AFB/PPRC.33/42

Adaptation Fund Board
Project and Programme Review Committee
Thirty-third Meeting
Bonn, Germany, 16-17 April 2024

Agenda Item 22

OPTIONS ON THE FURTHER USE OF ADAPTATION FUND RESOURCES TO FUND INNOVATION

Introduction

1. At the thirty-first meeting of Project and Programme Review Committee (PPRC) of the Adaptation Fund Board (the Board), the secretariat presented the document AFB/PPRC.31/64 *"Innovation Project Design Elements and Further Clarification on the Concept of Risk*" that presented the draft innovation risk management framework and innovation project design elements. The document was built on the previous work presented to the Board, specifically *document* AFB/B.39/10 *"Further analysis of elements related to innovation: mapping finance for innovation, risk appetite, and options for the Innovation Body."*

2. Having considered the recommendation of the PPRC, the Board decided:

(a) To adopt the draft risk framework for innovation projects and programmes presented in table 1 and the risk-tolerance targets for the Adaptation Fund's innovation projects portfolio set out in table 2 of document AFB/PPRC.31/64;

(b) To endorse the project design elements that are encouraged in innovation;

(c) To request the secretariat:

(i) To develop tools and guidance for national implementing entities of the Adaptation Fund with a view to supporting project design and faster access to small grant innovation funding on the basis of the project design elements referenced in subparagraph (b), above;

(ii) To consider further how Adaptation Fund resources could be used to fund innovation and to report back to the Project and Programme Review Committee on the matter at its thirty-third meeting.

(Decision B.40/61)

This report responds to the request under para (c)(ii) above. In addition, the document includes an update on the existing resources and those under development that are designed to assist the Fund's National Implementing Entities (NIEs) in applying innovation design elements as presented in Annex 1.

Context

3. The Innovation Facility under the Fund's innovation pillar was approved at the Board´s thirty-first meeting (Decision B.31/32). The Facility offers small and large grants through three different windows. It builds on the Fund's core strengths and comparative advantage as a highly functioning and innovative fund established to finance concrete adaptation projects in developing countries that are particularly vulnerable to climate change.

4. The Adaptation Funds' Mid-Term Strategy (2018-2022) Implementation Plan (IP) introduced windows that may also be served by leveraging non-public resources. The innovation window is therefore especially useful for attracting private sector and other investments in adaptation. The IP of the MTS II adopted at thirty-ninth meeting of the Board mentions the

delivery method under its expected result two (ER2), to “Enhance support for scaling up innovation projects through exploring establishment or use of additional innovative financial instruments to enable blended financed arrangements”.

5. Under the innovation window, the Fund seeks to “accelerate, encourage and enable innovation for effective, long-term adaptation to climate change”. Under the Medium-term Strategy II (2023-2027), the innovation pillar outlines four expected results at the strategy level, as follows:

1. ***New innovations and risk-taking encouraged and accelerated:*** *Development of innovative adaptation practices, tools and technologies encouraged and accelerated, including solutions with high impact potential even if it comes with a higher risk of failure;*

2. ***Successful innovations replicated and scaled up****: Innovative adaptation practices, tools technologies that have demonstrated success in one country spread to new countries/regions or are scaled up from smaller to larger scales.*

3. ***Access and capacities enhanced for designing and implementing innovation:*** *Access and capacities enhanced, knowledge generated, and awareness raised, for implementing entities and non-accredited actors to design and implement innovative adaptation solutions.*

4. ***Evidence base generated and shared (linkage with learning and sharing pillar):*** *Evidence on the conditions that lead to successful innovation generated and shared, and partnerships, iteration, learning and adaptive management encouraged. Evidence of effective, efficient adaptation practices, products and technologies generated as a basis for implementing entities and other funds to assess scaling up.*

6. As can be seen, expected results one and two, specifically mention risk-taking, development of innovative adaptation practices, tools and technologies, solutions with high impact potential, replication and scaling up. These elements are of direct relevance when considering options for further use of Fund’s funding for innovation.

7. This document examines some options for establishment or use of additional innovative financial instruments aimed to support innovation in climate adaptation projects. These options are not exhaustive and do not imply exclusion of other potential options, but rather reflect an array of opportunities already potentially feasible for operationalization through Adaptation Fund’s support in the near-to-medium term.

8. There are numerous technological solutions being supported by the funders of innovation for adaptation, including the Fund. However, availability of funding remains a critical barrier to their widespread adoption of technologies. While there is progress on exploring innovative solutions, it is essential to examine potential innovative financing options that could tap into a broader variety of funding sources, towards scaling and leveraging for greater impact.

Financing gap

9. The Adaptation Gap Report 2023 finds that the adaptation finance needs of developing countries are 10-18 times as big as international public finance flows. The report further

emphasizes that "as a result of the growing adaptation finance needs and faltering flows, the current adaptation finance gap is now estimated to be US$194-366 billion per year".[1]

10. One of the key messages reported by United Nations Environment Programme (UNEP), through its 2023 Adaptation Gap report, is that "finding innovative ways to deliver finance to back increased adaptation is essential – with a focus on anticipatory adaptation and effectiveness."

11. The goal is to leverage the existing finances to produce greater outcomes than what the Adaptation Fund's investment alone could achieve to enable efficiency and effectiveness of adaptation finance.

12. The report delineates seven methods to augment financing. These include domestic expenditure, international and private sector finance, remittances, and tailoring finance for Small and Medium Enterprises (SMEs). It also suggests the implementation of Article 2.1(c) of the Paris Agreement, focusing on shifting finance flows towards low-carbon, climate-resilient pathways.[2] The report further explores the question on how to enhance adaptation projects for impact by combining, leveraging and, importantly, harmonizing efforts. The Adaptation Gap Report 2023's case study on 'Adaptation finance: Mobilizing the private sector' presents a compelling example. It shows how public funds, when strategically used to address market imperfections, can catalyze significant private sector investments. The case of the Canadian International Development Research Centre collaborating with Private Financing Advisory Network (PFAN) and the Frankfurt School of Finance & Management that reviewed 477 business proposals seeking equity investment for climate adaptation projects, is particularly instructive.[3]

> *The African Bamboo project, sought equity finance for its innovative business model of converting bamboo into wooden decking, including anticipatory adaptation components like identifying highland and lowland growing areas where bamboo would prosper. The business model was analyzed, and potential grant funders were identified to support its initial development before seeking private-sector finance for scaling up. This helped the project overcome challenges arising from imperfect capital markets and asymmetric information, which impacted the return profile of the investment*

Examples of current use of Fund's resources for innovative adaptation financing

13. This section provides examples on how to use Fund's resources for de-risking investments under the innovation pillar. They are drawn from the Fund's own portfolio. The Fund has received

[1] United Nations Environment Programme's (UNEP) Adaptation Gap Report 2023, Press release https://www.unep.org/news-and-stories/press-release/climate-impacts-accelerate-finance-gap-adaptation-efforts-least-50

[2] United Nations Environment Programme's (UNEP) Adaptation Gap Report 2023 : Underfinanced. Underprepared – Inadequate investment and planning on climate adaptation leaves world exposed. Key messages. https://www.unep.org/resources/adaptation-gap-report-2023

[3] United Nations Environment Programme's (UNEP) Adaptation Gap Report 2023, collection of 11 case studies which spotlight the challenges facing humanity and the adaptation solutions that can help address the problem. https://www.unep.org/news-and-stories/audio/listen-global-mosaic-climate-adaptation-solutions

proposals for funding under the innovation window with the potential for scale-up and replication with co-financing including:

1. **"Unlocking investments in gender and youth-inclusive early-growth stage adaptation Small and Medium-sized Enterprises in Kenya and Uganda" implemented by the United Nations Industrial Development Organization (UNIDO).** This proposal seeks to fulfill the potential of adaptation Small and Medium Enterprises to provide cost-effective and localized adaptation solutions to vulnerable communities in Kenya and Uganda, submitted by UNIDO.

2. **"Innovative Financial Incentives for Adaptation in wetland livelihoods (IFIA), implemented by the International Fund for Agricultural Development (IFAD),** seeks to pilot, systematize learning and institutionalize financing instruments for scaling up adaptation in coastal livelihood activities (e.g., eco-aquaculture, eco-tourism, and non-timber forest products – NTFP – from mangroves), including through incentivizing private sector engagement with small-scale coastal producers in joint innovation processes in adaptation technologies. This proposal was submitted by IFAD for Vietnam.

3. **"Innovative adaptation financing to build the resilience and adaptive capacity of smallholder farmers in Bhutan", implemented by the World Food Programme (WFP),** seeks to enhance the resilience of smallholder farmers and enhance their food security by rolling out innovative index-based microinsurance. The project will promote entrepreneurship and private sector participation in climate change responses, especially with respect to women, youth, and micro, small and medium enterprises (MSMEs) and significantly develop the capacities of the insurance providers in Bhutan, most of which are private sector enterprises.

4. **"Adaptation SMEs Innovation Facility (ASIF)" implemented by UNIDO**, aims to provide milestone-based grant financing and technical support to adaptation SMEs. It aims to support SMEs in deploying their solutions to vulnerable communities. The grants are performance-based and tied to the achievement of specific milestones. Specialized technical assistance is also provided to help SMEs further their product research, establish partnerships, and develop marketing and data strategies. By bridging the financing gap for early-stage adaptation SMEs, the "propel" stage encourages risk-taking and stimulates the scaling up and replication of high-impact innovations.

Further options to fund innovation: Innovative financing options

14. The Fund's grants could be instrumental in implementing various financial instruments, either as co-financing or parallel financing. It has the potential to enhance flexibility and adaptability in financial approaches.

15. Adaptation Fund projects could come alongside an investment opportunity for the private sector (including MSMEs) which may encounter high collateral demands, deposit requirements, and high interest rates (in formal and informal financial market) to access debt finance. The AF grant funding could be used to incentivize adaptation action through the private sector by de-risking its investments and mobilizing additional capital through innovative financial instruments (e.g., guarantees).

16. Attracting finance from diverse actors can bring together various perspectives and accelerate the pace of innovation. For instance, grants tailored for specific cases can attract additional funding.

17. Among the options for the IEs or Executing Entities (EEs) is to use a portion of the Fund's grants to support adaptation-entrepreneurial ecosystem through providing financial support to selected entrepreneurs on the condition that entrepreneurs secure investment form private sector, including financial institutions, Venture Capitals, impact investors, etc.

18. During the implementation of projects, project stakeholders and entrepreneurs could explore various financing options such crowdfunding, carbon offsets/ credits, guarantees, performance guarantees, collateral support. These approaches and instruments depicted and discussed in this section may offer interesting possibilities. They could significantly contribute to the Adaptation Fund's goal of scaling up its impact in climate adaptation by exploring new frontiers in financing adaptation.

Option 1. Crowdfunding

19. Crowdfunding is a form of fundraising where a project collects many small contributions or investments from a large group of individuals. By incorporating crowdfunding implementation plan at the design stage, projects would secure additional financial support. Unlike traditional finance, crowdfunding allows the business or project owners to maintain control over decisions. It also serves as a good opportunity to validate ideas, prototypes, services to fit the market or gain public support and momentum.

20. However, crowdfunding presents several challenges. It requires tangible outcomes and the well-designed of appealing gifts or equity in exchange for contributions. Specifically, for the Implementing Entities (IEs) of the Adaptation Fund, this would entail dedicated marketing and communication efforts to craft compelling narratives and maintain relationships with contributors. Transparency is also essential for the appetite to contribute. It is also notable that there are some countries that regulate the process and the amount in raising collective investments for crowdfunding finance.

21. For private companies, startups and communities, crowdfunding offers a unique platform for raising funds and community engagement. As a practical application, the Fund might consider allowing IEs to incorporate crowdfunding-related costs at the proposal stage, covering aspects like rewards, platform fees, and communication expertise as illustrated in Figure 1 in Annex 2.

Option 2. Carbon offsets or credits (parallel finance)

22. For some startups, particularly in green investments, carbon offsetting offers a dual opportunity – a secondary revenue stream and a contribution to sustainability. Grant support in this area could cover the initial costs of developing offset projects, making it a viable option for startups to explore.

Option 3. Guarantees

23. The Fund might consider how its grants could be used by IEs for co-financing purposes, such as participating in Trust Funds or issuing Credit Guarantees. These guarantees could reduce

the perceived risk among financial institutions and facilitate on-lending to projects focused on climate adaptation.

24. Various types of guarantees could be explored. For instance, utilizing AF grants for parallel and co-financing options could open up new avenues for funding adaptation projects. There are also other possibilities for how IEs may benefit from various types of guarantees as depicted and discussed below by utilizing the AF grant for parallel and co-financing options as illustrated in Figure 2 and 3 in Annex 2.

Option 4. Performance Guarantees

25. Designing performance guarantees to protect beneficiaries from potential failures in innovation projects can be crucial, particularly in projects involving community contributions. These guarantees, while helpful, must be carefully structured to avoid moral hazards and limited utility due to late activation in the project lifecycle.

Option 5. Collateral Support

26. Collateral support could be particularly beneficial in supporting SMEs and sub-sovereign entities within debt financing realms. Sub-IEs could provide collateral support, assuming a part of the loan's collateral requirements. This approach often manifests as a loan portfolio guarantee, enabling local financial institutions to lend to eligible borrowers, typically SMEs as illustrated in Figure 4 in Annex 2.

27. Such guarantees can significantly reduce the collateral requirement, especially in Low-Income Countries (LICs), thereby making loans more accessible and projects more feasible.

Conclusion

28. This document outlines a variety of innovative financial instruments and approaches that could effectively utilize the Adaptation Fund’s resources. These options could not only represent financial mechanisms but also reflect a broader approach to encourage innovation, attract diverse investments, and amplify the impact of the Fund in the realm of climate adaptation.

Recommendation

29. The PPRC may wish, having considered document AFB/PPRC.33/xx, to recommend to the Board to decide to:

(a) Request the secretariat to:

(i) Further develop [the options] [Option X] [Option Y] presented in paragraphs [21-29], including an analysis of policy considerations and potential implications on the OPG, and present recommendations for consideration by the PPRC at its thirty-fourth meeting.

Annex 1:
Progress on tools and guidance for national implementing entities of the Fund for innovation

Existing tools for national implementing entities

1. The secretariat has developed an ‘Adaptation Fund Innovation Small Grants Training’ that serves as a comprehensive guide on innovation within the Adaptation Fund's framework, providing insights into developing proposals for innovation small grants. It is a self-paced course that is freely available to all implementing entities and relevant stakeholders interested in learning more about innovation under the Adaptation Fund, and how to develop an innovation small grant proposal with the Fund.

2. The E-training is organized into two modules, each with a guided learning narration, case studies, and learning reviews. Designed as a self-paced course, it stands as a testament to the Fund's commitment to inclusive and accessible learning, available with narration in English, French, and Spanish.

Development of instructional training material for the Fund’s Innovation project funding windows

3. The secretariat is in process of developing training materials for delivering capacity-building to accredited NIEs and RIEs to increase the quality of proposals submitted under the innovation funding windows, including the single country regular project funding window and the enhanced direct access (EDA) windows. Improvements in the quality of proposals is expected to lead to a higher number of project approvals by the Board for NIEs. The instructional training material is expected to be completed in May 2024 with the official launch of the training at a regional workshop.

4. The training material will incorporate the recommendations for innovation project design as per AFB/PPRC.31/64 and will include guidance on tracking innovation indicators. In tandem, there's an ongoing revision of the strategic results framework, focusing on the strategic outcome for innovation (outcome 8), which will be reflected in the training content.

5. Related to the latter point, the secretariat is proposing a revised strategic results framework, the recommendation for which is to be discussed at the thirty-third meeting of the Ethics and Finance Committee (EFC). The suggested revisions also include revisions to the strategic outcome for innovation (outcome 8). The training material will consequently reflect the revisions to the strategic outcome for innovation as mandated by the Board at its forty-second meeting.

List of elements with applicability for innovation small grant proposals

6. Document PPRC.31/64 lists elements that may serve as provisional components or menu of optional elements, with a view to be used as a basis for eventual guidance to the implementing entities to use when designing innovation projects.

7. The list in table 1, draws from the elements listed in PPRC.31/64, provides a pragmatic yet flexible guidance for project design. The non-exhaustive menu of options presented in Table

1 are not prescriptive, and NIE may choose to drawn up on one or more of the elements and types of activities presented in table 1 when designing small grant project proposals.

8. The secretariat will develop document that would provide a glossary and description of activities that would be posted on the Fund's website that IEs can access to consider embedding in their innovation proposals.

Table 1. List of optional elements and examples of activities

Elements	Examples of Activities
Co-creation process from idea stage	- (Business) plan competition, hackathon - Innovation events with private companies, financial institutions, incubators/accelerators, academia, etc - Activities to promote co-creating idea with various stakeholders
Encouraging risk-taking practices in the project process	- Include the number of test cycles developed and/or the number of trial-and-error stories as a key indicator during the implementation - Use cutting-edge technology such as Artificial Intelligence. - Activities to encourage risk-taking practices
KPIs setting process for selected SMEs/Entrepreneurs	- Include the process of deciding Key Performance Indicators (KPIs) considering impact during discussion with SMEs/entrepreneurs - Activities to monitor the KPIs for selected SMEs/entrepreneurs
Capital options in addition to Adaptation Fund financing	- Providing technical support and/or financial support options to selected SMEs/entrepreneurs
Use of Adaptation Fund financing for innovative risk instruments	- Program design to mitigate investment risks such as mentioned in Annex 2 - Activities to support adaptation SMEs/entrepreneurs ecosystem through, for example, providing financial support to them on the condition that they secure investment form private sector - Other program design or activities to mitigate investment risk
Open innovation session during the SMEs/entrepreneurs' implementation	- Activities to provide useful information and resources to empower innovators - Activities to listen the stories of innovators' journey - Activities to provide opportunities for innovators to expand their network and scale up their ideas and businesses - Other activities to empower innovators by leveraging external information and resources
Generate and integrate evidence and knowledge sharing	- Knowledge hubs creation - Knowledge exchange fairs - Investor forums - Communities of practice on specific topics and/ sectors

Annex 2: Options Illustration

Option 1: Crowdfunding

Crowdfunding has potential to enable global public awareness and thereby with the potential of mobilizing funds globally. By incorporating a crowdfunding implementation plan at the design stage, projects would secure additional financial support from the public. The Fund might consider allowing IEs to incorporate crowdfunding-related costs, covering aspects like reward or incentives to supporters who contribute to the project, platform fees, communication related fees etc.

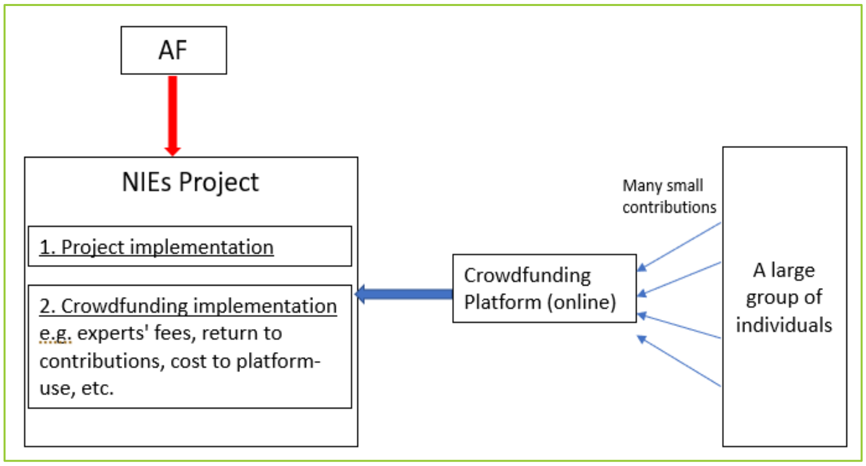

Figure 1: Crowdfunding

Option 3: Guarantees

Below are some example scenarios of how the Fund could apply its grants in credit guarantee schemes to mobilize private sector capital by unlocking lending that could be invested for adaptation purposes and contribute to innovate the climate adaptation space. The potential to mobilize other capital with credit guarantees could range from ratio 1 to 2-4 depending on context, setup and risk sharing structure.

These instruments could potentially also allow IEs to take an active role. Cases in point could be further explored and assessed in dialogue with actors active in the climate finance space such as Multilateral Investment Guarantee Agency (MIGA), Global Environment Facility (GEF), Climate Investment Funds (CIF), Green Climate Fund (GCF) IE banks and other multilateral and bilateral development actors. Generally, Credit guarantee Schemes cover both commercial and political/country risk. The purpose of these structures are aimed at promoting lending towards beneficiaries that lack credit history and/or cannot meet high collateral requirements.

In some cases, a guarantee can also facilitate longer duration in regard to the underlying loan and lower capital costs. The most common guaranteed structure is Pari Passu (equal footing risk sharing) where the Guarantor and Guarantee Party share the risk (e.g., 50/50). However, in Least Development Countries where the commercial risk normally is high, a first loss risk sharing solution may be more feasible (or a more generous Pari Passu risk coverage e.g., 70/30) to better off set the perceived higher risk. The Fund would through its capital injection into similar guaranteed structures contribute to demonstrate for the financial sector and investors, the untapped potential that underserved borrowers and sectors make out. To assess if AF funds in any specific structure would bring ‘additionality”, one key factor could be that AF’s specific contribution would mobilize capital and catalyze investments that otherwise would not have materialized.

Figure 2 illustrates how AF grants could be utilized within a Multi-donor Trust Fund (TF), a co-financing structure where contributors jointly and/or in parallel are committing funds with the aim of mobilizing private capital among private financial institutions (FIs) and private enterprises and facilitate lending to eligible borrowers/guarantee beneficiaries. The purpose could be to promote private sector innovation in the context of climate adaptation and resilience. The implementing actor could for instance be a DFI that seek risk reduction to unlock its loan portfolio for special purposes that are deemed as a too high-risk investment in the absence of a guarantee. In this example the implementing party could be a regional development bank such as ADB or other.

a. In structure one, multiple donors provide funded or unfunded guarantee capital as well as grants for technical assistance purposes (capacity building for FIs, borrower investment support, project identification, design, and implementation, monitoring etc.). AF could utilize its grants as both funded guarantee capital and for TA. AF agrees with TF partners on conditions and intended purpose of financial contribution.

b. TF (Guarantor) enters into Guarantee Agreement (GA) with FIs (Guarantee Party). Eligibility criteria for loans, borrowers, sectors, investment purpose etc., are stipulated in the GA. FI pays a subsidized premium to TF to utilize the guarantee. TF agrees to pay out claim under guarantee to FI once eligible claim is confirmed as eligible.

c. TF Guarantee shares and off-loads risk to unlock capital in DFI loan portfolio and similar structures for on-lending towards underserved purposes and beneficiaries. For regional outreach DFI may channel guaranteed funds to local commercial and specialized financial institutions in the regions covered under the Trust Fund. A guarantee facility of e.g., $100 M with a 20 % First Loss structure could mobilize capital for on-lending in the ratio of 1 to 4 ($400-500M). When the GA expires any remaining funds can be reused for new initiatives.

d. Concessional loans are provided by FI/s to underserved borrowers. Borrowers invest in eligible climate related innovations/business models, infrastructure, or traditional adaptation projects.

e. Pre-and post-investment support for borrowers are provided to optimize and leverage the impact of investments into the projects. Beneficiaries in already ongoing AF projects could also apply for loans. Trust Fund could benefit from AF project pipelines for adaptation investment (drawn from all AF investment windows).

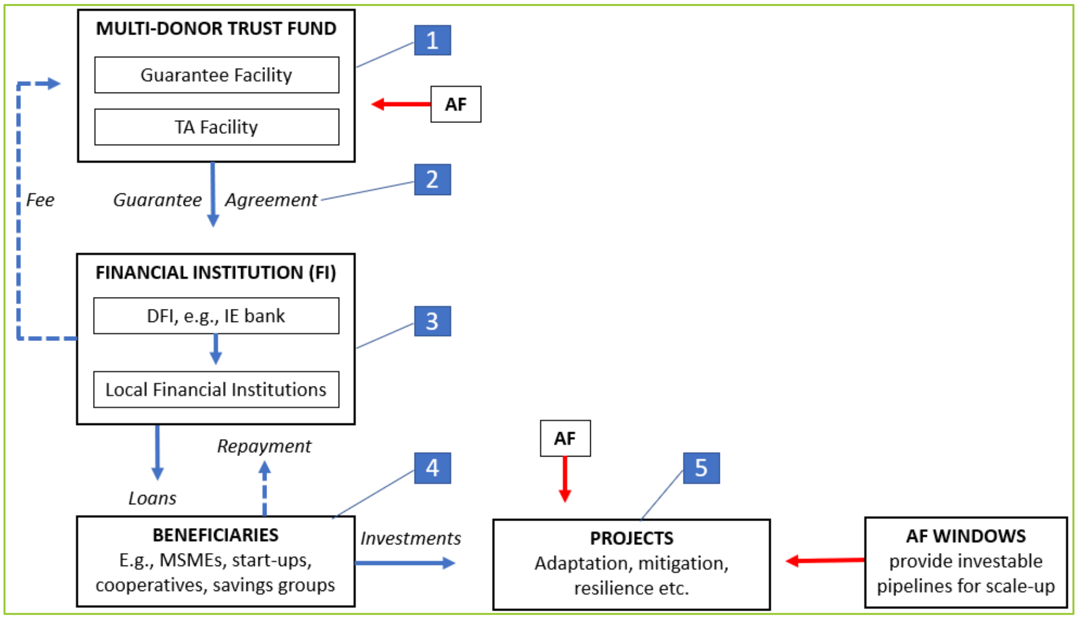

Figure 2: Regional Trust Guarantee scenario

Figure 3 illustrates how the Fund's grants could be used for structuring and operating its own funded guarantee (AFGF) in a relatively straight-forward setup. In a one-country context (or regional) AF could by a competitive process contract an asset manager to manage the funds and transactions. This structure could mobilize private capital among private financial institutions and private enterprises that could promote development purposes. This includes private sector innovation in the context of climate adaptation and resilience.

a. In this structure AF commits funds to set-up Guarantee Facility (AFGF, the "Guarantor") to unlock lending for Climate Adaptation purposes. Funds are put in an "escrow account" (controlled by AF and separated from FI), the "Guarantee Party") as a "firewall" and to enable risk-sharing. Funds also assigned for Technical Assistance (TA) for lender and borrowers capacity building and business support.

b. AF, by a competitive process, contracts DFI (e.g., IE bank or other) to act as AFGF's asset manager developing and managing guarantee fund (including identifying fitting FI), oversee transactions and monitoring, recoveries etc.

c. AFGF enters into a Guarantee Agreement (GA) with FI (could also be a SPV). Eligible criteria for loans, borrowers, sectors, purpose etc., are stipulated in GA. FI pays a subsidized premium to AFGF to utilize the guarantee. AFGF agrees to pay out claims under guarantee to FI once eligible claim is confirmed as eligible. For local outreach FI may choose to channel guaranteed funds to various local commercial or specialized financial institutions.

d. AFGF shares/off-loads risk to unlock capital in DFI loan portfolio (e.g., IE bank) for on-lending towards underserved purposes and beneficiaries. A local National Bank, with sound credit processes and routines to perform lending, may also be the preferred Guarantee Party (but would need to be assessed). A guarantee facility of e.g., \$10M applying a First Loss structure of e.g., 20 % can mobilize capital in the ratio of 1 to 4 i.e., \$40 M worth of loans can be generated.

e. Concessional loans are generated to underserved borrowers. Borrowers invest in eligible climate related innovations/business models, infrastructure etc. Pre-and post-investment support for borrowers are provided to optimize and leverage the impact of investments into the projects.

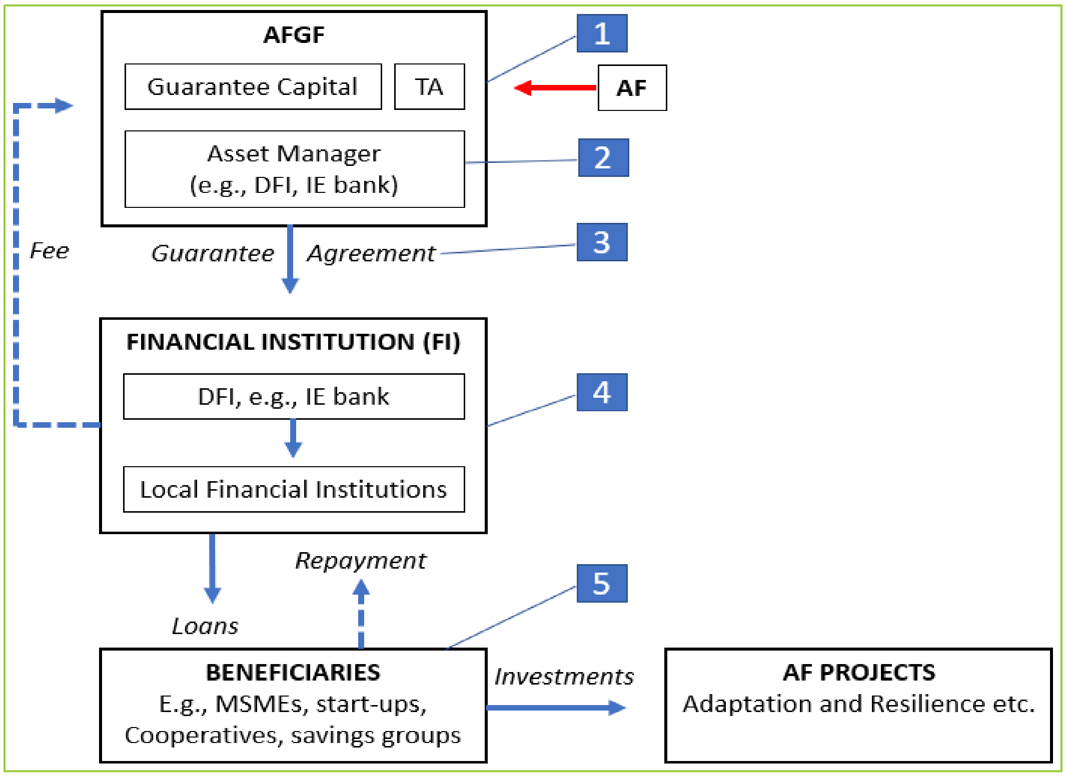

Figure 3: Local Guarantee Fund

Options 5: Collateral Support

IEs or Executing Entities (EEs) may use a portion of the Fund's grants to support adaptation-entrepreneurial ecosystem through providing financial support to selected entrepreneurs on the condition that entrepreneurs secure investment form private sector, including financial institutions, Venture Capitals, impact investors, etc.

Figure 4 illustrates 1) when SMEs/Startups secure investment from private investors, 2) IE or sub-IEs promises to offer a certain amount of grant or certain percentage of total investment to SMEs/startups. This arrangement demonstrates for peer actor's that there are viable opportunities in business models for adaptation purposes. The scheme could boost appetite and crowd in other funders also interested in innovating adaptation space.

The condition and the choice of payee from IEs or sub-IEs would be determined by the financial type SMEs / startups can secure. The amount of grant or the percentage of total investment is decided by IEs or sub-IEs.

Financial type 1. Loans
SMEs / startups are obligated to repay the borrowed funds within a certain period to investors, including commercial banks and impact investors. Grant support from IEs or sub-IEs to SMEs / startups could play a crucial role in alleviating the burden of loan repayment and enhancing the likelihood of meeting repayment obligations. Furthermore, this support reduces risks for lenders as well.

Financial type 2. Equity and convertible securities
Equity / convertible securities financing supports SMEs/startups to initiate and sustain their businesses. However, compared to loans, equity and convertible securities carry higher risks for investors. Particularly, when investments originate from foreign sources, the risks become even more significant, encompassing factors such as country, currency, and regulatory risks.

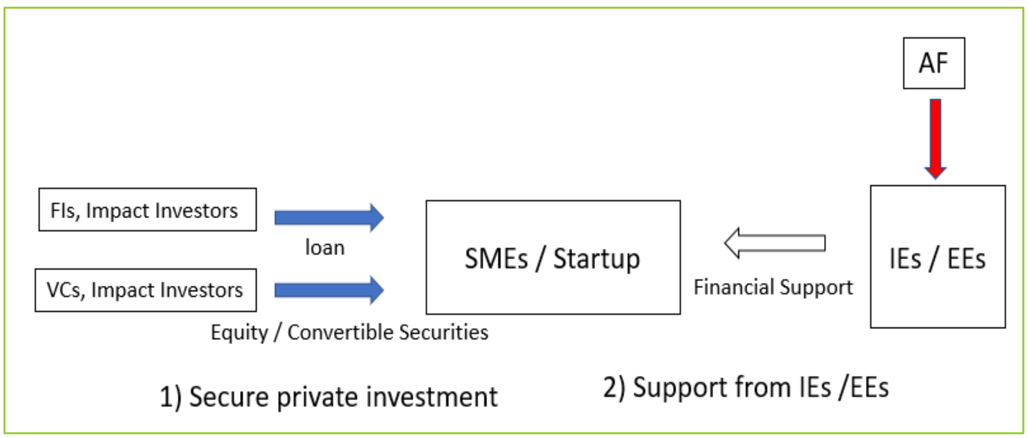

Figure 4: Support to SMEs / Startups