Resilience: Women are often disproportionately impacted by climate change, especially in low-income countries and low-income communities. At the same time, women are often at the forefront of implementing community-based adaptation strategies, making them key players in building climate-resilient communities. Encouraging the adoption of sustainable practices helps women mitigate the effects of climate change on their livelihoods and communities.<br>**Specific benefits to youth:**<br>Climate awareness: Adaptation SMEs often run educational campaigns to raise awareness about climate change and adaptation strategies, empowering youth to take informed action. Engaging youth in community-based adaptation projects promotes civic participation and social cohesion. |

*125.* In general, the project increases climate resilience of businesses, local communities, and marginalised groups which not only creates direct positive existential social impacts but also leads to a wide variety of social co-benefits ranging from health and education impacts to poverty reduction, equality, and livelihoods as described above. Positive environmental impacts are at the core of the project through the roll out of an innovative mechanism for climate adaptation finance and invigoration of ecosystem investors and FIs with an interest in investing in green and climate finance. Additionally, the RCP will play a strong role in documenting and disseminating good practices, lessons learned and tested solutions for climate adaptation and further sustainability- and climate related impacts.
The non-financial support provided to the selected adaptation SMEs will include several specific tools for maximizing the positive environmental impact of the businesses as well as measures to assess and evaluate potential negative effects. In addition, the project will prepare and establish an Environment and Social Risk Management Plan which will be implemented and monitored by the EE and EE partners for the project implementation (as basis for this see risk analyses in Chapter N). Maladaptation and any other negative developments will be prevented by the application of a comprehensive ESMS (Outcome 2.4) as part of the SME selection process (Outcome 2.1). In order to avoid maladaptation in the enterprise solutions supported throughout project implementation the project will closely monitor the participating businesses by conducting regular field visits and using Catalyser programme touchpoints to request data and information on the business operations. An annual impact assessment will further aggregate data and information on SME development. For those enterprises participating in the Accelerator programme, a tight monitoring in terms of adaptation impacts will take place through the performance-based payment scheme.

### E. Cost-effectiveness analysis

*126.* The project's cost-effectiveness was a key consideration of the overall project design and builds on the following lessons learned of the EE: a) An early-on involvement of FIs in designing the finance facility is crucial to create ownership, develop instruments that are in line with established processes and procedures of the FIs (e.g. loan appraisal) and ensure their active participation in the project; b) Conducting climate strategy workshops with banks to go beyond capacity building and anchor climate (adaptation) considerations institutionally has proven successfully in other contexts; c) The implementation of performance-based payments in addition to funding facilitation and other de-risking/ incentivising mechanisms is a promising approach to safeguard adaptation impacts of participating SMEs. The performance-based payments will not only allow to track the adaptation impacts achieved, but will also allow to emphasize the financing of activities that generate the best possible impact with each dollar spent. The performance-based payments will hereby build on a robust impact monitoring and the quantification of results against each dollar spent.

*127.* The table below compares the selected approach of the project compared to other possible interventions that could have taken place to help adapt and build resilience in the same sector and country context.

| Project Component Outcomes | Selected approach for proposed project | Other possible interventions |
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| 1.1 The project establishes a sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers | The regional approach plays a crucial role in supporting the cost-effectiveness of the programme. By adopting a regional perspective, the project will leverage economies of scale, synergies, and shared resources across multiple locations. This approach allows for the pooling of expertise, knowledge, and infrastructure, leading to efficiency gains and reduced costs. | An alternative approach would have been to reduce costs spent on regional activities and deepening the bilateral and regional partnerships. However, this would have resulted in each country having to 'reinvent the wheel' in areas in which the other country already had significant expertise – thus |

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| | Additionally, a regional approach enables the identification and utilisation of regional strengths, resources, and capacities, optimising the allocation of resources and maximising the impact across a broader geographic area. By avoiding duplication of efforts, streamlining processes, and fostering collaboration among stakeholders, the programme can achieve higher cost-effectiveness and generate greater overall impact compared to isolated, single-site interventions. | ultimately leading to higher costs and reduced effectiveness. |
| 1.2 Key stakeholders, ministries, financial institutions (FIs), adaptation SMEs and the end-users (vulnerable groups) create and sustain market for adaptation technologies, services and products | The regional approach of the project will allow the project partners to use learnings and results from the target countries and replicate these within the scale-up of the project activities in the second financing cycle across the target countries. The grant spent within one country will herewith benefit the cost-effective implementation in the second target country. This will also allow for a benchmarking of results across the two countries.<br>Where possible, the project will aim to benchmark the project results across other SME adaptation portfolios. In order to do this, the EE will research the cost-effectiveness of other programmes at the start of the project. This benchmarking shall emphasize the cost-effective ambition of the EE throughout the project. | An alternative approach would be to support the dissemination of the existing knowledge products and data in each country without trying to make them more targeted and actionable. This would clearly not have been effective or useful for the stakeholders, as many of the existing resources are not very comprehensive nor reliable. Thus this approach would be neither sustainable or cost effective. |
| 2.1 Developing and implementing enterprise support mechanism | By building on existing processes, structures, toolkits and relationships of the EE, the project will further minimise transactions costs allowing the project partners to have a head start and effectively start from day one with the project implementation. This will reduce the overall programme set-up costs and will allow the project partners to focus on the implementation of programme activities to maximise the impacts of the supported gender- and youth inclusive adaptation SMEs.<br>The support infrastructure will ensure cost-effectiveness through clear and measurable objectives, efficient resource allocation, and identification of scalable opportunities for supported SMEs. The aim is to optimise resource utilisation while comparing and justifying cost-effectiveness against alternative approaches (in this case are traditional climate adaptation programmes).<br>The project focus on long-term sustainability - specifically evidenced by selecting and funding potationion SMEs with evidence of a demonstrable business model - will ensure that impact endures beyond the funding period. | By leveraging the accumulated experience, capabilities, and capacities of the EE, the project offers significant cost efficiency compared to other organisations. While others may require more time and resources to assemble and train a team, the EE takes responsibility for execution, ensuring that the startup phase is minimized. As a result, the project can commence immediately upon approval. |
| 2.2 Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management | To ensure cost effectiveness of the support adaptation SME projects, all projects will be evaluated using a cost-benefit analysis during the review process. Reviewers will assess the cost-effectiveness of the supported SME projects in comparison to alternative approaches or interventions. Considering the costs and benefits of both, as well as the alternatives, will help determine if the selected SME is the most efficient option available. | The application of a regional approach leverages economies of scale and shared resources, leading to efficiency gains and cost-effectiveness. By considering these angles, the programme can strategically allocate resources, deliver impactful outcomes, and maximise its overall effectiveness in addressing climate challenges and supporting vulnerable communities. |

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| | The project takes a flexible approach, catering to the realities of the SME portfolio and FIs mobilised for the catalytic financing facility. Upon graduating from the finance-ready Catalyser support, SMEs will already have achieved readiness for external investment options, allowing them to apply to any external funding sources. During the first financing cycle, the project will deploy a number of blended financing approaches agreed upon with local FIs. In case the first financing cycle should not successfully leverage the expected capital, the project will evaluate the reasons and conditions that hindered private capital investments in the selected SMEs. Based on this evaluation, the financing mechanisms for the second financing cycle will be adjusted to meet the specific needs of the selected SMEs and to cater to the concerns of the participating FIs. In this scenario, a larger share of AF grant funds will be paid directly to the selected SMEs (e.g. as a matching grant) for them to use these funds to increase overall finance-readiness (e.g. by purchasing machinery/ land that can be used as collateral for commercial finance). As such, event in the event that SMEs will not be able to sign contract with FIs, they will still get grants from the project to deploy their technologies and hence achieve the objectives of this project. The mobilisation of additional financing will support the scaling up of results that this project will achieve. | |
| 2.3 Designing and implementing blended financing and performance-based payment mechanism for gender- and youth inclusive adaptation SMEs | The project will focus on activities characterised by a high scale-up and replication potential. This will not only generate best possible impacts which can be tracked at the end of the project but will also fuel impacts at scale beyond the project period. All adaptation SME solutions piloted and validated with the project financing will – with the further expansion of the SME growth – be multiplied and consolidated with the life-time of the supported gender- and youth inclusive adaptation SMEs.<br><br>Beyond the cost-effective use of the money spent, the grant will be used to leverage private sector capital. This means that with each selected adaptation SME that receives financial support, additional private sector capital (provided by FIs) will be leveraged. The “leveraging factor” will be an integral design criterion for the financial instruments designed, ensuring that every dollar spent catalyses additional capital, thus scaling the impacts of this project. The capital leveraged will be equally tracked by the project being an integral part of the performance-based payment tracking.<br><br>The cost-effectiveness will be further strengthened by minimising transaction costs at all levels. This will be of crucial importance for FIs as providers of investment capital for adaptation SMEs. Their financing process will follow their well-established procedures. The project will support their decision making and selection process by supporting the banks in | The proposed financing options for the finance facility are cost-effective compared to other instruments considered: Matching grants: The leveraging factor of matching grants where the enterprise has to top up the grant amount paid out with own resources (usually ranging between 20 and 35% of the grant amount) is substantially lower compared to the proposed instruments and the overall investment is equally lower compared to additional private capital to be leveraged. Matchmaking with Impact Investors: Impact investors do only invest in a very small number of businesses, thus, the targeted number of 30 adaptation SMEs to be financed could not be achieved/ would be substantially lower. Matchmaking efforts also require substantial personnel resources from the SMEs and the project (e.g. establish matchmaking platform/ organise matchmaking events; develop pitch decks) that would not reflect in the success rate of maches achieved. Green loans: The uptake of new and innovative financial instruments such as green loans by commercial banks as the main FI target group of this project is a lengthy process that requires long-term preparation and buy-in of the bank’s management board. This requires substantial project resources and the expected success rate to have a green loan instrument introduced that is up and running for SMEs to apply within the duration of the project is very low.<br><br>Therefore, incentive/de-risking mechanisms as proposed here to encourage FIs to finance adaptation SMEs are the more cost-effective option in terms of the following factors: Maximising enterprise outreach and access, fast implementation time, low transaction |

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| | their due diligence and later on, through the performance-based tracking of impacts. | costs, leveraging existing funds, scalability (beyond project period); openness to multiple partners as the proposed finance facility will not only involve commercial banks but also impact investors/ funds to leverage additional financing. |
| 2.4 Potential environmental and social risks of selected SMEs screened, assessed and monitored within the framework of the Environmental and Social Management System (ESMS) | The project will assess not only the benefits generated in relation to the investments made but also screen the environmental and social risks. This analysis monitors potential Environmental and Social risks, while also looking at the cost-effectiveness of the interventions. Combining this analysis with the ESMS framework will ensure the effectiveness of our interventions, ensuring that our resources are directed towards not only creating tangible and positive outcomes, but also minimizing potential risks. | The project integrates a lean and integrative approach towards assessing and managing the environmental and social risks which are potentially associated with selected adapation SMEs. The approach of no action is not feasible given the overall requirements and the implementation of a more comprehensive ESMS management system would be not feasible against the overall risks. |
| 3.1: Local financing institutions support the dissemination of adaptation technologies, products and services | The Adaptation Finance Academy serves as an events-based knowledge hub to tackle the insufficient FI portfolio of adaptation finance instruments tailored to gender- and youth inclusive adaptation SMEs, as well as to contribute to increasing efficiently channelled adaptation finance to local interventions and adaptation entrepreneurs. Adaptation Finance Trainings will provide tailored information and knowledge on climate adaptation and the private sector and the specific role of adaptation SMEs in building local resilience. The trainings will be held back-to-back to Climate Strategy Workshops that will anchor strategic adaptation considerations within participating FIs, serving as the strategic foundation for adaptation action. The Adaptation Finance Practitioner Labs, are co-creative multi-stakeholder workshops in which innovative adaptation finance instruments tailored to early-stage gender- and youth inclusive adaptation SMEs are designed by local FIs. The Academy will not have a physical presence but work through a series of workshops and events where FIs meet to network and co-create ideas. | The project integrates a lean approach towards the Adaptation Finance Academy which serves as an events-based knowledge hub tailored to the needs of the supported financers. An alternative approach would be to work with a locally established training institution to implement the services for the bankers. This would clearly not have been effective, as many of stakeholders would consider this approach not reliable given the complexity of the adaptation finance topic. This would also require some additional institution building measures. Thus this approach would be neither sustainable or cost effective. |

*128.* A break-down of the budget shares dedicated for financial support to SMEs, technical assistance and project management is given below to demonstrate the overall cost-effectiveness of the described mechanisms. The currency used for financial flows between the EE and FIs will be US-Dollars and the currency used for the financial flows between the FIs and SMEs will be local currencies.

*Table 6: Budget break-down and leveraged private sector capital.*

| **No of direct beneficiaries** | **Budget for financial support to SMEs** | **Budget for technical assistance & ecosystem activities** | **Project Management Fee** | **Leveraged private sector capital** |
|---|---|---|---|---|
| 30 adaptation SMEs<br><br>At least 15 FIs | 1,5 Mio USD* | 3.045,455 USD* | 454,545 USD | 1,99 Mio USD* |
| | **30% of overall budget** | **61% of overall budget** | **9% of overall budget** | |

*129.* * Depending on design and combination of financial instruments (see also table 5 for reference)In addition, risk prevention and mitigation measures to ensure that the participating SMEs successfully obtain a financing agreement with a local FI include: a) Provision of finance-readiness Catalyser support to ensure SME's eligibility for commercial loan agreements; b) Strong involvement of FIs in the design of the finance facility and the selection of appropriate de-risking instruments and incentive schemes including flexibility to adjust these instruments after the mid-term review for the second funding cycle; c) Financial incentives for SMEs (e.g. performance-based payments, cash flow gap cover) and FIs (e.g. grant paid out to FIs as part of the partial repayment scheme) to sign a finance agreement.

### F. Consistence with national/ sub-national sustainable development strategies

130. With the deterioration of living standards and underperforming economic systems, in 2003, the Government of Kenya (GoK) formulated and implemented Kenya's Economic Recovery Strategy for Wealth and Employment Creation (ERS), built with the objection of restoring high economic growth, accelerating in industry success and improving the quality of life of its population. In addition, this strategy created a paradigm shift where for the first time in economic planning vulnerable groups and important sectors lay at the heart of economic planning as the government began prioritizing education, development and implementation of social support in arid and semi-arid region, and improving living conditions of urban dwellers in low quality housing infrastructure. With the great success of the ERS, Kenya then began expanding its vision "to sustain the recovery and move into a higher growth and development path". In 2008 the GoK announced its 'blueprint plan' for accelerating transformation into an industrialized middle-income nation by 2030. The vision 2030 agenda was anchored on several strategic principles to improve the social, economic, and governmental standings of Kenya and its vulnerable communities.

131. In early 2010 Uganda announced its first national scale development plan with their vision 2040 agenda "strengthening Uganda's competitiveness for sustainable wealth creation, inclusive growth and employment," to ensure the country reaches middle income status by 2040. Unlike Kenya, Uganda has taken a sectoral approach to achieving its vision 2040, prioritizing the following six sectors: Agriculture; Tourism; Minerals, Oil and Gas; Infrastructure; and Human Capital Development. An additional planning document of the vision 2040 agenda was created known as the Uganda Green Growth Development Strategy 2017/18 – 2030/31 and aiming for an "inclusive low emissions economic growth process that emphasizes effective and efficient use of the country's natural, human, and physical capital while ensuring that natural assets continue to provide for present and future generations" (Vision 2040, 2017:8).

132. This project strongly relates to the national agendas of Kenya and Uganda as it strives to improve climate change resilience of vulnerable communities, who usually have low social indicators (e.g. life expectancy, poverty ratio, income), by improving their access to adaptation solutions through locally embedded adaptation SMEs. It also promotes a gender- and youth-inclusive approach to enhance inclusion and livelihoods of women and young people. Additionally, through the promotion of adaptation enterprises this project likewise contributes to the development and diversification of the country's economies, a feature that both governments have highlighted as an integral part of their planning. The tables below give an overview of all relevant policies and strategies identified, and a brief description of how the project is consistent with core strategic points.

133. The EE and EE partners will collaborate closely with Designated Authorities, with additional support from UNIDO. Together, they will harness a wide range of innovative and creative partnerships, both existing and new, at national and regional levels institutionalized in the Steering Committee and the RCP of component 1. This mechanisms aims to facilitate meaningful consultation, engagement, and participatory processes with essential stakeholders, including vulnerable communities. The goal is to ensure that the project not only makes sense but also achieves a substantial impact and reaches a broad scale. The project will further leverage local and national expertise to scale the impact at the regional level ensuring complementarities and synergies with relevant national and regional policies and strategies.

Table 7: Overview of relevant policies and strategies, and project alignment.

| Plans/ strategies/ policies | Relevant strategic points and alignment with the project |
|---|---|
| **Regional cooperation** | |
| **East African Community (EAC) Vision 2050:** Recognizes the role of MSEs in regional industrial development agendas, underscoring the need for enhanced competitiveness through innovation and value addition to tap into intra and inter-regional trade opportunities.<br>**EAC Development Strategy & EAC Agriculture and Rural Development Policy**: Achieve food security by increasing output, quality and availability of food and rational agricultural production through promoting complementarities and specialization under sustainable use and management of soil, water, fisheries and forests in order to conserve the environment. | The project fosters regional exchange on SME support and finance mechanisms with regards to the coordination of policies, strategies and efforts of public, private and civil society actors (Output 1.1.1) as well as by knowledge exchange and peer-learning within and between sectors and markets (Output 1.2.1/ 1.2.2, Output 1.3.1). |
| **Agriculture** | |
| **Kenya Agricultural Policy 2021**: Attain household and national food and nutrition security through innovative and sustainable interventions linked to the country's long-term development targets. Increase productivity and income growth, especially for smallholders; enhanced food security and equity, emphasis on irrigation to introduce stability in agricultural output, commercialisation and intensification of production especially among small scale farmers; appropriate and participatory policy formulation and environmental sustainability.<br>**Agricultural Sector Transformation and Growth Strategy: Towards Sustainable Agricultural Transformation and Food Security in Kenya 2019-2029**: 3 core principles: (1) Increase small-scale farmers, pastoralists and fisherfolk incomes; (2) Increase agricultural output and value added; (3) Increase household food resilience to improve food security, the economic viability of agriculture and its resilience to climate change | The project will promote gender and youth inclusive adaptation SMEs with a focus on the agriculture (and water) sector. According to the county-based vulnerabilities displayed in the Climate Risk and Adaptation SME Solution Matrix (see Part I, Chapter 1.8), the selected adaptation SMEs (Outcome 2.1) will provide innovative adaptation solutions that – by further scale-up and replication of these business models (Outcome 2.2. and 2.3) - will specifically benefit smallholder farmers in rural and remote areas to enhance their productivity and competitiveness while being severely affected by climate-induced risks. At the same time, these SMEs will promote gender equality and the inclusion of youth and other marginalized groups, creating employment opportunities and enhanced household incomes. Moreover, preference will be given to nature-based solutions, catering to the principles of organic agriculture production.<br>By improving the coordination of SME support approaches through multi-stakeholder networking and platform building and the dissemination of knowledge products and good practices (Outcome 1.1), the project will contribute to develop an enabling environment to strengthen agricultural services towards small and medium-sized business actors. |
| **Uganda National Agricultural Policy (NAP) 2013**: As overall objective, achieve food and nutrition security and improve household incomes through coordinated interventions that focus on enhancing sustainable agricultural productivity and value addition; providing employment opportunities, and promoting domestic and international trade.<br>**Uganda Agriculture Sector Strategic Plan 2016**: The plan seeks to operationalise the NAP 2013 by transforming the sector from subsistence farming to commercial agriculture towards a competitive, profitable and sustainable sector. Four strategic objectives guide this process: 1) Increase production and productivity of agricultural commodities and enterprises; 2) Increase access to critical farm inputs; 3) Improve access to markets and value addition and strengthen the quality of agricultural commodities; and 4) Strengthen the agricultural services institutions and the enabling environment.<br>**Uganda National Agricultural Organic Policy 2019**: Eight strategic targets formulated, among them the Increase in the annual growth rate in Organic Agriculture production (i); Reduce degradation of the ecosystems (iii); Increase in the contribution of Organic Agriculture sub sector to the GDP (iv); Reform and streamline extension supportive services and policy and legislative frameworks (vii). As cross-cutting principle the expansion of opportunities for business and employment in Organic Agriculture enterprises for both women and youth shall be facilitated. | |
| **Water sector management** | |
| **Kenya Water Act 2012**: Provide for the management, conservation, use and control of water resources a) to satisfy basic human needs (b) to protect aquatic ecosystems in order to secure ecologically sustainable development.<br>**Kenya Irrigation Act 2019**: Development, management and regulation of irrigation, to support sustainable food security and socioeconomic development in Kenya. | This project specifically relates to these national objectives as it will focuses on gender- and youth inclusive adaptation SMEs from the water (and agriculture) sector. The selected and supported SMEs under this project (Outcome 2.1, 2.2., 2.3) create improved water availability through the provision of technologies that improve storage, purification and reduced agricultural water usage systems including drip irrigation and hydroponic systems. Selected SMEs also improve access and availability of water resources for women, youth and other marginalized groups. |
| **Uganda Water Act 1997:** Allow for the orderly development and use of water resources for domestic use, watering of stock, irrigation and agriculture, industrial, commercial, […], fishing, preservation of flora and fauna in ways which minimize harmful effects to the environment.<br>**Uganda National Irrigation Policy 2017**: Vision of an additional 1,500,000 Ha under irrigated agriculture by 2040 by adhering to principles such as promotion of IWRM, commercial and market orientation, environmental principles, gender and equity and water use efficiency. | |
| **Women and Youth** | |
| **Kenya National Policy on Gender and Development (NPGAD) 2000**: Legitimate point of reference for addressing gender inequalities at all levels of government and by all stakeholders; avenue for gender mainstreaming across all sectors in order to generate efficient and equitable development outcomes<br>**Kenya Labor Act 2002**: Legal improvements in women labor by increasing wages, implementing gender divisions in unions, and expanding maternity leave. | Contributing to the national priorities of Kenya and Uganda, this project will provide support for women, youth and other marginalized groups that are highly vulnerable to climate change in two ways: 1) Specific focus on women and youth entrepreneurs as they have greater restriction to financial |

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| **Kenya Youth Development Policy 2019**: Develop and improve the state of vulnerability of youth in the country<br>**Uganda National Gender Policy 2007** (first introduced in 1997): Ensure improvements in gender equality regarding: Income, decision making, accessing justice systems, public and health care services, education, gender-based violence, access to land and financial systems.<br>**Uganda National Youth Action Plan (UNYAP) 2016**: Improve youths' income, education status, health status, participation to foster better socio-economic performance for youth | instruments and other resources. 2) Women, youth and other vulnerable groups are the primary beneficiaries of the adaptation solutions provided by gender and youth-inclusive SMEs supported. |
| **SME development** | |
| **Kenya Vision 2030**: Strengthening SMEs to become key industries of tomorrow by improving their productivity and innovation<br>**Kenya Micro and Small Enterprises Policy 2020**: Provide an integrated enabling business environment for the growth and development of productive MSEs that make significant socio-economic contributions. Enhance skills & capacity development, aaccess to domestic and export markets, access to a diversified and affordable range of financial products and services, access to decent and affordable infrastructure, enhanced coordination and implementation of support programmes.<br>**Uganda Vision 2040**: SMEs are a keystone to macroeconomic planning that takes an emphasis towards development of new industries.<br>**Uganda Micro, Small and Medium Enterprise (MSME) Policy 2015**: Create a critical mass of viable, dynamic and competitive MSMEs, significantly contributing to the socio-economic development under the guiding principles of (among others): Policy coherence; Promoting intra and inter regional trade, Environmentally friendly and cleaner consumption and production technologies. | In accordance with national priorities in Kenya and Uganda, the project has a specific focus on supporting adaptation SMEs (Component II) as well as to create enabling conditions for these SMEs (Component I) to scale up and replicate their business models. The project will enhance the skills and knowledge of selected SMEs to become finance ready while facilitating access to affordable commercial finance. It creates SME role models for transformation of SME support mechanisms, especially of financial systems to provide accessible and affordable instruments for SMEs in the two countries (Component III). |
| **National Climate (Adaptation) Strategies** | |
| **Kenya Nationally Determined Contribution (NDC) 2020**: Agriculture and water sectors are among 13 priority sectors. Focus on agriculture includes: Mainstream climate smart agriculture; Build resilience of agricultural systems; Strengthen communication systems on climate smart agriculture and agro-weather issues.<br>**Kenya National Adaptation Plan 2015-2030, 2016**: Priority adaptation actions, among others, are economic growth, increase in employment opportunities and improved wages of Kenyans. Sub-actions to achieve this include capacity building on 'green jobs' and enterprises, access to the Kenya Climate Fund for climate proofing investments for SMEs and upscaling of climate resilient enterprises.<br>**Technology Needs Assessment and Technology Action Plans for Climate Adaptation 2013 (TNA Kenya)**: Identifies key technologies (e.g. drip irrigation, orphan crops, rain water harvesting) for certain sectors which will enable Kenya, its population and economy to adapt to the effects of climate change.<br>**Technnology Action Plan for Climate Change Technologies, Adaptation 2013 (TAP Kenya)**: Identifies for the defined key technologies the barriers to wide spread implementation and distribution and suggests actions to foster the utilization and implementation of the key technologies.<br>**Uganda NDC 2007**: Priority adaptation strategies that reduce land degradation, improve metrological services and water management practices.<br>**Uganda NDC 2022 (interim draft)**: Provision of current baselines of important data points and desired targets for 2030. Multifaceted and multi sectoral approach to ensure climate resilience but to also support (not hinder) their vision 2030 and vision 2040 development agendas. Water and agriculture being core focal sectors.<br>**Uganda National Adaptation Programmes of Action 2007**: Agriculture and water resources identified as highly vulnerable sectors; among the 10 intervention areas by participating communities, indigenous knowledge documentation and awareness creation, water resources and weather and climate information ranked among top 4 priorities.<br>**Uganda National Adaptation Plan for the Agriculture Sector (NAP-Ag)** 2008: Among others, objectives are the promotion of: Climate resilient cropping and livestock production and value chains; Climate smart agricultural innovations; Knowledge of good practices and partnerships to reduce agricultural vulnerability; gendered climate smart agriculture programme to reduce the vulnerability of women, youth and other groups.<br>**Final Report on Technical Need Assessment for Mitigation of GHG in Uganda 2006 (TNA Uganda):** Identifies key technologies (e.g. photovoltaig, organic fertilizer, solar thermal energy, hydro power) for certain sectors which will enable Uganda, its population and economy to reduce GHG emissions and mitigate climate change effects. It also identifies current obstacles in the implementation and distribution of such technologies and suggests actions to foster the utilization and implementation of such key technologies. | The intended impact of the project is in line with the overall objectives of national climate adaptation strategies as it proposes to support gender and youth inclusive adaptation SMEs in Kenya and Uganda to improve the vulnerabilities of local communities with a specific focus on marginalized groups. The project will focus on the water and agriculture sector, identified as two of the main priority sectors by the respective strategy documents and plans. According to the Climate Risk and Adaptation SME Solution Matrix (see Part I), supported adaptation solutions will be selected on the basis of county-level vulnerabilities. Furthermore, preference will be given to gender- and youth-inclusive business models, solutions that are based on local/ indigenous knowledge, nature-based solutions/ eco-system-based approaches and business models that have awareness raising/ capacity development elements as an integral part (see also selection criteria under Output 2.1.1). The project objectives also support the strategy of the TNA Kenya, TAP Kenya and TNA Uganda as technologies such as photovoltaics, small hydro power, drought or dry resistant crops, orphan crops, drip irrigation systems, PV powered boreholes or roof rain water harvesting systems (depending on the selected SMEs) will be eligible that are corresponding with the key technologies in the TNA/TPAs. In both countries high initial investment costs, lack of appropriate credit lines and local availability were found to be the biggest barriers for climate adaptation technologies. The project will help to overcome these barriers with the provision of blended financing, provision of knowledge to financial institutions, policy makers and businesses on those technologies. |

## G. Relevant national technical standards

*134.* The actions undertaken within this project will be at all times in full compliance with the relevant national environmental and social safeguards and technical standards applicable in Uganda and Kenya. Based on the analysis of the most vulnerable sector groups (see Part I, 1.5 "Climate Risk and Adaptation SME Solution Matrix") and the possible adaptation solutions, for each country a range of relevant national policies and laws were identified for the project to comply with:

*Table8: Overview of relevant technical standards.*

| Sectors | Uganda | Kenya |
|---|---|---|
| **Agriculture** | • The Animal Breeding Act, 2001<br>• The Fish (Amendment) Act, 2011<br>• The Fish Act, 1951<br>• The Fish (Aquaculture) Rules, 2003<br>• National Agricultural Organic Policy, 2019<br>• The National Seed Policy, 2018<br>• National Agricultural Policy, 2013<br>• The National Animal Feed Policy, 2004 | • The Agriculture Act, 2012<br>• The Irrigation Act, 2019<br>• The Crops (Amendment) Act, 2019<br>• The Seed and Plant Varieties (Amendment) Act, 2015<br>• The Agriculture and Food Authority (AFA) Act, 2013<br>• The Livestock bill, 2021<br>• National Agriculture Insurance policy, 2021<br>• National Livestock Policy, 2019<br>• The National Irrigation Policy, 2015<br>• The National Livestock Policy (Sessional Paper Number 2 of 2008) |
| **Water and land** | • The Water Act, 1995<br>• The Water Resources Regulation, 1998<br>• Water Act (General Rates) Instrument, 2017<br>• The Land (Amendment) Act, 2010<br>• The Land (Amendment) Act, 2004<br>• The Land Act, 1988 | • The Water Act, 2012<br>• Water rules, 2012<br>• Water Quality Regulations, 2006<br>• The National Land Policy (Sessional Paper Number 3 of 2009) |
| **Health** | • Second National Health Policy, 2010 | • The Biosafety Act, 2009 (as amended in 2018)<br>• National Food and Nutrition Security Policy, 2011 |
| **Biodiversity** | • The National Environmental Act, 2019<br>• National Forestry and Tree Planting Act, 2003<br>• The National Environment (Environmental and Social Assessment) Regulations, 2020<br>• National Environment (Minimum Standards for Management of Soil Quality) Regulations, 2001<br>• National Environment (Wetlands; River Banks and Lake Shores Management) Regulations, 2000 | • The Environmental Management and Co-ordination (Amendment) Act, 2015 |
| **Electricity** | • The Electricity Act, 1999<br>• The Renewable Energy Policy for Uganda, 2007 | • The Energy Act, 2019<br>• The 2021 FiT Policy |

*135.* Compliance with national technical standards and laws will mostly be relevant for the supported adaptation SMEs to legally conduct their businesses and to be eligible for obtaining external financing. Especially for activities such as fishery, livestock and forestry, permits or licences issued by governmental agencies are required, both in Kenya and Uganda. To hold the relevant licences and/or permits is an important factor to consider a business model as finance-ready since a missing licence/permit bears the risk of fines or shut-down. There are no specific technical standards exclusively targeting youth-led SMEs in Kenya and Uganda. However, several policies and frameworks indirectly influence their operations by promoting youth entrepreneurship and ensuring quality and safety in business practices. In Kenya, the Youth Enterprise Development Fund (YEDF) Strategic Plan 2020/21 - 2023/24 provides a framework for supporting youth-owned enterprises in Kenya. It emphasizes the need for affordable credit, business development services, and partnerships to foster youth entrepreneurship. In Uganda, the Micro, Small and Medium Enterprises (MSME) Policy provides a framework for the development of SMEs, including those led by youth. Youth-led SMEs are expected to adhere to the guidelines set forth in this policy to ensure sustainable growth and compliance with national development goals. By aligning with these policies and frameworks, youth-led SMEs can access various support services, including funding, training, and market opportunities.

*136.* In Uganda, the National Environmental Act (1999) provides a legal framework to protect, develop and manage environmental sensitive areas. For the prevention harming the environment through any business or activity, together with the National Environmental Regulations (2020) it implies the obligation to conduct an environmental and social impact assessment (ESIA) for specific activities carried out in protected areas or utilizing natural resources.

*137.* The project will ensure compliance with relevant national technical standards at different stages of the SME program. Starting in the application process the SMEs are asked to specify their business model and used technologies (Output 2.1.2.2). The EE evaluate if relevant standards are met (e.g. through due diligence) and select the SMEs for the program (Output 2.1.2.3). There may be SMEs which business ideas do not consider all technical standards but are relevant adaptation solutions. Therefore the EE partners advise and support the SMEs to identify and fulfil all relevant national technical standards and/or prepare an ESIA if required as part of the capacity building in the Catalyser program (Output 2.2.1.1). At the pre-financing stage the EE partners advise the partnering FIs to collect all available information on technical data, ESIAs, licences or permits (or applications for these) as part of a due diligence process before signing a financing agreement.The EE partners support partnering FIs with the evaluation of the information (Output 2.3.2.1 and Output 2.3.3.1). After the implementation of the business the FIs shall collect information as evidence for compliance such as invoices for technical equipment or obtained licences or permits. The EE partners support the SMEs to monitor the compliance with relevant technical standards as part of their ESMS (Output 2.4.1.1).

## H. Duplication of project with other funding sources

138. During the design of this project and at the time of conducting stakeholder consultations, it was ensured that there is no duplication of project interventions in the two target countries. The regularly enforced synergy scouting guideline developed under Activity 1.1.2.1 further ensures continued screening for existing projects to integrate possible synergies and cooperation throughout project implementation. The project complements a series of other projects within the target countries. Therefore, the EE and EE partners will engage with such initiatives upon project approval to scope potential linkages. Among the screened initiatives so far, we find no significant evidence for risk of duplication. Further duplications will be continuously investigated throughout project implementation. Some of the projects and/or initiatives identified that the proposed project will complement in Uganda and Kenya are listed below.

*Table9: Complementarity with ongoing projects.*

| Other currently ongoing projects | Summary of project | Complementarity and synergies |
|---|---|---|
| **Regional/Global** | | |
| **Adaptation SMEs Innovation Facility (ASIF) financed by the Adaptation Fund with UNIDO as Implementing Entity** (2023-2027)<br><br>https://www.adaptation-fund.org/project/the-adaptation-smes-innovation-facility-asif/ | The programme supports SMEs in developing countries to deploy innovative climate adaptation technologies and solutions that enhance the resilience and adaptive capacity of vulnerable communities. AISF provides enterprise support programmes and grant finance to selected SMEs while establishing a knowledge and learning platform as a central hub for Adaptation SMEs, investors, and stakeholders to share best practices, foster collaboration, and disseminate valuable insights. | While ASIF also targets SMEs that contribute to local climate adaptation, its global outreach and focus on early-stage enterprises differ from the proposed action, which specifically supports growth-stage SMEs in Kenya and Uganda. ASIF provides initial grant financing and technical support to validate and pilot adaptation business models, whereas the proposed project facilitates access to commercial bank loans through tailored pre- and post-investment advisory services and blended financing mechanisms. Assuming that ASIF has supported entrepreneurs in Kenya and Uganda, these SMEs may transition into the proposed project for further financial and business development, ensuring a continuum of support from early-stage innovation to scalable impact.<br><br>Type of Financing: Grants and technical assistance.<br>Typical Ticket Size: USD 20,000–100,000.<br>Conditions: SMEs must demonstrate adaptation innovation and scalability potential. |
| **Acceleration of financial technology-enabled climate resilience solutions** (2022-2025)<br>https://open.unido.org/projects/M2/projects/210238 | This project accelerates financial technology-enabled climate resilience solutions. The project accelerates startups to refine their products and scale them, building on a learn-by-doing approach developed by the Catalyst Fund. This will be achieved through a set of activities, including conducting a data rich analysis of fintech startups enhancing climate resilience; accelerating startups; developing investment thesis briefs; building talent pipelines; and sharing learning and insight. | While the GEF project targets start-ups that can contribute to local climate adaptation, the global outreach of the project differs from the scope of the proposed action. The GEF project focuses on early-stage SMEs while the proposed action has a specific focus on growth-stage SMEs, providing them with pre- and post investment support and aiming at loan facilitation between SMEs and commercial banks which goes beyond ASIF's grant financing approach. Assuming that the project may support entrepreneurs in Kenya and/or Uganda, it may serve as a pipeline for the proposed action to further support the-supported start-ups on their journey to access loan financing.<br><br>Type of Financing: Technical assistance and capacity-building for FinTech solutions.<br>Typical Ticket Size: USD 50,000–500,000 (for technology development and pilots).<br>Conditions: Focus on scalable financial technologies for climate adaptation. |
| **Adaptation Fund-UNDP Innovation Small Grant Aggregator Platform (ISGAP)** under Adaptation Fund Climate Innovation Accelerator - Grant funding for Not-for-Profit entities from developing countries to develop and diffuse innovative adaptation practices, tools, and technologies | Provides grants to promote innovative adaptation practices, business models and technologies at both ideation and scale-up stages. Provides grant funding on a competitive basis to from Not-for-profit, Civil Society Organisations (CSOs) including Non-Governmental Organisations (NGOs), and Business Member Associations (BMOs). | ISGAP project excludes for-profit entities and there is no concrete focus on building investment readiness of the grantees, which the proposed project targets. The ISGAP grant provision also has no commercial co-finance component, thus financial leverage is limited. Lessons learned will be explored during inception phase.<br>Type of Financing: Grants.<br>Typical Ticket Size: USD 50,000–250,000.<br>Conditions: Targeted at NGOs and research institutions in developing countries. |
| **Africa SME Programme** by the African Development Bank (AfDB) (2013-2023) | Supports local FIs with long term liquidity and technical assistance to successfully provide relevant financing to local | AfDB does not finance SMEs directly. AfDB supports local FIs so they will increasingly consider SMEs for market opportunities. It focuses on |

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| https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/access-to-finance-for-smes-through-fis | SMEs. Supports SME clients to ensure better loan application preparations. A key eligibility criterion is adherence to best practices in social and environmental protection. | increasing the capabilities and expertise of FIs to provide necessary services to SMEs which has a complementary aspect to the proposed project (Output 3.1.1).<br><br>Type of Financing: Credit lines and guarantees through financial institutions.<br>Typical Ticket Size: USD 100,000–1 million.<br>Conditions: SMEs must demonstrate financial viability and alignment with bank lending criteria. |
| **Adaptation SME Accelerator**<br><br>The Adaptation SME Accelerator is an initiative led by the Lightsmith Group, in partnership with the Inter-American Development Bank, the Global Environment Facility, and Conservation International. | Builds an ecosystem for early-stage companies in emerging markets with technologies, products, and services that build resilience to the impacts of climate change. Includes the identification of adaptation SMEs, the development of a taxonomy to define "climate resilience & adaptation solutions", regional conferences for adaptation SMEs and other stakeholders, and partnerships with incubator and accelerator programs to develop adaptation, resilience and social impact-focused curriculum. | The Adaptation SME Accelerator connects companies and related stakeholders with SMEs that provide climate adaptation solutions through regional conferences, a community platform, and directory. The proposed project's regional coordination platform will rather promote knowledge management and cross-learning between SMEs and involves other components that complement the networking opportunities. Cooperation for knowledge products will be investigated, especially methodologies for supporting adaptation SMEs in developing and expanding their businesses<br><br>Type of Financing: Grants and incubation.<br>Typical Ticket Size: USD 20,000–100,000.<br>Conditions: Focused on scalable adaptation solutions in emerging markets. |
| **Climate Resilient Agribusiness for Tomorrow** (CRAFT) (2018-2023) of the Netherlands Ministry of Foreign Affairs, implemented by SNV | Increases the availability of climate smart foods for the growing population in Kenya, Tanzania and Uganda. Targets small and medium entrepreneurial farmers, SME agribusinesses, and SME service providers, as well as FIs and government agencies who create an enabling environment toto foster large-scale roll-out of climate smart agriculture. | CRAFT´s activities include similar areas such as business case development and facilitating access to finance with FIs, however only target business opportunities that address climate risks in agriculture. Synergies with agricultural enterprise support will be explored.<br><br>Type of Financing: Grants and technical assistance.<br>Typical Ticket Size: USD 50,000–500,000.<br>Conditions: SMEs must demonstrate climate resilience impact in agriculture. |
| **USAID Feed the Future initiative** in Kenya and Uganda | Equips small-scale producers and MSMEs (especially women- or youth-owned)) with capacities to participate and engage in agricultural market systems. Includes expanding access to markets, increasing access to finance as well as expanding demand-driven, market-oriented training programs to build skills for entrepreneurship and workforce development. | USAID´s Initiative has a strong focus on agriculture market systems and MSMEs operating within these systems. The strategy of the program follows a centralized approach and does not seek to induce cooperation or knowledge-sharing between stakeholders. The particular focus on women- and youth-led businesses provides a synergy opportunity with the proposed project.<br><br>Type of Financing: Grants and loan guarantees.<br>Typical Ticket Size: USD 50,000–1 million.<br>Conditions: SMEs must contribute to food security and climate resilience. |

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| **Africa Biodigester Component (ABC)** (2020-2025) project of SNV, GIZ, Netherlands Enterprise Agency, is a 5-year programme that builds on the results of the Africa Biogas Partnership Programme (ABPP) in Kenya, Uganda and Burkina Faso and helps develop and strengthen demand and supply to create sustainable biodigester markets. | Improves the end-user business case with existing agricultural programmes; increases access to finance for end-users and enterprises; strengthens biogas business case through development services and result-based finance incentives; increases support for suppliers of prefabricated biogas technology helping them enter markets and expand their activities. | TABC program targets biogas enterprises that will receive business development support as well as result-based financing. Given the specific scope of action of the ABC incentives, there is little thematic nor strategic overlap with the proposed project.<br><br>Type of Financing: Grants, technical assistance, and results-based financing.<br>Typical Ticket Size: USD 50,000–500,000.<br>Conditions: SMEs must focus on biogas and renewable energy solutions. |
| **Adaptation Private Sector Initiative (PSI) project** by UN Framework Convention on Climate Change (UNFCCC) | Increases the involvement of the private sector in the wider adaptation community. Developed a PSI case study database, featuring good practices and profitable climate change adaptation activities by private companies from a range of regions and sectors. | Both the proposed project and the PSI database offer a platform of private sector engagement with adaptation solutions. While the PSI database focuses on corporates (such as Nestlé and Microsoft), the proposed project focuses on MSMEMSME adaptation business models. Opportunities for cross-learning will be explored.<br>Type of Financing: Technical assistance and co-investment opportunities.<br>Typical Ticket Size: Varies based on private sector investments.<br>Conditions: SMEs must demonstrate strong adaptation impact. |
| **Uganda** | | |
| **Uganda Green Enterprise Finance Accelerator (UGEFA)** financed by the European Commission and the Delegation of the European Union to Uganda, implemented by adelphi.<br><br>2020-2024 | Business Development Support for green enterprises to build their financial capacity and strengthen their business models. Works with banks to co-create opportunities to increase accessibility and tailoring of loans to green business models and technologies. Facilitates access to tailored finance for green SMEs, to scale their sustainability impacts, including the creation of green jobs. Reduces the risk of financing change by working together with commercial banks to provide green SME lending. | Both UGEFA and the proposed project seek to enhance access to finance for green MSMEs by working with FIs to raise awareness on green lending opportunities. Both projects also offer a financing mechanism to SMEs. However, UGEFA promotes increased access to finance for green SMEs, without focusing on a specific sector or climate focus, whereas the proposed project focuses on adaptation technologies. The proposed project also has a regional focus, fosters peer-learning between stakeholders in Kenya and Uganda and the East African region. The UGEFA project will be in the concluding stages once the proposed action will take off and the project will benefit from UGEFA learnings and networks.<br>Type of Financing: Blended finance (grants + loans).<br>Typical Ticket Size: USD 30,000–100,000.<br>Conditions: SMEs must demonstrate financial viability and green impact. |
| **Mastercard Foundation Young Africa Works (**2018-2030) with country-specific strategies to tackle youth un- and underemployment. | Focuses on finding solutions for Africa's youth employment challenge. Supports agri-food systems and agribusiness through the commercialization of agriculture; strengthens Uganda's tourism and hospitality sector; improves vocational training and expands access to financial services for MSMEs working in construction; unlocks domestic and international investments to spur growth in MSMEs. | The Young Africa Works project seeks to improve the conditions for youth employment in Kenya and focuses on the training and development of young people entering the domestic labor market. There are activities that support SMEs but there is no direct focus on improving the financial ecosystem to facilitate financing opportunities for climate adaptive SMEs. Collaborations to tap into the foundation's network and potential pipeline of youth-inclusive enterprises will be explored.<br>Type of Financing: Grants and business development support. Typical Ticket Size: USD 50,000–500,000. Conditions: SMEs must be youth-led and demonstrate sustainable job creation. |
| **Kenya** | | |
| **End Drought Emergencies** (EDE-CPIRA) (2020-2023) implemented by ASAL communities, the Government of Kenya, SNV, and Water Sector | Implements Public-Private-Community Partnerships to improve the functionality and climate resilience of rural water systems. Engages the local private sector as service contractors, managers, | SNV involves private enterprises in the management of rural water systems and thus improves their revenue enhancement and cost reduction strategies, as well as climate mitigation and adaptation mechanisms. There is no direct overlap with the proposed project, |

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|---|---|---|
| Fund Kenya – with funding from the European Union (EU). | investors, or innovative technology providers to improve water service delivery. | however, the EE and EE partner will reach out inquire about market opportunities for adaptation SMEs to join public-private partnerships and engage in the water management sector (Activity 1.2.3.1).<br>Type of Financing: Grants and resilience-building programs.<br>Typical Ticket Size: USD 50,000–250,000.<br>Conditions: SMEs must provide drought adaptation solutions. |
| **Water & Energy For Food (WE4F): A Grand Challenge for Development** (2020-2023) implemented by GIZ as a joint international initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ), the European Union (EU), the Ministry of Foreign Affairs of the Government of the Netherlands, Sweden through the Swedish International Development Cooperation Agency (Sida), and the U.S. Agency for International Development (USAID). | Focuses on environmentally sustainable innovations aiming to improve energy and water efficiency in the agricultural sector, implemented through several Regional Innovation Hubs that facilitate regional exchange and local activities. Strengthens the skills of the selected innovators, develops skills for end users and multipliers, improves access to suitable financing, improves political and sectoral framework conditions, and strengthens exchange among specialists ((regional and global).) | Both WE4F and the proposed project follow a decentralised approach to enhance regional cooperation and improving the local framework conditions for MSMEs. The proposed project furthermore involves cross-community and cross-country exchanges. The WE4F program puts a strong focus on innovations within the water-agriculture-food nexus. The EE and EE partner will reach out to the WE4F project executives to scope potential synergies and cooperation opportunities for innovation showcasing and innovator network access.<br><br>Type of Financing: Grants and technical assistance.<br>Typical Ticket Size: USD 50,000–500,000.<br>Conditions: SMEs must focus on sustainable water and energy solutions for food production. |
| USAID **Kenya Investment Mechanism (KIM)** is facilitating investment in key sectors of Kenya's economy, including agriculture and provides regional trade and investment opportunities.<br><br>2018-2023 | Builds the capacity of FIs and business advisory service providers through training and technical assistance to facilitate private finance and investment for smallholder farmers and SMEs. Leads policy reform efforts focused on removing barriers inhibiting large-scale investment into these sectors. Serves as an investment platform that mobilises capital from the private sector and builds partnerships between stakeholders in the financial ecosystem. | KIM allocates a substantial amount of financial support in the capacity-building of FIs to improve the structure and framework conditions of financial markets in Kenya. The trade and investment efforts focus on two-way trade and investment between the United States and Africa. The EE, will engage with KIM executives to explore potential linkages in the framework of FIs capacity building implemented under Output 3.1.1.<br>Type of Financing: Loan facilitation and blended finance.<br>Typical Ticket Size: USD 100,000–5 million.<br>Conditions: SMEs must demonstrate financial sustainability and investment readiness. |

### I. Learning and knowledge management component

139. Iterative learning through **feedback loops** and knowledge management will be key principles of the approach for the collaboration with early-growth gender- and youth inclusive adaptation SMEs, FIs, vulnerable groups and public stakeholders.

140. Within the project team and structure, the EE will ensure learning and knowledge management through the promotion of regular exchange and feedback. All project team members will develop systems and means to promote learning and knowledge management, including in terms of capacity building, project management and institutionalisation of knowledge. A fully-fledged **Knowledge Management (KM) strategy** including adaptive management approaches, dedicated project activities that ensure KM and the dissemination of lessons learned, learning objectives and specific indicators will be implemented.

141. Internally, the **project's ability to learn and adapt** will be enabled through a proven and **agile adaptive management approach** that includes constant optimisation iterations and reconfiguration of project processes and activities wherever such need arises or potential for improvement is identified. In addition to the described KM and learning instruments and processes, these needs, potentials, possible innovations, and tangible steps for optimisation will be discussed, identified, and tackled in regular meetings and co-creation sessions of project staff. This constant improvement and innovation process will be closely aligned with and supported by the project's M&E activities. Additionally, the mid-term evaluation between the two funding cycles will be used for a more comprehensive re-evaluation of project processes and instruments in order to adjust and improve these wherever necessary.

142. Looking at the specific project activities, Component I focuses on the Regional Coordination Platform (RCP), which, at its core, fosters multi-stakeholder interactions, **sharing and learning through cross-community and cross-country exchanges.** A regional learning and knowledge management approach is critical for this project since Kenya and Uganda face similar climate risks with regards to agriculture and water sectors. Therefore, the learning and knowledge generation will allow learning from each other, sharing experiences among the countries and replicating successful approaches. The knowledge products developed in this context will be disseminated through national, regional, and international fora by the EE, UNIDO outreach unit, and other networks.

143. The RCP will serve the purpose of knowledge provision, management and exchange through steering interactions between different stakeholders, offering regular **Adaptation Action Events, and acting as a knowledge hub** and distributor for profitable adaptation technologies and products. This will be guided by a multi-stakeholder Adaptation Action Steering Committee.

144. The Adaptation Action Events will link gender- and youth inclusive adaptation SMEs with other stakeholders and facilitate the exchange of adaptation entrepreneurship knowledge and learnings. Examples of such planned events are adaptation roundtables, sectorial study tours, and access to market events. Beyond this, high-level Adaptation Finance Symposia will be organised to increase knowledge of adaptation finance among key finance actors and policy makers as well as to allow for exchange and dissemination of new ideas and approaches. Insights on the blended financing instruments and performance-based payment mechanism under Component II will serve as a key source of information for the Adaptation Finance Symposia.

145. Another key pillar of learning and knowledge management covers **documenting and disseminating the impact of the roll-out, opportunities and barriers of adaptation technologies and products** by gender- and youth inclusive adaptation SMEs. This includes elements such as an Adaptation Market Analysis Report, an Evidence-based Adaptation SMEs Taxonomy, an Adaptation SME Finance Scoping Study, multimedia case study films to showcase adaptation business models and their impacts, and a digital platform for adaptation entrepreneurship practitioners and ecosystem actors. A database of adaptation products, services and technologies will facilitate cross-country replication of suitable business models.

146. Crucially, via its annual impact assessment, the project will provide single, double and triple learning loops. The impact assessment will offer evidence for project impact delivery and its efficacy (both regarding scaling of adaptation SME impact and its effect on vulnerable groups) and re-assess the necessity and appropriateness of delivery of adaptation solutions to vulnerable groups. Participatory and multi-perspective evaluation of impact assessment data is ensured by the inclusive set-up of the leading organisational body, the Adaptation Action Steering Committee. Impact assessment learnings are shared on the RCP's digital platform. Lastly, policy recommendations on developing the market for gender- and youth inclusive adaptation SMEs will be developed and disseminated in the form of Action Plan Flagship Report.

147. The RCP will further provide a comprehensive **process guidebook** that consolidates all relevant learnings and processes developed in the project for potential project takeover.

148. The design of the co-creatively (with FIs) designed blended-finance and performance-based payment mechanism, central to Component II, is guided by learnings derived from the Adaptation SME Finance Scoping Study. The mechanism will be evaluated after completion of its first investment cycle, and refinement areas will be identified and implemented to ensure a validated and efficient mechanism for the second cycle and further scale-up in a potential project extension. The mechanism's detailed processes are further subject to regular scrutiny – e.g. the adaptation SME scorecard will be incrementally refined based on the annual impact assessment, in which one section critically explores vulnerable groups' adaptation needs.

149. As part of Component III, the cross-country Adaptation Finance Academy will serve as an events-based knowledge hub to tackle the insufficient portfolio of adaptation finance products tailored to (gender- and youth inclusive) adaptation SMEs. Climate strategy workshops allow local FIs to learn from their more advanced peers to anchor strategic adaptation considerations within participating FIs, serving as the strategic foundation for adaptation action.

150. Knowledge management will be continuously integrated into the processes in the form of efficient live documentation. The project will make use of interactive digital tools such as Mural and Miro, and the focus will be on multimedia documentation. Furthermore, the project team will systematise the learning products and store them in a shared storage system / platform that is easily accessible to the client

and key partners. This shared storage will contain all documents created during project implementation. In addition, management tools such as the actor landscape, the steering system, the timetable of activities, etc. will also be stored here. In this way, the stakeholders get both a general overview of the project implementation and access to findings and results, and can discuss this knowledge with the project team in trainings or regular meetings. The project Regional Coordination Platform (RCP) will host an accessible digital knowledge hub that includes reports, case studies, multimedia content, and databases. Project knowledge products will be tailored for diverse audiences, including infographics and multimedia case studies. In collaboration with local community organizations, NGOs, and government agencies the project will ensure dissemination through community networks as well as traditional channels, such as radio broadcasts and local meetings. Dedicated training sessions will help stakeholders interpret and utilize the knowledge products effectively. Vulnerable groups, including women and youth, will be prioritized in these sessions. The project will monitor the knowledge transfer through the number of stakeholders accessing and downloading materials from the RCP digital platform as well as pre- and post-event surveys. While doing this the project will gather attendance metrics, disaggregated by gender, age, and sector. The methodology will be based on the participant feedback during and after events to assess engagement and inform improvements as well as impact tracking to monitor follow-up actions by participants, such as new collaborations or policy developments resulting from event participation. The project will ensure that all project surveys, event registrations and SME application forms capture sex-disaggregated data. This data will be cross-checked through field visits and stakeholder interviews to ensure accuracy. This data will be used to identify gender-specific challenges and opportunities (e.g., barriers to finance for women-led SMEs) and tailor interventions accordingly. The overall impact evaluations will track and analyze the outcomes for men and women separately to ensure equitable benefits from project interventions. The project will utilize findings from the annual impact assessments and mid-term evaluations to refine project processes and activities. This includes reconfiguring intervention designs or re-prioritizing resources. For instance, the priorisation of certain adaptation technologies in response to feedback from stakeholder groups. Other examples might be in refining the Adaptation SME scorecard to better reflect vulnerabilities or gender-specific needs based on impact data.

The project will utilize findings from the annual impact assessments and mid-term evaluations to refine project processes and activities. This includes reconfiguring intervention designs or re-prioritizing resources. For instance, the prioritisingsation of certain adaptation technologies in response to feedback from stakeholder groups. Other examples might be in refining the Adaptation SME scorecard to better reflect vulnerabilities or gender-specific needs based on impact data.

Lessons learned throughout the project will be identified through a structured process embedded within the project's governance framework. The Project Management Unit (PMU) will play a central role in gathering insights from ongoing activities, stakeholder feedback, and regular monitoring and evaluation reports. It will be responsible for analyzing these lessons and formulating recommendations for improvements. The Steering Committee, composed of key stakeholders including representatives from the PMU, implementing partners, and financial institutions, will review these findings in periodic meetings. During these sessions, they will deliberate on necessary adjustments, ensuring that lessons are systematically integrated into project implementation. Once decisions are made, the PMU will oversee the execution of these adaptations, coordinating with implementing partners to ensure a smooth transition. UNIDO, in its role as the implementing entity, will supervise the overall process, ensuring that changes align with the project's objectives and compliance requirements. Through continuous monitoring and structured feedback loops, the project will remain dynamic, responsive, and capable of optimizing its impact based on emerging insights.

The very strong partnership approach of this project proposal is a further success factor for effective learning and knowledge management. Through a wide set of partnerships with international and national stakeholders learning and knowledge management can be promoted and boosted. Beyond the networks of SMEs and FIs and the strong and diverse project team, partnerships with a particularly strong relevance for learning and knowledge management include collaborations with other key actors from the adaptation finance, enterprise, and innovation ecosystem.

## J. Consultative processes

*151.* A wide range of stakeholders were consulted in Kenya and Uganda for the design of this project, in compliance with the Adaptation Funds' ESP and GP. The consultations focused on government agencies, private sector actors and civil society organizations directly engaged with SMEs in the agriculture and water sectors, respectively working with vulnerable groups such as women and youth as the final beneficiaries of the targeted adaptation SMEs. SMEs from different sectors as the main target group of this project were consulted to find out about current challenges and opportunities in the Kenyan and Ugandan market.

*152.* The National Focal Points in Kenya (MoEF – Office of the Cabinet Secretary) and Uganda (MoFPED Uganda) were consulted throughout the design process and gave valuable feedback on the draft concept note. Additional consultation sessions with government agencies such as the Ministry of Finance (MoFPED) in Uganda or the Water Resources Management Authority in Kenya and a series of international organisations promoting private sector development such as UNDP, RTI International/ USAID, WWF were held. Due to the prevailing COVID-19 pandemic, most of these consultations during concept note phase were held virtually while in-person focus group discussions and national stakeholder consultation workshops were organised to inform the full proposal.

*153.* As to the specific target group of this project, gender- and youth inclusive adaptation SMEs, consultations with a series of this type of SMEs were conducted to seek clarity on their specific challenges, including Hamwe Enterprises (digitalisation of agriculture for smallholders), Bhundu Base Limited (sustainable tourism) and Barbets Davids Farms (land restoration and holistic livestock management) for Uganda; and Mace Foods (food processing), Hydroponics Africa Limited (hydroponic farming technology) and Acacia Innovations (eco-briquettes) for Kenya. The majority of these enterprises also has a strong focus on youth employment as part of their business models. Specific challenges mentioned with regards to access to finance were related to the lack of collateral many women and youth entrepreneurs face, hence, the project should explore alternative approaches such as movable or cashflow-based collateral. Another important point mentioned here was the lack of access to information and data, faced by women smallholder farmers that often lack the necessary technology and face language barriers (e.g. if information is only provided in English).

*154.* In order to also reach out to the final beneficiaries of this project, highly vulnerable groups with a specific focus on women and youth, a series of interviews were conducted with non-governmental organisations and government authorities involved with these focus groups. For Uganda, for instance, interviews were conducted with MAAIF engaged in supporting women through the village saving groups and SACCOs and with Sustainable Development Systems (SDS) Africa, working with poor women groups in remote areas on livelihood creation and economic diversification. In Kenya, interviews targeted WUSC and AGRA, both supporting youth employment and women empowerment. The interviews were complemented by focus group discussions with groups that are severely affected by climate change from different geographies in the partner countries. Issues raised here related to the purposeful inclusion of women and youth in both, urban and rural communities, as their vulnerability is closely linked to water access (e.g. water prices in urban areas make women more vulnerable than in rural communities where water units are cheaper). It was also said that existing initiatives to support youth should be linked to financial support for them to gain market access.

*155.* A series of FIs were interviewed in both countries during concept note and full proposal development phase to explore the most suitable interventions (capacity building & financial support) to unlock growth finance for green SMEs to scale. For that purpose, the interviews were geared to understand the level of experience and interest in green sector financing, specifically the strategic importance and the integration of Environmental Social Governance (ESG) criteria in lending decisions.

*156.* In the course of adelphi's (executing entity) engagement with the Ugandan banking sector under the UGEFA project, adelphi has signed 6 MoUs with Ugandan Banks namely Equity Bank, Yako Bank, Opportunity Bank, dfcu Bank, NCBA Bank and Stanbic Bank in order to facilitate loans between the partner banks and the supported SMEs building on the UGEFA Loan Facilitation Mechanism. Building on this partnerships with the banks UGEFA was in a position to leverage 7 Million EUR of private sector capital facilitating more than 90 loans between SMEs and FIs.

*157.* KCV as EE partner has MoUs with peer impact fund - Nordic Impact Funds - www.nordicimpactfunds.com, and investment facilitation services provider- Private Financing Advisory Network - https://pfan.net/. Other follow -on investment / co-financing collaborations with the following FIs work on a case by case basis, guided by relevance and suitability of individual deals: Equity Bank, NCBA, RaboRural Fund, OPES Fund. KCV has leveraged US$ 5.2 million follow on capital investments into KCV pipeline / portfolio.

*158.* The process of interactive consultations included a National Stakeholder Consultation workshop in each partner countries, convening key stakeholders from relevant groups including FIs, adaptation SMEs, government, civil society, intermediaries (e.g. BDS providers) and representatives of final beneficiaries of adaptation solutions/ highly vulnerable groups. The workshops were an opportunity for the EE to present the project concept to this wide range of key stakeholders to seek their feedback and advice to inform the design of the planned activities. Therefore, the workshops included break-out group sessions to specifically collect feedback on the respective work packages and to plan for the engagement of key stakeholders. This way, the EE was able to inspire ownership and commitment of key stakeholders for the planned action. The set of recommendations collected from the workshops was used to further refine the proposed activities and work packages.

*Table 10: Overview of stakeholder consultations*

| Date | Scope and Outcome of Consultation | Stakeholders Consulted |
|---|---|---|
| **March-April 2022** | Discussion relating to the role of governments and the vulnerability of communities to climate change<br>Outcome:<br>• Government programs have attempted to address the drivers of climate vulnerability; however, they have focused mainly on disaster minimization and less of adaptation and capacity building<br>• Women and youth are particularly vulnerable due to their lack of access to money and jobs. | **KENYA**<br>**Government actors**: Kenyan Ministry of Environment and Forestry, Water Resources Management Authority, Nairobi Securities Exchange<br>**UGANDA**<br>**Government actors**: Ministry of Finance, Planning and Economic Development (MoFPED) – National Focal Point; Ministry of Agriculture, Animal Industry and Fisheries (MAAIF); National Planning Authority (NPA) |
| **March 2022** | Discussion about barriers and opportunities related to climate adaptation financing<br>Outcome:<br>• Ugandan FIs struggle most with complex nature of green business models and the lack of respective appraisal processes<br>• Substantial lack of pipeline of bankable green business models<br>• Low awareness or interest of banking sector in financing green SMEs as they are considered high-risk and complex in nature.<br>• Regulatory pressure for banking sector: Requirement to develop, implement and disclose appropriate climate-related information<br>• Pledges and commitment of banking sector to international sustainability frameworks ut lack of tailored green products Scattered support landscape for (green) SMEs and financial sector | **KENYA**<br>**Financial institutions:** Pula Advisors, Equity Group, East African Development Bank, Stanbic Bank Foundation, Kenya Bankers Association, African Guarantee Fund, E4Impact, ANDE, DANIDA<br>**UGANDA**<br>**Financial institutions**: Bank of Africa, Centenary Bank, Equity Bank, Finca Uganda, Housing Finance Bank, NCBA Bank Uganda Limited, Opportunity Bank, United Bank for Africa, Stanbic Bank, Yako Bank, Uganda Development Bank |
| **June 2022** | Discussion about drivers of the vulnerabilities and potential avenues to reduce pressures on these groups.<br>Outcome<br>• Lack of access to capital especially from banks and other financial institutions are a main reason for the existence of all vulnerable groups<br>• Competition from larger existing businesses which stifle the growth of enterprise owned by vulnerable community members (especially women and youth).<br>• Climate change is the greatest challenge for small holder farmers, pastoralists and communities with low access to water. Understanding the issues and addressing them is multifaceted and complicated. | **KENYA**<br>**Vulnerable groups:** Enterprise Development Officers and key representatives of Pastoralists, Communities without access to safe drinking water, Women in Agriculture, smallholder farmers, youth in agriculture consulted in the counties of Wajir and Bungoma<br>**UGANDA**<br>**Vulnerable groups:** Uganda Women Entrepreneurs Association Limited, Farming groups of smallholder farmers in Luweero District/ Central Region and Kitenga Sub-County, Uganda Red Cross (Wastepreneurship programme for Youths, Food and Livelihoods Program for CBOs in Moyo & Yumbe, Adjumani and Karamoja), |
| **March-April 2022** | Discussion about the role of NGOs and international organizations and the type of climate adaptation support/ programs they offer<br>Outcome:<br>• Mitigation and disaster reduction have dominated climate action, more effort needs to focus on developing early warning systems, flood protection, etc<br>• There is a great opportunity to take climate smart products to scale but consumers lack awareness of the products and their benefits<br>• There has been a low mobility of climate finance that jeopordizes the opportunity for MSME development<br>• Due to both financing constraints and market challenges there a few adaptation MSMEs present in Uganda and Kenya | **KENYA**<br>**Non-Governmental Organisations / International Organisations:** World University Service of Canada, WWF country office<br><br>**UGANDA**<br>**Non-Governmental Organisations / International Organisations:** CHEMONICS (USAID/Uganda strategic investments activity), UNDP Uganda, UNFCC (Regional collaboration center (RCC) Kampala), Red Cross Red Crescent Climate Centre, Sustainable Development Systems (SDS) |
| **March-April 2022** | Discussion on the barriers and opportunities related to SME development both within and outside the climate adaptation sphere<br>Outcome:<br>• MSMEs face strong financial and market challenges that compromises their ability to be developed.<br>• Red tapes (paper work and documentation) are complicated and people tend not to formalise their organizations. The compounded effect of this and lack of collateral restrict enterprises from accessing FI | **KENYA**<br>**Business association:** SME Support centre, Alliance for a green revolution in Africa<br>**UGANDA**<br>**Business association:** National union of coffee, agribusiness and farm enterprises (NUCAFE) |

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| **May 2022** | Discussion related to the barriers and opportunities to developing adaptation enterprises<br>Outcome:<br>• There is an abundance of opportunities for developing adaptation MSMEs in Kenya and Uganda, enterprises just lack access to finance and technical training<br>• Financial institutions need to become more accessible to ensure promotion of such enterprises.<br>• Women face specific challenges with attaining collateral | **KENYA**<br>**Adaptation enterprises:** Acacia innovation limited, Sistema bio limited, hydroponics Africa limited, Good farmland management limited, Mace foods limited, Sunken limited<br>**UGANDA**<br>**Adaptation enterprises:** Hamwe enterprise, Bhundu Base Limited, Barbets Davids Farms (all women-led enterprises) |
| **Oct 2022 – March 2023** | Discussion about climate impacts, appropriate adaptation measures, access-to-finance constraints for SMEs and suitable adaptation finance options<br>Outcome:<br>• Potential of adaptation SMEs to scale up their adaptation technologies / services but lack of finance and/or working capital given the innovativeness of adaptation technologies<br>• Lack of collateral a dominant issue of SMEs, especially women & youth lacking access to land ownership but also for FIs who cited rigid internal credit policy guidelines<br>• Limited and/or lack of capacity of FIs hamper their capacity to effectively assess and/or incorporate climate risk considerations into their lending operations. Lending to women and youth-led enterprises even more challenging for FIs.<br>• In the aim of de-risking lending to agricultural / adaptation SMEs, FIs where biased towards a 'whole of chain' approach where they seek direct engagement with off takers to secure to meet SME/Producer groups loan obligations<br>• Results-/ milestone-based financed needs to be adjusted individually to the beneficiary enterprise according to a clear roadmap/ transition plan to reach set goals<br>• In predominately muslim pastoralist communities, a key barrier to enabling access to finance lies in their predisposition to participate only in sharia-compliant finance products<br>• In ASAL Counties (Kenya) there are operational climate risk insurance schemes being set up | **KENYA**<br>**Representatives of the following groups in four selected counties** (Kilifi, Bungoma, Kisii & Isiolo):<br>• Women & Youth Self Help Groups involved in adaptation related activities,<br>• Technology Service Providers mainly Adaptation SMEs,<br>• Financial Institutions including Banks and Micro-Finance Institutions,<br>• Non-Governmental Organisations engaged in resilience building activities and<br>• Government officers involved in Climate Change and/or Natural Resource management<br>**UGANDA**<br>• Adaptation SMEs: FENA SOLAR, AGROMAX, KYUSA, MKAZIPRENEUR, LFTW, EZYAGRIC, Raising Gabdho Foundation, Zimba Women, UWONET<br>• Financial institutions and funding organisations: Equity Bank, EBO SAACO, Growth Africa, GGGI, Renew Capital<br>• Development partners: PFAN/Mastercard, UNCDF, OCA, Red Cross |
| **March – April 2023** | Discussion about how climate change has affected the livelihoods and actions of women and youth groups and how to best involve them in the proposed action<br>Outcome:<br>*Challenges*<br>• Achieved yield at farms has reduced due to reduced rainfall and low-quality inputs in the market.<br>• Due to the high temperatures getting water from the wells is difficult and often the wells dry up.<br>• Due to reduced rainfall and high temperatures, cases of theft have increased as most people do not have enough produce to sell hence resort to theft which has led to most businesses shutting down in the area.<br>• As a result of reduction in economic activities, groups memberships, savings and repayments have reduced.<br>*Potential solution pathways for the proposed action*<br>• Provision of business development support to enable the groups to better market their products.<br>• Trainings on best farm practices and provision of drought resistant seeds and inputs.<br>• Provision of capacity building support on accessing/ responding to funding opportunities.<br>• Provision of funding especially grant funding.<br>• Involvement in learning exchange programs. | **KENYA**<br>Focus group discussions with **Women & Youth groups including village-based loans and savings group** (Counties: Machakos, Laikipia, Kitui)<br>**UGANDA**<br>Focus group discussions with **vulnerable groups including women and youth:**<br>• Refugees situated at Palabek Refugee Settlement, Lamwo district, Northern Uganda<br>• Refugees situated at Nakivale refugee settlement, Isingiro district, Southern Uganda<br>• Small-scale agribusinesses located at Moroto District, Karamoja region, North-eastern Uganda |
| **April 2023** | National Stakeholder Consultation Workshops to receive feedback about the proposed approach of the action and discuss potential avenues of enaginging key stakeholders in Kenya and Uganda | **KENYA**<br>• County Governments<br>• (Development) Financial Institutions (FIs) |

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| | Outcome:<br>Set of recommendation on the following areas of the action:<br>• Regional Coordination Platform<br>• Catalytic Finance Facility and Investment Brokerage Services<br>• Gender and youth Inclusive Investing<br>• Eco-system and Direct Enterprise Support<br>The recommendations have been used to inform the proposed project components, for detailed documentation please refer to the Annex 3 | • Impact Investors<br>• Climate adaptation SMEs<br>• Business Development Service (BDS) providers<br>• Representatives of potential clients/end-users of climate adaptation solutions<br>• Marginalized groups from selected regions<br>**UGANDA**<br>• Financial institutions<br>• Adaptation SMEs<br>• Development agencies<br>• Government entities<br>• Civil society organisations<br>• Intermediaries (e.g. BDS provider) |

*159.* A multi-level consultation process was initiated during the development phase of the full proposal. Each country will hold consultative meetings and workshops with relevant business associations, adaptation enterprises and their value chain partners (including micro enterprises and informal sector) as well as customer and beneficiary groups.

*160.* A specific focus will be on gender- and youth-focused SMEs as the primary target group of this project. As a result of the interviews and additional desk-research, an adaptation SME market assessment for Kenya and Uganda will be developed that identifies the main challenges and opportunities for gender- and youth-focused adaptation SMEs and compiles a first pipeline of eligible adaptation SMEs for the proposed action. It should be noted that vulnerable groups such as women, youth, marginalised groups and indigenous peoples will be effectively integrated into the consultative process.

*161.* At the same time, the EE will get back to the consulted FIs in both countries to seek Letters for Expression of Interest to participate in the project activities. In the course of these follow-up meetings with FIs, the EE will present in more detail the conceptual outline of the proposed performance-based blended financing mechanisms to discuss potential financial products to be offered by FIs under the project. A specific focus will be laid on gender and youth lens investing to take into consideration gender-based factors and specific obstacles for youth to access and better inform investment decisions. This will inform the planned co-creation process to develop new and innovative performance-based blended financing instruments in the project's inception phase.

*162.* The project grievance mechanism will also be presented and promoted during these consultations. This approach permits to meet the needs of the stakeholders and adjust the project activities at the national levels. The inputs from these workshops will be combined and aggregated by EE for the validation of the project document. National focal points will be invited to a regional session to present the project outline in detail and seek their feedback and advice.

*163.* Consultation reports for communities, FIs, SMEs involved in consultations including detailed information on stakeholders met, dates, topics discussed and how the outcomes were integrated in the project design are attached to project proposal in Annex 3.

**K. Multiple perspectives on innovation**

*164.* The EEs' methodology is fundamentally guided by its validated focus on building multi-stakeholder and co-creation structures and processes. Co-creation as a collaboration principle of participatory design, development and implementation; fundamentally benefits from a multitude of views, positions, explicit and implicit knowledge as well as expert and non-expert participation. By integrating local expertise on lived realities, opportunities, challenges and vulnerabilities; the innovation output of such participatory action is enhanced with integrated, inclusive and customised solutions aligned with local complexities.

*165.* The proposed project is informed and led by multi-stakeholder and co-creative structures and processes in multiple ways: Firstly, the Adaptation Action Steering committee, the guiding body for the activities in Component I and supporting element in Component II, will consist of key actors from finance, entrepreneurship and governmental institutions as well as representatives of vulnerable groups (such as rural women associations and youth-based organisations, 1.1.1). This ensures both that 1) the RCP's activities are designed and implemented in an inclusive manner incorporating the wishes and concerns of vulnerable communities and 2) that project oversight is not blind to potential issues due to silos of expertise and particular interests. Specifically, vulnerable groups will be consulted for the Market Analysis Report, the SME Finance Scoping Study and other knowledge products.

*166.* Secondly, the RCP's activities are structured by its strategic framework. Within this framework, the formulation of strategic inclusion and participation safeguards will be ensured as well as the incorporation of adherence to multi-perspective and inclusivity elements for all activities throughout project implementation.

*167.* Thirdly, the ecosystem building Adaptation Action Events (1.2.1) and Annual Adaptation Finance Symposia (1.2.2) are highly collaborative formats enriched by valuable inputs of adaptation (entrepreneurship) practitioners that ensure that ideas, knowledge and expertise of ecosystem actors from a variety of sectors and geographies are leveraged. Cross-sectoral and cross-country collaborative events within these sub-components strengthen a holistic view on adaptation entrepreneurship and finance as well as foster peer-learning and -networking. Through dedicated formats such as panel discussions, exhibitions and roundtable discussions, each of these events will give a stage and voice to vulnerable groups.

*168.* Fourthly, co-creation processes in particular depend on an active engagement, trust and input by participants from different organisations and levels. Based on adelphi's validated method of co-creating meaningful and innovative outputs with FIs together with other actor groups (such as entrepreneurs and vulnerable communities), the EE and EE partners will implement the Adaptation Finance Product Innovation Practitioner Labs and Adaptation Finance Trainings. By being made conscious about the actual issues of adaptation entrepreneurs on the ground (and the needs of those most affected by climate change), financial products are prototyped in an inclusive and multi-perspective fashion. The EE acknowledge the potential of participatory design thinking process and its potential to create ownership for developed solutions among involved actors.

*169.* Fifthly, the financial mechanism developed under 2.3.1 will be designed in a highly collaborative manner in a co-creation process between the EE and partnering FIs.

*170.* Lastly, and based on the eligibility criteria defined in the scorecard used to select enterprises (2.1.1.3), gender- and youth inclusive adaptation SMEs that 1) offer business models and adaptation impacts that address regional vulnerabilities and 2) have a gender- and youth focus are likely to represent the majority of supported and funded enterprises and, thus, offer innovative affordable products, technologies or services tailored to their local target customers, who are predominantly climate change-vulnerable communities. As many aadaptation solutions have been agriculture-focused in previous projects supported by the EE and EE partners, it is further estimated that a significant share of supported entrepreneurs will have some touchpoints with the agricultural sector representing one of the most vulnerable sectors while at the same time, forming the backbone of Kenya's and Uganda's economy. As part of the capacity building, adaptation SMEs will be supported to develop customer and community engagement strategies.

### L. Justification for funding

*171.* The project aims to promote a shift away from the baseline scenario characterised by

- Women and youth in Kenya and Uganda often lacking access to resources to absorb climate-related stressors appropriately, being most severely affected by climate change
- Missing middle financing for (adaptation) SMEs, and women-led SMEs in particular, as they lack access to adequate financing
- Insufficient awareness and knowledge of local FIs on climate adaptation concepts and markets, resulting in insufficient investment opportunities provided for gender- and youth inclusive adaptation SMEs, including women-led SMEs
- Lack of coordination and exchange on adaptation entrepreneurship opportunities between policy, financial and other supporting actors in Kenya and Uganda and across countries

*172.* The table below outlines the baseline and the alternative adaptation scenario that the Adaptation Fund will help materialise in targeted areas and focal sectors.

*Table 11: Baseline and alternative adaptation scenario*

| Baseline scenario | Adaptation Fund impact |
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| **Component I** | |
| **Climate change**: Kenya and Uganda's economic structures being highly dependent on agriculture and the availability of water are increasingly threatened by rising temperatures and the prevalence of extreme weather events. Precipitation is becoming more and more unpredictable, droughts and extreme rainfall events are more severe and frequent, thus drastically altering agricultural yields and leaving communities with low access to water. Smallholders constituting the main agricultural producers in both countries are particularly vulnerable due to their lack of financial resources, technological integration, awareness and training on climate change, climate adaptation solutions, and distance from urban centres.<br>**Women and youth:** Female-headed households in Kenya and Uganda are less likely to take part in commercial farming as they mostly plant low-value crops. Women are also often the main victims of climate change-induced social, political and economic tensions, resulting in hikes in gender-based violence. Kenya's and Uganda's youth are highly vulnerable to change-related stressors such as floods or droughts, as they lack resources to absorb shocks appropriately.<br>**National and regional responses:** Although consideration of adaptation action and SME support are two themes identified in Kenya's and Uganda's National Development and Climate Strategies and Plans (see Part II, Chapter F), the nexus of climate adaptation and adaptation solution-oriented entrepreneurship is still nascent in the two countries and the wider region. Due to the insufficient awareness among financiers, policy makers and other ecosystem stakeholders of the adaptation impact potential of early-growth gender- and youth inclusive adaptation SMEs in the region, these lack financing opportunities. There is furthermore a lack of institutional knowledge and coordination between the above-mentioned actor groups with respect to the right mechanisms to support adaptation SMEs for scale up and replication. | **Market-based adaptation solutions**: By supporting the scale-up and replication of gender- and youth inclusive adaptation SMEs in Kenya and Uganda through a catalytic financing mechanism, the project will collect evidence-based good practices and approaches to successfully support market-based adaptation solutions. The information will be made accessible through an online database and tailored knowledge products to inform policy makers, financiers and other adaptation entrepreneurship practitioners and ecosystem actors accordingly. A series of multi-stakeholder dialogues and peer-learning events will facilitate adaptation SME access to critical networks, markets and finance.<br>**Women and youth**: The project will specifically empower gender- and youth inclusive adaptation SMEs providing products and services that close gender gaps or meet the needs of women, girls or youth, supporting gender diversity and the participation of youth through internal policies, practices and participation in the workforce, and strengthening inclusion and diversity of women and youth across the value chain. As a result of the offered gender- and youth inclusive adaptation solutions, the targeted SMEs increase women and youth's resilience to climate change, as well as reduce the gender gap in access to finance and enabling more women to start and grow businesses.<br>**Cross-border coordination and knowledge exchange**: A Regional Coordination Platform (RCP) will be established to raise the awareness and knowledge of key stakeholders and to foster cross-country exchange about the role of gender- and youth inclusive adaptation SMEs. The RCP connects actors of adaptation, (climate-smart) finance and entrepreneurship, encourages action to sustain and create adaptation markets and serves as a pioneering regional knowledge platform on adaptation entrepreneurship. The RCP will be led by the Adaptation Action Steering Committee, made up of core actors from finance, entrepreneurship, governmental institutions and representatives of vulnerable groups. The committee will develop a sustainable |

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| | strategic framework to guide the project implementation and serve as a manual for post-project engagements of core actors. |
| **Component II** | |
| **Missing middle financing gap**: SMEs generally and adaptation SMEs in particular suffer from a substantial financing gap (see Part I: Adaptation SMEs and Part 2: J). Adaptation SMEs are disproportionately affected by the 'missing middle' financing gap between financiers and SMEs as their 1) investments often require longer time horizons to capitalise and 2) a lack of monetary indicators for returns on adaptation business models among financial products further limits their attractiveness to local FIs. In Uganda and Kenya, there is a substantial lack of finance products that (adaptation) SMEs can access.<br>**Women and youth**: Although women in Kenya and Uganda provide an important contribution to agriculture, female-headed households still have a lower output and are less likely to take part in commercial farming as they mostly plant low-value crops. They tend to have a very low access to land in terms of ownership and management choices resulting in lack of collateral that is a prerequisite to access commercial financing.<br>In Kenya, only 13.2 per cent of firms have majority female ownership, and only 18.1 per cent have a female top manager. In Uganda, only 10.2 per cent of firms have majority majority female ownership, and only 15.4 per cent have a female top manager.[56] | **Catalytic financing facility**: The project will allow gender- and youth inclusive adaptation SMEs in Kenya and Uganda to access concessional finance on favourable terms to scale up and replicate their businesses and adaptation impacts. The AF grant will be utilised to blend existing loan products offered by local FIs that are often not eligible for these SMEs. The provision of targeted non-financial support towards SME investment readiness will increase their eligibility for external investments. In the event that no private sector capital can be leveraged under the project, the project will still be able to achieve its objective as it takes a flexible approach towards paying out larger amounts of direct grant funds to further lower investment barriers of the participating SMEs.<br>**Women and youth**: The business advisory and investment brokerage support offered under Component II is targeted at adaptation SMEs that intentionally seek to rectify gender and/or other socio-economic inequalities in the sectors and geographical areas they operate in. Complementary to selecting this specific target group, the business advisory offers tailored tools and modules to specifically promote finance-readiness of gender- and youth-led adaptation SMEs.Also, through specific outreach, the project aims to directly benefit a significantly higher percentage of women-led SMEs than their ratio of representation in the adaptation SME sector. |
| **Component III** | |
| **Limited financing portfolios**: The financing of gender- and youth inclusive adaptation SMEs is limited by the lack of awareness among FIs in Kenya and Uganda about the business opportunities of accessing adaptation finance and channelling it into adaptation entrepreneurship. At the same time, adaptation-based lending is insufficiently anchored in FI investment strategies as many FIs in Kenya and Uganda do not have guiding climate (adaptation) strategies that lay out lending guidelines and indicators for adaptation-based finance in line with national climate action policies. | **Adaptation-based lending**: Local FIs in Kenya and Uganda will be trained in climate adaptation concepts and methodologies while showcasing to them successful adaptation business models and raising their awareness on adaptation SME markets and business opportunities. By participating in the Adaptation Finance Academy, local FIs will 1) be trained on climate adaptation concepts and adaptation SME market opportunities, 2) be capacitated to develop Climate Strategies, outlining strategic pillars for climate action, and 3) be guided through a co-creative multi-stakeholder process to prototype innovative adaptation finance instruments. |

### M. Sustainability of the project

*173.* All project components and outcomes are inherently designed to ensure long-term sustainability of the action. Not only are impacts expected to continue beyond the closure of the project but a strong orientation towards vertical and horizontal scale-up is a key intention and design feature which further fuels project sustainability at an even larger scale, adhering to two main principles:

*174.* (1) **Scaling Up:**

Scaling adaptation SMEs' business: Through the unique combination of capacity building and financial support, truly bridging the missing middle finance gap, the project effectively supports adaptation SMEs to scale. With its focus on viable business models, instead of adaptation projects relying on grant funding, the target group has an intrinsic motivation to ensure long-term sustainability.

Stimulating lenders' appetite in adaptation SMEs: The Adaptation Finance Facility, complemented by the technical assistance provided to FIs as part of the Adaptation Finance Academy, will familiarise FIs with the needs, technologies, products and services offered by adaptation SMEs, their growth journeys and investment needs. It will catalyse the appetite and familiarity of loan officers to extend debt finance to adaptation SMEs and will strategically anchor the topic of climate adaptation in corporate strategies and commitment on management level of participating FIs.

(2) **Replication:**

Business model replication: In order to avoid that aspiring entrepreneurs, have to re-invent the wheel, adaptation SMEs will be selected according to their replication potential, characterised by easy-to-understand, adaptable business models with relatively low upfront investment costs to start a business. Replication blueprints ("adaptation business-in-a-box") will be shared through various channels, including the RCP, capacity building formats provided to SMEs and the website.

Financial instrument replication: Involved FIs will be engaged in joint fundraising to replicate the adaptation finance instruments developed as part of the project in order to ensure long-term sustainability beyond the project duration.

[56] Enterprise Surveys (http://www.enterprisesurveys.org), The World Bank (accessed July 2024); data from Kenya refers to 2018; data from Uganda refers to 2013.

175. Under Component I, the established RCP will continue to create linkages between the private sector and FIs to ensure the long-term growth and support of adaptation SMEs. Also, the facilitated networks and linkages are expected to result in self-sustaining partnerships and informal communities of practice that will generate their own dynamics and lead to sustainable benefits and impacts for adaptation SMEs. In that sense, the project will act as a trigger and leverage that mobilizes and unleashes the potential of better collaboration and synergy creation in the sector, leading to long lasting impacts and self-reinforcing mechanisms of cooperation. Sustainability is achieved through the RCP's strategic framework, which acts both as a guide for project implementation and for future government organisation to carry on the project after the project duration. It also included an impact assessment strategy including a long-term vision to scale impact, a process handbook to facilitate efficient project takeover, as well as an open-source adaptation solution database (*institutional sustainability*).

176. The documentation and dissemination of knowledge, best practices, innovations, and lessons learned of performance-based blended lending to early-growth adaptation SMEs will play an important role in showcasing how financing for these companies could be systematically approached. This will help stakeholders to create appropriate financing instruments that will benefit more enterprises in the two countries and region, even after the duration of the project. Furthermore, the project will closely coordinate with other similar international efforts, players, and initiatives as to share and document best practices and gained knowledge.

177. The innovative Adaptation Finance Facility under Component II will enforce this long-term growth and support by providing early-growth adaptation SMEs with bespoken advisory support and catalytic financing. This will leverage the systematic strengthening and long-term sustainability of adaptation SMEs in order to unlock further investments for them to operate in difficult, changing and different markets beyond the project. It is expected that the innovative financing mechanism will showcase to FIs the business opportunities in financing early-growth SMEs, with a specific focus on gender- and youth-inclusive SMEs, and will sustainably encourage the scale-up of their lending to such companies in the future (*economic sustainability*).

178. One aim of this piloting approach is to provide a tested and proven mechanism to DFIs and other FIs with an interest in channelling adaptation finance capital via commercial banks and other local FIs to SMEs. This can be instrumental for mobilising green finance for adaptation SMEs in the future and will create sustainable impacts beyond the project itself. Connected to this aspect, a key sustainability-related outcome of this approach will be the unlocking of capital for adaptation enterprises in future and the creation of links to various follow-on investors beyond the ones included in the pilot of the project itself (*financial sustainability*).

179. The described piloting approach of the facility entails that it will act as a trigger for adaptation SME investments and make itself redundant in the future rather than becoming an  institution that requires continued support. This will be achieved firstly through demonstrating that adaptation SMEs are bankable businesses with a viable investment proposition to enlargen FIs portfolios (Component II) while supporting FIs to  develop the appropriate financing instruments to deploy capital to these SMEs  and access new sources of funding (e.g. climate funding provided by Development Finance Institutions (Component III). Secondly, the project's collaboration with KCV and other impact investors/ venture funds enables a seamless transition to strengthened SME financing opportunities beyond the project lifecycle. Lastly, the improved investment readiness of the supported SMEs will enable them to approach more financing opportunities such as commercial banks in the future and other adaptation SMEs will be in a position to learn from their examples through networking opportunities and dedicated knowledge products (Component I).

180. Specific additional key features of Component II that will lead to enhanced sustainability include the screening, shortlisting, and selection criteria as  particular attention will be paid to their potential for business scale-up and impact of their adaptation technologies, products and services in order to ensure long-lasting sustainability of project support. The inclusiveness of the business will be another key selection criterion, as the project aims to support SMEs that have a transformational impact on local socio-economic structures by including highly vulnerable groups – with a focus on women, youth, marginalised groups and indigenous peoples – actively in their value chains and/or as final ustomers or beneficiaries. In addition, the provision of catalytic business development support at pre-and post-investment levels to the early-growth adaptation SMEs will be instrumental for their future ability to approach relevant investors and access finance which will create sustainable benefits and significantly improve their investment readiness and potential for growth and scale (*social sustainability*))

181. More specifically, the Catalyser (Output 2.2.2) will focus on shortlisted SMEs and improve their business management capacity and assists them in developing a comprehensive business plan in order to achieve funding readiness. The Accelerator (Output 2.2.3) then focuses on strengthening and scaling-up existing adaptation SMEs through support in securing funding, improving their financial resilience, catalyzing growth, developing finance readiness, and building in-house financial management capacities. The combination of these support activities and the additional one-on-one support elements demonstrate the strong focus of the project on long-lasting impacts and the development of resilient, growing, and flourishing enterprises way beyond the duration of the project itself.

182. In line with the point above, the sustainability of the business models (nature-based solutions, circular business models, agribusinesses etc.) beyond the project lifecycle is an integral core principle of the described enterprise support approach. The selection and further strengthening of self-sustaining businesses will ensure that no further support will be needed for these enterprises beyond the project in order to sustain and create additional impact in the future. For all supported enterprises, positive social and environmental impacts are an integral part of their business models and financial sustainability will be ensured. Both dimensions are further strengthened through explicit tools and dedicated sessions in the curriculum of the Catalyser and other support activities of the project. Additionally, the cooperation of the project with and strengthening of local BDS providers ensures that SMEs that require additional consulting after the project can access this at their own costs.

183. The achievement of positive environmental impacts will be part of the DNA of selected adaptation SMEs. Besides their adaptation impacts, these SMEs have developed nature-based solutions and business models, reducing greenhouse gas emissions, and applying circular approaches to reduce and reuse waste, water and the consumption of other scarce resources. By supporting these SMEs to grow, the project ensures long term environmental sustainability (*environmental sustainability*).

184. Aiming at a transformational change in the current financial market structures in Kenya and Uganda that lack appropriate and affordable financial products for SMEs and awareness of climate adaptation related market opportunities, Component III will complement the efforts of Component II in developing new and innovative financing approaches. The Adaptation Finance Academy (Output 3.1.1) will offer the local banking sectors the opportunity to expand on their nascent knowledge on adaptation finance and entrepreneurship as a lever for new financial business opportunities. Climate Strategy Workshops will be one element to ensure that the suggested funding facility will be strategically anchored within partner FIs beyond the project duration. Cross-country learning and exchange between more advanced FIs (mainly from Kenya) that already have climate strategies in place and those FIs interested in developing such strategies will further contribute to fostering regional networks and collaborations beyond project implementation.

185. Regular monitoring and evaluation of activities according to the project's Monitoring and Evaluation Framework, coupled with an annual impact assessment of the direct enterprise support components will continuously inform project implementation to foresee any risks of achieving the expected outcome and sustainability of the project.

186. Lastly, any training material developed will continue to be used after the end of the project locally. Good practices of adaptation business models and financing pathways will further be disseminated through the RCP to stakeholders interested and involved in similar business support activities. In general, the RCP will span across the two focus countries and beyond and will thus increase the potential reach of project impacts and of the supported companies as they scale up their operations after the end of this project. Further to this the partners will implement the following sustainability strategies: adelphi will continue its role as a knowledge hub, capacity-building provider, and policy advocate for climate adaptation and green finance after the project. adelphi will leverage the learnings and outcomes of this project to inform and design future adaptation-focused programs with international donors, development finance institutions (DFIs), and banks. adelphi will cultivate partnerships with key actors like DFIs, banks, and national governments to scale the project's successful approaches in other countries or regions. adelphi will further use the project insights to advocate for enabling policies that incentivize financing for adaptation SMEs and address systemic barriers to scaling adaptation enterprises. Kenya Climate Ventures (KCV) will remain a critical local partner, acting as a facilitator of financing and capacity building for adaptation SMEs in Kenya and potentially across the region. KCV will leverage the success of the Adaptation Finance Facility to attract additional funding from DFIs, impact investors, and government programs, enabling replication and scaling of financing solutions for adaptation SMEs. KCV will broaden the portfolio of services offered to SMEs, including post-project monitoring, growth advisory, and financing facilitation to help them scale further. KCV will continue strengthening relationships with local communities and SMEs to ensure inclusive and sustainable growth, particularly focusing on women-led and youth-focused enterprises. Finding XY will provide ongoing support to SMEs and bridging the gap between entrepreneurs and financing opportunities. Finding XY will work with national and international financiers to replicate the financing models developed during the project, emphasizing support for adaptation SMEs. FindingXY will offer continued mentorship, training, and advisory services to SMEs, building on the Catalyser and Accelerator approaches established in the project. Finding XY will continue to build partnerships with other organizations in the region to foster knowledge sharing, joint initiatives, and innovative financing solutions that benefit adaptation SMEs. Jointly the partners will use the the Regional Community of Practice (RCP) to build a self-sustaining ecosystem of adaptation entrepreneurs, financiers, and other stakeholders. The partners will jointly approach DFIs, philanthropies, and private investors to scale and replicate project outcomes, particularly focusing on gender- and youth-inclusive SMEs.

**N. Environmental and social impacts and risks**

187. The project is designed to fully align with the Adaptation Fund's Environmental and Social Policy (ESP). Below is a summary of the evaluation and assessment process carried out against AF's Policy. The objective of this project is to facilitate investments and capacity building in early growth stage SMEs that operate climate adaptative business models in order to support them in rolling out adaptation solutions and scale their operations, ultimately building community resilience to climate change. With a particular focus on supporting female- and youth-inclusive enterprises, the project is designed to generate positive economic, social and environmental impacts through the three key Components and the respective Outputs and Outcomes.

188. A risk screening was conducted for the planned activities under Components I, II and III and as a result the project is categorised as potential adverse (low) risk (Category B).

189. . Specific activities in component II, e.g. the selection of SMEs which will receive support to effectively deliver localized adaptation solutions on the ground, constitute unidentified sub-projects. As per AF ESP Policy, unidentified Sub-Projects are classified as activities or components that are not identified at the proposal stage to the level where adequate and comprehensive environmental and social risk assessment is possible. Hence this requires the project to screen, assess and monitor the unidentified subprojects accordingly in the course of the implementation period.

190. With a particular view to the risks of maladaptation, as implementing entity, UNIDO will ensure that all projects supported are in compliance with national social, environmental and technical standards. In any such rare cases, PMU will work with the SMEs and the AF Country Designated Authority to find joint solutions and also review any such similar standards at regional and global levels with a view to promote learning. Key to supporting such new technologies will be the need for the technology to have clear adaptation benefits in the target country of deployment.

191. In line with the AF ESP policy the methodology of the Environmental and Social Management System (ESMS) is further described in Annex 1. The ESMS contains a process for identifying environmental and social risks for the unidentified activities/sub-projects and, when needed, the development of commensurate environmental and social management elements that will complement and be integrated in the overall ESMP. The project ESMS specifies all related procedures, roles, and responsibilities.

192. The ESMS will guide the E&S risk screenings and assessments for any subprojects (SMEs) that will be supported through this project and will incorporate additional site-specific mitigation measures in the overall ESMP, if needed. This approach will ensure that all subprojects avoid, minimise, and/or mitigate any potential adverse E&S impacts that may emerge from their interventions/ activities across all stages of their respective project cycles (planning, implementation, post-implementation). As part of the screening criteria for small grant proposals, a risk assessment will be mandatory. If deemed necessary, the Executing Entity will request additional assessments and corresponding risk management and monitoring plans from the applicants after communication with them. The table below provides an overview of the assessment against AF's Environmental and Social Policy. Principles that require management and mitigation actions are subsequently discussed in more detail. The mitigation measures to address the potential risks highlighted in the principles above are captured in the table below.

*Table12: Potential environmental and social impacts and risks – further assessment and management requirements*

| AF Environmental and Social Principles | Further assessment required? | Potential impacts and risks – further assessment and management required for compliance |
|---|---|---|
| Compliance with the Law | No | The proposed project is in full compliance with Kenyan, Ugandan and international laws and regulations. It also has the endorsement of Kenyan Ministry of Environment and Forestry (Office of the Cabinet Secretary) and Ugandan Ministry of Finance, Planning and Economic Development. Every unidentified subproject (SME) that will be supported through this project will be assessed for its compliance with national law. |
| Access and Equity | Yes | Components of the proposed project support locally-led, early-stage gender- and youth inclusive adaptation SMEs. Considering existing gender gaps in regards to access to resources for business (such as financing opportunities and land access), there is a low risk that the project may exacerbate these inequities. Notably, the project is also designed to focus on improving access to finance and capacity building for marginalised climate adaptation business owners. Any forthcoming unidentified subproject (SMEs) that will be supported through this project will be screened for their access and equity as it will be determined in the ESMS. |
| Marginalised and Vulnerable Groups | Yes | The proposed project has an extended focus to support gender- and youth inclusive adaptation SMEs led by women and/or youth in the community. It supports gender- and youth inclusive adaptation SMEs who operate within existing default social biases, and may pose a minor risk of excluding marginalised groups in the implementation of the project activities – whether as direct beneficiaries or indirect beneficiaries of the project activities. Any forthcoming unidentified subproject (SMEs) that will be supported through this project will be screened for its impact on marginalised and vulnerable groups as per ESMS |
| Human Rights | No | No activities in the proposed project will impede on international human rights. Unidentified subproject (SMEs) will be screened for their impact on human rights as a part of the ESMS |
| Gender Equality and Women's Empowerment | Yes | The proposed project targets communities where the gender gap is significant, and may pose a risk that women may not benefit equally from the project activities. Positive social impacts of the project are also dependent on receiving sufficient applications and participants from female (and youth) led SMEs as well as SMEs with business models that empower women and youths through provision of climate change adaptation solutions (gender- and youth inclusive adaptation SMEs).). Unidentified subproject (SMEs) will be screened for their impact on gender equality as a part of the ESMS. |
| Core Labour Rights | Yes | It may be likely that a large number of early-stage gender- and youth inclusive adaptation SMEs targeted by the project may operate informal businesses and utilise informal contracts when hiring staff, lack compliant working conditions, or lack enforcement for occupational health and safety standards in line with International Labour Organisation standards. |
| Indigenous Peoples | Yes | The proposed action has an extended focus to support gender- and youth inclusive adaptation SMEs that increase the resilience of vulnerable groups including indigenous peoples, where applicable.[57] The peoples who identify with the indigenous movement in Uganda face risks from the creation of conservation areas and mining activities that deny them access to land, livelihoods, protection and democratic rights. In Uganda, indigenous people all face land and resource tenure insecurity, poor service delivery, poor political representation, discrimination and exclusion. While the action aims to support locally embedded adaptation SMEs that promote socially-inclusive business models aiming to increase not only local climate resilience but also providing socio-economic co-benefits such as alternative income or job creation, there is a risk that selected SMEs operate within existing default social biases that exclude indigenous peoples to partake in the promoted business activities, thus denying them the improvement of livelihoods or business services. Unidentified subproject (SMEs) will be screened for their impact on indigenous peoples as a part of the ESMS. |
| Involuntary Resettlement | No | Activities in the proposed project will not cause involuntary settlement of local communities. Unidentified subproject (SMEs) will be screened to avoid supporting any projects leading to resettlement as a part of the ESMS. |
| Protection of Natural Habitats | Yes | The project's direct activities are not expected to have any adverse impact on the environment or natural habitats. However, while working with early-stage gender- and youth inclusive adaptation SMEs that offer products and services to help communities increase |

[57] The peoples who identify with the indigenous movement in Kenya and Uganda are mainly pastoralists and hunter-gatherers, including for Uganda mainly Benet, Batwa, Ik and the Karamojong and Basongora pastoralists – while the latter are not recognized specifically as Indigenous Peoples by the government. For Kenya indigenous peoples include the hunter-gatherers Ogiek, Sengwer, Yiaku, Waata and Awer (Boni) and pastoralists Turkana, Rendille, Borana, Maasai, Samburu, Ilchamus, Somali, Gabra, Pokot, Endorois and others. (Berger et al., 2022).

| | | |
|---|---|---|
| | | resilience to climate change, we recognise it may be likely that they operate business activities that may cause harm to natural habitats. For example, as a result of lack of resources and technology, they adopt poor waste management in the value chain, leading to pollution of local water ways and ecosystems. Unidentified subproject (SMEs) will be screened for their impact on natural habitats as a part of the ESMS. |
| Conservation of Biological Diversity | Yes | The project is not expected to have any adverse impact on the environment or biodiversity. Similarly, early-stage gender- and youth inclusive adaptation SMEs offer products, services and employment that help local communities increase their resilience to climate change effects. However, in doing so, they may risk overlooking maladaptation practices (e.g. doing reforestation with invasive species). These are often caused by the lack of complete information or lack of resources in implementing business activities, where businesses resort to the cheapest or quickest option available. The project aims to address these support gaps through the proposed components and activities. Unidentified subproject (SMEs) will be screened for their impact on biodiversity as a part of the ESMS. |
| Climate Change | Yes | The project is designed to recognise, incentivise and support gender- and youth inclusive adaptation SMEs with business models that generate climate-adaptation benefits for the local community. It will not generate significant and/ or unjustified increase in greenhouse gas emissions or other drivers of climate change. Moreover, mitigation co-benefits provided by the applying adaptation SMEs will be considered as an asset. However, the gender- and youth inclusive adaptation SMEs may still engage with conventional production activities such as the employment of carbon-intensive machinery that produces GHG emissions.<br>Given that the project will give preference to business models that increase the adaptative capacity, respectively decrease the sensitivity of customers/ beneficiaries, the risk for the project to cause maladaptation is perceived low. Specific Assessment Frameworks will be used to identify maladaptive action and to derive scoring criteria for the selection of adaptation SMEs under the project (see Part II, Chapter A, Activity 2.1.1.3 Screening and shortlisting of applicants). In addition, a detailed set of additional mitigation measures will be outlined in the environmental and social risk management plan at full proposal stage (see Part II, Chapter N for initial concepts). Unidentified subproject (SMEs) will be screened for their impact on biodiversity as a part of the ESMS. |
| Pollution Prevention and Resource Efficiency | Yes | It may be the case that the value chains of early-stage gender- and youth inclusive adaptation SMEs still employ resource inefficient production methods and are unable to minimise material use effectively, due to constraints such as lack of finance to obtain modern low carbon machinery. Notably the proposed project aims to work with these SMEs to improve sustainability in their value chain to be able to attract green finance opportunities. Unidentified subproject (SMEs) will be screened for their impact on biodiversity as a part of the ESMS. |
| Public Health | No | No activities in the proposed project are foreseen to generate any significant negative impacts on public health. |
| Physical and Cultural Heritage | No | No activities in the proposed project are foreseen to cause any alteration, damage or removal of physical cultural resources, cultural sites, and sites with unique natural values. Neither does it permanently interfere with existing access and use of such physical and cultural resources. Unidentified subproject (SMEs) will be screened for their impact on biodiversity as a part of the ESMS. |
| Lands and Soil Conservation | No | The proposed project supports local gender- and youth inclusive adaptation SMEs that promote climate-adaptation for local populations in Kenya and Uganda, including promoting soil restoration and conservation as well as avoiding further degradation or conversion of productive lands. Unidentified subproject (SMEs) will be screened for their impact on biodiversity as a part of the ESMS. |

# PART III: IMPLEMENTATION ARRANGEMENTS

## A. Project management arrangements

### Coordination Mechanism

*193.* Our coordination mechanism for the project will place strong emphasis on effective stakeholder engagement and collaboration across all three programme components. To ensure seamless coordination with project stakeholders, a comprehensive approach has been designed that leverages UNIDO's existing approach of engaging with national governments and actors to ensure effective coordination with Designated Authorities. The project will implement the below outlined coordination mechanism integrated in the three project components:

*194.* **Regional Coordination Platform (RCP) (Component 1):** To strategically steer the interaction among different high-level stakeholders across countries, to organize regular Adaptation Action Events and to to serve as a pioneering knowledge hub a RCP will be set-up guided by the Adaptation Action Steering Committee, made up of core actors from finance, entrepreneurship, governmental institutions and representatives of vulnerable groups (such as youth-based organisations and rural women associations). The RCP will support coordination around two levels - at the regional and at the national level. At the regional level the RCP will be geared towards knowledge management, supporting cross-learning and enabling policy engagements at a regional whilst at the national level it will focus more on in-country programmatic engagements and securing the relevant policy dialogue to foster climate adaptation SME scale and replicate their business and, secure that local financial institutions provide investment opportunities for adaptation SMEs. The national level focus will further ensure that the contribution of the project to the NDCs, National CC Action Plans and the engagement and coordination with sub-national government will be ensured. In addition, the steering committee overlooks the vision and strategy of the project, guides the development and implementation of Adaptation Action Events and high-level Adaptation Finance Symposia and facilitates the exit strategy of the project. The Adaptation Action Steering Committee will operate in close collaboration with national governments, to ensure that all project activities are aligned with and advancing the national priorities of host governments regarding climate adaptation. UNIDO Country offices have strong relationships with national entities, including Designated Authorities (Das) and key in-country stakeholders, due to the projects consortium extensive country presence, needs assessment and joint planning, technical & capacity-building, and policy & advocacy activities. Their extensive involvement from the outset ensures strong alignment and efficient coordination throughout the program. To effectively coordinate between the in-country stakeholders the Steering Committee will coordinate regular quarterly meetings to foster coordination within and among participating countries. These meetings provide opportunities to share progress, address challenges, and make crucial decisions. A consultation process around the set-up of the steering committee in the project inception phase will make sure that all stakeholder views will be considered.

*195.* **Blended finance and enterprise support mechanism (Component 2):** To identify and engage with local key stakeholders that can play key roles, the executing entity and its partners will conduct comprehensive stakeholder engagement sessions during the scoping phase of the performance-based blended financing mechanism. Learnings from the first cycle will be also integrated in the implementation of the second cycle in order to maximise the overall impact of activities. By conducting an ecosystem stakeholder map and implementing co-creation strategies for engaging critical financial institutions, investors and national entities the broad buy-in of key stakeholders will be guaranteed. A co-creation approach for the financial facility design will be implemented to tailor the instrument to the requirements of FIs as well as adaptation SME needs. Formalized partnerships will be sought with at least 15 local FIs and impact investors/ funds that have already been part of the design process. The project can build here on the existing relationships with financing institutions building on UGEFA project and existing relationships of the EE partner KCV.

*196.* **Financing Institution Capacity Development Programme (Component 3):** In order to effectively localise the financing institution support, the project will organise regular meetings with financing institutions as part of the Adaptation Finance Academy which will serve as a knowledge, engagement and coordination hub with financing institutions. Withing the Adaptation Finance Academy sessions all project considerations will be coordinated within the participating FIs and project stakeholders. Selected sessions will be designed as co-creative multi-stakeholder workshops where a broader set of national stakeholders will be invited. This co-creation processes will complement the formalized partnerships that will be established at management level operationalising the strategic considerations into concrete financing products.

197. Through these structured and collaborative coordination arrangements, the project aims to encourage efficient coordination while ensuring successful implementation at national and regional level. A robust monitoring and reporting system will be implemented, allowing real-time tracking of project progress, challenges, and outcomes. To facilitate seamless communication and information sharing, the programme will leverage digital collaboration tools and platforms. These tools will enable stakeholders to exchange ideas, share best practices, and collaborate efficiently regardless of their geographical locations. The below table provides a summary of the key stakeholders and their role in this program.

**Project Implementation Arrangements**

198. A description of the implementation arrangements is provided in the figure below and clarifies the roles and responsibilities of each entity in the implementation of the project

UNIDO as accredited Multilateral Implementing Entity to the AF, will oversee the project execution to ensure that the project is being carried out in accordance with agreed standards and requirements and is consistent with Adaptation Fund and UNIDO policies and procedures. This supervision / oversight function will be the responsibility of the UNIDO Task Manager. UNIDO will commission the Mid-term Review and an independent final evaluation.

**adelphi:** The EE headquarter of adelphi in Germany will be the legal entity and responsible for making contracts and disbursing money. The adelphi branch offices will be only responsible for the on the ground presence, due diligence and follow-up without any contractual obligations. The adelphi headquarter is highly experienced in running similar programmes having the procedures in place to design, run and implement similar projects.

**Financial institutions (FIs):** The financial institutions and potential partners banks involved will be in-country based. The potential partner banks are as following: Kenya: ABC Bank, Equity Bank, Family Bank, M Oriental Bank, SBM Bank, Stanbic Bank, Victoria Commercial Bank, KCB Bank and in Uganda: Equity Bank, NCBA Opportunity Bank, Stanbic Bank and dfcu.

**Adaptation SMEs:** The adaptation SMEs would need to be registered in the countries where they operate to enter contracts with the EE and FIs.

**The relationship between EE and EE partners:** adelphi as EE will be responsible for the day-to-day management of the project execution, monitoring and evaluation of project activities as in the agreed project work plan. The EE PMU will coordinate all project activities being carried out by project experts and partners. The EE adelphi will be responsible of contracting the identified execution partners, KCV and Finding XY, as well as recruitment/supervision of national and international consultants and personnel and coordination with national executing entities.

**EE Partners / Venture Funds:** Finding XY in Uganda does not have its own venture fund. KCV provides funding and technical assistance to commercially viable climate-tech SMEs. As part of its investment work KCV provides US$ 50,000 – US$ 200,000 in debt, convertible debt, and /or equity with maximum 7 years tenure for early-stage SMEs as well as US$ 100,000 – US$ 1 million in debt, convertible debt and /or equity with a maximum seven years tenure for Growth Stage SMEs. However, in the framework of this project, KCV will be mainly involved in the provision of technical assistance for adaptation SMEs understanding that the risk and investment profile of adaptation SMEs in different to typical SMEs.

199. During the project identification phase, Adelphi, Kenya Climate Venture (KCV), and Finding XY were consulted for their unique and innovative expertise in climate adaptation and landscape strategies. Their specialized knowledge and experience significantly contributed to the co-development of the project, ultimately leading to the decision to select Adelphi as the executing entity and KCV and Finding XY as executing partners in their respective countries. This strategic identification of these entities was presented to the respective National Designated Authorities (NDAs) and relevant stakeholders, where it received validation and approval, ensuring a robust foundation for the project's successful implementation.

200. adelphi as main executing entity will designate internally, or recruit directly project management personnel to form a Project Management Unit (PMU) to execute the activities of this project. The PMU will be responsible for the day-to-day management of the project execution, monitoring and evaluation of project activities as in the agreed project work plan. The PMU will coordinate all project activities being carried out by project experts and partners. If necessary, adelphi will sub-contract qualified service providers for the execution of certain additional activities. An open and competitive process will be used to select such service providers. Furthermore, will adelphi be responsible of contracting the identified execution partners, KCV and Finding XY, as well as recruitment/supervision of national and international consultants and personnel and coordination with national executing entities. Adlephi has been EU-Pillar assessed and as such is considered to operate in line with UNIDO procurement standards.

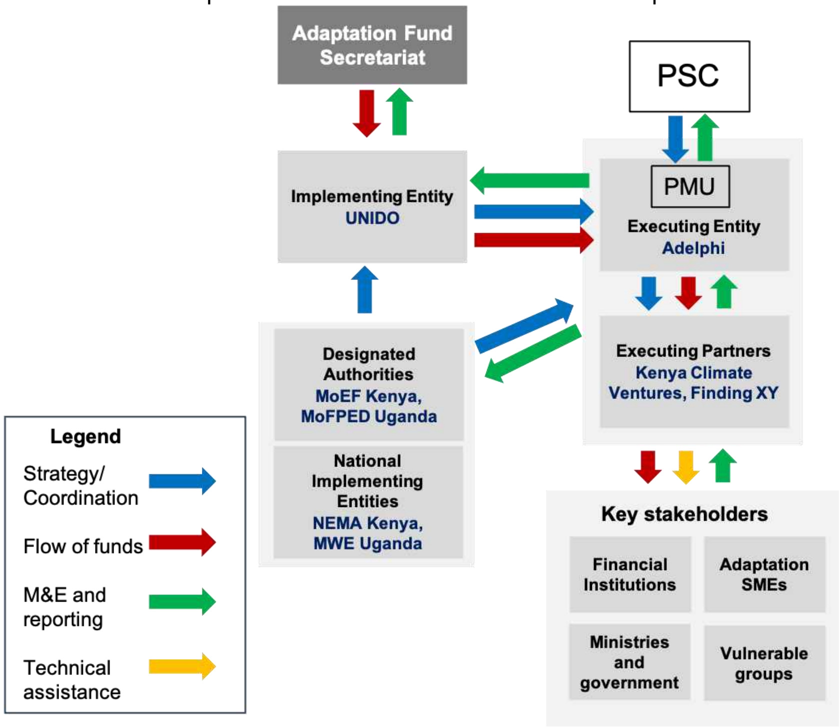
201. The execution of the in-country activities will be under the responsibility of Kenya Climate Venture and Finding XY, respectively. These will be sub-contracted by adelphi as per the adelphi delivery model, which is in line with UNIDO procurement standards.. The roles and responsibilities of the Executiing Partners will be to execute the activities defined in detailed

Terms of Reference following the overall project programme of work and deliver the expected deliverables and services in a timely manner and in accordance with the approved budget. The Executing Partners will also be in charge of providing Monitoring and Evaluation reports including M&E activities such as the definition of the baseline at project start, the continuous implementation of the Result Tracker tool throughout project implementation up until the closure of the project.

*202.* Designated Authority: The DA will be a mandatory member of the Steering Committee and will be consulted on the overall project implementation. They are invited to participate in all meetings, events, conferences, stakeholders engagement that will be organised during the project implementation in their respective countries.

Key stakeholders of the projects will be :

- <u>Ministries and governmental institutions</u>: They will benefit from the project results and will be engaged throughout the project implementation. Selected representatives will be invited to jointhe Steering Committee.
- <u>Financial institutions</u> (FIs) such as DFIs, local banks and investors will have implemented a blended finance mechanisms while mobilising own resources to support the selected adaptation SMEs. They will benefit from tailored capacity building support through the Green Finance Academy workshops. Selected representatives will be invited to jointhe Steering Committee.
- <u>Adaptation SMEs</u> will benefit from the development and market readiness of new adaptation technologies and increased capital from financing schemes. They will be benefit from pre- and post investment support to enhance their readiness to access external financing and scale their business models. Selected representatives will be invited to jointhe Steering Committee.
- <u>Vulnerable groups</u> (farmer associations, cooperatives, women and youth associations) will benefit as end-user of the adapation solutions, thus reducing their vulnerability to climate change. Women and youth will benefit from tailored adaptation solutions offered to address their specific needs. Selected representatives will be invited in the Steering Committee.



**Project Steering Committee (PSC)**

The project shall establish the Adaptation Action Steering Committee which will act a Project Steering Committee (PSC) overlooks the vision and strategy of the project. Gender parity within the PSC will be actively strived for. The PSC will be comprised of senior representatives made up of core actors from finance, entrepreneurship (including a representative from a women's business association), governmental institutions and representatives of vulnerable groups (such as youth-based organisations and rural women associations). The steering committee's formation will be led by UNIDO in consultation with the governments from Kenya and Uganda as well as the EE and EE partners. This ensures a committee composition that is highly competent in the interrelated fields of adaptation and entrepreneurship and that provides access to high-level public and private networks to leverage participation of key actors. The PSC will meet at least twice per year and extraordinarily if called by the PMU in consultation with UNIDO.

The roles and responsibilities of the PSC shall be to:

1. Provide strategic directives in line with national policies and programmes;

2. Provide strategic inputs and guidance on project activities;

3. Guides the development and implementation of Adaptation Action Events and high-level Adaptation Finance Symposia; and

4. Provide strategic inputs on the sustainability and exit strategy of the project..

**Multilateral Implementing Entity**

*203.* The following implementation services under the MIE modality will be provided by UNIDO for the proposed project:

- Facilitate the interactions with the Adaptation Fund Board and related stakeholders.
- Provide oversight of project implementation, technical advice, and adaptive management
- Provide quality assurance and accountability for outputs and deliverables at the project development phase, during implementation and on completion.
- Ensure receipt, management, and disbursement of Adaptation Fund funds in accordance with the financial standards of the Adaptation Fund.
- Support information/communication management and experience sharing through the development of articles, integration of case studies into bigger UNIDO publications, participating to webinars and events, maintaining project databases to share programme information with a wide audience.
- Support and ensure the quality of monitoring, review and evaluation processes including the annual Project Performance Report (PPR), Mid-term Review (MTR) and Final Evaluation (FE) for project performance.
- Ensure incorporation of lessons learned/best practice to improve implementation and future/similar programmes.

*204.* All operations under this grant will be conducted in accordance with the UNIDO governance structure and management procedures, as well as UNIDO standards for accountability, transparency, and ethical integrity. Same implementation arrangements will be followed by the executing entity adelphi. In addition, an internal legal agreement will be signed between UNIDO and adelphi to reflect the Terms and References of the project proposal

*205.* Further coordination with UNIDO country offices will ensure homogeneity, complementarity of the work implemented in the region. UNIDO country offices will be involved to provide their recommendations on the component implementation to ensure homogeneity in the work implemented in the country to avoid duplication of efforts, increase the impact of the action and benefit from a wider dissemination of the initiatives. The EE and EE partners will take advantage of UNIDO's partner´s networks to communicate widely to the largest scope of audiences about the project. Continuous communication between UNIDO and adelphi comms teams will be set-up through bi-anual calls to increase the understanding and knowledge that the audiences have of the project supporting the implementation of high-quality outreach.

**Executing Entity**

206. The Executing Entity for this project will be adelphi. adelphi is Europe's largest think-and-do-tank based in Germany, working on the intersection of green entrepreneurship and green finance in various countries around the globe. adelphi is committed to a just transition and creating a liveable, sustainable society and works together with financial institutions, green enterprises and policy makers to unlock finance at scale to secure a climate-neutral and resilient tomorrow. Partners and clients include the European Union, European Investment Bank, AFD, KfW, the International Development Finance Club, the Federal Ministry for Environment, Nature Conservation and Nuclear Safety, the Government of Flanders and IKEA Foundation. adelphi is leading the Uganda Green Enterprise Finance Accelerator (funded by the European Union) and the Circular Economy Catalyst Kenya (funded by IKEA Foundation). Based on adelphi's experience in the implementation of green entrepreneurship programmes in more than 35 countries globally, and its portfolio of tested and proven toolkits for SMEs and FIs, adelphi will be responsible for managing the conceptual and methodological approach, includingthe oversight of the SME selection mechanism and approach, the training methodologies and toolkits, the co-creation of the financial instruments as well as the steering of the set-up and implementation of the Adaptation Finance Academy. Furthermore, adelphi will provide backstopping and quality management as well as M&E support.

adelphi will execute the project. The detailed project is described in part II section A. As the execution entity, adelphi will designate internally, or recruit directly project management personnel to form a Project Management Unit (PMU) to execute the activities of this project. This will include a gender expert. The PMU will be responsible for the day-to-day management of the project execution, monitoring and evaluation of project activities as in the agreed project work plan. The PMU will coordinate all project activities being carried out by project experts and the project execution partners. If necessary, adelphi will subcontract qualified additional service providers for the execution of certain activities. An open and competitive process will be used to select such service providers for certain activities. adelphi will provide all related information to the evaluation experts for final evaluation in line with UNIDO and AF rules and regulations. During the implementation period of the project, UNIDO will provide the PMU with the necessary management and monitoring support.

**Executing Partners**

In executing the activities adelphi as executing entity will build on its proven delivery model working with in-country execution partners Kenya Climate Ventures and Finding XY which are long term in-country partners of the executing entity. These in-country partners will be responsible for the local outreach and the creation of a pipeline of relevant SMEs for the project, as well as implementing the Catalyser and Accelerator Support to selected enterprises (Finding XY: Uganda; KCV: Kenya), the coordination of the RCP and Adaptation Action Committee as well as the coordination of all local ecosystem activities as well as local M&E in Uganda and Kenya respectively.

207. Kenya Climate Ventures. KCV is an impact investment venture fund providing innovative, targeted, and performance-based blended risk financing, bespoke technical assistance, and business growth support to enterprises, to achieve successful rollout and scale up of climate-smart solutions in Kenya. KCV has over 50 years of cumulative experience in early-stage SME financing, impact investing, application of risk capital and blended financing, climate investing, gender lens investing, sector aligned and nexus investments, enterprise development, and advisory services for sustaining SMEs growth, market stability and impact. KCV is based in Nairobi, Kenya.

208. Founded in 2017, Finding XY is an innovation center that designs and implements innovative programs that provide access to low-risk capital, capacity development and markets-based research. Through our services we want to create communities where there is no Poverty (SDG1), with Gender Equality (SDG 5), creating opportunities for economic growth with decent work (SDG 8) and empowering SMEs through innovation (SDG 9). This is achieved through building global partnerships with the goal of mitigating climate change and conserving the environment. (SDG 13 and 17). Finding XY is based in Kampala, Uganda.

**Designated Authority and National Implementing Entity Engagement**

209. The project will be aligned to the government priorities (Nationally Determied Contributions and National Adaptation Plans) by requesting Designated Authority's endorsement of the adaptation SMEs selection framework. The final list of selected adaptation SMEs will be shared with Designated Authorities to get their input/feedback before confirming the selection[58].

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[58] Before announcement of the final results, the Designated Authorities will be notified and provided with the list of selected adaptation SMEs. In case of objection or concern, the Designated Authority will be requested to alert the PMU. Non response from the Designated Authority will be considered as non-objection. The selection committee will ensure that the

210. The project will further engage the National Implementing Entities (NIEs) in various ways throughout the life of the project. This includes engaging them in recommending potential adaptation SME candidates who could benefit from the project's support, attending public showase days to learn about the SMEs being supported, sharing perspectives on regulatory frameworks in their country with relevant adaptation SMEs as advisors to them, receiving project publications covering learnings and insights, and participating in relevant events.

211. The Executing Entity with its partners will be responsible for liaising with the DAs and NIEs along with UNIDO support. The EE, EE partners and UNIDO will also leverage innovative, creative, existing and new partnerships at regional and national level to ensure consultation, engagement and participatory processes with key stakeholders including vulnerable communities for the project to reach impact and scale.

### B. Project risk management

212. A number of potential project and financial risks have been considered and analysed in the process leading up to this Adaptation Fund proposal. These are summarized in Table below. The risk management strategy of this AF project will be further fine-tuned during the project Inception phase and continously assessed throughout the project execution.

| # | Risk | Classification | Likelihood and Impact | Mitigation Measures |
|---|---|---|---|---|
| 1 | Low numbers of applications (including from women-led businesses) and / or applications from enterprises that already received support through other programmes | Operational | Medium Likelihood<br><br>Medium Impact | Mitigation measures will include wide outreach campaigns targeting in particular also women-led SMEs, in collaboration with local media agencies; theuse of different outreach channels, ranging from traditional media, to social media and "multipliers", the project will be able to leverage extensive local networks in both project countries and will mobilise a high number of multiplier organisations. Furthemore, the project will design visually appealing marketing packages; using easy and engaging language and ensure that interested potential applicants are encouraged to submit an application by offering a local helpdesk and digital information sessions. |
| 2 | Enteprises (in particular women-lead SMEs) are unable to obtain financing from local FIs | Operational, Financial | Medium Likelihood<br><br>High Impact | To prevent and mitigate the risk of SMEs (in particular women-led SMEs) not obtaining financing agreeements with local financiers, the project will place a strong emphasis on the provision of finance-readiness Catalyser support to ensure that participating SMEs match the eligibility critiera for commercial loans. Furthermore, local FIs will be heavily involved in the design of the finance facility as well as the selection of financial instruments and incentive schemes to ensure that a high number of SMEs is able to comply with the FIs criteria for financing agreements. Lastly, financial incentives for both SMEs (such as performance-based payments) and FIs (such as grants as part of the partial repayment scheme) will be provided to incentivise the signing of financing agreeements. |
| 3 | SMEs require higher amounts of finance than the financial support | Operational, Financial | High Likelihood<br><br>Low Impact | . Upon graduating from the finance-ready Catalyser support, SMEs will already have achieved readiness for external investment options, allowing them to apply to any external funding sources. Furthermore, during the first financing cycle, the project will deploy a number of blended financing approaches agreed upon with local FIs. In case the first financing cycle should not successfully leverage the expected capital, the reasons and conditions that hindered private capital |

selected adaptation SMEs comply with applicable national social, environmental and technical standards. With a particular view to the risks of maladaptation, as implementing entity, UNIDO will ensure that all projects supported are in compliance with national social, environmental and technical standards In any such rare cases, PMU will work with the SMEs and the AF Country Designated Authority to find joint solutions. and also review any such similar standards at regional and global levels with a view to promote learning. Key to supporting such new technologies will be the need for the technology to have clear adaptation benefits in the target country of deployment.

| | | | | |
|---|---|---|---|---|
| | provided through the project or cannot successfully leverage the expected capital | | | investments in the selected SMEs will be evaluated. Based on this evaluation, the financing mechanisms for the second financing cycle will be adjusted to meet the specific needs of the selected SMEs and to cater to the concerns of the participating FIs. In this scenario, a larger share of AF grant funds will be paid directly to the selected SMEs (e.g. as a matching grant) for them to use these funds to increase overall finance-readiness (e.g. by purchasing machinery/ land that can be used as collateral for commercial finance). In the event that SMEs will not be able to sign contract with FIs, they will still get grants from the project to deploy their technologies and hence achieve the objectives of this project. The mobilisation of additional financing will support the scaling up of results. |
| 4 | Ineffective involvement of various project stakeholders | Institutional, Operational | Low Likelihood<br><br>Medium Impact | There is a risk that coordination among stakeholders will be ineffective due to the large number of stakeholders involved and thus not all perspectives will be integrated into implementation of the project. This risk will be mitigated by the coordination mechanisms.described in III.A “Project management arrangements”. Stakeholder engagement and coordination will be a key focus in all three proposed components. Information will be broadly shared through meetings and digital collaboration tools and platforms. These tools will enable stakeholders to exchange ideas, share best practices, and collaborate efficiently regardless of their geographical locations, to identify synergies and opportunities for cooperation, and minimise the risks of competition and duplication. Coordination will be further enhanced through a robust monitoring and reporting system, allowing real-time tracking of project progress, challenges, and outcomes. |
| 5 | Disruptions (to SME activities and/or project activities) caused by political and safety concerns | Social, Political | Medium Likelihood<br><br>Medium Impact | In view of the social unrest that occurred in Kenya in June 2024, there is a risk that violence and civil unrest in the two countries could interrupt or slow down the project. To mitigate this risks, the project will draw on the strong operational capabilities of the local executing partners Kenya Climate Ventures and Finding XY to establish a strong sentiment of full ownership amongst local communities and stakeholders. This will ensure that even in the event of social and political unrest, our partners on the ground will progress smoothly (if the security situation allows) The project will strictly monitor the situation in both countries and ensure that UN Security Guidelines are strictly adhered to for all project personnel. |
| 6 | Market disruption caused by external shocks (e.g. extreme weather events, etc.) | Environmental, Social | Medium Likelihood<br><br>Medium impact | A strong focus of the project lies on approaches and services to increase the resilience of SME and to leverage their potential to contribute to a climate change adaptation which will be streamlined across all project activities. This will not only include support services to support enterprises to pivot business models, but also assistance to increase financial resilience, accustomed to irregular cash flows and working in a cash-strapped environment, strengthening enterprises’ organisational resilience, e.g. through accelerated digitalisation, as well as support services to increase the market resilience of enterprises, adapting value chains to changes induced by the exreme weather events and/or pandemics. A flexible and agile project management and implementation approach will combine on-site and (if necessary) online activities and an adjustment of group sizes, paired with appropriate health and safety measures for project beneficiaries, partners and the project team. |

To address scenarios where SMEs fail to comply with their contractual obligations with FIs or adelphi, as well as underperformance or bankruptcy risks, the project will comply several measures. a) The comprehensive finance-readiness support will ensure that SMEs fully understand their contractual obligations and have the capacity to meet them. Training will focus on financial planning, compliance management, and risk mitigation. b) The selected adaptation SMEs will undergo a rigorous pre-screening process to assess financial health, market viability, and resilience. This process will reduce the risk of selecting enterprises with a high likelihood of bankruptcy. c) SMEs facing financial distress will receive advisory services on restructuring and debt management as well as access to the Cash-Flow Gap Cover. d) A diverse portfolio of adaptation SMEs across sectors and geographies will ensure that the impact of individual bankruptcies on overall project success is minimized. e) The blended financing mechanism will include provisions for risk-sharing with FIs to reduce their exposure to SME defaults. f) Regular meetings with FIs will ensure alignment and address concerns related to SME non-compliance or financial distress. This collaborative approach will allow for adjustments in financing terms or support strategies. g) The Local partner EEs Kenya Climate Ventures and Finding XY will play a critical role in mediating issues between SMEs, FIs, and adelphi. Their proximity to SMEs and understanding of the local context will enable proactive interventions.

## C. Environmental and social risk management

214. The objective of this project is to facilitate investments and capacity building in early growth stage SMEs that operate climate adaptative business models in order to support them in rolling out adaptation solutions and scale their operations, ultimately building community resilience to climate change. The targeted early growth stage SMEs cover various the water and agriculture sectors.

215. The project is designed to fully align with the Adaptation Fund's Environmental and Social Policy. In addition, a check on the alignment between UNIDO's Environmental and Social Safeguards Policy and Procedures (ESSPP)[59] and AF's ESP was carried out. The finding is that UNIDO's ESSPP is well aligned to AF's ESP as analysed in *Table 1* under Annex 1.

216. With a particular focus on supporting female- and youth-inclusive enterprises, the project is designed to generate positive economic, social and environmental impacts through the three key Components and the respective Outputs (activities) and Outcomes (see Project Components and Financing table).

217. As part of the overall Environmental and Social Management Framework (ESMF) process, detailed in the table below, a screening and assessment were carried out to evaluate the potential environmental and social risks and impacts of the project. Furthermore, the process incorporates environmental and social considerations into the mechanism for evaluating and selecting SMEs to be supported under the project and further incorporates E&S safeguards and principles into the training curricula for SMEs.

218. Below is detailed the activities to be carried out by the project in line with the Environmental and Social Policy Delivery Process of the Environmental and Social Policy of the Adaptation Fund. Each of the activities are fully described and further developed in Annex 1

**Table 12. Environmental and Social Management Framework (ESMF) process**

| Process | Project´s activities |
|---|---|
| **Screening of Environmental and Social Risks by the Implementing Entity** | An overall project screening against AF's Environmental and Social Policy is developed. (see Appendix 1 of the annex 1)<br><br>A screening of environmental and social risks will be developed for each SME evaluated and selected under the project, according to the criteria and technical assessment implemented by adelphi. The results of the screening indicate that all the parameters are of low concern (see Appendix 1 of the annex). Details of the selection of SMEs are found in chapter 4, section: Procedure for SMEs sourcing, screening & selection under the same Annex |
| **Environmental and Social Assessment** | The screening indicated that all Components I, II and III are categorised as low risk (Category C) with no adverse environmental or social impacts. However, steps will be taken to ensure the project actively avoids and prevents negative environmental or social impacts, which are outlined in the Environment and Social Risk Management Plan (see Appendix 2 of the annex 1)<br><br>At the SMEs level, an environmental and social assessment will be developed of the SMEs' business models and practices at the selection and due diligence level as well as during the support phase. The ESMF procedure in chapter 4 in Annex 1 establishes a series of tools and procedures for the evaluation and selection of SMEs. |

[59] UNIDO Environmental and Social Safeguards Policy and Procedures (ESSPP) is a framework developed to help UNIDO decide whether a project or programme should be supported and if the project has any environmental and social risks and how to manage/address the identified risks.

| | |
|---|---|
| **Environmental and Social Management Plan** | An environmental and social risk management plan detailing the mitigation measures to address the potential risks highlighted in the assessment are captured in the Environmental and social risk management and monitoring plan (ESMP) in Appendix 2, in the annex 1.<br><br>The ESMP also details mitigation measures at the SME level, where, embedded in the support phase, the project will provide guidance for the SMEs to develop their own risk management plans according to the Fund's environmental and social principles. |
| **Monitoring, Reporting, and Evaluation** | The ESMP introduced in the previous process further includes the monitoring, reporting, and evaluation activities. It considers and track risks that have been identified at proposal stage; screen for any new risks during the implementation of the project and serve to monitor and report on the mitigation measures. The activities of monitoring, reporting and evaluation shall also include SMEs performance with regards to the risks identified.<br><br>The project shall have a social and environmental safeguards focal point or a specialist that shall help in implementing the ESMP. As these activities are fully integrated in the monitoring plan of the project, the project management will ensure that the reports and evaluations include the environmental and social measures.<br><br>The details of the monitoring, reporting and evaluation process are further detailed in the ESMP in the Appendix 2 of annex 1. |
| **Public Disclosure and Consultation** | The project has and will continue to involve key stakeholders in the development of the full proposal, the environmental and social screening, risk assessment and management. A draft environmental and social assessment of the action will be available for public consultations. Communication and Stakeholder Engagement processes are detailed in Annex 1, chapter 6 |
| **Grievance Mechanism** | The project will put in place a grievance mechanism, which will be developed in line with UNIDO's system of Report Wrongdoing or adverse Environmental and Social Impacts. Additionally, the Adaptation Fund's grievance mechanism will also be made available to all parties through the same channels.<br><br>The details of the grievance mechanism, and channels to report and process complaints are detailed in annex 1., Appendix 3 |

**D. Monitoring and evaluation arrangements**

*219.* The monitoring and evaluation (M&E) of the project will conducted aligning to the UNIDO approach and procedures throughout the project lifetime. The project will actively be monitored with a gender and youth lens. It will derive lessons learned from the implementation in order to improve the design and implementation of future activities to maximise the climate adaptation impact delivered to the different vulnerable groups. This approach will also enable a better understanding of success factors that can help scale up and replicate climate adaptation activities across the two countries.

The M&E plan will be implemented according to the Project Results Framework (Logical Framework) described in section E and the integral management and oversight will be provided by UNIDO and adelphi's team. The M&E scheme shall include the following components:

*220.* **Project inception workshop:**
The Workshop will be held within the first three months of the project and with participation of all persons and organizations that have been assigned roles and responsibilities in the project organization. The Inception Workshop is crucial to generate momentum and ownership for project implementation and to develop the work plan for the first year of the project. The workshop will serve to:

- Specify the roles and responsibilities of the whole project team (all staff based in the two target countries and Germany)
- Discuss and agree on decision-making and communication structures, specifying roles and responsibilities, procedures, conflict resolution mechanisms
- Further refine implementation approaches and develop timeline and implementation plan based on the Project Results Framework)

- Provide and review the M&E plan with a detailed overview of reporting requirements, agree on the refined M&E plan and budget as well as develop systems/tools for M&E that specify the data collection needs for monitoring purposes.
- Discuss financial reporting procedures and obligations
- Plan and schedule project steering committee meetings, including scheduling the first steering committee meeting.
- The result from the workshop will be integrated into an inception report, which will serve as a key reference document. This inception report will be submitted to the Adaptation Fund within the next month of the Inception workshop.

*221.* **Quarterly reporting from beneficiary SMEs:**
Beneficiary SMEs in the Catalyser and Accelerator programmes are required to prepare Quarterly Performance Briefs on the progress of their business and investment (Accelerator only) during the support period including status of their compliance with AF and UNIDO environment, social, and gender policy. The executing entity will aggregate and synthesize the briefs for review on a regular basis to identify gaps and form response measures. UNIDO will also receive the synthesized briefs.

*222.* **Annual Project Performance Reports:**
These comprehensive key reports are prepared to monitor progress made since project start and in particular for the previous reporting period. adelphi will coordinate the development of the report with inputs from KCV and Finding XY, for submission to UNIDO, who will assess the quality of annual progress reports for completeness, comprehensiveness, analytical rigor and lessons learned.
The annual progress reports will outline financial, procurement and activity implementation progress against the project results framework, for which it will include at least the following:

- Progress made towards the project objective and project outcomes: with achieved indicators, baseline data and end-of- project targets (cumulative and partial)
- Project outputs delivered per project outcome
- Lessons learned/good practice
- Annual work plan and other activity and expenditure reports

Furthermore, an annual impact assessment (internal and external) will be an integral part of the annual progress report that will aim at analysing and showcasing the efficient contribution of the project to the achievement of improved access to finance for adaptation SMEs to reach their potential. Building on the progress against the results framework, this annual impact assessment will delve beyond the framework indicators, to provide regularly updated and transparent enterprise journey insights (funding, impact, enterprise growth), evidence that supports insights from vulnerable groups (farmer associations, cooperatives, women and youth associations) (see paragraphs 73-75)
The annual reports will be presented and discussed within the PSC to provide recommendations to inform the subsequent annual work plan. UNIDO will then consolidate and submit the Annual Progress Reports to the AF Secretariat no later than two months after the end of the project implementation year.
The project final annual report will summarize all the results achieved, lessons learned, challenges. As with the annual reports, it will also be coupled with the final impact assessment and it will lay out recommendations for and action plan to ensure sustainability and replicability of the project's results.

*223.* **Periodic monitoring through visits and interviews:** The executing entities will conduct visits and interviews to keep close contact with the project beneficiaries as well as control groups to assess project progress and impact first-hand. The visits and all types of contacts (i.e. interviews) will be structured according to the data collections needs established both in the impact methodology strategy and results framework (see paragraphs 73-75). A Field Visit/ Activity Report will be prepared by the corresponding executing entity and the data will be stored accordingly for evaluation purposes.

*224.* **Mid-term Evaluation**
An external mid-term review will be carried out by an independent party halfway through project implementation and will provide an overview of the state of project implementation, effectiveness, efficiency and timeliness of implementation arrangements, findings on preliminary results and recommendations for project modifications and corrections, if needed. The findings and recommendations of this review will be incorporated during the final half of the project's term for enhanced implementation. The organization, terms of reference and exact timing of the mid-term evaluation will be decided after consultation between the parties. The Terms of Reference for the Mid-term evaluation will be prepared based on guidelines from the AF and in line with UNIDO's evaluation policy and manuals.

225. **Final Project Evaluation**
An external final project evaluation will be carried out by an independent party during the final three months of the project. The final evaluation will focus on the achieved project's results against initially planned results (and corrected after the mid-term evaluation, if any took place). The final evaluation will look at impact and sustainability of results, including the achieved contributions to enhancing local climate resilience in the agriculture and water sector, as well as the project's relevance, effectiveness and efficiency. The Terms of Reference for this evaluation will be prepared based on AF programme guidelines and in line with UNIDO's evaluation policy and manual.

226. **Financial audit:** A final certified financial statement will be provided by UNIDO to the AF in compliance with the terms of the anticipated agreement.

227. An indicative plan for the M&E plan can be found in Table below.

| Activity | Responsible parties | Timeframe | Indicative Cost (USD) |
|---|---|---|---|
| Inception workshop and report | Project Management team in coordination with UNIDO | Project kick-off (Report 1 month after inception workshop) | 20000 |
| Quarterly Reports from SMEs | Supported SMEs, Project Management team in coordination with UNIDO | Quarterly | |
| Safeguards / Monitoring for Compliance with the AF ESP | Project Management team, implementing and executing parties, external evaluators | Ongoing for all activities | 15000 |
| Project Steering Committee Meetings | Project management team, implementing entity | Twice a year | 9000 |
| Annual Project Performance/Progress Report | Project management team, implementing entity | Annually (2 months after the end of the project implementation year) | none |
| Annual impact assessment | Project management team, executing entities | Annually (2 months after the end of the project implementation year) | 5000 |
| Mid-term Evaluation | External consultant/evaluator | Two years after start of the project | 30000 |
| Final project evaluation and report | External consultant/evaluator | End of the project (within the final 3 months of implementation) | 60000 |
| Financial audit | External auditor | End of project (within 6 after the end of the fiscal year in which the project ended) | 30000 |
| Travel (related to project execution) | Executing entity | Annually | 20000 |
| | **TOTAL** | | 189000 |

**Timeline for Risk Management and Monitoring Implementation**

244. Details of each of the mitigation measures will be developed during project design and planning and revisited with all relevant implementing partners during the kick-off of each project component. For example, the setting of indicator benchmarks will be done at this stage. Monitoring will be conducted throughout project implementation, in particular, during regular jour fixe meetings. During the monitoring process, should new risks arise or further mitigation efforts are required, this will be addressed before the next stage of project implementation begins through an iterative and inclusive process. After the complete implementation of each programme component, a risk management and monitoring assessment will be conducted again to check that mitigation measures were successful in avoiding or reducing identified project risks.

245. To address grievances, EE's Project Management Unit (PMU) will maintain a document to record and address grievances. The PMU will be responsible for ensuring that all grievances are addressed and will aim to have them resolved in the shortest time possible. Every grievance received will be assigned to a dedicated team member, who will screen and assess the complaint before the PMU decides how to resolve it. Periodically, the PMU will review the grievance log and perform a retrospective meeting with team members to ensure that the grievance management process can be updated to improve any gaps identified. The project will offer three channels to process grievances and stakeholders will be able to choose the channel based on their personal and cultural preferences:

(i) Stakeholders directly engaged in project activities (e.g. selected adaptation SMEs and FIs) will have direct connections with the project team and can raise any grievance directly with the team member they engage. The project team member receiving the grievance will alert the Project Management Unit to record the details and help identify the appropriate approach to address the issues. Through this channel, the team member receiving the grievance will be the main point of contact to explain and coordinate next steps with the grievant. The PMU will support the team member to ensure that the grievance is addressed swiftly.

(ii) Stakeholders directly engaging in project activities may also request to talk to the PMU directly to raise their grievance. The PMU will note the issue and coordinate appropriate next steps with the team. In this case, the PMU will be the stakeholders' main point of contact and will communicate next steps.

(iii) Should stakeholders prefer to raise a grievance through a written channel, or if any indirectly affected stakeholders have a grievance, they can submit the matter via the Contact Us form on the website. Grievances raised will be noted by the PMU and addressed as soon as possible with a grievance acknowledgment shared with the stakeholder within 2-3 days of submission (further details on this mechanism can be found in Annnex 1).

The team member designated for processing the complaint will assess it, propose a solution and respond to the complainant within an agreed timeframe. Based on the complainant response, the agreed solution will be implemented, and the case closed, or an alternative solution will be proposed.

To ensure that stakeholders are aware of the various channels, the project team will note the methods through their regular communications and awareness materials, including through meetings or webinars that engage a broad range of stakeholders.

Where impact assessments or other studies are being planned with communities and project stakeholders, the project team will describe these plans through various channels including direct meetings, and written communication like emails.

Additionally, the team will also proactively seek feedback from key stakeholders on project processes and deliverables to create additional channels for capturing any grievance that stakeholders might otherwise not have chosen to raise.

Lastly, the team will regularly seek and review the feedback received on the effectiveness of the grievance mechanism and to make the necessary improvements, if need be.

## E. Project results framework

229. The result framework of the project has been aligned with AF and UNIDO's Integrated Results Framework (IRPF). Please note the following codes associated with the UNIDO IRPF: KASA – awareness, knowledge, and capacity building, BUS - business practices, TCO - technical cooperation, CPO - convening and partnerships, ECO – economic competitiveness.

| Expected Results | Indicators | Baseline Data or Condition | Targets | Sources of Verification | Risks and assumptions |
|---|---|---|---|---|---|

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| **Impact:** Enhanced climate resilience of highly vulnerable groups through an increased access to innovative climate adaptation solutions provided by SMEs in the agriculture and water sector in Kenya and Uganda, thus addressing the acute need for affordable and accessible climate adaptation solutions as they depend on natural ecosystems for their livelihoods and reducing the gender gap in access to finance and enabling more women and youth to start and grow businesses | Direct beneficiaries supported by the project<br>- Female direct beneficiaries<br>- Youth direct beneficiaries<br><br>Indirect beneficiaries supported by the project<br>-Female indirect beneficiaries<br>- Youth indirect beneficiaries<br><br>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas | Climate resilience is a prevailing concern among low-income earners, pastoralists, smallholder farmers, and rural communities in Kenya and Uganda, who rely on natural ecosystems for their livelihoods. However, these communities face significant challenges due to climate change, as their quality of life and economic stability are intricately tied to predictable and stable climate conditions. Furthermore, they find themselves trapped in a cycle of vulnerability, lacking access to readily available adaptation solutions. Extensive research and consultation have revealed the scarcity of affordable adaptation options provided by small and medium-sized enterprises (SMEs) operating nationwide in Kenya and Uganda. | 125 female direct beneficiaries<br><br>125 direct youth beneficiaries<br><br>1000 female indirect beneficaries<br><br>1000 indirect youth beneficiaries | Ex post assessment of adaptation SMEs participated in the programme (regarding balance in their work force and their primary customer base: youth and or/ female rate) | The engagement of SMEs and beneficiaries is well balanced across target groups, ensuring equitable participation of women, youth, and other vulnerable populations. The outcomes of SME capacity building, stakeholder interactions, and adaptation solution deployment are effectively translated into practical, scalable actions that enhance climate resilience within the communities and institutions involved. |
| **Component I** | | | | | |

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| **Outcome 1.1** Sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers established | Types of Multi-stakeholder interactions, sharing and learning through cross-community and cross-country exchanges<br><br>Number of active platform users aggregated by region<br><br>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas | During the consultative process, it became evident that early-stage gender- and youth-inclusive adaptation small and medium-sized enterprises (SMEs) ), and especially those that are women-led, in the region encounter challenges in accessing finance. These challenges stem from various factors. Firstly, finance, climate policy, and business advisory actors often overlook and have limited awareness of these SMEs. Secondly, there is inadequate coordination among actors within the ecosystem. Thirdly, there is a lack of institutional knowledge concerning climate change adaptation and adaptation entrepreneurship. Although national development and adaptation plans and policies acknowledge the importance of SME support and adaptation action, the integration of adaptation-oriented entrepreneurship remains limited in Kenya and Uganda. Policy makers primarily develop national frameworks based on internally sourced information, hindering the exchange of cross-country and cross-sector learnings in policy development processes. The absence of connections between adaptation action, private sector-based adaptation solutions, and insufficient cross-country coordination results in climate and development projects that support and coordinate sustainable SME solutions or adaptation projects but fail to focus on adaptation SMEs as a shared priority. Despite climate finance gaining significance as an investment opportunity for financial institutions in both countries, climate-smart lending to SMEs remains the exception rather than the norm. | 30 types of multi-stakeholder interactions, sharing and learnings through cross-community and cross - country exchanges.<br><br>100 Active platform users, 50 per country and fairly divided throughout focus the regions. | Records of the RCP | The interest of stakeholders is well balanced across countries. And the interactions' results and cross-sector learnings as well as the information on the database are turned into tangible actions within the organisations and institutions of all the stakeholders involved. |

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| **Outcome 1.2** Key stakeholders, ministries, financial institutions (FIs), adaptation SMEs and the end-users (vulnerable groups) create and sustain market for adaptation technologies, services and products | Gender- and youth inclusive adaptation SMEs are linked with other stakeholders through regularly occurring events to facilitate the exchange of adaptation entrepreneurship knowledge and learnings<br><br>TCO.3: Number of toolkits and guidelines produced | At present, the SME sector in Kenya and Uganda has been experiencing gradual growth and garnering increased attention through events like the SME expo in Kenya and the Africa SME Champions Forum in Uganda. However, it is apparent that SMEs face challenges in establishing connections with key stakeholders, ministries, and financial institutions. These events, being infrequent and primarily focused on enterprises with rapid sales growth, limit the visibility and opportunities for SMEs. Consequently, it can be inferred that there is a constrained market for adaptation technologies, services, and products within the SME sector. | 100 Gender- and youth inclusive adaptation SMEs are linked with other stakeholders through 10 occurring events to facilitate the exchange of adaptation entrepreneurship knowledge and learnings | Workshop reports and documentations<br>Ex-post Project Reporting: annual review | The interactions and exchanges are are taken forward within organisations and institutions of all the stakeholders involved.<br><br>The solutions presented in the adaptation market study raise genuine interest among future entrepeneurs and academia and practitioners and the opportunities identified in the study are furthered. |
| **Component II** | | | | | |
| **Outcome 2.1** Pipeline of gender- and youth-inclusive adaptation SMEs developed (100% of the SMEs will be women- and/or youth-inclusive, meaning they aim for a 50% gender and youth balance in their work force and/or their primary customer base) | Number of enterprises reached<br><br>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas | In Kenya and Uganda, there is a lack of accelerator programs specifically designed for SMEs providing climate adaptation solutions. The existing accelerator programs primarily concentrate on the tech sector in urban areas, overlooking the needs of adaptation SMEs. However, certain organizations are actively involved in developing funds and supporting the business development of green business models. Despite these efforts, there is a scarcity of synergies between these organizations and adaptation SMEs, hindering collaboration and mutual growth. | 250 gender- and youth inclusive enterprises reached, , out of which 125 women-led enterprises | Project Report with portfolio documentation of selection process based on selection system (platform) / list of selected enterprises | The call for applications reaches enough enterprises to allow for a thorough selection of 100% women and/or youth inclusive SMEs) who have elegibile adaptation solutions as well as a sound business |

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| **Outcome 2.2** Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management | Number of loan applications submitted<br><br>Number of loan agreements secured<br><br>Stage of investments<br><br>ECO.1: Number of firms with economic gains (additional sales, savings)<br><br>TCO.1. Number of capacity-building activities provided<br><br>TCO.4: Number of business plans developed | Currently, the SME sector in Kenya and Uganda is showing steady progress and gaining recognition through events such as the SME expo in Kenya and the Africa SME Champions Forum in Uganda. However, SMEs encounter difficulties in establishing crucial connections with key stakeholders, ministries, and financial institutions. These events, which occur infrequently and primarily highlight enterprises with rapid sales growth, restrict the visibility and potential opportunities for SMEs. As a result, it can be inferred that there is a limited market for adaptation technologies, services, and products within the SME sector. The lack of dedicated platforms and support mechanisms specifically targeting adaptation solutions hampers the growth and reach of SMEs in addressing climate change challenges. It is vital to enhance the accessibility and availability of resources, networks, and funding for SMEs engaged in climate adaptation efforts to foster their resilience and contribute to sustainable development in the region. | minimum of 100 investment plans submitted, out of which 50 for women-led enterprises<br><br>Minimum of 30 financing agreement secured, , out of which 15 for women-led enterprises | Screening/documentation of loan applications (need to be shared by enterprises) – if needed, interviews with enterprises<br><br>Screening/documentation of loan agreements – if needed, interviews with enterprises | With business advisory and capacity-building support devlieverd through the programmes, all participating SMEs can achieve the performance, skills and knowledge needed to submit adequate investment plans |
| **Outcome 2.3** Designing and implementing blended financing mechanism and performance-based payments for gender- and youth inclusive adaptation SMEs | Adaptation technologies advance<br><br>Private sector capital leveraged through financing scheme<br><br>BUS.2: Number of actors developing new products | There is a significant barrier between climate change-related investments from large multilateral banks and climate funds and the distribution of these funds to local financial institutions. This barrier hinders adaptation SMEs from accessing the necessary financing. Preliminary research and the consultative process reveal that only a limited number of local financial institutions in Uganda and Kenya have implemented blended finance mechanisms and performance-based payments. Consequently, gender- and youth-inclusive adaptation SMEs often face financial obstacles in securing funds for their initiatives. Efforts should be made to bridge this gap and enable easier access to finance for these SMEs, thereby fostering their capacity to address climate change challenges effectively. | Development and market readiness of 50 new adaptation technologies that were previously not present, of which 20 are gender inclusive.<br><br>30 enterprises receive increased capital from financing schemes, out of which 15 women-led enterprises | Ex ante and ex post screening of enterprise portfolios. i.e. impact assessments | With business advisory and capacity building support delivered through the programmes, SMEs can achieve their milestones and performance to have a market-ready product/service, and provided there are no unforeseen major events. |

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| **Outcome 2.4** Potential environmental and social risks of selected SMEs screened, assessed and monitored within the framework of the Environmental and Social Management System (ESMS) | SMEs with the most advanced ESMS score will be selected to receive targeted technical and financial support through the project to substantially reduce risk of maladaptation<br><br>Project information disclosed to public and relevant stakeholders for their information and engagement<br><br>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas | There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions. | | Scorecard + Due diligence documentation<br><br>Records of ESMS Scoring of selected<br><br>Report on scoring on RCP | With technical support SMEs can achieve their performance and knowledge to correctly assess their risks and manage them |
| **Component III** | | | | | |
| **Outcome 3.1** Local financing institutions support the dissemination of adaptation technologies, products and services | Number of FIs with increased SME adaptation finance portfolio and/or with new and improved/ innovative instruments or services<br><br>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas<br><br>TCO.1. Number of capacity-building activities provided | The financing of gender- and youth-inclusive adaptation SMEs in Kenya and Uganda is constrained by the limited awareness and understanding among local financial institutions (FIs) regarding the business prospects associated with accessing adaptation finance and directing it towards adaptation entrepreneurship. In order to facilitate the effective allocation of adaptation finance to locally led adaptation entrepreneurs who prioritize the most climate-vulnerable individuals, it is crucial to enhance the capacity and knowledge of local FIs in comprehending adaptation, its funding criteria, and business viability. Empowering these institutions with the necessary insights and expertise will enable them to better support and invest in adaptation initiatives, thus promoting resilience and sustainable development within these communities. | 15 Fis have increased gender-responsive SME adaptation finance portfolios and/or with new improved/ innovative instruments or services | Ex ante and ex post screening of portfolio, instruments and services based on interviews (spot checks / small sample) and desk research (+ extrapolation) | Local FIs are well incentivized by the guidance received, and have the resources (economic, time, staff) to put in place new or improved finance instruments. |
| **Outputs under Outcome 1.1** | | | | | |

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| 1.1.1 Establishing a multi-stakeholder Adaptation Action Steering Committee (AASC) and a women-youth business club | Consultation with and selection of core actors from finance, entrepreneurship, governmental institutions and representatives of vulnerable groups (such as youth-based organisations and rural women associations) to join the AASC<br><br>Number of members of the AASC aggregated by group (finance, entrepreneurship, governmental institutions and representatives of vulnerable groups)<br><br>Interaction among different high-level stakeholders across countries<br><br>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas<br><br>Number of members enrolled in the club, frequency and participation of meetings<br><br>Engagement of Senior Gender Expert to provide continuous support and ensure full compliance with | There currently is no adaptation action steering committee in Kenya or Uganda that focuses on SMEs. However, governments in both countries do have guiding documentation such as NDC and NCAP which steer and highlight governmental planning. | The achievement of this outcome can be assessed by the establishment of a steering committee that actively steers interaction amongst high-level stakeholders across countries. Likewise frequent occurs of adaptation action events would clearly illustrate this the presence and action of the AASC<br><br>20 AASC members equally representing the groups defined in the indicator<br><br>20 notable interactions between high-level stakeholders across countries<br><br>50 women and youth participate in the clun and it is hosts at least 4 virtual and 2 physical meetings<br><br>Full compliance with established gender mainstreaming standards in all project activities as assessed by a yearly review outlined in GA & GP | MoUs, stakeholder conformation forms, meeting attendance forms<br><br>Formal invitations/ accepting letters of selected member of the AASC | The establishment of the Adaptation Action Steering Committee (AASC) ensures balanced representation from key sectors, including finance, entrepreneurship, governmental institutions, and vulnerable groups such as youth-based organizations and rural women's associations. The committee actively fosters cross-sector collaboration and high-level stakeholder interactions across countries, translating awareness and knowledge on adaptation into tangible actions that align with national planning frameworks like the NDCs and NCAPs. |

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| | gender mainstreaming throughout the project period | | | | |

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| 1.1.2 A strategic framework and digital infrastructure for the RCP is developed and endorsed | Outreach strategy to meet key objectives of increasing female and youth participation is developed and implemented<br><br>Inclusion and participation strategy of vulnerable group representatives is developed and implemented<br><br>Number of profitable adaptation solutions in the database sourced from regular impact assessments<br><br>Number of participant profiles aggregated by country to measure regional community-building<br><br>Number of knowledge products available on the RCP | There currently is no adaptation action steering committee in Kenya or Uganda that focuses on SMEs. Likewise, while there are digital platforms for SMEs, none of these focus on adaptation entrepreneurship practitioners and ecosystem actors according to the desk research. | plan, complete and operationalize an outreach stratergy, this component is successfully achieved when gender and youth targets are met. (100% of the SMEs will be women- and/or youth-inclusive, meaning they aim for a 50% gender and youth balance in their work force and/or their primary customer base)<br><br>Ensure gender equality and a high percentage of vulnerable group respresentatives<br><br>50 profitable adaptation solutions in the databse sourced from impact assessments<br><br>50 participant profiles aggreated by country to measure regional community-building.<br><br>30 knowledge products available on the RCP during the project cycle | Project reporting of Steering Committee<br><br>Outreach report<br><br>Synergy scouting guideline<br><br>Process handbook<br><br>Profiles on the RCP<br><br>Best practices of adaptation SMEs showcased on the RCP | The development and endorsement of a strategic framework and digital infrastructure for the RCP ensures inclusive outreach and participation strategies that prioritize gender equality and youth representation. This framework facilitates the integration of profitable adaptation solutions and community-building efforts, fostering regional collaboration. The availability of knowledge products and participant profiles on the RCP underscores its role as a dynamic platform for showcasing best practices and driving the adaptation entrepreneurship ecosystem forward. |
| **Outputs under Outcome 1.2** | | | | | |

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| 1.2.1 Six regional Adaptation Action Events are organised | Number of Adaptation Action Events organised that foster learning and sharing on innovations (adaptation solutions, financial instruments)<br><br>Number of innovative adaptation SMEs participated aggregated by country<br><br>Number of Alumni selected for Sectoral study tours<br><br>Number of women entrepreneurs participating in mentorship programs; number of networking events organized | Currently there adaptation action events in Kenya and Uganda tend to focus on national scale agendas or regional projects that tackle specific issues (presented by Governments, NGOs or multilateral development organization) or focus on women entrepreneurship in this field. These adaptation action events (roundtables, study tours and podcasts) would take a different approach by focusing on market based innovations for climate adaptation | 6 adaptation events occurred during the project cycle those including: adaptation round tables, sectoral study tours and radio podcase shows.<br><br>10 innovative adaptation SMEs (out of which 5 women-led) participated in ADE over the course of the project cycle. 5 from each country<br><br>6 alumni selected for sectoral study tours from each country.<br><br>50 women entrepreneurs have participated in mentorship; 4 networking sessions are organized | Documentation of the Adaptation Action Events and ner (Adaptation Roundtables, Sectoral Study Tours): participants list, report | The organization of six regional Adaptation Action Events ensures a focus on market-based innovations for climate adaptation, fostering cross-country learning and sharing among stakeholders. These events, including adaptation roundtables, sectoral study tours,networking, mentorship and radio podcasts, actively engage innovative adaptation SMEs, with a strong emphasis on gender inclusivity and regional representation. Alumni participation in sectoral study tours further enhances knowledge transfer and strengthens the ecosystem for adaptation solutions. |

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| 1.2.2 Four Annual Adaptation Finance Symposia are developed and held | Number of adaptation SMEs participated<br><br>Number of financial stakeholders participated<br><br>Number of policy makers participated | 0 | Annual occurrence of the adaptation finance symposia.<br><br>A total of 100 adaptation SMEs (out of which 50 women-led) participating over the project cycle.<br><br>A total of 50 stakeholders from Fis participated over the project cycle<br><br>A total of 50 policy makers participated over the project cycle. | Workshop documentation of the Adaptation Finance Symposia | The development and delivery of four Annual Adaptation Finance Symposia provide a platform for fostering dialogue and collaboration among adaptation SMEs, financial stakeholders, and policymakers. These symposia emphasize inclusivity, with strong participation from women-led SMEs and diverse financial institutions, driving actionable outcomes to enhance access to finance for climate adaptation solutions. |
| 1.2.3 Six Knowledge products on market-based adaptation solutions and impact of gender- and youth inclusive adaptation SMEs are developed (including the benefits for vulnerable communities and target sectors) and widely disseminated | Report on the analysis of market-based adaptation solutions in Kenya and Uganda published<br>Number of reports downloaded/ disseminated during the course of the project<br><br>Adaptation taxonomy developed and integrated into the Adaptation Finance Academy curricula; refined during later project stages<br><br>Adaptation SME | Currently, reports and online documents do not adequately emphasize market-based adaptation solutions in Kenya and Uganda. These solutions are often discussed within the broader context of entrepreneurship, with little focus on their specific value in climate change adaptation. Furthermore, there has been a lack of comprehensive analysis regarding the overall adaptation market in these countries. As a result, the potential and significance of market-based adaptation solutions remain overlooked or underexplored. It is crucial to highlight and assess the adaptation market in Kenya and Uganda, identifying the opportunities and challenges for market-based solutions to address climate change impacts effectively. Such analysis can provide valuable insights and inform strategies for promoting and scaling up market-driven adaptation approaches in the region. | Develop and share a report that analyses market based adaptation solutions in Kenya and Uganda. A minimum of 100 downloads/disseminated during the course of the project.<br><br>Taxonomy developed for adaptation SMEs and integrated into adaptation finance academy curricula.<br><br>Develop and share the adaptation SME finance scoping report. A minimum of 100 | Impact report showcasing emprises and their impacts on adaptation for regions, communities and target sectors<br><br>Workshop Documentation of the Finance Academy<br><br>Workshop Documentation of the Finance Academy & Symposia<br><br>Adaptation SME Finance Scoping Study<br><br>Case studies<br><br>Policy Recommendations | Knowledge products and lessons learned are widely shared with, and and well received by potential users |

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| | Finance Scoping Study conducted; results published<br><br>Multimedia case study films to showcase adaptation business models developed and published<br><br>Policy Recommendations and Action Plan Flagship Report finalised<br><br>Annual Impact Assessment on adaptation solutions conducted; results published | | downloads/disseminated during the course of the project.<br><br>Publication of multimedia case study films of youth- and gender-responsive adaptation business models and their impacts. A minimum of 500 views during the course of the project.<br><br>Develop and share youth- and gender-responsive policy recommendations and action plan flagship report. A minimum of 100 downloads/disseminated during the course of the project.<br><br>Develop and share annual impact assessments of the selected enterprises. A minimum of 100 downloads/disseminated during the course of the project. | Action Plan Flagship Report<br><br>Annual Impact Assessment Report | |
| **Outputs under Outcome 2.1** | | | | | |
| 2.1.1 Scorecard (incl. final selection criteria) for the assessment of early-growth gender- and youth-inclusive adaptation SMEs is co-created | Scorecard developed in line with the project's ESMS and integrating specific gender- and youth-inclusive indicators | There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions. | Scorecard developed and operationalized for the selection processes | Scorecard document and analysis of scorecard in finalised version | The co-creation of a scorecard, integrating gender- and youth-inclusive indicators, ensures a rigorous and equitable assessment process for early-growth adaptation SMEs. This tool, |

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| | | | | | aligned with the project's ESMS, addresses the current gap in accelerator programs focused on climate adaptation solutions, supporting the selection and development of impactful and inclusive SMEs. |
| 2.1.2 250 gender- and youth inclusive adaptation SMEs screened for funding readiness support (100% of the SMEs will be women- and/or youth-inclusive, meaning they aim for a 50% gender and youth balance in their work force and/or their primary customer base) | Number of gender- and youth inclusive adaptation SMEs screened for participation in the funding readiness support programme - number of innovators selected for capacity building | There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions. | 250 gender- and youth inclusive adaptation SMEs screened for funding readiness support (out of which 125 women-led) | Project Report with portfolio overview / summary / documentation of screening process based on screening / selection / application system platform | The call for applications reaches enough enterprises to allow for a thorough selection of 100% women and/or youth inclusive SMEs) who have elegibile adaptation solutions as well as a sound business |
| **Outputs under Outcome 2.2** | | | | | |

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| 2.2.1 Two Catalyser Programme Cycles: Business advisory support to strengthen funding readiness for 100 selected gender- and youth-inclusive adaptation SMEs provided (50% of allocated budget) | Improved business plans<br><br>Number of modules on gender-inclusiveness; number of participants in gender-inclusive training modules<br><br>Number of women-only cohorts established, participation rate of women in capacity building workshops | There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions. | A minimum of 100 gender- and youth inclusive adaptation SMEs (out of which 50 women-led) will receive capacity building support, in 5 peer learning workshops, with an overall aim of a 50% participation rate of womenWhere they will be able to plan tangible improvements to their business models<br><br>Atleast 3 women-only cohorts will be created for the capacity building support.Setup adaptation performance targets for participating gender- and youth inclusive enterprises<br><br>3 gender-inclusivity modules will be developed; 200 participants will attend gender-related training modules | Ex-ante / ex-post evaluation of BPs based on assessment grid | With business advisory and capacity-building support delivered through the programmes, all participating SMEs can achieve the performance, skills and knowledge needed to submit adequate loan applications if no major unforeseen events occur |
| 2.2.2 Two Accelerator Programme Cycles: Post-investment support on growth and loan repayment provided for 30 gender- and youth-inclusive adaptation SMEs (50% of allocated budget) | Investment plans | There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions. | | Screening / analysis of investment plans (based on requirements / checklist) | See above |
| **Outputs under Outcome 2.3** | | | | | |

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| 2.3.1 Development and refinement of blended financing & performance-based payment mechanism | Financing scheme developed in co-design process<br><br>Type and number of stakeholders consulted/ involved in co-creation<br><br>Financing scheme refined based on lessons learned from Cycle 1, facilitated by "learning and sharing" on innovative financing instruments | 0 | Finalization and operationalization of financing scheme<br><br>15 finance scheme created by 15 different stakeholders<br><br>A refinded financing scheme | Document summarising financing scheme<br><br>List of participants / minutes of interviews<br><br>Workshop report summarising lessons learned from cycle 1 / updated document summarising financing scheme | The development and refinement of a blended financing and performance-based payment mechanism ensure an inclusive and collaborative approach, engaging diverse stakeholders in co-design processes. This iterative approach incorporates lessons learned from the first cycle to optimize innovative financing instruments, fostering scalable and sustainable solutions for adaptation financing. |
| 2.3.2 Mobilising at least 15 partner Financial Institutions (FIs) | Number of partnership agreements (MoUs) signed with financial stakeholders - number of partnerships leveraged for supporting initiative adaptation SMEs | 0 | Formal partnership agreements signed with +15 local Fis and impact investors/ funds. | signed partnership agreements (MoUs) | The mobilization of at least 15 partner financial institutions (FIs) ensures strong collaboration and support for adaptation SMEs. These partnerships, formalized through signed MoUs, leverage local and impact-focused financial stakeholders to drive sustainable financing for innovative climate adaptation solutions. |

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| 2.3.3 Implementing blended financing & performance-based payments and portfolio management | Number of AF grant funds disbursed as performance-based instruments to adaptation SMEs that are enhanced to introduce innovation through innovative adaptation solutions<br><br>Central database for progress monitoring and documentation developed and operational | 0 | Finalization and operationalization of financing scheme<br><br>15 finance scheme created by 15 different stakeholders | AF Grants documentation<br><br>Enterprise investments and impact master sheet | The implementation of blended financing and performance-based payment mechanisms ensures the effective disbursement of AF grant funds to adaptation SMEs, fostering innovation in climate adaptation solutions. A centralized database for progress monitoring and documentation supports transparent portfolio management, enabling real-time tracking of financial instruments and their impact. |
| 2.3.4 Exit and scale-up strategy for innovative adaptation SME financing mechanism developed and operationalised | Types of innovative financing instruments identified within the financing mechanism<br><br>Activities and measures of the financing facility promoting innovative SME financing strategies<br><br>Co-creation of the financing facility and the strategic framework led by the Adaptation Action Steering Committee | 0 | 15 types of innovative financing instruments | Annual review documentation covering financing mechanism successes and failures<br><br>Documentation on the evaluation of the activities of the financing facility<br><br>Impact assessment of adaptation solutions<br><br>Final documentation of the co-creation session led by the Adaptation Action Steering Committee | The development and operationalization of an exit and scale-up strategy for the innovative adaptation SME financing mechanism ensure sustainability and scalability. This strategy identifies diverse financing instruments and promotes targeted activities through a co-created strategic framework led by the Adaptation Action Steering Committee, |

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| | | | | | fostering long-term impact and resilience in climate adaptation financing. |
| 2.4.1 A comprehensive ESMS for SMEs to receive technical and finance support is implemented | ESMS methodology and framework developed and refined in line with AF´s Environmental and Social Policy principles<br><br>Number of SMEs assessed according to the ESMS framework and results recorded | There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions. | ESMS methodology and framework developed<br><br>100 gender- and youth inclusive adaptation SMEs (out of which 50 women-led) assessed according to the ESMS framework and results record | Records of assessment of selected SMEs: Scorecard and due diligence documentation<br><br>ESMS documentation and reporting | The implementation of a comprehensive Environmental and Social Management System (ESMS) ensures that SMEs receiving technical and financial support adhere to AF's Environmental and Social Policy principles. This framework, refined through rigorous methodology, facilitates the assessment of gender- and youth-inclusive adaptation SMEs, promoting sustainable and socially responsible innovation in climate adaptation solutions. |
| **Outputs under Outcome 3.1** | | | | | |

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| Output 3.1.1: An Adaptation Finance Academy training concept is developed and implemented | Number of financial prototypes developed<br><br>Number of ecosystem actors (FI participants) with increased knowledge with regard to adaptation finance | Based on desk research, there is a lack of adaptation finance academies in Kenya and Uganda that specifically aim to enhance knowledge and understanding of adaptation and entrepreneurship. However, in Uganda, the organization UGEFA has introduced several finance academies with a focus on SMEs in the green sector. While these trainings may touch upon related topics, it is evident that adaptation technologies have not been the primary focus of these initiatives. The absence of dedicated academies catering specifically to adaptation finance suggests a gap in capacity-building efforts in the region. Establishing adaptation-focused finance academies could provide valuable training and support for entrepreneurs and practitioners working on climate adaptation solutions, helping to bridge the knowledge gap and facilitate the implementation of innovative and impactful adaptation strategies in Kenya and Uganda. | 50 financial prototype instruments developed<br><br>50 ecosystem actors with increased knowledge with regard to adaptation finance | Workshop documentation with an overview of the financial prototypes identified<br><br>Ex-post evaluation (survey) of the knowledge of participants on topics related to adaptation finance | Local FIs are well incentivized by the guidance received, and have the resources (economic, time, staff) to put in place new or improved finance instruments. |

**F. Alignment with Results Framework of the Adaptation Fund**

Demonstrate how the project / programme aligns with the Results Framework of the Adaptation Fund

| Project Objective(s)[60] | Project Objective Indicator(s) | Fund Outcome | Fund Outcome Indicator | Grant Amount (USD) |
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| **Project objective**: Pilot an innovative adaptation finance facility to increase the inclusiveness of local financial markets in | **Direct beneficiaries supported** by the project<br>- Female direct beneficiaries<br>- Youth direct beneficiaries<br><br>**Indirect beneficiaries supported by the project**<br>-Female indirect beneficiaries<br>- Youth indirect beneficiaries | Impact: Increased resilience at the community, national, and regional levels to climate | Number of beneficiaries (direct and indirect) | 4,545,455 |

[60] The AF utilized OECD/DAC terminology for its results framework. Project proponents may use different terminology but the overall principle should still apply

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| Kenya and Uganda towards gender- and youth-inclusive adaptation SMEs to realise their full potential in providing innovative climate adaptation solutions to highly vulnerable groups, enhancing local climate resilience in the agriculture and water sector while addressing and rectifying gender and/or other socio-economic inequalities exacerbated by climate change. | | variability and change | | |
| **Project Outcome(s)** | **Project Outcome Indicator(s)** | **Fund Output** | **Fund Output Indicator** | **Grant Amount (USD)** |
| **Outcome 1.1 The project establishes a sustainable coordination, network and knowledge** | Improve national policies and regulations that support adaptation SMEs to grow and scale, thus promoting and enforcing resilience measures<br><br>Consultation with and selection of core actors from finance, entrepreneurship, governmental institutions and representatives of vulnerable groups (such as youth-based organisations and rural women associations) to join the AASC | Output 7: Gender- and youth-responsive climate change priorities are | 7.2. No. of targeted development strategies with incorporated climate change priorities enforced | 95,050 |

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| **platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers** | Number of members of the AASC aggregated by group (finance, entrepreneurship, governmental institutions and representatives of vulnerable groups)<br><br>Interaction among different high-level stakeholders across countries | integrated into national development strategy | | |
| **Outcome 1.2 Key stakeholders, ministries, financial institutions (FIs), adaptation SMEs and the end-users (vulnerable groups) create and sustain market for adaptation technologies, services and products** | Gender- and youth inclusive adaptation SMEs are linked with other stakeholders through regularly occurring events to facilitate the exchange of adaptation entrepreneurship knowledge and learnings | Output 3.2: Strengthened capacity of national and subnational stakeholders and entities to capture and disseminate knowledge and learning | 3.2.2 No. of tools and guidelines developed (thematic, sectoral, institutional) and shared with relevant stakeholders | 392,100 |
| **Outcome 2.1 Developing and implementing enterprise support mechanism** | Scorecard developed in line with the project's ESMS and integrating specific gender- and youth-inclusive indicators<br><br>Number of gender- and youth inclusive adaptation SMEs screened for participation in the funding readiness support programme - number of innovators selected for capacity building | Output 8: Viable innovations are rolled out, scaled up, encouraged and/or accelerated. | 8.1. No. of innovative adaptation practices, tools and technologies accelerated, scaled-up and/or replicated | 281,050 |
| **Outcome 2.2 Supporting gender- and youth** | Number of investment plans submitted<br><br>Number of financing agreements secured | Outcome 8: Support the development and diffusion | 8. Innovative adaptation practices are rolled out, scaled up, encouraged | 1,010,350 |

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| **inclusive adaptation SMEs from funding readiness to investment and post-investment management** | Stage of investments | of innovative adaptation practices, tools and technologies | and/or accelerated at regional, national and/or subnational level. | |
| **Outcome 2.3 Designing and implementing blended financing and performance-based payment mechanism for gender- and youth inclusive adaptation SMEs** | Types of innovative financing instruments identified within the financing mechanism<br><br>Activities and measures of the financing facility promoting innovative SME financing strategies<br><br>Co-creation of the financing facility and the strategic framework led by the Adaptation Action Steering Committee | Output 8: Viable innovations are rolled out, scaled up, encouraged and/or accelerated. | 8.1. No. of gender and youth-responsive innovative adaptation practices, tools and technologies accelerated, scaled-up and/or replicated | 1,932,050 |
| **Outcome 2.4 Potential environmental and social risks of selected SMEs screened, assessed and monitored within the framework of the Environmental and Social Management System (ESMS)** | ESMS methodology and framework developed and refined in line with AF´s Environmental and Social Policy principles<br><br>Number of SMEs assessed according to the ESMS framework and results recorded | Output 1.1: Risk and vulnerability assessments conducted and updated | 1.1. No. of projects/programmes that conduct and update risk and vulnerability assessments (by sector and scale) | 100,000.00 |

| | | | | |
|---|---|---|---|---|
| **Outcome 3.1: Local financing institutions support the dissemination of adaptation technologies, products and services** | Number of FIs with increased SME adaptation finance portfolio and/or with new and improved/ innovative instruments or services | 2.2 : Increased readiness and capacity of national and sub-national entities to directly access and program adaptation finance? | 2.2.1 No. of targeted institutions benefitting from the direct access and enhanced direct access modality | 340,500 |

## G. Detailed budget

Include a detailed budget with budget notes, broken down by country as applicable, a budget on the Implementing Entity management fee use, and an explanation and a breakdown of the execution costs.

Detailed budget

| Budget Lines | Description | Year 1 | Year 2 | Year 3 | Year 4 | Total | UNIDO VBS | Notes |
|---|---|---|---|---|---|---|---|---|
| **Project Component 1** | | | | | | | | |
| **Outcome 1.1** | | | | | | | | |
| **Output 1.1.1** | | | | | | | | |
| 2600 | Support by Implementing Partner | 33,500.00 | 0.00 | 0.00 | 0.00 | **33,500.00** | | |
| ***Sub-Total Output 1.1.1*** | | ***33,500.00*** | ***0.00*** | ***0.00*** | ***0.00*** | ***33,500.00*** | | |
| **Output 1.1.2** | | | | | | | | |
| 2600 | Support by Implementing Partner | 61,550.00 | 0.00 | 0.00 | 0.00 | **61,550.00** | | |
| ***Sub-Total Output 1.1.2*** | | ***61,550.00*** | ***0.00*** | ***0.00*** | ***0.00*** | ***61,550.00*** | | |
| **Sub-Total Outcome 1.1** | | **95,050.00** | **0.00** | **0.00** | **0.00** | **95,050.00** | | |
| **Outcome 1.2** | | | | | | | | |
| **Output 1.2.1** | | | | | | | 240101-1-01-01 | |
| 2600 | Support by Implementing Partner | 27,625 | 27,625 | 27,625 | 27,625 | **110,500.00** | | |
| ***Sub-Total Output 2.1.1*** | | ***27,625*** | ***27,625*** | ***27,625*** | ***27,625*** | ***110,500*** | | |
| **Output 1.2.2** | | | | | | | | |
| 2600 | Support by Implementing Partner | 30,125.00 | 30,125.00 | 30,125.00 | 30,125.00 | **120,500.00** | | |
| ***Sub-Total Output 1.2.2*** | | ***30,125.00*** | ***30,125.00*** | ***30,125.00*** | ***30,125.00*** | ***120,500.00*** | | |
| **Output 1.2.3** | | | | | | | | |
| 2600 | Support by Implementing Partner | 79,525.00 | 49,725.00 | 22,025.00 | 9,825.00 | **161,100.00** | | |
| ***Sub-Total Output 1.2.3*** | | ***79,525.00*** | ***49,725.00*** | ***22,025.00*** | ***9,825.00*** | ***161,100.00*** | | |
| **Sub-Total Outcome 1.2** | | **137,275.00** | **107,475.00** | **79,775.00** | **67,575.00** | **392,100.00** | | |
| **Sub-Total Project Component 1** | | **232,325.00** | **107,475.00** | **79,775.00** | **67,575.00** | **487,150.00** | | |
| **Project Component 2** | | | | | | | | |
| **Outcome 2.1** | | | | | | | | |
| **Output 2.1.1** | | | | | | | | |
| 2600 | Support by Implementing Partner | 14,000.00 | 0.00 | 0.00 | 0.00 | **14,000.00** | | |
| ***Sub-Total Output 2.1.1*** | | ***14,000.00*** | ***0.00*** | ***0.00*** | ***0.00*** | ***14,000.00*** | | |
| **Output 2.1.2** | | | | | | | | |
| 2600 | Support by Implementing Partner | 155,025.00 | 112,025.00 | 0.00 | 0.00 | **267,050.00** | | |
| ***Sub-Total Output 2.1.2*** | | ***155,025.00*** | ***112,025.00*** | ***0.00*** | ***0.00*** | ***267,050.00*** | | |
| **Sub-Total Outcome 2.1** | | **169,025.00** | **112,025.00** | **0.00** | **0.00** | **281,050.00** | | |
| **Outcome 2.2** | | | | | | | | |
| **Output 2.2.1** | | | | | | | | |
| 2600 | Support by Implementing Partner | 324,175.00 | 324,175.00 | 0.00 | 0.00 | **648,350.00** | | |
| ***Sub-Total Output 2.2.1*** | | ***324,175.00*** | ***324,175.00*** | ***0.00*** | ***0.00*** | ***648,350.00*** | | |
| **Output 2.2.2** | | | | | | | | |
| 2600 | Support by Implementing Partner | 0.00 | 181,000.00 | 181,000.00 | 0.00 | **362,000.00** | | |
| ***Sub-Total Output 2.2.2*** | | ***0.00*** | ***181,000.00*** | ***181,000.00*** | ***0.00*** | ***362,000.00*** | | |
| **Sub-Total Outcome 2.2** | | **324,175.00** | **505,175.00** | **181,000.00** | **0.00** | **1,010,350.00** | | |
| **Outcome 2.3** | | | | | | | | |
| **Output 2.3.1** | | | | | | | 240101-1-01-02 | |
| 2600 | Support by Implementing Partner | 38,500.00 | 38,500.00 | 0.00 | 0.00 | **77,000.00** | | |
| ***Sub-Total Output 2.3.1*** | | ***38,500.00*** | ***38,500.00*** | ***0.00*** | ***0.00*** | ***77,000.00*** | | |
| **Output 2.3.2** | | | | | | | | |
| 2600 | Support by Implementing Partner | 37,000.00 | 37,000.00 | 37,000.00 | 0.00 | **111,000.00** | | |
| ***Sub-Total Output 2.3.2*** | | ***37,000.00*** | ***37,000.00*** | ***37,000.00*** | ***0.00*** | ***111,000.00*** | | |
| **Output 2.3.3** | | | | | | | | |
| 2600 | Support by Implementing Partner | 0.00 | 572,666.67 | 572,666.67 | 532,416.67 | **1,677,750.00** | | |
| ***Sub-Total Output 2.3.3*** | | ***0.00*** | ***572,666.67*** | ***572,666.67*** | ***532,416.67*** | ***1,677,750.00*** | | |
| **Output 2.3.4** | | | | | | | | |
| 2600 | Support by Implementing Partner | 0.00 | 0.00 | 33,150.00 | 33,150.00 | **66,300.00** | | |
| ***Sub-Total Output 2.3.3*** | | ***0.00*** | ***0.00*** | ***33,150.00*** | ***33,150.00*** | ***66,300.00*** | | |
| **Sub-Total Outcome 2.3** | | **75,500.00** | **648,166.67** | **642,816.67** | **565,566.67** | **1,932,050.00** | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Outcome 2.4** | | | | | | | | |
| **Output 2.4.1** | | | | | | | | |
| 2600 | Support by Implementing Partner | 25,000.00 | 25,000.00 | 25,000.00 | 25,000.00 | **100,000.00** | | |
| ***Sub-Total Output 2.4.1*** | | ***25,000.00*** | ***25,000.00*** | ***25,000.00*** | ***25,000.00*** | ***100,000.00*** | | |
| **Sub-Total Outcome 2.4** | | **25,000.00** | **25,000.00** | **25,000.00** | **25,000.00** | **100,000.00** | | |
| **Sub-Total Project Component 2** | | **593,700.00** | **1,290,366.67** | **848,816.67** | **590,566.67** | **3,323,450.00** | | |
| **Project Component 3** | | | | | | | | |
| **Outcome 3.1** | | | | | | | | |
| **Output 3.1.1** | | | | | | | | |
| 2600 | Support by Implementing Partner | 0.00 | 106,000.00 | 170,250.00 | 64,250.00 | **340,500.00** | 240101-1-01-03 | |
| ***Sub-Total Output 3.1.1*** | | ***0.00*** | ***106,000.00*** | ***170,250.00*** | ***64,250.00*** | ***340,500.00*** | | |
| **Sub-Total Outcome 3.1** | | **0.00** | **106,000.00** | **170,250.00** | **64,250.00** | **340,500.00** | | |
| **Sub-Total Project Component 3** | | **0.00** | **106,000.00** | **170,250.00** | **64,250.00** | **340,500.00** | | |
| **Project Execution Cost** | | | | | | | | |
| **PMC** | | | | | | | | |
| 2600 | Support by Implementing Partner | 71,088.63 | 71,088.63 | 71,088.63 | 71,088.63 | **284,354.50** | 240101-1-51-01 | The detailed breakdown of PMC and Monitoring and Evaluation is provided under the tab "Executing Entity fee budget" |
| **Monitoring and Evaluation** | | | | | | | | |
| 2600 | Support by Implementing Partner | 5,000.00 | 5,000.00 | 5,000.00 | 95,000.00 | **110,000.00** | 240101-1-53-01 | |
| **Sub-Total Project Exection Cost** | | **76,088.63** | **76,088.63** | **76,088.63** | **166,088.63** | **394,354.50** | | |
| **TOTAL PROJECT COST** | | **902,113.63** | **1,579,930.29** | **1,174,930.29** | **888,480.29** | **4,545,454.50** | | |

Executing Entity Fee:

| Type of EE activity | Responsibility | Time Frame | Indicative Cost in USD ($) |
|---|---|---|---|
| Monitoring and evaluation system set-up and implementation (Safeguards / Monitoring for Compliance with the AF ESP/ Annual impact assessment/ Annual Project Performance/Progress Report/Quarterly Reports from SMEs) | adelphi | Within 9 months of project start | 20,000 |
| Project launch and inception workshop and Report | adelphi in coordination with UNIDO | Within 3 months of project start | 20,000 |
| Mid-term Evaluation | adelphi and External Consultants | Two years after start of project | 30,000 |
| Terminal Evaluation | adelphi and External Consultants | End of project | 60,000 |
| Project coordination meetings | adelphi | Annually | 9,806 |
| Financial Audit | adelphi | Annually | 30,000 |
| Travel related to project management for admin | adelphi | Annually | 20,000 |
| Admin Staff costs for project management (legal, controlling, procurment, financial reporting) | adelphi | Annually | 204,549 |
| Total Execution Cost according to Budget | | | 394,355 |

Implementing Entity Fee

| Cost item | Type of activities | Indicative Cost in USD ($) |
|---|---|---|
| Staff | IE Project Manager, includes cost for project development, monitoring and supervision | 334,545 |
| Monitoring and Evaluation | Supervision of preparation of annual project reports and project evaluation reports | 10,000 |
| Travel | Project supervision missions and steering committee meetings | 60,000 |
| Audit | Ensure compliance with audit requirements | 50,000 |
| Total Implementation Cost according to Budget | | **454,545** |

Activity based budget

| Project Components | Activities | Totals Outputs | Totals per Component |
|---|---|---|---|
| 1. Regional coordination platform to connect adaptation, climate-smart lending, entrepreneurship, knowledge management and promote cross-learning | 1.1.1.1 Formation of a multi-stakeholder Adaptation Action Steering Committee | 33 500 | 487 150 |
| | 1.1.2.1 Endorsement of a strategic framework | 20 100 | |
| | 1.1.2.2 Digital platform for adaptation entrepreneurship practitioners and | 41 450 | |
| | 1.2.1.1 Adaptation Action Events | 110 500 | |
| | 1.2.2.1 Annual Adaptation Finance Symposia | 120 500 | |
| | 1.2.3.1 Adaptation Market Analysis Report | 24 800 | |
| | 1.2.3.2 Evidence-based Adaptation SME Taxonomy | 15 200 | |
| | 1.2.3.3 Adaptation SME Finance Scoping Study | 29 700 | |
| | 1.2.3.4 Multimedia case study films to showcase adaptation business models | 24 400 | |
| | 1.2.3.5 Policy Recommendations and Action Plan Flagship Report | 27 700 | |
| | 1.2.3.6 Annual Impact Assessment | 39 300 | |
| 2. Innovative performance-based blended financing mechanism, investment brokerage services and direct enterprise support | 2.1.1.1 Scorecard co-creation | 14 000 | 281 050 |
| | 2.1.2.1 Outreach campaign | 45 000 | |
| | 2.1.2.2 Set-up of online application system and pre-application support | 43 000 | |
| | 2.1.2.3Selection of funding-ready gender- and youth inclusive adaptation SMEs | 179 050 | |
| | 2.2.1.1 Catalyser enterprise support programme (2 cycles) | 529 350 | 1 010 350 |
| | 2.2.1.2 Developing Adaptation Performance Targets (APT) | 119 000 | |
| | 2.2.2.1 Business model and financial management advancement | 362 000 | |
| | 2.3.1.1 Co-creative financial facility design | 77 000 | 1 932 050 |
| | 2.3.2.1 Building a portfolio of contractual partnerships with FIs and impact | 111 000 | |
| | 2.3.3.1 Performance-based blended financing implementation | 80 500 | |
| | 2.3.3.2: Portfolio management | 1 597 250 | |
| | 2.3.4.1 Exit and scale-up strategy development | 66 300 | |
| | 2.4.1.1 Application of an Environmental and Social Management System (ESMS) | 100 000 | 100 000 |
| 3. Local financing institutions support adaptation SMEs | 3.1.1.1 Adaptation Finance Trainings | 119 500 | 340 500 |
| | 3.1.1.2 Climate Strategy Workshops | 92 500 | |
| | 3.1.1.3: Adaptation Finance Product Innovation – Practitioner Labs | 128 500 | |
| | **Totals ( not including 4-6)** | **4 151 100** | **4 151 100** |
| | 4. Project/Programme Execution Cost | | 394 355 |
| | 5. Total Project/Programme Cost | | 4 545 455 |
| | 6. Project/Programme Cycle Management Fee | | 454 545 |
| | **Total Amount of Financing Requested** | | 5 000 000 |

A break-down of the budget shares dedicated for financial support to SMEs, technical assistance and ecosystem activities is given below:

| Budget for financial support to SMEs | Budget for technical assistance & ecosystem activities |
|---|---|
| 1,5 Mio USD* | 3.045,455 USD* |

| 30% of overall budget | 61% of overall budget |
|---|---|

A break-down of the budget shares for the financial instruments is given below:

| Blended and Grant Finance Instruments | No of SMEs | Grant amount per SME | Total Grant amounts |
|---|---|---|---|
| ***Blended Option 1:***<br>Partial Repayment Scheme<br>***Alternative Grant Option:***<br>*Direct Grant to SME* | 30 | 33.300 USD | 999.000 USD |
| *Option a:* Cash Flow Gap Cover | 6 | 6.600 USD | 39.600 USD |
| *Option b:* Performance-based payments | 30 | *15.000 USD* | 450.000 USD |
| *Banking Fees* | 66 | *50 USD* | 3300 USD |
| *Total Amount* | | | 1.491.900 in the budget rounded at 1,5 Mio |

The activity-based budget below gives an overview of training and capacity-building activities for FIs and SMEs as well as on overview of capacity-building and ecosystem building activities targeting ecosystem stakeholders.

| Activities | Totals Outputs | Totals per Component | Stakeholder |
|---|---|---|---|
| 1.1.1.1 Formation of a multi-stakeholder Adaptation Action Steering Committee | 33 500 | 487 150 | Capacity Building and Ecosystem Building Activities targeting Ecosystem Stakeholders |
| 1.1.2.1 Endorsement of a strategic framework | 20 100 | | |
| 1.1.2.2 Digital platform for adaptation entrepreneurship practitioners and | 41 450 | | |
| 1.2.1.1 Adaptation Action Events | 110 500 | | |
| 1.2.2.1 Annual Adaptation Finance Symposia | 120 500 | | |
| 1.2.3.1 Adaptation Market Analysis Report | 24 800 | | |
| 1.2.3.2 Evidence-based Adaptation SME Taxonomy | 15 200 | | |
| 1.2.3.3 Adaptation SME Finance Scoping Study | 29 700 | | |
| 1.2.3.4 Multimedia case study films to showcase adaptation business models | 24 400 | | |
| 1.2.3.5 Policy Recommendations and Action Plan Flagship Report | 27 700 | | |
| 1.2.3.6 Annual Impact Assessment | 39 300 | | |
| 2.2.1.1 Catalyser enterprise support programme (2 cycles) | 529 350 | 1 010 350 | Capacity Building targeting SMEs |
| 2.2.1.2 Developing Adaptation Performance Targets (APT) | 119 000 | | |
| 2.2.2.1 Business model and financial management advancement | 362 000 | | |
| 3.1.1.1 Adaptation Finance Trainings | 119 500 | 340 500 | Capacity Building targeting Fis |
| 3.1.1.2 Climate Strategy Workshops | 92 500 | | |
| 3.1.1.3: Adaptation Finance Product Innovation – Practitioner Labs | 128 500 | | |

### H. Disbursement schedule

Include a disbursement schedule with time-bound milestones.

| | Upon Signature of Agreement (Year 1) | Year 2 | Year 3 | Year 4 | Total |
|---|---|---|---|---|---|
| Schedule Date | Jul-25 | Jul-26 | Jul-27 | Jul-28 | |
| Project Funds (USD) | 924,614 | 1,602,431 | 1,197,431 | 820,979 | 4,545,455 |
| Implementing Entity (USD) | 113,637 | 113,636 | 113,636 | 113,636 | 454,545 |
| Total (USD) | 1,038,251 | 1,716,067 | 1,311,067 | 934,615 | 5,000,000 |

# PART IV: ENDORSEMENT BY GOVERNMENTS AND CERTIFICATION BY THE IMPLEMENTING ENTITY

**A. Record of endorsement on behalf of the government**[61] *Provide the name and position of the government official and indicate date of endorsement for each country participating in the proposed project / programme. Add more lines as necessary. The endorsement letters should be attached as an annex to the project/programme proposal. Please attach the endorsement letters with this template; add as many participating governments if a regional project/programme:*

| | |
|---|---|
| *Eng. Festus K. Ng'eno*<br><br>*Principal Secretary*<br><br>*State Department of Environment & Climate Change*<br><br>*Ministry of Environment, Climate Change & Forestry* | Date*: 29 August 2024* |
| *Mr. Ramathan Ggoobi*<br>*Permanent Secretary /Secretary to the Treasury* | Date*: 12 November 2024* |

[6.] Each Party shall designate and communicate to the secretariat the authority that will endorse on behalf of the national government the projects and programmes proposed by the implementing entities.

| | |
|---|---|
| *Minister of Finance, Planning and Economic Development* | |

**B. Implementing Entity certification** *Provide the name and signature of the Implementing Entity Coordinator and the date of signature. Provide also the project/programme contact person's name, telephone number and email address*

<table>
<tr><td colspan="2">I certify that this proposal has been prepared in accordance with guidelines provided by the Adaptation Fund Board, and prevailing National Development and Adaptation Plans (Kenya's NAP, NCCRS and INDC, Uganda Vision 2040, NAPA and the Climate Smart Agriculture Program (2015-2025) and subject to the approval by the Adaptation Fund Board, <u>commit to implementing the project/programme in compliance with the Environmental and Social Policy of the Adaptation Fund</u> and on the understanding that the Implementing Entity will be fully (legally and financially) responsible for the implementation of this project/programme.</td></tr>
<tr><td colspan="2">Ganna Onysko<br>Ms. Ganna Onysko<br>Senior GEF, GCF, AF Coordinator<br>Division of Funding Partner Relations<br>Directorate of Global Partnerships and External Relations<br>United Nations Industrial Development Organization - UNIDO<br>Implementing Entity Coordinator</td></tr>
<tr><td>Date: 6 February 2025</td><td>Tel. and email:<br><br>+43 1 26026 3708<br><br>TO: g.onysko@unido.org<br>CC: gef@unido.org / glo@unido.org / f.haidara@unido.org</td></tr>
<tr><td colspan="2">Project Contact Person: Mr. Alois Mhlanga</td></tr>
<tr><td colspan="2">Tel. And Email: +43 1 26026 5169; a.mhlanga@unido.org</td></tr>
</table>

REPUBLIC OF KENYA

# MINISTRY OF ENVIRONMENT, CLIMATE CHANGE & FORESTRY
## State Department for Environment & Climate Change
## Office of the Principal Secretary


**Telegrams: "NATURE", Nairobi**
**Telephone: 254-20- 2730808/9**
**Fax: 254-20- 2734722**
**Email : psoffice@environment.go.ke**

**N.H.I.F BUILDING**
**RAGATI ROAD**
**P. O. BOX 30126-00100**
**NAIROBI**


When replying, please quote:

**Ref. No. MEF/SDECC/27 VOL.XVII**

**29th August, 2024**

**The Adaptation Fund Board**
c/o Adaptation Fund Board secretariat
Email: Secretriat@Adaptation-Fund.org

**RE: ENDORSEMENT FOR "UNLOCKING INVESTMENTS IN GENDER AND YOUTH-INCLUSIVE EARLY-GROWTH STAGE ADAPTATION SMALL AND MEDIUM-SIZED ENTERPRISES IN KENYA AND UGANDA"**

In my capacity as a Designated Authority for the Adaptation Fund in Kenya, I confirm that the above regional Project/Programme proposal is in accordance with the government's national priorities in implementing adaptation activities to reduce adverse impacts of, and risks, posed by climate change in the region.

Accordingly, I am pleased to endorse the above Project/Programme proposal with support from the Adaptation Fund. If approved, the Project/Programme will be implemented by the United Nations Industrial Development Organization. The main executing entity will be Adelphi and the National Executing Partners will be Kenya Climate Ventures (Kenya) and Finding XY (Uganda), ensuring national ownership of the Project deliverables.

**Dr. Eng. Festus K. Ng'eno, MIEK.**
**PRINCIPAL SECRETARY**

Telephone: 256 41 4341305/230487
Fax : 256 41 4233524
Email : finance@finance.go.ug
Website : www.finance.go.ug
Plot No. 2-8 Apollo Kaggwa Road
In any correspondence on
This subject pleasquote No. ALD 79/251/02

Ministry of Finance, Planning & Economic Development,
P.O Box 8147
**Kampala, Uganda**

12th November 2024

The Adaptation Fund Board,
C/O Adaptation Fund Board Secretariat,
Email: Secretariat@Adapttaion-Fund.org,
Fax: 202 522 3240/5.

**ENDORSEMENT LETTER FOR THE PROJECT TITLED "UNLOCKING INVESTMENTS IN GENDER AND YOUTH INCLUSIVE EARLY- GROWTH STAGE ADAPTATION SMALL AND MEDIUM - SIZED ENTERPRISES IN KENYA AND UGANDA**

On behalf of the Government of Uganda, I confirm that the above regional project/programme is in line with Uganda's priorities in implementing adaptation actions to reduce the effects of climate change on our people and economy.

Accordingly, I am pleased to endorse the above regional project/programme proposal to be supported by the Adaptation Fund.

If approved, the project /programme will be implemented by the United Nations Industrial Development Organization (UNIDO) and executed by Kenya Climate Ventures and Finding XY.

Ramathan Ggoobi
**PERMANENT SECRETARY/ SECRETARY TO THE TREASURY**

Copy to:
- Hon. Minister of Finance, Planning and Economic Development
- The Country Representative, United Nations Industrial Development Organization

- The Permanent Secretary, Ministry of Water and Environment

# Environment and Social Management Framework (ESMF)

## Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda

- SAP ID: 240101
- Prepared by: adelphi team
- Implementation start date: January 2025, expected duration: 4 years

## Table of Contents



### 1. Introduction

**<u>Purpose of the ESMF and Key Objectives</u>**

UNIDO Environmental and Social Safeguards Policy and Procedures (ESSPP) require that all UNIDO projects and any subsequent subprojects that result from UNIDO projects, e.g. from those that set up financial mechanisms, accelerator/incubator schemes, business models and the like, undergo environmental and social risk (E&S) assessments. This is to ensure that proposals, investments, and project submissions resulting from the said mechanisms/schemes/models do not pose any negative impacts or risks on their social and natural environments.

The Environmental and Social Management Framework (ESMF) is a framework that describes procedures and tools to manage the potential impacts of forthcoming but yet undefined projects ("subprojects"). The ESMF is a plan for steps to:

(i) determine the appropriate environmental and social risk category of a proposed subproject

(ii) decide whether a subproject should be supported/selected (subprojects that would categorize as NO PROJECT are non-compliant with UNIDO's ESSPP)

(iii) assess whether any additional environmental and social assessments (e.g., ESIAs, ESMPs, or FPIC) will be needed for subprojects.

A risk screening was conducted for the planned activities under Components I, II and III and as a result the project is categorised as potential adverse (low) risk (Category B). Specific activities in component II, e.g. the selection of SMEs which will receive support to effectively deliver localized adaptation solutions on the ground, constitute unidentified sub-projects. As per AF ESP Policy, unidentified Sub-Projects are classified as activities or components that are not identified at the proposal stage to the level where adequate and comprehensive environmental and social risk assessment is possible. Hence this requires the project to screen, assess and monitor the unidentified subprojects accordingly in the course of the implementation period.

A screening tool presented in Appendix 1 of this document provides an overview of the assessment against AF's Environmental and Social Policy (ESP) i.e. screening against the 15 Environmental and Social Principles of the AF. The risk screening and assessment carried out complies with the 15 social and environmental principles of the AF as described in Part II.N. The screening tool consists of a list of 24 general Level 1 questions (indicated with two digits, e.g., 3.1) and around 60 detailed Level 2 questions (indicated with three digits, e.g., 3.1.1). They are categorized into 15 thematic areas that correspond with the 15 Environmental and Social Principles of the Adaptation Fund. Level 1 questions gauge the level of risk as either "low", "moderate" or "high" based on the answers to the level 2 questions. Based on the level of risk and the issues at hand, a judgement call is made on whether further assessment is required. Principles that require management and mitigation actions are subsequently discussed in more detail under the Environmental and social risk management and monitoring plan (ESMP) in Appendix 2.

Besides the ESMP to be implemented, the project shall also observe the various legal, policy and regulatory requirements during the project implementation. In Kenya, the Environment Management and Coordination Act (1999 revised in 2015) is the framework law on Environmental management and Conservation. Other relevant/applicable laws include the Kenya Sustainable Waste Management Act (2022). In Uganda, the National Environmental Act (1995) is the framework law on environment.

This ESMF seeks to address the targets countries' specific environmental and social risks. Therefore, the Environmental and Social Management Screening as well as the monitoring plan were developed with a foundation rooted in the specific risks and vulnerabilities identified during the project's design phase, as outlined in the full proposal document. The analysis explicitly addressed the socio-environmental challenges in both Kenya and Uganda, including:

Kenya: High risks of soil erosion, inadequate waste management, and inequalities in access to financial resources, particularly for women and youth.

Uganda: Vulnerabilities faced by indigenous peoples (land tenure insecurity, exclusion from opportunities) and challenges in sustainable resource management.

The management of these risks is emphasized in the monitoring plan, specifically by aligning the screening of subprojects to the target countries' challenges.

The Table below details the analysis on the alignment between UNIDO's Environmental and Social Safeguards Policy and Procedures (ESSPP)[1] and AF's ESP that was carried out.

[1] UNIDO Environmental and Social Safeguards Policy and Procedures (ESSPP) is a framework developed to help UNIDO decide whether a project or programme should be supported and if the project has any environmental and social risks and how to manage/address the identified risks.

*Table 1 Alignment between Adaptation Fund's Environmental and Social Policy and UNIDO's Environmental and Social Safeguards Policy and Procedures (ESSPP)*

| Adaptation Fund's Environmental and Social Principles | Provisions under UNIDO's Environmental and Social Safeguards Policy and Procedures (ESSPP) |
|---|---|
| **ESP 1: Compliance with the Law**<br><br>Projects/programmes supported by the AF shall follow all applicable domestic and international law. | One of the guiding principles under UNIDO's ESSPP is Compliance with national and international law. |
| **ESP 2: Access and Equity**<br><br>Projects/programmes supported by the AF are required to provide fair and equitable access to benefits in a manner that is inclusive and not to impede access to basic health services, clean water and sanitation, energy, education, housing, safe and decent working conditions, and land rights.<br><br>Projects/programmes are also not to exacerbate existing inequities, particularly with respect to marginalized or vulnerable groups. | Even though UNIDO's ESSPP does not explicitly provide for the requirement of programmes/projects to provide fair and equitable access to benefits in a manner that is inclusive and does not impede access to basic health services among others, it provides for transparency, inclusivity and gender equality as some of the guiding principles. |
| **ESP 3: Marginalised and Vulnerable Groups**<br><br>Projects/programmes supported by the Fund shall avoid imposing any disproportionate adverse impacts on marginalized and vulnerable groups including children, women and girls, the elderly, indigenous people, tribal groups, displaced people, refugees, people living with disabilities, and people living with HIV/AIDS. In screening any proposed project/programme, the implementing entities shall assess and consider particular impacts on marginalized and vulnerable groups. | UNIDO's ESSPP calls for particular attention to vulnerable groups in assessing the potential impacts of a project. It also calls for relevant ESS studies to be carried out prior to project appraisal where its determined that the proposed project may pose significant risks to, and potential impacts on, the health, safety or security of affected communities (with a higher sensitivity to marginalised groups) during the design, construction, operation, maintenance and/or decommissioning of the project. |
| **ESP 4: Human Rights**<br><br>Projects/programmes supported by the Adaptation Fund shall respect and where applicable promote international human rights. | UNIDO under the ESSPP commits within the context of project development and implementation to support governments to come into compliance with human rights obligations and to empower individuals and groups, particularly the most marginalized, to realize their rights and interests, ensuring their full participation in projects |
| **ESP 5: Gender Equality and Women's Empowerment**<br><br>Projects/programmes supported by the Fund shall be designed and implemented in such a way that both women and men (a) are able to participate fully and equitably; (b) receive comparable social and economic benefits; and (c) do not suffer disproportionate adverse effects during the development process. | One of UNIDO's ESSPP guiding principles is "Gender equality and gender-related impacts". In accordance with the UNIDO Policy on Gender Equality and the Empowerment of Women, UNIDO under the ESSPP commits to among others - identification and integration of the different needs, constraints, contributions and priorities of women and men into its project design. |
| **ESP 6: Core Labour Rights**<br><br>Projects/programmes supported by the Fund shall meet the core labour standards as identified by the International Labour Organization. | "Labour and Working Conditions" is one of UNIDO ESSPP Operational Safeguards (OS). The objective of this OS is to ensure that UNIDO supported projects comply with national labour laws, and with the objectives of the International Labour Standards of the International Labour Organization (ILO), which include: (i) to promote fair treatment, non-discrimination, and equal opportunity for workers; (ii) to promote compliance with national employment and labour laws, which comply with the mentioned standards; (iii) to protect workers, including vulnerable categories of workers such as children, women, and migrant workers; (iv) to promote safe and healthy working conditions and the health of workers; and to avoid the use of forced labour, trafficked labour or child labour. |

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| **ESP 7: Indigenous People**<br><br>The Fund shall not support projects/programmes that are inconsistent with the rights and responsibilities set forth in the UN Declaration on the Rights of Indigenous Peoples and other applicable international instruments relating to indigenous peoples. | “Indigenous people” is the fourth Operational Safeguard under the UNIDO ESSPP. Under this OS, UNIDO ensures that, consistent with the rights and responsibilities set forth in the United Nations Declaration on the Rights of Indigenous Peoples and other international instruments relating to indigenous peoples, projects are designed and implemented in a way that fosters full respect for indigenous peoples, including those living in voluntary isolation, and for their dignity, human rights, and cultural uniqueness so that they (a) receive culturally appropriate social and economic benefits; and (b) do not suffer adverse effects during the development process. |
| **ESP 8: Involuntary Resettlement**<br><br>Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids or minimizes the need for involuntary resettlement. When limited involuntary resettlement is unavoidable, due process should be observed so that displaced persons shall be informed of their rights, consulted on their options, and offered technically, economically, and socially feasible resettlement alternatives or fair and adequate compensation. | “Involuntary Resettlement and Land Acquisition” is the third Operational Safeguard under the UNIDO ESSPP. The objective of this OS is to avoid physical and economic displacement as a result of project-related land use. This safeguard ensures that projects potentially involving land acquisition resulting in involuntary physical and/or economic displacement are either re-designed to include viable alternatives or are not approved for further development by UNIDO. |
| **ESP 9: Protection of Natural Habitats**<br><br>The Fund shall not support projects/programmes that would involve unjustified conversion or degradation of critical natural habitats, including those that are (a) legally protected; (b) officially proposed for protection; (c) recognized by authoritative sources for their high conservation value, including as critical habitat; or (d) recognized as protected by traditional or indigenous local communities. | “Protection of Natural Habitats and Biodiversity” is the second Operational Safeguard under the UNIDO ESSPP. This OS recognizes that protecting and conserving biodiversity, maintaining ecosystem services, and sustainably managing living natural resources are fundamental to sustainable development. Depending on the nature and scope of proposed activities, UNIDO may engage in projects targeting or located in critical habitats.<br><br>Special attention is given to the major threats to biodiversity and ecosystem services, such as pollution and contamination, land conversion, habitat fragmentation, natural habitat degradation or loss, deforestation, over-exploitation of natural areas and resources, invasive alien species, migration barriers, the capturing of wild animals, the harvesting of endemic species and indigenous ornamental flora and fauna, and wildlife poaching, through promotion of the sustainable management of living natural resources and ecosystem services. |
| **ESP 10: Conservation of Biodiversity**<br><br>Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids any significant or unjustified reduction or loss of biological diversity or the introduction of known invasive species. | |
| **ESP 11: Climate Change**<br><br>Projects/programmes supported by the Fund shall not result in any significant or unjustified increase in greenhouse gas emissions or other drivers of climate change. | “Climate change risk and resilience” is one of the guiding principles of UNIDO’s ESSPP. As stated in the ESSPP, UNIDO recognizes the importance of addressing both the causes and the consequences of climate change in its countries of operations. Further, UNIDO engages, whenever appropriate, in innovative investments and technical assistance to support no/low-carbon investments and climate change mitigation and adaptation opportunities. UNIDO also works with the project development team to ensure that proposed interventions undergo an assessment of climate risks, enhance climate resilience, and avoid unwarranted increases in greenhouse gas emissions. |
| **ESP 12: Pollution Prevention and Resource Efficiency**<br><br>Projects/programmes supported by the Fund shall be designed and implemented in a way that meets applicable international standards for maximizing energy efficiency and minimizing material resource use, the production of wastes, and the release of pollutants. | “Resource Efficiency and Pollution Prevention” is the ninth Operational Safeguard under the UNIDO ESSPP. This OS ensures the adoption of a project-level approach to resource efficiency, cleaner production processes and pollution management, in line with internationally disseminated technologies and practices. |
| **ESP 13: Public Health** | UNIDO ESSPP OS 10 (Community Health, Safety and Security) recognizes that project activities, equipment, and |

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| Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids potentially significant negative impacts on public health. | infrastructure can increase the exposure of project-affected communities and beneficiaries to health, safety and security risks and impacts, and ensures that these health, safety, and security risks and impacts are avoided or minimized and that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles.<br><br>Further, UNIDO's ESSPP OS on Resource efficiency and pollution prevention further aims at avoidance or minimization of the adverse impacts of pollution on human health and the environment by avoiding or minimizing project-level wastes, emissions, and pollution. If it is determined that a proposed project may pose a significant risk to human health or the environment, the project development team is responsible for overseeing the relevant ESS studies prior to project appraisal. |
| **ESP 14: Physical and Cultural Heritage**<br><br>Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids the alteration, damage, or removal of any physical cultural resources, cultural sites, and sites with unique natural values recognized as such at the community, national or international level. Projects/programmes should also not permanently interfere with existing access and use of such physical and cultural resources. | UNIDO ESSPP OS 6 (Cultural Heritage) recognizes the vital importance of cultural heritage for current and future generations. This OS is designed to ensure that effective and active measures are taken to avoid support for projects involving the alteration of, damage to or removal of any type of tangible or intangible cultural heritage. |
| **ESP 15: Lands and Soil Conservation**<br><br>Projects/programmes supported by the Fund shall be designed and implemented in a way that promotes soil conservation and avoids degradation or conversion of productive lands or land that provides valuable ecosystem services. | UNIDO ESSPP OS 2 (Protection of Natural Habitats and Biodiversity) provides for avoidance of any significant conversion and degradation of natural habitats. Moreover, UNIDO uses a precautionary and ecosystem-centred approach to natural resource conservation and management to ensure opportunities for environmentally sustainable development. |

## 2. Project background

**Project Description and Site Location**

The project seeks to achieve transformational change in local financial markets in Kenya and Uganda to become more inclusive towards early-growth women- and youth inclusive adaptation SMEs for them to realises their full potential in providing innovative climate adaptation solutions to highly vulnerable groups, enhancing local climate resilience in the agriculture and water sector while addressing and rectifying gender and/or other socio-economic inequalities exacerbated by climate change. The project seeks to have a transformational impact on the agriculture and water sector, making them more robust and mitigating climate change impacts by introducing sector-specific, innovative adaptation practices that are financially viable and have a standing track record with FIs in the two countries.

The core components that enable the project's success are:

I. Establishing a Regional Coordination Platform (RCP) that serves as a pioneering regional knowledge platform for Kenya and Uganda on adaptation entrepreneurship to connect actors in the fields of adaptation, climate-smart finance and entrepreneurship, promote knowledge management and cross-learning and encourage action to sustain and create markets for early-growth gender- and youth inclusive adaptation SMEs.
II. Pilot an innovative performance-based Implement a blended finance and enterprise support mechanism blended financing scheme and pilot innovative performance-based payments to facilitate and leverage previously inaccessible commercial finance of partnering FIs to selected gender- and youth inclusive adaptation SMEs, supporting them to scale their adaptation impacts on

vulnerable groups in Kenya and Uganda. A combination of unique financial instruments will be co-created and rolled out together with financers.

III. Promote Execute a Financing Institution Capacity Development Programme conducive financial ecosystem by increasing local FI's awareness and knowledge on gender- and youth inclusive adaptation SMEs' business solutions and financing needs, and supporting FIs to develop tailored financial products and institutional climate strategies to anchor climate adaptation in their investment portfolios and internal structures

The subprojects that will be supported throughout the implementation of the project constitute SMEs in Kenya and Uganda that provide climate adaptation solutions for the agriculture and water sectors in regions that are highly vulnerable to climate change. The specific type of SMEs that the project seeks to support are gender- and youth-inclusive. These types of SMEs combine characteristics typically associated with smaller enterprises such as local embeddedness and the inclusion of vulnerable communities in their value chains with an adaptation-geared business rationale. They contribute to rectify gender and/or other socio-economic inequalities by providing affordable products and services that close gender gaps or meet the needs of women, girls or youth as well as of indigenous people and marginalised groups, where applicable. Furthermore, they support gender diversity and the participation of youth and marginalised groups (e.g. as part of the workforce) and strengthen inclusion and diversity across their value chains (e.g. indigenous people). 100% of the SMEs supported by this project will be women- and/or youth-inclusive, meaning they aim for a 50% gender and youth balance in their work force and/or their primary customer base.

**Potential Social and Environmental Risks and Impacts**

Though the proposed project is design to with an extended focus to support gender- and youth inclusive adaptation SMEs led by women and/or youth in the community, who increase climate resilience of vulnerable communities, are registered and comply with international labour standards, have socially inclusive business models, there exist minor social and environmental risks. These include low risks that the projects may (through the SMEs supported): exacerbate gender inequities, exclude marginalised groups in the implementation of the project activities – whether as direct beneficiaries or indirect beneficiaries of the project activities, operate informal businesses and utilise informal contracts, exclude indigenous peoples to partake in the promoted business activities, create adverse impacts on natural habitats (for example by SMEs adopting inefficient practices), and overlook maladaptation practices. A detailed description of the potential social and environmental risks is presented in Appendix 1. Screening and Assessment of Environmental and Social Risks against AF's Environmental and Social Policy.

## 3. Policy and Legal Administrative Framework

The project and subsequent subprojects will be implemented in compliance with national laws and relevant international standards across the project's target countries. The key national environmental and social laws and regulations relating to relevant social and environmental issues applicable to the project and ESMF have been highlighted in detail in the project document: Part II, Section G. Relevant national technical standards.

The project's compliance with local and national environmental and social laws will form part of the selection criteria for subprojects. In addition, the ESMF is in line with AI/2021/03 - UNIDO Environmental and Social Safeguards Policies and Procedures (ESSPP). In case of conflicts between regulations outlined in ESSPP and national legislation, preference will be given to national environmental and social regulations so long as they meet the level and requirements of UNIDO ESSPP and other best practices of other international organisations. In addition, international legal frameworks and ILO standards e.g., ILO Standard on Occupational Health and Safety, or Convention of CI 181 and relevant international industry best practices from other organisations regarding ESS in project-specific sectors can be consulted.

## 4. ESMF Tools and Procedures for Screening and Assessing Environmental and Social Impacts

**Procedure for SMEs sourcing, screening & selection**

**Focus adaptation solutions eligible for support**

This project defines adaptation SMEs in accordance with the Adaptation Solutions Taxonomy framework developed by the Adaptation SME Accelerator Project (ASAP)[2] funded by the Global Environmental Facility (GEF): An Adaptation SME is a company providing technologies, products and/or services (TPS) that: Address systemic barriers to adaptation, by strengthening user's ability to understand and respond to physical climate risks and related impacts and/or capture related opportunities AND/OR contribute to preventing or reducing material physical climate risk and/or the adverse associated impacts on assets, economic activities, people or nature AND do no harm and generate long term value. The selection of adaptation SMEs for this project will be guided by the Climate Risk and Adaptation SME Solution Matrix (see Part I, Chapter 1.5) listing eligible adaptation solutions for the identified vulnerable regions and groups.

Table 2 below indicates the solutions provided by SMEs that will be the focus of the project and thus eligible for support. It groups the solutions on the two focus sectors: Agricultural production & fisheries and Water management.

*Table 2 Focus Adaptation Solutions*

| Agricultural production and fisheries | Water management |
|---|---|
| • Weather & Climate Information Systems (WCIS, e.g. weather forecasting systems)<br>• Protected cultivation systems (e.g. greenhouses)<br>• Integrated Soil Fertility Management (IFSM, e.g. organic fertiliser)<br>• Fish stock reloading services<br>• Agricultural extension services (including intercropping techniques, agroforestry, climate smart agricultural practices, sustainable agricultural practices)<br>• Bio pesticides<br>• Media educational programs for climate smart agriculture<br>• Index-based micro insurance for smallholders<br>• Pest/disease and drought-resistant crops<br>• Farming Equipment Leasing | • Water storage and harvesting systems<br>• Improved drainage systems and flood barriers have been installed.<br>• Improved housing infrastructure (including ventilation/cooling systems, concrete walls, etc.).<br>• Irrigating gardens, urban farms-decentralised water storage facilities<br>• Flood protection technology<br>• Water infiltration and attenuation systems<br>• Sewer system clean-ups<br>• Flood warning systems<br>• Smart sanitation and water purification systems<br>• Disease Surveillance Systems<br>• Water resource regulation (e.g. riparian management)<br>• Reforestation programs<br>• Smart sanitation and water purification systems |

[2] https://lightsmithgp.com/wp-content/uploads/2020/09/asap-adaptation-solutions-taxonomy_july-28-2020_final.pdf

**ESMF for the sourcing, screening & selection phase**
To avoid negative environmental and social impacts arising from SMEs, and to ensure the assessment against AF's principles, ESS considerations are mainstreamed in the SME selection process for the Catalyser and Accelerator programmes, especially by applying exclusionary criteria, screening against the 15 principles, and including safeguarding steps in the due diligence processes. Furthermore, precautions and safeguards are implemented as well during the support phase in the Catalyser and Accelerator components.

Below is a summary of the various steps that the project team will take to select SMEs eligible for the Catalyser and Accelerator support programmes. There will be one process for the Catalyser, after which another screening process will be conducted to select the enterprises for the Accelerator support programme (which have successfully completed the Catalyser programme). These processes are further detailed for each component (Accelerator and Catalyser) below the figures.

**Sourcing and Selection Phase for Catalyser Programme**

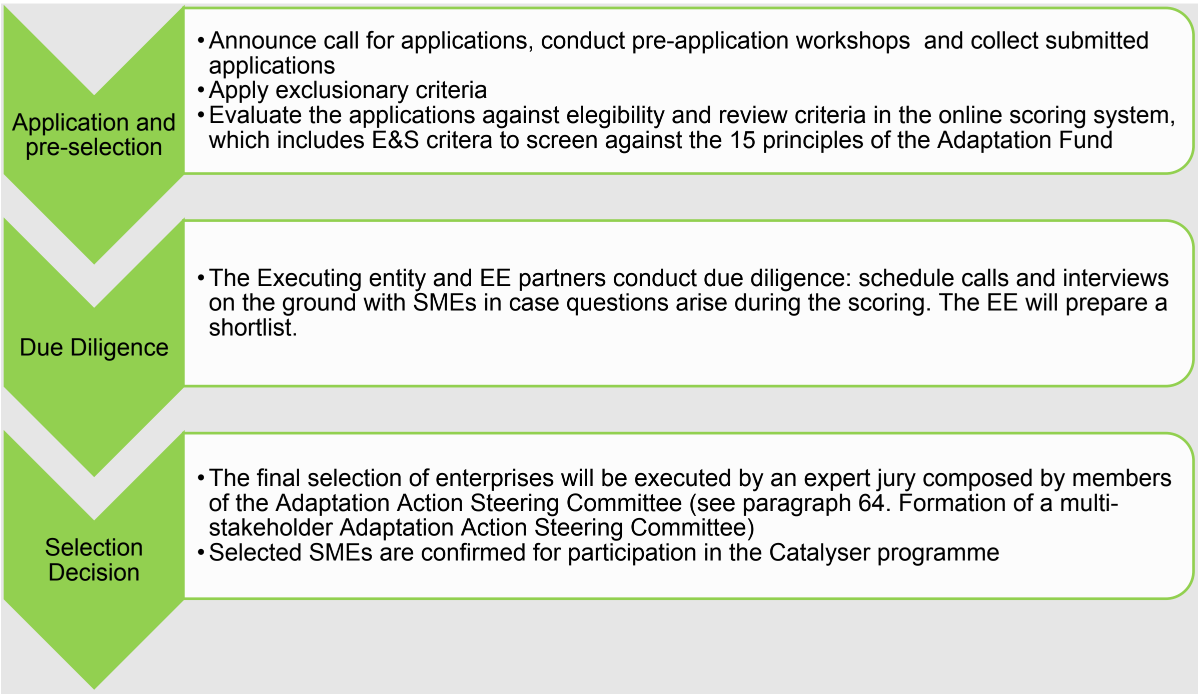


*Figure 1. Selection process for Catalyser programme*

***Safeguarding at application and pre-selection step***
The call for applications is conducted through a comprehensive outreach campaign through a launch event and information campaign among relevant multipliers in the Ugandan and Kenyan ecosystem, making use of the contacts and network of the Adaptation Action Steering Committee (Output 1.1.1) as well as the EE and EE partners (see Activity 2.1.2.1. Outreach campaign). National authorities, institutions and national implementing entities will be engaged to recommend potential adaptation SME candidates who could benefit from the project's support. One-day pre-application workshops will be offered to support applicants to clarify their business concepts and submit comprehensive and consistent applications. Furthermore, during the pre-application workshops, AF's will be communicated, and it shall be explained what each principle means, and how to identify if there are any risks with examples of different activities.

The information to be asked during the application process through the online application form includes, beyond basic information about the enterprise, quantitative and qualitative information regarding the components outlined in Part II.A. Output 2.1.1 namely: impacts, business model, team & expertise (as part of the non-financial information), and financial status, financial systems and investments plans (as part of the financial components). Along these components, E&S information will also be required to screen against AF's principles. The main information to be collected includes:

- Enterprise profile information (country, sector, year of foundation, organisation type
- Business model and impact:
    - Description of the product/service offered and the distribution and marketing channels used
    - How long have the products been on the market
    - How the product/service offered specifically targets or benefits female customers and how particular attention is given to female customers' needs, preferences and behaviours.
    - Explanation of the main climate risk/hazard that the solution offered by the SME addresses and the adaptation benefit it brings to their customers or beneficiaries.
    - Projected climate adaptation impact in quantitative terms
    - Self-assessment questionnaire related to each of AF's principles to identify and assess potential environmental and social risks
    - Analysis of potential negative impacts from the adaptation solution or general business operation that arise from the assessment against the 15 principles, and plans to eliminate, mitigate and/or compensate them
    - Other potential environmental and social co-benefits created by the solution the SME offers
    - How the solution/product/service is consistent with national or subnational sustainable development strategies, adaptation planning processes, national or subnational development plans, poverty reduction strategies, national communications and adaptation programs of action, national adaptation plans (NAPs), nationally determined contributions (NDCs), adaptation communications, and other voluntary adaptation reports, where they exist
    - current and future customer base/ target market estimation, value chain (suppliers, processing partners etc.), all disaggregated by gender
    - Share of women in the value chain
    - How the SME is meeting the relevant national technical standards, where applicable.
- Team and expertise:
    - existing and future workforce (number of full-time/ part-time employees, formal and informal contracts)
- Financial information:
    - Status regarding revenue and profit generation, including quantified sales revenue for the last three years
    - External finance accessed, providing amount and source
    - Investment plans: amount of financing required for investment, description of investment

It is worth noting that these components will be further refined in the development of the application form.

When pre-selecting, and considering the eligible business models presented in the table above, the project team will apply the following exclusion criteria to identify any immediate flags that may disqualify the company from further assessment listed below. In addition, compliance requirement applicable at this stage to UNIDO Environmental and Social Safeguards Policies and Procedures (ESSPP) and the 15 principles of the Adaptation Fund's Environmental and Social Policy will be duly considered, factoring in all available information.

- Non-renewable fossil fuel power plant construction, extension or operation;
- Coal, oil and gas exploration, export transportation, production or distribution;
- Switching from one non-renewable fossil fuel to another non-renewable fossil fuel in standalone grid-connected electricity generation plants;

- Hybrid power systems (including biomass/fossil fuel co-firing systems) except in accordance with the Environmental and Social Policies and Procedures;
- The production of nitrous oxide/NOx (except in connection with waste and biomass projects) or the production of hydrofluorocarbons;
- Nuclear energy generation; and
- Any activities that could reasonably be expected, at the time such support is given, to cause a significant negative overall impact on the environment and/or increase greenhouse gas emissions.
- Production or activities involving forced, trafficked or child labour;
- Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phaseouts or bans, including but not limited to (a) pharmaceuticals, pesticides, and herbicides, (b) ozone-depleting substances, (c) polychlorinated biphenyls and other hazardous chemicals, (d) wildlife or wildlife products regulated under the convention on international trade in endangered species of wild fauna and flora, and (e) trans-boundary trade in waste or waste products;
- Production of or trade in weapons and munitions, including paramilitary materials;
- Production of or trade in alcoholic beverages, excluding beer and wine;
- Production of or trade in tobacco;
- Gambling, casinos, and equivalent enterprises;
- Production of or trade in radioactive materials, including nuclear reactors and components or uses banned pesticides and/or chemicals thereof;
- Production of, trade in, or use of un-bonded asbestos fibres;
- Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and
- Marine and coastal fishing practices, harmful to vulnerable and protected species in large numbers or damaging to marine biodiversity, including but not limited to large-scale pelagic drift net fishing, fine mesh net fishing and blast fishing.
- Genetically modified organisms.
- Manufacturing, trading, and/or using pesticides and/or chemicals subject to international action bans or phase- outs.
- Any project activities that are likely to alter, damage, or remove any cultural heritage and/or sites.
- Any project causes involuntary resettlement or physical and economic displacement
- Any project infringing on the protection of critical habitats and protected areas, or introducing potentially invasive, non-indigenous alien species
- Any project complicit in human rights abuses

Furthermore, special considerations will be taken in case SMEs are located in sensitive areas. These refer to those areas where activities will likely have significant adverse impact on the environment and society. SMEs who apply to the programme will be screened for activities or operations against the database of protected areas.

Sensitive Areas

- Operations in the areas or vicinity of ecologically fragile areas usually designated Protected Areas such as national parks, nationally-designated protected areas, and wildlife sanctuaries.
- Primary forests or natural forests.
- Habitats with important ecological value (wetlands, coral reefs, mountains).
- Areas for indigenous peoples and cultural heritage.

According to the World Database on Protected Areas and Other Effective area-based Conservation Measures (OECMs), Kenya has 409 protected areas[3] and Uganda has 711 protected areas[4]. SMEs

[3] UNEP-WCMC and IUCN (2023), Protected Planet: The World Database on Protected Areas (WDPA)

supported in the programme will be screened for activities or operations against the database of protected areas.

After an exclusion criteria and sensitive area check was applied, remaining applicant SMEs will be evaluated through the online scoring system. The scoring criteria also includes the components outlined in Part II.A. Output 2.1.1 namely: impacts, business model, team & expertise (as part of the non-financial criteria), and financial status, financial systems and investments plans (as part of the financial criteria. It further includes mainstreamed into the questions, self-assessment questions on AF's 15 principles, that allow to screen each project against those principles.

Eligibility criteria includes:

- Demonstrate entrepreneurship and innovation
- Be locally driven and locally led
- Contribute to Climate Adaptation
- Deliver economic, social and environmental benefits locally
- Have a strong business model with market traction
- Be financially sustainable and scalable
- Meet country requirements
- Does not pose a significant risk to society and environment based on AF's principles, and plans to eliminate, mitigate and/or compensate them

Review criteria, as mentioned earlier is structured along non-financial and financial criteria.

| Non-Financial scorecard criteria | | Financial scorecard criteria | |
|---|---|---|---|
| Impacts | How well products/ services fit adaptation needs | Financial Status | Annual turnover |
| | How strong are the Environ. Safeguards to prevent Maladaptation | | Gross & operating profit |
| | How well does the business align with AF's principles | | |
| | How structured and robust is their Monitoring, assessment & reporting system | | Debt Ratio |
| | How integrated and embedded are women & Youth | | Quality of financial projections |
| Business Model | Quality of the Value Proposition | Financial Systems | Quality of Financial controlling systems |
| | Product / Service | | Quality of Financial Statement |
| | For how long have they been generating revenue and how much has it been and its growth tendency | Investment Plans | Clarity of investment proposal |
| | How well is the Target Market defined and fitting to the products/services offered | | Appropriateness of Loan ticket size in line with project |
| Team & Expertise | The size and expertise of Staff is well fitting to the business operations | | To what extent does the investment influences business growth |
| | Ratio full time / temporary | | Job creation potential |
| | No of financial staff | | |

and World Database on Other Effective Area-based Conservation Measures (WD-OECM) [Online], March 2023, Cambridge, UK: UNEP-WCMC and IUCN. Kenya: https://www.protectedplanet.net/country/KEN
[4] Ibid. Uganda: https://www.protectedplanet.net/country/UGA

It is worth noting that these criteria will be further refined during the co-creation of the scorecard (see Activity 2.1.1.1 Scorecard co-creation). The questionnaire and criteria to assess the alignment with Adaptation Fund's principles will be tailored to the context of the target countries, which will allow to address specific environmental and social risks effectively. The criteria primarily stem from the Screening and Assessment detailed in Appendix 1. This alignment will allow to address the country-specific risks.

To screen against AF's principles, a score or qualitative judgment (e.g., "meets," "partially meets," or "does not meet") will be assigned for each principle based on the answers provided in the self-assessment questionnaire questions related to this topic. This assessment also includes the evaluation of the risk management measured provided by the applicant MSMEs. If an applicant SME does not align well with AF's principles according to the criteria that will be established, they will not be shortlisted.

***Due Diligence***

For the shortlisted SMEs project team will delve deeper into the SME's data and business model to develop a detailed profile capturing the SME's current performance and future plans. The profile also includes a risk section where the team will consider key direct and indirect product/business model-related risks or unintended side effects on the environment and on local people that stem from assessment and screening against the 15 principles. The analysis will include the risk type (direct or indirect), the severity of the impact, the likelihood of occurrence and the mitigation approach or need. The project team will schedule a call or visits with SMEs to get more information as needed.

The risks to consider for each SME include:

- Risk on SME operations or product/service efficacy as a result of climate change e.g., floods, drought, other climate hazards, e.g., Supply chain disruptions, Washing away of applied products like fertilizers due to floods
- Environmental risk arising from disruptive practices. E.g. Land/environment degradation, Stressing the surrounding environment
- Social risks on surrounding livelihoods. E.g. The business takes away from local community livelihoods (jobs, income, customary access to natural resources e.g. forests, land, wood), it unintendedly increases the vulnerability of the target group to climate risks, or it excludes vulnerable community members (the poor, elderly, women, or people without formal land use rights) from project benefits and thereby introduces disadvantages for them in any way
- Longer-term risks. E.g. insufficient practices to evolve agri-farming advice.
- And further risks stipulated in AF's 15 principles, focusing on the contextual risks that require further assessment as identified in Appendix 1 of this Annex. ¶

During the due diligence process, the project team will also share the criteria, used by the team during the shortlisting process, with the SME in the form of a document, asking them to confirm that there are no ESG issues faced by the business. The social and environmental safeguards focal point or specialist will also assess the SMEs compliance with ES criteria including but not limited to occupational, safety and health at work legislations; environmental, health and safety risks to workers (working conditions, health and safety); water use and conservation; waste management, including recycling, reuse, and reduction; extent and use of hazardous materials and chemicals and pesticides and their disposal; GHG emissions; extent and use of scarce resources as applicable.

Additional spot-checks and due diligence efforts through site-visits and interviews on the ground in case ESS issues arise in the due diligence process will be implemented. Applicants will be engaged for further clarification or evidence regarding specific principles, if necessary, in order to assess potential risks and impacts related to the principles, particularly in areas such as environmental and social safeguards. Site-visit reports will be developed for each applicant business visited, detailing how it complies with the 15 principles and the mitigation or enhancement measures that the business has in place. Any need to enhance the risk management system will be noted to be used as input during the capacity building delivery to tackle risk management needs and prevent any negative ES impact. The report shall also include information on all the other evaluation criteria assessed during the site-visit.

In addition, the project team will share the exclusion criteria and sensitive area overview with the shortlisted adaptation SMEs in the form of a document, asking them to confirm that there are no ESG issues faced by the company. The document will include the following statements at the bottom requiring the SME's acknowledgment and signature:

1. I hereby confirm that the Entity is in full compliance with all relevant environmental permits/licenses/consents and that there have been no regulatory violations.

2. I hereby confirm that there have been no complaints, grievances, or enforcement actions related to environmental, social, or governance issues involving management, employees, or key stakeholders such as customers or suppliers or that any complaints or grievances have been handled in a timely and transparent manner, in compliance with national law and regulations.

***Selection Decision***

The final selection of enterprises will be executed by an independent expert jury composed by members of the Adaptation Action Steering Committee (see Output 1.1.1), which shall follow procedures in line with the UNIDO Grants Manual. For this purpose, after the due diligence process, the project team will share all the relevant documentation and information about the shortlisted candidates. The committee could invite shortlisted applicants invited for ca. 15 min online interviews as necessary. In case if needed, the project team can also request more information directly from the adaptation SME or through their own research status on the adaptation SME's compliance to UNIDO Environmental and Social Safeguards Policies and Procedures (ESSPP) and the 15 principles of the Adaptation Fund's Environmental and Social Policy (AF ESP). In case issues arise in the selection process, then recommendations with concrete milestones will be developed to ensure that the roll-out of the adaptation solution complies with applicable national social, environmental and technical standards, as well as with the Adaptation Fund's environmental and social principles.

Once the SMEs are selected by the expert jury, the project team presents the selected SMEs to the Designated Authority to gather their input and feedback on the selection. Based on this the final list of SMEs is approved and the project team announces the final SMEs selected to join the programme.

**Screening and Selection Phase for Accelerator Programme**

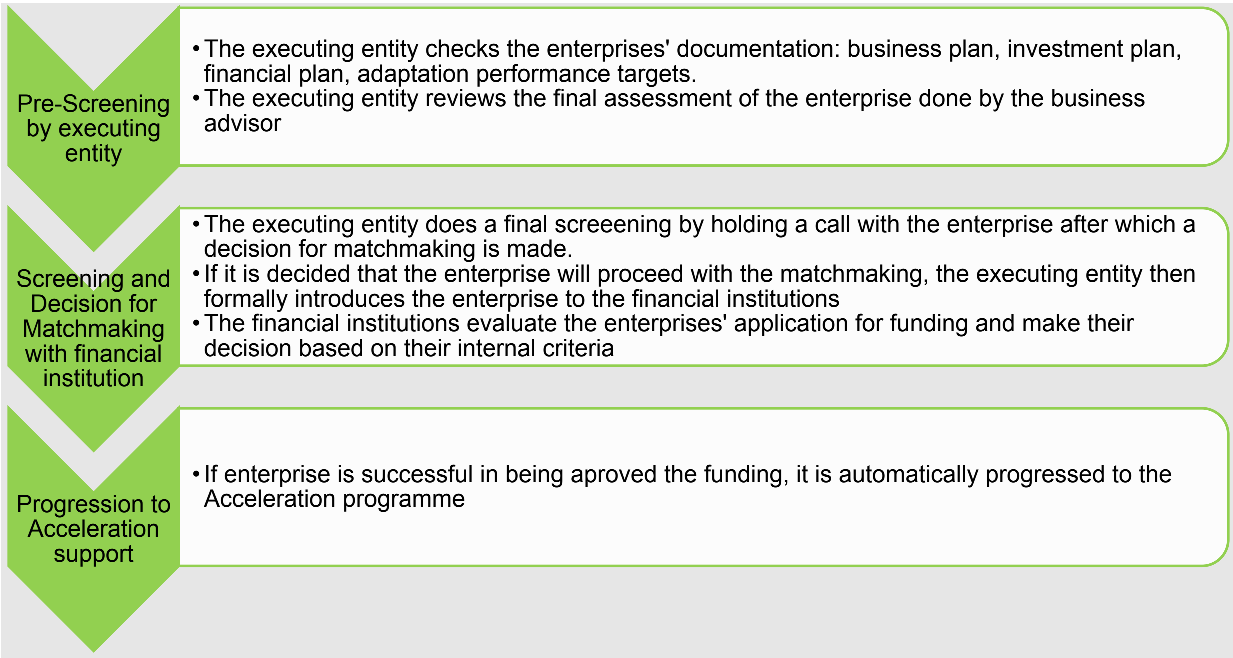


*Figure 2. Screening process for the Accelerator programme*

***Pre-Screening by Executing Entity***

The executing entity assesses the documents developed by the enterprise during the Catalyser support, which will be required for the matchmaking with the financial institution, including: business plan, financial plan, investment proposal, investment calculation, impact dashboard which includes the adaptation performance targets (see activity 2.2.1.2. Developing Adaptation Performance Targets (APT))

The pre-screening evaluation criteria includes:

- The enterprise has sufficient collateral to access funding opportunities
- The investment provides an adaptation solution and improves climate resilience of their final beneficiaries. This will be evaluated through the APTs established
- Revenue and other financial indicators are line with planned investment
- Quality of a risk analysis and management regarding Environmental and Social potential Risks of the investment, aligned with Adaptation Fund's 15 principles.
- The results from the advisor final assessment. This assessment includes the progress made by the enterprise, finance-readiness impression based on performance and quality of the business documents, concerns that may exist around collateral, financial management systems, any other financial issues, or other social and environmental risks; an assessment of the business plan, including impact pillars, risk analysis, among others; availability and quality of financial information

***Screening and Matchmaking by Executing Entity***

Based on the results from the pre-screening and the final assessment by the individual advisor, the screening team from the executing entity holds a call with each enterprise to collect further details and develop the matchmaking guide. These further details seek to refine safeguards for the investment, to avoid environmental and social negative impacts, maximise the adaptation benefits, as well as other positive impacts.

Specific eligibility criteria for the final screening includes:

- If the investment contributes to the climate adaptation of their beneficiaries, as specified by the APT
- If sound measures are in place to avoid and/or manage social and environmental risks that may arise from the investment
- No risks are foreseen that the enterprise does not follow the proposed investment plan
- The enterprise has enough collateral as required

- The enterprise has all needed legal documents to apply for the funding (e.g. certified bank statements, purchase and sales records, tax certificate, trading licence or other licences needed, and any other required by the financial institutions
- The impact indicators can be validated by coherent supporting evidence.

The executing entity then decides if the enterprise is selected to continue with the matchmaking. If yes, the enterprise is introduced to the financial institution, who then conducts their assessment as per their internal criteria and reach a decision on whether or not to approve the funding.

***Progression to Acceleration Support***
Once the enterprise is approved by the financial institution, they are automatically registered for the Acceleration programme. See next section (ESMF for the support phase) for the environmental and social management and safeguarding during the support phase of the Acceleration support.

**<u>Procedure for the management of environmental and social impacts - support phase (both programmes)</u>**

Beyond the safeguarding steps and processes during the selection of SMEs, the project will take further precautions and implement safeguards during the support phase in the Catalyser and Accelerator components.

Enterprise support tools are an integral part of the support programmes. To assess and manage environmental and social risks within the supported businesses, several tools will be developed and included in the support curriculum (as detailed in Table 3: Environmental and Social Management Plan):

- Enterprise tools that provide an overview of UNIDO Environmental and Social Safeguards Policies and Procedures (ESSPP) and the 15 principles of the Adaptation Fund's Environmental and Social Policy (AF ESP)
- Enterprise tools for risk management: that cover the basics of conducting a risk assessment and management plant, focusing on environmental and social aspects, aligned with the 15 principles of the Adaptation Fund's Environmental and Social Policy (AF ESP)
- Enterprise tools for core labour standards: To further encourage the protection of informal workers, a tool will be developed to empower MSME entrepreneurs to aspire and adhere to the core labour standards of the ILO.
- Enterprise support tools for monitoring and managing carbon emissions
- Enterprise support tools to avoid creating biodiversity and other environmental hazards
- Enterprise support tools for resource efficiency. To promote and enable SMEs to innovate and adopt resource efficiency practices to further mitigate and avoid risks from the use of resource inefficient production methods.

It is important to mention that one of the main characteristics of these tools, including risk management tools, is that the allow for tailoring to the specific needs and context of the enterprises. Therefore, risks identified, and their corresponding mitigation measures are country-specific and allow to address the environmental and social risks in the target countries effectively.

Furthermore, an integral part of the Catalyser advisory package will be the development of the adaptation SME's theory of change, drafting of adaptation impact chains and identification of outputs and outcomes along their individual adaptation-related impact dimensions, taking into consideration the vulnerabilities of their target customers/ beneficiaries. Based on these impact chains, Adaptation Performance Targets (APT) will be developed for the participating adaptation enterprises to be achieved within a certain time-frame (e.g. 5km of drip irrigation pipeline sold to vulnerable smallholder farmers within the next 1.5 years). Especially for businesses operating in the agriculture and to some extent also in the water sector, it will be crucial to build in precautionary measures to manage risks associated with extreme events (e.g. weather or other natural hazards), especially with the project focus being on highly vulnerable regions. To that end, several sets of targets may be developed to provide flexibility.

As part of the advisory, adaptation enterprises will also develop a sound concept how to measure and monitor adaptation impacts and social inclusion targets using an impact planning dashboard including KPI's/indicators and an individual M&E framework to monitor their APTs in a cost-effective manner

Appendix 2 describes in detail the mitigation measures to be adopted to address identified potential risks and impacts

## 5. Institutional Arrangements & Capacity Development

**ESMF Roles and Responsibilities**

The project management team will be responsible for ensuring the ESMF is followed and capacity is developed in their team as required. Since ESMF has been integrated into the operation of the project, it is of prime importance to the Executing Entity and UNIDO to ensure success. The Executing Entity's full-time Impact lead leverages support from social and environmental specialists and focal points in the countries to ensure that the project has the relevant information and expertise. For individual SMEs, the support programmes already foresee the capacity development in ESMF as a core component of the training curricula, and when necessary, the Executing Entity may hire additional local resources. UNIDO is overall responsible for the monitoring and implementation of the project successfully. UNIDO will annually monitor and communicate implementation progress via the implementation report on issues that involve ongoing risk to or impacts on the project stakeholders, and on issues that the consultation process or grievance mechanism has identified as of concern to those stakeholders.

## 6. Communication and Stakeholder Engagement

The multi-level consultation process which was initiated during the development phase of the full proposal, will continue to be implemented. The project endeavours to undertake further stakeholder consultations & regular assessments during project implementation to ensure inclusivity. The IE would begin with a stakeholder mapping exercise to identify other relevant stakeholders to be engaged, who may not have been targeted in the previous consultations, for example, any other marginalised or vulnerable groups that may face barriers to access and equity in the project's context.

Each country will hold consultative meetings and workshops with relevant business associations, adaptation enterprises and their value chain partners (including micro enterprises and informal sector) as well as customer and beneficiary groups.

The inputs from these workshops will be combined and aggregated by EE for the validation of the project document. National focal points will be invited to a regional session to present the project outline in detail and seek their feedback and advice.

UNIDO will annually communicate implementation progress on issues that involve ongoing risk to or impacts on the project stakeholders, and on issues that the consultation process or grievance mechanism has identified as of concern to those stakeholders. The ESMF will be disclosed on the UNIDO public website, under the following link: https://open.unido.org/index.html

Stakeholders may access the project grievance mechanism at any moment. The grievance mechanism will also be presented and promoted during consultative meetings and workshops. The grievance mechanism is detailed in Appendix 3. Grievance Mechanism.

## 7. Implementation Action Plan and Budget for ESMF Implementation

The above information in summarized in Table 1 below, demonstrating application of the ESMF and how it is integrated into the project design and mechanisms for selection of SMEs. The ESMF implementation is in line with the project's M&E arrangements (see project document, part III, section D. Monitoring and Evaluation) and requires no additional budget than the one specified there. Further detailed implementation of mitigation measures is specified in Appendix 1. Environmental and social risk management and monitoring plan (ESMP)

| **ESMF Procedures** | **Schedule/Timing in project cycle** | **Responsible** | **Budget** |
|---|---|---|---|
| Sourcing and selection of SMEs for Catalyser programme | At the beginning of each of the two Catalyser cycles during year 1 and year 2 | EE project management team and independent expert jury (members from the Adaptation Steering Committee | No additional budget |
| Screening & selection of SMEs for Accelerator programme | At the beginning of each of the two Accelerator cycles during years 3 and 4 of the project | EE project management team, EE partners | No additional budget |
| Determination of Assessment needed (ESIA) | During due diligence process within the sourcing and selection of SMEs for Catalyser programme | EE project management team, EE partners | No additional budget |
| Stakeholder engagement | Consultative meetings As often as needed to be determined. | Adaptation Steering Committee | No additional budget |
| Capacity development | Continuously during project implementation | EE project management team | No additional budget |

## 9. Appendix

**Appendix 1: Screening and Assessment of Environmental and Social Risks against AF's Environmental and Social Policy**

*Table 3 Screening and Assessment of E&S Risks*

| 1. Compliance with the Law | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 1.1. Is there a risk that the project activities would not comply with an applicable domestic or international law? | | Low | No | The proposed project is in full compliance with Kenyan, Ugandan and international laws and regulations. It also has the endorsement of Kenyan Ministry of Environment and Forestry (Office of the Cabinet Secretary) and Ugandan Ministry of Finance, Planning and Economic Development. |
| 1.1.1. Is there a risk that the project activities would not comply with an applicable international law? | No | | | |
| 1.1.2. Is there a risk that the project activities would not comply with an applicable national or local law? | No | | | |

| 2. Access and Equity | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 2.1. Could the project activities lead to changes in local tenure arrangements for existing resources or resources created by the project activities? | | Low | Yes – assessment of issues at the selection or due diligence level<br>• | Components of the proposed project support locally-led, early-stage gender- and youth inclusive adaptation SMEs. The project is designed to ensure fair and impartial access to trainings and finance. However, considering existing gender gaps in regards to access to resources for business (such as financing opportunities and land access), there is a low risk that the project may exacerbate these inequities.<br><br>Notably, the project is also designed to focus on improving access to finance and capacity building for marginalised climate adaptation business owners.<br><br>During the project preparation phase, in-depth consultations with stakeholders were held to identify potential risks.<br><br>It is likely that not all relevant stakeholders, and especially marginalised or vulnerable groups, have been identified and consulted. The project endeavours to undertake further stakeholder consultations & regular assessments during project implementation to ensure inclusivity, for example due diligence checks during the selection process and monitoring at set intervals during the support phase. |
| 2.1.1. Could the project activities lead to changes in tenure arrangements that potentially could put groups or individuals at a disadvantage or could lead to disagreements and conflicts? | No | | | |
| 2.2. Could the project activities create or exacerbate intra- or intercommunity conflicts? | | Low | | |
| 2.2.1. Could activities lead to opening up of existing or creating new minor conflicts or disagreements within or between groupings or communities? | No | | | |
| 2.2.2. Could activities lead to opening up of existing or creating new conflicts or disagreements within or between groupings or communities which potentially could become entrenched, violent, or spread to additional groups or communities? | No | | | |
| 2.2.3. Could the project activities bring unequal economic benefits to a limited subset of the target group? | Yes | | | |
| 2.2.4. Could the project activities lead to increased un-employment that would not be absorbed by other sectors or activities? | No | | | |
| 2.3. Could the target beneficiaries or stakeholders be dissatisfied due | | Low | | |

| | | | | |
|---|---|---|---|---|
| to limited consultation during project activities design or implementation (including due to inadequate Complaints and Feedback Mechanisms)? | | | | Any forthcoming unidentified subproject (SMEs) that will be supported through this project will be screened for their access and equity as it will be determined in the ESMS. |
| 2.3.1. Could the project activities lead to dissatisfaction or negative impacts due to lack of beneficiary or other stakeholder participation in planning, design, implementation, or general decision making? | No | | | |
| 2.3.2. Is there a risk that not all relevant stakeholders, and especially marginalised or vulnerable groups, have been identified and consulted or that they have been exposed to internal or external pressure or coercion or not able to comprehend the consultations? | Yes | Low | | |
| 2.3.3. Could there be negative impacts due to an inadequate Complaints and Feedback Mechanism during project implementation? | No | | | |

| 3. Marginalized and Vulnerable Groups | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 3.1. Could the project activities impose disproportionate adverse impacts on marginalized and vulnerable groups? | | Low | No | The proposed project has an extended focus to support gender- and youth inclusive adaptation SMEs led by women and/or youth in the community.<br><br>When collecting data and information, the project team consulted with marginalized and vulnerable members of the local communities directly to understand their socio-economic constraints and identify the most appropriate adaptation activities that could benefit these groups.<br><br>Nevertheless, the project supports gender- and youth inclusive adaptation SMEs who operate within existing default social biases, and may pose a **minor risk** of excluding marginalised groups in the implementation of the project activities – whether as direct beneficiaries or indirect beneficiaries of the project activities.<br><br>Any forthcoming unidentified subproject (SMEs) that will be supported through this project will be screened for its impact on marginalised and vulnerable groups as per ESMS. If necessary, mitigation and monitoring measures will be developed and introduced to maximize the benefits for these groups. |
| 3.1.1. Is there a likelihood that the project activities would have inequitable or discriminatory adverse impacts on affected populations, particularly people living in poverty or marginalized or excluded individuals or groups? | Yes | | | |
| 3.1.2. Could the project activities potentially restrict availability, quality of and access to resources or basic services, in particular to marginalized individuals or groups? | No | | | |
| 3.1.3. Could the project activities aggravate the situation of vulnerable, marginalised, or otherwise disadvantaged individuals or groups? | No | | | |
| 3.2. Could the project activities lead to influx of a temporary or permanent alien workforce? | | Low | | |
| 3.2.1. Could the project activities lead to influx of a temporary or? permanent alien workforce of relatively small size in a relatively isolated or culturally sensitive community? | No | Low | | |
| 3.2.2. Could the project activities lead to influx of a relatively large? temporary or permanent major alien workforce (>10% of existing community) or a smaller group which could be expected to have important cultural, health, or socioeconomic impact on a local community? | No | Low | | |

| 4. Human rights | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 4.1. Could the project activities fail to respect human rights? | | Low | No | No activities in the proposed project will impede on international human rights. Unidentified subprojects (SMEs) will be screened for their impact on human rights as a part of the ESMF |
| 4.1.1. Could the project activities lead to violation of fundamental human rights as defined by international, national or local | No | | | |
| 4.1.2. Could the project activities of partners, contractors, or suppliers, lead to violation of fundamental human rights as defined by international, national or local law? | No | | | |

| 5. Gender Equality and Women's Empowerment | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 5.1. Could the project activities lead to gender-based inequality, discrimination, exclusion, unwanted workload, or violence? | | Low | No | The proposed project targets communities where the gender gap is significant, and may pose a **minor risk** that women may not benefit equally from the project activities.<br><br>The positive social impacts of the project are also dependent on receiving sufficient applications and participants from female (and youth) led SMEs as well as SMEs with business models that empower women and youths through provision of climate change adaptation solutions (gender- and youth inclusive adaptation SMEs).<br><br>Notably, a key objective of the project is to empower gender and youth-inclusive SMEs, thus the project is designed to explicitly attract and enable participation from gender and youth inclusive groups.<br><br>The Gender Equality and Social Inclusion analysis of the project cites risk of the project activities leading to gender-based inequality, discrimination, exclusion, unwanted workload, or violence as very low or inexistent. Any potential issues or concerns will be tackled in the detailed Gender Action Plan. |
| 5.1.1. Could the project activities create or amplify conditions for gender-based inequalities? | Yes | | | |
| 5.1.2. Could the project activities lead to gender-based violence? | No | | | |
| 5.1.3. Could the project activities lead to gender inequities in who makes decisions? | No | | | |
| 5.1.4. Could the project activities lead to increased unpaid work for women and girls? | No | | | |

| 6. Core labour rights | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 6.1. Could the project activities fail to respect core labour rights? | | Low | Yes, assessment | It is likely that a number of early-stage gender- and youth inclusive adaptation SMEs targeted by the project may |
| 6.1.1. Does the project activities involve support for | No | | | |

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| | employment or livelihoods that may fail to comply with national and international labour standards (i.e., principles and standards of ILO fundamental conventions)? | | | at the selection or due diligence level as well as during support phase | operate informal businesses and utilise informal contracts when hiring staff, lack compliant working conditions, or lack enforcement for occupational health and safety standards in line with International Labour Organisation standards.<br><br>It is however noteworthy that the project will work with registered SMEs who will have to comply on these areas or be supported to comply before formal engagement. This shall form part of the support for investor readiness offered to pipeline enterprises.<br>OHSAS and International Labour Standards – Due diligence – show proof of labour standards in the due diligence process through additional documents. |
| | 6.1.2. Could the project activities, or that of partners, contractors, or suppliers, involve use of child (<14y) or forced labour? | No | | | |
| | 6.1.3. Could the project activities or that of partners, contractors, or suppliers utilise informal contracts when hiring staff that lack compliant working conditions, or lack enforcement for occupational health and safety standards in line with International Labour Organisation standards. | Yes | Low | | |

| 7. Indigenous Peoples | | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|---|
| 7.1. Does the project activities involve indigenous peoples or could it affect indigenous peoples? | | | Low | Yes – assessment of business models and business premises at the selection or due diligence level | The proposed action has an extended focus to support gender- and youth inclusive adaptation SMEs that increase the resilience of vulnerable groups including indigenous peoples, where applicable.[5] The IE is aware that peoples who identify with the indigenous movement in Kenya and Uganda face risks from the creation of conservation areas and mining activities that deny them access to land, livelihoods, protection and democratic rights. In Uganda and Kenya, indigenous people face land and resource tenure insecurity, poor service delivery, poor political representation, discrimination and exclusion.<br><br>While the action aims to support locally embedded adaptation SMEs that promote socially-inclusive business models aiming to increase not only local climate resilience but also providing socio-economic co-benefits such as alternative income or job creation, there is a **minor risk (though very low risk but worth monitoring)** that selected SMEs operate within existing default social biases that exclude indigenous peoples to partake in the promoted business activities, thus denying them the |
| | 7.1.1. Could the project activities negatively affect indigenous peoples, culturally or otherwise, without their specific Free, Prior, Informed, Consent (FPIC)? | Yes | | | |

[5] The peoples who identify with the indigenous movement in Kenya and Uganda are mainly pastoralists and hunter-gatherers, including for Uganda mainly Benet, Batwa, Ik and the Karamojong and Basongora pastoralists – while the latter are not recognized specifically as Indigenous Peoples by the government. For Kenya indigenous peoples include the hunter-gatherers Ogiek, Sengwer, Yiaku, Waata and Awer (Boni) and pastoralists Turkana, Rendille, Borana, Maasai, Samburu, Ilchamus, Somali, Gabra, Pokot, Endorois and others. (Berger et al., 2022).

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| | | | | | improvement of livelihoods or business services. |

| 8. | Involuntary resettlement | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|---|
| | 8.1. Could the activities lead to resettlement? | | Low | No | Activities in the proposed project will not cause involuntary settlement of local communities. |
| | 8.1.1. Could the project activities lead to involuntary economic or physical resettlement of households or individuals? | No | | | |

| 9. | Protection of Natural Resources | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|---|
| | 9.1. Could the activities lead to negative impacts of the natural habitants? | | Low | No | The project's direct activities are not expected to have any adverse impact on the environment or natural habitats.<br><br>However, while working with early-stage gender- and youth inclusive adaptation SMEs that offer products and services to help communities increase resilience to climate change, we recognise it may be likely that some aspects of their business activities may cause harm to natural habitats. For example, as a result of lack of resources and efficient technology, they adopt insufficient waste management in the value chain, leading to pollution of local water ways and ecosystems. However, the harm that may be caused would not be significant, or critical, due to the small nature of the SMEs. Therefore, acknowledging the potential for only minor harm, the risks in this section |
| | 9.1.1. Could there be negative impacts on critical migration corridors of endangered or otherwise or important animal or insect species? | No | | | |
| | 9.1.2. Could the project activities lead to increase in unregulated or unlicensed collecting, hunting, or fishing? | No | | | |
| | 9.1.3. Could the project activities lead to a natural habitat being significantly degraded or fragmented? | No | | | |
| | 9.1.4. Could the project activities lead to a natural habitat being almost fully destroyed or degraded so that it no longer could function as natural habitat for the original fauna/flora? | No | | | |
| | 9.2. Could the project activities lead to negative impacts in protected | | Low | | |

| | | | | |
|---|---|---|---|---|
| or internationally recognised areas? | | | | are all assessed as "no"<br><br>Assessments conducted at the selection and due diligence level, will screen SMEs for compliance with the respective national environment regulations as mentioned in paragraph 8. The IE, EE and EE partners also have in place measures to ensure compliance and positive impact before financial investments are disbursed. |
| 9.2.1. Will any major constructions be located close (<200m) to critical habitats, protected areas, or areas of particular or locally recognised ecological significance? | No | | | |
| 9.2.2. Could the project activities lead to negative impacts on protected or internationally recognised areas? | No | | | |

| **10. Conservation of Biological Diversity** | **Yes/No** | **Level of concern (High/Medium/Low)** | **Further assessment required?** | **Project context, potential impacts and risks** |
|---|---|---|---|---|
| 10.1. Could the project activities lead to negative impacts on biodiversity or endangered species? | | Low | Yes - assessment at the selection or due diligence level as well as during support phase | The project is not expected to have any adverse impact on the environment or biodiversity. Similarly, early-stage gender- and youth inclusive adaptation SMEs offer products, services and employment that help local communities increase their resilience to climate change effects. However, in doing so, they may risk overlooking maladaptation practices (e.g. doing reforestation with invasive species). These are often caused by the lack of complete information or lack of resources in implementing business activities, where businesses resort to the cheapest or quickest option available. The project aims to address these support gaps through the proposed components and activities.<br><br>Assessments conducted at the selection and due diligence level, will screen SMEs for compliance with the respective national environment regulations. |
| 10.1.1. Could the project activities lead to degradation of biodiversity or significant reduction in one or more common animal, insect, or plant species? | No | | | |
| 10.1.2. Could the project activities lead to loss (eradication or removal from local area) of one or more animal, insect, or plant species? | No | | | |
| 10.1.3. Could there be negative impact on any endangered or critically endangered animal, insect, or plant species? | No | | | |
| 10.1.4. Could the project activities (intentionally or non-intentionally (maladaptation)) lead to introduction of invasive alien varieties or species which could influence local genetic resources? | Yes | Low | | |
| 10.1.5. Could the project activities lead (intentionally or non-intentionally (maladaptation)) to introduction of invasive alien varieties or species which potentially could eradicate, change, or significantly reduce local naturally occurring varieties or species? | No | | | |
| 10.1.6. Could the project activities introduce genetically altered organisms? | No | | | |

| **11. Climate Change** | **Yes/No** | **Level of concern (High/Medium/Low)** | **Further assessment required?** | **Project context, potential impacts and risks** |
|---|---|---|---|---|
| 11.1. Could the project activities lead to increased exposure, increased vulnerability, or reduced resilience of beneficiaries to the effects of climate change? | | Low | No | The targeted gender- and youth inclusive adaptation SMEs may still engage with conventional production activities such as the employment of machinery that inevitably produces GHG emissions |
| 11.1.1. Could the activities result in increased exposure to | No | | | |

| | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| climate induced hazards? | | | | The project is however designed to recognise, incentivise and support gender- and youth inclusive adaptation SMEs with business models that generate climate-adaptation benefits for the local community. The project shall thus not generate significant and/ or unjustified increase in GHG emissions or other drivers of climate change. Therefore, recognising that the risk is present, the project, through the supported SMEs, would not increase significantly GHG gasses, as any increase would only be marginal, therefore, the components in section 11.2 are assessed as “no”.<br><br>Moreover, mitigation co-benefits provided by the applying adaptation SMEs will be considered as an asset.<br><br>Given that the project will only support green businesses/ technologies that increase the adaptative capacity, respectively decrease the sensitivity of customers/ beneficiaries, the risk for the project to cause maladaptation is low. |
| 11.1.2. Could the project activities result in beneficiaries being more vulnerable to climate-related stresses? | No | | | |
| 11.1.3. Could the project activities lead to beneficiaries having less means or options to withstand shocks resulting from extreme weather events (floods, storms, drought)? | No | | | |
| 11.2. Could the project activities lead to increases in greenhouse gas (GHG) emissions or to reduction of carbon sinks? | | Low | | |
| 11.2.1. Could the project activities (intentionally or non-intentionally (maladaptation)) lead to significant increases in GHG emissions during operation phase? | No | | | |
| 11.2.2. Could the activity lead to significant degradation or destruction of elements which absorbs and stores carbon from the atmosphere (trees, plants, soils)? | No | | | |

| 12. Pollution Prevention and Resource Efficiency | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 12.1. Could the project activities lead to significantly increased release of pollution to air, land, or water during construction or operation? | | Low | Yes- assessment of business model and practices at the selection or due diligence level as well as during support phase | It may be the case that the value chains of early-stage gender- and youth inclusive adaptation SMEs still employ resource inefficient production methods and are unable to minimise material use effectively, due to constraints such as lack of finance to obtain modern low carbon machinery. Similarly, in the absence of comprehensive public waste management services (e.g. waste sorting for recycling), it is likely that SMEs would employ poor waste management practices.<br><br>Notably the proposed project aims to work with SMEs that operate sustainable and inclusive business models, and where applicable, support SMEs to further improve sustainability in their value chain to be able to attract green finance opportunities. |
| 12.1.1. Could the project activities lead to a dangerous increase in release of pollutants (incl. noise) to air, land, or water during construction or as result of accidents? | No | | | |
| 12.1.2. Could the project activities lead to a dangerous increase in release of pollutants (incl. noise) to air, land, or water during normal operation? | No | | | |
| 12.1.3. Will the project activities lead to any open burning of plastic waste during construction or operation? | No | | | |
| 12.1.4. Could the project activities lead to significant negative impacts on visual aesthetic values? | No | | | |
| 12.1.5. Could the project activities lead to discharge of untreated wastewater to the environment? | No | | | |
| 12.2. Could the project activities lead to procurement, transport, or use of chemicals, hazardous materials, or ozone depleting substances subject to international and national bans? | | Low | | |
| 12.2.1. Could the project activities lead to procurement, transport, or use of chemicals or other hazardous | No | | | |

| | | | | | |
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| | materials, including asbestos and ozone depleting gases which will not be handled and disposed of safely by following normal Standard Operating Procedures? | | | | |
| | 12.2.2. Could the project activities lead to procurement, transport, or use of chemicals or other hazardous materials subject to international bans? | No | | | |
| 12.3. Could the project activities lead to increased use of agro-chemicals? | | | Low | | |
| | 12.3.1. Could the project activities lead to use of agro-chemicals that potentially could be replaced or reduced by alternative environmentally friendly products or techniques? | No | | | |
| | 12.3.2. Could the project activities lead to use of pesticides or other chemicals, which could have an unintended effect on non-target species and environment? | No | | | |
| | 12.3.3. Could the project activities lead to use of WHO class 1a, 1b, or Class II pesticides without proper application of the International Code of Conduct on Pesticide Management? | No | | | |
| | 12.3.4. Could the project activities lead to use of pesticides, herbicides or other chemicals or materials containing or polluted by Persistent Organic Pollutants (POP's) as listed by the Stockholm Convention? | No | | | |
| 12.4. Could the project activities lead to very high resource use (such as fuel or water) during operation? | | | Low | | |
| | 12.4.1. Could the project activities lead to more than 100,000 litres per year of diesel, in vehicles and/or generators? | No | | | |
| | 12.4.2. Could the project activities lead to major use of water from unsustainable sources (bottled and transported, gradual depletion of ground- or surface-water, change of local waterways etc.)? | No | | | |
| | 12.4.3. Could the project lead to production methods that are generally resource inefficient | Yes | | | |
| 12.5. Could the project activities lead to generation or transport of hazardous or non-hazardous waste which could have negative environmental impacts? | | | Low | | |
| | 12.5.1. Could the project activities lead to significant increase in generation of waste that will not be disposed of in an environmentally friendly manner (recycled, re-used, or recovered) by beneficiaries, or third parties? | No | | | |
| | 12.5.2. Could the project activities lead to generation of hazardous waste which will not be handled and | No | | | |

| | | | | | |
|---|---|---|---|---|---|
| | disposed of safely by following normal Standard Operating Procedures? | | | | |

| 13. Public health | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 13.1. Could the project activities lead to increased risk to community health and safety from use of equipment, materials, transportation, or natural hazards? | | Low | No | No activities in the proposed project are foreseen to generate any significant negative impacts on public health. |
| 13.1.1. Could activities during construction or operation phase lead to increased community risks from e.g., increased traffic, inappropriate design or use of equipment and materials which would not be handled by following normal Standard Operating Procedures? | No | | | |
| 13.1.2. Could the project activities cause community exposure to water-born, water-based, water-related, vector-born or communicable diseases? | No | | | |

| 14. Physical and Cultural Heritage | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 14.1. Could the project activities negatively affect heritage? | | Low | No | No activities in the proposed project are foreseen to cause any alteration, damage or removal of physical cultural resources, cultural sites, and sites with unique natural values. Neither does it permanently interfere with existing access and use of such physical and cultural resources. |
| 14.1.1. Could the project activities negatively impact any form of physical or cultural heritage? | No | | | |

| 15. Land and Soil Conservation | Yes/No | Level of concern (High/Medium/Low) | Further assessment required? | Project context, potential impacts and risks |
|---|---|---|---|---|
| 15.1. Could the project activities lead to negative impacts on soils, groundwater, water bodies, water ways, coastal areas, or the sea | | Low | No | The proposed project supports local gender- and youth inclusive adaptation SMEs that promote climate-adaptation for local populations in Kenya and Uganda, including promoting soil restoration and conservation as well as avoiding further degradation or conversion of productive lands. |
| 15.1.1. Could there be significant impacts on quality or quantity of surface- or groundwater? | No | | | |
| 15.1.2. Could the project activities lead to major changes in flow regimes of local waterways, conditions of water bodies, or coastal areas? | No | | | |
| 15.1.3. Could the project activities lead to increased soil erosion, run-off, or significant changes to soil characteristics? | No | | | |
| 15.1.4. Could the project activities lead to serious soil erosion (e.g., major gullies, sheet erosion etc.) or major detriments to soil quality over a large or locally | No | | | |

| | | | | | |
|---|---|---|---|---|---|
| | important area? | | | | |
| 15.2. Could the project activities lead to negative impacts on forests, wetlands, farming or grazing land, or other landscape elements of ecological or economic importance? | | | Low | | |
| | 15.2.1. Could the project activities lead to degradation or fragmentation of local forest areas, wetlands, prime farming or grazing land, or other landscape elements of ecological or economic importance? | No | | | |
| | 15.2.2. Could forests, wetlands, prime farming or grazing land, or other landscape elements of ecological or economic importance be almost fully destroyed or degraded or heavily fragmented? | No | | | |
| | 15.2.3. Could the project activities lead to significant increase in consumption of locally sourced fuelwood? | No | | | |

**Appendix 2: Environmental and social risk management and monitoring plan (ESMP)**

The mitigation measures to address the potential risks are captured in the ESMP presented in Table 4. The ESMP elaborated for this project will consider and track risks that have been identified at proposal stage; screen for any new risks during the implementation of the project and serve to monitor and report on the mitigation measures. The social and environmental safeguards focal point or specialist who is knowledgeable in the context of the countries will be leading the screening to ensure that the country-specific risks are addressed. The monitoring and reporting measures proposed in the ESMP are fully integrated in the monitoring plan of the project. The ESMP shall track identified risks, or any new risks, ensuring they are properly monitored, evaluated, and reported upon.

The ESMP also ensures the project will fully comply with national laws (e.g., Kenya's Environmental Management and Coordination Act, Uganda's National Environmental Act), the Adaptation Fund's Environmental and Social Policy (in alignment to UNIDO's Environmental and Social Safeguards Policy and Procedures (ESSPP)).

In complying to the national laws, further safeguards - for example require environmental and social impacts assessments (ESIAs) to be carried out for specific activities and subsequent ESMPs done – shall also help address the potential risks providing a secondary mitigation layer. In this regard, during implementation the UNIDO and the implementing partners will ensure effective coordination with the National Environmental Agencies in order to duly comply with the requirements established within the National Environmental Regulation and Guidelines.

The project shall have a social and environmental safeguards focal point or a specialist that shall help in implementing the ESMP and the ESMS shall be tailored to the specific local contexts of Kenya and Uganda by proactively integrating mitigation measures to address the vulnerabilities specific to the target countries. For example:

- Inclusive SME Selection: SMEs are evaluated on their ability to address local climate vulnerabilities (e.g., drought-resilient agriculture in Kenya, sustainable water management in Uganda).
- Gender and Youth Considerations: SMEs must actively promote the inclusion of women, youth, and marginalized groups, reflecting local socio-economic realities like entrenched gender disparities.
- Indigenous Peoples' Rights: Special provisions ensure that SMEs operating in Uganda's indigenous areas respect Free, Prior, and Informed Consent (FPIC).

**Future Monitoring and Evaluation Tailored to Local Contexts**

The ESMS includes ongoing measures to ensure the system remains responsive to evolving local challenges:

- **Country-Specific Data Collection:** Monitoring frameworks will collect disaggregated data by gender, age, and ethnicity to track equitable access to benefits in both Kenya and Uganda.
- **Stakeholder Engagement:** Regular consultations will include marginalized groups and indigenous communities to validate and refine mitigation efforts.
- **Performance Tracking:** Adaptation SMEs will be monitored using contextually relevant indicators, such as the impact of climate-resilient agricultural practices on Kenyan smallholder farmers or the water management improvements in Ugandan communities.
- **National Compliance Monitoring:** Communications with environmental bodies in Kenya and Uganda will ensure SMEs meet both local and international environmental standards during project implementation.

*Table 4 Environmental and Social Management Plan*

| AF Environmental and Social Principles | Risks identified | Mitigation measure | Responsibility | Monitoring indicator | Monitoring method and schedule/ timing | Budget |
|---|---|---|---|---|---|---|
| 2. Access and Equity | Risk that the project activities may exacerbate the existing inequalities with regards to access to resources and economic opportunities<br><br>(Low risk) | Components of the proposed project are to combat inequalities by focusing support on locally-led, early-stage gender- and youth inclusive adaptation SMEs. | EE PMU, EE partners | %age completion of the overall project implementation | Assess project completion annually through the annual progress reports | No Additional budget |
| | | The project is designed to focus on improving access to finance and capacity building for marginalised climate adaptation business owners. | EE PMU, EE partners | Proportion of marginalised climate adaptation business owners accessing finances through the project per year | Annual impact assessment and quarterly reports by SMEs (see project document M&E arrangements) | No Additional budget (included under output 2.3 fees) |
| | | Sensitize and create awareness, ensure in-depth consultations with communities and stakeholders are conducted throughout project | EE PMU, EE partners Adaptation SMEs | Number of consultations per year<br><br>Stakeholder map of | Annually review the documentation of the consultations implemented | No Additional budget (included |

| | | | | | | |
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| | | implementation to ensure that any barriers to access and equity can be overcome in line with the AF's ESP.<br>The IE would begin with a stakeholder mapping exercise to identify other marginalised or vulnerable groups that may face barriers to access and equity in the project's context. Continuous monitoring during the project implementation will be conducted against this stakeholder map. | | additional groups that may face barriers to access and equity | | under output 1.2 fees) |
| 3. Marginalised and Vulnerable groups | The project activities may pose a minor risk of excluding marginalised groups in the implementation of the project activities – whether as direct beneficiaries or indirect beneficiaries of the project activities.<br><br>(Low risk) | Put in place measures to ensure marginalised groups are included in the steering committee while making sure that the application process is accessible to as many as possible and creating inclusive scoring criteria for the selection of adaptation SMEs. SMEs will also be evaluated on the social inclusivity of their business models. | EE PMU,<br>EE partners<br>Adaptation SMEs | No of measures put in place | At the beginning of the formation of the steering committee, documentation of measures and results achieved will be reviewed | No Additional budget (included under output 2.1 fees) |
| | | Conduct an in-depth assessment at the start of the project and undertake further stakeholder consultations during project implementation to assess and take action as needed to avoid and mitigate further risk of excluding marginalised and vulnerable groups. | EE PMU,<br>EE partners<br>Adaptation SMEs | No. of assessments conducted | At the start of the project, by reviewing documentation of assessments conducted | No Additional budget (included under output 2.4 fees) |
| | | At the PMU, there shall be a specialist or a focal point on targeting and social inclusion (gender, youth, ethnic minorities, PwD). | EE PMU | No of specialist or focal points on targeting and social inclusion | During the monitoring and evaluation system set-up | No Additional budget (included under output 2.4 fees) |
| | | The Project M&E system shall collect data disaggregated by sex, age and ethnicity and monitor investments in high poverty and climate vulnerable regions and villages. | EE PMU,<br>EE partners<br>Adaptation SMEs | Level of Data disaggregation | Review of database established from the application process, with the relevant data from all applicant SMEs. After the implementation of | No additional budget (included under output 2.4 fees) |

| | | | | | | |
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| | | | | | each workshop, by reviewing the updated database of participant SMEs and their representatives. | |
| 5. Gender Equality and Women's empowerment | The project targets communities where the gender gap is significant. The project may thus pose a risk that women may not benefit equally from the project activities.<br><br>(Low risk) | During implementation, the project shall encourage applications/target female (and youth) led SMEs as well as SMEs with business models that empower women and youths (gender- and youth inclusive adaptation SMEs).<br><br>For example, designing outreach and communication in a gender sensitive manner to ensure fair representation of women-led enterprises. This can be done through:<br>• Working with women-empowerment support groups to ensure the language used in project outputs are gender-sensitive;<br>• Using a quota system to ensure fair representation of women-led MSMEs in all project components. A defined % of participation of adaptation SMEs should be from women-led businesses;<br>• In the selection process, to award SMEs that have fair representation of female staff.<br>• Hosting Utilising practical tools in the capacity building workshops and co-creation labs with financial institutions to foster higher social inclusion in the entrepreneur ecosystem. | EE PMU,<br>EE partners<br>Adaptation SMEs | Number OR %age of supported female (and youth) led SMEs as well as SMEs with business models that empower women and youths. | Review of database established from the application process, with the relevant data from all applicant SMEs. After the implementation of each workshop, by reviewing the updated database of participant SMEs and their representatives | No Additional budget (included under output 2.1 fees) |
| 6. Core labour rights | There is a risk that a large number of early-stage gender- and youth inclusive adaptation SMEs targeted by the project | To mitigate and avoid gross violations of labour rights, the project will employ a thorough due diligence process of the value chains when selecting the early-stage climate-adaptation SMEs. | EE PMU,<br>EE partners<br>Adaptation SMEs | Enterprise tools to support SMEs to develop a plan for adhering to core labour standards of the ILO developed and applied | Before the implementation of each Catalyser and Accelerator cycle, the toolkits designed and adjusted will be | No Additional budget (included under output 2.4 fees) |

| | | | | | | |
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| | may operate informal businesses and utilise informal contracts when hiring staff, lack compliant working conditions, or lack enforcement for occupational health and safety standards in line with International Labour Organisation standards.<br><br>(Low risk) | To further encourage the protection of informal workers, a Tool will be developed to empower MSME entrepreneurs to aspire and adhere to the core labour standards of the ILO.<br><br>Additionally, an annual impact assessment will be conducted with the MSMEs supported under the project to ensure standards are continuously upheld. | | in practice.<br><br>Social & environmental impact assessment framework developed and conducted at different project intervals | reviewed, to assess the pertinence of the tools.<br>The tools shall be adjusted if needed after learning from each cycle | |
| 7. Indigenous Peoples | There is a risk that selected SMEs operate within existing default social biases that exclude indigenous peoples to partake in the promoted business activities, thus denying them the improvement of livelihoods or business services.<br><br>(Low risk) | Adaptation SMEs targeted will be screened for any work with or in any community of indigenous peoples. SMEs that are will be encouraged to support indigenous peoples' participation and will consult them to obtain Free, Prior and Informed Consent (FPIC) at every step of implementation. | EE PMU,<br>EE partners<br>Adaptation SMEs | Number of indigenous peoples consulted and supported (if applicable) | After the due diligence process, the documentation will be reviewed to register the SMEs that work with indigenous communities.<br>Furthermore, after each consultative meeting, the documentation of participants will be reviewed to assess and monitor the participation of indigenous peoples | No Additional budget (included under output 2.4 fees) |
| 9. Protection of natural resources | There is a risk that the early-stage gender-and youth inclusive adaptation SMEs may operate business activities that may cause harm to natural habitats.<br><br>(Low risk) | The PMU shall monitor that SMEs selected will not encroach or affect natural habitat in any way and propose risk mitigation measures in case of any identified risk. | EE PMU,<br>EE partners<br>Adaptation SMEs | Regular M&E reports | The monitoring will be conducted in alignment of respective regulations e.g. Environment Management and Coordination Act (Kenya), Sustainable Waste Management Act (Kenya) and the National | No Additional budget (included under output 2.4 fees) |

| | | | | | | |
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| | | | | | Environmental Act (Uganda). SMEs shall report quarterly | |
| | | In the framework of the due diligence process, the project will also ensure that Environmental and Social Impact Assessments (ESIAs) are undertaken for specific relevant activities as may be required by the national laws. | EE PMU, EE partners Adaptation SMEs | ESIAs undertaken where required | | No Additional budget (included under output 2.4 fees) |
| 10. Conservation of biological diversity | Risk of maladaptation due to lack of complete information or lack of resources in implementing business activities, where businesses resort to the cheapest or quickest option available.<br><br>(Low risk) | The project aims to address the identified support gaps through the proposed components and activities. | EE PMU, EE partners Adaptation SMEs | Enterprise tools as needs assessments to identify support gaps, and further enterprise tools to support SMEs to identify biodiversity hazards and implement environmentally friendly business best practices. | Before the implementation of each Catalyser and Accelerator cycle, the toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools.<br>The tools shall be adjusted if needed after learning from each cycle | No Additional budget (included under output 2.4 fees) |
| | | During implementation, the project shall employ thorough due diligence processes on SMEs to identify any risk and impact relating to habitat and species loss, land degradation and fragmentation, overexploitation, invasive alien species, hydrological changes, nutrient loading, pollution, incidental taking of species, potential climate change impacts, and the various values that project stakeholders and communities place on biodiversity and ecosystem services, The Project will take preventive actions accordingly in consultation with biodiversity experts. | EE PMU, EE partners Adaptation SMEs | A due diligence framework used to evaluate all shortlisted SMEs for support phases | Due diligence frameworks to be defined | No additional budget (included under output 2.4 fees) |
| | | Additionally, Tools will be developed as part of the capacity building workshops to support enterprises to avoid creating biodiversity hazards. | EE PMU, EE partners Adaptation SMEs | Enterprise tools to support SMEs to identify biodiversity hazards and develop | Before the implementation of each Catalyser and Accelerator cycle, the | No additional budget (included |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | environmentally friendly business best practices. | toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools.<br>The tools shall be adjusted if needed after learning from each cycle | under output 2.4 fees) |
| 11. Climate change | Gender- and youth inclusive adaptation SMEs may during the project implementation still engage with conventional production activities such as the employment of carbon-intensive machinery that produces GHG emissions.<br><br>(Low risk) | Specific Assessment Frameworks will be used to identify maladaptive action and to derive scoring criteria for the selection of adaptation SMEs under the project (see Part II, Chapter A, Project activities 2.1.1.3 Screening and shortlisting of applicants). The assessment will include criteria that seeks out climate mitigation co-benefits of SMEs such as technology innovation, use of clean energy and green job creation. | EE PMU,<br>EE partners<br>Adaptation SMEs | Assessment Frameworks with climate-mitigation co-benefits developed<br><br>Number of enterprises assessed against the Assessment Framework | Assessment frameworks to be defined | No Additional budget (included under output 2.4 fees) |
| | | In efforts to avoid unjustified increase in GHG emissions and solidify the climate-adaptation capabilities of MSMEs, the workshops will incorporate Tools to support businesses to monitor and manage their carbon emissions as well as invest in low-carbon alternatives as replacements in the long term.<br><br>The Regional Coordination Platform in Component 1 will facilitate the promotion of green finance opportunities to incentivize low carbon investments from the SMEs. | EE PMU,<br>EE Partners,<br>Adaptation Action Steering Committee | Enterprise support Tools to support businesses in monitoring and managing their carbon emissions | Before the implementation of each Catalyser and Accelerator cycle, the toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools.<br>The tools shall be adjusted if needed after learning from each cycle | No additional budget (included under output 2.4 fees) |
| 12. Pollution Prevention and Resource Efficiency | It may be the case that the value chains of early-stage gender- and youth inclusive adaptation SMEs still | Awareness creation and advocacy for resources efficient production methods among the selected adaptation SMEs | EE PMU,<br>EE<br>partners<br>Adaptation SMEs | No of awareness creation forums | | No Additional budget (included |

| | | | | | | |
|---|---|---|---|---|---|---|
| | employ resource inefficient production methods and are unable to minimise material use effectively, due to constraints such as lack of finance to obtain modern low carbon machinery.<br><br>(Low risk) | | | | | under output 1.2 fees) |
| | | The Regional Coordination Platform will incentivise SMEs that are practicing resource efficient production and provide opportunities for SMEs to further invest in pollution prevention by offering green-finance matching with financiers. | EE PMU,<br>EE partners<br>Adaptation SMEs | No of SMEs granted Performance-based Payments<br>No of SMEs accessing loans from the blended finance mechanism | At the screening and selection of each Accelerator cycle, the enterprises selected will be matched with FIs. A record and matchmaking guide will be kept | No additional budget (included under output 2.3 fees) |
| | | The value chains of SMEs will be assessed at selection stage and during support phase as part of the due diligence process. Due diligences will be conducted by in-country partners to screen businesses shortlisted for participation in the programme. | EE PMU,<br>EE partners | No of SMEs assessed in the due diligence process | Due diligence framework to be defined | No additional budget (included under output 2.4 fees) |
| | | The project incorporates Tools that promote and enable SMEs to innovate and adopt resource efficiency practices to further mitigate and avoid risks from the use of resource inefficient production methods. | EE PMU,<br>EE partners | Enterprise support Tools to support businesses in monitoring and managing their carbon emissions developed | Before the implementation of each Catalyser and Accelerator cycle, the toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools.<br>The tools shall be adjusted if needed after learning from each cycle | No additional budget (included under output 2.4 fees) |

**Appendix 3: Grievance Mechanism**

1. Further, the beneficiaries and stakeholders of the project will have access to a Grievance Mechanism which is described below. Complaints and feedback can be filed through different channels, in order to make it as inclusive as possible.
The Grievance Mechanism will be developed in line with UNIDO's system of Report Wrongdoing or adverse Environmental and Social Impacts. The grievance mechanism will be shared with the project implementors during project kick-off meetings and with project beneficiaries in subsequent meetings.
As part of the grievance mechanism, the contact details (email, phone numbers, addresses) of the IE, EE and EE partners will be made available to stakeholders (including beneficiaries and communities). Contact details of all project partners will be displayed in the common channels and documents of the project; including for example, the project website, publications, and presentations.

2. **Channels to report complaints**
Details of the grievance mechanism will be made available on the project website for all parties to access. Information about where, how and when a complaint can be submitted – through digital and/or analogue form submission, email, or verbally – will also be specified. Specific contact persons will be appointed as grievance ombudsman to manage the proper and transparent handling of the complaints. Additionally, the Adaptation Fund's grievance mechanism will also be made available to all parties through the same channels.

3. **Processing complaints**
All complaints will be recorded with an identifier (a complaint number), first actions to be taken and an expected timeline for response.
All complaints will be initially processed by the EE, they will be designated a category (for example within the environmental category, complaints related to biodiversity loss, pollution, resource depletion, etc, within the social category complaints about violation of land tenure or resource use right, health and safety, disruption of livelihoods, involuntary resettlement, and other categories such as market dynamics, etc). The complaint shall then be assigned to a team member within the EE or the executing partners (depending on the country from which the complaint was received) who is experienced -in the topic. E&S topics will be assigned to the social and environmental safeguards focal point or specialist to conduct the investigation. Market dynamics topics can be investigated by the executing partners, or a team member from the EE, proficient to address market related grievances adequately,-when the topics can be addressed from a project design perspective. The final processing stage of reviewing the investigation results and communicating the response will be conducted by the EE.

<table>
<tr><td colspan="6">Complaints submitted</td></tr>
<tr><td colspan="2">a) Community matters</td><td colspan="2">b) Project partners & implementors</td><td colspan="2">c) Project design</td></tr>
<tr><td colspan="6">1. Receive and acknowledge</td></tr>
<tr><td colspan="6">2. Assess and assign to responsible party</td></tr>
<tr><td colspan="6">3. Investigate within 4 days</td></tr>
<tr><td colspan="6">4. Respond within 8 days</td></tr>
<tr><td colspan="6">5. Response from complainant</td></tr>
<tr><td colspan="3">5 a. Accept and received successfully</td><td colspan="3">5 b. Appeal (decision within 30 days)</td></tr>
<tr><td colspan="6">6. Follow up and close</td></tr>
</table>

*Figure 3. Complaints mechanism flow chart*

4. Besides an indicator of something gone wrong, complaints and grievances also serve to provide valuable feedback and information that can help to improve program delivery. All project stakeholders are therefore actively encouraged to use the grievance mechanism.

**Annex II- Gender Assessment and Gender Action Plan**

**Part I: Gender Assessment**

## 1. Background, Purpose and Methodology of the Assessment

This gender assessment is created to provide an overview of the gender-responsive components in the project proposal *Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small, and Medium-sized Enterprises in Kenya and Uganda*. To ensure effective project implementation, it is crucial to understand the unique needs and capacities of both men and women. Therefore, a gender analysis was conducted to examine gender differences in terms of vulnerability, roles, responsibilities, challenges, and opportunities. This analysis will help to incorporate gender considerations into project activities and develop a gender-based action plan for implementation. The gender assessment was conducted alongside the development of the project proposal, to inform the gender-responsive implementation and monitoring, as well as gender-responsive indicators. The aim is to describe gender differences, analyse gender-differentiated impacts and risks and employ an intersectional approach which explores specific needs and perspectives related to vulnerable gender sub-groups. This assessment and the action plan will contribute to a more equitable distribution of anticipated project benefits, by identifying opportunities to address harmful gender norms and power structures, and target persistent gender gaps through specific measures.

Gender norms and cultural rules play a significant role in shaping human interactions and responses to climate threats and opportunities. Climate change impacts men and women differently due to existing gender inequalities, discrimination, and social exclusion. These barriers limit women's access to resources, legal rights, political participation, and decision-making, making them more vulnerable to climate change's negative impacts. To address this, it is essential to promote gender equality and support gender-equitable processes, such as empowering women and girls and changing gender norms. By acknowledging the different adaptation needs, priorities, and capabilities of men and women, this project can increase the adaptive capacity within its scope. The Fund's gender policy integrates key principles, including access and equity, consideration of marginalized and vulnerable groups, and human rights. It aims to achieve the goal of gender equality and women's empowerment through its processes. The policy acknowledges the need to apply an intersectional analysis to address gender-related differences in vulnerability and ability to adapt to climate change impacts. It recognizes that these differences depend on various factors, such as economic profile, societal structure, specific climate impacts, livelihoods, sociocultural factors like class, age, or race, and other societal changes brought on by globalization, migration, urbanization, and economic development. The gender assessment contributes to a more inclusive project and goals, specifically the creation of a Gender Action Plan (GAP) which can be found in the sections below.

The assessment gathers project-relevant gender data and other relevant variables that are key to highlighting gaps and ensuring gender-responsive programming. The assessment utilizes most recent data on gender statistics available for both countries. These data points aim to reflect the situation of gender and the relating burdens from a nation-wide lens. Although online data sources were a strong source of the data gathered, other sources such as key informant interviews, stakeholder consultation sessions, and focus group discussions with target groups aided in ensuring the regional, cultural, and social realities. By using qualitative evidence, that was collected through stakeholder consultations in person, as well as interview with key experts, as well as quantitative evidence (disaggregated where possible), the assessment seeks to provide a comprehensive perspective. Additionally, it is important to note that this gender assessment differentiates between primary beneficiaries, which are individuals/SMEs who directly receive benefits from the project; and secondary beneficiaries which are the people who attain benefits from the SME products or services. The following assessment will provide a basic overview gender-related information in the countries (health, education, and economic activities in both countries, including a concise explanation of the role of patriarchal structures, customary law and legal barriers women and girls face); analyse the gender-responsive aspects for the project outcomes and conclude with a brief overview of policies focused on enhancing women’s empowerment.

## 2. Basic overview of gender-related information in the countries

The Gender Inequality Index (GII) was developed by the United Nations Development Programme (UNDP) in 2010 to measure gender inequality. It considers three dimensions of gender inequality: reproductive health, empowerment, and economic activity, and is scored from 0 (gender equality) to 1 (gender inequality), with higher values indicating greater inequality. Additionally, the GII measures gender-based violence, such as human trafficking and honour killings. In contrast, the Global Gender Gap Index (GGGI) is a tool introduced by the World Economic Forum (WEF) in 2006 that assesses gender parity across four areas: economic participation and opportunity, educational attainment, health and survival, and political empowerment. The GGGI ranges from 0 (gender inequality) to 1 (gender parity) and includes factors such as women's representation in senior leadership positions, wage equality, and political participation. Both indices are useful for tracking progress towards gender equality and highlighting areas that need further attention.

Kenya ranks 126th out of 162 in the Gender Inequality Index (GII)[1] of 2020 and 95th out of 156 in the Global Gender Gap Index 2022[2], which means there is also considerable effort needed to empower women. The World Bank estimates that 50.3% of the population of Kenya are women[3]. 23.3% of the seats in the Kenyan parliament are held by women[4]. According to the Malaria Indicator Survey of 2020, 31% of Kenyan households have a female head[5]. These indicators point to a large overall disparity between the genders in this country.

[1] UNDP Human Development Reports, Gender Inequality Index 2020 https://hdr.undp.org/data-center/thematic-composite-indices/gender-inequality-index#/indicies/GII

[2] World Economic Forum, Global Gender Gap Report 2022 https://www.weforum.org/reports/global-gender-gap-report-2022

[3] United Nations Population Division. World Population Prospects: 2019 Revision https://data.worldbank.org/indicator/SP.POP.TOTL.FE.IN

[4] World Economic Forum, Global Gender Gap Report 2022 https://www.weforum.org/reports/global-gender-gap-report-2022

[5] UNDP Human Development Reports, Gender Inequality Index 2020 https://hdr.undp.org/data-center/thematic-composite-indices/gender-inequality-index#/indicies/GII

Uganda ranks 131st out of 162 in the Gender Inequality Index (GII) of 2020[1] and 66th out of 156 in the Global Gender Gap Index 2022[2], meaning there is a significant effort needed to reach equality of genders. 50.7% of the Ugandan population is female as per World Bank estimates[3]. As of 2020, 34.9% of the seats in the Ugandan parliament are held by women[4]. According to the Malaria Indicator Survey of 2019, 28.3% of Ugandan households have a female head[5]. These numbers show the apparent significant gender gap with the country.

*Health*

Kenya: According to the UN Population Division, the fertility rate is 3.4, which points to a significant decrease in births over the past 50 years, with the fertility rate being at 8.1 in 1970f[6]. The maternal mortality in Kenya is estimated at 342 per 100,000 live births, while the adolescent birth rate is at 75.1 per 1000 women aged 15-19, as per the Gender Inequality Indemx[1]. Childbearing continues to pose an additional risk to women in Kenya. The percentage of married women using a form of modern contraceptive from the ages 15-49 in 2018 is 60.5%[7]. The general life expectancy at birth in Kenya is 67, for men its 65 and women its 69[8]. The World Health Organization Global Health Expenditure states that the out-of-pocket expenditure on health for Kenyans is 24.3% of their total health expenditure in 2019[9].

Uganda: The fertility rate is 4.7 according to the UN Population Division. While there is also a significant decrease in births over the past 50 years here, it's not as staggering as in Kenya, with the fertility rate being at 7.1 in 1970 in Uganda[6]. The Gender Inequality estimates Uganda's maternal mortality at 375 per 100,000 live births and the adolescent birth rate 118.8 per 1000 women aged 15-19[1]. The percentage of married women using a form of modern contraceptive from the ages 15-49 in 2018, is 36.5%[7]. Life expectancy at birth is a total of 64 years, with men's rate lying at 61 and the women's rate at 66[8]. The World Health Organization Global Health Expenditure states that the out-of-pocket expenditure on health for Ugandans is 38.3% of their total health expenditure in 2019[9]. Uganda tends to have more out-of-pocket expenditure than Kenya and a significantly higher fertility rate, this along with the other statistics points to a health system lagging.

*Gender-based violence*

Based on the UN's global database on violence against women[10], Kenya has a high prevalence of multiple forms of violence. 40.7% of Kenyan women aged 15 to 49 will experience physical and/or sexual intimate partner violence in their lifetime. 25.5% of Kenyan women aged 15 to 49 have experienced physical and/or sexual intimate partner violence in the last 12 months. 22.9%of Kenyan women aged 20 to 24, were first married before the age of 18, i.e., as a minor. 21% of Kenyan women aged 15 to 49 have undergone some type of female genital mutilation or cutting. There have been past and current efforts to lower the number of women in Kenya that suffer from these multiple forms of gender-based violence.

Based on the same data set from the UN's global database on violence against women, Ugandan women face a high prevalence of multiple forms of violence as well[11]. 49.9% of Ugandan women aged 15 to 49 will experience physical and/or sexual intimate partner violence in their lifetime. 29.9% of Ugandan women aged 15 to 49 have experienced physical and/or sexual intimate partner violence in the last 12 months. 34% of Ugandan women aged 20 to 24, were first married before the age of 18, i.e., as a minor. 0.3% of Ugandan women aged 15 to 49 have undergone some type of female genital mutilation or cutting, a significantly lower number than in Kenya. Like Kenya, in Uganda there is significant effort to lower these numbers via policies as well.

*Education*

According to the Education Statistics by the World Bank estimates of 2010, the following percentage of the female Kenyan population over 25 have obtained these levels of education, 47.1% have primary schooling (54.1% of men in comparison), 18% have secondary schooling (25.7% for men), and 1.5% have tertiary schooling (2.9% for men)[12]. The numbers for Ugandan women in 2012 over 25 are the following, 24% have primary schooling (42.3% of men in comparison), 6.4% have secondary schooling (13.9% for men), and 5.5% have tertiary schooling (11.1% for men). These all indicate a large gender gap in the realm of education, and throughout the educational path[13].

*Women in Economic Activities*

According to the World Bank the labour force participation rate for ages 15 and older is 72.1% of women and 77.3% of men in Kenya; and 67% of women and 73.9% of men in Uganda[14]. The 2019 World Development Indicators by the World Bank estimates that the following percentage of the Kenyan population participating in the labour force is employed in the following sectors: 1.6% of women and 10.6% of men are employed in the industry, 39% of women and 39.8% of men are engaged in the service industry, and 59.3% of women and 49.6% of men work in agriculture[14]. For Uganda, 3.2% of women and 9.7% of men are employed in the industry, 20% of women and 22.6% of men are engaged in the service industry, and 76.8% of women and 67.7% of men work in agriculture[14]. The sectors of service and agriculture play the leading roles in Kenyan society, while Uganda agriculture remains the predominant industry for employment. SMEs and self-employment are the dominant sources of income for Kenyan and Ugandans. Global Findex Database estimates that in 2017

[6] United Nations Population Division. World Population Prospects: 2019 Revision https://data.worldbank.org/indicator/SP.DYN.TFRT.IN

[7] United Nations Population Division https://data.worldbank.org/indicator/SP.DYN.CONM.ZS

[8] United Nations Population Division. World Population Prospects: 2019 Revision https://data.worldbank.org/indicator/SP.DYN.LE00.FE.IN

[9] World Health Organization Global Health Expenditure database 2022 https://apps.who.int/nha/database

[10] United Nations Women. Global Database on Violence against Women https://evaw-global-database.unwomen.org/en/countries/africa/kenya

[11] United Nations Women. Global Database on Violence against Women https://evaw-global-database.unwomen.org/en/countries/africa/uganda

[12] Education Statistics. World Bank https://datatopics.worldbank.org/education/country/kenya

[13] Education Statistics. World Bank https://datatopics.worldbank.org/education/country/uganda

[14] World Development Indicators. World Bank https://datacatalog.worldbank.org/search/dataset/0037712

27.2% of Ugandan women and 31.4% of Kenyan women started saving or setting aside any money in the past 12 months to start, operate, or expand a farm or business[15]. However, there is a low number of enterprises that operated under female ownership. In Kenya, 31.4% of small and medium-sized enterprises (SMEs) are owned by women, 48% by men, and 17% are co-owned by both genders. Notably, 61% of unlicensed SMEs are women-owned, while only 6.4% are owned by men[16]. This indicates that women may struggle more with regulatory compliance, possibly due to high costs or unfavourable regulations. Women-led SMEs also face challenges in raising start-up capital due to a lack of collateral and often lack essential entrepreneurial skills. Although the government and NGOs have made efforts to support women-led SMEs, the COVID-19 pandemic has likely exacerbated gender disparities and slowed progress towards gender equality in SME performance. In Uganda, women own about 38.2% of businesses, showcasing a strong presence of female entrepreneurship[17]. However, these women face significant challenges. They typically earn around 30% less in profits compared to male entrepreneurs and often struggle with limited access to capital and are predominantly involved in lower-value sectors[17]

Due to patriarchal structures and customary laws imbedded in Kenya and Uganda cultures the livelihoods of agricultural producers are directly affected, as women lack access to and control over their assets, resources, and livelihood earnings.[18] For example, according to Carranza and Niles (2019) survey only 75% of women were able to choose the crop varieties and only 50% could make decisions on how the income earned should spent.[19] This problem not only manifests itself within entrepreneurship ownership and the management of crops but also affects women abilities to fully determine their own livelihood trajectories. Parallel to this woman face pressures from parental and household care roles, one of the main challenges that women face in these countries is a lack of support for working mothers. Many women are expected to take on a significant share of the household and childcare responsibilities, even if they are also working outside the home. This can make it difficult for them to find the time and energy to pursue their careers and advance professionally. In addition, women in Kenya and Uganda may face barriers to accessing affordable and reliable childcare services. These services are often scarce, and the cost of private childcare can be prohibitively expensive for many families. This can make it difficult for women to work outside the home, as they may be unable to find adequate childcare for their children. Therefore, overall women face significant barriers to economic success and independence due to barriers to accessing resources and additional workload pressures from childcare and household responsibilities. However, despite new laws being put in place such as the Kenyan matrimonial property act (2013) and Uganda's land act & national land policy, which guarantee Women's land ownership rights, women still only own 13.2% in Kenya (2018) and 10.2% in Uganda (2013).[20] It is crucial for policy makers to ensure that future plans aim towards ensuring better access to resources for women in these countries.

*Social Institutions' Treatment of Women*

The Social Institutions and Gender Index (SIGI), which was developed by the Organization for Economic Cooperation and Development (OECD), focuses on measuring the discrimination towards women from social institutions. The index groups indicators into 4 sub-indices: discrimination in the family, restricted physical integrity, restricted access to productive and financial resources and restricted civil liberties across 179 countries[21]. The scores range from 0 to 100, with 0 indicates no discrimination and 100 indicates absolute discrimination. Overall Kenya has a score of 35.6 and Uganda has a score of 28.9, whereas the global average is 30 and the average on the African continent is 40.6. The sub-index discrimination in the family focuses on power dynamics within the household. Here Kenya scores 40.1 and Uganda scores 40.8, Kenya score particularly high in discriminating laws on inheritance, as legally women do not have the same rights as their male counterparts to inherit. Regarding child marriage, 12% in Kenya and 20% in Uganda of girls and only 1% of boys aged 15 to 19 are or have been married, showing a discrepancy between the genders. The second sub-index focuses on "restricted physical integrity" by gathering data related to areas that relate to bodily and reproductive autonomy. Kenya scores 30.6 and Uganda scores 37.7. Both countries score high in relation to lack of laws protecting a women's right to a legal and safe abortion. Kenya only protects the right when it saves the woman's life or when the pregnancy is the result of rape, statutory rape or incest, whereas Uganda does not provide rights under any circumstance. The third sub-index assess the level of "restricted access to productive and financial resources" by looking at women's authority over essential productive and economic resources. Uganda scores low on this dimension, with 28.2, meaning there is less discrimination towards women. Kenya scores 44.7, somewhat high, as for example women do not have equal rights as men under the law to access credit. The last sub-index determines the degree of "restricted civil liberties" encompassing societal establishments that hinder women's entry, involvement, and expression in the public and social domains. Here Uganda scores very low with 5.1 and Kenya scores 25.8 out of 100. The higher score in Kenya is primarily due to gender disparities when applying for documentation related to travel outside the country.

It is also important to note that despite Uganda having extensively developed institutional framework for action on climate change, and the potential for gender equality to yield greater returns to economic growth and sustainable development, gender considerations are overlooked in the country's policies Whereas Kenya, although gender and women's rights are not addressed in detail in other climate change policies, the Kenya National Climate Change Action Plan recognizes and focuses on gender and women's issues[22].

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[15] Global Findex Report. World Bank. https://www.worldbank.org/en/publication/globalfindex

[16] OXFAM (2022) A gendered analysis of institutional and government Small and Medium enterprises-related policies in Kenya: https://oi-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/kenya.oxfam.org/s3fs-public/file_attachments/Report%20on%20A%20gendered%20analysis%20of%20Governmet%20and%20Institutional%20SME-Related%20Policies%20in%20Kenya.pdf

[17] World Bank Blogs (2022) Strengthening Uganda's Economic Growth with Support to Women Entrepreneurs: https://blogs.worldbank.org/en/africacan/strengthening-ugandas-economic-growth-support-women-entrepreneurs

[18] Balasubramanian et al., 2018; Assiimwe, 2011; Doss et al., 2015; Karanja, 1991 (from first submission)

[19] Carranza and Niles (2019) (from first submission)

[20] World Development Indicators. World Bank https://datacatalog.worldbank.org/search/dataset/0037712

[21] OECD Development Centre's Social Institutions and Gender Index (SIGI) 2023 https://www.oecd.org/stories/gender/social-norms-and-gender-discrimination/sigi

[22] Matheka, J. (2018) Gender Mainstreaming and Climate Change https://icj-kenya.org/news/gender-mainstreaming-and-climate-change/

*Cultural Norms*

The Ugandan and Kenyan societies are rooted in patriarchal norms, and it is particularly evident in rural areas where the patriarchy is still deeply ingrained. In rural households without modern amenities, women are primarily expected to be housewives, responsible for household chores, child-rearing, and working the land. Men, on the other hand are expected to be responsible for providing financial support to the family. Often men from rural communities will leave for better employment opportunities in urban areas, leading to an increase in women's workload. While there is more gender equality in urban areas, it is not yet widespread.
One of the most discriminatory and violent cultural practices is female genital mutilation (FGM), which is prevalent in many communities and violate the rights of girls and young women. As mentioned in the gender-based violence a significant number of women and girls suffer under the practices of genital mutilation. FGM is seen as a rite of passage, it perpetuates inequality between girls and boys, as boys are not required to mutilate their bodies. This constitutes a severe infringement of girls' rights. Nevertheless, these detrimental customs are generally deeply rooted in social conventions, particularly in marginalized and difficult-to-access communities.

## 3. Gender-responsive considerations for the Project outcomes

Gender and Adaptation to Climate Risks

Studies have shown that climate change is not neutral, and it has more adverse impacts on women than men. Multiple factors contribute to this related to the vulnerabilities of women, and coping capacities, the main factor being associated with the socio-economic status of women and their gender-specific roles in agriculture.[23] Women, in particular, are often more vulnerable to the impacts of climate change due to their traditional roles as primary caregivers and providers of food and water in many societies. Moreover, women are also more likely to experience gender-based violence in the aftermath of climate disasters, as disasters often disrupt social norms and increase stress, leading to increased incidents of violence against women. Women's reduced mobility and lack of access to resources such as healthcare and education also make them more vulnerable to the impacts of climate change. In many societies, women are responsible for the majority of unpaid care work, such as childcare, cooking, and cleaning. This means that when climate change leads to increased water scarcity or food shortages, women's already heavy workload is often exacerbated, making it more difficult for them to adapt to changing conditions. Moreover, in many societies, men are seen as the primary breadwinners, meaning that women have limited access to financial resources or decision-making power. This can make it more difficult for women to access the resources they need to adapt to climate change, such as improved agricultural technologies or water-saving measures.

As shown in the previous section, Kenya and Uganda’s economies are highly dependent on agriculture, which makes them also reliant on the climate and water. These areas are becoming increasingly affected by climate change and feel the implications immediately, especially for smallholder farmers which lack access to means to address the impacts on their crops. Additionally, agriculture is the central area of employment for women in both countries, in which women tend to be involved in agricultural production either as day-labourers for large scale agricultural producers or as head of smallholder plots. This is due to the movement of men predominantly towards urban centres to work on non-agricultural based jobs. However, despite this potential for improved decision-making process, women still face barriers to controlling their agricultural, land and financial resources due to patriarchal structures that persist, as explained in the section above. Therefore, despite women having most direct connections to their smallholder plots and agricultural climate, men within the families have been found to predominantly have more control on the decisions on what types of crops are grown, how profits are invested on the plot, and next steps forward about production. In addition to this, women are still burdened by additional family and childcare roles, that equate to additional daily working hours.[24] With regards to climate change, this makes women smallholder farmers especially vulnerable, as they tend to be the most knowledgeable of what is required for their specific climate challenges. In addition to this, women smallholder farmers tend to have less diversified forms of income, lower land ownership rates, and cultivate fewer cash crops than their male counterparts. In combination with less decision-making power and access to financial resources, this makes women in agriculture highly susceptible to the implications of climate change. However, men involved in agricultural productions specifically pastoralism also faced adverse risks during drought periods. Scholarship has highlighted pastoralist migration related conflicts during drought periods in Kenya’s dryland areas and Uganda’s cattle corridor. During this time, men who tend to have control of livestock, migrate in search of grasslands and water, however become faced by conflict with other communities resulting in severe injuries, death, or loss of livestock. However, during these times women, who do not migrate with men, are even more vulnerable as they now become primary sources of income, food shelter and child carers and yet their crop production still face the burdens of climate change. Scholarship, government, and NGOs have highlighted the importance for greater inclusivity of gender within policy and adaptation programs to ensure subtle differences are accounted for.

The project aims to tackle the susceptibilities by focusing on gender-inclusive and market-based climate adaptation solutions. The notion is to support the scale-up and replication of inclusive SMEs in Kenya and Uganda to empower women and make their business models more resilient to adverse effects. Through a catalytic financing mechanism, the creation of knowledge products, and multi-stakeholder dialogues, this project addresses adaptation SMEs’ access to critical networks, markets, and finance. Adaptation SMEs are generally considered highly inclusionary as their work directly fosters improved resilience to climate related challenges for women, youth, and other vulnerable groups. Likewise, they also provide employment within the communities for these groups. Despite this inclusionary nature, part of the nonfinancial technical support this project offers will also include gender, youth, and vulnerable group components to ensure the business models can be adapted so that these groups are more accurately included in both employment and as beneficiaries of the business products and services.
Gender-responsiveness and inclusion in the SME segment and access to finance

[23] Glazebrook, T., Noll, S., & Opoku, E. (2020). Gender matters: Climate change, gender bias, and women’s farming in the global South and North. Agriculture, 10(7), 267.

[24] Carranza and Niles (2019)

According to the SME Survey conducted by the Central Bank of Kenya in 2016, the distribution of SMEs by gender of business owners in Kenya was as follows: 47.9% of the licensed establishments were owned by men; 31.4% were owned by women, and 20.7% were jointly owned. Further, 60.7% of unlicensed establishments were solely owned by women[25]. While no data on such distributions was found for Uganda, it can be assumed that similar structures exist in Uganda. Despite the presence of women ownership of SMEs, women experience several barriers towards engaging with entrepreneurship.

1) Due to customary law and patriarchal structures, women are less involved within the labour force as they are often restricted to childcare and household management roles. As a result, they tend to be more engaged in smallholder agricultural practices, where they have limited control over their agricultural and financial resources.
2) Women are also less likely to access financial services offered by banks, such as loans. This is a crucial barrier to SMEs' success. In a sample survey on the Ugandan SME sector, 23% claimed that access to finance was their most significant obstacle to success. This is related to the disbursement of loans against collateral, which is often titled in the name of a male relative or not formally titled at all[26].This ultimately makes a woman on her own a 'risky' client in the eyes of a financial institution.
3) Women tend to have an educational background in areas other than business. Often capacity development programs do not provide tailored support for women entrepreneurs in this area while also providing the necessary skill to access funding. The report by Value for Women also identified a lack of access to networks as a key factor inhibiting the access to finance by women[17l].

The project proposed addresses these challenges by focusing on the following areas. First, the importance of the inclusion of women must already happen from the onset of the project by ensuring that the selection criteria of SMEs have specific sections that seek to maximize the inclusion, with the goal being that 50% of the company's employees or target group are women or youth. Second, the inclusion must go beyond the selection and into the programs, i.e., providing additional support or mentorship to women entrepreneurs or improving the gender- and youth-inclusiveness of all participating SMEs through targeted support modules (e.g. gender consideration in the work force, particularly in managerial and technical positions). Thirdly, the concept of the project offers opportunities to establish networks needed to access finance and capacity building for the financial readiness of women entrepreneurs.

In general, SMEs are highly inclusionary as they can create avenues for youth, women, and vulnerable groups to be included in national economies. Women and/or youth-inclusive adaptation enterprises as a sub-group and primary target group of this project are intrinsically motivated to overcome existing gender and/or other socio-economic inequalities in the socio-economic systems they operate in, aiming for a 50% gender and youth balance in their workforce and/or their primary customer base, and/or providing products that address the needs of women, girls, or youth. The promotion of such enterprises ensures greater inclusion of women and youth in economic activities and local value chains while increasing their climate resilience. The gender assessment presented here utilized in-depth desk research, key informant interviews and regional expert consultations to clarify

(a) the current challenges and opportunities women face in their involvement in entrepreneurship.
(b) specific vulnerabilities women face in their communities and economic sectors
(c) how the project design can be further improved to ensure greater favourability for their inclusion.

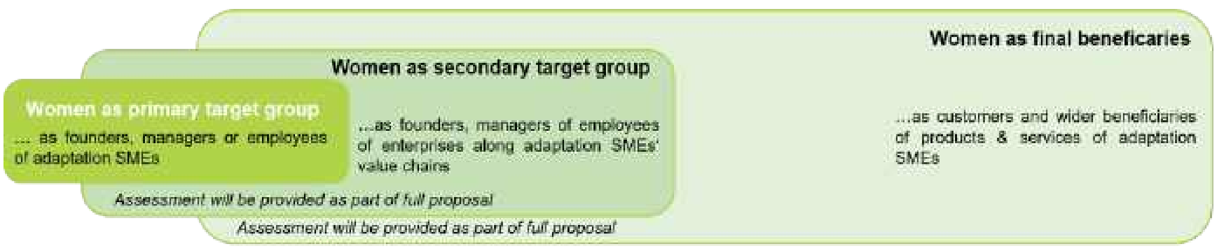


**Figure 5. Project gender inclusion approach**

Gender-responsive financing

The 2013 report by Value for Women identifies areas in which financial institutions are lacking gender-inclusive approaches[27]. While these financial institutions may not be outright discriminating against women, there is a lack of awareness on how 'gender-neutral' practices may still be creating gaps between men and women's access to finance. First, SMEs fall in the missing middle of enterprise finance as their needs are too large for micro-financing but too small and risky for commercial lenders, meaning they are not currently in the realm targeted by financial institutions. Commercial markets do not serve these early-growth stage companies because of inherent risks and unattractive returns. Yet there is a business case for these types of enterprises and, therefore, a lack of awareness from financial institutions on the benefits of investing in these enterprises. Second, these SMEs operate on low margins (e.g., grow low value crops, are culturally not involved in cash crop farming/ cattle rearing) and cannot afford to pay interest rates that would cover the operating costs and risks inherent for financial institutions to provide the seasonal working capital these businesses need. Some financial institutions lack tailored repayment approaches, thus not accommodating to the volatility of these types of SMEs. At the same time, financial institutions do not generally focus on agricultural enterprises, which is the sector in which most women in Kenya and Uganda are employed as smallholder farmers unless they are operating on a large scale. Lastly, they lack meaningful collateral as they often do not have customary land rights; or do not have the requisite credit track record (e.g., as they operate in the informal sector), which is mentioned section above as well.

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[25] Central Bank of Kenya. (2016). SME Survey [2016 Micro, Small and Medium Enterprises (MSME) Survey Basic Report - Kenya National Bureau of Statistics (knbs.or.ke)]

[26] Schiff, H., Fries, R., & Chambers, T. (2013). Beyond the Threshold: Investing in Women-led Small and Growing Businesses. Value for Women.

[27] Schiff, H., Fries, R., & Chambers, T. (2013). Beyond the Threshold: Investing in Women-led Small and Growing Businesses. Value for Women.

This project approaches these issues from two crucial angles. First adaptation-based lending, in which financial institutions in both countries are trained on adaptation concepts, SME market opportunities, climate strategies, and a co-creative multi-stakeholder process to prototype innovative adaptation finance instruments. This approach takes a gender-inclusive lens, meaning it addresses the identified factors that restrict women entrepreneurs from accessing finance and other resources to scale their businesses. In addition, the business advisory to be provided to women- and non-women-led SMEs will have a strong focus on how to improve the gender- (and youth-) inclusiveness of the adaptation products/ services offered by the participating SMEs. This aspect is crucial to tackle the nexus of adaptation and gender/ inclusiveness as women, youth and marginalised groups in Kenya and Uganda are the groups most vulnerable to climate change. Second, catalytic financing for gender- and youth-inclusive adaptation SMEs, meaning a performance-based blended financing mechanism, will be implemented. This will be used to provide access to loan products to SMEs that generally wouldn't access to these mechanisms. In combination with the training of the SMEs on financial readiness and gender-inclusive adaptation products/ services, the project aims to make gender- and youth inclusive adaptation SMEs in Kenya and Uganda attractive clients to financial institutions, and vice versa support financial institutions in their journey to becoming greener and more gender- and youth-inclusive.

Insights from National Stakeholder Consultations

Access to commercial financing is crucial for the growth and success of any business, especially for women entrepreneurs in Kenya and Uganda. Unfortunately, there are many barriers that prevent women from accessing commercial financing. These barriers can be grouped into two categories: internal barriers and external barriers. **Internal barriers** are those that are within the control of the entrepreneur. One major barrier is the lack of collateral, such as land titles or log books, which is often required by financial institutions as a form of security. Poor financial management is another barrier, as it makes it difficult for financial institutions to assess the creditworthiness of the business. Marital responsibilities and limitations can also limit women's ability to access financing, as husbands may not allow them to leave home or may not support their business ventures. Geographical marginalization and poor leadership among entrepreneurs are additional internal barriers that can hinder women's access to financing. Other internal barriers include poor entrepreneurial skills, limited exposure to business processes, inadequate business readiness for start-ups in terms of business management skills and leadership, low financial literacy and limited knowledge of available (funding) opportunities. Low literacy levels and limiting academic backgrounds can also pose challenges for rural women who may struggle to understand complex loan terms and language. Women entrepreneurs may also lack self-esteem, leading to a negative mindset towards loan repayment. Additionally, women entrepreneurs may have increased financial responsibilities on their families, leading to the diversion of business income towards other expenses.
**External barriers** are those that are beyond the control of the entrepreneur. High-interest rates on loans due to the failure of the funder to cap the interest rate and complex loan terms are major external barriers. The lack of access to legal identification, such as national IDs, due to bureaucratic processes is another challenge. Financial institutions often do not offer tailored support to women-led start-ups, and women may have limited access to networks for mentorship. The sector focus of investment opportunities can also be a barrier for women entrepreneurs, especially in the agriculture sector where women farmers more often focus on subsistence farming or crops with low commercial value (e.g. baobab or moringa) instead of growing cash crops. Also, language barriers can hinder women to access financing as the use of complex terms and terminologies impacts the understanding of financing opportunities. Limited infrastructure to access financial institutions and limited access to information are also significant external barriers. Moreover, whilst there is high penetration of mobile telephony in Kenya and Uganda and the reach of mobile money transfer services is extensive, women – especially in rural areas – often have limited access to digital banking services and mobile loans. Women may also face unfavourable work environments that do not allow them to bring their children to work. Gender bias is another significant external barrier, as society's perception of women as a lesser sex can lead to mistrust by financial institutions. For instance, this is particularly true in areas such as Karamoja/Uganda, where women's access to financing is especially limited. Women entrepreneurs may also be discouraged by negative experiences shared by others who have borrowed and struggled to repay their loans.
In conclusion, there are numerous barriers preventing women entrepreneurs from accessing commercial financing in Kenya and Uganda. Internal barriers such as poor financial management and inadequate business skills and financial literacy, and external barriers such as high-interest rates, gender bias, and limited infrastructure all contribute to this issue. Addressing these barriers will require a collaborative effort between the government, financial institutions, and the community to create an enabling environment for women entrepreneurs. Providing tailored support, simplifying loan terms, and offering mentorship and networking opportunities can help women entrepreneurs overcome these challenges and succeed in their business ventures.

In order to **improve the empowerment of women-and-youth** as part of investment readiness and enterprise support programs, various good practices have been highlighted during the stakeholder consultations in Kenya and Uganda that will be incorporated in the project (see selection below):

- Access to suitable training and mentorship formats
- Provide specific training opportunities, e.g. on financial literacy in women only cohorts, creating a safe and trustful environment for women entrepreneurs (and female management staff members)
- Ensure appropriate and flexible timing of training sessions to allow women to partake while ensuring they can tend to other obligations like caretaking of their families, children
- Ensure accessibility of the training sessions in terms of choosing venues close to the business premises/ the woman entrepreneur's residence (e.g. to reduce time to commute/ be away from the family)
- Provision of care giving services/ facilities (e.g. child play areas in training locations)
- Provide women with resources such as financial statement generators and loan officers visit to communities
- Set up associations for networking, investment club formations, knowledge-sharing platforms to improve self-confidence
- Creating more flexible financial products, excluding collateral on loans, tailored support based on business needs, capacity building grants, patient financing with longer grace periods
- Establish a women-youth business club with both online and physical presence to reach a larger audience, to provide information about various opportunities available for women

Gender-Inclusive Aspects for Consideration

As described in the sections above, women often face significant obstacles that hinder their full engagement and success in entrepreneurship projects. These challenges include limited access to essential resources like finance, technology, and training, exacerbated by discriminatory practices and the absence of gender-sensitive policies. Unequal participation in project activities and decision-making processes can persist due to cultural norms, confidence disparities, or systemic barriers, further limiting women's contributions. Additionally, the threat of gender-based violence within communities poses a serious deterrent, potentially preventing women from fully benefiting. To address these challenges, the project adopts measures such as designing with a gender-sensitive approach, providing targeted capacity-building programs to enhance women's skills, promoting inclusive leadership roles, and ensuring equitable access to resources irrespective of gender. As a first step, the project will continue to develop a gender analysis to understand the specific needs, constraints, and opportunities faced by women entrepreneurs in the target communities. This analysis informs the design of project activities and interventions that address these needs, such as providing tailored business development services, access to finance without gender biases, and skills training that considers the socio-cultural context. Promoting gender equality in leadership and decision-making within the project ensures that women have equal opportunities to participate and contribute effectively. Fostering partnerships with local women's organizations and networks enhances outreach, support, and sustainability of efforts to empower female entrepreneurs, creating a more inclusive and equitable business environment. Adopting a zero-tolerance policy towards discrimination and actively promoting inclusivity across all activities and programs is essential. This includes providing equal opportunities for participation and leadership roles to both men and women, such as on the regional steering committee.

The project's objectives, goals, and activities explicitly integrate gender equality perspectives from planning through to evaluation. Implementing gender-responsive monitoring and evaluation mechanisms ensures that project outcomes are measured in terms of their impact on both women and men, disaggregated by sex where applicable. This will help monitor progress and ensure the project delivers meaningful outcomes, Regular evaluation of the project's impact on gender equality, ensuring a balance in representation and leadership between genders, and aligning with donor policies and expectations are also key considerations. During this process, the project will collect attendance metrics, broken down by gender, age, and sector. The methodology will rely on participant feedback both during and after events to evaluate engagement, guide improvements, and track impacts, such as follow-up actions by participants like new collaborations or policy developments stemming from event participation. The project will ensure that all surveys, event registrations, and SME application forms capture gender-disaggregated data. This data will be verified through field visits and stakeholder interviews to ensure its accuracy. It will be used to identify gender-specific challenges and opportunities, such as barriers to finance for women-led SMEs, and to tailor interventions accordingly. The overall impact evaluations will separately track and analyze outcomes for men and women to ensure the project interventions provide equitable benefits. Findings from annual impact assessments and mid-term evaluations will be used to refine project processes and activities, which may include reconfiguring intervention designs or reprioritizing resources.

In addition, highlighting gender balance in communications about project outcomes and showcasing the diversity of participants underscores the project's commitment to fostering an inclusive environment. By leveraging the project team's expertise in gender-sensitive approaches and targeting media outlets with gender-sensitive messaging, it will amplify the project's message of inclusivity and equality. Moreover, by working closely with local partners with a strong gender focus and by engaging in targeted social media strategies, the project's gender-inclusive initiatives can be expanded and enhanced.

### 4. Policies and actors focused on enhancing women’s empowerment

Efforts to promote gender equality and women’s empowerment in Uganda and Kenya have led to the development of several policies aimed at improving the status of women in these countries. These policies cover a range of areas, including education, health, employment, and political participation, and include specific goals and targets for improving the lives of women and girls. In this following list, some of the key policies in Uganda and Kenya that are focused on enhancing women’s empowerment and gender equality we be reviewed briefly.

*Policies*

| Country | Policies | Description |
|---|---|---|
| Kenya | The Constitution of Kenya | The Kenyan Constitution includes several provisions that seek to promote gender equality and women's empowerment. For example, Article 27 guarantees equal treatment and protection of the law for all citizens, regardless of their gender. |
| | The Affirmative Action Act: | This act requires public institutions to take affirmative action to ensure that women are adequately represented in leadership positions. It also requires private sector employers to take steps to increase the number of women in their workforce and prohibits discrimination on the basis of gender in employment and career advancement. |
| | The Employment Act: | This act prohibits discrimination based on gender in employment and requires employers to provide equal pay for equal work. It also provides for the rights of workers, including the right to form and join trade unions, the right to fair and just treatment, and the right to safe and healthy working conditions. |
| | The Marriage Act: | This act provides for the equal rights and responsibilities of spouses in marriage and prohibits marriage by force or coercion. |
| | The Education Act | This act provides for the promotion of gender equality in education and requires schools to take steps to prevent and address gender-based violence. |
| | The National Gender and Equality Commission: | This commission is mandated to promote gender equality and women's empowerment, and to monitor and report on the implementation of gender- |

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| | | related policies and laws in Kenya. |
| | The Women Enterprise Fund | This fund provides financial assistance to women entrepreneurs in Kenya, with the goal of promoting the economic empowerment of women. The fund provides loans, grants, and other forms of financial support to women-owned businesses and offers training and other business development services. |
| | The Equalization Fund Act | This act establishes the Equalization Fund, which provides financial resources to support initiatives that aim to reduce inequality and promote the empowerment of marginalized groups, including women. |
| | The National Climate Change Action Plan | This plan outlines Kenya's strategies for addressing and adapting to the impacts of climate change, including measures to promote the empowerment of women and the inclusion of their perspectives in climate-related decision-making. |
| | The National Policy on Gender and Development (NPGD) | The policy outlines the government's commitment to promoting gender equality and the empowerment of women in Kenya. The NPGD covers a wide range of areas, including education, health, employment, and political participation, and includes specific targets and benchmarks for improving the status of women in Kenya. |
| | The National Gender and Equality Commission (NGEC) Act | This act establishes the NGEC as an independent body responsible for promoting and protecting the rights of women and other marginalized groups in Kenya. |
| Uganda | The Affirmative Action Regulations | These regulations require public institutions and private companies to implement affirmative action measures to ensure the equal representation and participation of women and other marginalized groups in employment, education, and other spheres of life. |
| | The National Plan of Action for the Advancement of Women (NPAW) | This plan provides a framework for implementing the NPWD and includes specific goals and targets for improving the status of women in Uganda. |
| | The National Gender Policy (NGP) | This policy outlines the government's commitment to promoting gender equality and the empowerment of women in Uganda. The NGP covers a wide range of areas, including education, health, employment, and political participation, and includes specific targets and benchmarks for improving the status of women in Uganda. |
| | The Land act | The Land Act: This act provides for the equal rights of men and women to own, inherit, and access land. |
| | The Equal Opportunities Commission: | This commission is responsible for promoting gender equality and combating discrimination on the basis of gender. |
| | The Uganda Women Entrepreneurship Programme (UWEP) | This initiative by the Government of the Republic Uganda improves women's access to financial services, equips them with the skills for enterprise growth, value addition and marketing of their products and services. The women are availed with interest-free revolving credit to initiate or strengthen their enterprises. |
| | The Youth and Women's Livelihood Program | This program aims to provide economic empowerment opportunities to young people and women through providing skills, knowledge, and support to create or expand sustainable livelihoods and improve their income generating activities |

Gender-Focused Organizations for Promoting Equality and Supporting Project Implementation

| **Country** | **Organisation** | **Description and Support** |
|---|---|---|
| Kenya | Kenya Women Microfinance Bank (KWFT) | Offers financial products and services aimed at empowering women economically, including loans, savings, and insurance, could be a partner when working on access to finance for female-led MSMEs |
| | Cherie Blair Foundation for Women | Empowering women entrepreneurs with the tools and resources they need, driving economic participation and social influence, could provide a pipeline of female entrepreneurs ready for growth stage programmes. |
| | Women's Economic Empowerment Hub (WEE Hub) | WEE Hub focuses on research to inform policy and action on Women's Economic Empowerment (WEE) in Kenya. Their research areas include Affirmative Action Funds, Women in formal/informal employment, the Care Economy, and Women's movements. They can be a potential partner for both the steering committee, as well as the ecosystem events. |
| | Kenya Association of Women Business Owners (KAWBO) | KAWBO offers membership to women entrepreneurs in Kenya. Members benefit from the various programs, networking opportunities, and advocacy efforts of the organization and could be a collaborator in establishing mentorship and networking structures for female entrepreneurs. |
| | Kenya National Chamber of Commerce and Industry (KNCCI) | The KNCCI has a dedicated committee specifically aimed at empowering women in business: the KNCCI Women in Business (WIB) which focus on financial literacy and business skills training, as well as advocacy and |

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| | | networking – can be a valuable government partner in endorsing the projects activities. |
| | WEConnect International in Kenya | WEConnect International offers a certification process for women-owned businesses (at least 51% owned, managed and controlled by women) to be recognized by potential buyers and facilitates events to connect women entrepreneurs with member buyers interested in supplier diversity. |
| Uganda | Uganda Women Entrepreneurship Association Limited (UWEAL) | UWEAL supports women entrepreneurs through networking, advocacy, capacity building, and access to markets and finance. It a potential partner for the steering committee as well as supportive in recruiting female entrepreneurs. |
| | Centre for Women in Governance (CEWIGO) | CEWIGO focuses on empowering women economically and politically through entrepreneurship training, advocacy, and leadership development programs and can be a key partner for establishment of the regional coordination platform. |
| | Women's Entrepreneurship Development Program (WEDP) | Run by the Uganda Investment Authority (UIA), WEDP provides training, mentorship, and access to finance for women entrepreneurs and can facilitated mentorship provision to supported female entrepreneurs. |
| | Rural Women’s Empowerment Network (RUWONET) | RUWONET provides training and capacity-building programs to enhance the entrepreneurial skills of rural women. This includes business management training, financial literacy, and access to microfinance opportunities. Can support with blended financing mechanisms through knowledge in VSLAs. |
| | Uganda Women's Entrepreneurs Association (UWEA) | UWEA promotes the economic empowerment of women through skills development, advocacy, and access to business opportunities |
| | Association of Women in Business (AWIB) | AWIB provides networking opportunities, business training, and advocacy for women entrepreneurs in Uganda |
| | Grameen Foundation Uganda | Grameen Foundation promotes financial inclusion by providing microfinance services and products tailored to the needs of women entrepreneurs and smallholder farmers. They facilitate access to credit, savings, and insurance, empowering women to start and expand businesses |
| | Private Sector Foundation Uganda | They advocate for a conducive business environment, promoting private sector development, and enhancing the competitiveness of Ugandan businesses. PSFU would be interested in joining the regional coordination steering committee and would support connection to female entrepreneurs from PSFU associations |
| Regional – all potential partners for the steering committee | CORDAID | CORDAID is a global organisation that works to enhance livelihood opportunities for vulnerable populations, including women and youth. They support entrepreneurship, vocational training, and economic empowerment programs that aim to reduce poverty and promote self-reliance. They have expertise in the areas of VSLAs and entrepreneurs with disabilities. |
| | MasterCard Foundation | Mastercard Foundation focuses on empowering young people through financial inclusion and education, with programmes focused on providing technical and soft skills, and the aim to find dignified and fulfilling work. |
| | UNCDF | The UN Capital Development Fund (UNCDF) is actively involved in both Kenya and Uganda, with a focus on promoting local development and financial inclusion and specifically on supporting inclusive digital economies, establishing digital infrastructure, fostering innovation ecosystems, and creating policies that support a sustainable digital economy. |
| | TechnoServe | TechnoServe is focusing on empowering communities through market-led approaches, with a particular focus on the topic of climate-smart agriculture as well as entrepreneurship development for women and youth. |

## 5. Conclusion

Overall, the project tackles the vulnerabilities of women in the agriculture and water sectors by addressing the barriers to resources that can help them establish more resilient and adapted business models. The proposed project targets communities where the gender gap is significant. However, positive social impacts of the project are also dependent on receiving sufficient applications and participants from women- (and youth-)led SMEs as well as SMEs with business models that empower women and youths through provision of climate change adaptation solutions (gender- and youth inclusive adaptation SMEs). SMEs can play a significant role in reducing the gender gap as they promote and ensure the effective participation of women in national economies and thus can also catalysers for political change. This project has a multi-stakeholder approach to specifically focus on the identified obstacles women and youth face, such as access to collateral, networks, and legal/policy hurdles. The proposed project aligns with the Adaptation Fund's (AF) Gender Policy and Action Plan by focusing on gender equality and women's empowerment. This initiative targets vulnerable communities, particularly women entrepreneurs who face significant business barriers. By providing resources and training, the project advances gender equality.

Additionally, the project aligns with UNIDO's commitment to gender equality and women's empowerment, as outlined in its 2019 Gender Equality Policy and 2020-2023 strategy. It supports SDG 5 on gender equality and SDG 9 on industry, innovation, and infrastructure by enhancing women's roles in poverty reduction and promoting sustainable industrialization.

## Part II: Gender Action Plan

**Impact Statement:**
*Significantly enhanced the climate resilience of highly vulnerable women and girls in Kenya and Uganda by increasing their access to innovative climate adaptation solutions provided by SMEs in the agriculture and water sectors, thus addressing the acute need for affordable and accessible climate adaptation solutions as they depend on natural ecosystems for their livelihoods and reducing the gender gap in access to finance and enabling more women to start and grow businesses.*

**Outcome Statement:**
An estimated 125 female direct beneficiaries will have enhanced their climate resilience and reduced the gender gap in entrepreneurship, through the creation of gender-responsive financial products and the provision of capacity building programs to ensure the acquisition and absorption of financing by women entrepreneurs.

**Output(s) Statement(s):** Gender-inclusive SMES in the project area with improved access to capacity building services for investment readiness. Gender-inclusive SMEs in the project area with access to financial products with a gender-responsive financing approach

| Activities | Indicators | Targets | Timeline | Responsibilities | Costs |
|---|---|---|---|---|---|
| Supporting gender- inclusive adaptation SMEs from funding readiness to investment and post-investment management with gender-inclusive workshop set ups | Number of loan applications submitted; Number of loan agreements secured; Stage of investments | minimum of 50 loan application submitted from women-led adaptation SMEs[28]<br><br>Minimum of 30loan agreement secured from women-led adaptation SMEs | Throughout the project | EE PMU | included in project budget |
| Designing and implementing blended financing mechanism and performance-based payments for gender-inclusive adaptation SMEs | Gender-inclusive SMEs advance<br><br>Private sector capital leveraged through financing scheme | Development and market readiness of 50 new adaptation technologies that were previously not present, of which 20 are gender-inclusive<br><br>25 women-led adaptation enterprises receive increased capital from financing schemes | Throughout the project | EE PMU | included in project budget |
| Usage of gender-inclusive language in the overall project communication, including gender-inclusive imagery and balanced representation | Dissemination of gender-inclusive language project documents | All project related documents (reports, training materials, communication campaigns) use gender-inclusive language and imagery | Throughout the project | EE PMU and EE partners | included in project budget |
| Designing and implementing gender-inclusivity tools and training modules as a core thematic focus of the Accelerator and Catalyser SME capacity building components | Number of modules on gender-inclusiveness; number of participants in gender-inclusive training modules | 3 gender-inclusivity modules are developed; 200 participants attend gender-related training modules | Throughout the project | EE PMU and EE partners | included in project budget |
| Implementation of gender-specific and disaggregated monitoring of the project | Inclusion of gender-specific metrics; collection of gender-disaggregated for project indicators; | All beneficiaries' data is disaggregated by gender across all project activities; All data collection methods include gender-specific metrics | Throughout the project | EE PMU | included in project budget |
| Provision of mentorship and networking opportunities to female entrepreneurs in collaboration with female role models | Number of women entrepreneurs participating in mentorship programs; number of networking events organized | 50 women entrepreneurs have participated in mentorship; 4 networking sessions are organized | Throughout the project | EE PMU and EE partners | included in project budget |

[28] Targeting at least 15% more than the baseline of women-led enterprises in Kenya (31.4%) and Uganda (38.2%)

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| Designing and implementing women only cohorts in the SME capacity building components, as well as gender-inclusive workshop formats | Number of women-only cohorts established, participation rate of women in capacity building workshops | Establish at least 3 women-only cohorts throughout the duration of the projects; a 50% participation rate of women in all workshops | Throughout the project | EE PMU and EE partners | included in project budget |
| Establishment and hosting of a women-youth business club in virtual and physical formats | Number of members enrolled in the business club, frequency and participation of meetings | Enrol at least 50members, host at least 4 virtual and 2 physical meetings | Throughout the project | EE PMU and EE partners | included in project budget |
| Engage a Senior Expert to provide continuous support and ensure gender mainstreaming throughout the project period | Level of compliance with gender mainstreaming standards and fulfilment of gender-responsiveness outlined in GA & GAP | Full compliance with established gender mainstreaming standards in all project activities as assessed by a yearly review | | | |

## ANNEX III – Profile of the EE and EE Partners and Track Record

## Profile and comparative advantage of the EE and EE Partners

1. adelphi is a leading independent think tank and strategic consultancy on climate, environment and development. We offer demand-driven, tailor-made services for sustainable development, assisting governments, businesses, financial institutions and other organizations. Our clients in the financial sector include multilateral, bilateral and national development finance institutions such as GCF, World Bank, EIB, EIF, IDFC, AfDB, KfW/DEG, AFD/Proparco, Development Bank of Southern Africa (DBSA) and National Bank for Agriculture and Development (NABARD, India). adelphi was established in 2001 and has successfully completed over 1,000 projects worldwide. Our in-house staff of more than 350 persons provides high-quality interdisciplinary research, strategic policy analysis and advice, and corporate consulting. We implement projects for public institutions and businesses worldwide, helping to build capacity for transformative change. Our work covers nine key areas: **Green Entrepreneurship, Climate, Sustainable Finance**, Energy, Nature Protection and Biodiversity, Natural Resource Management, Circular Economy, Peace and Security, International Cooperation, and Urban Transformation.

   adelphi has more than 20 years of experience in the topic of green entrepreneurship. We work in direct collaboration with public and private sector partners on a dual approach to supporting enterprises and start-ups: direct enterprise support and ecosystem building, and including access to finance as the third building block of our work. In the core areas of the project adelphi can demonstrate a in-depth expertise:

   **Catalyser and Accelerator Support Methodology:** adelphi's major strength is the structured and engaging approach towards capacity building and enabling capacity, including on the one hand the adelphi toolkits, which are easy, adaptable and perceived as best-in-class, and on the other hand the implementation of trainings and workshops that apply highly participatory and very interactive methodologies. adelphi has developed tailor-made support programmes and standardised tools which allow for adaptation while being visually appealing. adelphi promotes and induces pro-active collaboration and co-creation with low administrative costs and efforts.

   **Funding Facilitation leveraging blended finance instruments:** Through country-specific programmes in Uganda (UGEFA) and Ethiopia (BIC) and through partnerships with financing institutions adelphi has demonstrated its ability to facilitate finance for green SMEs facilitating blended finance for more than 90 green SMEs leveraging funding amounts of more than 7 million USD.

   **Performance-based payments:** Having implemented more than 20 grant-based financial-support schemes (for the EU, FAO, UNDP, the German Ministry of Environment, the IKEA Foundation, the Government of Flanders and GIZ) with green SMEs across Africa and Asia, adelphi has extensive experience in implementing performance based grants. So far adelphi has managed more than 500 small-grants with green SMEs around Africa and Asia. Within the framework of this grant schemes adelphi has extensive experience in implementing classic grants, matching grants and performance-based grants.

   **Capacity Building for Financing Institutions:** Having implemented more than 10 projects across Africa and Asia providing capacity building to financial institutions which includes setting up funding facilitation mechanisms, Green Finance Trainings & Labs and Investor Matchmaking, adelphi has an in-depth experience.

2. Finding XY (FXY) is an innovation centre with registered offices in Uganda and Kenya supporting the growth of Small and Growing Businesses (SGBs). FXY supports SGBs and ecosystem builders by providing business advisory and investment services in Africa. The core component of work is the enterprise support programmes, we want to create communities where there is no poverty, with gender equality by creating opportunities for economic growth, with descent work and empowering MSMEs through innovation. In 2023, FXY was awarded a Gender Equity Seal by UNDP demonstrating our commitment to gender inclusion as an organization and the work we do. FXY provides expert services to entrepreneurs who have the goal of making strong positive environmental and social contributions directly or indirectly improving the social and economic indicators of their countries.

   One of the core components of the business development services work focuses on Scaling Up and Investment Readiness enterprises. Partnering with different organisations, development agencies, etc, they train a portfolio of companies/enterprises, tailoring the trainings based on a needs assessment.

   Furthermore, working with partners such as UNEP CCC, Good Machines, ChiLin in Mauritius and KOIS invest, FXY is pioneering and structuring a first of its kind local climate Fund (Accelerated Climate Technologies Fund) providing local financing to local clean technology manufacturers, suppliers and productive use customers. The activity is launching a study on solar irrigation systems financing and policies while mobilizing finance.

3. Kenya Climate Ventures (KCV) is an impact investment venture fund that strives to accelerate access to sustainable transformative climate smart solutions in Kenya by providing tailored and targeted financial and managerial assistance support to innovative early and growth stage businesses. It focuses on the sectors of agribusiness, water, renewable energy, commercial forestry, and waste management. KCV's core areas of work are TA & BDS support, Investments brokerage and Capital provision.

   Within the first pillar -Technical assistance and business development – KCV offers a package of wholesale and customized technical and business development support in business planning, financial management, investor readiness and fundraising, as well as pre and post investment support. Further support includes technology improvements, governance energy efficiency, marketing, mainstreaming environmental and social governance, mainstreaming gender lens investing and disability inclusion. Furthermore, KCV also has ostensible experience directly investing in climate-smart enterprises who demonstrate sustainable competitive advantage, good management, and ethical business practices.

KCV has achieved a portfolio of 22 climate smart investments, valued at KES 401 million; realized 4 successful existing investments; double digit returns on its portfolio investments; impacted 43,600 households with increased income, food security, access to markets, and affordable clean energy; 290 MSMEs have accessed business opportunities from supported value/supply chains; created and sustained 11,520 gainful jobs; leveraged US$ 9.1 million, being the value of follow- on capital leverage to portfolio enterprises, and mitigated emission of 320,400 tons of Co2.

Key expertise relevant for this project:

**Gender-lense and youth-inclusive investing**: KCV applies a gender lens in its entire investment process. Not only do we seek to accelerate the development of climate-smart solutions by supporting early and growth-stage businesses, but we also emphasize the significance and contribution that women and youth make to portfolio enterprises. Aligned on the 2X challenge criteria of 51%, KCV attained an investment portfolio of 47% women-owned and 20% youth–owned enterprises, created and sustained 11,500 jobs - 52% of the total being employment opportunities benefiting women and youth.

**In-depth understanding of tailored investment readiness support for climate-smart SMEs**: KCV has exensive experience with agribusines and water sector SMEs providing Pre and Post investment support. KCV understand the different requirements around concessional, patient capital and critical support aspects of early and growth Stage financing. KCV has extensive experience with local currency financing for debt, convertible debt and equity as well as blended investment including returnable for capital & non repayable funding/support for technical assistance.

**Funding facilitation through a broad network of financing institutions and investors in Kenya:** KCV has worked with a wide range of national and international development finance instutions, commercial banks and impact investors across Kenya being highly experience with blended financing instrument

## Selected Track Record of EE and EE partners

4. adelphi, KCV and Finding XY have a proven track record along the core areas of work described before, namely in supporting innovative climate adaptation SMEs to scale, as well as facilitating access to finance into the SME sector by working together with financial institutions to co-create funding facilitation mechanisms for green SMEs.

5. UGEFA - Uganda Green Enterprise Finance Accelerator (01/2020 - 12/2023) – implemented by adelphi and Finding XY. UGEFA combines capacity building of post-revenue, scalable green enterprises and co-creation with financial institutions to facilitate access to tailored missing middle finance. UGEFA supports green enterprises through a comprehensive and finance-focused accelerator programme to improve their business and financial skills. The project also includes Capacity building workshops for local Enterprise Support Organisations, Incubators and Accelerators aim to strengthen intermediaries of the green start-up ecosystem. In addition to this, adelphi provides training in green and climate finance for banks and dialogue forums on green finance. Other activities for this project include case study development, workshop facilitation of innovative workshop formats based on design thinking and co-creation methods and practitioner labs on climate finance (prototyping methods). The project aims at supporting 200 Green SMEs, providing 6.1 Mio USD in Debt Financing to green SMEs across sectors to invest in growth, and creating Up to 1800 Jobs in green sectors in Uganda. Through the collaboration with partner banks, two funding facilitation mechanisms were co-created and already implemented: a partial repayment scheme, and a cash flow gap cover scheme.

   The project is structures along 4 processes/components:

   - **Capacity building for green enterprises**: Focusing on Business Model Consolidation, Organisational Structuring, Financial Preparation, Investment Planning, Understanding Impacts. Delivered through 5 group workshops + individual support; based on tested and proven toolkits
   - **Funding facilitation facility: Matchmaking with banks: Focusing on** Support with finalisation of required documents, Matchmaking with banks, Support with loan applications. Through the funding facilitation, 92 loans have been facilitated, with a total amount of funding amounting to 26.9 billion UGX (7.3 million USD) raised by UGEFA-supported enterprises through UGEFA Partner Financial Institutions. The average loan ticket size is approximately 306 million UGX (82,446 USD). Of the total amount of funding, 8.9 billion UGX (2.4 million USD) were repaid immediately by UGEFA as part of the Partial Repayment Scheme funding facilitation mechanism. The ratio of 1 USD of public capital spent for 3.77 USD raised underlines the UGEFA project's efficacy of its funding facilitation mechanisms in leveraging capital from the private sector.
   - **Review and approval of loans by partner banks:** Review of loan applications of bankable enterprises from UGEFA pipeline by partner banks. Then UGEFA team provides technical assistance and finalising with the Approval of loans
   - **One-on-one support to absorb finance:** Focused on Individual capacity building support to Manage Growth, Monitoring Impacts, providing Networking opportunities, market linkages and profiling. Delivered through up to 8 individual workshops; based on tested and proven toolkits

6. BIC Ethiopia – implemented by a consortium of partners. The project seeks to strengthen the Ethiopian agricultural sector by supporting the Ethiopian incubation ecosystem on each of the three layers of the ecosystem: 1) The capacity and organisational sustainability of local incubators is strengthened through the BIC Academy via 1:1 workshops, training of trainers and facilitation and moderation support. Further, a network for exchange, peer-learning and collaboration across incubators is strengthened. 2) Agri-business and agri-tech enterprises are supported with capacity building - targeting both aspiring entrepreneurs to set up their own enterprise, as well as established enterprises to grow their business and attract funding. Alongside non-financial support, enterprises can apply for grants and loans through the project. 3) BIC Ethiopia collaborates with private financing institutions like banks and equity investors to facilitate out-of-the-box thinking to create new financial access opportunities for micro, small and medium enterprises (MSMEs). In a consortium of partners, adelphi is primarily taking care of the BIC Academy as well as the Financing Facility

building on adelphi's long-standing experience in capacity building (based on "toolification") and access to finance mechanisms for MSMEs. Along with 2 partner banks, the project set-up a loan facility that works with a partial repayment scheme, to Provide attractive debt funding for agricultural SMEs that matches their needs, while de risking the pipeline of SMEs for banks through capacity building and a partial repayment scheme. The capacity building starts with Catalyser support programme, after which, enterprises apply for the discounted loan. Selected enterprises receive further investment-readiness support in a dedicated "Finance Masterclass" that enables enterprises to refines their business documents and investment proposal. All investments are then pre-screened by BIC Ethiopia experts and subject to approval by PFI. PFIs are invited to join the Finance Masterclasses and support the development of investment plans and loan applications shaped to their needs.

7. SEED- Financing and capacity building for micro and small climate-smart enterprises (08/2013 - 06/2024). Between 2013 and 2022, outstanding SMEs contributing to job creation as well as climate change mitigation or adaptation from the target countries Colombia, India, Vietnam, Tanzania and Uganda and from 2019 onwards also from Ghana, South Africa, Thailand and Indonesia will be awarded with the SEED Low Carbon Award. The winners are supported by the SEED network, receive short-term advice on their business development, and are brought together with potential partners and investors. Furthermore, adelphi works with service providers and financiers to integrate the needs of inclusive and climate-friendly SMEs into funding and financial instruments. Through dialogue processes and extensive advocacy and networking, the importance of these SMEs in achieving NDCs and SDGs is presented vis-à-vis policymakers and key actors. Aligned to "Gender equality today for a sustainable tomorrow", SEED is highlighting the contribution of women promoting on climate change adaptation, and mitigation. Building on a partnership with UN-Women from 2013-2017, adelphi made sure to mainstream gender equality considerations in its overall enterprise support and advocacy processes. Core components include enterprise support and ecosystem building support. Part of the services offered through this project include Investment Readiness and enterprise Support for innovative SMEs across Sub-Sahara Africa, Latin America and Southeast Asia and SEED Deal-Ready Programme facilitating investment deals for more matured start-up cohorts. The enterprise support guides enterprises to refine their business models and optimise their environmental, social and economic impacts and investment readiness, helping enterprises to scale-up. For this project, Finding XY hosts the SEED Hub in Uganda.

8. Boosting Eco-Inclusive Enterprises for Climate Adaptation In Southern Africa (12/2020 - 12/2024). adelphi through the SEED programme supports eco-inclusive enterprises in the climate adaptation space in Malawi, Zambia and Botswana to increase the resilience of communities and to create employment in the three target countries. With financial support from the Government of Flanders, a core partner of SEED, and building on SEED's longstanding experience supporting eco-inclusive entrepreneurship in Southern Africa and beyond, the project combines direct support programmes for enterprises at different stages of business development with innovative formats to build an enabling ecosystem.

   The gender-sensitive direct enterprise support programmes comprise business model ideation activities targeting early stage enterprises as well as the identification of successful, innovative and locally led enterprises in the adaptation space and their empowerment towards scale-up and investment-readiness. Promoting an enabling ecosystem relates to the enhancement of skills and capacities of business development services (BDS) as well as to the innovation of ecosystem solutions involving financing institutions and policy makers. Moreover, the provision of a platform aims at convening ecosystem stakeholders for peer-learning and the creation of synergies, and showcasing the potential of eco-inclusive enterprises in the adaptation space will provide evidence-based recommendations to strengthen the ecosystem for climate adaptation enterprises.

9. SWITCH Africa GREEN: Promoting Eco-Entrepreneurship in Africa (11/2015 - 04/2018). Between 2015 and 2018, this project aimed at accelerating the transition to a green and inclusive economy. The project was built upon four principal pillars: The SAG-SEED Starter promoted eco-entrepreneurship by building capacities of new eco-enterprises and supported them through their initial founding phase. **The SAG-SEED Catalyser** identified the most promising, innovative and locally led eco-enterprises, showcased their contributions towards an inclusive and green economy, and supported their future development. 30 of the most promising and innovative existing eco-enterprises were honoured with a SAG-SEED Award receiving comprehensive and tailored business advisory support and participating in the SEED Africa Symposia in Nairobi, Kenya in 2016 and 2017, organised and implemented by adelphi. The SAG-SEED Replicator promoted the uptake and replication of eco-entrepreneurship to future eco-entrepreneurs by identifying the most promising eco-enterprise models for replication and making them replication-ready The SAG-SEED Business Development Services – BDS+ strengthened the capacity of business development services (BBS) providers with a focus on improving their services towards the specific needs of eco-inclusive entrepreneurs (BDS+), fostering an enabling environment for green and socially inclusive enterprises.

   Further projects implemented by Funding XY include:

10. Women in Agriculture Impact Investment Facility with Funding from USAID Feed the Future. The facility addresses the challenges of access to finance to agri-SMEs and improves the business skills gap that prevents female entrepreneurs in that sector from growing and running their businesses successfully. The facility was designed around three components that include: Access to low-risk capital in form debt and Equity, One on One Business advisory, and building a network of Female Led Agri SMEs. Some of the project results include: >USD 1.5 debt and convertible debt capital raised. >50 Female Led Agri SMEs receiving business advisory. >180 Female led Agri SMEs profiled. >10 different types of financial institutions engaged

11. Technology, Markets and Investment in Low Carbon and Climate Resilient Development (TEMARIN) With Contracting from UNOPS. TEMARIN was a UNEP DTU partnership (now UNEP CCC) project implemented in Uganda by Finding XY. The project focus was strengthening domestic markets for climate technologies, removing bottlenecks for domestic firms operating in these markets and increasing cooperation among private actors, public actors and international actors to build partnerships for upscaling implementation.