



**FILLING THE GAP OF THE MISSING MIDDLE:**

**INNOVATIVE FINANCING FOR SMALL AND GROWING  
CLIMATE-SMART ENTERPRISES**

**SPINNING THE WHEEL IN UGANDA**

---

## Imprint

Publisher:

SEED c/o adelphi research gGmbH

Alt-Moabit 91, 10559 Berlin, Germany

[www.seed.uno](http://www.seed.uno), [info@seed.uno](mailto:info@seed.uno)

Copyright © 2018 adelphi research gGmbH. All rights reserved.

Authors: Mirko Zuerker, Stefan Rolwing, Jonas Restle and Rainer Agster

Citation Suggestion: Zuerker, Mirko, Stefan Rolwing, Jonas Restle and Rainer Agster . Filling the Gap of the Missing Middle: Innovative Financing for Small and Growing Climate-Smart Enterprises. Input Paper (3). Berlin, Germany: SEED, 2018.

This Input Paper shall offer inspiration as well as guidance towards initiating a dialogue between practitioners in how innovative financing solutions for small and growing climate-smart enterprises could be designed.

## THE GLOBAL CHALLENGE

The international agenda is set. At the Paris climate conference (COP21) in December 2015, 195 countries adopted the first-ever universal, legally binding international climate deal: The agreement sets out a global action plan to put the world on track to avoid dangerous anthropogenic climate change by limiting global warming to well below 2°C. Thereby, the Paris Agreement aims at building a bridge between today's policies and climate-neutrality before the end of this century.

Key elements of COP21 are the agreements with regards to climate mitigation and adaptation: Based on the need for global emissions to peak as soon as possible, governments committed to undertake rapid reductions thereafter. Furthermore, the societies' ability to deal with the impacts of climate change shall be strengthened by improved support.

This commitment entails a variety of implications, especially for the global economy. The Paris Agreement strengthens the prospect of significant transitions across a wide range of sectors in all economies over the next decade and beyond. New ways of production as well as more sustainable consumption will become more important than ever before.

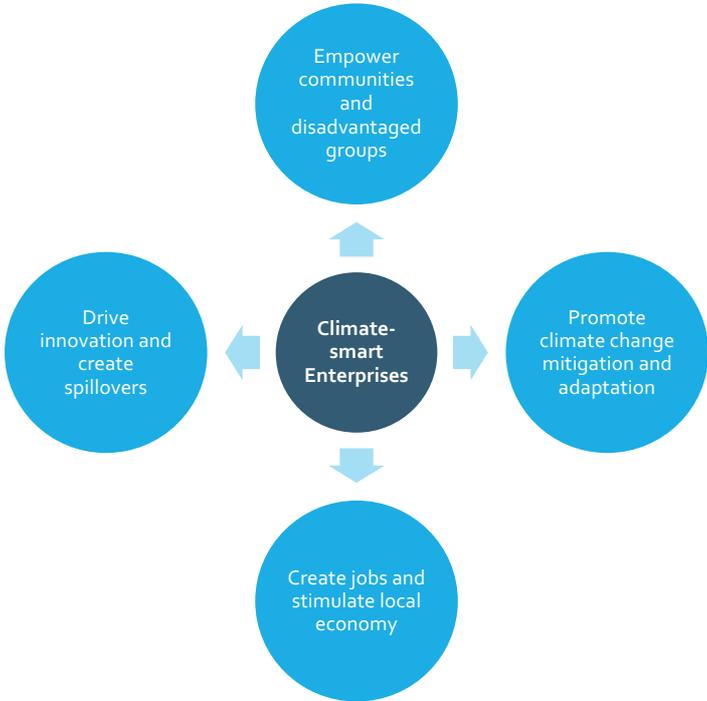
### Cut Carbon, Make Business: Climate-Smart Enterprises

Governmental regulations and commitments on the global as well as domestic level are key elements to set the rules of the game. However, steering the global climate development is not only a policy makers' challenge. Each individual and every organization has to take up responsibility – everyone is a stakeholder of this challenge. Therefore, it is also up to the companies themselves to reshape their value creation, rethink the management of their climate footprint and take up action to fulfil their global responsibilities.

With regards to new business models, measures to increase resource efficiency and reduce greenhouse gases have become a separate industry over the last decade. So-called climate-smart enterprises adopt economically viable technologies and business concepts that can help to mitigate climate change or adapt to its impacts. This two-fold focus ensures the future readiness of these enterprises and has helped them to become an increasingly important actor on the playing field. Their innovative approaches operate across all sectors and offer solutions for, for example, renewable energy production, waste management, healthcare, infrastructure, transportation or housing.

Foremost, climate-smart enterprises create a sustainability impact for the local economy. They ensure an important contribution of the private sector to the achievement of the respective climate goals of the country and a replication of successful business models will even multiply their effects. Along their value chain – i.e. suppliers, traders or consumers – it is mainly poor parts of the population who are involved. Therefore, they are of particular importance to disadvantaged women and unemployed

young people. At the same time, climate smart enterprises contribute to environmental protection, mitigation and adaptation to climate change by promoting the sustainable use of local resources and helping local economies to sustain their livelihoods in a quickly changing environment. With this transformative and collective impact potential, the success and growth of climate-smart enterprises is central to achieving a climate friendly economy. A dynamic private sector, driven by climate smart enterprises, creates green jobs, stimulates the local economy, empowers communities and promotes environmentally sustainable business practices. Innovative goods and services developed by climate-smart enterprises not only promote development and market growth, but also preserve the foundations of all economies – natural and social resources. Therefore, climate smart enterprises can be seen as the exemplary way of doing business in the 21st century.



Within this context, small and medium-sized enterprises (SMEs) play a special role. On the one hand, they are necessary to ensure future economic stability and overall future-readiness. Trends in international energy production are a good example to highlight this issue: as a transition towards renewable energy production goes along with an increasingly diverse energy mix, energy production will also decentralize further and build on more and smaller companies, e.g. smart micro grids. On the other hand, SMEs provide an additional societal and economic benefit. They have a comparatively strong outreach on the local level and amplify the impact of climate change mitigation and adaptation. Moreover, they have proven to be highly innovative in terms of technology uptake and value chain processes. Thereby, they include wide parts of the local society in overall economic growth and improve overall social cohesion.

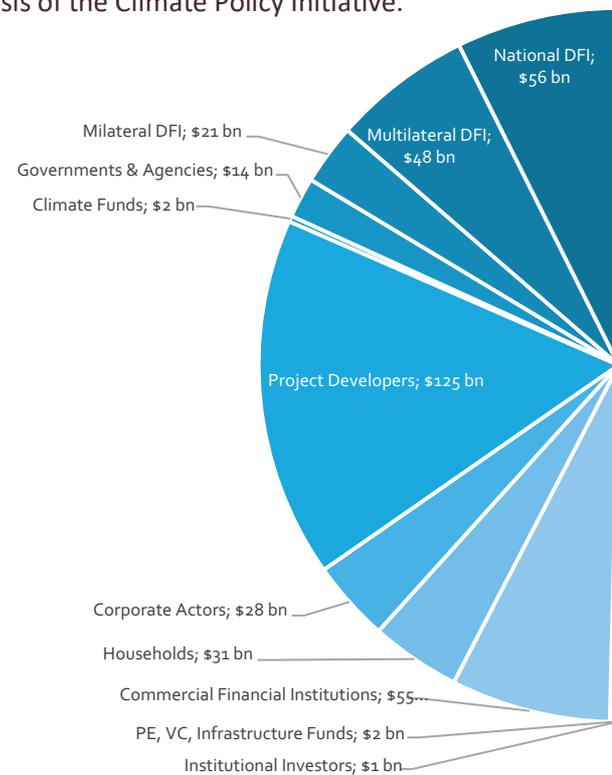
## The Gap of the Missing Middle

Despite these various advantages, climate-smart SMEs are facing a common challenge: a shortage of low-end financial products and limited support in capacity building, resulting in an under-representation of smaller climate-smart enterprises on the global as well as national market.

However, on the global scale, investments in climate action are significant: they have increased and stabilized in recent years with an average of \$410 billion invested in climate change measures every year – one third coming from the public sector and two third from the private sector. Understanding these financial flows is crucial to identify finance potentials and derive solutions for climate-smart enterprise finance. The following assessment is based on an analysis of the Climate Policy Initiative.

### Sources and Intermediaries

The actors providing finance are quite heterogeneous and have very diverse backgrounds. On the public side they include foremost national, multilateral and bilateral development finance institutions (DFI) as well as governmental agencies or specialized climate funds to a smaller degree. On the private side project developers account for more than 60% of all financial flows and provide with more than \$125bn the largest contribution in general. Thereafter, corporate actors, private households and commercial financial institutions are the most important players. Private equity, venture capital and infrastructure funds as well as institutional investors account only for minor parts.

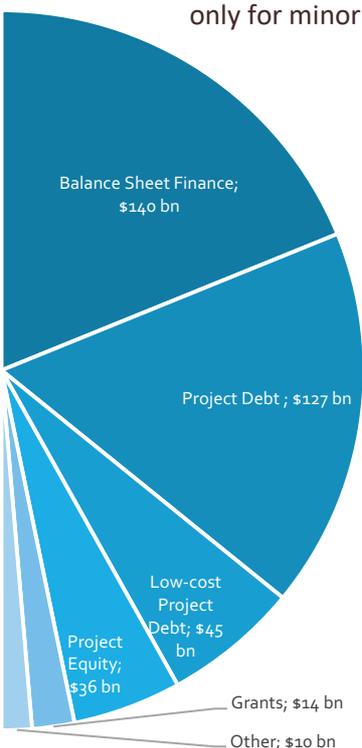


Data: Climate Policy Initiative, The Global Landscape of Climate Finance 2017

### Instruments

In contrast to the actors, the number of applied instruments is relatively comprehensible. Throughout the recent years, market-rate debt has been the most important instrument to channel climate finance and accounted for more than 50% of the total flows. Project finance debt driven by project cash flows and balance sheet debt raised by corporate actors as well as project developers to finance new projects internally are the most important instruments. In addition to that, low-cost project debt by public institutions plays an important role. Equity investments can be channelled through two instruments: first, balance sheet finance and second, project-based equity. In contrast to that, the provision of grants is rarely used in climate finance.

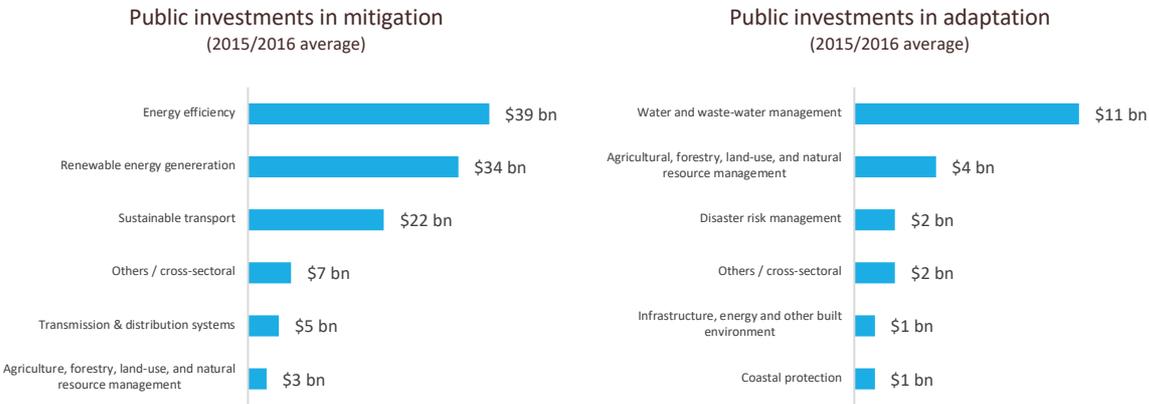
Data: Climate Policy Initiative, The Global Landscape of Climate Finance 2017



**Recipients and Sectors**

Finally, it is crucial to understand the targets of the investment, meaning the receiving actors and sectors. With regards to private investments, data gaps hinder a final analysis of climate finance flows. However, officially available information allows for the assessment of overall trends. In recent years, public sourced finance went foremost to (international) public actors like the UN or DFIs (38%). Private sector entities received the second most amount of finance (13%). Smaller inflows (<2%) were received by private sector NGOs, foundations, or public-private entities.

Concerning the sectoral distribution, investments to address climate change mitigation are significantly prevailing: 93% of all climate finance (public and private) has been used to support mitigation projects. Taking the trend of the recent past into account, it becomes clear that financial flows to support climate change adaptation are not only minimal but also decreasing. Within both fields, the following industrial priorities have been identified:



Data: Climate Policy Initiative, The Global Landscape of Climate Finance 2017

From a geographical perspective climate finance is foremost a domestic phenomenon: Almost 80% of finance stays within the country of origin. Based on 2015/2016 data, the highest investments can be found in the East Asia-Pacific-Region, Western Europe and North America.



Data: Climate Policy Initiative, The Global Landscape of Climate Finance

## FOCUS: CLIMATE-SMART SME IN THE UGANDAN ECONOMY

A number of SMEs in Uganda already contribute to the climate-smart economy by successfully improving the well-being of their local communities. With suitable approaches to clean energy, climate-smart agriculture, waste management or recycling those eco-inclusive enterprises are important to address the vulnerability that local communities face due to climate change. However, many climate-smart enterprise solutions do not pick up pace as they continue to face significant barriers that hinder them from realizing their full potential. The following chapter highlights the dynamics of their business environment, derives specific challenges, identifies relevant actors and points out the opportunities that come along with innovative finance.

### Understanding the Business Environment

Understanding the Ugandan economy and the role of climate-smart SMEs is a rather complex challenge. Concerning the overall economic development of the country, data of the World Bank Group reveals the following insights: The country's economy has grown at a slower pace in recent years. Average annual growth was 4.5% in the five years to 2015/16, compared to the 7% achieved during the 1990s and early 2000s. Amidst these trends, and as a reflection of an unrealized fiscal stimulus, growth slowed further to 3.5% in 2016/17. However, compared to other African countries, the Ugandan economy is comparatively stable.

According to the Ugandan Investment Authority, SMEs play a significant role in this context. The authority describe SMEs as “the engine of growth for the economic development, innovation, wealth creation of Uganda”. This assessment is driven by the fact that over 2.5 million people are employed in this sector, accounting for approximately 90% of the entire private sector employment. Furthermore, SMEs generate over 80% of manufacturing outputs, which contribute 20% to the nation's gross domestic product. In Uganda, SMEs are spread across all sectors with 49% in the service sector, 33% in commerce and trade, 10% in manufacturing and 8% in other fields.

In recent years, key influences regarding the business environment were factors such as adverse weather, private sector credit constraints, and the poor execution of public sector projects. Besides these challenges, Uganda's overall economy has reached a development status which is above the regional average, as evidenced by the country's position in the upper third of the World Bank's Doing Business Report. Currency and price stability, market organization and protection of private property are relevant proofs for this finding. In addition, the economy's strength is reflected in the country's political situation. Compared to its neighbouring states, Uganda has achieved a high level of political and social integration and offers strong rule of law. With regards to internal factors, only the stability of political institutions has been identified as a hindering factor. However, next to the drivers on the domestic level, the business environment is highly influenced by threats from outside: The most critical

risk to this outlook is regional instability, particularly violence in South Sudan and all election-related disturbances taking place in Kenya. These influences also impact the situation of SMEs. The Ugandan government assumes that key growth-limiting factors for SMEs are conflict-driven trade barriers which hinder regional expansion. This is of special importance, since the country is, due to its small market size, highly dependent on foreign growth markets.

In addition to these external influences, there are two business challenges that most of Uganda's SMEs have in common. First, most SMEs experience limited access to finance; and second, they have a lack of management skills. The Ugandan government has understood these growth hindrances and has initiated a set of fiscal as well as non-fiscal policies. Fiscal incentives are provided by the Ministry of Finance, Planning and Economic Development. These include micro finance programs and industry specific development plans. To stimulate business growth and enhance private sector competitiveness on the other hand, the National Investment Authority offers a set of entrepreneurial trainings and other business development services.

However, the SMEs as well as government authorities are aware of the fact that these efforts need to be complemented by private investors' activities to spark the full potential of Uganda's SME sector.

## The Challenges in Uganda

In the context of the specific Ugandan business environment, we identified four concrete finance-related challenges that should be addressed in order to enable future growth of climate-smart SMEs:

**Microinsurance delivery through weather indexing:** As indicated above, difficult weather conditions have been one of the central hindrances to Uganda's economic prosperity. Weather risk is in particular pervasive for SMEs active in the agricultural sector. On the one hand, weather shocks can destroy expected returns from harvests and trap farmers and households in poverty. On the other hand, the risk of shocks also limits the willingness of farmers to invest in measures that might increase their productivity and improve their economic situation. Insuring SMEs against weather driven risks would increase their resilience, secure economic returns and thereby address both of the mentioned effects. So far, the processing of insurance claims as well as the verification come along with high costs for farmers. To simplify the payment procedures, mobile phones could be leveraged for insurance payouts as well as premium payments – automation might even increase efficiency and effectiveness.

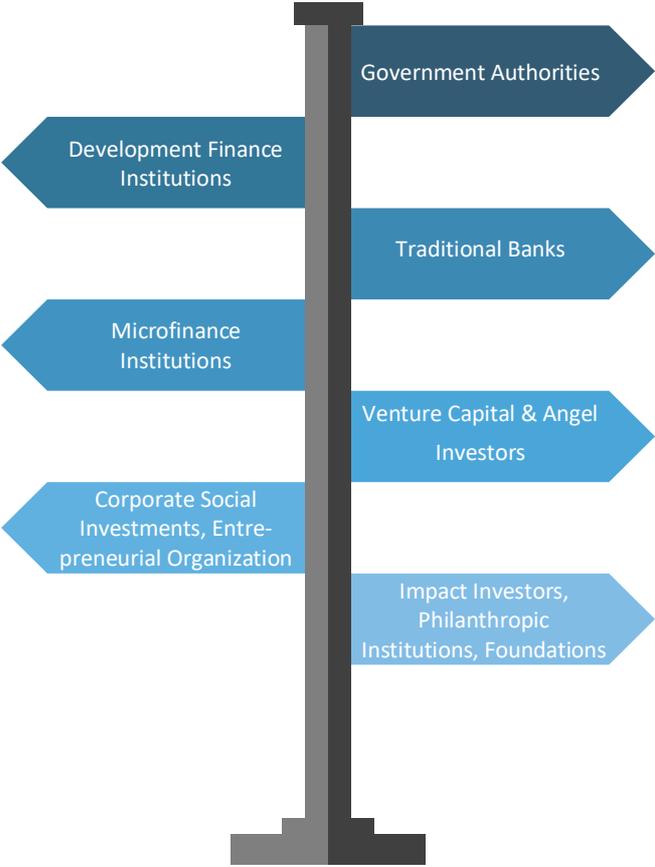
**Renewable energy infrastructure financing:** One key aspect in the battle against climate change is the reduction of harmful emissions, such as carbon dioxide. One major source of these emissions, and arguably the one where reduction is most straightforward, is the power sector. To achieve emission reduction in this sector, it is clear that electricity production needs to become heavily based on low carbon, namely renewable energy technologies. This requires a close to total makeover of key parts of the energy infrastructure. Since Uganda is facing a growing energy demand in the future, managing

the energy transition is of key importance. However, until now, energy infrastructure financing costs are very high in Uganda. Moreover, infrastructure investments are considered as risky by many financiers since such investment are illiquid, require long-term profits, and are highly vulnerable to changes in policy environments. The strong dependency on political actors and governmental institutions is even higher for renewable energy investments because of subsidies or feed-in tariffs. Hence, simplifying the access to finance and reducing the cost – of debt as well as equity financing – might help to kick-start energy infrastructure investment, which are highly relevant for Uganda.

**Financing energy efficiency and productive use of energy:** The implementation of a successful energy transition does not only depend on the production of clean energy but is also largely determined by the sustainable consumption of electricity. Although Uganda's per capita electricity consumption is currently very low by international standards, most appliances are outdated and fall into a poor energy efficiency category. Most households lack the necessary capital to convert to renewable energy and invest in sustainable appliances at the same time. In addition, the management problem mentioned above for SMEs becomes apparent in this context: On the one hand, SMEs lack the capacity to carry large amounts of stock of energy efficient appliances; on the other hand, there are industry-relevant gaps in knowledge, such as a limited understanding of the tax regime regarding energy efficiency appliances. Bridging such deficits is crucial for SMEs to remain competitive within this fast-changing business environment.

**Climate resilient agriculture through financing irrigation systems:** Although irrigation in Africa has the potential to boost agricultural productivities by at least 50 percent, food production on the continent is almost entirely rainfed. On average, the area equipped for irrigation makes up just 6 percent of the total cultivated area. Uganda is not an exception in this regard. Besides the above-mentioned insurance for weather shocks, financing of irrigation equipment is another climate change resilience related constraint for Ugandan agricultural SMEs. The irrigation systems are costly – smallholder farmers do not have sufficient capital for equity finance and debt financing mechanisms are difficult to access. Moreover, linkages between financial institutions and input suppliers are rare. This is the result of two facts: First, distribution channels for irrigation equipment are not well developed and second, the financial sector has only limited knowledge about and information on irrigation farming and its added value. Therefore, it is of high importance to embed irrigation in a comprehensive finance environment.

# Identifying Key Players and Institutions



After discussing these challenges, it has to be pointed out that Ugandan climate-smart enterprises operate in an environment which is characterized by highly diverse stakeholders. The following seven groups include the key players that have to be considered when discussing finance opportunities.

First of all, there are governmental authorities on the local, regional, as well as national level. They set the regulatory framework and define core policy objectives. Relevant actors in this regard are the Ugandan Ministry of Finance, the Ministry of Energy and Mineral Development, or the Climate Change Department of the Ministry of Water & Environment. Governmental agencies such as the Electricity Regulatory Authority or the National Environment Management Authority (NEMA) and government-related institutions such as the Uganda Energy Credit Capitalization Company play an influential role as well. Finally, international organizations

have to be mentioned, e.g. UNFCCC RCC Kampala or the Global Green Growth Institute. Second, there are various development finance institutions: international institutions including the IFC, foreign ones such as the German KfW or domestic ones like the Uganda Development Bank. Besides these banks, there are also development finance institutions such as the aBi Trust or the Private Financing Advisory Network (PFAN). Third, there is the large and comparatively advanced traditional banking sector which offers loans and other financial products. Thereby, it contributes significantly to the overall banking activity in Uganda. Next to international banks, exemplary domestic players in this field are the Bank of Uganda or Centenary Bank. Fourth, Uganda has – like most African countries – a large and continuously growing microfinance sector. Microfinance institutions are especially multiplying in the mobile payment sector. Despite comparatively high interest rates, customer numbers increased significantly in recent years. Exemplary players in the field in Uganda are Babyloan/Hofokam or the Uganda Microcredit Foundation. Fifth, there is a small but also growing group of venture capital and angel investors. Many of these are looking for investment opportunities beyond the stock exchange and are seeking better returns in high-risk ventures. The country has a number of networks of angel investors, e.g. Angel Investment Network Uganda. Moreover, the broader environment of venture capital and angel investors is growing. For example, the KAIN platform, which connects start-up companies with financiers. In addition, Jacana Partners is an example for the high level of pan-African interconnectivity of the financial sector. Sixth, in recent years, larger private companies have set up comprehensive corporate social responsibility and other sustainable investment programs. As part of

these initiatives, social or eco-inclusive enterprises have successfully acquired funding for their projects, often referred to as corporate social investment. In Uganda, such engagement can be found in almost every sector. Examples are the ICT company MTN, Anuel Energy, or Agriculture & Finance Consultants. Industry associations such as the Private Sector Foundation Uganda (PSFU) or the Uganda National Renewable Energy & Energy Efficiency Alliance have also shown significant impact in recent years. Moreover, there are entrepreneurial and financial advisory organizations, such as Financial Sector Deepening Uganda, Energy4Impact, or Enterprise Uganda, which have proven to be important and influential actors. The seventh group consists of a rather broad set of actors which include non-profit donors such as impact investors, philanthropic institutions, foundations and NGOs. Examples on the national level are the Ecological Christian Organisation (ECO) or the Environmental Management for Livelihood Improvement Bwaise Facility (EMLI). In contrast, international organizations active in the field are the Climate Action Network, SNV, Swisscontact or WWF. An academic cooperation that has had a significant impact for climate-smart SMEs in recent years is the Resilient Africa Network.

Besides these institutionalized actors, there is a comparatively dense network of highly qualified experts in Uganda. Some of them are affiliated with governmental institutions or private sector entities, others are independent consultants in the field.

These stakeholder groups differ in various dimensions: funding motivation, financial capacity and expectations for economic returns are the most relevant. However, locating small climate-smart enterprises in this landscape is only one part of the challenge. Identifying the best financial solution is another. The following overview discusses the most relevant challenges.

## Innovative Finance – Creating Solutions

When discussing finance opportunities for climate-smart SMEs, various instruments have to be considered. In general, three broad categories can be distinguished: securities and derivatives, result-based financing, and voluntary contributions. This chapter presents seven sub-categories/instruments and builds on data collected by the Innovative Financing Initiative.

All of the instruments in the first category have existed for centuries and build on an immense collective experience. Although their design has changed and adapted to today's finance landscape, the underlying business models remain the same. **Bonds** in the form of debt financing raised in capital markets to fund development measures like climate change interventions are one example. In addition to that, **guarantees** are an instrument that reduce risk by insuring investments and providing payments in case of financial loss. This is of special importance to attract funders in emerging markets with less political stability. Another classic instrument in this category are **loans**, i.e. concessionary repayment terms to borrowers for implementing specific development interventions such as green credit lines. The last instrument in this category that is relevant to the discussion of SMEs are **investment**

**funds** which are structured to target a specific development challenge and bring together investors with different risk-return-profiles.

The second category of results-, output-, and performance-based mechanisms is comparatively young and contributes a much smaller proportion to the globally available finance. However, these instruments have been successful in delivering innovations and supporting new actors on the field, for example NGOs. Popular elements are **awards and prizes**. These instruments can be used by public as well as private institutions and provide financial support for developing innovative approaches in a competitive selection process. **Development impact bonds** fall in this category too. They include all upfront development investments that are repaid by governments or other donors with interests based on achieved results.

Voluntary contributions are the third category. Until now, this category has offered the smallest amount of financial contributions, despite multiple innovative approaches to collecting and distributing funding. **Donations as part of consumer purchases** count as voluntary contributions, which allocate a certain percentage of each purchase of consumer products to fund a designated development challenge.

After describing the Ugandan business environment and identifying the key players as well as available instruments, the following section explores the opportunities that arise when these aspects are effectively coupled: Designing innovative finance.

What does this term mean? Discussing innovative finance does not mean that finance has to be reinvented in every sense or that entirely new instruments need to be established. From our perspective, innovative finance means developing a new approach to existing financial instruments or reshaping finance to fit the needs of new actors, business models and challenges. Following this understanding, innovative finance complements existing finance.

This approach builds generally on two pillars: It acknowledges the success as well as leverage of well-established financial instruments and it follows the desire to bring together new actors. In the recent years, most of the aforementioned actors and instruments have successfully acquired and deployed huge amounts of capital in the development business. Innovation in this context means opening up existing channels for more sources, i.e. other kinds of investors. Moreover, it means identifying new ways for financial mechanisms to deploy capital and contribute to development initiatives, i.e. financing climate-smart SMEs. In general, innovative finance facilitates the re-arrangement of the connections between products, markets and participants.

The development impacts of innovative finance are easy to see. On the national level, innovative finance improves public-private-cooperation, financial governance, as well as economic growth. More concrete, on the project level, facilitating exchange and cooperation helps to acquire funding, allocate it by matching interests and deploy investment in undiscovered opportunities. The Innovative Financing Initiative has conducted an assessment of the above-mentioned instruments with regards to these impact criteria:

	Innovation			Development Impact			Leading Examples
	New Product	New Market	New Participant	Mobilize Resources	Facilitate Matching	Deploy Funding	
Bonds			X	X	X		Johannesburg Stock Exchange
Guarantees		X	X		X		Multilateral Investment Guarantee Agency
Loans	X			X			State Bank of India Green Loans
Investment Funds		X		X	X		Thailand Sustainable Energy Finance Program
Awards and Prizes	X				X		The Green Alley Award
Development Impact Bonds	X					X	Uganda Village Enterprise Development Impact Bond
Consumer Donations			X	X			Atmosfair

Data: Innovative Financing Initiative, Innovative Financing for Development

As stated in the beginning, the Ugandan SME business environment is facing a few finance bottlenecks. Most of them relate to insecurity and risks. In particular, the involvement of diverse public and private stakeholders in innovative finance addresses this challenge and has been proven to be an impactful approach. Public institutions are often better positioned to bear project risks than private ones. Integrating such stakeholders facilitates the participation of risk averse investors. In addition, the guarantees of high rated institutions issued in currencies with low volatilities mobilize funding more easily. Moreover, public institutions can use their credibility to intervene on coordination problems in a fair and responsible way and thereby increase the steering capacity of the investment. Governments can also set up large matching programs and thus help to overcome information asymmetries. In addition to that, private stakeholders have the capital and flexibility to invest in emerging markets. They benefit from industry- or sector-specific knowledge and can build on business networks. Finally, they bring the management expertise and can help the SMEs to grow successfully and sustainably. Therefore, innovative finance can build a bridge over the missing middle.

Last but not least, it is not only the investment projects that receive benefits. The wider network of participating actors also benefits from these financing activities. First, there are economic benefits like new business partnerships and access to markets. In the long-term, and perhaps more importantly, collaboration enables important spillovers: Climate-financiers learn about social benefits generated by

impact investors and vice versa. Moreover, different techniques for project management and how to conduct social business in general can be exchanged to push forward each other's organization.

The following best practices highlight the effectiveness of innovative climate-smart SME financing:

"The new Green Bond Segment provides companies with an effective tool to raise capital for investments into sustainable projects that would have been funded internally. Issuing a green bond can help companies to strengthen their credentials as sustainable and responsible organizations. At the same time green bonds allow investors to mitigate the effects of climate risk as a part of their investment portfolio, while these bonds also satisfy environment, social and governance requirements and green investment mandates."

Green Bond Segment, Johannesburg Stock Exchange

"The State Bank of India offers green loans for people who want to buy environment-friendly homes. The Green Home Loan Scheme supports environmental-friendly residential projects and offers various concessions – reduced margins, lower interest rate and zero processing fee. The interest rate for loans under the scheme will be 25 basis points lower than the prevailing rate for all tenures. The upfront margin money has been reduced from 20 per cent of the total cost of the house to 15 per cent."

State Bank of India Green Loans

"The Green Alley Award is Europe's first start-up competition focused on the circular economy. In association with our partners, Green Alley is looking for great green ideas, new services, products and technologies that can turn waste into a resource. In return, we offer financial support, strategic assistance, networking opportunities and expertise in entering the circular economy across Europe."

The Green Alley Award

"Airline passengers make a voluntary climate protection payment based on the amount of emissions they create. Atmosfair uses these contributions to develop renewable energies in countries where they hardly exist, above all in developing countries. In this way, atmosfair saves CO<sub>2</sub> that would otherwise be created by fossil fuels in these countries. Meanwhile, local people profit since often for the first time, they gain access to clean energy available around the clock, which is a must for education and creating equal opportunities."

Atmosfair

Investment Guarantees, Multilateral Investment Guarantee Agency

"MIGA strives for positive development outcomes in the investment projects we insure. An important component of positive development outcomes is the environmental and social sustainability of projects, which we expect to achieve by applying a comprehensive set of environmental and social performance standards."

Thailand Sustainable Energy Finance Program, Clean Technology Fund

"The fund will comprise both an Investment and Advisory Services component to support the scale up of sustainability projects in Thailand's large corporate, SME, commercial, residential and municipal sectors. The investment component aims to transform these sectors through Thailand's financial sector, towards low-carbon, climate-sensitive behavior, and in doing so, support the economic development and social well being of people. The program will encourage financial institutions in Thailand to develop financing programs for small sized carbon mitigating investments."

Uganda Village Enterprise Development Impact Bond

"The Village Enterprise Development Impact Bond intends to improve income levels of the extreme poor through Village Enterprise's microenterprise development program for the extreme poor, known as a Graduation program. The Graduation Model is a cost-effective and evidence-based intervention that can bring about lasting improvements in the income levels for the very poor."

## Join our Workshop in Uganda

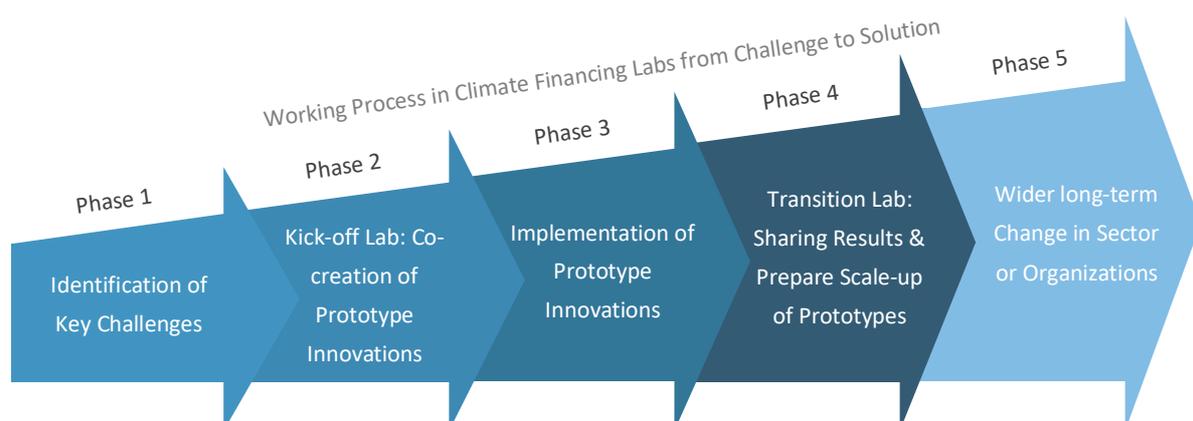
To address the aforementioned financing challenges for eco-inclusive SMEs, we are running a Climate Financing Lab in Uganda. The Lab brings together different organisations, businesses, and stakeholders with an interest in solving such issues and supports participants in jointly developing targeted solutions for pressing challenges specific to their organisations and sectors. In this working process, the lab unites different stakeholders to engage in a series of exchanges in order to strengthen the solution implementing capacity of lab participants, build a network of trust, facilitate output-oriented knowledge exchange, share best practices and lessons learned as well as enable peer-to-peer learning between participants from different organisations, countries, and sectors.

### How will you benefit from joining?

Joining the Climate Financing Lab will enable you to become part of an action-learning platform and access invaluable insights and lessons from climate finance stakeholders on a continuous basis in specific working groups. You will be empowered to develop tangible and robust prototypes and financial innovations leading to a process of change and innovation in your organisation and in the wider sector. In the process of transforming sector-specific challenges into innovative financial instruments you will be supported by trusted peers and benefit from their insights. As a result of this, you can drive long term change in your organisation and make your organisation a driver of innovation in the sector.

### How does it work?

The Climate Finance Lab process consists of four major phases that build the basis for desirable wider long-term changes in the respective sector or organisations.



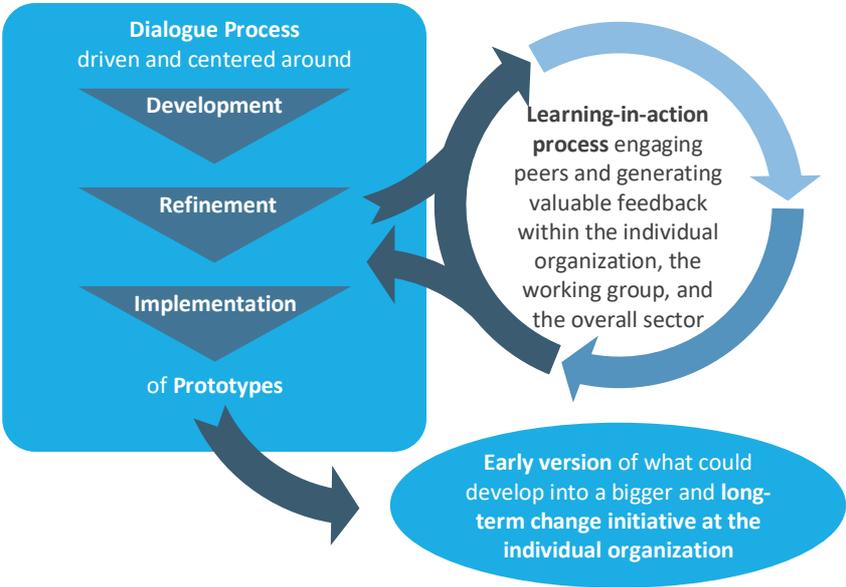
In the **first phase**, participants work on identifying key challenges for their sector which acts as a starting point for the lab process. This builds on a mapping exercise of the landscape of country-specific sector challenges and further key actors with a potential interest in developing solutions.

In the **second phase**, the actual lab process starts with gathering feedback and lessons from other lab participants who share similar challenges. This feeds into the joint creation of actual prototype innovations based on the initial challenges identified. During the development process, prototype ideas are constantly refined based on the insights and input from peers in the specific working group and the lab as a whole.

The **third phase** focuses on the implementation of prototype innovations at the organisational or sector level. As implementation can happen individually or in partnership with other participants and organisations, exploring collaborations and partnership opportunities for the implementation through exchanges within or across working groups is a crucial part of this phase. As in the previous phase, continuous refinement of prototypes along the way of the implementation through additional feedback from the working groups remains an integral part of the process.

In the **fourth and final phase**, we prepare the scale-up of the prototypes and showcase initial results of prototype implementation. The participants share success stories and lessons from the implementation with peers and sector stakeholders to provide concrete evidence on how the initially identified challenges can be tackled. The aim of this step is to build the groundwork for the scale-up of the prototype within the organisation, the partnership or the sector.

In a nutshell, the prototype creation is driven by a dialogue process between the lab participants that focuses on development, refinement, and implementation and is accompanied by a learning-in-action process that engages peers and generates continuous improvement through iterative feedback loops. To ensure that developed solutions are sufficiently specific, the overall group of lab participants establishes smaller working groups on the identified challenges of five to ten participants each. The working groups offer an open learning space setting and allow members to test, present, and refine their individual prototypes as well as to reflect on the learning process and share best practices among its peers.



To maximise effectiveness of the working groups, a combination of different meeting settings is used. On-site face-to-face meetings are used to support the building of networks, create a platform of trust and inspiration, identify collaboration opportunities, align agendas, and reflect on joint action plans. Furthermore, participants will receive tailored insights through facilitated peer-to-peer learning and coaching via these fora. As a supplement, webinars and online meetings accompany the knowledge exchange and peer-learning process by creating a structure and learning mechanisms closely aligned with the face-to-face meetings. They will be used to prepare and follow-up on face-to face meetings

in order to keep up the momentum and create a space where working group members share their results and the outcomes of the prototype design, refinement, and implementation.

## Bibliography

- Bertelsmann Foundation. (2018). *Country Indicators*. Retrieved from BTI-Project: <https://atlas.bti-project.org/>
- Blended Finance Taskforce. (2018, January). *Better Finance, Better World: Consultation Draft of the Blended Finance Taskforce*. Retrieved January 17, 2018, from Blended Finance Taskforce: [https://assets.contentful.com/bbfx7vx8x8r/3bnV6UBJKEQcW6uAAmqgci/c901bd2ab55753936a476651b3735b3a/BFT\\_BetterFinance.pdf](https://assets.contentful.com/bbfx7vx8x8r/3bnV6UBJKEQcW6uAAmqgci/c901bd2ab55753936a476651b3735b3a/BFT_BetterFinance.pdf)
- Business Innovation Facility, Innovations Against Poverty. (2012, November 2). Database of Financial and Technical Support for Inclusive Business. The Practitioner Hub for Inclusive Business. Retrieved September 2016
- Climate Policy Initiative. (2017). *Global Landscape of Climate Finance 2017*. Retrieved January 24, 2018, from Climate Policy Initiative: <https://climatepolicyinitiative.org/wp-content/uploads/2017/10/2017-Global-Landscape-of-Climate-Finance.pdf>
- Climate Policy Initiative. (2018, January). *Blended Finance in Clean Energy: Experiences and Opportunities*. Retrieved from Climate Policy Initiative: <https://climatepolicyinitiative.org/publication/blended-finance-clean-energy-experiences-opportunities/>
- Connect to Grow. (2016). *Supporting SME Growth through Innovation and Partnership - A Review of the Landscape*. London, UK.
- Eytan, B., Ruparell, R., & Taliento, L. (2013, August). *Innovative development financing*. Retrieved February 7, 2018, from McKinsey & Company: <https://www.mckinsey.com/industries/social-sector/our-insights/innovative-development-financing>
- Global Impact Investing Network. (2017, October 12). *Beyond Investment: The Power of Capacity-Building Support*. Retrieved January 9, 2018, from Global Impact Investing Network: <https://thegiin.org/research/publication/capacity-building>
- Hobbes, M. (2014, November 18). Stop Trying to Save the World. *New Republic*. Retrieved from <https://newrepublic.com/article/120178/problem-international-development-and-plan-fix-it>
- Innovative Financing Initiative. (2014, September). *Innovative Financing for Development*. Retrieved January 31, 2018, from Citi Foundation: [http://www.citifoundation.com/citi/foundation/pdf/innovative\\_financing\\_for\\_development.pdf](http://www.citifoundation.com/citi/foundation/pdf/innovative_financing_for_development.pdf)
- Krämer, A., Péron, C., & Pasipanodya, T. (2014). *Multiplying Impact: Supporting the Replication of Inclusive Business Models*. Berlin, Germany: Endeava.

- Schramm, C. (2016, September 7). *A review of 'Unusual' SME Support Services*. Retrieved September 9, 2016, from The Practitioner Hub for Inclusive Business: <http://www.inclusivebusinesshub.org/review-unusual-sme-support-services/>
- Sireau, N. (2011). *Microfranchising. How Social Entrepreneurs are Building a New Road to Development*. Great Britain: Greenleaf Publishing.
- Tewes-Gratl, C., Pasipanodya, T., Uba, A., & Van Gaalen, M. (2016). *Replicating Eco-inclusive Business models. A Contribution to Sustainable Low-carbon Economies*. Berlin, Germany: SEED.
- Uganda Investment Authority. (2008). *SME Business Guide*. Retrieved from [http://www.iceida.is/media/pdf/SME\\_GUIDE\\_FINAL\\_COPY.pdf](http://www.iceida.is/media/pdf/SME_GUIDE_FINAL_COPY.pdf)
- Uganda Investment Authority. (2018). *SMEs driving the economy*. Retrieved from <http://www.ugandainvest.go.ug/smes-driving-economy/>
- UN Environment. (2017, June 12). *Mobilizing Sustainable Finance for Small and Medium Sized Enterprises*. Retrieved from UNEP Inquiry: <http://unepinquiry.org/publication/mobilizing-sustainable-finance-for-small-and-medium-sized-enterprises/>
- World Bank Group. (2018). *Reports*. Retrieved from Doing Business Report 2018: [http://www.doingbusiness.org/reports/~/\\_media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2018/SSA.pdf](http://www.doingbusiness.org/reports/~/_media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2018/SSA.pdf)
- World Bank Group. (2018). *The World Bank in Uganda*. Retrieved from The World Bank Group: <http://www.worldbank.org/en/country/uganda/overview>