



S

ADAPTATION FUND

## REGIONAL INNOVATION PROJECT/PROGRAMME PROPOSAL

### PART I. PROJECT/PROGRAMME INFORMATION

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 <sup>1</sup> :	Innovative adaptation financing
Type of Implementing Entity:	Multilateral Implementing Entity (MIE)
Implementing Entity:	United Nations Industrial Development Organization (UNIDO)
Executing Entity:	adelphi
Amount of Financing Requested:	5,000,000 (in U.S Dollars Equivalent)

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<sup>1</sup> 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

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

## Project Background and Context:

This project takes an innovative approach in piloting a catalytic finance network 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 network 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 national project partners, 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<sup>2</sup> 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<sup>2</sup>, characterized by large lakes, forested areas, savannas 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<sup>2</sup>. Uganda's population was estimated at 40.3 million by midyear 2019 with an annual population growth rate of 3.1%<sup>3</sup>. 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<sup>4</sup> 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<sup>5</sup> 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

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

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

<sup>4</sup> 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](#)

<sup>5</sup> 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<sup>6</sup>.

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<sup>7</sup>.
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 °C to 6 °C 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<sup>8</sup>.

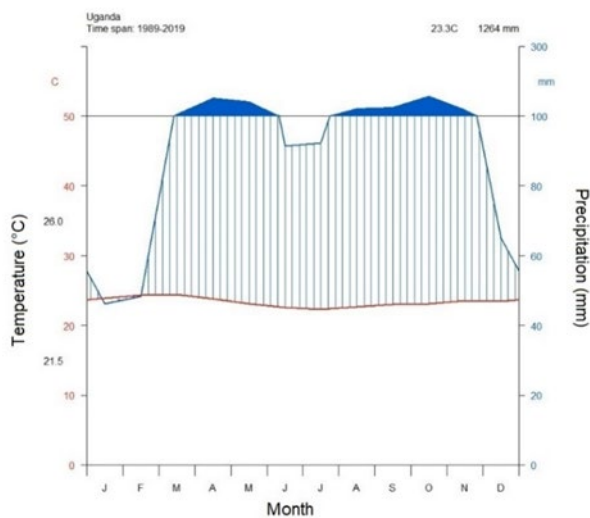


Figure 1. Climate graph Uganda (IPCC)

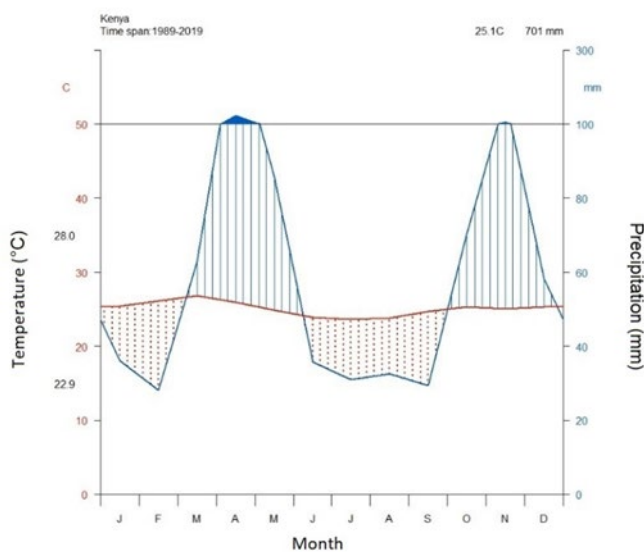


Figure 2. Climate Graph Kenya (IPCC)

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

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

<sup>7</sup> 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.

<sup>8</sup> 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<sup>9</sup> patterns<sup>10</sup>.

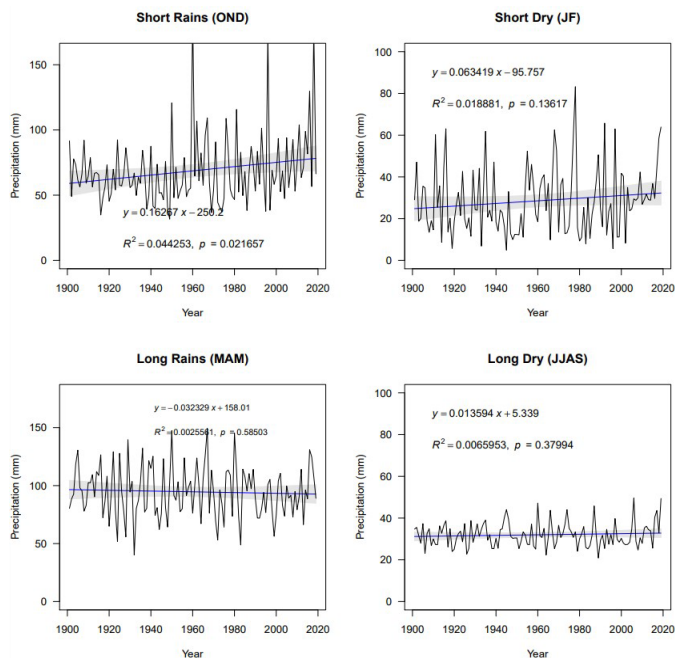


Figure 3. Mean annual seasonal precipitation trends in Kenya in the time series 1900-2019 - World Bank Climate Portal (2020)

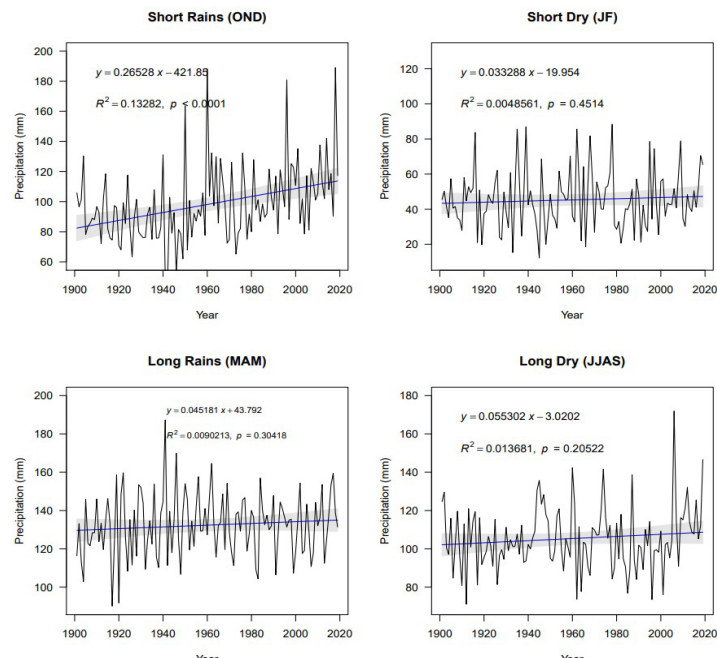


Figure 4. Mean annual seasonal precipitation trends in Uganda in the time series 1900-2019 - World Bank Climate Portal (2020)

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 (Niang et al., 2014).<sup>11</sup> 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<sup>12</sup>. 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 coastal 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<sup>13</sup>.

### **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<sup>14</sup>.

<sup>9</sup> Niang et al. (2014)

<sup>10</sup> 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.

<sup>11</sup> Under SSP2 - 27.04°C (KE) & 25.49°C (UG). Under SSP1 - 25.61°C (KE) & 24.41°C (UG)

<sup>12</sup> Climate Risk Profile: Kenya. World Bank (2021); Climate Risk Profile: Uganda. World Bank (2021)

<sup>13</sup> Think Hazard. (2022). Coast of Kenyan risk map. URL: [Think Hazard - Coast](https://www.thinkhazard.com/kenya-coast-risk-map)

<sup>14</sup> 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)<sup>15</sup>. 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<sup>16</sup>. 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<sup>17</sup>. In addition, the climate impacts on agriculture also include the growing risks and challenges associated with pest and disease management<sup>18</sup>. 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.<sup>19</sup> According to the World Resource Institute (WRI) Water Risk atlas, Kenya is considered categorized in a high-water risk scenario<sup>20</sup> 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.<sup>21</sup> 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<sup>22</sup>.
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 availability (i.e. agriculture, tourism, energy, manufacturing industries). Currently, it is estimated that per capita freshwater availability is

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

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

<sup>17</sup> 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.

<sup>18</sup> 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

<sup>19</sup> GIZ: [Climate Risk Profile Kenya \(2020\)](#); GIZ: [Climate Risk Profile Uganda \(2020\)](#)

<sup>20</sup> This refers to the aggregation of all selected indicators from the Physical Quantity, Quality and Regulatory & Reputational Risk categories

<sup>21</sup> WRI. (2022). *Aqueduct*. URL: [Aqueduct | World Resources Institute \(wri.org\)](#)

<sup>22</sup> 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.

projected to decline by 80% and 73% for Uganda and Kenya respectively<sup>23</sup>. 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<sup>24</sup>. 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<sup>25</sup>. 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.<sup>26</sup>
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<sup>27</sup>. 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:**<sup>28</sup> 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 <sup>29</sup>.
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<sup>30</sup>.
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 Marsabit 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<sup>31</sup>.
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 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

<sup>23</sup> GIZ: Kenya (2020); GIZ: Uganda (2020)

<sup>24</sup> 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.

<sup>25</sup> WRI. (2022). Aqueduct. URL: [Aqueduct | World Resources Institute \(wri.org\)](https://www.wri.org/aqueduct)

<sup>26</sup> FAO (2019)

<sup>27</sup> 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.

<sup>28</sup> As a landlocked country, this section is not relevant for Uganda

<sup>29</sup> 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.

<sup>30</sup> 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.

<sup>31</sup> FAO (2019)

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<sup>32</sup>. 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<sup>33</sup>.
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<sup>34</sup>.
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 spread 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<sup>35</sup>.
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 often 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.
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

<sup>32</sup> AQUASTAT (2002). URL: <https://www.fao.org/aquastat/statistics/query/results.html>

<sup>33</sup> GIZ: Kenya (2020); GIZ: Uganda (2020)

<sup>34</sup> GIZ: Kenya (2021); GIZ: Uganda (2021)

<sup>35</sup> 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.

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<sup>36</sup> 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)<sup>37</sup> 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<sup>38</sup>. 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<sup>39</sup>. 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 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.

<sup>36</sup> UNICEF. (2019). UNICEF Uganda annual report 2019. URL: [UNICEF\\_UgandaAR2019-WEBhighres.pdf](#)

<sup>37</sup>The project will facilitate access to finance for early-growth SMEs, excluding Micro enterprises as they are not 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.

<sup>38</sup> 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

<sup>39</sup> 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.

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)<sup>40</sup> 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.

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<sup>40</sup> [https://lightsmithgp.com/wp-content/uploads/2020/09/asap-adaptation-solutions-taxonomy\\_july-28-2020\\_final.pdf](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	<p><b>Kenya:</b> Nakuru, Baringo, Kajiado, Busia, Homabay, Kakamega, Kisumu, Siaya, Kericho, Migori, Nyandarua, Tana River</p> <p><b>Uganda:</b> Hoima, Masindi, Nebbi, Gulu, Apac, Lira, Soroti, Kumi, Pallisa, Mpigi, Masaka, Fort Portal, Bugiri, Iganga, Mukono, Luwero, Mubende</p>	<p><b>Kenya:</b> <b>Overall:</b> Unstable hydrological flows</p> <p><b>Main variables:</b> 1) Extreme weather events (droughts/floods) 2) Altered and more extreme hydrological cycles 3) Altered precipitation and cloud cover patterns</p> <p><b>Uganda:</b> <b>High elevation:</b> 1) Heavy and out of season precipitation causing landslides, flooding, erosion, and soil degradation 2) Increased occurrence and frequency of droughts <b>Low elevation:</b> 3) Heavy precipitation events causing increased loading of chemical and organic compounds in lake ecosystems 4) Unstable precipitation patterns causing more variable lake and river ecosystems.</p>	<p><b>Sector: Agriculture</b></p> <ul style="list-style-type: none"> <li>• Reduced crop yields for lake ecosystem agricultural industries due to flooding and out-of-season rainfall (1 &amp; 2)</li> <li>• Crop failure from altered precipitation patterns (2 &amp; 3)</li> <li>• Changes in fish availability due to reduced water quality, eutrophication and poisonous compounds flushed into river systems (1,2).</li> </ul> <p><i>Key vulnerable actors:</i></p> <ul style="list-style-type: none"> <li>• <i>Agricultural producers near lakes and rivers or in low elevation areas</i></li> <li>• <i>Small holder agricultural producers without water storage or protected cultivation systems</i></li> </ul> <p><b>Sector: Water</b></p> <ul style="list-style-type: none"> <li>• Lakes and rivers become more unstable from changing climatic conditions resulting in flooding and dropping water levels (1,2,3)</li> <li>• Flooding-related damages to infrastructure (1)</li> <li>• Low hydro-Energy Output (1 &amp; 2)</li> <li>• Pooling of water increases risk for water &amp; vector borne diseases such as malaria, typhoid bilharzia, etc. (1, 2)</li> </ul> <p><i>Key vulnerable actors:</i></p> <ul style="list-style-type: none"> <li>• <i>Hydro energy producers and low-income earning energy consumers. Failure in hydro production can lead to fluctuations in energy prices</i></li> <li>• <i>Community members residing near lakes and rivers</i></li> <li>• <i>New born children, pregnant women, elderly and young children are highly vulnerable to agricultural failures and water borne diseases</i></li> </ul>	<p><b>Agricultural production and fisheries:</b></p> <ul style="list-style-type: none"> <li>• Weather &amp; Climate Information Systems (WCIS, e.g. weather forecasting systems)*</li> <li>• Protected cultivation systems (e.g. greenhouses)</li> <li>• Integrated Soil Fertility Management (ISFM, e.g. organic fertiliser)**</li> <li>• Fish stock reloading services</li> <li>• Agricultural extension services (including intercropping techniques, agroforestry, climate smart agricultural practices, sustainable agricultural practices)***</li> <li>• Bio pesticides</li> <li>• Media educational programs for climate smart agriculture</li> <li>• Index-based micro insurance for smallholders****</li> <li>• Pest/disease and drought-resistant crops*****</li> </ul> <p>• Farming Equipment Leasing</p> <p><b>Water management</b></p> <ul style="list-style-type: none"> <li>• Water storage and harvesting systems</li> <li>• Drip irrigation and hydroponic systems*****</li> <li>• Water resource regulation (e.g. riparian management)</li> <li>• Reforestation programs</li> <li>• Smart sanitation and water purification systems</li> </ul>
High Potential Agro-economic Zones	<p><b>Kenya:</b> Likipia, Nakuru, Nyandarua, Kiambu, Nyeri, Uasin Gishu,</p>	<p><b>Kenya:</b> <b>Overall:</b> Unstable precipitation patterns</p> <p><b>Main variables:</b> 1) Extreme rainfall events</p>	<p><b>Sector: Agriculture</b></p> <p><b>Kenya:</b></p> <ul style="list-style-type: none"> <li>• 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).</li> </ul>	<p><b>Agricultural production</b></p> <ul style="list-style-type: none"> <li>• WCIS (e.g. weather forecasting systems)*</li> <li>• Protected cultivation systems (e.g. greenhouses)</li> <li>• ISFM**</li> <li>• Pest/disease and drought-resistant crops*****</li> </ul>

Region	Main counties	Main climate challenges	Most climate vulnerable socio-economic sector & group	Potential /Current solutions provided by adaptation SMEs
	<p>Embu, Makueni, Kajiado, Machacos,</p> <p><b>Uganda:</b> Apac, Masindi, Lira, Jinja, Soroti, Kumi, Kamuli, Luwero, Mukono, Mbarare, Masaka, Rukungiri, Bushenyi, Kabale, Kisoro</p>	<p>2) Altered and more extreme hydrological cycles 3) Altered precipitation and cloud cover patterns 4) increasing frequency of droughts</p> <p><b>Uganda:</b> <b>Overall:</b> Highest projected positive change in average temperatures, extreme heat <b>Main variables:</b> 1) Extreme weather events (droughts/floods) 2) Altered and more extreme hydrological cycles 3) Altered precipitation and cloud cover patterns</p>	<p><b>Uganda:</b></p> <ul style="list-style-type: none"> <li>• Reduced crop yields and quality (particularly for rainfed agriculture) due to higher temperature and/or lack of regular rainfall (1,3)</li> <li>• Crops losses due to extreme weather events (2)</li> <li>• Soil degradation due to increased temperatures and extreme weather events (1,2,3)</li> </ul> <p><i>Key vulnerable actors:</i></p> <ul style="list-style-type: none"> <li>• <i>Small holder agricultural producers without water storage, protected cultivation systems and other essential adaptation technologies</i></li> <li>• <i>Women involved in agricultural production, especially single mothers.</i></li> </ul> <p><b>Sector: Water</b></p> <p><b>Kenya:</b></p> <ul style="list-style-type: none"> <li>• Flooding related damages to infrastructure (1)</li> <li>• Pooling of water increases risk for water &amp; vector borne diseases such as malaria, typhoid bilharzia, etc. (1)</li> </ul> <p><b>Uganda:</b></p> <ul style="list-style-type: none"> <li>• Contamination of water sources (1, 2)</li> <li>• Damage to already Insufficient water storage systems (1,2)</li> <li>• Hydro-power production failures (1,2)</li> <li>• Pooling of water increases risk for water &amp; vector borne diseases such as typhoid and bilharzia, etc. (1, 2)</li> </ul> <p><i>Key vulnerable actors:</i></p> <ul style="list-style-type: none"> <li>• <i>Damage to roads reduces access to markets for agricultural producers</i></li> <li>• <i>Young children, elderly and pregnant women are most susceptible to these diseases</i></li> <li>• <i>Community members residing near lakes and rivers (Uganda)</i></li> </ul>	<ul style="list-style-type: none"> <li>• Agricultural extension services***</li> <li>• Farming equipment leasing</li> <li>• Bio pesticides</li> <li>• Media educational programs for climate smart agriculture</li> <li>• Index-based micro insurance for smallholders****</li> </ul> <p><b>Water management</b></p> <ul style="list-style-type: none"> <li>• Flood protection technology</li> <li>• Drip irrigation and hydroponic systems*****</li> <li>• Smart sanitation and water purification systems</li> </ul>
<p>Arid/Semi-Arid Landscapes of Northern Kenya</p> <p>For Uganda, specifically the "Cattle Corridor"</p>	<p><b>Kenya:</b> Mandera, Wajir, Garissa, Isiollo, Marsabit, west pokot, Mandera.</p> <p><b>Uganda:</b> Kotido, Moroto, Soroti, Lira, Apac, Kumi, Luwero, Kiboya, Kibale, Mubendu,</p>	<p><b>Overall:</b> Increasingly drier climate; Droughts are becoming more extreme and frequent</p> <p><b>Main variables:</b> 1) Increasing frequency of droughts 2) Altered precipitation and cloud cover patterns 3) Cyclone driven locust swarms 4) rare but extreme rainfall events</p>	<p><b>Sector: Agriculture</b></p> <ul style="list-style-type: none"> <li>• Crop failure and severe crop damage and livestock losses due to prolonged drought periods (1)</li> <li>• Partial yield losses due to locust pests (3)</li> <li>• Reduced soil quality due to intensified erosion dynamics (1, 2 &amp; 4)</li> <li>• Livestock losses and increased livestock stress due to lack of vegetation and water (1,2)</li> </ul> <p><i>Key vulnerable actors</i></p> <ul style="list-style-type: none"> <li>• <i>Pastoralist and agricultural producing communities.</i></li> <li>• <i>New born children, pregnant women, elderly and young children are highly vulnerable to fluctuations in food availability.</i></li> <li>• <i>Chronic dehydration can hamper childhood and prenatal development.</i></li> <li>• <i>Pastoralists are at risk of conflict related mortality.</i></li> </ul>	<p><b>Agriculture production</b></p> <ul style="list-style-type: none"> <li>• WCIS (e.g. weather forecasting systems)*</li> <li>• Pest warning systems</li> <li>• Protected cultivation systems (e.g. greenhouses)</li> <li>• ISFM**</li> <li>• Pest/disease and drought-resistant crops*****</li> <li>• Animal feed storage facilities</li> <li>• Farming equipment leasing</li> <li>• Solar borehole solutions</li> <li>• Bio pesticides</li> <li>• Improved seed and livestock breeds</li> <li>• Agricultural extension services***</li> </ul>

Region	Main counties	Main climate challenges	Most climate vulnerable socio-economic sector & group	Potential /Current solutions provided by adaptation SMEs
	Sembabule, Marare, Rakai		<p><b>Sector: Water</b></p> <ul style="list-style-type: none"> <li>• Severe decline in fresh water availability both above ground and in underground storage (1)</li> <li>• Contamination of water sources (1,3)</li> <li>• Damage to already Insufficient water storage systems (3)</li> </ul> <p><i>Key vulnerable actors</i></p> <ul style="list-style-type: none"> <li>• <i>Pastoralist and agricultural producing communities with limited access to water sources.</i></li> <li>• <i>Chronic dehydration can hamper childhood and prenatal development.</i></li> </ul>	<ul style="list-style-type: none"> <li>• Media education on adaptation avenues</li> <li>• Index-based micro insurance for smallholders****</li> </ul> <p><b>Water management</b></p> <ul style="list-style-type: none"> <li>• Water storage and harvesting systems</li> <li>• Drip irrigation and hydroponic systems*****</li> <li>• Smart sanitation and water cleaning systems</li> <li>• Drought and food security early warning systems</li> </ul>
Major cities, urban and rural agglomerations	<p>No specified county: predominantly low-lying areas</p> <p>High risk Cities Kenya: Nairobi, Mombasa, Naivasha, Kisumu, Nakuru,</p> <p>High risk cities Uganda: Kampala, Entebbe, Jinja, Soroti.</p>	<p><b>Overall:</b> damage to local infrastructure and communities from extreme rainfall events and high temperatures</p> <p><b>Main variables</b></p> <ol style="list-style-type: none"> <li>1) Increased frequency of extreme rainfall events causing flooding and landslides.</li> <li>2) Severe warming caused by urban heat effect and Climate change</li> <li>3) Altered and more extreme hydrological cycles (only Uganda)</li> <li>4) Altered precipitation and cloud cover patterns (only Uganda)</li> </ol>	<p><b>Sector: Agriculture</b></p> <ul style="list-style-type: none"> <li>• Limited damage due to the little amount of producers</li> </ul> <p><i>Key vulnerable actors</i></p> <ul style="list-style-type: none"> <li>• <i>Urban crop producers face financial losses from production failures</i></li> </ul> <p><b>Sector: Water</b></p> <ul style="list-style-type: none"> <li>• Long term damage to water systems and storage (1)</li> <li>• 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)</li> <li>• Pollution of drinking water systems increases the presence of water borne diseases. (1,2,3)</li> <li>• Old and young generations are at risk of heat stroke during high temperatures due to metal housing heat insulation (2).</li> <li>• Pooling of water increases risk for water &amp; vector borne diseases such as malaria, typhoid bilharzia, etc. (1, 2)</li> </ul> <p><i>Key vulnerable actors</i></p> <ul style="list-style-type: none"> <li>• <i>Low income earners living in low quality housing areas (i.e. Kibera slum)</i></li> <li>• <i>New born children, pregnant women, elderly and young children vulnerable to heat related mortality and water borne diseases.</i></li> </ul>	<p><b>Water management</b></p> <ul style="list-style-type: none"> <li>• Water storage and harvesting systems</li> <li>• Improved drainage systems and flood barriers have been installed.</li> <li>• Improved housing infrastructure (including ventilation/cooling systems, concrete walls, etc.).</li> <li>• Irrigating gardens, urban farms-decentralised water storage facilities</li> <li>• Flood protection technology</li> <li>• Water infiltration and attenuation systems</li> <li>• sewer system clean-ups</li> <li>• Flood warning systems</li> <li>• Smart sanitation and water cleaning systems</li> <li>• Disease Surveillance Systems</li> </ul>
<b>Example enterprises:</b>				<p>Index-based micro insurance for smallholders****: <a href="#">Akaboxi Ltd.</a> (Uganda)</p> <p>Pest/disease and drought-resistant crops*****: <a href="#">Bakhonya</a> (Kenya)</p> <p>Drip irrigation and hydroponic systems*****: <a href="#">Hydroponics Africa Ltd.</a> (Kenya)</p>

## 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<sup>41</sup>. 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 disproportionately 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<sup>42</sup> 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<sup>43</sup>. 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<sup>44</sup>.

(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, making them more inclusive and responsive to financing needs of early-growth women- and youth inclusive adaptation SMEs. . By piloting an innovative performance-based grant mechanism as a catalytic entry point, the project will enable these SMEs to demonstrate tangible adaptation impact and financial viability—thereby building track records, de-risking early investments, and enhancing their readiness for commercial finance. This foundational step will trigger broader systemic change by equipping Financial Institutions (FIs) with the capacities, tools, and co-designed blended finance instruments needed to integrate adaptation SMEs into their lending portfolios. The project will contribute to enhanced climate resilience in the agriculture and water sectors by enabling inclusive SMEs to scale innovative, sector-specific adaptation

<sup>41</sup> 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](#).

<sup>42</sup> International Finance Corporation. (2017). [MSME Finance Gap](#).

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

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

solutions. These enterprises will serve as proof of concept for investable business models, catalyzing replication and crowding-in of private finance. The resulting demonstration effect will shift perceptions of adaptation investments as commercially viable, reinforcing long-term market transformation and opening pathways for sustained SME growth and climate adaptation impact, particularly among vulnerable and marginalized groups.

49. The project will be structured around three Components:
- Establishing a **Regional Coordination Hub (RCH)** that serves as a pioneering regional knowledge forum 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.
  - Implementing a **performance-based grant and enterprise support mechanism** to enable selected gender- and youth-inclusive adaptation SMEs to scale their adaptation impacts on vulnerable groups in Kenya and Uganda
  - Executing 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. In parallel, **innovative blended finance instruments will be co-developed with financial institutions and impact investors**, which can lead to long-term sustainability of adaptation SMEs beyond the life of the project, by facilitating opportunities for commercial finance access. This dual approach—combining performance-based grant funding under Component 2, with the design of forward-looking financial instruments under Component 3—will enhance the readiness of both adaptation SMEs and the financial sector to scale climate adaptation solutions, while laying the foundation for sustained, market-driven adaptation finance.
50. **Definition of target group for this project:** This project focuses on gender- and youth<sup>45</sup> 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-gear 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	Countries	Amount (US\$)
1. Regional Coordination Hub	1.1 The project establishes a sustainable coordination, network and knowledge forum for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers	1.1.1 Establishing a multi-stakeholder Adaptation Action Steering Committee  1.1.2 A strategic framework and digital infrastructure for the RCH 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  1.2.2 Four Annual Adaptation Finance Symposia are held  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. Performance-Based Grant Mechanism and	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	Kenya, Uganda	281,050

<sup>45</sup> 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.

Enterprise Support for Adaptation SMEs		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)		
	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 acceleration support in order to strengthen funding readiness for 100 selected gender- and youth-inclusive adaptation SMEs provided  2.2.2 Two Catalyser Plus Programme Cycles: Post-investment support on growth and performance based grant funding provided for 30 gender- and youth-inclusive adaptation SMEs	Kenya/ Uganda	2,788,100
3. Financing Institution Capacity Development Programme and Blended Financing Mechanism Co-design	3.1: Local financing institutions supporting the dissemination of adaptation technologies, products and services	3.1.1: An Adaptation Finance Academy training concept is developed and implemented	Kenya, Uganda	340,500
	3.2: Stimulating the adaptation finance landscape through co-designing blended finance instruments with FIs	3.2.1 Co-Design of Blended Finance Instruments with Local Financial Institutions for Post-Project Sustainability  3.2.2 Institutional partnerships with Financial Institutions established to form a Catalytic Financing Network  3.2.4 Exit and scale-up strategies developed for blended financing instruments	Kenya, Uganda	254,300
4. Project/Programme Execution Cost				394,355
5. Total Project/Programme Cost				4,545,455
6. Project/Programme Cycle Management Fee				454,545
<b>Amount of Financing Requested</b>				<b>5,000,000</b>

## Project calendar

Table 3. Project Calendar

Milestones	Expected Dates
Start of Project Implementation	March 2026
Mid-term Review	March 2028
Project Closing	March 2030
Terminal Evaluation	June 2030

## 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 innovative performance-based payments coupled with targeted pre- and post-investment advisory support<sup>46</sup> (Component II);
  - 3) Training FIs in adaptation finance to develop their own climate strategies and prototype innovative finance instruments<sup>47</sup> tailored for gender- and youth inclusive adaptation SMEs and incentivising local FIs to co-create a blended financing instrument to bridge the missing middle financing gap for early-growth 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. The performance-based grant mechanism serves as the catalytic entry point for this broader market transformation. It enables early-growth adaptation SMEs to build track records of adaptation impact and financial performance, thereby reducing perceived risks and strengthening their bankability. These outcomes are essential for Financial Institutions (FIs) to later engage with and scale up the use of co-designed blended finance instruments developed through the project. By phasing the financial approach in this way, the project builds a proof-of-concept pathway from concessional capital to commercial financing, unlocking long-term private investment in adaptation SMEs.
54. Envisioned mid-term impacts foresee that FIs will invest in early-growth stage adaptation SMEs through an innovative catalytic finance network 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 to 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 participation 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: Performance-Based Grant Mechanism and Enterprise Support for Adaptation SMEs

- IF an innovative performance-based grant mechanism is implemented in Kenya and Uganda, providing results-linked funding to gender- and youth-inclusive adaptation SMEs, including women-led SMEs, that builds financial and adaptation performance track records, serving as a de-risking mechanism to attract future investment and enable the uptake of blended finance instruments;
- IF adaptation SMEs are clearly identified as a priority enterprise category with unique financial and operational challenges, and selection tools are specifically designed to target SMEs that deliver measurable adaptation outcomes and serve climate-vulnerable populations;
- 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 financial readiness support to

<sup>46</sup> 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>

<sup>47</sup> 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/>

strengthen their business and adaptation impact potential; IF at least 30 of the selected SMEs (out of which 15 women-led SMEs) receive performance-based grants linked to Adaptation Performance Targets (APTs), along with investment planning support, business advisory, and matchmaking services with local FIs;

- THEN, at least 30 selected SMEs (out of which 15 women-led SMEs) will be enabled to implement basic investment plans, grow their business models, and demonstrate their bankability and adaptation impact; O
- THEN selected SMEs will scale the deployment of adaptation solutions across the two countries increasing their reach and value to vulnerable communities;
- Which in turn, will raise awareness and build confidence among local FIs and investors, increasing the likelihood of sustained and independent investment into gender- and youth-inclusive adaptation SMEs, including women-led businesses, beyond the project lifecycle.
- This phased approach—from catalytic grants to blended finance readiness—positions the project to trigger systemic change in local financial markets, embedding adaptation SMEs into the portfolios of mainstream FIs and ensuring sustainable financing models beyond the life of the project.

### **Component III: Financing Institution Capacity Development Programme and Blended Financing Mechanism Co-design**

- IF a minimum of 15 local FIs are guided through the Adaptation Finance Academy to develop gender-responsive climate (adaptation) strategy and build internal capacity on inclusive adaptation finance;
- IF these FIs actively participate in Climate Strategy Workshops, Adaptation Finance Trainings, and Practitioner Labs, gaining practical skills and knowledge to identify, assess, and support adaptation SMEs;
- IF the project facilitates the co-design of innovative, market-ready blended finance instruments in collaboration with these FIs, tailored to the needs of gender- and youth-inclusive adaptation SMEs for post-project deployment;
- IF the FIs begin to incorporate adaptation and gender-lens considerations into their risk assessments, loan appraisal processes, and product development pipelines;
- AND IF a peer-learning network and knowledge hub is established through the Adaptation Finance Academy, fostering continued exchange, prototyping, and collaboration beyond the project period;
- ASSUMING that through the co-creation 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 will be positioned to independently launch and scale financing products that respond to the needs of adaptation SMEs,
- Which in turn, leads to enhanced access to investment capital for gender- and youth-inclusive adaptation SMEs in Kenya and Uganda and beyond.

55. 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 Hub (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<sup>48</sup> 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.

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

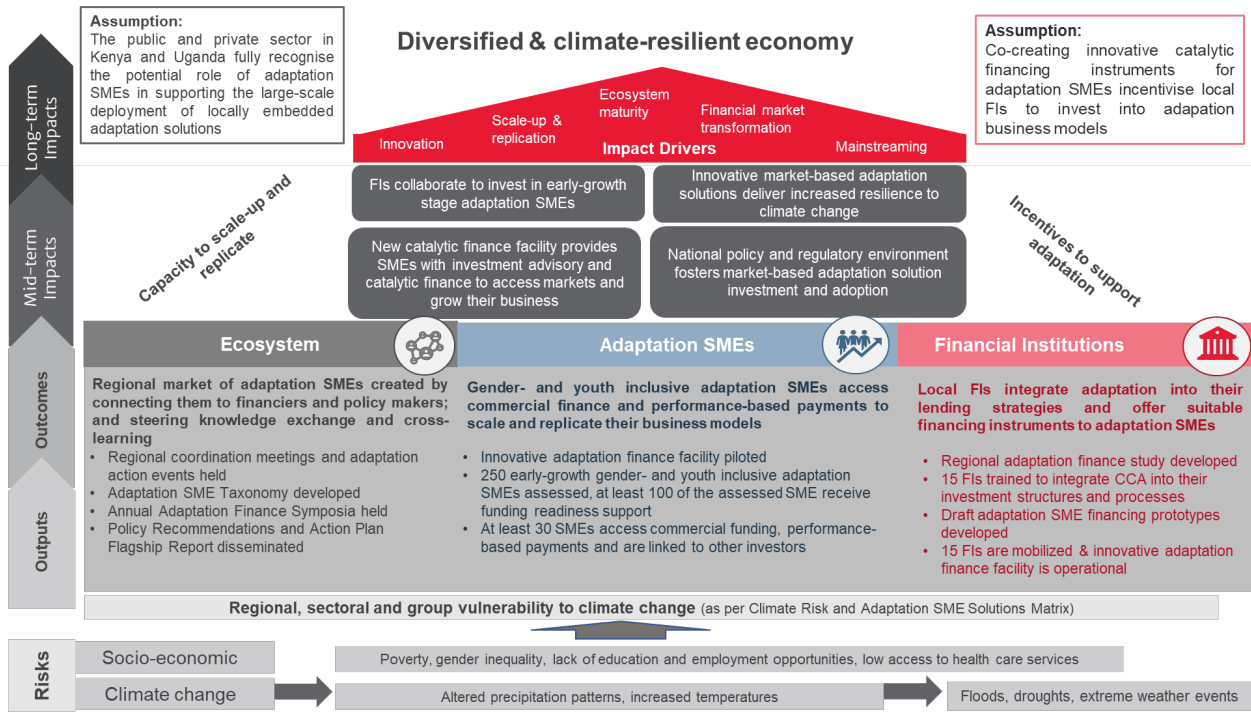


Figure 5. Theory of Change of the proposed project

## Component I: Regional Coordination Hub

56. **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.
57. **Proposed interventions:** Component I aims at establishing a Regional Coordination Hub (hereby RCHH) 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 forum 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.
58. **Alignment with AF Strategic Results Framework (SRF):** Component I aims to strengthen 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 and deployed by adaptation SMEs (alignment with Output 8.2)

*Outcome 1.1 The project establishes a sustainable coordination, network and knowledge forum 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

59. To ensure that gender- and youth inclusive adaptation SMEs take a more central role and are targeted and supported by such actors, an RCH 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
60. The RCH 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

61. 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 national project 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 RCH 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 RCH is developed and endorsed

#### Activities

##### 1.1.2.1 Endorsement of a strategic framework

62. 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

63. One core component of the RCH 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 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

64. The RCH 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 roundtables 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 opportunities 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

65. The Adaptation Finance Symposia will be annual multi-stakeholder events with high-level speeches, panel discussions, interactive break-out sessions, adaptation SME exhibitions<sup>49</sup> and pitches of the prototyped adaptation finance solutions developed during the Adaptation Finance Practitioner Labs (Activity 3.1.1.3). The symposia provide opportunities for cross-country exchange between financiers, policy makers and adaptation SMEs. Aiming to be the leading adaptation finance knowledge hub in the region, the RCH’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

66. 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

<sup>49</sup> 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.

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.

#### 1.2.3.2 Evidence-based Adaptation SME Taxonomy

67. Based on the pioneering taxonomy work on adaptation SMEs by the IADB's Adaptation SME Accelerator Project<sup>50</sup>, 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.

#### 1.2.3.3 Adaptation SME Finance Scoping Study

68. 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 identifying 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

#### 1.2.3.4 Multimedia case study films to showcase adaptation business models and their impacts

69. 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.

#### 1.2.3.5 Policy Recommendations and Action Plan Flagship Report

70. 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 RCH's digital platform.

#### 1.2.3.6 Annual Impact Assessment

71. 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 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.

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<sup>50</sup> Trabacchi, C., Koh, J., Shi, S., Guelig, T. (2020) [Adaptation Solutions Taxonomy](#).

72. *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.
73. *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: Performance-Based Grant Mechanism and Enterprise Support for Adaptation SMEs

74. **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<sup>51</sup> 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,<sup>52</sup> 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.
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 de-risking through technical assistance (TA) and performance-based grants 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*: 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. Of the 100 **grant investment plans** developed as part of the Catalyser Programme, 30 will be financed through the Adaptation Fund grant, which will ensure that the solution is de-risked. Those (i.e. 30 SMEs) supported through the Catalyser Plus will also develop **Scale-up Investment Plans** that could be used by the SMEs navigate their journey post-project support.
  - 3) *Performance-based grant payments*: This performance-based grant approach is distinct from traditional output-based aid or grant schemes in that it ties disbursement not to generic deliverables but to clearly defined, enterprise-specific Adaptation Performance Targets (APTs). These APTs are co-developed with each SME based on their Theory of Change and measurable contribution to local climate resilience. This ensures that financing is directly linked to verifiable adaptation outcomes, not just activity completion, making it a fit-for-purpose innovation in early-growth SME finance for climate adaptation.
  - 4) *Close monitoring of innovative climate adaptation ventures funded*: Participating SMEs that received funding will be accompanied through the Catalyser Plus post-investment support programme that allows for a close monitoring of the investment and the overall company development. The performance-based grant 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 network 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.

#### Outcome 2.1: Developing and implementing enterprise support mechanism

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

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

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

### 2.1.1.1 Scorecard co-creation

77. 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 (Component 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 scorecard will place specific emphasis on the identification and classification of adaptation SMEs as a unique segment within the broader enterprise landscape. These SMEs operate in sectors directly affected by climate variability and deliver solutions that build resilience in vulnerable communities. Recognizing that they face distinct challenges—such as longer investment horizons, low collateral bases, and less monetizable impact metrics—the scorecard will include adaptation-specific criteria that differentiate these enterprises from general green or sustainability-focused businesses. This ensures that the support mechanism is tailored to their needs, while also establishing a transparent rationale for targeting them through dedicated funding and business advisory services. The overall 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 Catalyser Plus programme (Output 2.2.2) will be based on a screening of the capacity building deliverables of the Catalyser programme.

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 Plans	Investment influencing on business growth
	Ratio full time / temporary		Job creation potential
	No of financial staff		

\*Each country's specific national definition of youth will indeed be applied accordingly during the selection of youth-led SMEs within the project. Given that Kenya defines youth as individuals aged 18–34 years, and Uganda as those aged 15–30 years, the selection criteria and related activities will align with these respective age brackets in each country. This tailored approach will ensure compliance with national policies and facilitate effective local stakeholder engagement

78. 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.
79. SMEs with a mixed focus on adaptation and other objectives are eligible for participation, provided their business activities demonstrate clear and measurable adaptation outcomes. The project acknowledges that many SMEs operate with diverse objectives, which may include elements like general sustainability, economic development, or social impact alongside adaptation efforts. To ensure that adaptation outcomes remain central, three specific measures will be implemented: i) The selection criteria will emphasize the significance of adaptation-specific goals. Participating SMEs must show how their core business activities or products directly contribute to enhancing climate resilience or addressing specific adaptation challenges in their operational contexts. This ensures that adaptation is not merely a peripheral aspect but a key driver of their business model. ii) The project's support components, such as the Catalyser and Catalyser Plus programs, are tailored to strengthen the adaptation aspects of the SMEs' operations. Business development support focuses on refining and scaling solutions that address adaptation challenges, aligning them with market opportunities while maintaining their environmental and social impact goals. iii) The project will apply robust monitoring and evaluation frameworks to track and measure the adaptation outcomes of the participating adaptation SMEs. This includes setting clear indicators and benchmarks related to climate resilience, such as the number of beneficiaries reached, the extent of adaptation technologies deployed, or the reduction of vulnerability in target communities.

### 2.1.1.2 Application of an Environmental and Social Management System (ESMS)

80. 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 30 SMEs selected for Catalyser Plus 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 assistance around the Catalyser (Output 2.2.1) and Catalyser Plus (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.
81. 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.

82. 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.

## **Output 2.1.2: Pipeline of 100 gender- and youth inclusive adaptation SMEs for funding readiness support**

### **Activities**

#### 2.1.2.1 Outreach campaign

83. 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 (Outcome 2.2.). 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 National Project Partners including: 1) Incubator programs for green and climate-smart enterprises<sup>53</sup>; 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

84. With the EE having implemented various selection schemes (e.g. adelphi has implemented the SEED global selection scheme<sup>54</sup> 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 Facility and has built a digital loans applications platform 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

85. Through an elaborated online scoring system and selection process at least 100 adaptation SMEs will be selected. Each application is evaluated independently by two to three analysts contracted by the EE and National Project 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 network 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 gender- and youth- inclusive adaptation SMEs from funding readiness to investment and post-investment management*

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

### **Activities**

#### 2.2.1.1 Catalyser enterprise support programme (2 cycles)

<sup>53</sup> 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/>

<sup>54</sup> For details please see <https://seed.uno/>

86. 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 National Project 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
87. SMEs supported by the Catalyser will each graduate with strengthened funding readiness in the form of "**Grant Investment Plans**". The Grant Investment Plans will also serve as application forms for the – Fully financed by the project's performance-based grants for selected SMEs (output 2.3.1) and linked explicitly to each SME's Adaptation Performance Target milestones.
88. 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 sensitize 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)

89. 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 (Output 2.2.3).
90. 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.
91. 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 Catalyser Plus Programme Cycles: Post-investment support for enterprise growth and performance-based grant funding provided for 30 gender- and youth-inclusive adaptation SMEs About**

#### **Activities**

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

92. Throughout two funding cycles (year 3 and year 4 of project implementation), the Catalyser Plus Programme will support a total of 30 adaptation SMEs, to strengthen their financial resilience and business growth potential. The programme will focus on building in-house financial management capacities and investment readiness, positioning these SMEs for future access to finance while contributing to job creation and enhanced climate resilience. Eligibility is limited to Catalyser graduates, and the "grant investment plans" developed during the Catalyser programme will serve as the application form for Catalyser Plus.
93. The programme will apply a one-on-one, tailored support methodology and closely monitor the progress of all participating SMEs receiving grant financing under this project. Key objective is to enhance financial management capacity and systems of these SMEs so they are equipped to respond to FI requirements in the future, while advancing and validating the enterprise growth strategy, investment roadmap and financial assumptions.
94. During Catalyser Plus, each SME will receive support to develop a Scale-Up Investment Plan - a sustainability strategy of the project to ensure that the SMEs supported through Catalyser Plus are equipped to attract additional commercial finance post-project from private FIs at large. Please note that only the development of the Scale-up Investment Plans is in the scope of this project, and their execution are NOT within the scope of this project.

##### 2.2.2.2 Performance-based payment mechanism implementation

95. Acceptance into Catalyser Plus also means that these SMEs (30 in total) are selected to receive grant financing from a performance-based mechanism for the execution of the "Grant Investment Plan". Each selected SME will receive tailored support to co-develop an Adaptation Performance Target (APT) roadmap, which sets out clear and time-bound milestones linked to enterprise-level adaptation impacts and inclusive growth. APTs may include sector-specific targets such as, but not limited to, the number of vulnerable farmers reached with resilient technologies, volumes of climate-smart products sold, or geographic coverage of services. Other milestones may relate to gender and youth empowerment- such as advancement of gender equality and youth inclusion within the business, technical and leadership team diversity, or enhanced representation of women and youth across the enterprise value chain.
96. The APTs will be validated through an evidence-based process that considers the enterprise's historical performance, context-specific climate vulnerabilities, and adaptation contribution. Performance will be assessed via third-party verified documentation, such as client

testimonials, sales records, beneficiary surveys, or geo-tagged photographic evidence, ensuring credibility and transparency. This structured validation process makes the mechanism distinct from traditional grant schemes, including those under UNIDO's AFCIA, where disbursements are typically tied to general compliance or activity delivery rather than to outcome-level, enterprise-specific climate resilience achievements.

97. A total of 1.5mil USD is budgeted for disbursement through the performance-based mechanism, and each SME is expected to receive between 40,000 USD and 60,000 USD, based on their categorization of growth and impact potential, outlined in their Grant Investment Plan. For example, SMEs with moderate commercial growth but high adaptation benefits for vulnerable populations may receive higher grant amounts than SMEs with strong commercial potential but limited adaptation reach. The Grant Investment Plan (GIP) serves as the enterprise's results-based funding blueprint. It outlines the SME's planned adaptation-related investments, projected outcomes, financial assumptions, and proposed APT milestones. These plans are developed during the Catalyser programme through a participatory process, drawing from the enterprise's business growth strategy and validated theory of change. The GIP forms the basis for both SME selection into Catalyser Plus and for structuring their performance-based grant agreement. Each GIP is assessed against a set of quality standards, including coherence with the SME's adaptation solution, financial feasibility, and clarity of the impact pathway.
98. Grants will be disbursed in a single tranche following verified achievement of the APT milestones outlined in the GIP. The APT roadmap annexed to each grant agreement will describe the specific deliverables, indicators, verification methods, and disbursement procedures. These tailored GIPs and APTs ensure the grant mechanism is performance-based, climate impact-oriented, and enterprise-specific, distinguishing it from traditional milestone-based disbursement schemes like AFCIA or SEED, which typically focus on output delivery rather than adaptation outcomes.
99. In addition to serving as catalytic finance, the performance-based grants will play a critical role in generating operational data on SME adaptation performance, capacity to absorb and manage funds, and key risk factors. These insights—including APT fulfilment rates, SME financial and operational track records, and lessons from technical assistance delivery—will be systematically captured and analyzed. This evidence base will directly inform the design of de-risking mechanisms, eligibility criteria, and structuring parameters for future blended finance instruments developed under Component III.
100. 2.2.2.3: Portfolio management:  
Portfolio management will involve rigorous monitoring of SME progress towards achieving agreed APT milestones through a dedicated central database system. Monitoring activities will include review and verification of SMEs' self-reported progress supported by narrative, financial, photographic, and video documentation provided by the beneficiaries. Additional spot-checks, site visits, and structured interviews will be conducted as necessary to verify milestone achievements.
101. Local Business Development Service (BDS) providers will continue to support SMEs to effectively manage and utilize grant funding towards achieving their milestones. The Project Management Unit (PMU) will regularly track SME performance and adaptation impacts, ensuring accountability, timely achievement of milestones, and proper use of grant funds. This comprehensive approach ensures transparent, effective, and efficient management of the performance-based grant mechanism.

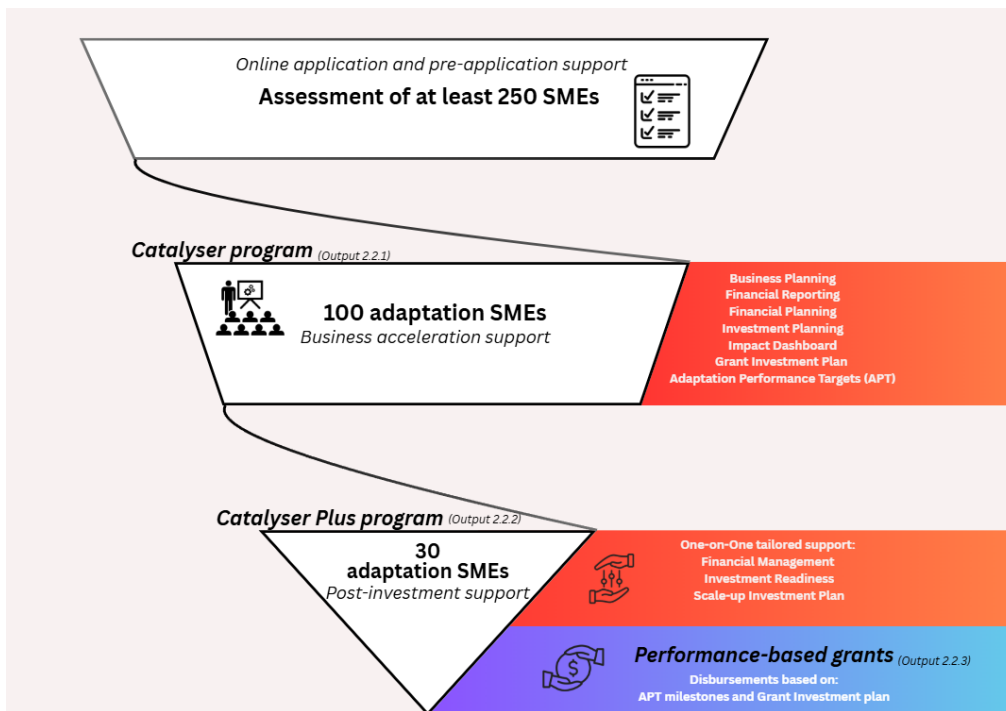


Figure 2: Adaptation SME support Intervention logic

**Component III: Financing Institution Capacity Development Programme and Blended Financing Mechanism Co-design**

102. **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.
103. **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.
104. **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

105. 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.
106. 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

107. Climate Strategy Workshops will be implemented, capacitating FIs 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.
108. 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

109. 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.
110. 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 thematic 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). The prototypes developed through the Practitioner Labs may serve as starting points and may be considered as options for further exploration during the co-design of the blended finance mechanisms (output 3.2.1).

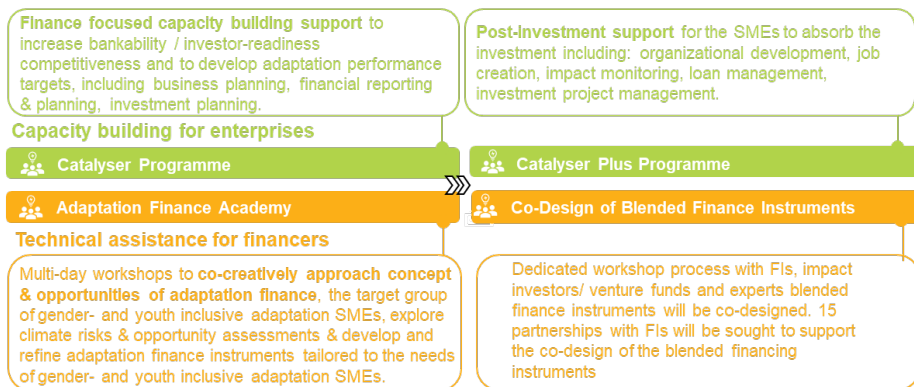


Figure 1: Intervention logic

### Outcome 3.2: Stimulating the adaptation finance landscape through co-designing blended finance instruments with FIs

#### Output 3.2.1: Co-Design of Blended Finance Instruments with Local Financial Institutions for Post-Project Sustainability

##### Activity

##### 3.2.1.1 Co-design of Blended Financial Instruments with Financial Institutions (FIs)

111. The project will facilitate the co-design of innovative blended financing instruments in close collaboration with selected local Financial Institutions (FIs) in Kenya and Uganda. FIs to be part of the co-design process will be identified from the pool of FIs participating in the Adaptation Finance Academy, based on their capacity, willingness, availability and commitment. The objective is to develop viable, market-ready financial instruments that FIs can independently implement after the project's conclusion to fund SMEs' scale-up investment plans. The co-design process will build directly on insights gained from the implementation of Catalyser Plus. Specifically, data and experience from grant-supported SMEs—including due diligence documentation, performance tracking, and adaptation impact delivery—will shape the financial structure, eligibility requirements, and de-risking features of blended finance products. By grounding the design process in proven field data, the project ensures that the financial instruments are tailored to real SME capacities and investor expectations, facilitating smoother uptake by FIs post-project. The project **will not implement these blended finance instruments** and neither the donor nor the Executing Entity (EE) will bear any financial risk or repayment responsibilities. Two sample options are provided below to demonstrate the potential types of instruments to be explored under this output. The prototypes developed through the Practitioner Labs (3.1.1.3) may also be explored as options during the co-design process.

- **Sample Option 1: Partial Repayment Scheme:** Reducing the risk of default for FIs and lowering finance costs for enterprises by offering a grant covering part of the loan amount. This reduces the outstanding loan amount (principal) immediately after loan approval and thus enabling SMEs to access larger loans, reduces collateral requirements and decrease total interest payable. 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.
- **Sample Option 2: Loan Guarantee Scheme:** A financial risk-sharing mechanism designed to encourage lending by buffering the risk of loans, which has been effective in various programs in Kenya and Uganda, despite challenges of bureaucracy. This scheme would provide partial guarantees covering a predefined percentage of potential losses from loan defaults, thereby reducing the banks' risk exposure. Such guarantees allow banks to confidently extend credit to adaptation SMEs with irregular cash flows or insufficient collateral. This mechanism would support FIs in diversifying their loan portfolios and exploring new market segments without bearing full risk, gradually building independent lending confidence in the adaptation sector.

112. In a dedicated workshop with FIs these financial instruments will be refined, incorporating potentially promising new ideas and gender-lens investing/financing considerations. 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. The resulting instruments will be documented in Memoranda of Understanding (MoUs) clearly stating that implementation of these instruments by FIs will occur post-project. Evaluation cycles during the project will further refine these instruments, resulting in a robust, tested mechanism suitable for scaling or replication both nationally and internationally.

#### Output 3.2.2 Institutional partnerships with Financial Institutions established to form a Catalytic Financing Network

##### Activity

##### 3.2.2.1 Building a portfolio of contractual partnerships with FIs and impact investors / venture funds

113. 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 national project 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). These partnerships will serve as the institutional backbone for the future of the catalytic financing network. While no financial instruments will be implemented during the project, this activity ensures that participating FIs are strategically aligned and institutionally prepared to adopt and scale the instruments co-designed under Output 3.2.1. It also enables specific alignment to each institution's internal procedures, including risk scorecards, due diligence, and loan appraisal requirements—ensuring that the financing solutions are practically implementable post-project.

114. Partnership formation will follow a structured, phased approach aligned with the sequencing of Component III. In the first phase (Years 1–2), local Financial Institutions (FIs) and impact investors will be engaged through the Adaptation Finance Academy (Output 3.1.1), which includes Adaptation Finance Trainings, Climate Strategy Workshops, and Practitioner Labs. These engagements will build foundational knowledge, technical capacity, and interest in gender-responsive adaptation finance. A broad pool of FIs participating in the Academy will be invited to take part in the co-design of blended finance instruments under Output 3.2.1. This process is intentionally inclusive to foster innovation and draw from a diversity of institutional perspectives. However, not all co-design participants will move forward as formal partners. Only those FIs demonstrating strong alignment, institutional readiness, and commitment to post-project pursuit will be selected for formal engagement under Output 3.2.2. Following the co-design phase, formal Memorandums of Understanding (MoUs) will be signed with a first cohort of these FIs and investors. These MoUs will outline roles, responsibilities, and post-project intentions regarding the future use of the co-designed instruments. MoUs will be signed prior to the first presentation of supported SMEs to financial partners. In the second cycle (Years 3–4), the project will onboard additional financial institutions to expand outreach and deepen market engagement. These new partners will benefit from the tools, lessons, and refinements developed in the first cycle. By project end, at least 15 FIs and impact investors will be formally partnered, forming the institutional base for scaling the project's catalytic financing strategy beyond the grant period.

### **Output 3.2.3 Exit and scale-up strategy for blended financing instruments**

#### **Activity**

##### 3.2.3.1 Development of Exit and Scale-up Strategy

115. The financial instruments designed under Output 3.2.1, coupled with the implementation experience from the performance-based grants (Output 2.2.3), will prepare local Financial Institutions (FIs) to independently support adaptation SMEs beyond the project lifecycle. The Adaptation Finance Academy (outlined in Output 3.1.1) will further strengthen FI capabilities, equipping them to attract and effectively deploy international climate finance from Development Finance Institutions (DFIs).
116. Partnering FIs will gain practical insights and familiarity with adaptation SMEs, particularly women-led and gender- and youth-inclusive enterprises, enabling them to integrate adaptation-related criteria into their loan appraisal processes, risk assessments, and credit scoring models. This experience will enhance the banks' capacity to assess climate adaptation business models, products, services, and technologies.
117. By building the capacities of FIs and developing clear, tested blended finance instruments, the project will create conditions for sustainable, market-driven financing. Ultimately, this approach aims to catalyze increased private investment into adaptation SMEs, facilitating ongoing scale-up without continued reliance on public finance subsidies.

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

118. The project will implement an innovative performance-based grant mechanism as its central financial innovation, while co-designing market-ready blended finance instruments in collaboration with local financial institutions (FIs) in Kenya and Uganda. This grant mechanism links disbursements to the achievement of Adaptation Performance Targets (APTs), thereby de-risking early-stage investments, incentivizing verifiable adaptation outcomes, and building a pipeline of bankable adaptation SMEs for future commercial finance. The grant mechanism also serves to strengthen the evidence base for innovative adaptation solutions developed by SMEs, demonstrating their tangible adaptation benefits. By doing so, it helps to close the gap between actual and perceived investment risks, enabling these innovations to be more accurately assessed and valued by investors. As a result, it increases the flow of investments toward innovative adaptation solutions, unlocking new pathways for scale and replication. In parallel, the project will deliver targeted capacity building for FIs in climate-smart finance and provide tailored financial readiness support to adaptation SMEs, including women- and youth-led enterprises. By combining performance-based grant support with technical and investment planning assistance, the project addresses the "missing middle" financing gap that limits the growth of high-potential adaptation SMEs. The project will focus on piloting a scalable performance-based grant model while facilitating the co-creation of innovative blended finance instruments—such as partial repayment schemes and guarantee mechanisms—with FIs. These instruments will be designed for post-project launch, ideally leveraging private sector investment two to three times greater than the initial grant value.
119. This two-tier innovation strategy reflects a phased approach to transforming the adaptation finance ecosystem. The performance-based grant mechanism acts as the catalytic entry point, building track records of successful adaptation SMEs, reducing perceived risk for FIs, and providing proof-of-concept business models. The grant mechanism's two-cycle design also allows for iterative learning, enabling the refinement of selection criteria, impact metrics, and support structures based on real-time feedback. Meanwhile, the co-designed blended finance instruments represent a second, future-facing layer of innovation—designed with FIs for their institutional pipelines, and intended for deployment beyond the life of the project. This sequential approach lays the foundation for systemic change, with the performance-based grant directly enabling the future scaling and implementation of blended finance solutions.
120. This inclusive, market-based approach promotes innovation and sustainability by empowering SMEs to implement impactful adaptation solutions. Through a collaborative process involving SMEs, FIs, and ecosystem partners, the project aims to build a pipeline of finance-ready enterprises and stimulate long-term engagement from the local financial sector. By creating proof of concept and fostering a cross-border community of practice, the project lays the groundwork for lasting systemic change in SME financing for climate adaptation.

121. 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 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 extent 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 solution 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).
122. The EE and national project 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.
123. 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.
124. 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.
125. An additional and critical layer of innovation embedded in this project is its contribution to systems innovation within the local financial sector. The project does not stop at supporting innovative SMEs—it creates the conditions for institutional transformation by enabling financial institutions (FIs) in Kenya and Uganda to develop, test, and ultimately adopt adaptation-aligned financial instruments. This innovation goes beyond product-level experimentation and targets the structural integration of adaptation finance within domestic financial systems. By using real-time data and operational experience from the performance-based grants (Component 2), the project supports FIs in designing investment strategies, risk-sharing models, and ESG-aligned procedures tailored to the adaptation SME market (Component 3). This creates a foundation for sustained local ownership, scalable finance pathways, and long-term climate resilience, anchored in domestic institutions. As such, the project's innovation lies not only in piloting new tools, but also in embedding these tools into financial systems that can endure and expand beyond project duration.

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

126. 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 national project 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.
127. 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 a performance-based grant mechanism (Output 2.2.3) that pioneers a results-linked disbursement model in the adaptation SME space, directly links disbursements to the achievement of Adaptation Performance Targets (APTs) by selected adaptation SMEs. This mechanism enables the de-risking of early-stage investments and supports enterprise growth and impact.

128. In parallel, the project will support the **co-design of blended finance instruments** (Output 3.2.1) in close collaboration with local financial institutions. While these instruments—such as partial repayment schemes and guarantee mechanisms—will not be implemented during the project, they are intended to serve as post-project solutions for scaling SME investment and attracting commercial finance. Together, these elements lay the groundwork for a more inclusive and adaptive financial ecosystem for gender- and youth-inclusive adaptation SMEs in Kenya and Uganda.
129. The project will benefit from the experiences of the EE and national project 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<sup>55</sup> 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.
130. The implementation of the innovative performance-based grant mechanism, combined with comprehensive monitoring and impact assessment, will allow for iterative learning and refinement throughout the project. By tracking the achievement of Adaptation Performance Targets (APTs) across two financing cycles, the project will ensure that the grant mechanism remains responsive to SME needs and delivers measurable adaptation impact. Complementing this, the project will support FIs in strategically anchoring adaptation finance within their institutional frameworks, internal procedures, and investment strategies—building their long-term capacity to engage with the adaptation SME market and deploy tailored financial solutions beyond the project's duration.
131. 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 2.2.1) and especially the Catalyser Plus (Output 2.2.2), 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- 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.
132. 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 RCH, the project will develop a solid foundation for the roll-out of these system innovations and long-lasting networks and cooperation opportunities 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.
133. 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.
134. This idea of constant optimisation as a driver for effective scale-up of innovations will be fostered by the RCH 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.
135. 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 network 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 network 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

136. 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 Catalyser Plus programme (Output 2.2.2 - continuous monitoring through impact dashboard), the ESMS (Output 2.2.4) and an annual impact assessment (Output 1.2).
- 137.

#### Economic Benefits

<sup>55</sup> <https://ugefa.eu/>

**Expected economic benefits – direct and indirect:**

The technical team conducted a preliminary cost-benefit analysis (economy; efficiency; effectiveness and equity) on the selected technological, concluding that:

Livelihood Protection: 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. Stabilizes and improve incomes and future livelihoods, ultimately strengthening the local and regional economy

Job Creation: 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.

Insurance Savings: 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.

Improved access to finance: 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).

Shock preparedness: 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.

Local economic development: 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.

**Specific benefits to local women:**

Women Economic Empowerment: 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.

Improved Livelihoods: 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.

**Specific benefits to youth:**

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. Adaptation SMEs engage a broad set of community members in the value chain. Thus the project will stimulate further economic activity for youth.

Employment opportunities: Adaptation SMEs generate employment opportunities for young people agriculture and water management sectors. Many adaptation SMEs offer internships and training programs specifically designed to equip young people with practical skills and work experience.

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:**

The technical team conducted a preliminary cost-benefit analysis (economy; efficiency; effectiveness and equity) on the selected technological, concluding that:

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.

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.

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.

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.

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 adaptive technologies on irrigation, water storage, soil treatment and drought-resistant crops.

**Specific benefits to local women:**

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.

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

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 adaptive technologies and systems makes communities less likely to degrade the land or water resources.

**Specific benefits to youth:**

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:**

The technical team conducted a preliminary cost-benefit analysis (economy; efficiency; effectiveness and equity) on the selected technological, concluding that:

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.

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.

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 provided by local SMEs will lead to more considerate and efficient usage and interaction with a fragile environment and scarce resources.

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.

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.

**Specific benefits to local women:**

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.

**Specific benefits to youth:**

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.

138. 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 RCH 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 national project 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 Catalyser Plus programme, a tight monitoring in terms of adaptation impacts will take place through the performance-based payment scheme.

#### E. Cost-effectiveness analysis

139. 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 network 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.
140. 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
1.1 The project establishes a sustainable coordination, network and knowledge forum 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. 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.	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 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.  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	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

	<p>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.</p> <p>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).</p> <p>The project focus on long-term sustainability - specifically evidenced by selecting and funding adaptation SMEs with evidence of a demonstrable business model - will ensure that impact endures beyond the funding period.</p>	<p>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.</p>
<p>2.2 Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management</p>	<p>To ensure the cost-effectiveness of support provided to adaptation SMEs, all supported projects will undergo a cost-benefit assessment during the selection and review process. Reviewers will assess whether the proposed SME investments offer efficient use of funds by comparing expected adaptation impact, scalability, and inclusiveness to potential alternatives. This ensures that project resources are allocated to solutions that deliver the greatest adaptation value per dollar spent.</p> <p>The project adopts a flexible and adaptive implementation approach, recognizing the varied maturity levels and capital needs of adaptation SMEs across Kenya and Uganda. SMEs selected through the Catalyser programme (Output 2.2.1) will be supported to achieve finance-readiness through tailored business advisory services, enabling them to articulate credible business models, conduct investment planning, and define measurable adaptation outcomes.</p> <p>Graduating SMEs may then enter the Accelerator programme (Output 2.2.2), where they receive post-investment support and performance-based grants. These grants are disbursed based on the achievement of predefined Adaptation Performance Targets (APTs), incentivizing delivery of tangible resilience outcomes. This approach ensures that grant disbursements are linked to real impact and avoids the inefficiencies of upfront lump-sum funding.</p> <p>If any SME does not progress to investment readiness or faces unforeseen challenges in securing follow-on financing, the project retains flexibility to provide direct performance-based grant funding to support the implementation or scale-up of their adaptation solution. In this way, all supported SMEs—regardless of external financing uptake—receive meaningful support to deploy their solutions, deliver adaptation impact, and contribute to the project’s overall objectives.</p>	<p>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.</p>

	<p>The project's design ensures efficiency, adaptability, and value-for-money, while laying the foundation for longer-term investment readiness and scalability of adaptation SMEs, even beyond the project period.</p>	
<p>3.1: Local financing institutions support the dissemination of adaptation technologies, products and services</p>	<p>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.</p>	<p>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 financiers. 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.</p>
<p>3.2: Stimulating the adaptation finance landscape through co-designing blended finance instruments with FIs</p>	<p>To ensure cost-effectiveness in the development of financial instruments under Component 3.2, the project focuses on co-designing high-impact, scalable blended finance instruments in close collaboration with local Financial Institutions (FIs), while avoiding the high administrative costs and financial risks typically associated with implementing guarantee or loan schemes during the project period.</p> <p>By investing in a participatory co-design process, the project ensures that the resulting financial instruments are not only technically sound but also aligned with the internal procedures, risk frameworks, and product development pipelines of participating FIs. This alignment significantly increases the likelihood that the instruments will be deployed by FIs after project completion, ensuring long-term impact without requiring the Adaptation Fund to underwrite or disburse through complex financial facilities.</p> <p>The approach is also cost-effective in that it avoids duplication: it builds directly on institutional readiness developed under the Adaptation Finance Academy (Output 3.1.1), and targets a carefully selected group of FIs from the broader pool engaged earlier in the project. This ensures resources are directed toward institutions with demonstrated commitment and capacity, maximizing the return on investment in capacity building and co-design.</p> <p>In parallel, the project integrates a lean and proportionate approach to environmental and</p>	<p>An alternative approach to the co-design of blended finance instruments under Component 3.2 would have been to contract an international consultancy firm or technical assistance provider to design financial products for local Financial Institutions (FIs), based on global best practices. However, this top-down model would likely result in instruments that are misaligned with the operational realities and risk appetites of local FIs, and lack local ownership or traction for post-project operationalization.</p> <p>In contrast, the project's approach—facilitating co-design directly with FIs that have already participated in the Adaptation Finance Academy—ensures that the instruments are tailored to the local institutional context, aligned with internal procedures such as credit assessment frameworks and product development timelines. This method is both more cost-effective and more sustainable, as it builds on institutional engagement already initiated and ensures long-term buy-in. It also avoids the need for complex financial implementation or costly legal structuring during the project, while still laying the groundwork for future scaling and replication.</p>

	<p>social risk screening of participating SMEs and financial instruments, ensuring that cost-effective solutions are also environmentally and socially responsible. This dual focus enhances both the efficiency and integrity of the supported financing mechanisms.</p> <p>Additionally, the co-design process leverages existing successful models (such as the partial repayment scheme and guarantee structures piloted in related contexts), allowing the project to adapt and refine proven concepts rather than create entirely new mechanisms from scratch. By documenting and formalizing these prototypes through Memorandums of Understanding (MoUs), the project creates a ready-to-deploy toolkit that FIs can operationalize with their own capital or through external climate finance sources.</p> <p>This strategic focus on designing implementable, scalable instruments—without bearing implementation costs—ensures high cost-effectiveness, while anchoring a viable exit and sustainability strategy for adaptation SME finance beyond the project’s lifespan.</p>	
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**F. Consistence with national/ sub-national sustainable development strategies**

141. 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.
142. 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).
143. 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.
144. The EE and national project 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 RCH of component 1. This mechanism 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
<b>Regional cooperation</b>	
<p><b>East African Community (EAC) Vision 2050:</b> 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.</p> <p><b>EAC Development Strategy &amp; EAC Agriculture and Rural Development Policy:</b> 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.</p>	<p>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).</p>
<b>Agriculture</b>	
<p><b>Kenya Agricultural Policy 2021:</b> 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.</p> <p><b>Agricultural Sector Transformation and Growth Strategy: Towards Sustainable Agricultural Transformation and Food Security in Kenya 2019-2029:</b> 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</p>	<p>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.</p> <p>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.</p>
<p><b>Uganda National Agricultural Policy (NAP) 2013:</b> 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.</p> <p><b>Uganda Agriculture Sector Strategic Plan 2016:</b> 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.</p> <p><b>Uganda National Agricultural Organic Policy 2019:</b> 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.</p>	
<b>Water sector management</b>	
<p><b>Kenya Water Act 2012:</b> 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.</p> <p><b>Kenya Irrigation Act 2019:</b> Development, management and regulation of irrigation, to support sustainable food security and socioeconomic development in Kenya.</p> <p><b>Uganda Water Act 1997:</b> 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.</p> <p><b>Uganda National Irrigation Policy 2017:</b> 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.</p>	<p>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.</p>
<b>Women and Youth</b>	
<p><b>Kenya National Policy on Gender and Development (NPGAD) 2000:</b> 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</p> <p><b>Kenya Labor Act 2002:</b> Legal improvements in women labor by increasing wages, implementing gender divisions in unions, and expanding maternity leave.</p>	<p>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</p>

<p><b>Kenya Youth Development Policy 2019:</b> Develop and improve the state of vulnerability of youth in the country</p> <p><b>Uganda National Gender Policy 2007</b> (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.</p> <p><b>Uganda National Youth Action Plan (UNYAP) 2016:</b> Improve youths' income, education status, health status, participation to foster better socio-economic performance for youth</p>	<p>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.</p>
<b>SME development</b>	
<p><b>Kenya Vision 2030:</b> Strengthening SMEs to become key industries of tomorrow by improving their productivity and innovation</p> <p><b>Kenya Micro and Small Enterprises Policy 2020:</b> Provide an integrated enabling business environment for the growth and development of productive MSEs that make significant socio-economic contributions. Enhance skills &amp; capacity development, access 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.</p> <p><b>Uganda Vision 2040:</b> SMEs are a keystone to macroeconomic planning that takes an emphasis towards development of new industries.</p> <p><b>Uganda Micro, Small and Medium Enterprise (MSME) Policy 2015:</b> 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.</p>	<p>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).</p>
<b>National Climate (Adaptation) Strategies</b>	
<p><b>Kenya Nationally Determined Contribution (NDC) 2020:</b> 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.</p> <p><b>Kenya National Adaptation Plan 2015-2030, 2016:</b> 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.</p> <p><b>Technology Needs Assessment and Technology Action Plans for Climate Adaptation 2013 (TNA Kenya):</b> Identifies key technologies (e.g. drip irrigation, orphan crops, rainwater harvesting) for certain sectors which will enable Kenya, its population and economy to adapt to the effects of climate change.</p> <p><b>Technology Action Plan for Climate Change Technologies, Adaptation 2013 (TAP Kenya):</b> Identifies for the defined key technologies the barriers to widespread implementation and distribution and suggests actions to foster the utilization and implementation of the key technologies.</p>	<p>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.</p>
<p><b>Uganda NDC 2007:</b> Priority adaptation strategies that reduce land degradation, improve metrological services and water management practices.</p> <p><b>Uganda NDC 2022 (interim draft):</b> 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.</p> <p><b>Uganda National Adaptation Programmes of Action 2007:</b> 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.</p> <p><b>Uganda National Adaptation Plan for the Agriculture Sector (NAP-Ag) 2008:</b> 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.</p> <p><b>Final Report on Technical Need Assessment for Mitigation of GHG in Uganda 2006 (TNA Uganda):</b> Identifies key technologies (e.g. photovoltaic, 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.</p>	

## G. Relevant national technical standards

145. 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
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>The Animal Breeding Act, 2001</li> <li>The Fish (Amendment) Act, 2011</li> <li>The Fish Act, 1951</li> <li>The Fish (Aquaculture) Rules, 2003</li> <li>National Agricultural Organic Policy, 2019</li> <li>The National Seed Policy, 2018</li> <li>National Agricultural Policy, 2013</li> <li>The National Animal Feed Policy, 2004</li> </ul>	<ul style="list-style-type: none"> <li>The Agriculture Act, 2012</li> <li>The Irrigation Act, 2019</li> <li>The Crops (Amendment) Act, 2019</li> <li>The Seed and Plant Varieties (Amendment) Act, 2015</li> <li>The Agriculture and Food Authority (AFA) Act, 2013</li> <li>The Livestock bill, 2021</li> <li>National Agriculture Insurance policy, 2021</li> <li>National Livestock Policy, 2019</li> <li>The National Irrigation Policy, 2015</li> <li>The National Livestock Policy (Sessional Paper Number 2 of 2008)</li> </ul>
<b>Water and land</b>	<ul style="list-style-type: none"> <li>The Water Act, 1995</li> <li>The Water Resources Regulation, 1998</li> <li>Water Act (General Rates) Instrument, 2017</li> <li>The Land (Amendment) Act, 2010</li> <li>The Land (Amendment) Act, 2004</li> <li>The Land Act, 1988</li> </ul>	<ul style="list-style-type: none"> <li>The Water Act, 2012</li> <li>Water rules, 2012</li> <li>Water Quality Regulations, 2006</li> <li>The National Land Policy (Sessional Paper Number 3 of 2009)</li> </ul>
<b>Health</b>	<ul style="list-style-type: none"> <li>Second National Health Policy, 2010</li> </ul>	<ul style="list-style-type: none"> <li>The Biosafety Act, 2009 (as amended in 2018)</li> <li>National Food and Nutrition Security Policy, 2011</li> </ul>
<b>Biodiversity</b>	<ul style="list-style-type: none"> <li>The National Environmental Act, 2019</li> <li>National Forestry and Tree Planting Act, 2003</li> <li>The National Environment (Environmental and Social Assessment) Regulations, 2020</li> <li>National Environment (Minimum Standards for Management of Soil Quality) Regulations, 2001</li> <li>National Environment (Wetlands; River Banks and Lake Shores Management) Regulations, 2000</li> </ul>	<ul style="list-style-type: none"> <li>The Environmental Management and Co-ordination (Amendment) Act, 2015</li> </ul>
<b>Electricity</b>	<ul style="list-style-type: none"> <li>The Electricity Act, 1999</li> <li>The Renewable Energy Policy for Uganda, 2007</li> </ul>	<ul style="list-style-type: none"> <li>The Energy Act, 2019</li> <li>The 2021 FIT Policy</li> </ul>

146. 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.

147. 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.

148. 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.). The EE evaluate if relevant standards are met (e.g. through due diligence) and select the SMEs for the program (Output 2.1.2.). There may be SMEs which business ideas do not consider all technical standards but are relevant adaptation solutions. Therefore, the national project 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.). At the pre-financing stage the national project partners advise the partnering FIs to collect all available information on technical data, ESIA, licences or permits (or applications for these) as part of a due diligence process before signing a financing agreement. The national project partners support the SMEs to monitor the compliance with relevant technical standards as part of their ESMS (Output 2.2.4).

## H. Duplication of project with other funding sources

149. 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 national project 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. The comparison in Table 9 has been updated to reflect alignment with and differentiation from relevant initiatives, including new regional or global programmes that have emerged or expanded since the proposal's initial endorsement. Particular attention has been given to distinguishing the project's performance-based adaptation finance model and its growth-stage SME focus from programmes that serve early-stage enterprises, non-profit actors, or mitigation-focused green SMEs. Ongoing engagement with partners such as UGEFA, KCV, and ASIF ensures that this project builds on existing successes, leverages tested tools, and avoids duplication while advancing adaptation finance pathways tailored to the unique needs of high-potential SMEs in Kenya and Uganda.

Table9: Complementarity with ongoing projects.

Other currently ongoing projects	Summary of project	Complementarity and synergies
<p><b>Regional/Global</b></p> <p><b>Adaptation SMEs Innovation Facility (ASIF) financed by the Adaptation Fund with UNIDO as Implementing Entity (2023-2027)</b></p> <p><a href="https://www.adaptation-fund.org/project/the-adaptation-smes-innovation-facility-asif/">https://www.adaptation-fund.org/project/the-adaptation-smes-innovation-facility-asif/</a></p>	<p>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.</p>	<p>The proposed project has been carefully designed to complement, rather than duplicate, ongoing and planned initiatives—including ASIF, , and other SME-focused adaptation projects. While both initiatives target adaptation-oriented micro, small, and medium-sized enterprises (MSMEs), they are highly differentiated in approach, maturity level of supported enterprises, financial instruments used, and systemic ambition.</p> <p>Key distinctions and complementarity with ASIF:</p> <p>Maturity level of SMEs supported: ASIF targets early-stage pilots and frontier innovations through small-scale grants. This project focuses on growth-stage, investment-ready SMEs, helping them scale proven solutions with commercial viability.</p> <p>Type of financial instrument: This project will operate a performance-based grant mechanism that disburses funds upon achievement of Adaptation Performance Targets (APTs). This outcome-linked model promotes accountability, incentivizing measurable adaptation impact, and de-risking SMEs for future private sector financing. ASIF also employs a mile-stone based grant mechanism, complemented with specialized technical assistance to support SMEs in meeting the milestones. The fundamental approaches of both this project and ASIF respond to the global need to close the adaptation gap, and support adaptation innovations with multiple approaches and angles. Both this project and ASIF employ milestone- or performance-based grants as a strategic mechanism to support SMEs with innovative adaptation solutions. By tying funding disbursements to clear, measurable results co-defined with each SME, this approach incentivizes progress, enhances accountability, and mitigates financial risk. While access to finance remains one of the most frequently cited needs among adaptation SMEs, it is rarely sufficient on its own. Many SMEs also require targeted technical support to clarify their growth trajectories, strengthen their solutions, and achieve the agreed milestones—highlighting the need for an integrated approach that combines financial and non-financial support to enable effective growth and scaling.</p> <p>System-level transformation: This project goes further by aiming to institutionalize adaptation finance. Through Component 3, it co-develops adaptation-aligned blended finance instruments with local financial institutions (FIs), drawing directly on data and experience from the performance-based grants. This fosters long-term sustainability within national financial ecosystems—a dimension not addressed under ASIF.</p> <p>Role of Kenya and Uganda: This project positions Kenya and Uganda as demonstration platforms for the operationalization of adaptation-</p>

		<p>aligned finance, showcasing how data-driven, performance-linked support for SMEs can inform and shape national and regional financial mechanisms. As such, the countries will benefit from deeper capacity building, innovation, and institutional learning than under ASIF alone.</p> <p>No duplication of beneficiaries: The two projects target different SME segments. However, strategic synergies exist. SMEs supported under ASIF</p> <p>may—if proven viable—progress to access this project’s performance-based grants. This creates a coherent pipeline from early-stage innovation to scale and financial mainstreaming.</p> <p>By advancing distinct but complementary models, both projects will reinforce each other’s impact. This proposal plays a unique catalytic role in building the foundations for market transformation and financial system sustainability in Kenya and Uganda. These dual country platforms will serve as testbeds for replication and upscaling in other regions, and for future engagement with private and public adaptation finance.</p> <p>Type of Financing: Grants and technical assistance.  Typical Ticket Size: USD 20,000–100,000.  Conditions: SMEs must demonstrate adaptation innovation and scalability potential.</p>
<p><b>Acceleration of financial technology-enabled climate resilience solutions (2022-2025)</b>  <a href="https://open.unido.org/projects/M2/projects/210238">https://open.unido.org/projects/M2/projects/210238</a></p>	<p>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.</p>	<p>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.</p> <p>Type of Financing: Technical assistance and capacity-building for FinTech solutions.  Typical Ticket Size: USD 50,000–500,000 (for technology development and pilots).  Conditions: Focus on scalable financial technologies for climate adaptation.</p>
<p><b>Adaptation Fund-UNDP Innovation Small Grant Aggregator Platform (ISGAP)</b> 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</p>	<p>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).</p>	<p>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.  Type of Financing: Grants.  Typical Ticket Size: USD 50,000–250,000.</p>

		Conditions: Targeted at NGOs and research institutions in developing countries.
<p><b>Africa SME Programme</b> by the African Development Bank (AfDB) (2013-2023)</p> <p><a href="https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/access-to-finance-for-smes-through-fis">https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/access-to-finance-for-smes-through-fis</a></p>	Supports local FIs with long term liquidity and technical assistance to successfully provide relevant financing to local SMEs. Supports SME clients to ensure better loan application preparations. A key eligibility criterion is adherence to best practices in social and environmental protection.	<p>AfDB does not finance SMEs directly. AfDB supports local FIs so they will increasingly consider SMEs for market opportunities. It focuses on 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).</p> <p>Type of Financing: Credit lines and guarantees through financial institutions. Typical Ticket Size: USD 100,000–1 million. Conditions: SMEs must demonstrate financial viability and alignment with bank lending criteria.</p>
<p><b>Adaptation SME Accelerator</b></p> <p>The Adaptation SME Accelerator is an initiative led by the <u>Lightsmith Group</u>, in partnership with the Inter-American Development Bank, the Global Environment Facility, and Conservation International.</p>	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.	<p>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</p> <p>Type of Financing: Grants and incubation. Typical Ticket Size: USD 20,000–100,000. Conditions: Focused on scalable adaptation solutions in emerging markets.</p>
<p><b>Climate Resilient Agribusiness for Tomorrow (CRAFT)</b> (2018-2023) of the Netherlands Ministry of Foreign Affairs, implemented by SNV</p>	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 to foster large-scale roll-out of climate smart agriculture.	<p>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.</p> <p>Type of Financing: Grants and technical assistance. Typical Ticket Size: USD 50,000–500,000. Conditions: SMEs must demonstrate climate resilience impact in agriculture.</p>
<p><b>USAID Feed the Future initiative</b> in Kenya and Uganda</p>	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.	<p>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.</p> <p>Type of Financing: Grants and loan guarantees. Typical Ticket Size: USD 50,000–1 million. Conditions: SMEs must contribute to food security and climate resilience.</p>
<p><b>Africa Biodigester Component (ABC)</b> (2020-2025) project of SNV, GIZ, Netherlands Enterprise Agency, is a 5-year programme that builds on the</p>	Improves the end-user business case with existing agricultural programmes; increases access to finance for end-users and enterprises; strengthens biogas business case through	TABC program targets biogas enterprises that will receive business development support as well as result-based financing. Given 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 biogas markets.	development services and result-based finance incentives; increases support for suppliers of prefabricated biogas technology helping them enter markets and expand their activities.	specific scope of action of the ABC incentives, there is little thematic nor strategic overlap with the proposed project.  Type of Financing: Grants, technical assistance, and results-based financing. Typical Ticket Size: USD 50,000–500,000. Conditions: SMEs must focus on biogas and renewable energy solutions.
<b>Adaptation Private Sector Initiative (PSI) project</b> 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 MSMEs adaptation business models. Opportunities for cross-learning will be explored. Type of Financing: Technical assistance and co-investment opportunities. Typical Ticket Size: Varies based on private sector investments. Conditions: SMEs must demonstrate strong adaptation impact.
<b>Uganda</b>		
<b>Uganda Green Enterprise Finance Accelerator (UGEFA)</b> financed by the European Commission and the Delegation of the European Union to Uganda, implemented by adelphi.  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. Type of Financing: Blended finance (grants + loans). Typical Ticket Size: USD 30,000–100,000. Conditions: SMEs must demonstrate financial viability and green impact.
<b>Mastercard Foundation Young Africa Works (2018-2030)</b> 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. 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.
<b>Kenya</b>		
<b>End Drought Emergencies (EDE-CPIRA)</b> (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,	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,

<p>Fund Kenya – with funding from the European Union (EU).</p>	<p>managers, investors, or innovative technology providers to improve water service delivery.</p>	<p>however, the EE and national project partners 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).  Type of Financing: Grants and resilience-building programs.  Typical Ticket Size: USD 50,000–250,000.  Conditions: SMEs must provide drought adaptation solutions.</p>
<p><b>Water &amp; Energy For Food (WE4F): A Grand Challenge for Development (2020-2023)</b> 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).</p>	<p>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).)</p>	<p>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 national project partners will reach out to the WE4F project executives to scope potential synergies and cooperation opportunities for innovation showcasing and innovator network access.</p> <p>Type of Financing: Grants and technical assistance.  Typical Ticket Size: USD 50,000–500,000.  Conditions: SMEs must focus on sustainable water and energy solutions for food production.</p>
<p>USAID <b>Kenya Investment Mechanism (KIM)</b> is facilitating investment in key sectors of Kenya’s economy, including agriculture and provides regional trade and investment opportunities.</p> <p>2018-2023</p>	<p>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.</p>	<p>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.  Type of Financing: Loan facilitation and blended finance.  Typical Ticket Size: USD 100,000–5 million.  Conditions: SMEs must demonstrate financial sustainability and investment readiness.</p>

## I. Learning and knowledge management component

150. 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.
151. 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.
152. 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.
153. Looking at the specific project activities, Component I focuses on the Regional Coordination Hub (RCH), 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.
154. The RCH 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.
155. 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 from the implementation of the performance-based grant mechanism and the co-design of blended finance instruments under Component II and III will serve as a key source of information for the Adaptation Finance Symposia.
156. 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.
157. 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 RCH'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.
158. The RCH will further provide a comprehensive **process guidebook** that consolidates all relevant learnings and processes developed in the project for potential project takeover.
159. The design of the co-created blended finance instruments and the performance-based grant mechanism, central to Component II, is informed by key insights and recommendations 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.
160. 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.
161. 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 Hub (RCH) 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 RCH 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 analyse 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 prioritisation 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.

162. 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.
163. 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**

164. 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.
165. 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.
166. 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).
167. 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.

168. 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.
169. 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.
170. KCV as national project partner has MoUs with peer impact fund - Nordic Impact Funds - [www.nordicimpactfunds.com](http://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.
171. 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
<p><b>March-April 2022</b></p>	<p>Discussion relating to the role of governments and the vulnerability of communities to climate change</p> <p><u>Outcome:</u></p> <ul style="list-style-type: none"> <li>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</li> <li>Women and youth are particularly vulnerable due to their lack of access to money and jobs.</li> </ul>	<p><b>KENYA</b>  <b>Government actors:</b> Kenyan Ministry of Environment and Forestry, Water Resources Management Authority, Nairobi Securities Exchange</p> <p><b>UGANDA</b>  <b>Government actors:</b> Ministry of Finance, Planning and Economic Development (MoFPED) – National Focal Point; Ministry of Agriculture, Animal Industry and Fisheries (MAAIF); National Planning Authority (NPA)</p>
<p><b>March 2022</b></p>	<p>Discussion about barriers and opportunities related to climate adaptation financing</p> <p><u>Outcome:</u></p> <ul style="list-style-type: none"> <li>Ugandan FIs struggle most with complex nature of green business models and the lack of respective appraisal processes</li> <li>Substantial lack of pipeline of bankable green business models</li> <li>Low awareness or interest of banking sector in financing green SMEs as they are considered high-risk and complex in nature.</li> <li>Regulatory pressure for banking sector: Requirement to develop, implement and disclose appropriate climate-related information</li> <li>Pledges and commitment of banking sector to international sustainability frameworks but lack of tailored green products</li> <li>Scattered support landscape for (green) SMEs and financial sector</li> </ul>	<p><b>KENYA</b>  <b>Financial institutions:</b> Pula Advisors, Equity Group, East African Development Bank, Stanbic Bank Foundation, Kenya Bankers Association, African Guarantee Fund, E4Impact, ANDE, DANIDA</p> <p><b>UGANDA</b>  <b>Financial institutions:</b> 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</p>
<p><b>June 2022</b></p>	<p>Discussion about drivers of the vulnerabilities and potential avenues to reduce pressures on these groups.</p> <p><u>Outcome</u></p> <ul style="list-style-type: none"> <li>Lack of access to capital especially from banks and other financial institutions are a main reason for the existence of all vulnerable groups</li> <li>Competition from larger existing businesses which stifle the growth of enterprise owned by vulnerable community members (especially women and youth).</li> <li>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.</li> </ul>	<p><b>KENYA</b>  <b>Vulnerable groups:</b> 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</p> <p><b>UGANDA</b>  <b>Vulnerable groups:</b> 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 &amp; Yumbe, Adjumani and Karamoja),</p>
<p><b>March-April 2022</b></p>	<p>Discussion about the role of NGOs and international organizations and the type of climate adaptation support/ programs they offer</p> <p><u>Outcome:</u></p> <ul style="list-style-type: none"> <li>Mitigation and disaster reduction have dominated climate action, more effort needs to focus on developing early warning systems, flood protection, etc.</li> <li>There is a great opportunity to take climate smart products to scale but consumers lack awareness of the products and their benefits</li> <li>There has been a low mobility of climate finance that jeopardizes the opportunity for MSME development</li> <li>Due to both financing constraints and market challenges there are a few adaptation MSMEs present in Uganda and Kenya</li> </ul>	<p><b>KENYA</b>  <b>Non-Governmental Organisations / International Organisations:</b> World University Service of Canada, WWF country office</p> <p><b>UGANDA</b>  <b>Non-Governmental Organisations / International Organisations:</b> CHEMONICS (USAID/Uganda strategic investments activity), UNDP Uganda, UNFCC (Regional collaboration center (RCC) Kampala), Red Cross Red Crescent Climate Centre, Sustainable Development Systems (SDS)</p>
<p><b>March-April 2022</b></p>	<p>Discussion on the barriers and opportunities related to SME development both within and outside the climate adaptation sphere</p> <p><u>Outcome:</u></p> <ul style="list-style-type: none"> <li>MSMEs face strong financial and market challenges that compromises their ability to be developed.</li> <li>Red tapes (paperwork 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</li> </ul>	<p><b>KENYA</b>  <b>Business association:</b> SME Support centre, Alliance for a green revolution in Africa</p> <p><b>UGANDA</b>  <b>Business association:</b> National union of coffee, agribusiness and farm enterprises (NUCAFE)</p>

<p><b>May 2022</b></p>	<p>Discussion related to the barriers and opportunities to developing adaptation enterprises</p> <p><u>Outcome:</u></p> <ul style="list-style-type: none"> <li>• There is an abundance of opportunities for developing adaptation MSMEs in Kenya and Uganda, enterprises just lack access to finance and technical training</li> <li>• Financial institutions need to become more accessible to ensure promotion of such enterprises.</li> <li>• Women face specific challenges with attaining collateral</li> </ul>	<p><b>KENYA</b>  <b>Adaptation enterprises:</b> Acacia innovation limited, Sistema bio limited, hydroponics Africa limited, Good farmland management limited, Mace foods limited, Sunken limited</p> <p><b>UGANDA</b>  <b>Adaptation enterprises:</b> Hamwe enterprise, Bhundu Base Limited, Barbets Davids Farms (all women-led enterprises)</p>
<p><b>Oct 2022 – March 2023</b></p>	<p>Discussion about climate impacts, appropriate adaptation measures, access-to-finance constraints for SMEs and suitable adaptation finance options</p> <p><u>Outcome:</u></p> <ul style="list-style-type: none"> <li>• 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</li> <li>• Lack of collateral a dominant issue of SMEs, especially women &amp; youth lacking access to land ownership but also for FIs who cited rigid internal credit policy guidelines</li> <li>• 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.</li> <li>• 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</li> <li>• Results-/ milestone-based financed needs to be adjusted individually to the beneficiary enterprise according to a clear roadmap/ transition plan to reach set goals</li> <li>• 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</li> <li>• In ASAL Counties (Kenya) there are operational climate risk insurance schemes being set up</li> </ul>	<p><b>KENYA</b>  <b>Representatives of the following groups in four selected counties (Kilifi, Bungoma, Kisii &amp; Isiolo):</b></p> <ul style="list-style-type: none"> <li>• Women &amp; Youth Self Help Groups involved in adaptation related activities,</li> <li>• Technology Service Providers mainly Adaptation SMEs,</li> <li>• Financial Institutions including Banks and Micro-Finance Institutions,</li> <li>• Non-Governmental Organisations engaged in resilience building activities and</li> <li>• Government officers involved in Climate Change and/or Natural Resource management</li> </ul> <p><b>UGANDA</b></p> <ul style="list-style-type: none"> <li>• Adaptation SMEs: FENA SOLAR, AGROMAX, KYUSA, MKAZIPRENEUR, LFTW, EZYAGRIC, Raising Gabdho Foundation, Zimba Women, UWONET</li> <li>• Financial institutions and funding organisations: Equity Bank, EBO SAACO, Growth Africa, GGGI, Renew Capital</li> <li>• Development partners: PFAN/Mastercard, UNCDF, OCA, Red Cross</li> </ul>
<p><b>March – April 2023</b></p>	<p>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</p> <p><u>Outcome:</u></p> <p><i>Challenges</i></p> <ul style="list-style-type: none"> <li>• Achieved yield at farms has reduced due to reduced rainfall and low-quality inputs in the market.</li> <li>• Due to the high temperatures getting water from the wells is difficult and often the wells dry up.</li> <li>• 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.</li> <li>• As a result of reduction in economic activities, groups memberships, savings and repayments have reduced.</li> </ul> <p><i>Potential solution pathways for the proposed action</i></p> <ul style="list-style-type: none"> <li>• Provision of business development support to enable the groups to better market their products.</li> <li>• Trainings on best farm practices and provision of drought resistant seeds and inputs.</li> <li>• Provision of capacity building support on accessing/ responding to funding opportunities.</li> <li>• Provision of funding especially grant funding.</li> <li>• Involvement in learning exchange programs.</li> </ul>	<p><b>KENYA</b>  Focus group discussions with <b>Women &amp; Youth groups including village-based loans and savings group</b> (Counties: Machakos, Laikipia, Kitui)</p> <p><b>UGANDA</b>  Focus group discussions with <b>vulnerable groups including women and youth:</b></p> <ul style="list-style-type: none"> <li>• Refugees situated at Palabek Refugee Settlement, Lamwo district, Northern Uganda</li> <li>• Refugees situated at Nakivale refugee settlement, Isingiro district, Southern Uganda</li> <li>• Small-scale agribusinesses located at Moroto District, Karamoja region, North-eastern Uganda</li> </ul>
<p><b>April 2023</b></p>	<p>National Stakeholder Consultation Workshops to receive feedback about the proposed approach of the action and discuss potential avenues of engaging key stakeholders in Kenya and Uganda</p>	<p><b>KENYA</b></p> <ul style="list-style-type: none"> <li>• County Governments</li> <li>• (Development) Financial Institutions (FIs)</li> </ul>

	<p><u>Outcome:</u> Set of recommendation on the following areas of the action:</p> <ul style="list-style-type: none"> <li>• Regional Coordination Hub</li> <li>• Catalytic Finance Network and Investment Brokerage Services</li> <li>• Gender and youth Inclusive Investing</li> <li>• Eco-system and Direct Enterprise Support</li> </ul> <p>The recommendations have been used to inform the proposed project components, for detailed documentation please refer to the Annex 3</p>	<ul style="list-style-type: none"> <li>• Impact Investors</li> <li>• Climate adaptation SMEs</li> <li>• Business Development Service (BDS) providers</li> <li>• Representatives of potential clients/end-users of climate adaptation solutions</li> <li>• Marginalized groups from selected regions</li> </ul> <p><b>UGANDA</b></p> <ul style="list-style-type: none"> <li>• Financial institutions</li> <li>• Adaptation SMEs</li> <li>• Development agencies</li> <li>• Government entities</li> <li>• Civil society organisations</li> <li>• Intermediaries (e.g. BDS provider)</li> </ul>
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172. 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.
173. 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.
174. At the same time, the Executing Entity (EE) will follow up with the consulted Financial Institutions (FIs) in both countries to seek Letters of Expression of Interest to participate in the project activities. During these meetings, the EE will present the conceptual outline of the performance-based grant mechanism and initiate discussions on the co-design of potential blended finance instruments that FIs could independently implement post-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 during the project's inception phase to develop new and innovative blended finance instruments for post-project implementation, alongside the detailed design of the performance-based grant mechanism.
175. 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.
176. 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**

177. 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.
178. 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 RCH'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.
179. Secondly, the RCH'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.
180. 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.
181. 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 National project 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.

182. 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.
183. 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 adaptation solutions have been agriculture-focused in previous projects supported by the EE and national project 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

184. 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
185. 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
<b>Component I</b>	
<p><b>Climate change:</b> 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.</p> <p><b>Women and youth:</b> 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.</p> <p><b>National and regional responses:</b> 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.</p>	<p><b>Market-based adaptation solutions:</b> 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.</p> <p><b>Women and youth:</b> 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.</p> <p><b>Cross-border coordination and knowledge exchange:</b> A Regional Coordination Hub (RCH) 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 RCH connects actors of adaptation, (climate-smart) finance and entrepreneurship, encourages action to sustain and create adaptation markets and serves as a pioneering regional knowledge forum on adaptation entrepreneurship. The RCH 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</p>

	strategic framework to guide the project implementation and serve as a manual for post-project engagements of core actors.
<b>Component II</b>	
<p><b>Missing middle financing gap:</b> 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.</p> <p><b>Women and youth:</b> 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. 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 female ownership, and only 15.4 per cent have a female top manager.<sup>56</sup></p>	<p><b>Performance-based grant mechanism and enterprise support:</b> The project will support gender- and youth inclusive adaptation SMEs in Kenya and Uganda by providing tailored business advisory services to strengthen investment readiness, followed by performance-based grant financing tied to the achievement of Adaptation Performance Targets (APTs). These grants will enable SMEs to implement and scale their solutions, even in the absence of private capital. The project does not implement loan, guarantee, or repayment schemes but rather takes a flexible, impact-driven approach that ensures each supported SME receives funding tied to measurable adaptation outcomes.</p> <p>In parallel, the project will co-design innovative blended finance instruments with local financial institutions for post-project deployment. This provides a sustainable pathway for long-term access to commercial finance without requiring Adaptation Fund resources to directly subsidize financial risk.</p> <p><b>Women and youth:</b> The business advisory and performance-based grant mechanism 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. In addition to selecting this specific target group, the project offers tailored tools and mentoring to promote finance-readiness of gender- and youth-led adaptation SMEs. Through specific outreach and inclusive selection criteria, the project aims to ensure that at least 50% of the supported SMEs are women-led, significantly surpassing their baseline representation in the sector.</p>
<b>Component III</b>	
<p><b>Limited financing portfolios:</b> 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.</p>	<p><b>Strengthening FI readiness for adaptation finance and post-project scale-up:</b> Component III builds the institutional and operational capacity of local Financial Institutions (FIs) to engage with gender- and youth-inclusive adaptation SMEs and prepare for future deployment of tailored adaptation finance instruments. Through the Adaptation Finance Academy, participating FIs will receive training on climate adaptation, SME financing, and gender-lens investing. They will also be supported to develop internal Climate Strategies that integrate adaptation priorities and outline operational pathways for green lending.</p> <p>Building on this foundation, FIs will take part in a structured co-design process to prototype market-ready blended finance instruments tailored to early-stage adaptation SMEs. While the project does not implement these instruments or provide concessional loans or guarantees, this participatory approach ensures that the instruments are aligned with FIs' risk frameworks, lending structures, and regulatory environments.</p> <p>Finally, formal partnerships will be established with at least 15 FIs and impact investors to support the long-term sustainability of the co-designed financing instruments. By preparing FIs for post-project implementation, the project creates the enabling conditions for future capital mobilisation without requiring further public grant subsidies.</p>

## M. Sustainability of the project

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

186. 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:
187. (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 Network, 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 RCH, 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.
188. Under Component I, the established RCH 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 RCH'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*).
189. The documentation and dissemination of knowledge, best practices, innovations, and lessons learned the implementation of the performance-based grant mechanism and the co-design of blended finance instruments will play an important role in showcasing how financing for early-growth adaptation SMEs can 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.
190. The innovative Adaptation Finance Network under Component II will enforce this long-term growth and support by providing early-growth adaptation SMEs with bespoke 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*).
191. 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*).
192. The described piloting approach of the network 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 enlarge 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).
193. 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 customers 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*)

194. More specifically, the Catalyser (Output 2.2.1) 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 Catalyser Plus (Output 2.2.2) 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.
195. 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.
196. 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*).
197. 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 network 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.
198. 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.
199. 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 RCH to stakeholders interested and involved in similar business support activities. In general, the RCH 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 Network 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 Catalyser Plus 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 Regional Community of Practice (RCH) 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**

200. 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.
201. 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).
202. . 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.
203. 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.
204. 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.
205. 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.

Table 12: 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. <sup>57</sup> 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

<sup>57</sup> 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, Yaku, 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. Given that the project will give preference to business models that increase the adaptive 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

206. 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:
207. **Regional Coordination Hub (RCH) (Component 1):** To strategically steer the interaction among different high-level stakeholders across countries, to organize regular Adaptation Action Events and to serve as a pioneering knowledge hub a RCH 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 RCH will support coordination around two levels - at the regional and at the national level. At the regional level the RCH 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.
208. **Performance-based grant mechanism and enterprise support (Component 2):** To identify and engage local stakeholders who can play key roles in supporting adaptation SMEs, the Executing Entity and its partners will conduct comprehensive stakeholder engagement sessions during the scoping phase of the performance-based grant mechanism and the co-design of blended finance instruments. Lessons learned from the first financing cycle will be integrated into the second to maximize the impact and effectiveness of activities. An ecosystem stakeholder mapping exercise and co-creation strategies will be used to engage critical financial institutions, investors, and national entities, ensuring broad buy-in. The co-creation process for the blended finance instrument design will tailor these tools to the future needs of both FIs and adaptation SMEs for post-project uptake. Formalized partnerships will be pursued with at least 15 local FIs and impact investors or funds who have already engaged in the design process. The project will build on existing relationships with financial institutions established under the UGEFA project and leverage the networks of national project partner KCV.
209. **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.
210. 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

211. 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:

- a) UNIDO as accredited Multilateral Implementing Entity to the AF, will oversee the project implementation 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 Project Manager. UNIDO will commission the Mid-term Review and an independent final evaluation.
- b) **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. adelphi will directly disburse performance-based grants to selected SMEs in Kenya and Uganda. Transfers from Germany will comply with EU and BaFin regulations (including AML/KYC), and align with Central Bank rules in Kenya and Uganda. SMEs must be registered and compliant with national requirements. Grants will be disbursed in USD to the receiving banks of the selected SMEs and converted into local currency. Exchange rate risk will generally lie with the SME unless otherwise stipulated. Development grants are typically tax-exempt, but SMEs must report to national tax authorities as applicable.
- c) **The relationship between EE and national project 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 PMU will coordinate all project activities being carried out by project experts and partners. The EE will be responsible of contracting the identified national project partners, KCV and Finding XY, as well as recruitment/supervision of national and international consultants and personnel and coordination with national project partners.
- d) **National project 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.

212. 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 national project 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.

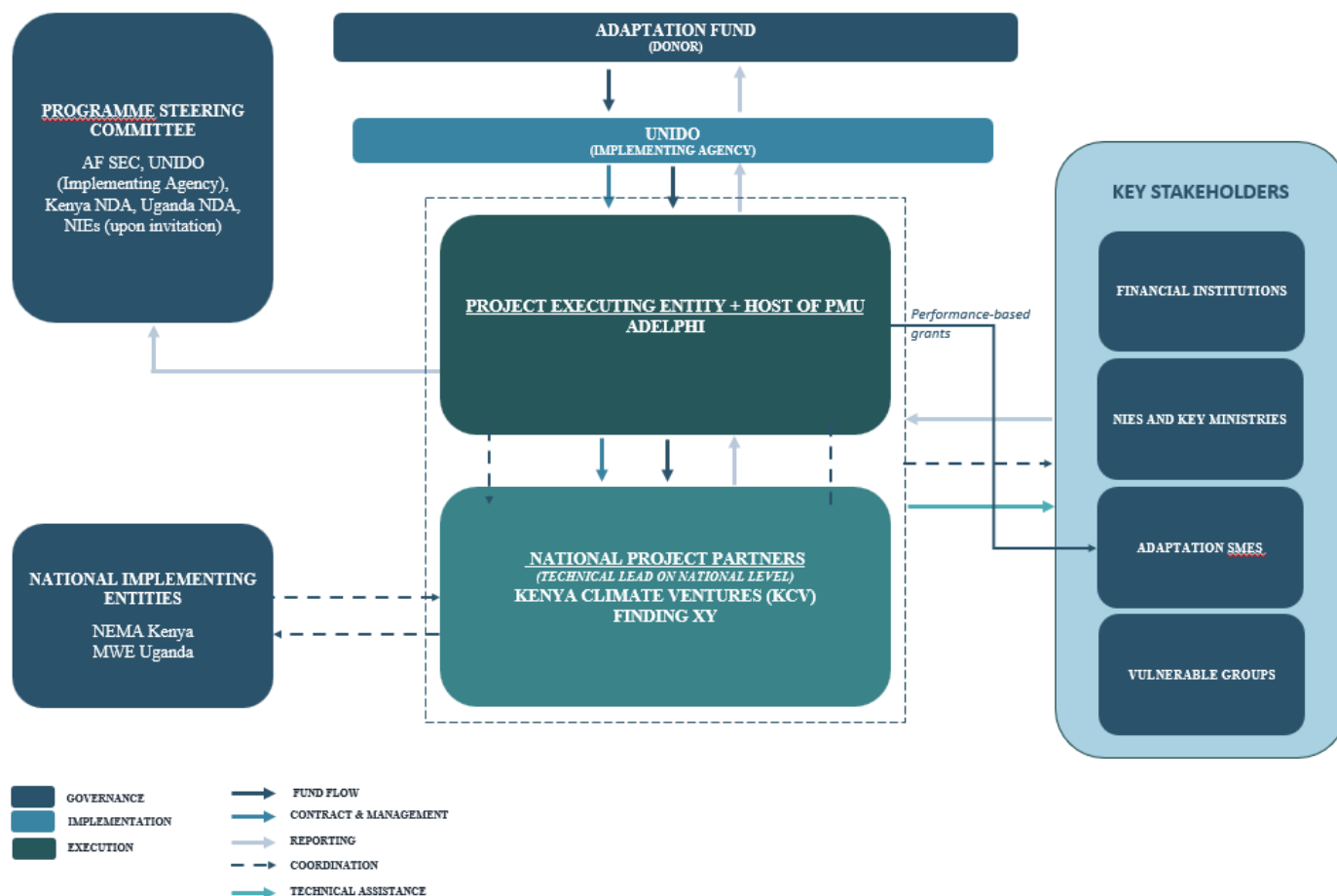
213. adelphi as main executing entity will designate internally, or recruit directly project management personnel to form a Project Management Unit (PMU) to execute the activities of this project. The PMU will be responsible for the day-to-day management of the project execution, monitoring and evaluation 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 national project partners, KCV and Finding XY, as well as recruitment/supervision of national and international consultants and personnel and coordination with national project partners. Adelphi has been EU-Pillar assessed and as such is considered to operate in line with UNIDO procurement standards.

214. 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 national project 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 national project 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.

215. 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, stakeholder engagements that will be organised during the project implementation in their respective countries.

Key stakeholders of the projects will be:

- **Ministries and governmental institutions:** They will benefit from the project results and will be engaged throughout the project implementation. Selected representatives will be invited to join the Steering Committee.
- **Financial institutions** (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 join the Steering Committee. 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** 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 join the Steering Committee.
- **Vulnerable groups** (farmer associations, cooperatives, women and youth associations) will benefit as end-user of the adaptation 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)

216. 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 national project 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.

217. The roles and responsibilities of the PSC shall be to:
- Provide strategic directives in line with national policies and programmes;
  - Provide strategic inputs and guidance on project activities;
  - Guides the development and implementation of Adaptation Action Events and high-level Adaptation Finance Symposia; and
  - Provide strategic inputs on the sustainability and exit strategy of the project..

#### **Multilateral Implementing Entity**

218. 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.
219. 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
220. 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 national project 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-annual calls to increase the understanding and knowledge that the audiences have of the project supporting the implementation of high-quality outreach.

#### **Executing Entity**

221. 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, including the 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 executing 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 national project 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.

#### **National Project Partners**

In executing the activities adelphi as executing entity will build on its proven delivery model working with in-country national project 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 Catalyser Plus support to selected enterprises (Finding XY: Uganda; KCV: Kenya), the coordination of the RCH 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.

222. 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.
223. 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**

224. The project will be aligned to the government priorities (Nationally Determined 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<sup>58</sup>.
225. 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 showcase 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.
226. The Executing Entity with its partners will be responsible for liaising with the DAs and NIEs along with UNIDO support. The EE, national project 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.

### **Legal Context**

#### Republic of Kenya

The Government of the Republic of Kenya agrees to apply to the present project, mutatis mutandis, the provisions of the Standard Basic Assistance Agreement between the United Nations Development Programme and the Government, signed and entered into force on 17 January 1991.

#### Republic of Uganda

The present project is governed by the provisions of the Standard Basic Cooperation Agreement between the Government of the Republic of Uganda and UNIDO, signed on 27 May 1994.

### **B. Project risk management**

227. 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 continuously assessed throughout the project execution.

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<sup>58</sup> 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 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.

#	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  Medium Impact	Mitigation measures will include wide outreach campaigns targeting in particular also women-led SMEs, in collaboration with local media agencies; the use 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. Furthermore, 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	Enterprises (in particular women-lead SMEs) are unable to obtain financing from local FIs	Operational, Financial	Medium Likelihood  High Impact	To prevent and mitigate the risk of SMEs (in particular women-led SMEs) not obtaining financing agreements 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 criteria for commercial loans. Furthermore, local FIs will be heavily involved in the design of the finance network 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. In the form of performance-based grant payments will be provided to SMEs to support the achievement of adaptation milestones. While no financial incentives will be provided directly to Financial Institutions (FIs) under the project, potential instruments such as partial repayment schemes may be co-designed for post-project implementation to incentivize future SME financing.
3	SMEs require higher amounts of finance than the financial support provided through the project or cannot successfully leverage the expected capital	Operational, Financial	High Likelihood  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 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  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)	Social, Political	Medium Likelihood	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 national project partners Kenya

	caused by political and safety concerns		Medium Impact	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  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 extreme 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

229. The objective of this project is to facilitate investments and capacity building in early growth stage SMEs that operate climate adaptive 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.
230. 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)<sup>59</sup> 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.
231. 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).
232. 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.
233. 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	An overall project screening against AF's Environmental and Social Policy is developed. (see Appendix 1 of the annex 1)

<sup>59</sup> 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.

<b>Implementing Entity</b>	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
<b>Environmental and Social Assessment</b>	<p>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)</p> <p>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.</p>
<b>Environmental and Social Management Plan</b>	<p>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.</p> <p>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.</p>
<b>Monitoring, Reporting, and Evaluation</b>	<p>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.</p> <p>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.</p> <p>The details of the monitoring, reporting and evaluation process are further detailed in the ESMP in the Appendix 2 of annex 1.</p>
<b>Public Disclosure and Consultation</b>	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
<b>Grievance Mechanism</b>	<p>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.</p> <p>The details of the grievance mechanism, and channels to report and process complaints are detailed in annex 1., Appendix 3</p>

#### D. Monitoring and evaluation arrangements

234. The monitoring and evaluation (M&E) of the project will be 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:

235. **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.

**236. Baseline data report:** UNIDO will prepare and submit a project baseline report based on primary data collection and/or relevant and reliable secondary data, per the Fund's "Results Framework and baseline guidance." Baseline data will be used to recalibrate targets if necessary, and monitoring implementation progress, and assessing performance and outcomes. Baseline data shall be submitted to the secretariat by no later than the submission of the first PPR. The baseline data report may be conducted independently or semi-independently, or self-conducted.

**237. Quarterly reporting from beneficiary SMEs:**

Beneficiary SMEs in the Catalyser and Catalyser Plus programmes are required to prepare Quarterly Performance Briefs on the progress of their business and investment (Catalyser Plus 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.

**238. 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.

**239. Periodic monitoring through visits and interviews:** The executing entity and the national project partners 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.

**240. 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.

**241. 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.

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

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

Activity	Responsible parties	Timeframe	Indicative Cost (USD)
Inception workshop and Baseline Data Report	Project Management Team in coordination with UNIDO	Project kick-off (Report 1 month after inception workshop)	20,000
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, in coordination with UNIDO, Executing Entity, External Evaluators	Ongoing for all activities	15,000
Project Steering Committee Meetings	Project Management Team, UNIDO	Twice a year	9,000
Annual Project Performance/Progress Report	Project Management Team, UNIDO	Annually (2 months after the end of the project implementation year)	-
Annual impact assessment	Project management team, Executing Entity	Annually (2 months after the end of the project implementation year)	5,000
Mid-term Evaluation	External Consultant/Evaluator	Two years after start of the project	30,000
Final project evaluation and report	External Consultant/Evaluator	End of the project (within the final 3 months of implementation)	60,000
Financial audit	External Auditor	End of project (within 6 after the end of the fiscal year in which the project ended)	30,000
Travel (related to project execution)	Executing Entity	Annually	20,000
<b>TOTAL</b>			<b>189,000</b>

**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 four 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 Annex 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

Expected Results	Indicators	Baseline Data or Condition	Targets	Sources of Verification	Risks and assumptions
<p><b>Impact:</b> 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</p>	<p>Direct beneficiaries supported by the project</p> <ul style="list-style-type: none"> <li>- Female direct beneficiaries</li> <li>- Youth direct beneficiaries</li> </ul> <p>Indirect beneficiaries supported by the project</p> <ul style="list-style-type: none"> <li>-Female indirect beneficiaries</li> <li>- Youth indirect beneficiaries</li> </ul>	<p>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.</p>	<p>750 female direct beneficiaries</p> <p>750 direct youth beneficiaries</p> <p>7500female indirect beneficiaries</p> <p>7500 indirect youth beneficiaries</p>	<p>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)</p>	<p>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.</p>
<b>Component I</b>					
<p><b>Outcome 1.1</b> Sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers established</p>	<p>Types of Multi-stakeholder interactions, sharing and learning through cross-community and cross-country exchanges</p> <p>Number of active platform users aggregated by region</p>	<p>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</p>	<p>30 types of multi-stakeholder interactions, sharing and learnings through cross-community and cross - country exchanges.</p> <p>100 Active platform users, 50 per country and fairly</p>	<p>Records of the RCH</p>	<p>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</p>

		<p>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</p>	<p>divided throughout focus the regions.</p> <p><i>Corresponding to UNIDO IRPF indicators<sup>60</sup>;</i></p> <p><i>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas</i></p> <p><i>GOV.1: Number of institutions established or strengthened</i></p>		<p>institutions of all the stakeholders involved.</p>
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<sup>60</sup> Please note that these do not represent new or additional indicators or targets, but rather the same project indicators and targets presented in alignment with UNIDO's Integrated Results and Performance Framework (IRPF), in accordance with organizational reporting requirements and used exclusively for UNIDO's internal reporting purposes. The relevant IRPF codes are: KASA (awareness, knowledge, and capacity building), BUS (business practices), TCO (technical cooperation), CPO (convening and partnerships), and ECO (economic competitiveness). For clarity, references to UNIDO's IRPF indicators are shown in the "Target" column of the results framework.

		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.			
<b>Outcome 1.2</b> 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	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  <i>Corresponding to UNIDO IRPF indicator:</i>  <i>GOV.2: Number of actors participating in enhanced collaboration settings</i>	Workshop reports and documentations Ex-post Project Reporting: annual review	The interactions and exchanges are taken forward within organisations and institutions of all the stakeholders involved.  The solutions presented in the adaptation market study raise genuine interest among future entrepreneurs and academia and practitioners and the opportunities identified in the study are furthered.
<b>Component II</b>					
<b>Outcome 2.1</b> Pipeline of gender- and youth-inclusive adaptation SMEs developed (100% of the SMEs will be women- and/or youth-inclusive, meaning they aim	Number of gender- and youth-inclusive adaptation SMEs identified, selected, and supported through the programme	In Kenya and Uganda, there is a lack of accelerator programs specifically designed for SMEs providing climate adaptation solutions. The existing accelerator	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 eligible

<p>for a 50% gender and youth balance in their work force and/or their primary customer base)</p>		<p>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.</p>	<p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>KASA.2: Number of actors gaining skills on UNIDO knowledge areas</i></p>		<p>adaptation solutions as well as a sound business</p>
<p><b>Outcome 2.2</b> Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management</p>	<p>Number of gender- and youth-inclusive adaptation SMEs receiving structured support from funding readiness to post-investment management</p> <p>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</p> <p>Project information disclosed to public and relevant stakeholders for their information and engagement</p> <p>Number of adaptation SMEs receiving performance-based grants</p>	<p>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</p>	<p>100 SMEs receive business advisory and funding readiness support</p> <p>30 SMEs (including at least 15 women-led SMEs) receive post-investment support</p> <p>30 adaptation SMEs (including at least 15 women-led SMEs) receive performance-based grants tied to the achievement of Adaptation Performance Targets (APTs)</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas</i></p>	<p>Participation records from Catalyser and Catalyser Plus cycles, business advisory reports, SME investment plans, monitoring reports from post-investment support</p> <p>Scorecard + Due diligence documentation</p> <p>Records of ESMS Scoring of selected</p> <p>Report on scoring on RCH</p> <p>Grant agreements and disbursement records; APT milestone tracking reports; co-design workshop documentation; finalized</p>	<p>Sufficient number of eligible SMEs identified; SMEs actively engage throughout the programme cycles; business support services meet SME capacity needs With technical support SMEs can achieve their performance and knowledge to correctly assess their risks and manage them</p> <p>SMEs are able to meet APT milestones within the project timeframe</p>

		<p>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.</p> <p>There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions.</p>	<p><i>KASA.2: Number of actors gaining skills on UNIDO knowledge areas</i></p> <p><i>INV.2: Number of projects or businesses financed</i></p>		
<b>Component III</b>					
<p><b>Outcome 3.1</b> Local financing institutions support the dissemination of adaptation technologies, products and services</p>	<p>Number of FIs with increased SME adaptation finance portfolio and/or with new and improved/ innovative instruments or services</p>	<p>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</p>	<p>15 FIs have increased gender-responsive SME adaptation finance portfolios and/or with new improved/ innovative instruments or services</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>KASA.1: Number of actors gaining awareness/knowledge on UNIDO knowledge areas</i></p>	<p>Ex ante and ex post screening of portfolio, instruments and services based on interviews (spot checks / small sample) and desk research (+ extrapolation)</p>	<p>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.</p>

		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.			
<b>Outcome 3.2:</b> Stimulating the adaptation finance landscape through co-designing blended finance instruments with FIs	<p>Number of blended finance instruments co-designed with financial institutions</p> <p>Number of financial institutions and impact investors engaged in the co-design process through formal partnerships (e.g. MoUs or workshop participation)</p>	<p>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.</p>	<p>At least 2 blended finance instruments co-designed with input from a minimum of 15 financial institutions and impact investors</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>GOV.2: Number of actors participating in enhanced collaboration settings</i></p>	<p>financial instrument design documents; signed MoUs with FIs.</p>	<p>; FIs remain engaged in the co-creation process and express intent to use the instruments post-project.</p>
<b>Outputs under Outcome 1.1</b>					
1.1.1 Establishing a multi-stakeholder Adaptation Action Steering Committee	Consultation with and selection of core actors from finance, entrepreneurship,	There currently is no adaptation action steering committee in Kenya or	The achievement of this outcome can be assessed by the establishment of a	MoUs, stakeholder conformation forms, meeting attendance forms	The establishment of the Adaptation Action Steering Committee (AASC) ensures

<p>(AASC) and a women-youth business club</p>	<p>governmental institutions and representatives of vulnerable groups (such as youth-based organisations and rural women associations) to join the AASC</p> <p>Number of members of the AASC aggregated by group (finance, entrepreneurship, governmental institutions and representatives of vulnerable groups)</p> <p>Interaction among different high-level stakeholders across countries</p> <p>Number of members enrolled in the club, frequency and participation of meetings</p> <p>Engagement of Senior Gender Expert to provide continuous support and ensure full compliance with gender mainstreaming throughout the project period</p>	<p>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.</p>	<p>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</p> <p>20 AASC members equally representing the groups defined in the indicator</p> <p>20 notable interactions between high-level stakeholders across countries</p> <p>50 women and youth participate in the club and it is hosts at least 4 virtual and 2 physical meetings</p> <p>Full compliance with established gender mainstreaming standards in all project activities as assessed by a yearly review outlined in GA &amp; GP</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>TCO.1: Number of capacity building activities provided</i></p>	<p>Formal invitations/ accepting letters of selected member of the AASC</p>	<p>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.</p>
<p>1.1.2 A strategic framework and digital infrastructure for the RCH is developed and endorsed</p>	<p>Outreach strategy to meet key objectives of increasing female and youth participation is developed and implemented</p> <p>Inclusion and participation strategy of vulnerable group representatives is developed</p>	<p>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</p>	<p>plan, complete and operationalize an outreach strategy, 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</p>	<p>Project reporting of Steering Committee</p> <p>Outreach report</p> <p>Synergy scouting guideline</p> <p>Process handbook</p>	<p>The development and endorsement of a strategic framework and digital infrastructure for the RCH ensures inclusive outreach and participation strategies that prioritize gender equality and youth representation. This framework facilitates</p>

	<p>and implemented</p> <p>Number of profitable adaptation solutions in the database sourced from regular impact assessments</p> <p>Number of participant profiles aggregated by country to measure regional community-building</p> <p>Number of knowledge products available on the RCH</p>	<p>practitioners and ecosystem actors according to the desk research.</p>	<p>balance in their work force and/or their primary customer base)</p> <p>Ensure gender equality and a high percentage of vulnerable group representatives</p> <p>50 profitable adaptation solutions in the database sourced from impact assessments</p> <p>50 participant profiles aggregated by country to measure regional community-building.</p> <p>30 knowledge products available on the RCH during the project cycle</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>TCO.3: Number of toolkits and guidelines produced</i></p> <p><i>PAO.1: Number of industrial strategies and industrial policy documents drafted / prepared</i></p>	<p>Profiles on the RCH</p> <p>Best practices of adaptation SMEs showcased on the RCH</p>	<p>the integration of profitable adaptation solutions and community-building efforts, fostering regional collaboration. The availability of knowledge products and participant profiles on the RCH underscores its role as a dynamic platform for showcasing best practices and driving the adaptation entrepreneurship ecosystem forward.</p>
<b>Outputs under Outcome 1.2</b>					
1.2.1 Six regional Adaptation Action Events are organised	<p>Number of Adaptation Action Events organised that foster learning and sharing on innovations (adaptation solutions, financial instruments)</p> <p>Number of innovative adaptation SMEs participated aggregated by</p>	<p>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</p>	<p>6 adaptation events occurred during the project cycle those including: adaptation round tables, sectoral study tours and radio podcase shows.</p> <p>10 innovative adaptation SMEs (out of which 5 women-led) participated in</p>	<p>Documentation of the Adaptation Action Events (Adaptation Roundtables, Sectoral Study Tours): participants list, report</p>	<p>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</p>

	<p>country</p> <p>Number of Alumni selected for Sectoral study tours</p> <p>Number of women entrepreneurs participating in mentorship programs; number of networking events organized</p>	<p>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</p>	<p>ADE over the course of the project cycle. 5 from each country</p> <p>6 alumni selected for sectoral study tours from each country.</p> <p>50 women entrepreneurs have participated in mentorship; 4 networking sessions are organized</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>CPO.1: Number of global fora, workshops, EGM, side events organized</i></p> <p><i>TCO.1: Number of capacity building activities provided</i></p>		<p>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.</p>
<p>1.2.2 Four Annual Adaptation Finance Symposia are developed and held</p>	<p>Number of adaptation SMEs participated</p> <p>Number of financial stakeholders participated</p> <p>Number of policy makers participated</p>	<p>0</p>	<p>Annual occurrence of the adaptation finance symposia.</p> <p>A total of 100 adaptation SMEs (out of which 50 women-led) participating over the project cycle.</p> <p>A total of 50 stakeholders from Fis participated over the project cycle</p> <p>A total of 50 policy makers participated over the project cycle.</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>CPO.1: Number of global fora, workshops, EGM, side events organized</i></p>	<p>Workshop documentation of the Adaptation Finance Symposia</p>	<p>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.</p>

<p>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</p>	<p>Report on the analysis of market-based adaptation solutions in Kenya and Uganda published Number of reports downloaded/ disseminated during the course of the project</p> <p>Adaptation taxonomy developed and integrated into the Adaptation Finance Academy curricula; refined during later project stages</p> <p>Adaptation SME Finance Scoping Study conducted; results published</p> <p>Multimedia case study films to showcase adaptation business models developed and published</p> <p>Policy Recommendations and Action Plan Flagship Report finalised</p> <p>Annual Impact Assessment on adaptation solutions conducted; results published</p>	<p>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.</p>	<p>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.</p> <p>Taxonomy developed for adaptation SMEs and integrated into adaptation finance academy curricula.</p> <p>Develop and share the adaptation SME finance scoping report. A minimum of 100 downloads/disseminated during the course of the project.</p> <p>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.</p> <p>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.</p> <p>Develop and share annual impact assessments of the selected enterprises. A minimum of 100 downloads/disseminated</p>	<p>Impact report showcasing enterprises and their impacts on adaptation for regions, communities and target sectors</p> <p>Workshop Documentation of the Finance Academy</p> <p>Workshop Documentation of the Finance Academy &amp; Symposia</p> <p>Adaptation SME Finance Scoping Study</p> <p>Case studies</p> <p>Policy Recommendations</p> <p>Action Plan Flagship Report</p> <p>Annual Impact Assessment Report</p>	<p>Knowledge products and lessons learned are widely shared with, and well received by potential users</p>
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<b>Outputs under Outcome 2.1</b>					
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  ESMS methodology and framework developed and refined in line with AF's Environmental and Social Policy principles  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.	Scorecard developed and operationalized for the selection processes  <i>Corresponding to UNIDO IRPF indicator:</i>  <i>TCO.3: Number of toolkits and guidelines produced</i>	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, 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.  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.

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 eligible adaptation solutions as well as a sound business
<b>Outputs under Outcome 2.2</b>					
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  Number of modules on gender-inclusiveness; number of participants in gender-inclusive training modules  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.	100 gender- and youth inclusive adaptation SMEs (out of which 50 women-led) assessed according to the ESMS framework and results record  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 women Where they will be able to plan tangible improvements to their business models  At least 3 women-only cohorts will be created for the capacity building support. Setup adaptation performance targets for participating gender- and youth inclusive enterprises  3 gender-inclusivity modules will be developed; 200 participants will attend gender-related training modules	Records of assessment of selected SMEs: Scorecard and due diligence documentation  ESMS documentation and reporting  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

			<p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>TCO.1: Number of capacity building activities provided</i></p> <p><i>TCO.4: Number of business plans developed</i></p>		
2.2.2 Two Catalyser Plus Programme Cycles: Post-investment support on growth and performance-based grants provided for 30 gender- and youth-inclusive adaptation SMEs (50% of allocated budget)	Investment plans Number of adaptation SMEs receiving performance-based grants upon achievement of Adaptation Performance Targets (APTs)	There are currently no accelerator programmes that deal specifically with SMEs the provide climate adaptation solutions.	<p>At least 30 adaptation SMEs (including at least 15 women-led SMEs) received with post investment growth support and performance-based grant</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>TCO.1: Number of capacity building activities provided</i></p> <p><i>TCO.3: Number of toolkits and guidelines produced</i></p> <p><i>TCO.4: Number of business plans developed</i></p>	<p>Screening / analysis of investment plans (based on requirements / checklist)</p> <p>Signed performance-based grant agreements, APT milestone reports, disbursement records, SME self-reporting with third-party verification.</p>	<p>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</p> <p>SMEs are able to meet agreed APT milestones within the project timeframe; no major disruptions hinder implementation</p>
<b>Outputs under Outcome 3.1</b>					
Output 3.1.1: An Adaptation Finance Academy training concept is developed and implemented	<p>Number of financial prototypes developed</p> <p>Number of ecosystem actors (FI participants) with increased knowledge with regard to adaptation finance</p>	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	<p>50 financial prototype instruments developed</p> <p>50 ecosystem actors with increased knowledge with regard to adaptation finance</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>TCO.3: Number of toolkits and guidelines produced</i></p>	<p>Workshop documentation with an overview of the financial prototypes identified</p> <p>Ex-post evaluation (survey) of the knowledge of participants on topics related to adaptation finance</p>	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.

		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.			
<b>Outputs under Outcome 3.2</b>					
3.2.1: Co-Design of Blended Finance Instruments with Local Financial Institutions for Post-Project Sustainability	Number of innovative blended finance instruments co-designed with local Financial Institutions (FIs) for post-project operationalization.	0	At least 2 distinct blended finance instruments co-designed with input from a minimum of 15 local FIs and impact investors by mid-project, refined by project end  <i>Corresponding to UNIDO IRPF indicator:</i>  <i>TCO.3: Number of toolkits and guidelines produced</i>	Final design documentation of financial instruments, workshop reports, Memoranda of Understanding (MoUs) with participating FIs, feedback summaries from co-creation sessions	FIs and other partners remain engaged throughout the design process; market conditions remain conducive for post-project operationalization.
3.2.2 Institutional partnerships with Financial Institutions established to form a Catalytic Financing Network	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.  <i>Corresponding to UNIDO IRPF indicator:</i>	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

			<i>TCO.1: Number of capacity building activities provided</i>		impact-focused financial stakeholders to drive sustainable financing for innovative climate adaptation solutions.
3.2.3 Exit and scale-up strategy for blended financing instruments	<p>Types of innovative financing instruments identified within the financing mechanism</p> <p>Activities and measures of the financing network promoting innovative SME financing strategies</p> <p>Co-creation of the financing network and the strategic framework led by the Adaptation Action Steering Committee</p>	0	<p>15 types of innovative financing instruments</p> <p><i>Corresponding to UNIDO IRPF indicator:</i></p> <p><i>TCO.3: Number of toolkits and guidelines produced</i></p>	<p>Annual review documentation covering financing mechanism successes and failures</p> <p>Documentation on the evaluation of the activities of the financing network</p> <p>Impact assessment of adaptation solutions</p> <p>Final documentation of the co-creation session led by the Adaptation Action Steering Committee</p>	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, fostering long-term impact and resilience in climate adaptation financing.

#### 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) <sup>61</sup>	Project Objective Indicator(s)	Fund Outcome	Fund Outcome Indicator	Grant Amount (USD)
<b>Project objective:</b> Pilot an innovative adaptation finance network to increase the inclusiveness of local financial markets in 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	<p><b>Direct beneficiaries supported</b> by the project</p> <ul style="list-style-type: none"> <li>- Female direct beneficiaries</li> <li>- Youth direct beneficiaries</li> </ul> <p><b>Indirect beneficiaries supported by the project</b></p> <ul style="list-style-type: none"> <li>-Female indirect beneficiaries</li> <li>- Youth indirect beneficiaries</li> </ul>	Outcome 3: Strengthened awareness and ownership of adaptation and climate risk reduction processes at local level	3.2. Percentage of targeted population applying appropriate adaptation responses	4,545,455

<sup>61</sup> The AF utilized OECD/DAC terminology for its results framework. Project proponents may use different terminology but the overall principle should still apply

socio-economic inequalities exacerbated by climate change.				
<b>Project Outcome(s)</b>	<b>Project Outcome Indicator(s)</b>	<b>Fund Output</b>	<b>Fund Output Indicator</b>	<b>Grant Amount (USD)</b>
<b>Outcome 1.1 The project establishes a sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers</b>	<p>Improve national policies and regulations that support adaptation SMEs to grow and scale, thus promoting and enforcing resilience measures</p> <p>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</p> <p>Number of members of the AASC aggregated by group (finance, entrepreneurship, governmental institutions and representatives of vulnerable groups)</p> <p>Interaction among different high-level stakeholders across countries</p>	Output 7: Gender- and youth-responsive climate change priorities are integrated into national development strategy	7.2. No. of targeted development strategies with incorporated climate change priorities enforced	95,050
<b>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</b>	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
<b>Outcome 2.1 Developing and implementing enterprise support mechanism</b>	<p>Scorecard developed in line with the project's ESMS and integrating specific gender- and youth-inclusive indicators</p> <p>Number of gender- and youth inclusive adaptation SMEs screened for participation in the funding readiness support programme - number of innovators selected for capacity building</p>	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

<p><b>Outcome 2.2 Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management</b></p>	<p>Number of investment plans submitted</p> <p>Number of financing agreements secured</p> <p>Stage of investments</p> <p>Number of adaptation SMEs receiving performance-based grants</p> <p>ESMS methodology and framework developed and refined in line with AF's Environmental and Social Policy principles</p> <p>Number of SMEs assessed according to the ESMS framework and results recorded</p>	<p>Output 8: Viable innovations are rolled out, scaled up, encouraged and/or accelerated.</p> <p>Output 1.1: Risk and vulnerability assessments conducted and updated</p>	<p>8.1. No. of innovative adaptation practices, tools and technologies accelerated, scaled-up and/or replicated 1.1. No. of projects/programmes that conduct and update risk and vulnerability assessments (by sector and scale)</p>	<p>2,788,100</p>
<p><b>Outcome 3.1: Local financing institutions support the dissemination of adaptation technologies, products and services</b></p>	<p>Number of FIs with increased SME adaptation finance portfolio and/or with new and improved/ innovative instruments or services</p>	<p>Output 2.2: Increased readiness and capacity of national and sub-national entities to directly access and program adaptation finance?</p>	<p>2.2.1 No. of targeted institutions benefitting from the direct access and enhanced direct access modality</p>	<p>340,500</p>
<p><b>Outcome 3.2: Stimulating the adaptation finance landscape through co-designing blended finance instruments with FIs</b></p>	<p>Number of blended finance instruments co-designed with financial institutions</p> <p>Number of financial institutions and impact investors engaged in the co-design process through formal partnerships (e.g. MoUs or workshop participation)</p>	<p>Output 8: Viable innovations are rolled out, scaled up, encouraged and/or accelerated.</p>	<p>8.1. No. of innovative adaptation practices, tools and technologies accelerated, scaled-up and/or replicated</p>	<p>254,300</p>

**Tables for reporting Adaptation Fund Core Impact Indicators**

In alignment with the Adaptation Fund's guidelines and methodologies, the project has identified and committed to tracking three relevant Core Impact Indicators throughout the project lifecycle. These indicators reflect the expected adaptation benefits generated by supporting women- and youth-inclusive adaptation SMEs in the agriculture and water sectors across Kenya and Uganda.

The selected indicators are:

1. Number of Beneficiaries – capturing the reach of the project in terms of direct and indirect support to climate-vulnerable populations, disaggregated by gender and age;
2. Assets Produced, Developed, Improved, or Strengthened – tracking the development or strengthening of both physical infrastructure and development-sector services that contribute to local adaptation.
3. Increased Income, or Avoided Decrease in Income – measuring the improvement in livelihoods and economic resilience of households resulting from SME-led adaptation interventions;

The figures presented in the following tables are preliminary estimates based on the current design and scope of the project. These figures may be adjusted as needed following the completion of the baseline data collection and analysis in Year 1 of implementation, which will validate and refine the data on the ground. All updates will be reflected in subsequent progress and completion reports.

<b>Adaptation Fund Core Impact Indicator “Number of Beneficiaries”</b>				
<b>Date of Report</b>	-			
<b>Project Title</b>	<b><u>Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda</u></b>			
<b>Country</b>	Kenya, Uganda			
<b>Implementing Agency</b>	UNIDO			
<b>Project Duration</b>	4 years			
-	<b><u>Baseline (absolute number)</u></b>	<b><u>Target at project approval (absolute number)</u></b>	<b><u>Adjusted target first year of implementation (absolute number)</u></b>	<b><u>Actual at completion<sup>62</sup> (absolute number)</u></b>
<b><u>Direct beneficiaries supported by the project</u></b>	0	1500 (based on 30 SMEs *50 direct beneficiaries each)		
<b><u>Female direct beneficiaries</u></b>	0	750 (50%)		
<b><u>Youth direct beneficiaries</u></b>	0	750 (50%)		
<b><u>Indirect beneficiaries supported by the project</u></b>	0	15,000 ( based on estimated client base and downstream reach)		
<b><u>Female indirect beneficiaries</u></b>	0	7,500 (50%)		
<b><u>Youth indirect beneficiaries</u></b>	0	7,500 (50%)		

<sup>62</sup> At project completion, the proponent could report on % targeted population reached or successfully supported (the absolute numbers could then be deduced from that figure)

<b>Adaptation Fund Core Impact Indicator “Assets Produced, Developed, Improved, or Strengthened”</b>				
<b><u>Date of Report</u></b>	-			
<b><u>Project Title</u></b>	<b><u>Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda</u></b>			
<b><u>Country</u></b>	Kenya, Uganda			
<b><u>Implementing Agency</u></b>	UNIDO			
<b><u>Project Duration</u></b>	4 years			
-	<b><u>Baseline</u></b>	<b><u>Target at project approval</u></b>	<b><u>Adjusted target first year of implementation</u></b>	<b><u>Actual at completion</u></b>
<b><u>Sector (identify)</u></b>	-	Agriculture and Water		
<b><u>Targeted Asset</u></b> <b><u>1) Health and Social Infrastructure</u></b> <b><u>(developed/improved)</u></b> <b><u>2) Physical asset</u></b> <b><u>(produced/improved/strengthened)</u></b>	0	30 climate-resilient production assets (e.g., solar pumps, protected cultivation structures, drip irrigation systems, cold storage units) introduced or upgraded <sup>63</sup>		
<b><u>Changes in Asset (Quantitative or qualitative depending on the asset)</u></b>	-	Qualitative scale: 3–5 (moderate to fully improved), or quantitative reporting based on asset type (e.g., number of systems installed, hectares irrigated, m <sup>3</sup> water harvested, etc.)		
<b>Adaptation Fund Impact Indicator “Increased income, or avoided decrease in income”</b>				
<b><u>Date of Report</u></b>	-			
<b><u>Project Title</u></b>	<b><u>Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda</u></b>			

<sup>63</sup> Each SME will deploy at least one climate-resilient physical asset that contributes to adaptive capacity. The exact technology mix will be determined during Grant Investment Plan development (e.g. Output 2.2.2).

<b><u>Country</u></b>	Kenya. Uganda			
<b><u>Implementing Agency</u></b>	UNIDO			
<b><u>Project Duration</u></b>	4 years			
-	<b><u>Baseline</u></b>	<b><u>Target at project approval</u></b>	<b><u>Adjusted target first year of implementation</u></b>	<b><u>Actual at completion</u></b>
<b><u>Income through sales</u></b>	Sales revenue from adaptation SMEs	Sales revenue from adaptation SMEs increased by 60% per SME by Year 3 (post-investment) <sup>64</sup>		
<b><u>Income Source through service provision</u></b>	Agricultural services, climate-smart farming inputs, climate-resilient water solutions, etc.	Agricultural services, climate-smart farming inputs, climate-resilient water solutions, etc.		
<b><u>Income level (USD)</u></b>	Estimated average: USD 15,000/month per SME before the project	Estimated average: USD 21,000/month per SME by Year 3 (40% increase) <sup>65</sup>		
<b><u>Number of households (total number in the project area) (report for each project component)</u></b>	Approx. 1,800 households directly reached (based on 30 SMEs each serving ~60 households)	2,400 households (assuming enterprise growth and outreach expansion through project) <sup>66</sup>		

<sup>64</sup> Income source is primarily from SME revenues, which also indirectly affect income stability for households served through employment and services.

<sup>65</sup> Based on previous project benchmarks (UGEFA, KCV portfolio), the income growth for growth-stage SMEs post-investment support is conservatively projected at 60%.

<sup>66</sup> Each SME is expected to reach 60–100 households, either as customers, suppliers, or employees within their value chains.

### 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 WBS	Notes
<b>Project Component 1</b>								
<b>Outcome 1.1</b>								
<b>Output 1.1.1</b>								
2600	Support by Implementing Partner	33,500	0	0	0	33,500		
<b>Sub-Total Output 1.1.1</b>		<b>33,500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>33,500</b>		
<b>Output 1.1.2</b>								
2600	Support by Implementing Partner	61,550	0	0	0	61,550		
<b>Sub-Total Output 1.1.2</b>		<b>61,550</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61,550</b>		
<b>Sub-Total Outcome 1.1</b>		<b>95,050</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>95,050</b>		
<b>Outcome 1.2</b>								
<b>Output 1.2.1</b>							240101-1-01-01	
2600	Support by Implementing Partner	27,625	27,625	27,625	27,625	110,500		
<b>Sub-Total Output 2.1.1</b>		<b>27,625</b>	<b>27,625</b>	<b>27,625</b>	<b>27,625</b>	<b>110,500</b>		
<b>Output 1.2.2</b>								
2600	Support by Implementing Partner	30,125	30,125	30,125	30,125	120,500		
<b>Sub-Total Output 1.2.2</b>		<b>30,125</b>	<b>30,125</b>	<b>30,125</b>	<b>30,125</b>	<b>120,500</b>		
<b>Output 1.2.3</b>								
2600	Support by Implementing Partner	79,525	49,725	22,025	9,825	161,100		
<b>Sub-Total Output 1.2.3</b>		<b>79,525</b>	<b>49,725</b>	<b>22,025</b>	<b>9,825</b>	<b>161,100</b>		
<b>Sub-Total Outcome 1.2</b>		<b>137,275</b>	<b>107,475</b>	<b>79,775</b>	<b>67,575</b>	<b>392,100</b>		
<b>Sub-Total Project Component 1</b>		<b>232,325</b>	<b>107,475</b>	<b>79,775</b>	<b>67,575</b>	<b>487,150</b>		
<b>Project Component 2</b>								
<b>Outcome 2.1</b>								
<b>Output 2.1.1</b>								
2600	Support by Implementing Partner	39,000	25,000	25,000	25,000	114,000		
<b>Sub-Total Output 2.1.1</b>		<b>39,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>114,000</b>		
<b>Output 2.1.2</b>								
2600	Support by Implementing Partner	155,025	112,025	0	0	267,050		
<b>Sub-Total Output 2.1.2</b>		<b>155,025</b>	<b>112,025</b>	<b>0</b>	<b>0</b>	<b>267,050</b>		
<b>Sub-Total Outcome 2.1</b>		<b>194,025</b>	<b>137,025</b>	<b>25,000</b>	<b>25,000</b>	<b>381,050</b>		
<b>Outcome 2.2</b>							240101-1-01-02	
<b>Output 2.2.1</b>								
2600	Support by Implementing Partner	324,175	324,175	0	0	648,350		
<b>Sub-Total Output 2.2.1</b>		<b>324,175</b>	<b>324,175</b>	<b>0</b>	<b>0</b>	<b>648,350</b>		
<b>Output 2.2.2</b>								
2600	Support by Implementing Partner	0	753,667	753,667	532,417	2,039,750		
<b>Sub-Total Output 2.2.2</b>		<b>0</b>	<b>753,667</b>	<b>753,667</b>	<b>532,417</b>	<b>2,039,750</b>		
<b>Sub-Total Outcome 2.2</b>		<b>324,175</b>	<b>1,077,842</b>	<b>753,667</b>	<b>532,417</b>	<b>2,688,100</b>		
<b>Sub-Total Project Component 2</b>		<b>518,200</b>	<b>1,214,867</b>	<b>778,667</b>	<b>557,417</b>	<b>3,069,150</b>		

<b>Project Component 3</b>								
<b>Outcome 3.1</b>								
<b>Output 3.1.1</b>								
2600	Support by Implementing Partner	0	106,000	170,250	64,250	340,500		
<b>Sub-Total Output 3.1.1</b>		<b>0</b>	<b>106,000</b>	<b>170,250</b>	<b>64,250</b>	<b>340,500</b>		
<b>Sub-Total Outcome 3.1</b>		<b>0</b>	<b>106,000</b>	<b>170,250</b>	<b>64,250</b>	<b>340,500</b>		
<b>Outcome 3.2</b>								
<b>Output 3.2.1</b>								
2600	Support by Implementing Partner	38,500	38,500	0	0	77,000	240101-1-01-03	
<b>Sub-Total Output 3.2.1</b>		<b>38,500</b>	<b>38,500</b>	<b>0</b>	<b>0</b>	<b>77,000</b>		
<b>Output 3.2.2</b>								
2,600	Support by Implementing Partner	37,000	37,000	37,000	0	111,000		
<b>Sub-Total Output 3.2.2</b>		<b>37,000</b>	<b>37,000</b>	<b>37,000</b>	<b>0</b>	<b>111,000</b>		
<b>Output 3.2.3</b>								
2600	Support by Implementing Partner	0	0	33,150	33,150	66,300		
<b>Sub-Total Output 3.2.3</b>		<b>0</b>	<b>0</b>	<b>33,150</b>	<b>33,150</b>	<b>66,300</b>		
<b>Sub-Total Outcome 3.2</b>		<b>75,500</b>	<b>75,500</b>	<b>70,150</b>	<b>33,150</b>	<b>254,300</b>		
<b>Sub-Total Project Component 3</b>		<b>75,500</b>	<b>181,500</b>	<b>240,400</b>	<b>97,400</b>	<b>594,800</b>		
<b>Project Execution Cost</b>								
<b>PMC</b>								
2600	Support by Implementing Partner	71,089	71,089	71,089	71,089	284,355	240101-1-51-01	The detailed breakdown of PMC and Monitoring and Evaluation is provided under the tab "Executing Entity fee budget"
<b>Monitoring and Evaluation</b>								
2600	Support by Implementing Partner	5,000	5,000	5,000	95,000	110,000	240101-1-53-01	
<b>Sub-Total Project Execution Cost</b>		<b>76,089</b>	<b>76,089</b>	<b>76,089</b>	<b>166,089</b>	<b>394,355</b>		
<b>TOTAL PROJECT COST</b>		<b>902,114</b>	<b>1,579,930</b>	<b>1,174,930</b>	<b>888,480</b>	<b>4,545,455</b>		

Executing Entity Fee

Type of EE activity	Responsibility	Time Frame	Indicative Cost in USD (\$)
Monitoring, reporting and evaluation system set-up and operationalization, including tools for RBM and project financial reports	adelphi	Within 9 months of project start	20.000
Specialist for E&S and Gender: supporting project monitoring and reporting including USPs screening and analysis	adelphi and External Consultants	Annually	20.000
Project launch and inception workshop and report	adelphi in coordination with UNIDO	Within 3 months of project start	20.000
Terminal Evaluation	adelphi and External Consultants	End of project	60.000
Project coordination meetings	adelphi	Annually	19.806
Audit	adelphi	Annually	30.000
Travel related to project management for admin	adelphi	Annually	20.000
Admin Staff costs for project management (legal, controlling, procurement, financial reporting)	adelphi	Annually	204.549
<b>Total Execution Cost according to Budget</b>			<b>394.355</b>

Implementing Entity Fee

Cost item	Type of activities	Indicative Cost in USD (\$)
Staff	IE Project Manager, includes cost for project development, monitoring and supervision	304.545
Monitoring and Evaluation	Supervision of preparation of annual project reports and project evaluation reports	40.000
Travel	Project supervision missions and steering committee meetings	60.000
Audit	Ensure compliance with audit requirements	50.000
<b>Total Implementation Cost according to Budget</b>		<b>454.545</b>

Activity based budget

Project Components	Expected Outcomes	Activities	Totals for all Outputs all Years	Totals per Project Component		
1. Regional Coordination Hub	1.1 The project establishes a sustainable coordination, network and knowledge platform for and between adaptation entrepreneurs, adaptation stakeholders and (future) adaptation financiers	1.1.1.1 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 ecosystem actors	41,450			
	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	1.2.1.1 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. Performance-Based Grant Mechanism and Enterprise Support for Adaptation SMEs	2.1 Developing and implementing enterprise support mechanism		2.1.1.1 Scorecard co-creation	14,000
2.1.1.2 Application of an Environmental and Social Management System (ESMS)	100,000					
2.1.2.1 Outreach campaign	45,000					
2.1.2.2 Set-up of online application system and pre-application support	43,000					
2.1.2.3 Selection of funding-ready gender- and youth inclusive adaptation SMEs	179,050					
2.2 Supporting gender- and youth inclusive adaptation SMEs from funding readiness to investment and post-investment management	2.2.1.1 Catalyser enterprise support programme (2 cycles)		529,350	2,688,100		
	2.2.1.2 Developing Adaptation Performance Targets (APT)		119,000			
	2.2.2.1 Business model and financial management advancement through one-on-one advisory (2 cycles)		362,000			
	2.2.2.2 Performance-based payment mechanism implementation		80,500			
	2.2.2.3: Portfolio management		1,597,250			
	3.1 Local financing institutions support the dissemination of adaptation technologies, products and services		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				
3.2 Stimulating the adaptation finance landscape through co-designing blended finance instruments with FIs		3.2.1.1 Co-design of Blended Financial Instruments with Financial Institutions (FIs)	77,000	254,300		
		3.2.2.1 Building a portfolio of contractual partnerships with FIs and impact investors	111,000			
	3.2.3.1 Development of Exit and Scale-up Strategy	66,300				
<b>Totals ( not including 4-6)</b>			<b>4,151,100</b>	<b>4,151,100</b>		
			4. Project/Programme Execution Cost	394,355		
			5. Total Project/Programme Cost	4,545,455		
			6. Project/Programme Cycle Management Fee	454,545		
			<b>Total Amount of Financing Requested</b>	<b>5,000,000</b>		

**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	Mar-26	Mar-27	Mar-28	Mar-29	
Project Funds (USD)	924,614	1,602,431	1,197,430	820,980	4,545,455
Implementing Entity (USD)	113,636	113,637	113,636	113,636	454,545
Total (USD)	1,038,250	1,716,068	1,311,066	934,616	5,000,000

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

- A. Record of endorsement on behalf of the government<sup>67</sup>** 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:

<b>Eng. Festus K. Ng'eno</b> Principal Secretary State Department of Environment & Climate Change Ministry of Environment, Climate Change & Forestry	Date: 29 August 2024
<b>Mr. Ramathan Ggoobi</b> Permanent Secretary /Secretary to the Treasury Minister of Finance, Planning and Economic Development	Date: 12 November 2024

- 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

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.	
 <b>Ms. Ganna Onysko</b> Senior GEF, GCF, AF Coordinator Division of Funding Partner Relations Directorate of Global Partnerships and External Relations United Nations Industrial Development Organization - UNIDO Implementing Entity Coordinator	
Date: 11 September 2025	Tel. and email: +43 1 26026 3708 TO: f.haidara@unido.org CC: gef@unido.org / glo@unido.org / g.onysko@unido.org
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<sup>67</sup> 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.



REPUBLIC OF KENYA

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

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When replying, please quote:

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

**29<sup>th</sup> August, 2024**

**The Adaptation Fund Board**

c/o Adaptation Fund Board secretariat  
Email: [Secretariat@Adaptation-Fund.org](mailto:Secretariat@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**

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

12<sup>th</sup> November 2024

The Adaptation Fund Board,  
C/O Adaptation Fund Board Secretariat,  
Email: [Secretariat@Adaptation-Fund.org](mailto:Secretariat@Adaptation-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

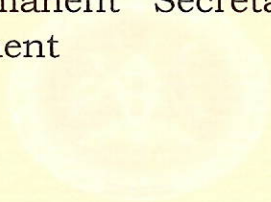
**PERMANENT SECRETARY/ SECRETARY TO THE TREASURY**

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

**Mission**

*“To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development”*

- The Permanent Secretary, Ministry of Water and Environment



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**Mission**

*"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"*

# 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

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### 1. Introduction

#### **Purpose of the ESMF and Key Objectives**

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

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(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., ESIA, 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 target 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)<sup>1</sup> and AF's ESP that was carried out.

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<sup>1</sup> 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.

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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)
<p><b>ESP 1: Compliance with the Law</b></p> <p>Projects/programmes supported by the AF shall follow all applicable domestic and international law.</p>	<p>One of the guiding principles under UNIDO's ESSPP is Compliance with national and international law.</p>
<p><b>ESP 2: Access and Equity</b></p> <p>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.</p> <p>Projects/programmes are also not to exacerbate existing inequities, particularly with respect to marginalized or vulnerable groups.</p>	<p>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.</p>
<p><b>ESP 3: Marginalised and Vulnerable Groups</b></p> <p>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.</p>	<p>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.</p>
<p><b>ESP 4: Human Rights</b></p> <p>Projects/programmes supported by the Adaptation Fund shall respect and where applicable promote international human rights.</p>	<p>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</p>
<p><b>ESP 5: Gender Equality and Women's Empowerment</b></p> <p>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.</p>	<p>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.</p>
<p><b>ESP 6: Core Labour Rights</b></p> <p>Projects/programmes supported by the Fund shall meet the core labour standards as identified by the International Labour Organization.</p>	<p>"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.</p>

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<p><b>ESP 7: Indigenous People</b></p> <p>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.</p>	<p>"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.</p>
<p><b>ESP 8: Involuntary Resettlement</b></p> <p>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.</p>	<p>"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.</p>
<p><b>ESP 9: Protection of Natural Habitats</b></p> <p>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.</p>	<p>"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.</p> <p>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.</p>
<p><b>ESP 10: Conservation of Biodiversity</b></p> <p>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.</p>	<p>"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.</p>
<p><b>ESP 11: Climate Change</b></p> <p>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.</p>	<p>"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.</p>
<p><b>ESP 12: Pollution Prevention and Resource Efficiency</b></p> <p>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.</p>	<p>UNIDO ESSPP OS 10 (Community Health, Safety and Security) recognizes that project activities, equipment, and</p>
<p><b>ESP 13: Public Health</b></p>	

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<p>Projects/programmes supported by the Fund shall be designed and implemented in a way that avoids potentially significant negative impacts on public health.</p>	<p>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.</p> <p>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.</p>
<p><b>ESP 14: Physical and Cultural Heritage</b></p> <p>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.</p>	<p>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.</p>
<p><b>ESP 15: Lands and Soil Conservation</b></p> <p>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.</p>	<p>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.</p>

## 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 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. 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

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

- 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-gearred 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.

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## 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)<sup>2</sup> 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
<ul style="list-style-type: none"> <li>• Weather &amp; Climate Information Systems (WCIS, e.g. weather forecasting systems)</li> <li>• Protected cultivation systems (e.g. greenhouses)</li> <li>• Integrated Soil Fertility Management (IFSM, e.g. organic fertiliser)</li> <li>• Fish stock reloading services</li> <li>• Agricultural extension services (including intercropping techniques, agroforestry, climate smart agricultural practices, sustainable agricultural practices)</li> <li>• Bio pesticides</li> <li>• Media educational programs for climate smart agriculture</li> <li>• Index-based micro insurance for smallholders</li> <li>• Pest/disease and drought-resistant crops</li> <li>• Farming Equipment Leasing</li> </ul>	<ul style="list-style-type: none"> <li>• Water storage and harvesting systems</li> <li>• Improved drainage systems and flood barriers have been installed.</li> <li>• Improved housing infrastructure (including ventilation/cooling systems, concrete walls, etc.).</li> <li>• Irrigating gardens, urban farms-decentralised water storage facilities</li> <li>• Flood protection technology</li> <li>• Water infiltration and attenuation systems</li> <li>• Sewer system clean-ups</li> <li>• Flood warning systems</li> <li>• Smart sanitation and water purification systems</li> <li>• Disease Surveillance Systems</li> <li>• Water resource regulation (e.g. riparian management)</li> <li>• Reforestation programs</li> </ul>

<sup>2</sup> [https://lightsmithqp.com/wp-content/uploads/2020/09/asap-adaptation-solutions-taxonomy\\_july-28-2020\\_final.pdf](https://lightsmithqp.com/wp-content/uploads/2020/09/asap-adaptation-solutions-taxonomy_july-28-2020_final.pdf)

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	<ul style="list-style-type: none"> <li>• Smart sanitation and water purification systems</li> </ul>
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**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**

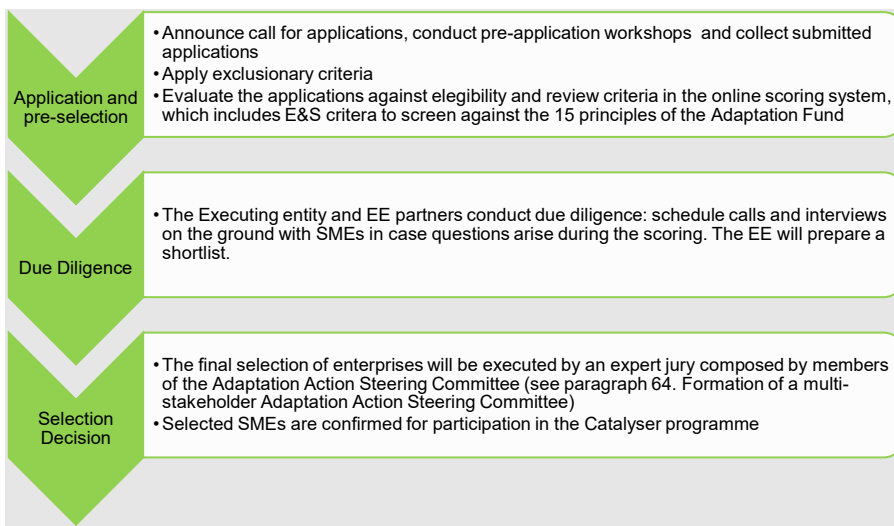


Figure 1. Selection process for Catalyser programme

**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.

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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;

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- 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.

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

<sup>3</sup> UNEP-WCMC and IUCN (2023), Protected Planet: The World Database on Protected Areas (WDPA) 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>

<sup>4</sup> Ibid. Uganda: <https://www.protectedplanet.net/country/UGA>

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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 unintentionally 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

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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**

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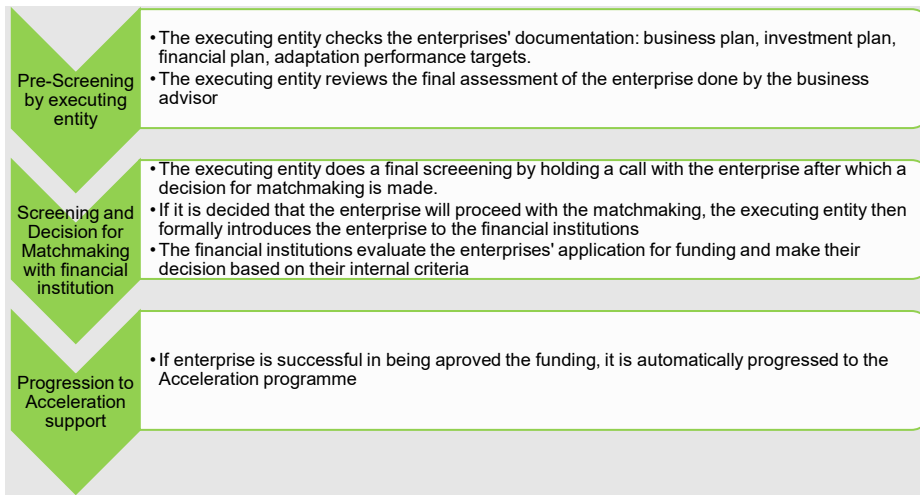


Figure 2. Screening process for the Accelerator programme

**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

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- 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.

#### **Procedure for the management of environmental and social impacts - support phase (both programmes)**

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 plan, 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 they 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.

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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 is 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

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## 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 •	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.  Notably, the project is also designed to focus on improving access to finance and capacity building for marginalised climate adaptation business owners.  During the project preparation phase, in-depth consultations with stakeholders were held to identify potential risks.  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
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 unemployment that would not be absorbed by other sectors or activities?	No			

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2.3. Could the target beneficiaries or stakeholders be dissatisfied due to limited consultation during project activities design or implementation (including due to inadequate Complaints and Feedback Mechanisms)?		Low	example due diligence checks during the selection process and monitoring at set intervals during the support phase. 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	<p>The proposed project has an extended focus to support gender- and youth inclusive adaptation SMEs led by women and/or youth in the community.</p> <p>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.</p> <p>Nevertheless, the project supports gender- and youth inclusive adaptation SMEs who operate within existing default social biases, and may pose a <b>minor risk</b> of excluding marginalised groups in the implementation of the project activities – whether as direct beneficiaries or indirect beneficiaries of the project activities.</p> <p>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.</p>
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		

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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	<p>The proposed project targets communities where the gender gap is significant, and may pose a <b>minor risk</b> that women may not benefit equally from the project activities.</p> <p>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).</p> <p>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.</p> <p>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.</p>
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,	

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6.1.1. Does the project activities involve support for employment or livelihoods that may fail to comply with national and international labour standards (i.e., principles and standards of ILO fundamental conventions)?	No		assessment at the selection or due diligence level as well as during support phase	It is likely that a 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.  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. 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. <sup>5</sup> 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.  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 <b>minor risk (though very low risk but worth monitoring)</b> that selected SMEs operate within existing default social biases that exclude indigenous peoples to partake in the
7.1.1. Could the project activities negatively affect indigenous peoples, culturally or otherwise, without their specific Free, Prior, Informed, Consent (FPIC)?	Yes			

<sup>5</sup> 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, Yaku, 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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					promoted business activities, thus denying them the improvement of livelihoods or business services.
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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 habitats?		Low	No	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 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
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			

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9.2. Could the project activities lead to negative impacts in protected or internationally recognised areas?		Low		<p>minor harm, the risks in this section are all assessed as "no"</p> <p>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.</p>
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	<p>Yes - assessment at the selection or due diligence level as well as during support phase</p>	<p>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.</p> <p>Assessments conducted at the selection and due diligence level, will screen SMEs for compliance with the respective national environment regulations.</p>
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

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11.1.1. Could the activities result in increased exposure to climate induced hazards?	No		<p>such as the employment of machinery that inevitably produces GHG emissions</p> <p>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".</p> <p>Moreover, mitigation co-benefits provided by the applying adaptation SMEs will be considered as an asset.</p> <p>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.</p>
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	<p>Yes- assessment of business model and practices at the selection or due diligence level as well as during support phase</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p>
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		

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	12.2.1. Could the project activities lead to procurement, transport, or use of chemicals or other hazardous materials, including asbestos and ozone depleting gases which will not be handled and disposed of safely by following normal Standard Operating Procedures?	No		
	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		

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	12.5.2. Could the project activities lead to generation of hazardous waste which will not be handled and disposed of safely by following normal Standard Operating Procedures?	No			
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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-borne, water-based, water-related, vector-borne 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			

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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 important area?	No		
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  (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	EE PMU, EE	Number of consultations per year	Annually review the documentation of the	No Additional

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		communities and stakeholders are conducted throughout project implementation to ensure that any barriers to access and equity can be overcome in line with the AF's ESP. 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.	partners Adaptation SMEs	Stakeholder map of additional groups that may face barriers to access and equity	consultations implemented	budget (included 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.  (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, EE partners 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, EE partners 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, EE partners Adaptation SMEs	Level of Data disaggregation	Review of database established from the application process, with the relevant data from all applicant	No additional budget

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					SMEs. After the implementation of each workshop, by reviewing the updated database of participant SMEs and their representatives.	(included under output 2.4 fees)
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.  (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).  For example, designing outreach and communication in a gender sensitive manner to ensure fair representation of women-led enterprises. This can be done through: <ul style="list-style-type: none"> <li>• Working with women-empowerment support groups to ensure the language used in project outputs are gender-sensitive;</li> <li>• 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;</li> <li>• In the selection process, to award SMEs that have fair representation of female staff.</li> <li>• 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.</li> </ul>	EE PMU, EE partners 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	To mitigate and avoid gross violations of labour rights, the project will employ a thorough due diligence process of	EE PMU, EE partners Adaptation SMEs	Enterprise tools to support SMEs to develop a plan for adhering to core labour	Before the implementation of each Catalyser and Accelerator cycle, the	No Additional budget

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	<p>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.</p> <p>(Low risk)</p>	<p>the value chains when selecting the early-stage climate-adaptation SMEs.</p> <p>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.</p> <p>Additionally, an annual impact assessment will be conducted with the MSMEs supported under the project to ensure standards are continuously upheld.</p>		<p>standards of the ILO developed and applied in practice.</p> <p>Social &amp; environmental impact assessment framework developed and conducted at different project intervals</p>	<p>toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools.</p> <p>The tools shall be adjusted if needed after learning from each cycle</p>	<p>(included under output 2.4 fees)</p>
7. Indigenous Peoples	<p>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.</p> <p>(Low risk)</p>	<p>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.</p>	<p>EE PMU, EE partners Adaptation SMEs</p>	<p>Number of indigenous peoples consulted and supported (if applicable)</p>	<p>After the due diligence process, the documentation will be reviewed to register the SMEs that work with indigenous communities. Furthermore, after each consultative meeting, the documentation of participants will be reviewed to assess and monitor the participation of indigenous peoples</p>	<p>No Additional budget (included under output 2.4 fees)</p>
9. Protection of natural resources	<p>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.</p> <p>(Low risk)</p>	<p>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.</p>	<p>EE PMU, EE partners Adaptation SMEs</p>	<p>Regular M&amp;E reports</p>	<p>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</p>	<p>No Additional budget (included under output 2.4 fees)</p>

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					National 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.  (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. 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	EE PMU, EE	Enterprise tools to support SMEs to identify biodiversity	Before the implementation of each Catalyser and	No additional budget

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		workshops to support enterprises to avoid creating biodiversity hazards.	partners Adaptation SMEs	hazards and develop environmentally friendly business best practices.	Accelerator cycle, the toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools. The tools shall be adjusted if needed after learning from each cycle	(included 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.  (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, EE partners Adaptation SMEs	Assessment Frameworks with climate-mitigation co-benefits developed  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.  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, EE Partners, 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. 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	Awareness creation and advocacy for resources efficient production methods among the selected adaptation SMEs	EE PMU, EE	No of awareness creation forums		No Additional budget

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<p>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.</p> <p>(Low risk)</p>		<p>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.</p>	<p>partners Adaptation SMEs</p> <p>EE PMU, EE partners Adaptation SMEs</p>	<p>No of SMEs granted Performance-based Payments No of SMEs accessing loans from the blended finance mechanism</p>	<p>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</p>	<p>(included under output 1.2 fees)</p> <p>No additional budget (included under output 2.3 fees)</p>
		<p>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.</p>	<p>EE PMU, EE partners</p>	<p>No of SMEs assessed in the due diligence process</p>	<p>Due diligence framework to be defined</p>	<p>No additional budget (included under output 2.4 fees)</p>
		<p>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.</p>	<p>EE PMU, EE partners</p>	<p>Enterprise support Tools to support businesses in monitoring and managing their carbon emissions developed</p>	<p>Before the implementation of each Catalyser and Accelerator cycle, the toolkits designed and adjusted will be reviewed, to assess the pertinence of the tools. The tools shall be adjusted if needed after learning from each cycle</p>	<p>No additional budget (included under output 2.4 fees)</p>

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**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.

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

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.

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## 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 126<sup>th</sup> out of 162 in the Gender Inequality Index (GII)<sup>1</sup> of 2020 and 95<sup>th</sup> out of 156 in the Global Gender Gap Index 2022<sup>2</sup>, which means there is also considerable effort needed to empower women. The World Bank estimates that 50.3% of the population of

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

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

Kenya are women<sup>3</sup>. 23.3% of the seats in the Kenyan parliament are held by women<sup>4</sup>. According to the Malaria Indicator Survey of 2020, 31% of Kenyan households have a female head<sup>5</sup>. These indicators point to a large overall disparity between the genders in this country.

Uganda ranks 131<sup>st</sup> out of 162 in the Gender Inequality Index (GII) of 2020<sup>1</sup> and 66<sup>th</sup> out of 156 in the Global Gender Gap Index 2022<sup>2</sup>, 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<sup>3</sup>. As of 2020, 34.9% of the seats in the Ugandan parliament are held by women<sup>4</sup>. According to the Malaria Indicator Survey of 2019, 28.3% of Ugandan households have a female head<sup>5</sup>. 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 1970<sup>6</sup>. 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 Index<sup>1</sup>. 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%<sup>7</sup>. The general life expectancy at birth in Kenya is 67, for men its 65 and women its 69<sup>8</sup>. 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<sup>9</sup>.

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<sup>6</sup>. The Gender Inequality Index 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<sup>1</sup>. The percentage of married women using a form of modern contraceptive from the ages 15-49 in 2018, is 36.5%<sup>7</sup>. Life expectancy at birth is a total of 64 years, with men's rate lying at 61 and the women's rate at 66<sup>8</sup>. 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<sup>9</sup>. 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<sup>10</sup>, 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<sup>11</sup>. 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)<sup>12</sup>. 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<sup>13</sup>.

### *Women in Economic Activities*

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

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

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

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

<sup>7</sup> United Nations Population Division <https://data.worldbank.org/indicator/SP.DYN.CONM.ZS>

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

<sup>9</sup> World Health Organization Global Health Expenditure database 2022 <https://apps.who.int/nha/database>

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

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

<sup>12</sup> Education Statistics. World Bank <https://datatopics.worldbank.org/education/country/kenya>

<sup>13</sup> Education Statistics. World Bank <https://datatopics.worldbank.org/education/country/uganda>

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<sup>14</sup>. 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<sup>14</sup>. 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<sup>14</sup>. 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 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<sup>15</sup>. 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<sup>16</sup>. 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<sup>17</sup>. 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<sup>17</sup>

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.<sup>18</sup> 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.<sup>19</sup> 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 women 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).<sup>20</sup> 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<sup>21</sup>. 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

<sup>14</sup> World Development Indicators. World Bank <https://datacatalog.worldbank.org/search/dataset/0037712>

<sup>15</sup> Global Findex Report. World Bank. <https://www.worldbank.org/en/publication/globalindex>

<sup>16</sup> OXFAM (2022) A gendered analysis of institutional and government Small and Medium enterprises-related policies in Kenya: [https://oj-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/kenya\\_oxfam.org/s3fs-public/file\\_attachments/Report%20on%20a%20gendered%20analysis%20of%20Government%20and%20Institutional%20SME-Related%20Policies%20in%20Kenya.pdf](https://oj-files-cng-v2-prod.s3.eu-west-2.amazonaws.com/kenya_oxfam.org/s3fs-public/file_attachments/Report%20on%20a%20gendered%20analysis%20of%20Government%20and%20Institutional%20SME-Related%20Policies%20in%20Kenya.pdf)

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

<sup>18</sup> Balasubramanian et al., 2018; Assiimwe, 2011; Doss et al., 2015; Karanja, 1991 (from first submission)

<sup>19</sup> Carranza and Niles (2019) (from first submission)

<sup>20</sup> World Development Indicators. World Bank <https://datacatalog.worldbank.org/search/dataset/0037712>

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

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<sup>22</sup>.

### *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.<sup>23</sup> 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.<sup>24</sup> 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.

<sup>22</sup> Matheka, J. (2018) Gender Mainstreaming and Climate Change <https://ici-kenya.org/news/gender-mainstreaming-and-climate-change/>

<sup>23</sup> 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.

<sup>24</sup> Carranza and Niles (2019)

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

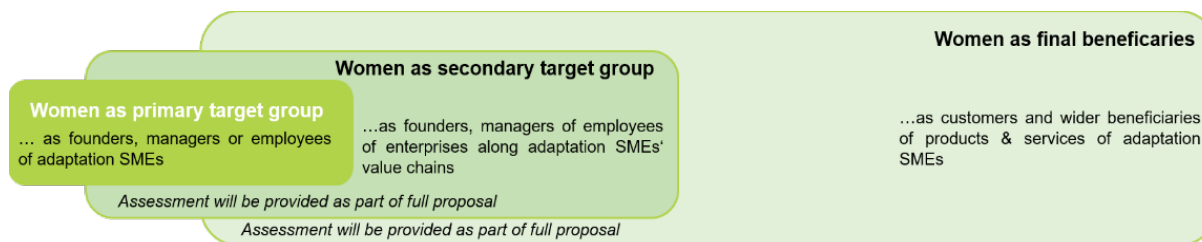
According to the SME Survey conducted by the Central Bank of Kenya in 2016, the distribution of SMEs by gender of business owners in Kenya was as follows: 47.9% of the licensed establishments were owned by men; 31.4% were owned by women, and 20.7% were jointly owned. Further, 60.7% of unlicensed establishments were solely owned by women<sup>25</sup>. 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<sup>26</sup>. 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<sup>17</sup>.

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 1. Project gender inclusion approach**

Gender-responsive financing

<sup>25</sup> Central Bank of Kenya. (2016). SME Survey [2016 Micro, Small and Medium Enterprises \(MSME\) Survey Basic Report - Kenya National Bureau of Statistics \(knbs.or.ke\)](https://www.knbs.or.ke)

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

The 2013 report by Value for Women identifies areas in which financial institutions are lacking gender-inclusive approaches<sup>27</sup>. 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.

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.

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

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-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 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

<b>Impact Statement:</b> <i>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.</i>					
<b>Outcome Statement:</b> 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.					
<b>Output(s) Statement(s):</b> 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 <sup>28</sup>  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  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  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

<sup>28</sup> Targeting at least 15% more than the baseline of women-led enterprises in Kenya (31.4%) and Uganda (38.2%)

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
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 National Project Partners and Track Record

### Profile and comparative advantage of the EE and National Project 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 decent 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 extensive experience with agribusiness 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 institutions, commercial banks and impact investors across Kenya being highly experience with blended financing instrument

### Selected Track Record of EE and National Project 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 refine 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 (BDS) 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.