ADAPTATION FUND

PRE-CONCEPT FOR A REGIONAL PROJECT/PROGRAMME

PART I: PROJECT/PROGRAMME INFORMATION

Title of Project/Programme: **Unlocking investments in female and youth-led early-growth stage adaptation Micro, Small and Medium-sized Enterprises in Kenya and Uganda**

Countries:	Kenya, and Uganda
Thematic Focal Area[1]:	Innovation in adaptation finance
Type of Implementing Entity:	Multilateral Implementing Entity (MIE)
Implementing Entity:	United Nations Industrial Development Organization (UNIDO)
Executing Entities:	Kenya Climate Ventures (KCV) & Uganda Green Enterprises Finance Accelerator (UGEFA): (adelphi & Finding XY)
Amount of Financing Requested:	5,000,000 (in U.S Dollars Equivalent)

Project / Programme Background and Context:

Uganda and Kenya have similar agricultural practices and economic systems. According to their NDCs and NAPs, both countries are already facing significant climate hazards resulting in compounded impacts across social, economic, and environmental systems due to climate change and variability. Both countries have been experiencing rising temperatures, shifting precipitation patterns, and increasing extreme events, such as droughts and floods. Between 1961 and 2005, a temperature increase of 0.7 - 1.4ºC and 0.8 - 1.2 ºC has been experienced in Uganda and Kenya, respectively. Over 70% of natural disasters in Kenya are attributable to extreme climatic events. More frequent floods due to intense rainfall affect an average of 200,000 Ugandans each year[2]. Between 1998-2000, droughts cost an estimated USD 2.8 billion in Kenya and USD 1.2 billion in Uganda and affected about 2.4 million people in Uganda between 2010 and 2011[3&4]. Kenya and Uganda are vulnerable to climate change with current projections such as the Representative Concentration Pathway (RCP) 4.5 and RCP 8.5 models for future climate showing spatial-temporal shift in precipitation across the two countries, and expected average temperatures increase of 1.8 - 3 ºC and 1.2 - 3 ºC by 2050s in Kenya and Uganda, respectively[5]. These changes suggest more intense and less predictable rainfall impacting water resources, agriculture productivity and food security, livestock, health, and forestry sectors thereby affecting women and youth mainly.

The projected intense rainfalls suggest more frequent and heavier floods resulting in landslides. It is projected that the slightest increase in the frequency of droughts will present major challenges for food security and water availability, especially in the arid and semi-arid regions of the two countries. Climate change is expected to shrink important crop production areas. Yields may decline, affect all dimensions of food security: availability, access, utilization, and stability, especially affecting the communities and regions more exposed to climate hazards in Kenya and Uganda[6&7]. A major sitting target of vulnerability to climate change in Kenya and Uganda is the agriculture sector, which, contributes to 25% and 25.8% of GDPs and employing 80% and 72% of the population in Kenya and Uganda, respectively[8&9]. Adaptation capacities to climate change are low in the agricultural sectors due to climatic and non-climatic factors, including use of labour intensive and non-technologically advances practices, heavy reliance on rain-fed agriculture combined with frequent droughts and floods, endemic crop and livestock diseases and high post-harvest loss further unstabilizes food security.[10]. Non-climatic factors hampering

1 Thematic areas are: Food security; Disaster risk reduction and early warning systems; Transboundary water management; Innovation in adaptation finance.

2 https://climateknowledgeportal.worldbank.org/sites/default/files/2021-05/15464-WB_Uganda%20Country%20Profile-WEB%20%281%29.pdf

3 https://climateknowledgeportal.worldbank.org/sites/default/files/2021-05/15724-WB_Kenya%20Country%20Profile-WEB.pdf

4 https://cdkn.org/wp-content/uploads/2015/12/Uganda_Agricultural_Sector.pdf

5 https://cdkn.org/2021/01/feature-the-potential-of-climate-change-adaptation-for-agricultural-enterprises/?loclang=en_gb

6 https://reliefweb.int/sites/reliefweb.int/files/resources/Kenya_2.pdf

7 https://www.government.nl/binaries/government/documents/publications/2019/02/05/climate-change-profiles/Uganda.pdf

8 https://reliefweb.int/sites/reliefweb.int/files/resources/Kenya_2.pdf

9 https://www.government.nl/binaries/government/documents/publications/2019/02/05/climate-change-profiles/Uganda.pdf

10 https://reliefweb.int/sites/reliefweb.int/files/resources/Kenya_2.pdf

the adaptive capacity in Kenya and Uganda are weak administration and management of land and natural resources, combined with the degradation of natural resources and general poverty among smallholder farmers. Women are among the people most vulnerable to climate change because they manage most of the smallholder farms and provide the labour for crop production in Kenya and Uganda. Youth are particularly vulnerable to the impacts of climate change as they have very limited access to basic resources such as land and assets. Accordingly, the NDCs of these two countries prioritise reducing the vulnerability of these sectors to climate change with a focus on highly vulnerable groups such as smallholder farmers and households. As such promoting public-private partnership and private investment in climate adaptation, and sensitisation of the private sector on climate impact and opportunities are a key priority in Kenya[11] and Uganda[12].

In Kenya, about 7.41 million MSMEs contributed 33.8% of GDP in 2015 with 14.9 million people engaged, while in Uganda, MSMEs employ over 2.5 million people, accounting 90% of the entire private sector contributing over 20% of GDP. Kenya and Uganda fully recognize the potential role of 'adaptation MSMEs'[13] in supporting the large-scale deployment of adaptation technologies, products and services. The two countries run many accelerators and incubators that have seen a good number of adaptation start-ups being transformed into early-growth adaptation MSMEs that already have technologies, products and services that are in the market and have proved revenue models and can have transformational adaptation impacts if their dissemination is rapidly scaled up.

Based on the experiences and the operations by Kenya Climate Ventures and UGEFA, it is clear early-growth adaptation MSMEs from rural areas, peri urban areas and disadvantaged communities need a dedicated support system as they are highly vulnerable to impacts of climate change do not have access to information on possible financing options and other support mechanisms. Early-growth adaptation MSMEs, operating in such local markets, are critical to the recovery of their communities from climate impacts and disasters. They help to restore both economic and social fabric through the provision of employment, goods and services[14]. However, early-growth adaptation MSMEs face several challenges to grow and scale up their businesses. A detailed market assessment will be conducted at concept stage to provide more specific mapping of the adaptation SMES. In the first instance, adaptation MSMEs are not aware of the adaptation benefits of their technologies, products and services and therefore not able to articulate their adaptation operations to appropriate investors. Equally important is the lack of access to appropriate early-stage financing and key skills to grow their business as well attracting follow-on investments. In particular, local female and youth-led early-growth adaptation MSMEs are generally perceived as high risk by local financing institutions. In particular, female adaptation MSMEs face the following additional challenges that are not faced by male-led MSMEs: lack of access to formal education, no ownership of property and social mobility, inexperience with negotiating with banks, and lack of financial confidence. As such, conventional financing institutions tend to doubt the entrepreneurial ability of women entrepreneurs that result in discriminatory attitudes despite evidence showing that women's loan repayment rates are higher than men. Furthermore, youth-led adaptation MSMEs face specific challenges that include lack of access to capital, lack of confidence in the commitment by the youth and other barriers that will be identified in more detail at concept stage. Adaptation MSMEs operate in very local markets and rural markets where there are fewer opportunities to borrow money. Financial service providers who operate in such areas tend to demand rigid collateral requirements and impose high transaction costs. Consequently, women and youth-led adaptation MSMEs tend to be trapped in micro-finance sector and are unable to access larger business loans on better terms to grow their business.

Local financing institutions offer short term financing with a high interest rate and prefer to provide large tickets investments compared to small ticket investments that are required by most women and youth-led early-growth adaptation MSMEs, mainly in the range of US$ 10,000-100,000. In addition, early-growth adaptation MSMEs lack information on available financing opportunities, do not have operational track records and they operate in local currency. In contrast, most climate financing investors provide foreign currency financing, exposing early-growth adaptation MSMEs to forex currency exchange rate risks. Although impact investment is taking hold in Africa with 42% of impact investor having funds allocated to Africa[15], impact investors tend to participate in deals where they are not the sole investors. The current COVID 19 crisis has further limited access to financing by MSMEs. In Kenya and Uganda, the lending sector has cut new credit to small and medium-sized enterprises (SMEs), particularly high-risk sectors exposed to climate risks, such as agriculture, which in turn affect the business

11 https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Kenya%20First/Kenya_NDC_20150723.pdf

12 https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Uganda%20First/INDC%20Uganda%20final%20%2014%20October%20%202015.pdf

13 This project will adopt the definition of adaptation MSMEs as defined in the Adaptation Taxonomy (https://lightsmithgp.com/wp-content/uploads/2020/09/asap-adaptation-solutions-taxonomy_july-28-2020_final.pdf) where Adaptation MSMEs are companies providing technologies, products and or services that address systemic barriers to adaptation by strengthening user ability to understand and respond to physical climate risks and related impacts or capture related opportunities and/or contribute to preventing or reduced material physical climate risk and or the adverse impact on assets, economic activities, people or nature.

14 Opportunities-and-barriers-to-the-access-and-use-of-climate-information-for-small-and-medium-enterprises-SMEs-in-Uganda-and-Kenya.pdf (climatecentre.org)

15 https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf

potential of early-growth adaptation MSMEs. After accelerators and incubators, many MSMEs failed to sustain due to lack of finance, technologies, production space and challenges to expand their businesses to different areas[16].

The draft theory of change of the project is presented in figure 1 below. The project is designed to support early-growth adaptation MSMEs access financing to grow and expand their business across Kenya and Uganda. The proposed activities will focus on the establishment of an innovative regional coordination platform (RCP) to connect adaptation MSMEs to the markets and financiers and foster the consultative process with relevant stakeholders. The RCP will thus ensure the appropriate regional collection and dissemination of knowledge on financing early-growth adaptation MSMEs. The activities will further introduce an innovative incubation approach that merges a blended financing mechanism with investment brokerage services. While the criteria of selection will follow specific innovative guidelines and thresholds i. e. by taking into consideration the adaptation MSMEs response and impact vis-à-vis the identified climate hazards in the region, catalytic financing and bespoken business growth support will be provided to 30 selected MSMEs based on the needs of the adaptation MSMEs, appropriate financing in terms of grants, concessional debt or equity will be provided from this project, with a view to unlock third party investment from other financiers. As to further support the dissemination of adaptation technologies, products and services, local financing institutions will be trained to integrated climate risk mitigation into their operations thereby creating a demand for the technologies, products and services from adaptation MSMEs. Therefore, the project will innovate the financing systems by demonstrating the investment potential of adaptation MSMEs. Overall, the project will allow to explore new potential instruments and mechanisms conducive to trigger benefits from incentives and opportunities for early-growth stage adaptation MSMEs engaging in adaptation investment and forster the rollout and expansion of their innovative adaptation technologies, products and services to vulnerable populations. It will further enforce efficient transfer of knowledge for innovation between the two countries and establish a strong platform of international cooperation for innovation in the region.

16 https://www.mdpi.com/2071-1050/7/10/14344/pdf

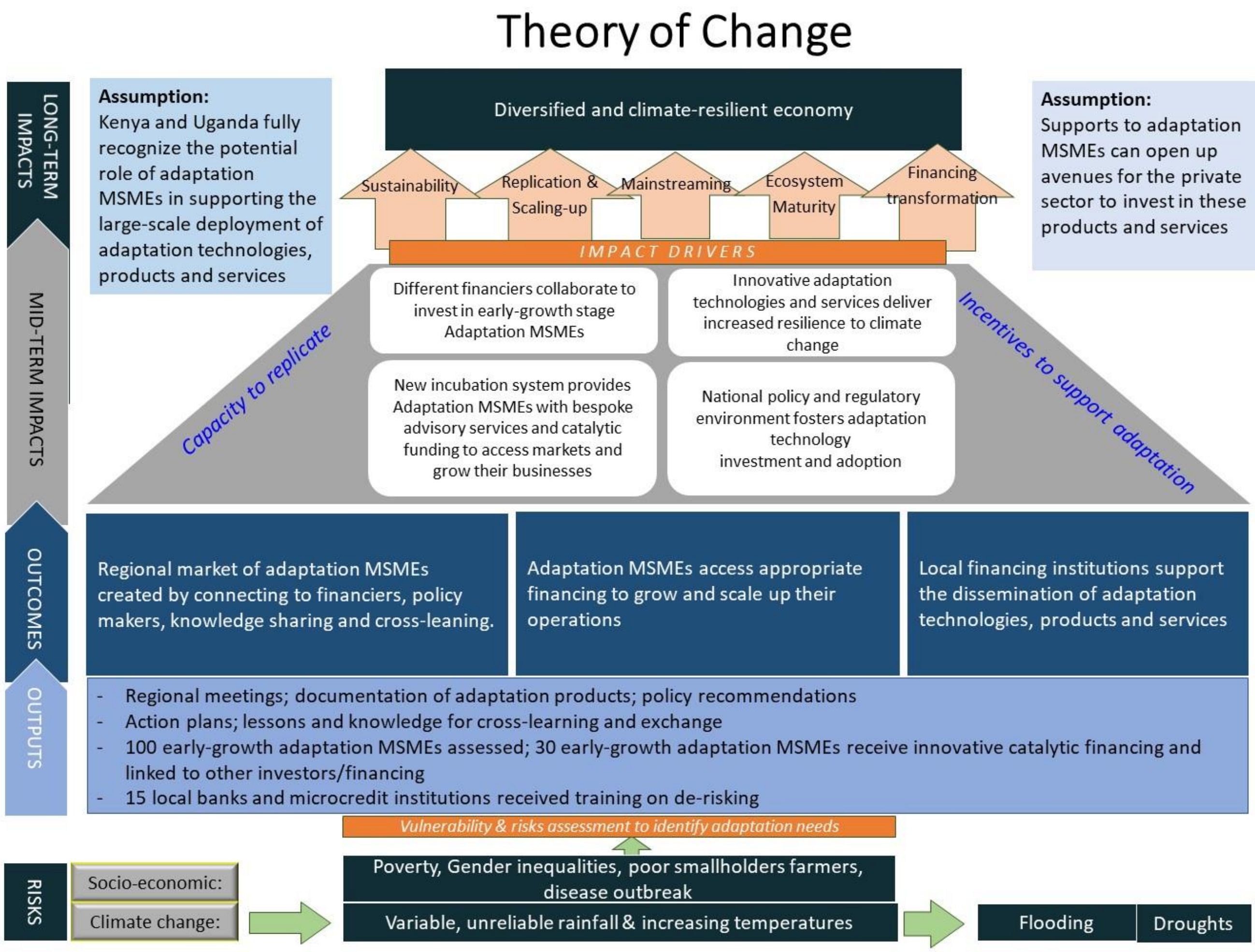

Figure 1: Draft theory of change

Project / Programme Objectives:

This project will support mainly, women and youth-led early-growth adaptation MSMEs through innovative and performance-based blended financing[17] and provide bespoke technical assistance and business growth support to ensure that they are able to successfully rollout adaptation solutions and scale up their operations, thereby expanding their businesses and building resilience to climate change[18]. Furthermore, adaptation MSMEs that provide technologies, products and services that mainly benefit women and youth will be prioritised. In particular, the business growth support will help the early-growth adaptation MSMEs establish market traction that will help attract follow-on investors, who would otherwise not invest in the early-stage adaptation MSMEs at this stage. Ultimately, through the deployment of adaptation solutions, this project will increase resilience and adaptive capacity of local vulnerable groups such as smallholder farmers and households, especially women and youth.

Project / Programme Components and Financing:

Programme Components	Expected Outcomes	Expected Outputs	Country	Amount (US$)
1. Regional coordination platform to connect adaptation, climate-smart lending, entrepreneurship, knowledge management and promote cross-learning	1.1 Key stakeholders, ministries, financial institutions (FIs), adaptation MSMEs and the end-users create and sustain market for adaptation technologies, services and products	1.1.1 Regular regional meetings organised to link adaptation MSMEs to other stakeholders to promote business linkages 1.1.2 A strategic framework defining the roles and responsibilities of the coordination platform is developed and endorsed 1.1.3 The impact of the rollout of adaptation technologies and products by MSMEs is documented and widely disseminated 1.1.4 Policy recommendations on developing the market for adaptation MSMEs developed and disseminated	Kenya, Uganda	250,000
	1.2 The coordination platform enhanced regional learning and sharing of experiences on the deployment and financing of adaptation products and services	1.2.1 Action plans for cross-community and cross-country exchanges for peer learning and sharing developed and disseminated 1.2.2 Lessons learnt, case studies and knowledge on understanding the financing needs of early-growth adaptation MSMEs documented and widely disseminated 1.2.3 Regular meetings organised to promote cross-learning and exchange of knowledge	Kenya, Uganda	200,000
2. Innovative blended financing mechanism and investment brokerage services	2.1 Selected early-growth adaptation MSMEs access innovative and performance-based financing for successful rollout and dissemination of adaptation technologies, products and services.	2.1.1 Regional calls for proposal launched and promoted through regional and national innovation accelerators and incubators 2.1.2 At least 100 early-growth adaptation MSMEs assessed with regard to their viability, potential for scale-up of products, financing requirements and potential impact of their adaptation technologies, products and services 2.1.3 At least 15 local banks, microfinancing institutions and impact investors are mobilised and agree to participate in a performance-based financing facility that support early-growth adaptation MSMEs 2.1.4 At least 30 early-growth adaptation MSMEs are selected to access blended financing (grants, debts, equity or guarantees blended with loans from local banks and microfinanciers) to support the deployment	Kenya, Uganda	2,550,000

17 During the concept phase of the project an in-depth analysis is foreseen to be undertaken in order assess and identify the optimal financing.

18 https://cdkn.org/2021/01/feature-the-potential-of-climate-change-adaptation-for-agricultural-enterprises/?loclang=en_gb

		of their products and services to marginalised communities and grow their businesses (50% of the MSMEs will be youth or women-owned/-led and for youth-led MSMEs, the aim is for 50% gender balance) 2.1.5 Adaptation MSMEs that access financing under 2.1.4 received investment brokerage services to connect them to local financing institutions to provide blended financing and link to follow-on investors 2.1.6 Annual award scheme for outstanding early-growth adaptation MSMEs organised		
	2.2 Early-growth stage adaptation MSMEs supported to strengthen and grow their operations	2.2.1 early-growth adaptation MSMEs that access financing under 2.1.4 received tailored and catalytic business development support at pre-and post-grant levels to enhance their business operations	Kenya, Uganda	721,000
3. Local financing institutions support adaptation MSMEs	3.1 Local financing institutions support the dissemination of adaptation technologies, products and services	3.1.1 At least 15 local banks, microfinancing institutions and impact investors trained to integrate climate risks mitigation into their investment/ lending/ portfolio evaluation processes to de-risking their lending through the dissemination of adaptation technologies, products and services	Kenya, Uganda	450,000
4. Project/Programme Execution cost				437,295
5. Total Project/Programme Cost				4,608,295
6. Project/Programme Cycle Management Fee charged by the Implementing Entity				391,705
Amount of Financing Requested				5,000,000

Project Duration: *(5 years)*

PART II: PROJECT / PROGRAMME JUSTIFICATION

A regional approach is critical for this project because i) Kenya and Uganda face similar climate risks to their agriculture ii) both have tremendous growth potential for climate-smart agribusiness[19] strongly link to water and energy sectors, iii) Over the past decade, the maturation of the business landscape has opened new opportunities with a growing number of accelerators and incubators in Kenya and Uganda[20&21], iv) Both countries show a growing number of adaptation MSMEs[22] that have gone through accelerators and incubators and are in the early-growth stages but are facing similar financing gap and lack of skills to grow and scale up their operations, and v) the learning and knowledge generation will allow sharing among the countries and beyond, regional meetings and cross country exchanges will also facilitate learning and rollout of proven adaptation services and technologies to be documented and replicated in other countries. Immediate target beneficiaries of this project will be local adaptation MSMEs receiving technical assistance, business growth support and innovative performance-based catalytic financing. Ultimately, the deployment of the supported adaptation technology will foster and improve resilience and adaptive capacity of local vulnerable groups, such as smallholder farmers and households and youth and women groups.

Component 1: Regional Coordination Platform (RCP): The RCP will coordinate and promote the interaction among different stakeholders, so as to encourage investments in proven adaptation technologies, products and services. It will guide the overall implementation of Component 2, & 3. The RCP will: i) organize regular regional meetings to open up investment for the early-growth adaptation MSMEs to grow their business, including cross-learning and exchange of knowledge, ii) document and disseminate experiences from the rollout and uptake of adaptation services and products in the countries and beyond, ensuring these products and services build climate-resilience of the most vulnerable communities, iii) develop and share of policy recommendations to help develop

19 https://cdkn.org/2021/01/feature-the-potential-of-climate-change-adaptation-for-agricultural-enterprises/?loclang=en_gb

20 https://www.galidata.org/assets/report/pdf/Landscape-of-Accelerators-and-Incubators-in-East-Africa.pdf

21 https://www.kenyacic.org/

22 https://cdkn.org/2021/01/feature-the-potential-of-climate-change-adaptation-for-agricultural-enterprises/?loclang=en_gb

the market for adaptation MSMEs, and develop action plans for cross-community and cross-country exchanges for peer learning and sharing, and iv) promote regional learning and sharing of lessons, knowledge on the deployment and financing of adaptation products and services, including documentation of lessons learnt and knowledge on financing adaptation MSMEs

To initiate the consultation during the project preparation, UNIDO will steer the formation of the RCP by consulting with the governments from Kenya and Uganda and the EEs. RCP will oversee the consultation process and provide strategic direction to the EEs. The consultation process will be target group specific to efficiently capture the demand, challenges and needs of each target group. It will further ensure investment criteria, impact potential, sustainability of the project, and gender equality in terms of access and impacts of the project fund. The EEs will conduct screening to identify environmental and social risks that can arise from the project and formulate risks mitigation measures according to the AF's Environmental and Social Policy[23]. National consultations in each country will be held to gain the government and stakeholders' supports for the project and the validation of the final project design. More specifically, stakeholders to be consulted include financiers, accelerators and incubators, adaptation MSMEs, vulnerable groups, community-based organisations, NGOs youth and women organisations. Dedicated gender analysis will conducted to gather gender disaggregated data and develop and resource the gender action plan with specific indicators as well as gender-responsive monitoring, reporting and evaluation plans The consultative process will influence the design, operation and selection criteria of early-stage adaptation MSMEs and their eligibility to access finance, ensuring 50% of adaptation MSMEs are youth/women-owned/-led, and for youth-led MSMEs, the aim is for 50% gender balance. . Since the adaptation MSMEs are local and their products and services directly contribute to vulnerable communities, the consultation process will work closely with the EEs to ensure active engagement of vulnerable communities, local governments, local banks, local businesses, impact investment associations and other leaders.

Component 2: Innovative blended financing mechanism and investment brokerage services: Through open and competetive calls, early-growth adaptation MSMEs will be selected to benefit from the catalytic financing,i.e., grant, debts and guarantees. The selection criteria of beneficiary MSMEs will be developed at concept stage but will include among others, i) detailed design and specific features, operations and implementation plan of the adaptation innovation technology, product or service and the extend to which the solution directly addresses the identified climate hazards and shocks, such as frequent droughts and floods, endemic crop and livestock diseases and high post-harvest loss and how these impact the agricultural sector (agricultural productivity, water resources, food security, livestock, health, and forestry sectors) and the nexus with other sectors such as water, energy and digitalization), in the short, medium and long-term ii) MSMEs need to develop and present projects that are technicall, financially and operationally viable with clear clear assessment business as usual scenario (BAU), risks and mitigation options, sustainability of the project and clear strategy on how to aviod maladaptation iii) the extend to which the adaptation technology, products or service can be broadly deployed and replicated in order to serve vulnerable populations (especially youth and women) without regard to economic and social status in the two countries, iv) social, economic and environmental impact of the technology: improves quality of life, economic prosperity, reduces environmental damage and negative impacts on pre-existing stresses on communities, v), financials and investment structure, v) identification and mitigation of risks, etc. The project will continoulsy improve the criteria to address any gaps identified and integrate lessons learnt from each previous cycle. The detailed selection criteria will be developed at concept stage through inter alia a detailed market assessment of the demand for the proposed services and extensive stakeholder consultations, especially with adaptation MSMEs, local financing institution, government counterparts and beneficiary communities.

In that respect, calls for proposal with a clearely defined selection criteria will be launched and widely disseminated through regional and national innovation accelerators and incubators programmes, including AF funded AFCIA[24] project, to attract early-growth adaptation MSMEs that have already successfully piloted their solutions to receive further support through this project. At least 30 early-growth adaptation MSME, majority of whom are youth and female-led, will access the innovative and performance-based blended financing to support the deployment of their products and services to highly vulnerable groups[25]. Based on the needs of the adaptation MSMEs, appropriate financing in terms of grants, concessional debt or equity will be provided from this project. This finance will be used to support the dissemination of the adaptation technologies, products and services to specific areas. The choice of the instrument to be used will be made with a view to catalyse third party investment from other financiers. In parallel, the same 30 early-growth adaptation MSMEs will receive investment brokerage services to

23 https://www.adaptation-fund.org/document/guidance-document-implementing-entities-compliance-adaptation-fund-environmental-social-policy/

24 https://www.adaptation-undp.org/smallgrantaggregator/ Adaptation Solutions that apply for Uganda and Kenya will be assessed.

25 At concept stage, a more detailed breakdown of the anticipated needs of the MSMEs and their numbers will be presented.

link and connect them to the 15 local financing institutions who will provide loans that will be blended with the financing received from this project. In effect, this project will provide catalytic funding to adaptation MSMEs in form of grants, debt andequity so as to enable third-party investment from local banks and impact investors that otherwise would not be possible. The type of financial support provided will be specific to the needs of each adaptation MSME and demand of the market. The specific determination of financial support will be further elaborated in the course of the concept stage.

Tailored business growth support provided during the pre-financing and post-financing phases will help the MSMEs to be ready for the financing and respectively ensure that they continue to grow beyond the life of this project. The overall effect of the tailored business growth support is to systematically building the resilience of 30 adaptation MSMEs through strengthening their capacity to operate in difficult, changing and different markets.During the pre-investment phase, selected early-growth adaptation MSMEs will be supported with business/ climate risk assessment/ planning and financial modelling expertise and due deligence. Investment brokerage services will be offered in parallel to mobilize other investors to consider co-investing in the adaptation MSMEs. During the post-investment phase, supported early-growth adaptation MSMEs will be provided with expertise to expand their operations beyond their immediate market across the two countries. To increase chances of success, technical assistance and business development and growth services will be provided that include wholesale/ joint/ customised training, business coaching, and mentorship, technology and product improvement and adaptation support. Thus, the tailored investment brokerage services will act as de-risking and connective tissue between the adaptation MSMEs and other financiers. The services will be offered throughout the incubation process to link the MSMEs to financiers who may be interested to co-invest or who may be interested to monitor the progress of the MSMEs and then invest once they become commercially attractive, have demonstrated market traction and reduced risk. Figure 2 below presents the innovative adaptation MSME incubation system and how it increasingly de-risks the MSMEs.

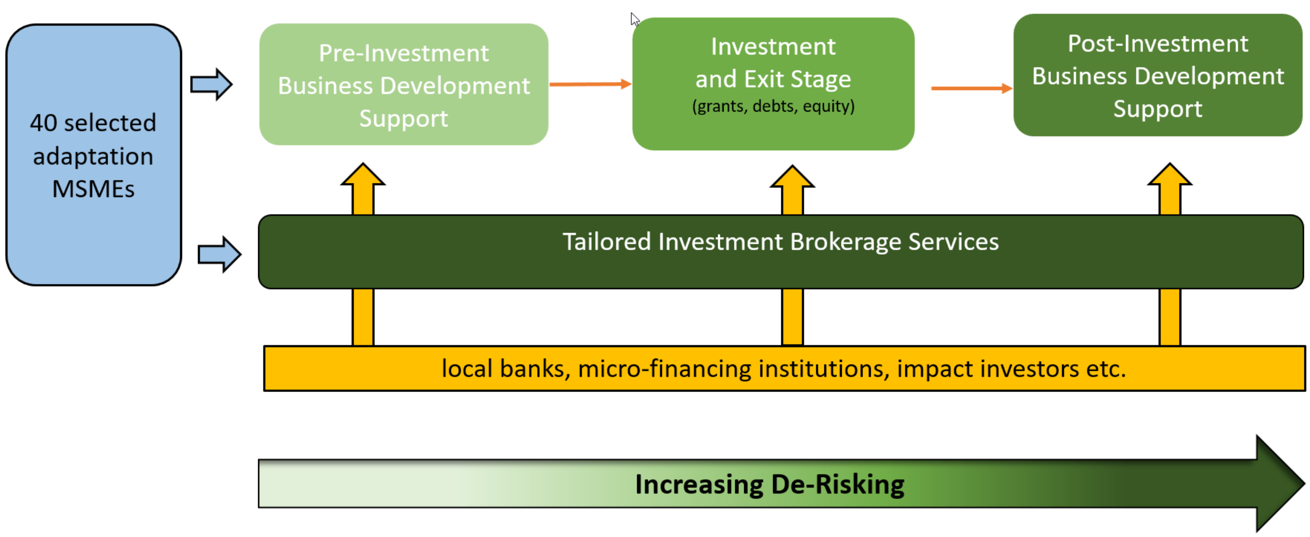

Figure 2 – Schematic presentation of the innovative adaptation MSME incubation system

To avoid supporting adaptation MSMEs with technologies, products and services that leads to maladaptation: i) adaptation MSMEs will integrate extensive consultations of all sectors of local communities to identify existing inequalities and systematically address them, ii) the selected adaptation products and services will be based on local skills and knowledge related to climate hazards, the endorsement and support of the end-users and the stakeholders in targeted regions; iii) the project will focus its resources where the proven adaptation products and services are designed and piloted, help reduce climate risk and vulnerability of the targeted population and businesses and are based on the demand of the end-users in the short, medium and long term; and iv) the project's design will consider avoiding socio-economic inequalities, engaging youth and female led MSMEs, and considering adaptation solutions the targeted vulnerable communities can acquire.

Component 3: Local financing institutions support adaptation MSMEs: Local banks and other lenders will be supported in assessing climate risks, co-plan with clients on mitigation, and reduce potential business losses posed by climate risks in their lending portfolios. With this intervention it is expected that local banks and microcredit institutions will scale up climate-smart lending by applying suitable instruments, such as the Climate Smart Lending Platform by F3 Life[26]. The proposed innovative financial mechanism allows private investors to ensure their lending incorporates climate risks and provide adaptation MSMEs access to performance-based financing. It also provides adaptation MSMEs with capital, allowing them to invest in the rollout and dissemination of adaptation solutions. This will effectively support the formative stages of an ecosystem of financiers interested to invest in adaptation MSMEs.

Project's innovative solution to climate change adaptation

The project supports cross innovation between the two countries's women and youth-led early-growth adaptation MSMEs[27] to rollout and expand innovative adaptation technologies, products and services to vulnerable populations. This allows efficient transfer of knowledge for innovation between the two countries and establishes a strong platform of international cooperation for innovation in the region. This project's unique approach is that it supports early-growth adaptation MSMEs in disseminating their innovative technologies through a performance based catalytic financing mechanism, where a financing from Adaptation Fund will be blended with financing from local banks and financiers. This will help women and youth-led early-growth stage adaptation MSMEs access the much required financing for them to grow their business and put them in a position to attract follow-on investment.The second innovation of the project relates to adaptation MSMEs incubation where bespoke pre and post investment business growth support services and investment brokerage services are strategically provided to de-risk the adaptation MSMEs and link the adaptation MSMEs in the incubation process to other financiers and investors. In particular, the project will pre-identify local banks, impact investors and micro-finance institutions that are interested to invest and will be engaged throughtout the incubation process to ensure that they can invest in the adaptaion MSMEs as they grow in the incubation process. The engagement of other financiers to mobilise co-invesments will systematically increase confidence in the viability of investment in such adaptation MSMEs. This innovative approach to incubation of adaptation MSMEs is new and the lessons from the project will be a learning opportunity. The third innovation relates to new catalytic financing support mechanism that is not in existence in the two countries, especially for early-growth stage adaptation MSMEs. Depending on the outcomes of the assessment of the adaptation MSMEs, the project will provide innovative catalytic financing in form of grants, debt and equity that suit the needs for specific MSMEs and will ensure that other investors will co-invest. This innovative approach to financing adaptation MSMEs is novel and has the potential to influence changes in the financial system. The project allows exploring new potential instruments and mechanisms conducive to trigger benefits from incentives and opportunities for early-growth stage adaptation MSMEs engaging in adaptation investment. The project will further be based on the experience gained through UNIDO's incubator and accelarator initiatives under the GEF LDCF programme and will bridge the gap, or the missing middle, between the initial entrepreneurial support provided through accelerators and incubators and the support provided by the Private Financing Advisory Network (www.pfan.net), which is a multilateral public private partnership programme co-hosted by UNIDO.

Regional approach supporting cost-effectiveness

Kenya and Uganda share a 722 km long border with very close trade and business linkages in many sectors including agriculture, water and energy sectors – major sitting targets of vulnerability to climate change in Kenya and Uganda. To be globally and regionally competitive, the project allows cross innovation between adaptation MSMEs of Kenya and Uganda and opening up international linkages. The regional approach (between the two cultures and creative industries) stimulate business, technology, and financing that drives innovation across the two countries. The agriculture sectors inter alia involve the import and export of animal products, foodstuffs, wood products, animal and vegetable by-products, coffee, tea, cereals, sugars and sugar confectionery[28&29]. Since both countries have strong socio-economic linkages and face similar climate risks, , the regional approach, provides more options and exchange of adaptation technologies, products and services best suited for their trade and business needs. Kenya is more advanced in adaptation MSMEs, hence the regional approach will allow for the knowhow and expertise to be shared with Uganda. The involvement of EEs from the two countries means that each of the EE will be able to provide bespoke support to MSMEs from the other country as they expand their businesses across the two countries. By covering two countries, the project offers more and wider opportunities

26 https://www.climatefinancelab.org/project/climate-smart-finance-smallholders/

27 Adaptation technologies, products that the MSMEs will deploy include nature-based solutions, water resource management, climate-smart agriculture, digitally enabled climate solutions etc

28 https://tradingeconomics.com/kenya/exports/uganda

29 https://tradingeconomics.com/uganda/exports/kenya

funders and markets to the MSMEs thereby widening the scope of investment opportunities and partners. This will effectively allow for wider pool for co-innovation and joint ventures. Furthermore, the regional hub coordination platform across the two countries will allow for sharing innovations in adaptation theses of priority for the two countries. The regional approach allows a wider number of adaptation MSMEs offering a wider range of technologies, products and services from the two countries, thus allowing cross country innovation, exchange and sharing of experiences and lessons. This will help to expand their businesses between the two countries for more market opportunities and add to their business linkages. Many of the adaptation products and services coming out from this project will be suitable in other countries and potential for scale-up and replication. The project cost at the regional level compared to individual projects in each country will be lower, including administrative and implementation costs. This also helps to reduce costs and avoid duplication of efforts thereby enhancing the cost-effectiveness of the project. The RCP ensures that a diversity of adaptation MSMEs will be supported across the two countries that covers a much wider set of technologies, products and services and hence increase the potential reach of these companies as they scale up their operations beyond the life of this project.

Align with national or sub-national development plan and policies

In both countries, the project promotes innovation in climate change adaptation by MSMEs as prioritised by Kenya's NCCRS and INDC and Uganda Vision 2040.The project interventions are in line with the respective government and regional priorities, innovation through adaptation MSMEs as prioritised by the National Climate Change Response Strategy (NCCRS)[30] of Kenya. The project creates enabling environment for private sector investment to enhance the resilience of the agriculture sector by promoting climate-smart agriculture, which strongly aligns with Kenya INDC and well as Kenya National Adaptation Plan 2015-2030[31]. By aligning with NDC's priority the project explores innovative livelihood strategies to build climate-resilient local communities by financing local-led climate actions, and adaptation technology, especially by women, youth, and other vulnerable groups[32]. Uganda Vision 2040 emphasises supporting the development of MSMEs, which the project mostly focuses on, especially in the priority sectors identified by NAPA[33], including adaptation to drought and the Climate Smart Agriculture Program (2015-2025)[34]. The project is fully aligned with Uganda's National Adaptation Plan for the Agriculture sector[35] (NAP-Ag) that seeks to increase resilience of the Agricultural Sector to the impacts of climate change, through coordinated interventions that enhance sustainable agriculture, food and nutritional security, livelihood improvement and sustainable development. NAP-Ag target to boost production and productivity for all agriculture sub-sectors including crop, livestock, fisheries, forestry, land and natural resources. One of the key objectives of NAP-Ag is to promote climate smart agriculture research and innovations.

Learning, knowledge management and dissemination

The rollout and dissemination of proven adaptation products and services will be an important part of learning, knowledge generation and sharing between the two countries. The RCP in which the stakeholders interact, share, and learn through cross-community and cross-country exchanges will be critical for knowledge generation, learning, documentation, and dissemination. The EEs will establish a database of adaptation products, services and technologies, document lessons learnt from the deployment of these products and services by the adaptation MSMEs from each country and widely share them as knowledge products. A session on learning and sharing experiences gained from the project will be organised at the regional level. As a part of knowledge sharing and outreach from this project, knowledge products will be prepared and shared through national, regional, and international fora by the EEs, UNIDO outreach unit and other networks.

Sustainability and Scale-up

While the activities were developed focusing on the duration of the support, all components and outcomes are inherently designed to ensure long-term sustainability and are expected to continue beyond the closure of project ensuring its sustainability. Under component 1, the established RCP continue to create linkages between the private sector and FI, to ensure the long-term growth and support of adaptation MSMEs. The blended financing mechanism and investment brokerage services foreseen under component 2 will enforce this long-term growth and support by providing early growth adaptation MSMEs with bespoken advisory support and catalytic financing. This will leverage the systematical strengthening and long-term sustainability of adaptation MSMEs for them to unlock further investments as to operate in difficult, changing and different markets, beyond the project. The

30 http://www.environment.go.ke/wp-content/documents/complete%20nccrs%20executive%20brief.pdf

31 https://www4.unfccc.int/sites/NAPC/Documents%20NAP/Kenya_NAP_Final.pdf

32 https://unepdtu.org/publications/private-sector-action-in-adaptation-perspectives-on-the-role-of-micro-small-and-medium-size-enterprises/

33 https://www.preventionweb.net/files/8578_uga01.pdf

34 https://unfccc.int/resource/docs/napa/uga01.pdf

35 https://www.agriculture.go.ug/the-national-adaptation-plan-for-the-agricultural-sector-nap-ag/

training material developed under component 3 will continue to be used after the end of the project. The training material will further be continuously updated by the RCP if deemed necessary. The project will also closely coordinate with other similar international efforts as to share and document best practices and gained knowledge. It is expected that the innovative financing mechanism will showcase to financing institutions the business opportunities in financing early-growth stage adaptation MSMEs and will sustainably encourage the scale up of their lending to such companies in future. The documentation of lessons learnt in lending to early-growth adaptation MSMEs will showcase how financing for these companies should be systematically approached and help stakeholders to create appropriate financing instruments that will benefit more enterprises in the two countries and East Africa Community. The RCP will ensure adaptation solutions across the two countries, covering a much wider set of products and services. Hence, increase the potential reach of these companies as they scale up their operations beyond the life of this project. Thus, the project will generate financial gains and its outcomes will subsist in the long-term.

PART III: IMPLEMENTATION ARRANGEMENTS

UNIDO will implement the project, while the execution of the project will fall under the responsibility of Kenya Climate Venture (KCV), as well as Uganda Green Enterprises Finance Accelerator (UGEFA), i.e., adelphi and Finding XY. UGEFA is not a legal entity so the actual execution will be done by Finding XY and adelphi. The project will however build on the experiences and networks mobilised under UGEFA. So far, it is planned that KCV and Finding XY will lead components 1 and 2 and adelphi will leverage its vast experience in working with financing institutions through programmes like the SEED (https://seed.uno/) to train local banks and local financing institutions to integrate climate risk mitigation in their lending operations as well as support component 1. At the concept stage, more details will be provided on the roles of each executing entities. The Regional Coordination Platform (RCP) will monitor performance, provide technical oversight and strategic advice to the project. The RCP consists of UNIDO representatives, executing entities (KCV, adelphi and Finding XY), relevant ministries and is chaired by UNIDO.

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

A. Record of endorsement on behalf of the government[36]

Dr. Chris Kiptoo *Principal Secretary* *Ministry of Environment and Forestry* *Office of the Cabinet Secretary*	Date*: 5th July 2021*
HonMatia Kasaija, *Minister of Finance, Planning and Economic Development*	Date*: 17 August 2021*

B. Implementing Entity certification

<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, Uganda’s NAP, 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">Mr. Akos KOESZEGVARY
(Signed on his behalf by officer-in-charge Ms. Ganna ONYSKO)

Ganna Onysko
Implementing Entity Coordinator</td></tr>
<tr><td>Date: August 6, 2021</td><td>Tel. and email: +43 1 26026 4573
A.Koeszegvary@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>

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.

MINISTRY OF ENVIRONMENT AND FORESTRY
Office of the Principal Secretary

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Ref: MEF/EMC/6/VOL.VIII/85

5th July, 2021

The Adaptation Fund Board
c/o Adaptation Fund Board Secretariat
Email: Secretariat@Adaptation-Fund.org

Letter of Endorsement

ENDORSEMENT FOR "UNLOCKING INVESTMENTS IN EARLY-GROWTH STAGE ADAPTATION MSMES IN KENYA AND UGANDA"

In my capacity as 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 and executed by Kenya Climate Ventures and Uganda Green Enterprises Finance Accelerator, in close collaboration with the relevant Government Agencies under the coordination of the Climate Change Directorate.

Dr. Chris Kiptoo, CBS
PRINCIPAL SECRETARY

Telephone : 256 41 4707 000
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In any correspondence on
this subject please quote No. ALD 72/251/02

THE REPUBLIC OF UGANDA

Ministry of Finance, Planning &
Economic Development
Plot 2-12, Apollo Kaggwa Road
P.O. Box 8147
Kampala
Uganda

17th August 2021

The Adaptation Fund Board
C/o Adaptation Fund Board Secretariat
Email: secretariat@Adaptation-Fund.org
Fax: 202 522 3240/5

ENDORSEMENT FOR A PROJECT PROPOSAL: UNLOCKING INVESTMENTS IN FEMALE AND YOUTH-LED EARLY-GROWTH STAGE ADAPTATION MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES (MSME) IN KENYA AND UGANDA

I have the honor to refer to your call for proposal under the Large Innovation Grants to support innovations and enhanced direct access.

With the support of the United Nations Industrial Development Organization (UNIDO), Uganda has developed a project proposal aimed at Unlocking investments in female and youth-led early-growth stage adaptation Micro, Small and Medium-sized Enterprises in Kenya and Uganda. The Project aims at;

1) Developing Regional coordination platform to connect adaptation, climate-smart lending, entrepreneurship, knowledge management and promote cross-learning
2) Developing Innovative blended financing mechanism and investment brokerage services
3) Building Capacities of Local financing institutions to support adaptation MSMEs

In my Capacity as the appointing Authority of the Designated Authority for the Adaptation Fund in Uganda, I confirm that the above project proposal is in accordance with the National Climate Adaptation Priorities of the Government of Uganda.

Accordingly, I am pleased to endorse this project proposal for support from the Adaptation Fund. If approved, the project will be executed by the Uganda Green Enterprise Finance Accelerator and Implemented by the United Nations Industrial Development Organization.

Matia Kasaija (M.P)
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Copy: -The Permanent Secretary/ Secretary to the Treasury
-The Country Representative, UNIDO Uganda Office