



**GREEN
CLIMATE
FUND**

Meeting of the Board
17– 20 October 2018
Manama, Bahrain
Provisional Agenda Item 17

GCF/B.21/10/Add.19

26 September 2018

Consideration of funding proposals – Addendum XIX

Funding proposal package for FP097

Summary

This addendum contains the following three parts:

- a) A funding proposal summary titled “Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)” submitted by the Central American Bank for Economic Integration (CABEI);
- b) No-objection letters issued by the national designated authorities or focal points; and
- c) Environmental and social report(s) disclosure;

These documents are presented as submitted by the accredited entity and the national designated authority(ies) or focal point(s), respectively. Pursuant to the Comprehensive Information Disclosure Policy of the Fund, the funding proposal titled “Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)” submitted by the Central American Bank for Economic Integration (CABEI); is being circulated on a limited distribution basis only to Board Members and Alternate Board Members to ensure confidentiality of certain proprietary, legally privileged or commercially sensitive information of the entity.

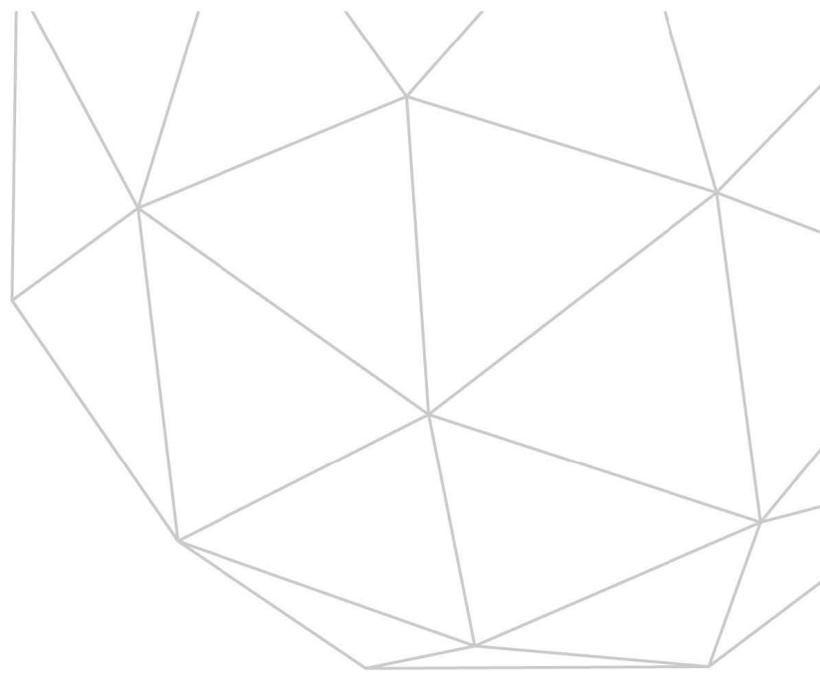
The funding proposal package for FP097 is being submitted for the first time for the Board's consideration at its twenty-first meeting.

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Funding Proposal

Version 1.1

The Green Climate Fund (GCF) is seeking high-quality funding proposals.

Accredited entities are expected to develop their funding proposals, in close consultation with the relevant national designated authority, with due consideration of the GCF's Investment Framework and Results Management Framework. The funding proposals should demonstrate how the proposed projects or programmes will perform against the investment criteria and achieve part or all of the strategic impact results.

Project/Programme Title: Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)

Country/Region: Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic

Accredited Entity: Central American Bank for Economic Integration (CABEI)

Date of Submission: July 29th, 2018

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Section B	FINANCING / COST INFORMATION
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Note to accredited entities on the use of the funding proposal template

- Sections **A, B, D, E** and **H** of the funding proposal require detailed inputs from the accredited entity. For all other sections, including the Appraisal Summary in section F, accredited entities have discretion in how they wish to present the information. Accredited entities can either directly incorporate information into this proposal, or provide summary information in the proposal with cross-reference to other project documents such as project appraisal document.
- The total number of pages for the funding proposal (excluding annexes) is expected not to exceed 50.

Please submit the completed form to:

fundingproposal@gcfund.org

Please use the following name convention for the file name:

“[FP]-[Agency Short Name]-[Date]-[Serial Number]”

A.1. Brief Project / Programme Information		
A.1.1. Project / programme title	Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)	
A.1.2. Project or programme	programme	
A.1.3. Country (ies) / region	Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic	
A.1.4. National designated authority (ies)	Guatemala - Ministry of Environment and Natural Resources El Salvador - Ministry of Environment and Natural Resources (MARN) Honduras - Ministry of Energy, Natural Resources, Environment and Mining Nicaragua - Ministry of Finance Costa Rica - Ministry of Environment and Energy Panama – National Environmental Authority of Panama Dominican Republic - Ministry of Environment and Natural Resources	
A.1.5. Accredited entity	Central American Bank for Economic Integration (CABEI)	
A.1.5.a. Access modality	<input checked="" type="checkbox"/> Direct <input type="checkbox"/> International	
A.1.6. Executing entity / beneficiary	Executing Entity: Central American Bank for Economic Integration (CABEI) Beneficiaries: Intermediary Financial Institutions and Micro, Small and Medium Enterprises.	
A.1.7. Project size category (Total investment, million USD)	<input type="checkbox"/> Micro (≤ 10) <input checked="" type="checkbox"/> Small ($10 < x \leq 50$) <input type="checkbox"/> Medium ($50 < x \leq 250$) <input type="checkbox"/> Large (> 250)	
A.1.8. Mitigation / adaptation focus	<input type="checkbox"/> Mitigation <input checked="" type="checkbox"/> Adaptation <input type="checkbox"/> Cross-cutting	
A.1.9. Date of submission	November 15, 2017	
A.1.10. Project contact details	Contact person, position	Miguel Angel Mendez Castellanos - Head of Partnership and International Cooperation Department
	Organization	Central American Bank for Economic Integration (CABEI)
	Email address	mmendez@bcie.org
	Telephone number	+504 2240 2206
	Mailing address	Boulevard Suyapa, Tegucigalpa, Honduras

A.1.11. Results areas <i>(mark all that apply)</i>	
Reduced emissions from:	
<input type="checkbox"/>	Energy access and power generation (E.g. on-grid, micro-grid or off-grid solar, wind, geothermal, etc.)
<input type="checkbox"/>	Low emission transport (E.g. high-speed rail, rapid bus system, etc.)
<input type="checkbox"/>	Buildings, cities and industries and appliances (E.g. new and retrofitted energy-efficient buildings, energy-efficient equipment for companies and supply chain management, etc.)
<input type="checkbox"/>	Forestry and land use (E.g. forest conservation and management, agroforestry, agricultural irrigation, water treatment and management, etc.)
Increased resilience of:	

- Most vulnerable people and communities
(E.g. mitigation of operational risk associated with climate change – diversification of supply sources and supply chain management, relocation of manufacturing facilities and warehouses, etc.)
- Health and well-being, and food and water security
(E.g. climate-resilient crops, efficient irrigation systems, etc.)
- Infrastructure and built environment
(E.g. sea walls, resilient road networks, etc.)
- Ecosystem and ecosystem services
(E.g. ecosystem conservation and management, ecotourism, etc.)

A.2. Project / Programme Executive Summary (max 300 words)

Agriculture, livestock and forestry activity are the foundations of the economy in Central American countries. This sector is especially sensitive to weather- and climate-related factors because of these countries' geographical location and their socioeconomic and technological characteristics. Climate change scenarios suggest that production could drop significantly during this century. These potential losses would have a direct impact on producers, most of whom operate as family businesses at subsistence levels, but they would also impact food security, poverty and the degree of dependence on grain imports, which has already been rising over the past three decades.

Moreover, environmental degradation and the destruction of biodiversity and pests spreading are processes that are already in full sway and that will very probably become more marked as climate change progresses.

One of the primary constraints that limit the growth of any of these small agricultural production units or rural MSMEs is the limited access to credit. Conservative banking practices and high risks associated with operations in rural areas have left the agricultural sector with limited financial options for business development. In most of Central American countries, credit to the whole agricultural sector accounts for roughly 3% of total credit offered by regulated financial systems (Costa Rica, El Salvador, Honduras, Panama, Dominican Republic), with a higher percentage in Guatemala (8%) and Nicaragua (10%). This percentage is much lower in the case of MSMEs, and even lower for adaptation purposes.

This Programme's primary objective is to increase resilience to climate change of Micro, Small and Medium-sized Enterprises (MSMEs) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic by removing barriers to access financial and non-financial services for adopting and implementing climate change best adaptation measures.

The initiative will promote innovation and provide solutions of adaptation to climate change through the following specific objectives:

1. To reduce the obstacles to credit access for MSMEs. Access to lending will be promoted through financial and non-financial mechanisms that will help reduce the risk inherent to all production activities. These systems will be supported through the network of Intermediary Financial Institutions (IFIs) accredited by CABI across the region. Through this financing, the implementation of best adaptation measures with a natural resource conservation approach, as well as the consolidation of production systems adapted to climate change, will be promoted (Component 1).
2. To strengthen the beneficiaries' capacities through training and technical assistance services to develop best adaptation measures for production models, improving their organizational capabilities and introduction of new technologies for adaptation to climate change (Component 2).
3. To promote adaptation measures through an incentive scheme that increases MSMEs resilience. This incentive will award MSMEs willing to prepare themselves to face climate variability adequately, while preserving natural resources and assets, and CMNFIs (Cooperative, Micro-Finance and Non-Bank institutions) promoting the access to financing for adaptation measures, as well as their successful implementation (Component 3).

This initiative aims to reach more than 17,000 direct beneficiaries which correspond to more than 50,000 indirect beneficiaries, by providing 5,000 credits through intermediary financial institutions. This initiative will be implemented in a region that is highly vulnerable to climate change, where conservative banking practices have left the agricultural sector

with limited financing. The revolving nature of the proposed intermediation scheme, as well as the dimension of the reach of CABEL's network in the seven countries, has an outstanding multiplier potential.

By the adoption of ecosystem-based adaptation measures, the Programme is expected to reach 63,776 hectares of agricultural land made more resilient and 60,478 hectares of strengthened ecosystems in response to climate variability and change.

CABEL proposes a scheme that entails the establishment of a Risk Sharing Facility whereby each institution becomes responsible for their portion of loans to FIs. CABEL is matching the GCF funding amount of USD\$ 12.5 million to this Facility for providing credits through intermediation to MSMEs under Component 1 (total of USD\$ 25.0 million). Additionally, CABEL is requesting USD\$ 3.0 million from the GCF as grant for covering the non-refundable activities (USD\$ 1.84 million for capacity building, USD\$ 0.29 million for Advocacy and Lessons Learned and USD\$ 0.73 million for incentives) and for the cost management of the Programme (USD\$ 0.14 million).

A.3. Project/Programme Milestone	
Expected approval from accredited entity's Board (if applicable)	30/10/2018
Expected financial close (if applicable)	01/06/2038
Estimated implementation start and end date	Start: <u>01/06/2019</u> End: <u>01/06/2024</u>
Project/programme lifespan	15 years

B.1. Description of Financial Elements of the Project / Programme

How the choice of financial instrument(s) will overcome barriers and achieve project objectives, and leverage public and/or private finance

The financial instruments proposed in the Programme will help reduce the obstacles to investment in adaptation actions in a sector that has currently insufficient access to credit, and a significant lack of knowledge on the impacts on climate change as well as the potential solutions for increasing resilience of the productive systems. Barriers to banking and business need to be removed, and an enabling environment that catalyzes resilient investments in micro-small and medium-sized enterprises needs to be created.

The programme aims to promote access to lending through financial and non-financial services to install and spread the adaptation technologies, and in parallel to establish incentives under the form of awards to promote best adaptation practices and encourage IFIs to develop this kind of programmes. The Programme will help MSMEs to adopt good quality adaptation projects as well as credit behaviour.

This initiative will reduce barriers to credit for 5,000 MSMEs to implement adaptation measures and will increase awareness among IFIs of potential market opportunities, having a target of at least 7 IFIs that operate programmes for adaptation investments. Both MSMEs and CMNFIs (Cooperative, Micro-Finance and Non-Bank institutions) will receive incentives for adopting this scheme (1,340 projects will be granted Adapt-awards); training will build capacities of MSMEs to manage credits and IFIs to implement a financial product that responds adequately to MSMEs' needs to reduce their perception of MSMEs as a high risk across the region.

1) Risk sharing facility (Component 1)

For this objective, CABEL is requesting USD\$ 12.5 million to the GCF for the establishment of a Risk Sharing Facility in the form of a trust agreement, in which CABEL would match GCF's loan amount allocated to this Facility. This total of USD\$ 25 million will be used for providing credits to MSMEs through intermediation under Component 1. In this facility, each institution becomes responsible for their portion of loans to IFIs (50%). However, CABEL will be still bound by AMA obligations and thus shall protect GCF's interests amount.

CABEL will be the lender of record and manage all the outflows and reflows of loans to IFIs. CABEL will reflow principal and interest of the GCF loan portion to GCF. The revolving nature of the credit lines to the IFIs will only apply to the principal amounts repaid by the IFIs. CABEL will also perform all AE duties.

In this scheme, CABEL and GCF take the credit risk of IFIs. The IFIs will bear a full recourse liability to CABEL/GCF even if MSMEs default on their loans from the IFIs.

The merits of this structure are:

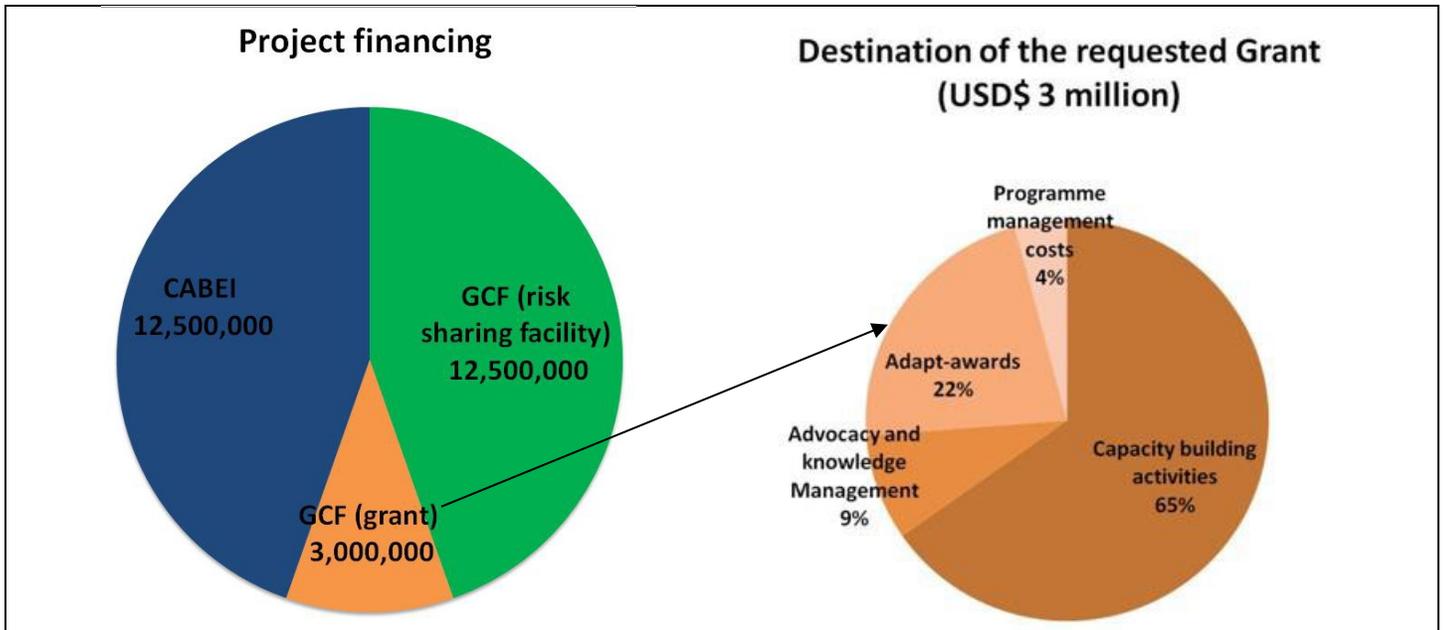
- Lower risk exposure to CABEL, compared to the situation of CABEL bearing the full credit risk of the FIs.
- Minimum concessionality: GCF can minimize CABEL's concessionality by aligning financial terms to underlying loans.

With regards to concessionality of the credits to be granted to the MSMEs, CABEL guarantees that GCF's concessionality will be passed on to final beneficiaries through the IFIs.

Concerning private sector leverage, CABEL will seek to leverage funds from IFIs and from MSMEs.

2) Grant (Components 2, 3 and 4)

The remaining funds requested to the GCF, USD\$ 3.0, are requested as Grant, based on the fact that they will be used as non-refundable activities: USD\$ 1.84 million for Capacity building activities; 0.29 for Advocacy and Knowledge Management; 0.73 for Adapt-Awards; and 0.14 for Programme management costs (0.91% of GCF proceeds). The figure below shows the destination of the requested Grant.



Breakdown of cost estimations

Component	Sub-component (if applicable)	Amount (for entire programme)	Currency	Amount (for entire programme)	Local currency	GCF funding amount	Currency of disbursement to recipient
1. Innovative financial mechanisms for ecosystem-based adaptation measures	1.1. Credits for adaptation for MSMEs.	25.00	million USD (\$)	-	-	12.5	USD \$
2. Capacity Building for the Development of Production Models Resilient to Climate Change	2.1. Generation of local capacity on adaptation to climate change and project identification	0.47	million USD (\$)	-	-	0.47	USD \$
	2.2. Capacity building for IFIs and MSMEs to support implementation of projects	1.37	million USD (\$)	-	-	1.37	USD \$
	2.3. Advocacy and knowledge Management Reinforced	0.29	million USD (\$)	-	-	0.29	USD \$
3. Incentive scheme to promote adaptation measures to be implemented by MSMEs (Adapt-Award)	3.1. Incentives awarded	0.73	million USD (\$)	-	-	0.73	USD \$
4. Programme Management	4.1. Programme management	0.14	million USD (\$)	-	-	0.14	USD \$

Total project financing	28.00	million USD (\$)	-	-	15.5	USD \$
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Breakdown of cost/budget by expenditure type

(Project staff and consultants, travel, goods, works, services, etc.)

Expenditure type	Amount (USD \$)
Credits	25,000,000
Professional/ Contractual Services	1,068,000
Training, workshops, and conference	1,147,500
Incentives (awards)	734,500
Operative expenses (travel, paperwork, office materials)	50,000
Total	28,000,000

Disbursement schedule of GCF proceeds

The disbursement schedule will follow the needs of the yearly-expected budget. A tentative schedule is presented below.

Year 1	Year 2	Year 3	Year 4	Year 5
USD \$				
1,799,300	3,101,700	3,161,700	3,093,050	4,344,250

B.2. Project Financing Information

	Financial Instrument	Amount	Currency	Tenor	Pricing
(a) Total project financing	(a) = (b) + (c)	28.00	million USD (\$)		
(b) GCF financing to recipient	(i) Senior Loans	12.5	million USD (\$)	According to AE policy	A percentage of the AE interest rate as outlined in the term sheet.
	(ii) Grants *	3.0	million USD (\$)	5 years	<u>N/A</u>
	* Please provide economic and financial justification in section F.1 for the concessionality that GCF is expected to provide, particularly in the case of grants. Please specify difference in tenor and price between GCF financing and that of accredited entities. Please note that the level of concessionality should correspond to the level of the project/programme's expected performance against the investment criteria indicated in section E .				
	Total requested (i+ii+iii+iv+v+vi)	15.5	million USD (\$)		

	Financial Instrument	Amount	Currency	Name of Institution	Tenor	Pricing	Seniority										
(c) Co-financing to recipient	Senior Loans	12.5	million USD (\$)	CABEI	According to AE policy	According to AE policy	According to AE policy										
	Lead financing institution: CABEI																
	* Please provide a confirmation letter or a letter of commitment in section I issued by the co-financing institution.																
(d) Financial terms between GCF and AE (if applicable)	<p><i>In cases where the accredited entity (AE) deploys the GCF financing directly to the recipient, (i.e. the GCF financing passes directly from the GCF to the recipient through the AE) or if the AE is the recipient itself, in the proposed financial instrument and terms as described in part (b), this subsection can be skipped.</i></p> <p>Not applicable</p> <p><i>If there is a financial arrangement between the GCF and the AE, which entails a financial instrument and/or financial terms separate from the ones described in part (b), please fill out the table below to specify the proposed instrument and terms between the GCF and the AE.</i></p>																
	<table border="1"> <thead> <tr> <th>Financial instrument</th> <th>Amount</th> <th>Currency</th> <th>Tenor</th> <th>Pricing</th> </tr> </thead> <tbody> <tr> <td></td> <td>.....</td> <td><u>Options</u></td> <td>() years</td> <td>() %</td> </tr> </tbody> </table>							Financial instrument	Amount	Currency	Tenor	Pricing		<u>Options</u>	() years	() %
	Financial instrument	Amount	Currency	Tenor	Pricing												
	<u>Options</u>	() years	() %													
<p><i>Please provide a justification for the difference in the financial instrument and/or terms between what is provided by the AE to the recipient and what is requested from the GCF to the AE.</i></p>																	

B.3. Financial Markets Overview (if applicable)

Not applicable: there are no financial products directed to the segment of MSMEs and for the activities that will be financed by the Programme. Therefore, it is not possible to describe comparable market conditions.

However, a financial and market assessment of available parameters per country has been performed. Please see ANNEX IXc. Please also refer to Section C.5 "Market overview" and Section 2.5 of the Feasibility Study for further details on the situation of the rural MSMEs with regards to access to credit. Please also see document "CABEI Master Overview" where information of targeted FIs, potential funding amount per FIs, indicative pricing ranges, expected blended pricing, tenor of loans, among others.

In the majority of Central American countries there are no specific credit products for climate change adaptation projects and, moreover, the credit to the agricultural sector accounts for roughly 3% of total credit offered by regulated financial systems. Even so, there is a significant number of microfinance institutions devoted to serving the rural sector, the financial system has to face some important barriers: on the supply side, IFIs do not have permanent long-term financing, methodologies or trained employees to implement financial products and services that better meet client needs. On the other side, there is an unmet demand from rural clients in terms of higher amounts of credit, longer terms loans and different modalities and mechanism that facilitate the use of resources when necessary.

Based on the information of the financial market in Central America, Panama and Dominican Republic, CAMBio II will help to overcome the mentioned barriers and the financing providing will be high competitive in the region not only in terms of rate, but also in resources availability. In terms of market rates to MSMEs, the financial sector in the region is offering an average of 11 -13% in local currency but, this interest rate is lower when public development banks come into it and decreasing the interest rate to an average of 4-6%. Additionally, it will allow IFI to offer solutions in the financial market that allow MSMEs to implement investments to adapt to climate change. The proposed financial scheme reduces the risk in the promotion and development of activities related to the climate change adaptation investments in sectors such as agriculture, fishing or forest management, and the concessionality that is passed on to beneficiaries will incentivize the appetite for credits under this Programme.

In summary, based on the experience with CAMBio I, on the consultation process developed during the funding proposal preparation and the vast knowledge on intermediation programmes, CABEL can confirm the urgent need to have credit options available for adaptation to climate change in a region that, according to projections, is one of the most vulnerable to its projected impacts and the losses it will provoke in the forthcoming years.

Please fill out applicable sub-sections and provide additional information if necessary, as these requirements may vary depending on the nature of the project / programme.

C.1. Strategic Context

Please describe relevant national, sub-national, regional, global, political, and/or economic factors that help to contextualize the proposal, including existing national and sector policies and strategies.

A summary of the main features of the strategic context is highlighted below. Please refer to the Feasibility Study for further description of this background, which includes the socio-economic context, major climate change impacts, and the situation of the agricultural MSMEs in Central America and the Dominican Republic.

Socio-economic context

The total population of the seven participant countries is approximately 56.0 million. Guatemala is the most populated country (16.1 million) and Panama, the least populated (almost 4.0 million). 64.1% of the regional population lives in urban areas. Poverty statistics broken down per rural and urban poverty show that in each one of the seven countries, the highest poverty percentage is located in rural areas. More than 6 and a half million people, approximately 25.0% of the population, are dependent on the primary sector, which is highly dependent on climate and quality of ecosystems. Please refer to the Feasibility Study for a breakdown of socio-economic statistics per country.

The region features a wide variety of ethnic groups across its territory, including white (22.0%), mestizo (59.1%), indigenous (9.9%) and Afro-descendant (6.9%) populations. Please refer to the Environmental and Social Management Framework (ESMF) in ANNEX III for more information about the distribution, characteristics and legal status of these groups.

Climate change impacts

Central America is one of the areas in the world that is most exposed to the consequences of climate change, which is heightening its social and economic vulnerability, and it will have an increasingly strong influence on its economic growth since weather-related factors have a decisive impact on many of its production activities.

According to the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report, climate projections suggest increases in temperature and variations in precipitation for Central America by 2100.

As stated in this Report, changes in streamflow and water availability have been observed and projected to continue in the future, affecting already vulnerable regions. The second half of the 20th century was associated with changes in precipitation. Risk of water supply shortages will increase due to precipitation reductions and evapotranspiration increases in semi-arid regions, thus affecting the water supply for cities, hydropower generation, and agriculture. Sea level rise and human activities on coastal and marine ecosystems pose threats to fish stocks, corals, mangroves, recreation and tourism, and control of diseases. Changes in weather and climatic patterns are negatively affecting human health in the region, by increasing morbidity, mortality, and disabilities, and through the emergence of diseases in previously non-endemic areas.

Please refer to the Feasibility Study to have a detailed description of climate change projections, impacts and vulnerability by country, extracted from the most recent National Climate Change Communications to United Nations Framework Convention Climate Change (UNFCCC) and / or Climate Change / Adaptation policies. A short overview highlights that:

- ❖ Behavior of climate variables in **Guatemala** shows increases in annual average temperature as well as in total annual rainfall. Temperature projections show that it is expected to increment for the decade of 2050 of between 2.5 and 4.1°C and between 3.3 and 5.4°C for the decade of 2070. A reduction in the availability of water resources is expected due to the decrease of annual rainfall and higher temperatures in the medium to long term. Projections on water availability indicate a reduction from 5.0% to 30.0% by 2050 compared to 2010.
- ❖ From the information shown by **El Salvador** climate change scenarios, it is evident that there is a tendency for the temperature to increase and that there are significant changes in rainfall patterns and availability of water resources.
- ❖ **Honduras** is expected to see a 6.0% reduction of annual precipitation and 0.8°C increase in annual mean temperature by 2020. By 2050, precipitation is expected to decrease between 20.0% and 25.0%. In some departments, this decrease could reach 30.0%. This trend is strengthened in scenarios for 2090. El Niño Southern Oscillation would become more frequent and intense.

- ❖ Projections for **Nicaragua** indicate a much warmer climate, in which the range of temperature variations in the Pacific Region could decrease, while the pattern of precipitations indicates, with relatively less uncertainty, a reduction of precipitations over the Atlantic Region. In Southern Nicaragua, projections indicate a possible increase of rains, which is related to the permanent increase in precipitations observed in a broad area over Costa Rica and Panama. For the period from 2071 to 2099, there could be an increase of temperature of 3.0°C to 4.0°C. According to the results of the models, precipitation will increase from 0.0% to 50.0% west of 85° meridian, as opposed to a reduction of rains in the Atlantic region, especially in the dry season.
- ❖ According to studies by the National Meteorological Institute (IMN) of **Costa Rica**, the most frequent and extreme weather events include: tropical depressions, tropical storms, hurricanes, tropical waves, low-pressure systems, troughs, and cold fronts. Any of these phenomena of intense nature may cause flooding. Costa Rica's climate variability is related to the ENOS phenomenon, El Niño-Southern Oscillation. During El Niño, rice and corn production decrease while bean production increases when, compared to historical averages, the Caribbean region reported losses. During La Niña, the low production of rice and corn tend to increase in all regions except in the Caribbean where it diminishes.
- ❖ Climate change scenarios in **Panama** show that temperature is expected to be 1.0°C to 4.0°C warmer. Precipitation will also present changes ranging from a 10.0% increase to a 10.0% decrease. Under an emission scenario of high climate sensitivity, sea level is estimated to rise at about 0.95 cm/year. At this rate and considering a rise subject to a linear trend, sea level is estimated to rise by about 9.5 cm in 2010, by 40.4 cm in 2050, and by 93.5 cm in 2100. Uncertainty levels throw rise variations from 0.15 cm/year to 0.95 cm/year, in minimum emission scenarios with low climate sensitivity and in maximum emission scenarios with high climate sensitivity, respectively. A map with the Coastal Vulnerable Zones is included in the Feasibility Study.
- ❖ The natural risks that the **Dominican Republic** encounters are linked to extreme climatic events, such as hurricanes, tropical storms, floods, droughts, forest fires, tornadoes, and hail. There are no clear trends available for extreme events. The climate scenarios, basin and nationwide, projected a warming of 1.0°C continuous between now and 2050 and forecasted a likely decrease in precipitation. Nationally, temperatures could increase up to 4.2°C. A map of predicted changes in temperature and rainfall in the country has been included in the Feasibility Study. Sea level is expected to increase, and this may result in the intrusion of salt water, through the estuaries of the rivers during the high tide, or directly affecting groundwater basins. This can affect water quality in aquifers that have hydrological continuity with the sea, affecting the quality of water for human use and agriculture.

C.2. Project / Programme Objective against Baseline

The Feasibility Study offers a detailed description of the baseline scenario: it provides the rationale for the intervention in the seven countries, based on exposure and vulnerability to climate change.

Climate vulnerability baseline

Central America is one of the areas in the world that is most exposed to the consequences of climate change. As a narrow isthmus between two continents, between the Pacific and Atlantic Oceans, it is frequently hit by droughts, hurricanes and the effects of the El Niño Southern Oscillation.

According to 2017 Climate Risk Index developed by German Watch, three countries from the region, Honduras (1), Nicaragua (4) and Guatemala (9) are within the 10 countries most affected by Climate Change events from 1996 to 2015. Climate change is heightening these countries' social and economic vulnerability and it will have an increasingly strong influence on their economic growth since weather-related factors have a decisive impact on many of their production activities.

Climate change scenarios have been summarized in section C.1 and developed in the Feasibility Study (FS).

With regards to vulnerability, most of the National Communications to the UNFCCC have assessed this matter, with different level of details. The most important points for each country have been described in the FS as well. The following summarizes the main issues:

- ❖ **Guatemala:** A reduction in the availability of water resources is expected due to the decrease of annual rainfall and higher temperatures in the medium to long term. Small farmers are seriously impacted by droughts associated to climate change. Assessments show that farmers lose, on average, 55.0% of their basic grain

production during drought periods. The response capacity of these farmers is very low, since only 16.0% of those who were interviewed take specific actions to adapt.

- ❖ **El Salvador:** Vulnerability is addressed by the three priority action lines of the National Strategy: a) the sectoral adaptation strategies, with emphasis on agriculture, water resources, infrastructure and health, which are being increasingly affected; b) restoration of critical ecosystems and rural landscapes, which is related to the high levels of environmental degradation; c) urban and coastal zoning, based on the fact that the uncontrolled expansion of urban areas over water infiltration zones sensitive to landslides of unsuitable for land use are not only increasing the risk of flooding but also the chances of reducing local water supply. A similar problem arises in the coastal area where various activities are expanding on fragile ecosystems that are moreover being affected by extreme events or sea level rise.
- ❖ **Honduras:** Climate change impacts have been analyzed by department (see FS). Following the impacts summarized in section C1 and the FS, the 2nd National Communication to the UNFCCC affirms that under such scenarios, staple crops grown in the south and west of Honduras would virtually disappear if no adaptation measures are taken in the face of such changes.
- ❖ **Nicaragua:** The Pacific region is the most vulnerable in terms of drinking water problems, as to its quality as well as quantity, due to a convergence of several factors: high population growth, high population density, and low rainfalls. The Atlantic region's vulnerability lies in the high number of persons without access to drinking water services and with low human development indexes, which consequently results in the population's low capacity of adaptation. Most of the forests that are important for the drinking water sector are located in an area of high vulnerability and high population density in the Nicaraguan Pacific region.
- ❖ **Costa Rica:** In the 3rd National Communication to the UNFCCC, vulnerability to extreme dry and rainy events related to global warming were analyzed by department. This analysis showed that the provinces of Guanacaste and Puntarenas would be at higher risk for extreme dry events, whereas Limón and Puntarenas are the most vulnerable to rainy extreme events. Please refer to the Feasibility Study for further details.
- ❖ **Panama:** The 1st National Communication to the UNFCCC identified that the occurrence of climate phenomena such as El Niño and La Niña pose a threat for national agriculture, mainly, in provinces of the central region, including Coclé and Los Santos, where 85.0% of the domestic rice production takes place. These areas are deemed to be sensitive and vulnerable as they are exposed to more significant variations in the face of intense rainfall, dry spells, and floods. In the 2006-2007 period, a long-lasting drought affected 4,900 rice-growing hectares, in the provinces of Herrera, Los Santos, Coclé, and Panama, causing millions in losses. This Communication produced a physical map of the Panama Republic, which allowed identifying eight significant priority areas based on their vulnerability.
- ❖ **Dominican Republic:** In the vulnerability studies, the possible effects of climate change on the coastal tourist area in the Eastern region are concentrated on the Haina river basin, which contributes 25.0% of water to the capital city of Santo Domingo. Effects on health, due to the impact of dengue and malaria on Santo Domingo and other towns. Effects on biodiversity, primarily related to the protected areas, and on agriculture and food security. Finally, impacts from the use of the soil and forests within Los Haitises National Park. The rise of the sea level may have as consequence the intrusion of salt water, which could affect the quality of water for human use and agriculture. The provinces that present high levels of vulnerability of agriculture to drought are in the West, South-West and East of the country.

Climate change and the agricultural sector in Central America

The primary agricultural sector contribution to the Gross Domestic Product (GDP) of countries within the region, measured by the national accounts, represents about 20.0% in Guatemala and Nicaragua, between 10.0% and 15.0% in Honduras and El Salvador, and less than 10.0% of GDP in Costa Rica and Panama, while in the Dominican Republic it represents 8.9% of total GDP. If the agricultural sector is considered as a whole, its contribution to the GDP is much more significant. For example, in countries such as Guatemala, Honduras and Nicaragua the sector as a whole contributes 30.0% of the GDP.

Family agriculture produces about 50.0% of the total agricultural production of the region's countries and attains more than 56.0% in countries such as Honduras and Panama. Regarding food, family agriculture produces over 70.0% of Central American food (FAO 2012).

Agriculture in Central America is especially sensitive to weather- and climate-related factors because of these countries' geographical location and their socio-economic and technological characteristics. It is the production sector that has sustained the greatest losses as a result of extreme weather events in recent decades. This is particularly serious as the agricultural sector accounts for just 9.0% of the sub region's GDP, but employs 30.0% of the working population and produces critical inputs for the agro-industrial.

Initial estimates based on climate change scenarios suggest that grain production could drop significantly during this century (decreases in yields of up to about 35.0%, 43.0% and 50.0% for maize, beans and rice, respectively, by the end of the century under the A2 scenario and of 17.0%, 19.0% and 30.0% under the B2 scenario relative to the yields of the last decade, assuming the absence of adaptive measures). These potential losses would have a direct impact on producers, most of whom operate as family businesses at subsistence levels, but they would also affect food security, poverty and the degree of dependence on grain imports, which has already been rising over the past three decades (ECLAC, 2013d).

The available evidence for Central America indicates that environmental degradation and the destruction of biodiversity are processes that are already in full sway and that will very probably become more marked as climate change progresses. For example, the Potential Biodiversity Index (PBI) for Central America points to a reduction of approximately 13.0% during this century due to changes in land use (without climate change). Climate change is projected to boost this loss to somewhere between 33.0% and 58.0% (respectively, for scenarios B2 and A2) by the end of the century (see map III.1) (ECLAC, 2011b).

Other processes that generate substantial impacts on the agricultural sector are those related to plagues: epidemic diseases provoked by the pine beetle (“gorgojo”) or the coffee rust (“roya”), have already caused irreparable damage to woods and plantations. These plagues are having a more significant impact due to climate change since they are related to more extended drought periods (in the case of the pine beetle) and with excessive humidity due to intense rainfall (coffee rust). Please refer to the Feasibility Study for further details on these diseases.

Please find a detailed description of the agricultural sector in Central America and the Dominican Republic in the Feasibility Study, that includes: i) an overview of the agricultural sector and food production; and ii) the characteristics of the agricultural production by country.

Outcomes and the impact that the Programme will aim to achieve in improving the baseline scenario

The objective of the proposed Programme is to increase resilience to climate change of MSMEs in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic by removing barriers to access financial and non-financial services for adopting and implementing climate change best adaptation measures.

The Programme will have an impact in increasing resilience of MSMEs by promoting investments related to access to water, adoption of technologies and practices more resilient to climate change, construction of protective structures against climates threats, and productive diversification, among others.

The Programme will overcome barriers related to MSMEs credit access for adaptation purposes. MSMEs still face critical challenges regarding access to credits. In most of Central American countries, lending to the agricultural sector accounts for roughly 3.0% of total credit offered by regulated financial systems (Costa Rica, El Salvador, Honduras, Panama, Dominican Republic), with a higher percentage in Guatemala (8.0%) and Nicaragua (10.0%). The agricultural portfolio exceeds USD \$77 billion in Latin America and the Caribbean, representing over 5.0% of the portfolio of the regulated financial system in several countries.

The Central American Agricultural Policy identified the elements that constrain the development of financial services and risk management instruments in rural areas, including but not limited to:

- Perception of the agricultural sector by the private sector, intermediary financial institutions, as a high risk.
- Limited information available on the options and conditions of the existing financial services.
- Lack of financial instruments that accommodate the needs inherent to the agricultural activities.
- Absence of real estate as collateral, particularly for the small-scale producers.
- Deficiencies of the public entities in the agricultural sector to seek financing solutions.
- Insufficient development of risk insurance mechanisms.

Despite the vast array of actors in the financial system (private banks, development banks, insurance companies, cooperatives, NGOs, rural-oriented savings and loan associations, among others), there is limited financial reach across rural areas, characterized by the limited presence of financial intermediaries. Also, a high proportion of financial organizations present in rural areas is frail and offers only low-quality credit or reduced range of services (not appropriate to meet the needs of the demand), and at an overall high cost, including transaction costs and interest rates.

For further information about access to credit for rural MSMEs, please refer to Section C.5 Market Overview, and a detailed description in the Feasibility Study.

For further details on barriers related to women accessing funds, and how dedicated budget and activities have been assigned, please refer to ANNEX IV Gender Assessment and Action Plan.

C.3. Project / Programme Description

CABEI has designed this Programme by leveraging the lessons learned from its extensive experience implementing programmes with MSMEs through its own financial institutions' network. This Programme will build on the lessons learned and the current context to achieve the outputs and outcomes described in the following table.

Table 1. Programme components and expected outcomes and outputs

Project/Programme Components	Expected Outcomes	Expected Outputs	Amount (USD\$)
1. Innovative financial mechanisms for Ecosystem based Adaptation measures	<p>Barriers to credit for MSMEs adopting adaptation measures are reduced and MSMEs' resilience to climate change is strengthened.</p> <p>Increased awareness among financial institutions of potential market opportunities for lending to MSMEs that invest on adaptation measures and improve their resilience to climate change.</p>	<p>5,000 MSMEs receive credit for the implementation of adaptation measures.</p> <p>At least 7 IFIs operate credit lines for investments on adaptation to climate change</p>	<p>25,000,000 (Risk Sharing Facility - 12.5 M CABEI – 12.5 M GCF)</p>
2. Capacity Building for the Development of Production Models Resilient to Climate Change	<p>MSMEs strengthened their capacities for adequately designing their adaptation investments.</p> <p>MSMEs increase their knowledge to adapt their production systems, as well as increase their capacities related to organizational strengthening for increasing resilience to climate change.</p> <p>Intermediary Financial institutions increase their knowledge about adaptation financing.</p> <p>Activities and results of the Programme are visible to beneficiaries, stakeholders, and public, and promotes learning from experience.</p>	<p>5,000 MSMEs and at least 30 IFIs have strengthened their capacities in adaptation to climate change at the start-up workshops.</p> <p>About 65 MSMEs are supported with Pre-investment activities.</p> <p>More than 200 MSMEs and at least 1 IFI per country have completed capacity building activities related to adaptation solutions and organizational strengthening for increasing resilience to climate change.</p> <p>More than 30 dissemination events; exchange experiences and systematizations are completed; publications and promotional materials are achieved/ disseminated.</p>	<p>2,125,000 (GCF grant)</p>

<p>3. Incentive schemes to promote adaptation measures to be implemented by MSMEs (Adapt-Award)</p>	<p>Incentive to MSMEs adopting adaptation measures is expanded</p>	<p>1,340 MSMEs receive incentives for adopting adaptation measures.</p> <p>At least 7 IFIs receive incentives for the successful adoption of adaptation measures by MSMEs</p>	<p>734,500 (GCF grant)</p>
<p>4. Programme Management</p>	<p>Project management</p>	<p>Programme management</p>	<p>140,500 (GCF grant)</p>

A summarized description of the Programme's activities is presented in this section. Please refer to the Feasibility Study for further details on Programme structure, activities, eligibility, and other considerations.

Components Description

Component 1: Innovative financial mechanisms for ecosystem-based adaptation measures.

Loans will be provided through intermediary financial institutions (IFIs) that are accredited by CABEL. These loans will be directed to implement adaptation measures that will increase the resilience to climate change of producers through the sustainable management of resources with an ecosystem-based approach in productive systems. CABEL's network of IFIs, as well as CABEL's experience with intermediated credit, has been described in detail in Sections C.3 and C.4, and in the background/ context section in the Feasibility Study.

Component 2: Capacity building for the development of production models resilient to climate change.

Support will be provided to MSMEs and IFIs through grants addressed to improve their technical and business skills, which are key to obtain the expected results in terms of breaking barriers to financing in adaptation.

This component has the following subcomponents:

Subcomponent 2.1 Generation of local capacity on adaptation to climate change and project identification: destined to lay the foundations of the implementation of the Programme with the beneficiaries, by ensuring that both IFIs and MSMEs will have the capacities for understanding climate threats, identifying and assessing projects, being aware of the eligible best adaptation solutions available, monitor their results, and fully understand the operationalization of the Programme.

Subcomponent 2.2 Technical Assistance for IFIs and MSMEs to support implementation of projects: The activities under this subcomponent have the objective of providing technical support for the optimal implementation of sub-projects, from their design phase (2.2.1 Pre-investment for MSMEs) to their implementation and monitoring phase (2.2.2 Capacity building for MSMEs during implementation and 2.2.3 Capacity building for IFIs during implementation).

Subcomponent 2.3 Advocacy and knowledge Management Reinforced: This sub-component will seek to promote visibility and dissemination through the whole Programme. The proposed activities are events, promotion and dissemination of lessons learned.

Component 3: Incentive scheme to promote adaptation measures implemented by MSMEs (Adapt-Award). Adaptation incentives will be provided to promote changes in attitudes towards conservation and the sustainable use of natural resources through the implementation of adaptation measures on MSMEs' productive systems. In addition, the incentives will support CMNFIs' adoption of credit mechanisms that enhance adaptation measures. Incentives will be higher for women-led MSMEs.

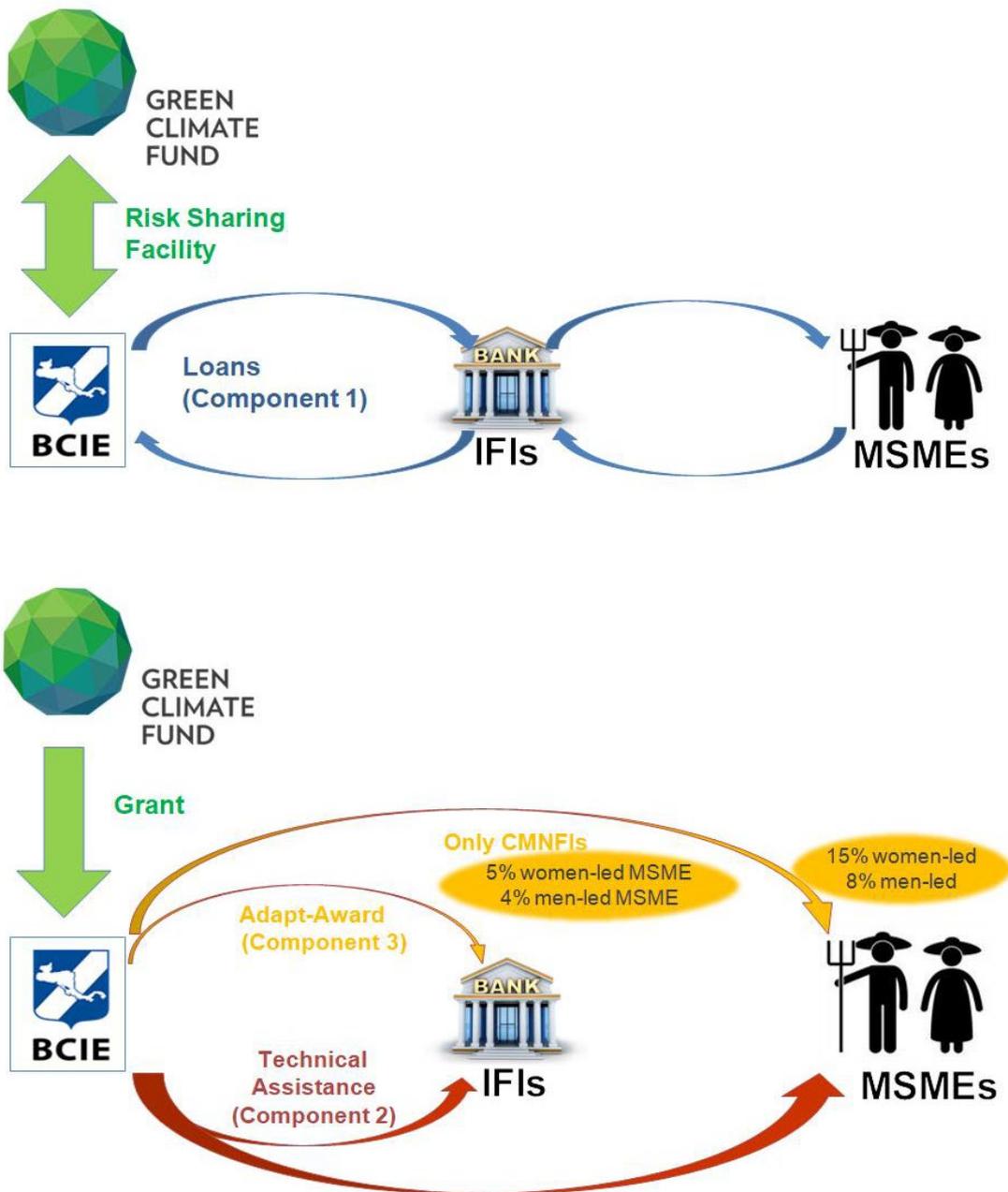
Component 4: Programme Management. A Programme Management Unit (PMU) will be established and will have a dedicated team to guarantee all components and activities are carried out according to the Programme design, to ensure that all expected results would be achieved on time and within budget. This unit will have at

least three full-time positions including an Adaptation Specialist, a Social and Environmental Specialist, and a Capacity Building Officer. Support for administrative functions will as well be hired.

General scheme of the Programme

It is important to emphasize that the three components are fully interlinked and thus, they will all contribute to the adaptation objectives of the Programme.

Programme's operational scheme



The following summarizes the functioning of the scheme:

1) *Technical Assistance (Component 2)* is provided, on one side, to prepare IFIs (all types) for the management of this Programme, to understand MSME's adaptation needs and to lower their perception of the sector as high risk. On the other side, this component aims to support MSMEs to undertake assessments of their adaptation needs and to help them prepare their adaptation plans (pre-investment activities). Technical Assistance is provided throughout the Programme to enhance knowledge about adaptation strategies, and organizational

aspects of MSMEs to face climate change; to perform feasibility assessments; and to support lessons learned and dissemination activities, among others.

2) *Loans are granted (Component 1)* after having assessed eligibility (vulnerability to climate change and credit capacity) and having evaluated the adaptation business plan submitted by the MSME. This plan includes at least a description of climate change threats, adaptation measures proposed, environmental and social plan if applicable, budget and credit payment plan.

3) *Adapt-awards are granted (Incentives, Component 3)* once adaptation activities are achieved and verified. The measure consists in the refund of 20.0% of the loan principal granted by the IFIs (up to USD\$ 10,000). This incentive will be distributed between MSMEs and Cooperatives, Microfinance institutions and, Non-bank financial institutions (CMNFIs) in a percentage of 15% of the credit granted for the MSME and 5% for the CMNFI if the MSME is women-led; and 8% for the MSME and 4% for the IFI if the MSME is men-led. Adapt-awards constitute grants for their recipients.

It is essential to ensure that MSMEs and IFIs are trained through the proposed Technical Assistance activities to comply with the functioning of the scheme and to understand climate threats and design adaptation measures adequately. The access to credit is enhanced by the application of Adapt-awards that promotes the adoption of best practices and increase the quality of the projects by beneficiaries and IFIs.

Incentives and Technical Assistance are the catalyzers of the loan granting. -They are proposed as transitional tools to incentive the setting up of long-term adaptation credit facilities in the seven countries. This Programme proposes working with these two instruments in order to change the current practices of IFIs and MSMEs, assuming that they will no longer be necessary after 5 years of implementation. For further details about CABEL's experience with other intermediation programmes, please refer to Section C.4 and to the background/context section in the Feasibility Study.

It is important to highlight that whilst loans are managed and monitored by the IFIs and approved by CABEL, Technical Assistance activities and Adapt-awards are directly managed and monitored by CABEL. Implementation modalities for each component are described in the sections that follow.

Description of activities

Component 1: Innovative financial mechanisms for ecosystem-based adaptation measures

The purpose of this component will be to stimulate financing (through Intermediary Financial Institutions or IFIs) in favour of Micro, Small, and Medium-Sized Enterprises for the implementation of adaptation measures in the face of climate change impacts, based on sustainable management of resources with an ecosystem-based approach in their production systems. Access to these credits will be enhanced by ensuring that the GCF concessionality is passed on to IFIs and beneficiaries, and with the incentives and readiness tools provided by Components 2 and 3.

Loans provided under this component will entirely go towards the implementation of the possible adaptation measures - based on IDFC Common Principles on Adaptation Finance Tracking - listed in the following table (non-exhaustive):

Reducing risks associated with climate events in production activities

- Small-scale water harvesting, drainage and efficient irrigation systems
- Rainwater catchment in small-scale cisterns connected with agricultural production.
- Promotion of local seed banks and varieties resilient to droughts, pests, and diseases.
- Greenhouses.
- Diversification of production units and staggered planting of crops with the purpose of mitigating the risk associated with prices, climate seasonality and risk of losses.
- High-density planting.
- Establishing agro-forestry systems, and agro-silvopastoral (pastures and fodder) systems.

- Crop rotation.
- Soil conservation (zero tillage, coverage).
- Preparation and use of organic fertilizers.
- Integrated pest management.
- Production and processing certification.
- Shade houses for a protected agricultural production.
- Storage structures (silos, warehouses, stockpiling centers).
- Protection against hurricanes, floods, sea level rise.

Reducing the pressure on the ecosystems and conservation of natural resources

- Sustainable forestry management and design of forest management plans.
- Use of firewood-saving stoves.
- Firebreaks.
- Reforestation with native species.
- Conversion of land use through species for medicinal and edible use (fruit trees and others).
- Use of forest by-products.
- Certification for forest plantations and natural woodlands, among others.

Improving social and economic resilience of the populations

- Family and community vegetable gardens.
- Ecotourism and sustainable tourism
- Beekeeping
- Fish farming

An assessment of the priorities established by the countries' national adaptation strategies and of the priorities expressed by the beneficiaries during the Stakeholders consultations has been included in Section 2.4 of the Feasibility Study. These prioritizations per country will be considered for the implementation of the Programme.

It is important to bear in mind that successful adaptation measures are characterized for being site-specific; that the Programme will be working sometimes with isolated communities, sometimes with indigenous peoples, traditional farmers, who can be proposing technologies unknown issued from traditional knowledge that must be incorporated and promoted. For this reason, the Programme proposes a typology of eligible projects (where tradition and innovation will meet) and lists priority criteria.

The Draft OM submitted with this proposal includes the list of eligible adaptation measures, the results of the prioritization of adaptation measures per country in the agriculture sector included in national official document plans publicly available; as well as the adaptation measures mentioned as priority by stakeholders during stakeholder consultations. The final OM will include further precisions about priority measures per country / sub-region, according to the best available accuracy in terms of climate change projections.

The Programme will use validated technologies in the region. References of validated technologies, guidelines, and reference manuals for the Programme's investment decisions are listed in Section F.2 "Technical Evaluation".

Please refer to Tables 15 and 16 in the Feasibility Study (FS) for the description of a) how these activities would respond to the threats posed by climate change in the region, and b) how the proposed adaptation activities are related to derived ecosystem services and benefits.

It is expected that many of the adaptation measures to be adopted have potential mitigation co-benefits. The identification of adaptation measures, its benefits and possible co-benefits will be promoted and registered through the M&E monitoring system.

Credit will be provided through the Intermediate Financing Institutions (IFI) Network accredited by CABEL. This network, as well as CABEL's experience with intermediated credit, has been described in detail in the background/context section in the FS.

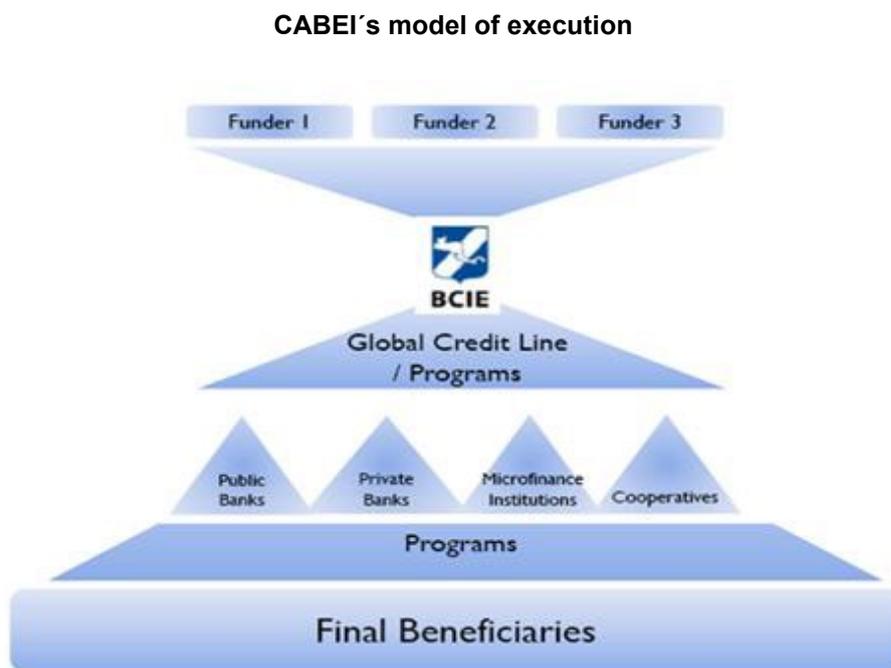
CABEL is the multilateral organization with the largest network of strategic intermediaries to distribute resources in the Central American region through a Global Credit Line (GCL). It is a network that comprises almost 100 Intermediary Financial Institutions (IFIs), which may be the following: Public Banks, Private Banks, Financing institutions, Non-Banking Financial Institutions (IFNB, in Spanish) and Savings and Loan Cooperatives. Please find a list of IFIs with current GCL in ANNEX X.

With the revolving nature of the GCL, the IFI may keep channeling resources granted by CABEL to cover its demand and thus reach sustainability by promoting adaptation measures since revolving credits would be re-invested in adaptation activities under the same credit line.

CABEL's execution model of intermediated credit

Currently, there are 16 Programmes of Financial Intermediation, which are implemented through GCLs. These programmes cover support to MSMEs, education credit, social housing, productive sectors and gender. From the moment the IFI has a GCL from CABEL, it may freely use any of the 16 programmes of Financial Intermediation, depending on the sector it assists, or it wishes to assist, as well as the criteria for the use of such programme.

The following figure explains CABEL's model of execution of intermediated credit.



In the model of intermediated credits execution, diverse sources of financing step in, and these provide specific guidelines for resource execution. For such execution, CABEL is underpinned by a network of Intermediary Financial Institutions providing it with access to a Global Credit Line (GCL). Such intermediaries may be private or public banks, microfinance institutions or cooperatives.

Analysis and Approval of intermediated credit

Within CABEL, there are Regional Offices in each one of the Bank's founding member countries (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama). Each office is directly responsible for the clients within that country, including IFIs (intermediated modality) and government and private sector (direct modality with the

public and private sector). The Dominican Republic is for now supervised directly from the Bank's Headquarters in Honduras through a similar structure as within the regional offices; an office will open in 2019.

In the case of IFIs, the analysis for their eligibility to the GCL takes place during the preparation and analysis stage of CABEL's project cycle. In this stage, the creditworthiness of the IFI is analyzed depending on the type of institution using a credit risk methodology to assign to it a credit quota, which may be later used through the different intermediated credit programmes. The credit risk methodologies used are CAMEL from ACCIÓN International for the case of microfinance companies and PERLAS for the case of savings and loans cooperatives. For the case of banks (both public and private), a methodology known as METRIC is used.

Each one of the above credit risk methodologies analyzes areas such as the institution's capital, the quality of its assets, efficiency, rate of return and liquidity. Such areas have financial indicators to determine a credit risk rating. Among the most important indicators there is financial vulnerability and delinquency, which reflect the quality of the assets of the institution, with which the health and performance thereof is measured.

The credit risk is managed through the yearly accreditation of the IFIs. Furthermore, on a quarterly basis, the credit monitoring area performs an analysis of the financial statements of the IFIs in order to monitor the risk of disbursements made through the GCL.

In addition, CABEL has in place an Identification, Evaluation and Mitigation System for Environmental and Social Risks - SIEMAS - through which, and as part of the analysis process, the relevant documents on environmental and social aspects of the IFI are reviewed to study and mitigate environmental and social risks. Such analysis takes into account two types of impacts: direct and indirect. Direct impacts derive from the institution's own activities and indirect impacts stem from the projects included in the loan portfolio of the IFI, the latter defining the level of such institution's environmental and social risk.

The environmental and social analysis is part of the documents presented to the decision-making spheres for the GCL to be granted to the IFI together with the credit and financial risk assessment. The Environmental and Social Action Plan is an integral part to the loan agreement and its fulfillment is mandatory. In addition, such Action Plan provides a monitoring frequency for the environmental and social aspects during the execution stage of the GCL. With regards to Gender, CABEL will ensure that IFIs incorporate CABEL's and GCF's Gender policy and principles, as well as the Programme's Gender Action Plan.

Please refer to Section 3.1 of the Feasibility Study for further details.

Implementation of intermediated credit

After approval of the GCL, the process of loan formalization is conducted, which commissions the IFI to request disbursements related to the programs approved by the CABEL.

Any potential beneficiary MSME may be identified by the IFI or by programs facilitators of CABEL. To grant resources of any program to such MSME, the latter must fill in an eligibility questionnaire containing the selection criteria established by the program. Should the MSME be eligible for such program, the IFI requests the disbursement. To such end, it must deliver a Resource Justification Form, better known as F1, which is stored in a database administered by the FINAM (Unit of Financing for the Majority).

For each disbursement of any operation with intermediated credit, the F1 goes through the following management process:

Responsible	Apply for	Complete	Review	Validate – Rules, Conditions, Policies	Process	Amend – Substitute - Remove	Consult
Intermediate Financial Institution		✓				✓	✓
Project manager	✓		✓				✓

Intermediary Operations Technicians				✓	✓		✓
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The F1s and the databases have become CABEL's reliable instruments backed by internal agencies and external resources, which serve among other purposes to fulfill the obligations deriving from agreements entered into with such funders.

The information generated through the database, on each one of the intermediation programs, also serves as input for: 1) generating statistics of the programs to understand and direct the channel of intermediated resources; 2) making on site visits requested by the different external sources at the domicile of the final beneficiaries; 3) supervising on site periodically by the CABEL; 4) conducting impact assessments by the CABEL and its external sources, over the final beneficiaries; and 5) conducting internal and external audits on the docket.

It is worth mentioning that CABEL keeps a monthly statistical control of the disbursements made per country, per IFI and Program. With that, CABEL keeps its external sources and the internal Bank's sources up to date. Such process allows to keep a control over the maximum amounts that can be allocated per program, and calculate resource availability to ensure the GCL remains revolving.

Each one of the disbursements made are recorded in the bank systems in such a way that disbursements are assisted with external resources, allowing to obtain information on the portfolio, the sum disbursed, as well as information of final beneficiaries and projects assisted with CABEL's own resources and with external resources.

The revolving process

The GCL consists in a revolving credit quota that any IFI may access through different disbursements under financial intermediation programmes implemented by CABEL, according to such IFI financing needs.

The revolving nature of the GCL of the IFI makes it possible to generate resource availability to the extent credit is paid back. Moreover, such resources available may be allocated again, and in this way, allow the disbursements or financing to grow to keep assisting the demand.

With the revolving nature of the GCL, the IFI may keep channeling resources granted by the CABEL to cover its demand and thus reach sustainability. The programme CAMBio was very successful in providing a threefold increase in the initial funds. This programme is expected to reach at least 1.5 times of threefold.

The IFIs, through the GCLs, offer to finance to the final beneficiaries according to the programmes and criteria approved by CABEL. Access to such programmes is evaluated in terms of the eligibility criteria inherent to each programme, defined by the external source of resources.

For further details about the Project Cycle of the Intermediated Credit, please refer to the Feasibility Study (Section 3.1).

CABEL's experience with intermediation schemes has been described in Section C.4. *Background Information on Project / Programme Sponsor* and further developed in the FS.

Eligibility considerations

- ✓ **MSMEs**

Definition of MSMEs

There are some quantitative aspects that officially define MSMEs that vary depending on the country. The chart below shows qualitative variables for the definition of the MSMEs proposed by CABEL. The Programme will consider these aspects when defining the target MSMEs.

Qualitative variables for the definition of the MSMEs

Establishment	Qualitative aspects
Medium enterprise	Internal division of labor, administrative and accounting controls, meets the legal requirements, more diversified products
Small enterprise	Production processes with some level of technology, greater division of labor without liability, records and accounting controls
Micro enterprise	Low capital-labor relationship, use of simple technology, little division of labor, lack of accounting records

To attend the MSMEs financial needs across the region, CABEL defines MSMEs as those enterprises that count from 1 to 100 employees and have financial needs up to USD\$ 1 million. This definition of MSMEs includes producers' associations and cooperatives if they meet the requirements described above. The quantitative variables that will be applied to this Programme are:

- Medium enterprise: up to 100 employees - needs of up to USD\$ 1 million.
- Small enterprise: up to 50 employees - needs of up to USD\$ 400,000.
- Micro enterprise: up to 5 employees - needs of up to USD\$ 100,000.

Eligibility of MSMEs

MSMEs will be granted support based on their vulnerability to climate change and appropriateness of the measures proposed in responding to the climate change threats, as well as on their financial capacities. Currently, the Resource Justification Form (F1 or eligibility questionnaire) includes a significant number of socio-economic variables that help to assess some aspects of beneficiaries' vulnerability. Adaptation parameters will be incorporated in the eligibility guidelines to be used by the IFIs that will be registered in the F1 form. Please refer to the Environmental and Social Management Framework (ESMF) in ANNEX III for further details on the forms.

Any potential beneficiary MSME may be identified by the IFI or by the Programme facilitators of CABEL. To provide resources for any programme for MSMEs, the IFI must fill in an eligibility questionnaire containing the selection criteria established by the Programme. In parallel, it is necessary to validate the MSME's eligibility to request the disbursement by the IFI for this Programme.

Please refer to Section C.7 Implementation arrangements for a description of the steps for the submission and evaluation of projects.

Agricultural sector and MSMEs vulnerability

i) Sectors and landscape units: Most of the sectors that are linked to small-scale farmers have a significant level of vulnerability. These sectors are related to coffee and cocoa agroforestry, agro-ecologic production, silvopastoral systems, eco-tourism, productive activities related to forests, artisan fisheries and small-scale aquaculture systems, among others. Development / environmental programmes implemented by the participating countries usually define and prioritize landscape units. This territorial approach aims to promote a comprehensive approach for the transformation of the rural landscape. MSMEs located within these geographic units will be prioritized.

ii) MSMEs: It can be anticipated that MSMEs have in general high levels of vulnerability due to many factors. These range from climate variability itself, to environmental degradation (deforestation, pollution,

accelerated desertification processes, overexploitation of the fishing resource), and to the fact that production units are highly dispersed, socio-economic conditions, limitation of access to basic needs such as water, limited access to financial services, to technical assistance, to providers, to market, to adequate technologies.

Some of the criteria that are envisaged for inclusion among the eligibility criteria in the various selection instances will be related to (non-exhaustive list):

- Production unit surface
- Type of activity and if it generates income
- Association status: cooperative / associative projects will be promoted
- Weather phenomena to which productions have been exposed
- Access to climate information
- Access to water
- Soil management practices
- Storage structures
- Technical assistance received
- Gender / belonging to vulnerable minorities
- Relative location to prioritized landscape units
- Cost-benefit analysis of the proposal – positive externalities to enhance ecosystem services
- Alignment with national and regional strategies

Emphasis will be placed on the relative location to/within a landscape unit prioritized by the participating countries, the potential for creating jobs and on the incorporation of a rights approach (gender, indigenous peoples) aligned with the GCF's Environmental and Social Safeguards and CABI's Environmental and Social Policy.

Nevertheless, it is important to remember that the whole region presents a high vulnerability to climate change; and that adaptation measures are, in their essence, site-specific. Thus, the project will consider proposals from MSMEs with a case-by-case vulnerability consideration. Examples of projects prioritization have been included in Section 3.3 of the Feasibility Study.

Additionally, CABI will seek to leverage funds from IFIs and from MSMEs. This aspect will be included within the eligibility considerations, provided that this kind of conditions do not restrict the access to credit from vulnerable MSMEs.

All the above considerations will be further addressed in the Operations Manual of the Programme, to be submitted to the GCF before the first disbursement. The Operations Manual will include the eligibility criteria of MSMEs; assessment criteria of MSMEs projects and appropriate indicators to evaluate it; and the eligible adaptation solution as well as monitoring arrangements for the effective follow-up of the adaptation solutions implemented. The final version of the OM will include considerations about the most up-to-date climate change scenarios information to verify selected projects are consistent with the updated projections of climate change impacts for the region.

Before authorizing disbursements to IFIs, CABI technicians will carry out an analysis of coherence, relevance, sustainability, and cost-effectiveness. It is important to highlight that the project will have an adaptation specialist, an environmental and social specialist, a capacity building officer and a monitoring and evaluation specialist (this latter as part of the AE), in addition to having the structure of managers in each country who are in daily contact with IFIs. This will ensure that the proposals of MSMEs are framed within the objectives of the project. For more details on institutional arrangements, please refer to Section C.7.

✓ IFIs

All types of IFIs will be eligible for accessing the GCL and for receiving Technical Assistance, provided that technical and financial standards and requirements are met in each case. Only Cooperatives, Microfinance institutions and Non-bank financial institutions (CMNFIs) will be eligible for receiving Adapt-award under this initiative.

Please refer to the Feasibility Study for understanding the reasons to involve all types of IFIs, the expected reach of the different types of IFIs, and statistics of proportion of credits granted by CABI's programmes per type of IFI and per type of MSME. Some of the main conclusions are:

- ✓ The presence of private banks is key for reaching microenterprises: since 1996, private banks have granted 24.0% of loans to microenterprises through intermediated credit, being second in importance after non-banking financial institutions.
- ✓ In the case of small and medium-sized enterprises, the largest number of loans have been granted by non-bank financial institutions and private banks.
- ✓ In terms of gender, women are much more present in credit taking through micro and small enterprises; these types of enterprises are reached mainly by non-financial institutions and private banks.

Commercial banking must be convinced that the small-farming sector may not be as risky as thought to be. Nowadays, banks, regardless of their size, are not willing to allocate funds to enter the business or to be trained in this type of programmes, so it is necessary to work hard on their awareness to encourage them to create a specific adaptation product that reaches MSMEs. Once the perspective of adaptation to climate change is incorporated, they will understand the challenges facing their clients and those that will continue to face given the forecast of extreme events in the region.

Capacity building of IFIs is key for the successful implementation of the programme under the GCF investment criteria. Activities in Component 2 will provide the necessary tools for this achievement.

Component 2: Capacity building for the development of production models resilient to climate change.

This Component will build capacities both within IFIs and MSMEs.

In the case of IFIs, the proposed activities aim to develop sufficient capacities that allow them to promote, analyze and finance adaptation investments. In this way, besides the promotion of the financial product, IFI's appropriation of the Programme is guaranteed.

In the case of MSMEs, this component seeks the appropriation of producers to new technologies and methodologies that allow them to establish new measures to adapt to climate change.

Along with the Adapt-awards (Component 3), Technical Assistance activities are proposed as transitional tools to incentivize the setting up of long-term adaptation credit facilities in the seven countries.

The specific objectives of this Component are:

- ✓ To ensure that IFIs and MSMEs are aware of climate change threats and projected impacts
- ✓ To ensure that IFIs and MSMEs are aware of the best available options to face these threats.
- ✓ To make an optimal identification of projects.
- ✓ To ensure that IFIs have the capacity to implement adaptation projects.
- ✓ To ensure that the MSMEs plan and implement their projects so to have real adaptation results.
- ✓ To promote visibility and learning throughout the project.

In terms of Technical Assistance, the component considers two types of Capacity building: one that will set the basic knowledge on adaptation (**Subcomponent 2.1**), and one that will accompany IFIs and MSMEs during the implementation (**Subcomponent 2.2**). These activities aim to provide support through non-refundable resources to MSMEs and IFIs, with the objective of building capacities on the demand side of the adaptation credits (MSMEs) as well as on the supply side (IFIs). This approach is, in CABI's experience in its intermediation programmes, the key to obtaining the expected results and effectively breaking barriers to financing.

This component will be coordinated by the **Capacity Building Officer** that will be hired as part of the Programme Management Unit. This officer will have demonstrated knowledge in adaptation to climate change and rural MSMEs. He/she will have the support of the country officers in each of the participant countries, and will as well articulate with the **strategic partners, TASPs, and governmental bodies** related to agriculture, environment, and climate change, with

the objective of developing a Capacity Building Plan that is aligned with National Policies, NDCs and climate change strategies. The Programme will seek to articulate specifically for the provision of capacity building and technology transfer.

As explained in Section C.7 Implementation Agreements, **Technical Assistance Providers (TASPs)** will be hired for the provision of the capacity building activities. These are qualified organizations in the region that will play a key role in Programme implementation particularly in providing technical services to the IFIs and the MSMEs. It should be noted that these organizations have not yet been selected to be engaged as specific TASPs. The Programme will ensure that the technicians will be selected based on their experience and capabilities to implement the EbA approach. Please refer to Section C.7 for more information on CABEL's strategic partners.

Capacity building needs of IFIs and MSMEs have been assessed during Stakeholder Consultations. Please refer to Annex II 'Stakeholder Engagement', where a summary of the TA needs raised during the interviews has been included. All these topics have been taken into account when defining the capacity building activities of this Component.

It is particularly important in this Component to incorporate the Gender approach. The **Gender Action Plan** will be implemented not only by executing activities that promote women's participation, but also by carefully considering the facilitation of their participation in capacity building activities (language of the calls, schedules, means of transportation, etc.). Resources for covering expenses for women participation have been budgeted under Subcomponent 2.2.

Eligibility: The MSMEs that will be considered will be those having the greatest needs. The steps for the submission, evaluation and approval of Technical Assistance proposals are summarized in Section C.7 Implementation Arrangements in the FS and in the respective operational manual.

Activities of this Component are described below:

Subcomponent 2.1: Generation of local capacity on adaptation to climate change and project identification

The first capacity building activities will be destined to lay the foundations of the implementation of the Programme with the beneficiaries, by ensuring that both IFIs and MSMEs will have the capacities for understanding climate threats, identifying and assessing projects, being aware of the eligible best adaptation solutions available, monitor their results, and fully understand the operationalization of the Programme.

There are three critical activities that will lead to a successful start-up of the implementation of the Programme and that will ensure that the capacities of IFIs and MSMEs to understand and implement adaptation projects are strongly built. The first one, the Inception workshop, is part of the Accredited Entity activities; the other two are budgeted within this subcomponent. The three of them are described below to facilitate the visualization of the logical order between them:

2.1.1. Inception workshop (included in the arrangements for Monitoring, Reporting and Evaluation in Section H.2. and budgeted in the AE fee):

One initial workshop at CABEL's Headquarters in Tegucigalpa will be organized during the first month of the implementation of the Programme to be attended by the IFIs, representatives of the MSMEs, Technical Assistance Providers (TASPs), the PMU, and the staff acting in CABEL as Accredited Entity. The workshop will establish the execution and implementation mechanisms, as well as the finalization of the necessary agreements between the different parties to ensure transparency and efficacy in carrying out the Programme. Strategic partners with expertise in adaptation to climate change will be convened to introduce the climate change subject, its threats and the ecosystem-based adaptation approach. In the inception workshop, the guidelines for projects and beneficiaries' eligibility and for the monitoring and evaluation of the Programme will be provided to all relevant stakeholders. The indicators will also be analyzed and discussed with them to ensure appropriation of the M&E System, and the importance to comply with the guidelines provided to learn and ensure the correct follow-up of the Programme. Also, the Gender Action Plan will be presented with its indicators, to guarantee that all the parties involved in the execution of the Programme are aware of the gender objectives and perform an adequate gender monitoring and evaluation.

Activity 2.1.2 Start-up workshops for the IFIs' network

A competent Technical Assistance Provider (please refer to a list of potential TASPs in section C.7) will be contracted by CABI to provide a Start-up Workshop for IFIs.

Start-up Workshops for IFIs will have the objective to set strong foundations for the optimal implementation of adaptation projects by the IFIs by providing key information on Climate Change, adaptation measures to climate change as well as concrete examples of how and what they can finance in order to support the efforts to adapt to climate change. The attendance to this Workshop will be a requirement for all IFIs entering this Programme.

Frequency:

One Workshop will be provided at the beginning of the Programme's implementation to the IFIs that are identified to be making disbursements in the agricultural sector and have declared their interest for the Programme. These IFIs are listed in the document "CABI Master Overview" attached to the proposal.

Two additional Start-up Workshops will be carried on year 2 and year 3 of the Programme in order to strengthen the capacities on climate change of the original IFI's and develop the capacities of new IFIs that will join the Programme.

Content:

The contents of these workshops will be (non-exhaustive list):

- ✓ Climate change basics. This will include Impacts of climate change in the Region, country, on agriculture, and specifically on rural MSMEs, understanding vulnerability, mitigation co-benefits, and access to climate information.
- ✓ Adaptation to climate change. This will include the explanation on specific adaptation measures and technologies that can be implemented by MSMEs and with potential to be financed by the IFIs.
- ✓ Priority sectors and adaptation measures for each country: Identified priority sectors/interventions will be incorporated into the design of the capacity building workshops for each country, based on the main priorities identified in national sectorial plans and stakeholders consultations
- ✓ Gender and climate change. This will include how climate change affects women and man, and examples and how to manage these differences.
- ✓ Operational functioning of the Programme, including:
 - Eligibility criteria: questionnaires, web platform (development included in activity 2.3.2), Priority criteria, Supervision, Monitoring of adaptation measures, E&S safeguards, Gender policy

IFI will intensely be trained in the functioning of the Programme. Specifically, to assess the eligibility of the projects, they will be able to check if all the criteria are met through a web platform that will be prepared for the Programme (development of this tool is included in Subcomponent 2.3). The platform will include country by country, at the best available resolution, which are the projected climate change impacts and the adaptation measures that would be therefore eligible.

Additionally, IFIs will have the opportunity of exchanging experiences from previous programmes, set a common knowledge, and exchange network for the implementation of this new Programme.

During this workshop, CABI will support the IFIs to identify their knowledge and capacity gaps on climate change issues as a starting point to develop a tailor-made capacity building plan for each FI and to promote subsequent training activities to be financed under Subcomponent 2.2.

Activity 2.1.3 Start-up workshops for MSMEs

Start-up Workshops for MSMEs will have the objective of providing basic and adapted content on projected climate change impacts and the appropriate technologies that would be most suitable for MSMEs to face them. These workshops will provide MSMEs with the basic knowledge about climate change threats as well as proven and suitable technologies to increase their resilience to climate change. Additionally, during the workshops the MSME's will get information on how to access to financing through the IFIs, the financial conditions for the loans, loans requirements, as well as the incentives the Programme provides to MSMEs in terms of pre-investments and technical assistance on climate change.

Besides, the workshops will generate MSMEs awareness on climate change, and will strengthen its linkage with the IFIs fostering the demand for credits to finance the implementation of adaptation measures to climate change. The attendance to this Workshop will be a requirement for all MSMEs willing to apply for a credit of the Programme.

Frequency and distribution:

To reach 5000 MSMEs, around 140 workshops with assistance of 35-40 MSMEs each will be held. The estimated distribution during Years 1 to 5 would be of 35-35-35-28-7 workshops. They will be organized by sub-region within each country as listed in the table below. These regions are estimated to be the ones with higher concentration of credit disbursements, due to characteristics of the beneficiaries and their environment.

Country	Sub-regions
Guatemala	1. Western region 2. Dry Corridor
El Salvador	1. Eastern region (Oriente) 2. Central region 3. Western region (Occidente)
Honduras	1. North-western region 2. Central-eastern region
Nicaragua	1. Northern region 2. Central región
Costa Rica	1. Guanacaste 2. Northern region 3. Southern region
Panama	1. Chiriquí 2. Central Provinces 3. Panama city surroundings
Dominican Republic	1. Eastern region 2. Central region 3. Western region

Content:

The workshop will include at least the following topics;

- ✓ Climate change basics. This will include Impacts of climate change in the Region, country, on agriculture, and specifically on rural MSMEs, understanding vulnerability, mitigation co-benefits, and access to climate information.
- ✓ Adaptation to climate change. This will include the explanation on specific adaptation measures and technologies that can be implemented by MSMEs. Special attention will be done to the explanation and discussion on technologies to address climate change threats.
- ✓ Priority sectors and adaptation measures for each country: Identified priority sectors/interventions will be incorporated into the design of the capacity building workshops for each country, based on the main priorities identified in national sectorial plans and stakeholders consultations
- ✓ Gender and climate change. This will include how climate change affects women and man, and examples and how to manage these differences.
- ✓ The Financial Product for MSMEs. This will include an explanation on the financial terms, loan requirements, eligibility criteria, among others.
- ✓ The Programme incentives for MSMEs. This will include an explanation on the pre-investment and technical assistance support for MSMEs and how to access to it.

The delivery of the workshops will be carried out by a competent Technical Assistance Provider contracted by CABEL (please refer to a list of potential TASP's in section C.7). The delivery of the content will be done using appropriate methodologies, materials, and language to guarantee an effective transference of knowledge. Each workshop will be assessed in terms of the content, the methodology used, the technical assistance provider, the material provided, among others.

Subcomponent 2.2: Technical Assistance for IFIs and MSMEs to support implementation of projects

The activities under this subcomponent have the objective of providing technical support for the optimal implementation of sub-projects, from their design phase (2.2.1 Pre-investment for MSMEs) to their implementation and monitoring phase (2.2.2 Capacity building for MSMEs during implementation and 2.2.3 Capacity building for IFIs during implementation).

Activity 2.2.1 Technical assistance for pre-investment for MSMEs: technical assistance for the performance of studies prior to execution of new adaptation investments or for the support of existing investments that call for expansion, diversification or support to access financing.

Aimed at existing as well as potential clients of the IFI. Consultants from the network of Technical Assistance Providers will be hired depending on the specific needs related to the selected adaptation technologies.

Assessments that can be provided under this activity are:

- ✓ Adaptation projects' final designs
- ✓ Environmental assessments / analysis
- ✓ Financial assessments
- ✓ Accompaniment to the final design of Business Plan to obtain credit.

Activity 2.2.2 Capacity building for MSMEs during implementation: financial support for MSMEs aimed at strengthening capacities on investments oriented to a) ecosystem and agricultural production system adaptation to climate change, b) at removing financial obstacles for these sectors; c) to enhance technical and entrepreneurial capacities; and d) to enhance gender-sensitive investments.

These activities will be managed through sectorial trade associations or IFIs against proposal presentation. This activity includes specific resources for supporting women on the field and facilitating their participation in Programme activities.

Topics:

- ✓ Adaptation technologies.
- ✓ Organizational capacities, - provided that tangible adaptation outcomes can be demonstrated, e.g. climate change communication skills, organizational capacities to prioritize climate actions (to be assessed by the PMU).
- ✓ Ongoing formation on gender issues: 3 activities per year in 3 different countries (see Gender Action Plan in ANNEX IV).
- ✓ Workshops with women leaders and employees on adaptation to climate change and financial services: two workshops per year in two different countries (see Gender Action Plan in ANNEX IV).

Activity 2.2.3 Capacity building for IFIs during implementation: financial support for IFIs aimed at strengthening capacities on:

- ✓ Adaptation to Climate Change and environmental and social risk assessment for the IFI internal team.
- ✓ Construction of adaptation to climate change programmes inherent to the IFI.
- ✓ Training in gender issues for IFIs, as per the Programme's Gender Action Plan (see ANNEX IV).
- ✓ Design of financial products ad-hoc to attend adaptation to climate change related investments
- ✓ Analysis of investment criteria to identify adaptation measures
- ✓ Identification and eligibility of investments
- ✓ Monitoring and Evaluation of investments

The capacity building activities can consist of short or long training in ongoing formation modalities.

IFIs will be prioritized based on their needs and actual capacities.

IFIs will be granted this support upon request to CABI through the submission of a proposal.

Subcomponent 2.3: Advocacy and knowledge Management Reinforced

This sub-component will seek to promote visibility and learning through the whole project.

A substantial portion of Lessons Learned will be based on monitoring and evaluation activities from CABI, which will include within its main activities the definition of a methodology to systematize the institutional reporting thereof. To such end, experiences will be studied looking back and looking forward to document the learning process.

To identify the lessons learned, generate knowledge and disseminate it, several mechanisms are proposed to feed the project's monitoring, evaluation and generation of project's lessons learned.

The system will have different methods to generate information, both qualitative and quantitative, which in turn will generate different products.

The main objective of gaining lessons learned is to identify successful cases in order to systematize information on the factors that got to promote best practices and be able to replicate them. Similarly, it is also expected to know which the problems were during project execution and the experiences that did not turn out as intended in order to learn to overcome such problems and to avoid them in the future.

To such end, the actions described below are proposed to be added to the monitoring and evaluation system based on indicators and information search from CABI:

- ✓ **Identification of at least 3 innovating practices by MSMEs in 3 different countries** which have been successful in the adaptation to climate change. Through the systematization of experiences, we can document and learn what the process of adoption and set-up of the practice was like, which factors enabled such experiences, and which lessons can be learned and possibly replicated in other experiences. Date of performance: last two years of project application.

The output of this activity will be a study in hard copy. For its dissemination among the MSMEs, workshops of introduction and reflection on the three experiences are proposed to be held in each country, summoning potential clients and MSMEs already conducting their own projects for them to analyze their experiences, and reflect on how such experiences can improve their own practices.

- ✓ **Beneficiaries' perspective:** evaluations from the beneficiaries' perspective: the most significant changes and impacts from their point of view: participatory workshops halfway through the project and upon project's end, and generation of outputs such as video recording with "stories of projects" to disseminate. Such workshops can be held using as input the systematization of innovating experiences from MSMEs adaptation projects, serving a twofold purpose: that of conducting a mid-term evaluation on the progress of generating capabilities; and the dissemination of successful experiences for the producers to know them.

- ✓ Creation of an **exchange network** of experiences and practices among IFIs.

a. Visits and exchange of experiences between IFIs with greater comparative development and those with less experience in the selection, administration and management of credits. This could be between IFIs from different countries or within the same country, among those with greater capacity and those with lesser capacity.

b. Generation of a web platform for the IFIs network to provide the chance of exchanging experiences, material on the administration, management of credits and implementation of projects. Questions and answers between the participating IFIs and CABI. FAQ Section, videos of "how to..." with most frequently asked questions, etc.

- ✓ In addition, a study is proposed to characterize the main production sectors and adaptation to Climate Change in order to identify the **insertion of women/ young people** in these processes and determine the strategic opportunities to strengthen and promote.
- ✓ CABI shall conduct **regular visits** to a sample of projects per country, in order to gain better feedback on the implementation in each case, and know how the different countries are working in the territory.

The issuing of printed material for each one of the outputs proposed, and the generation of a web platform to realize the exchange of knowledge on adaptation loan management, as well as the experiences of the executing parties, CABI and videos on successful projects will open up a space of ongoing exchange for consultation and enhancement of these activities.

In addition, the IFIs are expected to continue promoting the strategy of financing "adaptation credits" amidst other producers' organizations, after observing and systematizing the results obtained when applying these types of strategies, which enhance resilience, adaptation capacity while achieving production improvements and natural resource sustainable management.

The proposed actions are organized under the following activities:

Activity 2.3.1: Events for dissemination of adaptation measures: organized by CABI to disseminate knowledge on adaptation measures. At least one event per country per year will be promoted.

Activity 2.3.2: Promotion and Lessons Learned: three types of activities will be developed with these goals:

Communication services:

- ✓ Web platform for adaptation knowledge: a web platform made for the IFIs as a tool that will support the definition of projects' climate change eligibility, aims to guarantee the best information available as well as homogeneous decisions among IFIs. The platform will include country by country, at the best available resolution, which are the projected climate change impacts and the adaptation measures that would be therefore eligible.
- ✓ 1 video recording with project's stories.
- ✓ Publication materials (logo design, publicity, publications in magazines, newspapers, brochures, promotion material, banners on the project, always fostering visibility of the GCF and CABI).

Lessons Learned studies:

- ✓ 3 systematization of best practices with the following topics:
- ✓ Best adaptation practices to the effects of climate change. Purpose: share existing and recommended best practices to incorporate adaptive measures into the production systems.
- ✓ Lessons learned on management and administration of project activities. Purpose: share existing and recommended best practices to improve efficiency.
- ✓ Study on insertion of women/youth in Climate Change adaptive projects: detailed characterization of main production sectors to identify strategic chances for women and youth in climate change adaptive projects.
- ✓ 1 study of insertion of women / young people in the processes.

Training and workshops:

- ✓ 3 workshops for dissemination of successful experiences (systematization and videos described in the previous activities will serve as inputs for these workshops).
- ✓ 7 participatory workshops halfway through the Programme's end (1 per country)

- ✓ 2 experience exchanges for IFIs and MSMEs, to come together to learn from each other while they visit successful adaptation projects.
- ✓ 2 workshops for analyzing the participation of women/young people in the ongoing processes with CABEL, IFIs, and Technical Assistance Providers.

Component 3: Incentive scheme to promote ecosystem-based adaptation measures implemented by MSMEs (Adapt-Award).

The measure proposed by this component consists in the refund of 20.0% of the loan principal granted by the IFIs in the case that the MSME is women-led, and 12% in the case that the MSME is men-led (up to USD\$ 10,000 as cap - this means that in the case that loans are more than USD \$ 50,000, the MSME will be granted a maximum of USD\$ 10,000). This incentive will be distributed between MSME and IFIs (only CMNFIs eligible) in the percentages shown in the table below. This incentive is to be awarded only after the adaptation measures have been successfully implemented and monitored. Adapt-awards constitute grants for their recipients.

	Percentage of the credit granted		
	MSMEs	CMNFI	Total
Women-led	15%	5%	20%
Men-led	8%	4%	12%

The proposed ratios are based on CABEL's experience with previous programmes, with the incorporation of a distinction between women and men-led MSMEs, and it is expected to set the optimum conditions for incentivizing the access to credit and to further increasing the quality of the implementation of adaptation measures:

- ✓ The refund of 15.0%/ 8.0% of the total loan will allow the MSME to further extend the reach of its investment. Eligible investments for the adapt-award could be related to increase knowledge in adaptation measures (e.g. exchange with other MSMEs in adaptation measures, assistance to courses or conferences on adaptation / climate change issues), to environmental quality (e.g. adoption of ecological practices that increase resilience), to mitigation activities (e.g. renewable energy) and similar activities that contribute to increasing resilience or mitigating climate change.
- ✓ The incentive of 5.0% / 4.0% of the total loan will allow the IFI to promote changes within IFIs' structures and organization. Adapt-awards are a guarantee of making the credit attractive for the financial institutions: these incentives are expected to increase the level of adoption of the Programme based on CABEL's knowledge of the IFIs' low-profit margins from the credit management. Eligible costs for these awards should be related to sustainable practices that further extend the reach of the Programme (e.g. strengthening of environmental and social safeguards management, gender, exchanges with other IFIs on adaptation issues).

On the one hand, this incentive would motivate the IFI to reduce the level of risk of MSMEs and to promote credit mechanisms focused on adaptation to climate change. On the other hand, this incentive acts as a boost towards increased spread for the IFI.

Eligibility for the Adapt-Awards

To receive this incentive, MSMEs:

- ✓ Must have received a loan through mechanisms under Component 1.
- ✓ Must have selected at least one adaptation measure at the time of receiving the loan.
- ✓ Must have recorded the parameter with which to comply, related to the measure mentioned above.
- ✓ Must have met the target set in previous paragraph. Eligible MSMEs will only be awarded one prize per loan.

MSMEs requesting refinancing a loan, on loan amount or payment period, will not be subject to receiving Adapt-awards.

The Programme aims to define women-led MSMEs as satisfying either of the following conditions:

- a) MSMEs with 51% or more ownership by women; or

- b) MSMEs with at least 30% women on the Board of Directors or in senior management positions; or
- c) At least 40% women employment.

The target setting for the incentive scheme will be set on a case-by-case basis. The selection process will be competitive and transparent. These requirements for granting will be oriented towards good adaptation practices implemented under the focus of the community and not individuals.

To receive this incentive, IFIs:

- ✓ Must be Cooperatives, Microfinance institutions, Non-bank financial institutions (Public and Private Banks are not eligible).
- ✓ Must have monitored the MSME's adaptation measure successfully.

Component 4: Programme management

A Programme Management Unit (PMU) will be established and will have a dedicated team to guarantee all components and activities are carried out according to the Programme design. It will articulate with the monitoring and evaluation activities (covered by CABEL as Accredited Entity) to ensure that all expected results will be achieved on time and within budget. The functions of the PMU are largely described in Section C.7 Implementation Arrangements.

In summary, this PMU will have an Adaptation Specialist (with demonstrated capabilities to implement an EbA approach), an Environmental and Social Specialist (with demonstrated knowledge in Gender approach), and a Capacity Building Officer, that will as well provide administrative support of the PMU. Commercial officers that are already part of CABEL for the management of intermediated programmes will be assigned for this Programme. The PMU will work closely with the Monitoring and Evaluation Specialist (covered by the AE fee). During the first year of implementation of the programme the PMU will train IFIs on the registration tools developed by CABEL to comply with: eligibility criteria of the Programme, assessment criteria of Projects and M&E of impacts of climate change. CABEL country officers will also be trained to be able to provide more direct support to IFIs throughout the programme.

CABEL support for Programme Implementation and M&E

The PMU will have to ensure that the objectives and targets of the Programme are fulfilled at each stage. To such end, a day-to-day planning and articulation work with the different actors is required, as well as a diligent and transparent fund administration tasks. The latter will be guaranteed by CABEL's administrative support areas such as Human Resources Area for the hiring of consultants; Procurement Area for the procurement of goods and services; Accounting areas, etc. These are a few of the areas which will ensure the transparency of the circuits and the appropriate accounting to the financing entity daily. The budget for travels will provide the presence of the PMU in the seven countries.

The first year of Programme implementation will rely on important capacity building of IFIs, so CABEL as Accredited entity will provide support to the PMU during this period to ensure the adequate training of IFIs and CABEL country officers in each country. To this end, there will be different departments available within CABEL that will support the Programme: human resources, communication, 5 specialists of the Environmental and Social Office, legal affairs, international relations, and FOPROY.

CABEL as Accredited Entity will also perform supervision missions from year 2 onwards, selecting 3 countries each year and visiting MSMEs project on the field.

As AE, CABEL will ensure quality and adequate oversight of the project. To this purpose, CABEL has a robust fiduciary and technical oversight and quality assurance systems such as the Evaluation Office, commercial officers in each country, the FOPROY Unit and the FINAM Unit, which will be closely supporting the PMU and programme implementation.

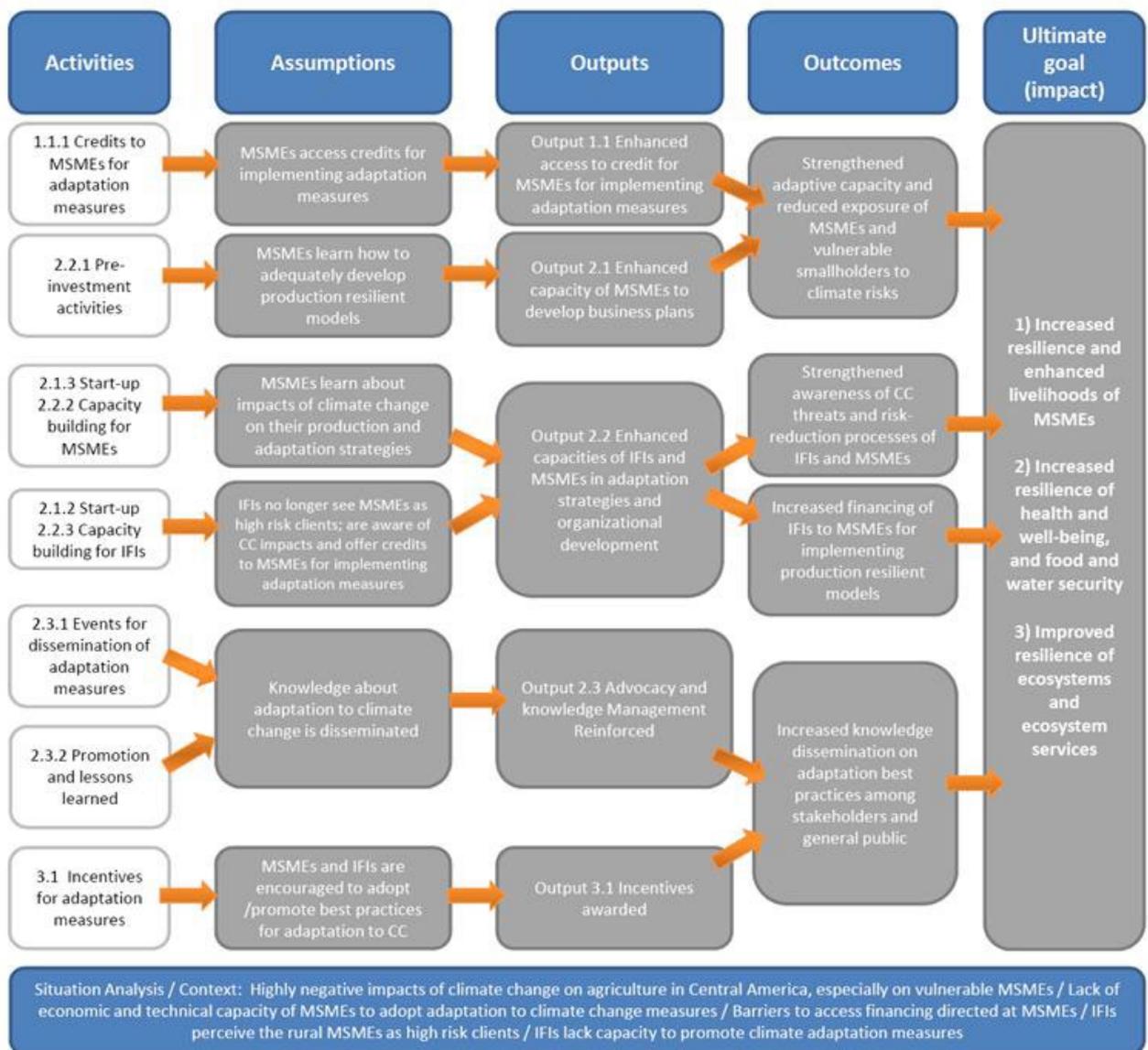
This process will allow for an independent project oversight and monitoring and CABEL relies on the institutional support of its own structure to effectively implement and monitor the programme in the 7 countries.

Additionally, CABEL has a Credit Supervision Department, which oversees the use and destination of funds disbursed to the IFIS. As part of the monitoring of this department, approximately 10% of disbursements are monitored each year. Thus, it is expected that, apart from the PMU and AE monitoring visits, this Department will review the compliance with Programme requirements.

Please refer to Section H.2 for a description of the Monitoring and Evaluation activities. These have been considered in the Accredited Entity fee.

The theory of change shown below illustrates how each output contributes to the long-term objective of the Programme and how they are made up of a series of activities responding to the identified barriers. Each activity leads to intermediary outcomes, the longer-term project outcome and ultimately the impact expected from the Programme.

The theory of change highlights the relation between “activities”, “outputs” and “outcomes” and it illustrates the main barriers (financial and institutional) that characterize the Programme, so it is possible to identify the necessary activities to reduce them and to achieve impacts on climate change.



C.4. Background Information on Project / Programme Sponsor (Executing Entity)

The Central American Bank for Economic Integration

CABEI was founded on December 13th, 1960, by the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Since then, other regional and non-regional countries have joined CABEI, having the Bank today a membership of 13 member countries, and thereby strengthening its capital base.

The Central American Bank for Economic Integration (CABEI) is a multilateral bank for the development of Central America. CABEI's mission is to promote the economic integration and the balanced economic and social development of its founding member countries, attending and aligning itself with the interests of all of its member countries. CABEI supports public and private development projects that generate jobs and contribute to improving its member countries productivity and competitiveness, as well as contribute to increasing the Region's human development indicators. During the past 56 years, CABEI's support to the Region has resulted in approvals greater than US\$30.9 billion and disbursements by more than US\$26.2 billion.

Derived from CABEI's mission and vision, CABEI 2015-2019 Institutional Strategy focuses on sustainable competitiveness and targets the Bank's contributions at the strategic axes of social development, competitiveness and regional integration with a transversal axis of Environmental Sustainability. In this sense, CABEI requires that its operations comply with environmental and social standards, based on international best practices, aligned with CABEI's Environmental and Social Policy.

Furthermore, CABEI has a Gender Policy focus on promoting programmes and projects that foster gender equality related to employment access, entrepreneurship, and other economic opportunities.

Since 1985, the Central American Bank for Economic Integration (CABEI) has taken part in the support to the Central American Micro, Small and Medium-sized enterprise sector (MSME), by increasing access to its credit lines through intermediate financial institutions. The Bank's support to the sector has been provided through its own resources and with resources of cooperative partners, such as: European Union (EU), KfW Development Bank of Germany, among others, with whom the Bank has entered into cooperation agreements. Since 2007, this cooperation has become stronger with contributions from GEF or Global Environmental Fund, to establish a programme of Investment in Biodiversity in the Central American region through Programme CAMBio and its different components to strengthen MSMEs.

CABEI and the Intermediated Credit

Currently, CABEI is the multilateral organization with the largest network of strategic intermediaries to distribute resources in the Central American region through a Global Credit Line (GCL). It is a network that comprises almost 100 intermediate financial institutions (IFIs), which may be the following: Public Banks, Private Banks, Finance institutions, Non-Banking Financial Institutions (IFNB, in Spanish), Savings, and Loan Cooperatives. The composition of the network of IFIs of the CABEI network by country is shown in the table below.

Composition of the network of intermediary institutions of the CABEI, per country

Institution Type	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Panama	Dominican Rep.	Total
Public Banks	0	4	2	0	2	0	1	9
Private Banks	5	5	9	5	11	1	0	36
Finances co.	1	3	3	1	6	0	0	14
Non-Banking Financial Inst.	3	18	1	3	2	0	0	27
Cooperatives	1	1	4	1	5	0	0	12
Total	10	31	19	10	26	1	1	98

Currently, there are 16 programmes of Financial Intermediation, which are implemented through GCLs. These programmes cover support to MSMEs, education credit, social housing, productive sectors, and gender. From the moment, the IFI has a GCL from CABEI, it may freely use any of the 16 programmes of Financial Intermediation, depending on the sector it assists or it wishes to assist, as well as the criteria for the use of such programme.

CABEI's model of execution of intermediated credit is summarized in Section C.7 Implementation Arrangements and described in detail in the Feasibility Study. The FS also contains a description of the whole Project Cycle of Intermediated Credit, of the Analysis and Approval, of the implementation, and the revolving process.

Since 1996, through intermediation, US\$ 6,858.3 million have been disbursed through ongoing applicable programmes.

It is worth stressing that all financial intermediation programmes of the CABEL keep the same operative rationale, which allows the Bank to know with the best possible detail, and in an efficient and reliable manner, all projects and persons benefiting from the resources that the CABEL channels through the IFIs of the region, public and private.

The CABEL has achieved great results, positive and tangible results, by engaging in the financial sector. As of June 2016, 722,341 businesses employing 1,350,918 people have received support. Opportunities have been provided for progress to low-income households by strengthening their efforts with loans of US\$ 740.0 on average for micro-sized enterprises and US\$ 41,805 for SMEs.

Likewise, through microfinance institutions, the CABEL has managed to progressively extend its effect towards poorest households, towards rural areas, and the most vulnerable sectors. Through the programme of Support to MSMEs, US\$ 662.7 million have been channeled towards production activities in rural areas, US\$ 161.2 million of which have been related to agriculture and livestock.

Please refer to the FS for further details on CABEL's experience in the management of financial intermediation programmes with emphasis on MSMEs.

CABEL and the Programme CAMBio

The Regional Programme "Mercados Centroamericanos para la Biodiversidad (CAMBio)" and its continuation, "Biodiversity friendly MSMEs", a total of 27 IFIs have participated, having disbursed more than USD \$58 million. The majority of the participating IFIs corresponded to non-banking institutions.

CAMBio has granted 12,107 loans to date, reaching a total of 26,036 beneficiaries. 60% of the 58 million disbursed have been awarded to medium-sized enterprises, 26% small and 14% micro. However, in terms of number of loans granted, the clear majority, 92%, have been granted to small businesses. This responds to a logic of credit decision capacity for different types of businesses: it is important to note that a significant portion of the loans were micro scale.

Please refer to the FS for further details on the loans and beneficiaries reached by CAMBio, beneficiaries by productive system, as well as participation of women in CAMBio and in the whole history of intermediated credit since 1996.

The implementation of this programme provided CABEL with some lessons learned that have been considered during the design of this programme. Among the main ones are the following:

- **Public-private partnerships** have an exciting potential for expanding environmental and social benefits generated through lending to agricultural activities.
- **Financial institutions** have very well-defined strategies for financial markets and credit infiltration. Lending to agriculture continues to be a very risky business. Except for microfinance institutions, FIs do not target micro and small farmers and this sector continues to face severe barriers to financial inclusion. A new initiative must openly address these limitations, to define potential project beneficiaries.
- **Microfinance institutions and agricultural lending cooperatives** are better prepared to provide financial services to the smaller production sectors and achieve greater financial inclusion in their networks.
- **Farmers.** A new initiative must clearly define a typology of farmers and productive systems as target groups. A clear target group will allow lending to be effectively integrated with technical assistance and anchor market chains.
- **Technologies.** There are substantial differences in production technologies, and in levels of vulnerability faced by farmers for sustaining livelihoods. A new initiative must be firmly anchored among small-scale farmers.
- **Assessment.** A profound assessment is required to understand sector niches and opportunities.
- **Approach.** A comprehensive ecosystem approach is needed. To reduce deforestation, land degradation, climate change adaptation and biodiversity losses, additions at the farm and landscape levels must be carefully assessed with an agro-ecology perspective.
- **Project Scale and Complexity.** A project of this scale and complexity needs optimal institutional anchoring and active stakeholders very embedded in project implementation.

C.5. Market Overview (if applicable)

Agriculture in Central America is especially sensitive to weather- and climate-related factors because of these countries' geographical location and their socioeconomic and technological characteristics. It is the production sector that has sustained the greatest losses because of extreme weather events in recent decades.

Initial estimates based on climate change scenarios¹ suggest that grain production could drop significantly during this century. One of the scenarios projects decreases in yields of up to about 35%, 43% and 50% for maize, beans and rice, respectively, by the end of the century. These potential losses would have a direct impact on producers, most of whom operate as family businesses at subsistence levels, but they would also affect food security, poverty and the degree of dependence on grain imports, which has already been rising over the past three decades².

The available evidence for Central America indicates that environmental degradation and the destruction of biodiversity are processes that are already in full sway and that will very probably become more marked as climate change progresses. For example, the potential biodiversity index (PBI) for Central America points to a reduction of approximately 13% during this century because of changes in land use (without climate change). Climate change is projected to boost this loss to something between 33% and 58% by the end of the century according to two scenarios³.

Other processes that generate large impacts on the agricultural sector are those related to pests: epidemic diseases provoked by the pine beetle ("Gorgojo") or the coffee rust ("roya"), have already caused irreparable damage to woods and coffee plantations. These plagues are having a greater impact with climate change since they are related to longer drought periods (in the case of pine beetle) and with excessive humidity due to intense rainfall (coffee rust).

Agriculture, livestock and forestry activity still are the foundations of the economy in Central American countries. However, their use is incorrect and deficient. 51.2% of the surface area of Central America is over-used, and 21.7% is under-used. As a result, only 27% of the surface area is correctly used.

The agricultural sector contribution to the GDP of countries within the region, measured by the national accounts, represents about 20% in Guatemala and Nicaragua, between 10% and 15% in Honduras and El Salvador and less than 10% of GDP in Costa Rica and Panama while in the Dominican Republic it represents 8.9% of total GDP. Family agriculture produces about 50% of the total agricultural production of the region's countries and attains more than 56% in countries such as Honduras and Panama. Regarding food, Family Agriculture produces over 70% of the Central American food⁴. The primary agricultural sector is closely linked to other sectors such as agribusiness and food production through commercial agricultural production chains in sectors such as coffee, bananas, sugar, oils, flours, concentrates, fruit, meat, dairy, fisheries and aquaculture, among others. If the agricultural sector is considered as a whole, its contribution to the GDP is much more significant, as an example, in countries such as Guatemala, Honduras and Nicaragua the sector contributes 30% of the GDP.

The Central American countries have approximately 2.1 million small family agricultural production units or Micro, Small and Medium Enterprises (MSMEs) with 5 hectares or less of land. The majority of these production units are considered vulnerable in the face of climate change and the production area is characterized by low productivity and little diversification, losses on account of droughts and floods, absence of product quality controls and standardization, high transportation and logistics costs, low investment in resource and development: low technological innovation and adaptation, not enough qualified staff and limited managerial capacity; constraints in the work market: high formalization costs, social and cultural problems, informality, corruption, lack of trust, among others.

One of the primary constraints that limit the growth of any of these small agricultural production units is the limited access to credit. Conservative banking practices and high risks associated with operations in rural areas have left the agricultural sector with limited financial options for business development. In most of, Central American countries, credit to the agricultural sector accounts for roughly 3% of total credit offered by regulated financial systems (Costa Rica, El Salvador,

¹ ECLAC, 2013d.

² ECLAC, 2013d.

³ ECLAC, 2011b.

⁴ FAO 2012.

Honduras, Panama, Dominican Republic), with a higher percentage in Guatemala (8%) and Nicaragua (10%)⁵. Even so, there is a considerable number of microfinance institutions (MFIs) devoted to serving the rural sector that have a presence there, but they face the following problems: on the supply side, MFIs do not have permanent long-term financing, methodologies and/or trained employees to develop and deliver financial products and services that better meet client needs. On the other side, there is an unmet demand on the part of rural clients regarding higher amounts of credit to invest in productive assets, longer-term loans (between 26 and 48 months) and different modalities and mechanisms that facilitate the use of resources when necessary (i.e., line of credit).

There is limited information at both, regional and national level to allow properly size the actual and potential market demand as regards the agricultural sector. However, we can assert that agriculture is an important activity still today in economies of the region regarding population participating in it as well as in relation to the country's economy. For example, it has been noticed that rural population of the 19 countries under analysis ranges between 20% and 40% of the total population and is accompanied with a prominent level of rural poverty, above 40% in countries including Honduras and Panama. The following table provides information on the agricultural portfolio of the countries participating in this Programme.

Agricultural portfolio

Country	Agricultural Portfolio				
	Agricultural portfolio as a share of the regulated financial system portfolio (%)	Agricultural portfolio as a share of GDP (%)	Balance in USD\$	Rural population (%)	Rural poverty (%)
Guatemala	5.95	1.85	1,085,244,078.95	49.40	22.50
El Salvador	3.33	0.17	41,768,174.07	32.30	17.10
Honduras	2.99	1.86	353,861,003.72	44.20	86.40
Nicaragua	11.14	3.61	416,174,695.49	40.50	23.70
Costa Rica	3.23	1.89	937,540,925.58	23.20	7.70
Panama	2.67	3.20	1,478,988,159.15	33.20	45.70
Dominican Republic	2.24	0.58	366,336,270.34	21.70	31.60
Total	4.51	1.88	4,679,913,307.30	34.93	33.53

Source: selection of countries based on Table IV.5 of the referred report, V. Trujillo and S. Navajas, 2014. This report has used public information or information directly disclosed to the authors by the financial authorities of each country. Rural population information has been obtained from the World Bank's "World Development Indicators" and rural poverty information, from the "Socio-Economic Database for Latin America and the Caribbean" by CEDLAS and the World Bank.

Notes:
 (1) The agricultural portfolio in general comprises the agricultural loan, plus credit related to farming, fishing, silviculture and forestry activities.
 (2) The results shown in the 'Total' row derive from the simple addition of the figures per country.

Based on CABI experience implementing other programmes such as CAMBio, we managed to identify a market opportunity for this kind of programmes. Despite the successful outcomes achieved through this Programme (see next

⁵ Trujillo, Verónica y Navajas, Sergio (2014). Financial Inclusion in Latin America and the Caribbean: Figures and trends. FOMIN, BID. Modified version January 2016.

tables) still most of the agricultural MSMEs are struggling to access to financial solutions to their needs and specially designed to deal with the climate change challenges.

During the execution of CAMBio, a total of 22 IFIs participated, having disbursed more than USD \$56.0 million. The majority of the participating IFIs have corresponded to non-banking institutions.

Types of IFIs having participated in CAMBio and Biodiversity Friendly MSMEs programmes, 2008-2015

Type of IFI	Number of institutions	Amount of justified disbursement
Public Bank	2	19,507,789.54
Private Bank	8	24,501,453.38
Cooperative	5	1,932,834.56
Non-bank financial institution	12	10,497,198.49
Total	22	56,439,275.97

The programme was successfully implemented with the same intermediation scheme the one proposed in this Programme. CAMBio is taken as a basis for the new programme because it focused on access to credit for MSMEs to environmentally friendly investments and thus it is the most similar experience in CABEI and constitutes a foundation of the new proposal.

Amount and number of loans and beneficiaries, by type of MSMEs in the CAMBio programme

Type of MSME	Amount of loans (USD \$)	Number of loans (USD \$)	Total beneficiaries
Micro	7.977.476,69	11.084	11,224
Small	14.567.075,92	738	5,701
Medium	33.894.723,36	285	9,111
Grand Total	56.439.275,97	12.107	26,036

In summary, a major constraint limiting the growth of any small business is the availability of capital. Conservative banking practices have left the agricultural sector with limited financing, due to the high risks associated with its operations. Therefore, barriers to banking and business need to be removed, and an enabling environment that catalyzes resilient investments in micro-small and medium-sized enterprises needs to be created.

Other barriers identified

Besides barriers related to prices, which are out of the reach of this project, other barriers that have been identified are related to access to markets, and lack of sufficient knowledge about adaptation measures: the project will directly address these barriers through its three components. Other barriers in the small-scale agriculture sector may be related to market access, availability of suppliers and inputs, use of agrochemicals, and land ownership.

In this regard, the project will promote that within the activities of the MSMEs' adaptation proposals, a comprehensive analysis covering the marketing aspects is considered specifically and incorporated into the project. This implies including an analysis of the situation of the marketing channels used by the producers and specific actions tending to promote the incorporation of the producers in the production chains. When appropriate, market analysis can also be integrated as part of the business plan. Other subjects of analysis in this sense will be market's access linkage with the road network, delivery times of production, quality and post-harvest losses.

Likewise, the use of agroecological practices limiting the use of agrochemicals will be promoted, and a request will be made to include in the MSMEs' proposals an analysis section on how pest management will be carried out in production - where appropriate. The project will promote performing soil analysis, as an investment that clearly defines the true requirements of the soil in terms of the use of fertilizers. In addition to the climate change approach, information on the damages and hazards associated with agrochemicals will be included in the training activities, in order to promote the generation and dissemination of knowledge on the subject.

The ownership of land is one of the requirements to access the credits, and indeed, there are cases where this requirement is not met. This problem is longstanding and cannot be tackled comprehensively from the project. In this sense, what will be attempted from the project is to provide information to those producers who want to access credits and cannot do so because they do not have land ownership, to the corresponding agencies of each country that can advise and initiate actions to modify / solve their situation.

C.6. Regulation, Taxation and Insurance (if applicable)

CABEI's authorization & legal framework

As an instrument of International Public Law, CABEI will obtain its necessary approvals for project implementation through its instances: administration's committee and Board of Directors. Moreover, under the same factor, CABEI has been granted, by the function of its constitutive agreement, tax exemptions on its activities.

The payments made directly by the Bank, either with its resources or the resources managed by the GCF, benefit from the tax exemption. CABEI confirms that the CABEI-IFI Global Credit Line contract agreements will include a clause to require that the payments made by the IFIs to CABEI are free and clear of taxes. In the case of service payments made directly by the IFIs or MSMEs, they no longer benefit from the tax exemption.

IFIs & MSMEs legal and regulatory framework

To maintain good standing with CABEI, IFIs must adhere to a comprehensive monitoring framework that measures all fundamental aspects of their operation in addition to the country-level Central Bank regulatory framework. In case of an event that may compromise the good standing of the IFI with the Bank, measures are taken to assure compliance, including suspending disbursements, and other corrective measures.

Regarding local law, IFIs and MSMEs must comply all the regulatory laws to request financing. IFIs will ensure, through the contractual relationship with the MSMEs, that local laws and regulation, monitoring consideration the Bank requires, and other covenants are enforced.

C.7. Institutional / Implementation Arrangements

CABEI as Accredited and Executing Entity

CABEI will hold the roles of both Accredited and Executing Entity of the Programme, based on its experience of successfully carrying out similar programme activities involving financial intermediation, in the whole region.

CABEI has the capacity, resources, and experience to deliver quick and effective results for the objectives of this Programme, and especially, with a regional scope, involving seven countries. The existence of a central unit, within the sphere of CABEI, monitoring the Programme's overall progress is deemed highly important to guarantee compliance with technical standards and promote actions across all seven countries such as those regarding the monitoring, evaluation and information systematization formats. In this context, strong overall coordination of the Programme is required through a central unit supervising Programme progress while promoting execution to move forward at a steady pace and under the same technical standards for the different countries.

This way, a close monitoring and follow-up by CABEI is required to ensure consistent levels of progress in a unified manner across all seven countries as well as a regular flow of information where progress of activities can be contrasted against the plan adjusting any discrepancies per country from a central unit, the purpose of which is to ensure compliance with the Programme objectives at a global level. This allows taking corrective actions if necessary during Programme's execution, ensuring it is cost-effective.

This system also promotes a better process for learning, by identifying cases that may have succeeded, to systematize information on the factors that helped promote best practices and in order to replicate them.

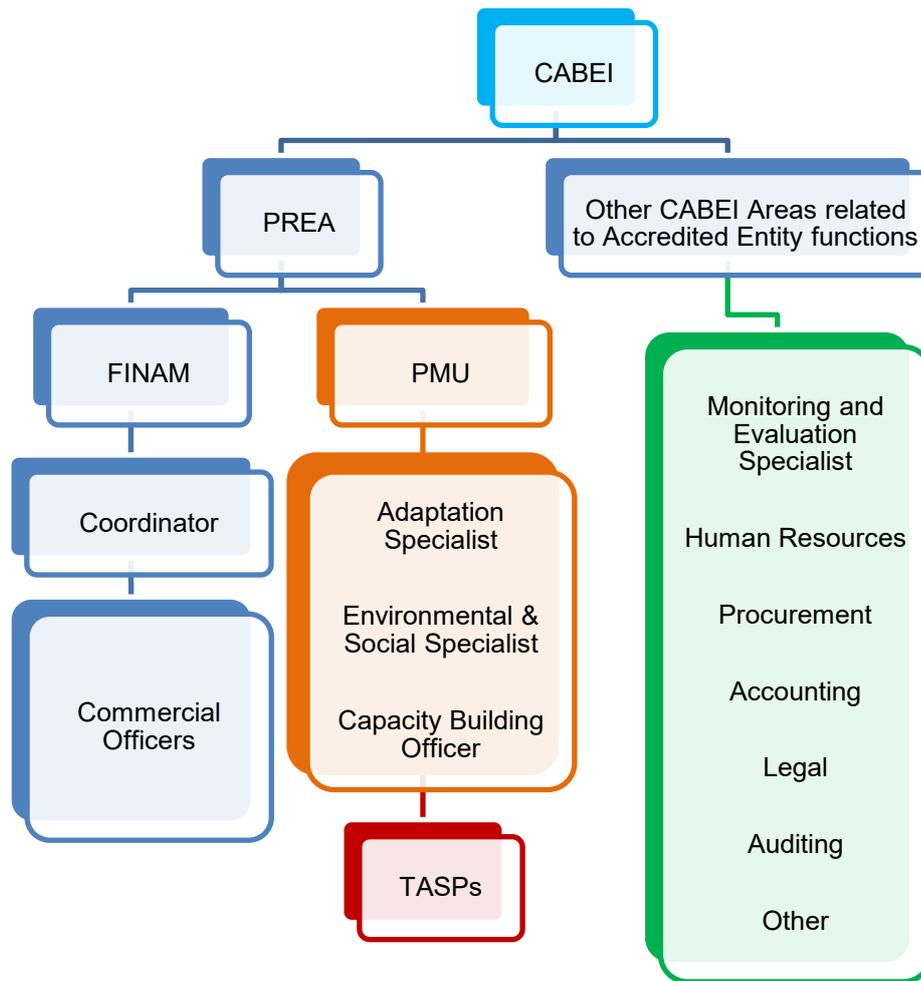
The external auditing and the incorporation of observations and lessons learned to arise from such studies are guaranteed. All execution will be conducted based on an Operations Manual arising from any such agreement as the Bank may enter with the GCF, which will respect all understandings reached.

Key institutional actors and structures

The following key institutional actors and structures will be involved in programme management:

- CABEI will be the Programme's Accredited and Executing Entity.
- A Programme Management Unit (PMU) within CABEI will be responsible for the day-to-day Programme coordination, management and execution.
- A network of Intermediary Financial Institutions (IFI) operating in all countries where the Programme will be implemented.
- Several Technical Assistance Service Providers (TASPs) will be sub-contracted by the Programme to provide technical assistance to IFIS and MSMEs.

Specific roles of each of the above institutional actors and structures are outlined below.



References:

PREA: Strategic Programmes and Procurement Department

FINAM: Financing for the Majorities Unit

PMU: Programme Management Unit

CABI as Accredited Entity

CABI will maintain day-to-day oversight responsibility for Programme supervision and have direct responsibility for fulfilling the duties and obligations of a GCF Accredited Entity. It will be responsible for financial management and accountable for the use of GCF resources under the Programme. It will provide technical and administrative backstopping to the Project Management Unit or PMU (see below) to ensure results-oriented management and proper administration of funds. It will maintain Programme accounts, facilitate staff recruitment and procurement processes and monitor resource mobilization of baseline and co-finance. Financial transactions will be subject to annual audits undertaken by internationally certified auditors. The AE functions involve as well the provision of monitoring and evaluation services.

CABI will have permanent coordination with Programme staff; perform site visits; and dialogue with Programme stakeholders.

CABI as Executing Entity

The Programme Management Unit (PMU) will be established in Tegucigalpa at CABI Headquarters and will have general programme administration functions. It is proposed that the unit will be located within the Strategic Programmes and Procurement Department (PREA, by its acronym in Spanish), is in charge of the Financing for the Majorities Unit (FINAM), who executes the financial intermediation mechanism, develop and promote financial intermediation programmes. PREA will be responsible for linking the PMU with the rest of CABI's departments, offices, and

Programmes. The PMU will work with FINAM to coordinate specific activities to be agreed during the Programme inception phase.

The PMU will ensure that Programme implementation proceeds smoothly through well-written work plans, Terms of Reference and carefully designed administrative arrangements that meet CABEL and GCF requirements. PMU's responsibilities will include the following:

- Follow-up of the achievements of the Programme outcomes, outputs and objectives;
- To manage day-to-day implementation of the Programme, coordinating activities by the rules and procedures of CABEL/GCF.
- To provide overall administration, while acting as an independent and unbiased guarantor of cooperation and information exchange;
- To provide technical input as appropriate to the outcomes;
- To ensure, together with CABEL, to coordinate with the stakeholders and other relevant regional programmes;
- To ensure, together with CABEL, to coordinate and maintain a close relationship with CCAD.
- To ensure, together with CABEL, to convene quarterly Programme Implementation Meetings (PIMs) to review progress in implementing work plans;
- To ensure, together with CABEL, that specified tasks are outsourced to suitable sub-contracted Technical Assistance Service Providers or national and international consultants through competitive bidding processes. PMU responsibilities in this regard include development of bidding documents and terms of reference;
- To organize Programme-level meetings and workshops, e.g., inception workshop, etc.;
- To prepare overall Programme reporting;
- Planning and monitoring the technical aspects of the Programme, including regular field visits and periodic reporting;
- Ensuring to separate Programme accounts for the accountability of Programme funds;
- Ensuring advanced funds are used following agreed work plans and Programme budget;
- Preparing and adjusting commitments and expenditures to be authorized by CABEL; guaranteeing timely disbursements, financial recording and reporting against budgets and work plans;
- Managing and maintaining budgets, including tracking commitments, expenditures and planned expenditures against budget and work plan;
- Maintaining productive, regular and professional communication with other Programme stakeholders to ensure the smooth progress of Programme implementation;
- Knowledge transfer: the PMU will prepare an experience systematization report and involve different actors in CABEL to share the knowledge on the implementation and learning of the Programme, with the objective of allowing capacities to remain in place following the work performed. This will enable CABEL to give continuity to the Programme once the participation of the GCF is finished.

Technical Assistance Providers (TASPs)

Qualified organizations in the region will play a key role in Programme implementation particularly in providing technical services to the IFIs and the MSMEs. It should be noted that these organizations have not yet been selected to be engaged as specific technical assistance service providers (TASPs). The Programme will ensure that the technicians will be selected based on their experience and capabilities to implement the EbA approach.

CABEL has long-term alliances with strategic partners: FAO, UN Environment, Katalysis Central American Microfinance Network (RED KATALYSIS), Swedish International Development Cooperation Agency (SIDA), Inter-American Institute for Cooperation on Agriculture (IICA), Seattle International Foundation (SIF), UN Women, and Tropical Agricultural Research and Higher Education Center (CATIE) among others.

In the case of FAO, the Bank signed a Memorandum of Understanding in June 2016 that establishes a strategic alliance that contributes to the eradication of hunger, food insecurity and malnutrition, the elimination of rural poverty in favor of socioeconomic development. Contribute in addition to national and regional efforts to adapt and mitigate climate change in sectors related to agriculture, forests and fisheries.

CABEL recognizes the importance of uniting the extensive experience of FAO in the formulation and monitoring of projects with high technical value, which adds value to the Bank's efforts, thus contributing to the fulfillment of the United Nations Sustainable Development Goals and the regional policies and strategies of SICA.

This alliance seeks to promote a cooperation framework in order to improve the quality and impact of technical assistance, complementing efforts in accordance with the respective institutional mandates of the parties and responding to particular demands of the countries regarding cooperation and financing.

In addition, in August 2018, CABEL signed an agreement with the UN Environment to join efforts in the fight against the effects of climate change and work on adaptation projects to increase the resilience of the vulnerable populations of the Dry Corridor of Central America and the arid zones of Dominican Republic. This commitment offers a cooperation framework and facilitates collaboration between institutions in the fight against climate change, as well as in other areas of interest in environmental matters.

Intermediary Financial Institutions (IFIs)

IFIs' activities will include the following:

- Identify, assess, approve and monitor the sub-loans to the MSMEs for adaptation investments.
- Articulating with TASPs for the provision of Capacity Building activities.
- Planning for and monitoring the technical aspects of the project, including regular field visits and periodic reporting to CABEL.
- Actively participating in all relevant project activities where appropriate.
- If applicable, adopting, during the project, the systems, programmes and tools developed by the project to ensure sustainability of the project outcomes.
- Play an active role in coordinating with other stakeholders throughout the project and to maintain a close relationship with CABEL.
- Preparation and submission of periodic progress reports, and regular consultations with beneficiaries and contractors.

Please refer to ANNEX X for a list of the IFIs that have currently Global Credit Lines with CABEL.

CCAD - Central American Commission for Environment and Development (“Comision Centroamericana de Ambiente y Desarrollo”)

CCAD has already developed regional environmental strategies and created a number of networks, which can be utilized effectively under the Programme. CCAD will play a key role throughout the project. It will be periodically informed on the progress of the Programme, and consulted by CABEL to ensure the project activities are centrally located within sectoral and related environmental and climate change programmes underway in Central America, including the guidance on the landscape units prioritized by each of the participating countries, as well as on the implementation of the EbA approach. CCAD would be expected to inform CABEL of coordination opportunities across the region.

Schemes of submission and approval of projects and description of flows of funds

Before authorizing disbursements to MSMEs / IFIs, CABEL technicians carry out an analysis of coherence, relevance, sustainability, and cost-effectiveness. It is important to highlight that the Programme will have an Adaptation Specialist, an Environmental and Social Specialist, a Monitoring and Evaluation specialist and a Capacity Building officer, in addition of having the structure of Commercial Officers in each country who are in daily contact with the beneficiaries. In this way, it will ensure that the proposals of MSMEs / IFIs are framed within the objectives of the Programme.

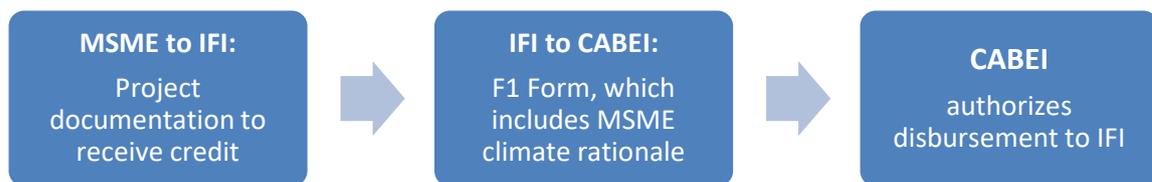
CABEL will establish the eligibility criteria and approve the eligibility of the sub-loans, and consequently the local IFIs will not have any discretionary authority.

Schemes of submission and approval of projects for the three components, as well as the corresponding flow funds charts are presented below.

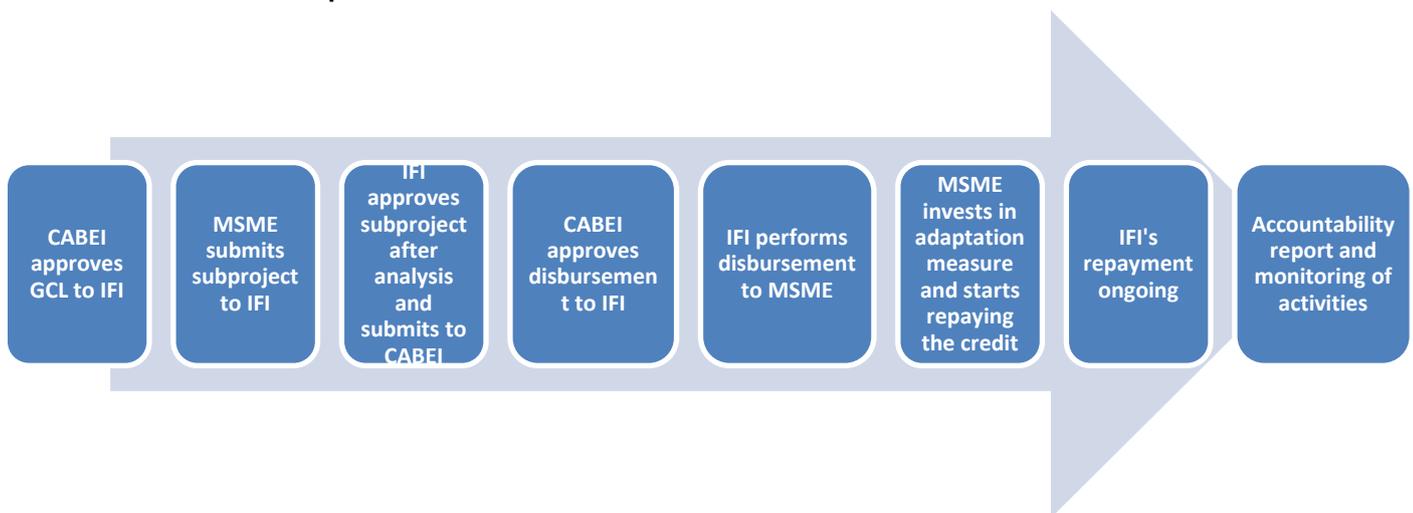
COMPONENT 1

Steps for the submission and evaluation of projects under Component 1

The first step for the submission of a project is the presentation of the MSME to the IFI of the necessary information to receive the credit under the Programme investment criteria. Then, the IFI submits to CABEI the F1 form with all the information to characterize the project, including a section in the questionnaire that addresses the climate rationale of the project. A web platform made for the IFIs as a tool that will support the definition of projects' climate change eligibility, aims to guarantee the best information available as well as homogeneous decisions among IFIs. The platform will include country by country, at the best available resolution, which are the projected climate change impacts and the adaptation measures that would be therefore eligible. The F1 form is the key document that will allow CABEI to assess the eligibility of the project based on the MSME's adaptation needs. In parallel, IFIs analyze the economic and financial viability of business plans presented by MSMEs along with their repayment capacity. For this assessment, international standards are applied based on positive NPV and an appropriate IRR.



Flow of funds under Component 1



COMPONENT 2

Steps for the submission and evaluation of Technical Assistance proposals under Component 2

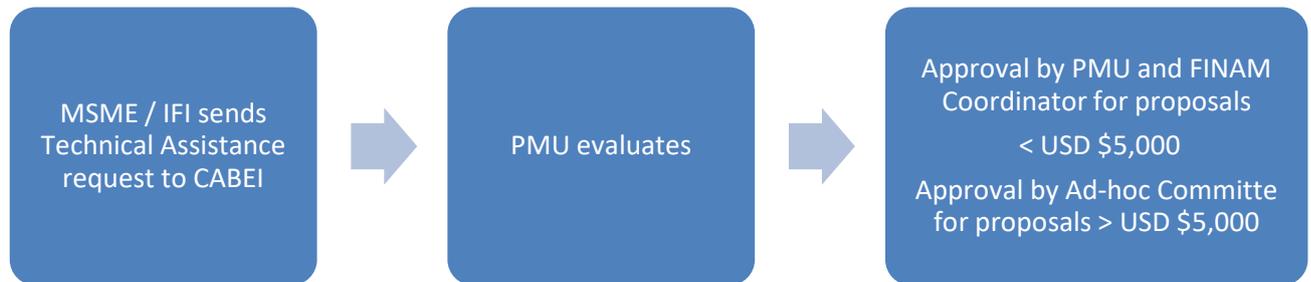
While loans are managed and monitored by the IFIs and reimbursed by CABEI, Technical Assistance and Adapt-awards are directly managed and monitored by CABEI.

An Ad Hoc Committee, whose composition will be defined during the preparation of the Operations Manual of the Programme, will be established as the decision-making body for confirming the assignment of non-refundable resources above USD \$5,000 (components 2 and 3).

The way to access Technical Assistance is through a request that must be sent to CABEI and which requested contents include: background of the IFI / MSMEs, history of training they have received to date, reasons why they need technical assistance, technical description of the requested technical assistance, disaggregated budget, execution schedule and expected results. CABEI's analysis of the application will focus on training needs regarding climate change adaptation and intermediated credit management. MSME's Technical Assistance eligibility shall be checked by the PMU, through compliance with the requirements listed in the forms designed for this purpose. Should it require the submission of an

additional study (e.g., pre-investment), the PMU will be responsible for determining its scope and quality. A Capacity Building officer within the PMU will centralize the tasks related to TA.

An Operations Manual of the Programme will be approved, including instructions on the conditions under which technical assistance to MSMEs and IFIs will be provided. The MSMEs that will be considered will be those having the greatest needs. The PMU will approve the request based on project's vulnerability criteria and will carry out the recruitment and monitoring process. Tasks related to the disbursement of technical assistance and appropriate follow-up will be ensured.



Flow of funds under Component 2



COMPONENT 3

Steps for the submission and approval of Adapt-Awards under Component 3

The target for the incentive scheme will be set on a case-by-case basis. The selection process will be competitive and transparent. These requirements for granting will be oriented towards good adaptation practices implemented under the focus of the community and not individuals, ensuring that effective monitoring and evaluation procedures have been implemented.

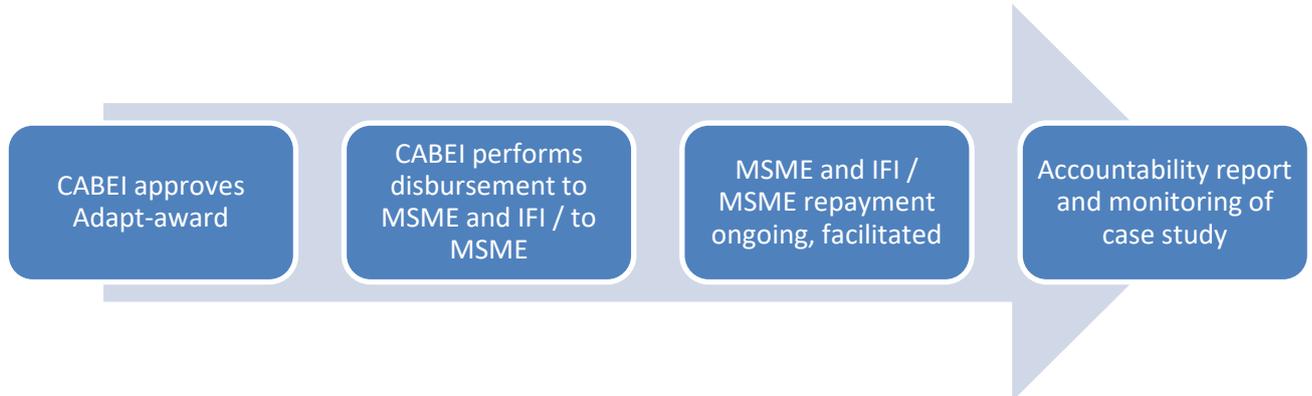
To receive this incentive, MSMEs:

- Must have received a loan through mechanisms under Component 1.
- Must have selected at least one adaptation measure at the time of receiving the loan.
- Must have recorded the parameter to comply with, related to the measures mentioned above.
- Must have met the target set in the previous paragraph. Eligible MSMEs will only be awarded one prize per loan.

MSMEs requesting refinancing of a loan, on loan amount or payment period, will not be subject to receiving Adapt-awards.



Flow of funds under Component 3



Agreements

- The Risk-Sharing Facility will be in the form of a Trust Agreement between GCF and CABEI.
- Component 1: there is one Global Credit Line agreement per IFI (agreement CABEI-IFI) and one sub-loan agreement per MSME (agreement IFI-MSME). The loan agreement will specify the eligibility criteria including the targeted final beneficiaries. Once the IFI signs the agreement for the Global Credit Line, it is committed to the eligibility, characteristics and conditions of the Programme. In this agreement are thus included: particularities of the Programme, reference to the Operations Manual, including compliance with the eligibility criteria and with the financial terms and conditions established therein.
- Component 2: there is one contract per Technical Assistance service (CABEI-IFI / CABEI-MSME / CABEI-TASP-MSME). In cases in which the TA is very minor, then only a letter of commitment is signed. Please see further details in the Draft Operations Manual of the Technical Assistance.
- Component 3: CABEI issues an internal approval of the Adapt-awards to perform the payments. IFIs and MSMEs sign a receipt and a commitment letter with CABEI. Please see further details in the Draft Operations Manual of the Adapt-Award.

AML/CFT Policy

CABEI does not tolerate the occurrence of corrupt, fraudulent, coercive, collusive or obstructive practice or other unlawfulness in its operations, promoting the efficient use of its resources to achieve the development goals of its member countries.

According to the AMA, the Programme will apply CABEI's AML/CFT policy. This Policy is applicable to all CABEI activities, active and passive operations, and the procurement of goods and services for the BCIE or for projects financed by the BCIE). It applies to any natural or legal person, other than CABEI staff, including persons or entities that maintain or intend to maintain relations with CABEI, such as borrowers, beneficiaries, recipients of cooperation or aid, executing agencies, project supervisors, consultants or suppliers of financial resources or goods and services.

The contracts of the active operations financed by the Bank (loans, global credit lines and financial cooperations, among others), as well as the contracts with its suppliers of goods and services (for the CABEI and for projects financed by the CABEI), will contain adequate contractual provisions to prevent and counteract prohibited practices.

It is important to emphasize that CABEI does not evaluate this risk by Programmes, Components or activities, but by client (by IFI). AML/CFT due diligence is included as part of the annual accreditation of the IFIs by CABEI and is therefore part of the eligibility conditions. In the case of MSMEs, due diligence is performed by the IFIs. In the case of regulated IFIs, they are obliged by law to perform this due diligence to all of their MSMEs. CABEI's Compliance Department requires to all IFIs they perform this due diligence to all their clients.

In summary, the control strategy for this risk is the performance of the AML/CFT due diligence, both at the moment of IFIs' eligibility and the moment of annual re-accreditation (please refer to the description "Analysis and Approval of intermediated credit" in Section C.3). This risk has been included in Section G.2.

During the implementation of the Programme, CABI's Superior Administration, through the Office of Integrity and Compliance, will ensure that it has the mechanisms to objectively investigate events of fraud, corruption and other prohibited practices that are reported through the different reporting mechanisms or available reports. CABI will adopt the sanctions that are applicable in accordance with the results of the investigation and the corresponding regulations.

OPERATIONS MANUAL

The Operations Manual of the Programme will have at least the content listed below (indicative):

Guidelines for the execution of Components:

- Credits for adaptation:
 - ✓ Eligibility criteria and Prioritization criteria of sub-projects
 - ✓ Resource Justification Form (F1 or eligibility questionnaire) to be used by the IFIs, with incorporated adaptation parameters.
 - ✓ Financial Terms and Conditions
 - ✓ Conditions and modalities for Disbursements

- Technical Assistance:
 - ✓ Eligibility criteria
 - ✓ Procedures for proposal submissions
 - ✓ Criteria for analysis and approval of proposals
 - ✓ Procedures for contracting TA services

- Adapt-awards:
 - ✓ Eligibility criteria
 - ✓ Procedures for proposal submissions
 - ✓ Criteria for analysis and approval of awards
 - ✓ Procedures for disbursement.

- Implementation arrangements:
 - ✓ Establishment of implementing and executing units, including committees
 - ✓ Administrative procedures for the management of the Programme
 - ✓ Contract models to be established with IFIs and MSMEs
 - ✓ Procedures for Monitoring of sub-projects, provision of Technical Assistance, and awards granting.
 - ✓ Procedures for the Evaluation of the Programme.
 - ✓ Procedures for the implementation of Environmental and Social safeguards.

C.8. Timetable of Project/Programme Implementation

Please provide a project/programme implementation timetable in [section I \(Annexes\)](#). The table below is for illustrative purposes. If the table format below is used, please refer to the activities as numbered in Section H. In the case of outputs, please mark when all the required activities will be completed.

Please refer to Annex VI for the timetable.

D.1. Value Added for GCF Involvement

GCF involvement is critical to assure the IFIs have the necessary credit enhancement tools to undertake risks associated with capital and credit restrictions, which would otherwise not be assumed under normal credit operations. This funding would address the financing barrier associated with lending to MSMEs.

CABEI will ensure that the GCF concessionality is passed on to IFIs and beneficiaries. Thus, access to credits will be enhanced by offering better conditions to final beneficiaries.

Additionally, funding will allow the Programme to be strengthened by a Technical Assistance component to provide capacity building required of project proponents as well as to ensure quality studies are conducted allowing adequate project analysis and full assessment of risk identification and mitigation within the project.

Furthermore, GCF funding will support an incentive scheme to promote adaptation measures among MSMEs and catalyzing the process of breaking barriers to adaptation finance within the IFIs.

The amount required to undertake the leverage components, Financial Mechanism, Technical Assistance and Adapt-Award, are essential to mobilize private investment in three key results areas of the GCF: most vulnerable people and communities; health and well-being, food and water security; and ecosystems and ecosystem services.

Finally, the Programme takes on a definitive role in enhancing Direct Access given the nature that private actors from Central America and the Dominican Republic, will be directly responsible for proposing projects to which they require funding. The Programme and CABEI seek to increase ownership on potential beneficiaries, by supporting them through the complete programme cycle, from identification (through knowledge sharing workshops), funding preparatory and feasibility studies, and financing the initiative.

D.2. Exit Strategy

To achieve sustainability, a specific strategy would be generated. This sustainable strategy pursues the following objectives:

- To ensure the appropriate engagement at each stage of the Programme of the key institutional actors of each country.
- To ensure the alignment of the Programme with the national and regional strategies.
- To keep governments aware of the Programme activities, through the systematization, analysis and logging of results and impacts of the Programme to promote the adoption of evidence-based policies.
- To encourage the institutionalization of specific practices at a government level and generation of agreements that would allow actions to become sustainable.

The main sustainability outcomes of the proposed Programme are summarized below.

- The strengthening of ecosystem services is a long-term wager on the resilience of production systems.
- Work in an associative manner will be promoted by the Programme; this approach always has greater chances of enduring in time and of mitigating environmental, social and economic risks. The Programme proposes to prioritize investments promoted by cooperatives and producers' associations.
- Participatory processes ensure more effectively Programme's ownership. It is proposed that training conducted under component 2 is always conducted with the participatory-learning-for-action methodology, which includes collective diagnosis and participatory project selection.
- The Programme proposes to factor in both local conditions and cultural traditions so that actions truly respond to the need of the natural environment and of the community that lives in it.

- The Programme aims to institutionalize the provision of financial and technical assistance to the banking and MSME sector across the seven countries so the likelihood of the sustainability of the piloted activities will be increased. The Programme will serve, first as a demonstration platform to prove that this kind of investments and business can attract financing from both commercial banks as well as non-banking financial institutions, previously not experienced in environmental/adaptation projects.
- As a strategy to attain institutionalization of the rendering of these services it is proposed that, in the case the local or national governments lack the technical capacity, technicians from each institution and country be engaged to participate of the Programme trainings. This way, the generation and installation of capacities during execution is ensured in these topics in the technical staff of local and national governments, with the commitment to continue providing technical assistance and replicate knowledge after the Programme's funding comes to an end.
- The project, through CCAD, will work closely with the National Governments to support the exchange and the adoption of the lessons learned so that the impact of the activities is felt on the ground by MSMEs.
- A new programme related to adaptation measures for MSMEs, will be available within CABEL's Global Credit Line. This programme will continue operating and will remain operational to the extent that there will be demand from the FIs. Successful demonstration by the program in arranging commercial financing into resilient MSMEs would set the stage for larger scale financing by IFIs using non-CABEL funds.
- Institutional capacity developed by CABEL to implement this kind of programs will be installed.
- As described in the Implementation Arrangements section, the PMU includes within its responsibilities, the transfer of Knowledge, with the objective of allowing CABEL to give continuity to the Programme once the participation of the GCF is finished.
- With the revolving nature of the GCL, the IFI may keep channeling resources granted by CABEL to cover its demand and thus reach sustainability by promoting adaptation measures, since revolving credits would be re-invested in adaptation activities under the same credit line. For example, a financial institution of the region has disbursed over a period of 15 years a total sum of US\$ 54.0 million using a line approved for US\$ 9.0 million. This entails a GCL revolving 6 times, thus contributing in its own way to its sustainability. The allocation of resources thus revolved entails the performance of new disbursements. That is why the same requirements to use the GCL are applied.
- The proposed intermediary scheme is a novelty in adaptation to climate change strategies; success of this initiative can be taken by other regional or multilateral agencies for effectively enable adaptation solutions by reducing barriers to financing from the most vulnerable.
- Technical Assistance activities, will seek to build and install local and regional technical capacities, in addition to national capacities, which are conscious and trained in Climate Change issues and sustainable small-scale agricultural production. These acquired capacities will empower over time the activities of the participating institutions, strengthening the existing ones and creating new ones, on the understanding that the relationship between climate change and small-scale agricultural production is still a neglected area.
- Both Adapt-awards and Technical Assistance activities are proposed as transitional tools to incentive the setting up of long-term adaptation credit facilities in the seven countries. This programme proposes working with these two instruments in order to change the current practices of IFIs and MSMEs, assuming that they will no longer be necessary after 5 years of implementation.
- Finally, improving the quality of life of rural MSMEs through adaptive actions in their production systems is a guarantee of the permanence of families in the rural environment and preventing their migration to the poverty belts in the urban outskirts.

Programme duration will be five years. The final exit strategy for GCF funds will be related to IFIs' Programme ownership, as CABI and local lending institutions become more familiar with projects risk, will be an important element in the future operation of the Programme. The linkage of the GCF to this initiative will be established in the Programme execution period and will consist, on the one hand, of the placement of the financial mechanism and, on the other hand, the execution of the Technical Assistance activities and the incentives schemes.

In this section, the accredited entity is expected to provide a brief description of the expected performance of the proposed project/programme against each of the Fund's six investment criteria. Activity-specific sub-criteria and indicative assessment factors, which can be found in the Fund's [Investment Framework](#), should be addressed where relevant and applicable. This section should tie into any request for concessionality made in [section B.2](#).

E.1. Impact Potential

Potential of the project/programme to contribute to the achievement of the Fund's objectives and result areas

E.1.1. Mitigation / adaptation impact potential

Intermediation, as proposed, is characterized by the impact potential. Funds are delivered to a widespread network of financial institutions, which are those having a direct relationship with the local MSMEs. This impact is then multiplied by the regional approach: CABEI is a regional Development Bank, with the capacity of massively extend the aim of the Programme to seven countries where the credit to small agriculture is almost non-existent.

As presented in the background/context section, within CABEI, there are Regional Offices in each one of the Bank's founding member countries (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama). Each office has direct contact with the IFIs (intermediated modality) and other projects at each Regional Office's discretion (direct modality with the public and private sector). The Dominican Republic are supervised directly from the Bank's Headquarters in Honduras through a similar structure as within the regional offices. CABEI expects to open the Dominican Republic regional office in 2019.

The Programme is expected to benefit about 5,000 MSMEs, that is to say, 69,720 beneficiaries, distributed between 17,430 direct beneficiaries and 52,290 indirect beneficiaries that will benefit from the adoption of diversified, climate-resilient livelihood options. By the adoption of ecosystem-based adaptation measures, the Programme is expected to reach 63,776 hectares of agricultural land made more resilient; and 60,478 hectares of strengthened ecosystems in response to climate variability and change.

Given the diversity of threats from climate change in the seven countries (please refer to section C.3 and the Feasibility Study for details on the threats identified in each of the countries), the Programme is expected to provide results in a large variety of adaptation measures. All of them will help substantially improve the life quality of the beneficiaries and their food security by accessing credit.

It is expected that many of the adaptation measures to be adopted have potential mitigation co-benefits. The identification of adaptation measures, its benefits and possible co-benefits will be promoted and registered through the M&E monitoring system.

E.1.2. Key impact potential indicator

Provide specific numerical values for the indicators below.

GCF core indicators	Expected tonnes of carbon dioxide equivalent (t CO ₂ eq) to be reduced or avoided (Mitigation only)	Annual	N/A
		Lifetime	N/A
	<ul style="list-style-type: none"> Expected total number of direct and indirect beneficiaries, disaggregated by gender (reduced vulnerability or increased resilience); 	Total	5,000 MSMEs 17,430 direct beneficiaries (11,678 male, 5,752 female) 52,290 indirect beneficiaries (35,034 male, 17,256 female)

	<ul style="list-style-type: none"> Number of beneficiaries relative to total population, disaggregated by gender (adaptation only) 	<p>Percentage (%)</p>	<p>Direct beneficiaries: 0.031% relative to total population (0.042% male, 0.020% female).</p> <p>Indirect beneficiaries: 0.09% relative to total population (0.127% male, 0.059% female).</p>
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<p>Other relevant indicators</p>	<ul style="list-style-type: none"> Expected hectares of agricultural land made more resilient: 63,776 hectares 60,478 hectares of strengthened ecosystems in response to climate variability and change
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Total direct beneficiaries were calculated based on statistics from the Programme CAMBio (US\$ 58.5 million in 12,100 loans and 26,036 beneficiaries). Average number of beneficiaries per size of enterprise were estimated and a potential allocation of disbursements for micro, small and medium size enterprise for CAMBio II was made estimating a higher percentage of cooperatives and producer associations, which will be promoted by the project. This way, estimates show approximately 17,430 beneficiaries will be supported by the Programme, based on potential credits distribution and average beneficiaries per credit allocation according to enterprise size, using average data from CAMBio I. Indirect beneficiaries were estimated based on FAO's experience in Honduras where through financial and non-financial mechanisms is has been possible to generate three jobs in MSMEs for each of the direct beneficiaries supported by the Programme.

The disaggregation by gender was based on the trends of the Programme CAMBio for a conservative projection; however, the proposed Programme considers several activities that will promote women's participation and thus the proportion is likely to raise. The percentage of beneficiaries relative to total population has been calculated based on average percentage of the population obtained from the last census of the seven countries participating in the Programme.

According to CAMBio's final reports, IFIs provided loans for 134,062.08 hectares of agroforestry used for coffee, cocoa, and cardamom production; 6,999 hectares of sustainable fishing; 2,269.38 hectares of organic farming and plantations; 200.95 hectares of sustainably managed forest; and 447.94 hectares used for ecotourism. The total hectares of agricultural land made more resilient were estimated considering similar trends as in CAMBio I.

E.2. Paradigm Shift Potential

Degree to which the proposed activity can catalyze impact beyond a one-off project/programme investment

E.2.1. Potential for scaling up and replication (Provide a numerical multiple and supporting rationale)

This Programme will contribute to scale up and replicate an innovative financial model that has never been used before for adaptation to climate change purposes.

As highlighted in the description of the Exit Strategy, a new programme related to adaptation measures for MSMEs, will be available within CABEL's Global Credit Line. This Programme will continue operating and will remain operational to the extent that there will be demand from the IFIs.

Considering that CABEL's network already covers an essential part of IFIs in the region, it can be affirmed that successful demonstration by the program in arranging commercial financing into resilient MSMEs would set the stage for larger-scale financing by IFIs using non-CABEL funds.

Institutional capacity developed by CABEL to implement this kind of programmes will be installed. The IFIs themselves will open programmes with the same purposes, with probabilities of keeping them open after the Programme has come

to an end. This will be promoted by an effective Programme execution including a close accompaniment with Technical Assistance that will help to find the better options for the design and management of these IFI's new programmes.

Both Adapt-awards and Technical Assistance activities are proposed as transitional tools to incentive the setting up of long-term adaptation credit facilities in the seven countries. This Programme proposes working with these two instruments in order to change the current practices of IFIs and MSMEs, assuming that they will no longer be necessary after 5 years of implementation.

By the end of the Programme, support to MSMEs for adaptation to climate change will be mainstreamed into the region's private financial systems. Successful implementation will give rise to new similar financial facilities run on a commercial basis for MSMEs and access to funding should stop being a bottleneck for MSMEs willing to increase their resilience to future climate impacts.

This way, barriers to credit for MSMEs vulnerable to climate change will be reduced and conditions will have been established for scale-up of capacity building activities to the entire IFI network of CABEI. There will have been several MSMEs projects financed and generating lessons on the reality of MSMEs facing climate change; increased number of investment opportunities being created, identified and brought to the attention of IFIs; and work under the national enabling environments should be improving certain sectors.

This Programme will contribute to the GCF in its role of mobilizing private investment. As acknowledged by the international community, private sector investments will be critical to achieving the type of low-carbon, climate-resilient growth necessary to secure a sustainable future through a new paradigm. This Programme has the potential to become a powerful element in unlocking vulnerable MSMEs sector finance in Central America and the Dominican Republic.

With the revolving nature of the GCL, the IFI may keep channeling resources granted by CABEI to cover its demand and thus reach sustainability by promoting adaptation measures, since revolving credits would be re-invested in adaptation activities under the same programme. For example, a financial institution of the region has disbursed over a period of 15 years a total sum of USD\$ 54.0 million using a credit line approved for USD\$ 9.0 million. This entails a GCL revolving 6 times, thus contributing in its own way to its sustainability. The allocation of resources thus revolved entails the performance of new disbursements. That is why the same requirements to use the GCL are applied.

According to CAMBio's Final Evaluation, "CABEI was very successful in providing USD\$ 55.0 million (a threefold increase in pledged funds) to financial institutions lending to MSMEs, through existing credit lines. With the promotion of a more attractive financial product with non-reimbursable incentives, the ties between IFIs and MSMEs were also strengthened".

The proposed intermediary scheme is a novelty in adaptation to climate change strategies; the success of this initiative can be taken by other regional or multilateral agencies for effectively enable adaptation solutions by reducing barriers to financing from rural MSMEs, whose productive activities are among the most vulnerable to climate change in the Region.

E.2.2. Potential for knowledge and learning

One of the main advantages of the regional approach is that it fosters best practices under standards which show a significant variability among countries. As such, best adaptation and financial practices can be capitalized in the whole region. Other kind of activities that will benefit from being implemented uniformly across all 7 countries are those regarding the monitoring, evaluation and information systematization formats. It can as well guarantee a regular flow of information where progress of activities can be contrasted against the plan, adjusting any discrepancies per country from a central unit. This allows to take corrective actions if necessary during project execution.

A substantial portion of Lessons Learned will be based on the Programme's monitoring and evaluation activities, which will systematize the institutional reporting. To such end, experiences will be studied looking back and looking forward to document the learning process. The search for problems faced during project execution will be promoted across all 7 countries, as well as the experiences that did not turn out as intended in order to learn to overcome such problems and to avoid them in the future. The regional approach allows a big dimension of the learning process.

Some of the activities that will be implemented have been summarized in the Description of the Programme (Section C.3) under Component 3 and in the Feasibility Study (Section 4.6 Knowledge management and dissemination of lessons learned). In this document, description of the systematizations of best practices (best adaptation measures, management of project activities, insertion of women/youth in adaptation projects), communication materials (videos on project stories), lessons learned workshops (with the participation of executing parties including local governments, NDAs, among others) and studies have been described. A table has been elaborated for the organization of these proposals by topic, purpose, output types, audience, need of human resources, approximate dates at which they would be performed, and form of dissemination (please see Section 4.6 and in particular the "Log for Knowledge Management" on p.135 of the Feasibility Study).

Lessons Learned from the project CAMBio have been taken into account in the design of this Programme. Based on the conclusions of CAMBio, Among others, CAMBio II:

- Will especially promote associative projects, considering that this approach always has greater chances of enduring in time and of mitigating environmental, social and economic risks, and of targeting small-scale beneficiaries. This way, the Programme proposes to prioritize investments promoted by cooperatives and producers' associations.
- Has limited the Adapt-Award to small IFIs, excluding commercial banks (public or private).
- Expects to reach a higher percentage of women based on the implementation of the Gender Action Plan that has been designed.
- Considering the good results of using incentives and TA as transitional tools.
- Knowledge of technologies appropriate to the objective of adaptation;
- Comprehensive approach;
- Focus on limitations of the financial sector to propose actions that remove those barriers.
- In terms of environmental and social assessment, the proposed Programme is being designed considering the environmental and social safeguards from the beginning. The SIEMAS is nowadays fully implemented in CABEL, which was not the case for CAMBio I.

E.2.3. Contribution to the creation of an enabling environment

How the proposed measures will create conditions that are conducive to effective and sustained participation of private and public sector actors in low-carbon and/or resilient development that go beyond the program.

The Programme will support the creation of an enabling environment by promoting collaboration and participation of public and private sectors during the timeframe of the Programme. The exchange of information and the lessons learned processes will provide the input for all the knowledge sharing between the different actors. The impact generated by the spread of adaptation measures in the seven countries will booster the investment in the agricultural sector, by demonstrating the effectiveness of the promoted technological options. The fact that credits are given to a sector that does not have access to finance, and the possibility of strengthening capacities on climate change, will empower MSMEs to innovate in their adaptation strategies.

The sustained participation of private and public sector will be actively promoted by a ***Stakeholder engagement during the implementation stage:***

In the implementation of the Programme, a multi-stakeholder approach will be pursued to create conditions for Programme ownership from its start to the final evaluation. The following will be considered: accurate responses to community needs, lining with national policies and strategies to combat climate change, priorities of development partners captured in formulating the objectives, the components, the expected results and the activities.

The active participation principles by the different public and private stakeholders will be guaranteed, together with criteria of social inclusion, gender, and generation equality. Also, for the collective building of the Programme, a constant, transparent and open dialog is required to listen to the opinions of all actors involved when incorporating adaptive measures based on ecosystem measures through the innovating financial proposals. With this involvement, the Programme intends to improve the decision-making process, and to build a bridge between the Programme and those groups and organizations, by providing timely information to any stakeholders, and by promoting an active participation thereof to receiver their feedback, suggestions, recommendations, and to answer to any concerns so that the Programme may be executed in a context of mutual understanding and respect.

How the proposal contributes to innovation, market development and transformation.

In the region, a major constraint limiting the growth of any small business is the availability of capital. Conservative banking practices have left the agricultural sector with limited financing, due to the high risks associated with its operations. Therefore, barriers to banking and business need to be removed and enabling an environment that catalyzes resilient investments in micro-small and medium-sized enterprises needs to be created.

Therefore, one of the major innovations of the Programme is to reduce the obstacles to credit access on the part of producers through credit intermediation: the Programme will promote access to lending through financial and non-financial services that will allow reducing the risk inherent to all production activities; similarly, these systems will be promoted through the network of IFIs that CABEL has across the region. Through this financing, the implementation of best practices for production and conservation of natural resources (soil, water, forests and biodiversity) will be promoted.

The promotion to incorporate an adaptive approach to climate change in training, introducing instruments based on the conservation of ecosystem services for the adaptation to extreme events and climate variability aimed at small scale producers is necessary but still has not been carried out in the region. This training is intended to promote sustainability of the measures favored by this Programme over time.

The incorporation of a gender approach is new and poses a challenge for all actors involved, ranging from the executing units to the targeted population itself.

Lastly, the regional aspect is worth stressing: even though there are precedents with the previously mentioned CAMBio, this Programme proposes to overcome the difficulties to reach the vulnerable producers with emphasis placed on building resilience to climate change. This will constitute an invaluable contribution to building resilience in a region where climate change impacts are common and where good or poor practices adopted by the producers of one country may affect the neighboring country given the short distances between their territories. A good example of this may be the dissemination of some pests or the management of water resource.

E.2.4. Contribution to regulatory framework and policies

This Programme will strengthen the national / local regulatory or legal frameworks by giving the example of successful investments in adaptation technologies. It will also provide good evidence of the potential to facilitate access to finance from MSMEs. All the results generated by the Programme will be shared systematically with the public institutions (national / sub-national governments, technical institutions, organizations) of the seven countries. Several activities have been included in the Lessons Learned strategy with this objective: yearly exchange between countries, workshops for dissemination of experiences, development of communication materials such as video recording with project stories, manuals; also, consulting services will be hired in order to develop experience systematizations (1 focused on gender perspective), among others. All these results will provide inputs to the decision makers for improving the climate-responsive planning and development.

E.3. Sustainable Development Potential

Wider benefits and priorities

E.3.1. Environmental, social and economic co-benefits, including gender-sensitive development impact

The Programme will facilitate access to credit to MSMEs practices that incorporate adaptation measures while protecting natural resources, increasing their adaptive capacity and reducing vulnerability to climate variability. This being an integral approach, the Programme brings a significant variety of benefits. These are summarized below:

(Please refer to the **Feasibility Study** to have a detailed description of the economic, social, and environmental benefits, including gender-sensitive development impact. Please also refer to the **ESMF in ANNEX III** and the **Gender Assessment and Gender Action Plan in ANNEX IV** for further details on these topics).

Economic benefits

➤ **Access to credit for MSMEs**

As presented in the Feasibility Study, according to a recent IDB assessment (Trujillo and Navajas, 2016), in most of Central American countries, credit to the agricultural sector accounts for roughly 3% of total credit offered by regulated financial systems, with a higher percentage in Guatemala (8%) and Nicaragua (10%). Even so, there is a significant number of microfinance institutions (MFIs) devoted to serving the rural sector that have a presence there, but they face the following problems: on the supply side, MFIs do not have permanent long-term financing, methodologies or trained employees to implement financial products and services that better meet client needs. On the other side, there is an unmet demand on the part of rural clients regarding higher amounts of credit to invest in productive assets, longer-term loans and different modalities and mechanisms that facilitate the use of resources when necessary.

In the same sense, the Central American Agriculture Policy 2008-2017 expresses concerns on the obstacles for the development of financial services such as the perception by the private sector of the agricultural sector as high risk, and lack of financial instruments that accommodate the needs inherent to the agricultural activities.

This initiative will reduce barriers to credit for 5,000 MSMEs for adopting adaptation measures, and will increase awareness among IFIs of potential market opportunities, having a target of at least 7 IFIs that operate programmes for adaptation investments. Both MSMEs and IFIs will receive incentives for adopting this scheme (1,340 projects will be granted Adapt-awards), and training will build capacities of MSMEs to manage credits and of IFIs to implement a financial product that responds adequately to MSMEs' needs and to reduce their perception of MSMEs as a high risk.

➤ **Production losses due to climate change**

Aggregate estimates put the economic cost of a 2.5°C rise in temperature (most probably around 2050) for the region at between 1.5% and 5.0% of the region's present GDP. As introduced in the background section, estimates based on climate change scenarios suggest that grain production could drop significantly during this century. Decreases in yields could be of up to about 35.0%, 43.0% and 50.0% for maize, beans and rice, respectively, by the end of the century under the A2 scenario and of 17.0%, 19.0% and 30.0% under the B2 scenario relative to the yields of the last decade, assuming the absence of adaptive measures. These potential losses would have a direct impact on producers, most of whom operate as family businesses at subsistence levels, but they would also impact food security, poverty and the degree of dependence on grain imports, which has already been rising over the past three decades (CEPAL-ECLAC, 2013d). Other processes that generate large impacts on the agricultural sector are those related to plagues.

This Programme will bring access to credit for a wide range of adaptation measures, that will help to reduce risks associated with climate events in production activities, to reduce the pressure on the ecosystems, promote conservation of natural resources, and to improve the social and economic resilience of the populations.

Social benefits

Climate change impacts and vulnerability of MSMEs in a region that presents 33.5% of rural poverty and a high rate of migration from rural areas to the cities have been largely described in the context section of the **Feasibility Study**. Adaptation measures promoted by this Programme will contribute to improving socio-economic wellbeing and building resilience of the rural communities to the impacts of climate change. Without the Programme's proposed adaptation investments, food security, access to water and ecosystem resilience will remain a major challenge which will be exacerbated by climate change. The Programme will enhance preservation of landscapes; will promote preserving the roots of communities; will increase skills focused on climate change adaptation approaches; will increase gender equality; and will promote participatory processes that enhance local capacity of making collective decisions.

With regards to Indigenous Peoples and other vulnerable minorities, some of the main obstacles faced in light of climate change identified by the UN Permanent Forum on Indigenous Issues and Minority Group International, are: agricultural models that decline in biodiversity and food security; deforestation that pushes communities to migrate; lack of financial resources and technical expertise in adaptation to climate change. This Programme will address these challenges by 1) promoting adaptation measures with an approach of conservation and sustainable use of natural resources; 2) promoting access to financial resources and technical expertise.

Environmental benefits

The available evidence for Central America indicates that environmental degradation and the destruction of biodiversity are processes that are already in full sway and that will very probably become more marked as climate change progresses. A report from ECLAC (ECLAC 2011b) shows estimations on how climate change is projected to boost the loss of the Potential Biodiversity Index (PBI) to 33.0% to 58.0% (scenarios B2 and A2).

Likewise, communities of rural areas are more vulnerable to climate change due to their levels of environmental degradation. As expressed by the UNISDR, environmental degradation, settlement patterns, livelihood choices, and behavior can all contribute to disaster risk, which in turn adversely affects human development and contributes to further environmental degradation. That environment, development, and disasters are connected is rarely disputed, but the multi-dimensional role of environment has caused considerable confusion. While it is often recognized that ecosystems are affected by disasters, it is forgotten that protecting ecosystem services can both save lives and protect livelihoods (UNEP-ISDR, 2007).

Implementation of Programme activities by 5,000 MSMEs will increase the ability of ecosystems to sustain essential ecosystem provisioning, supporting, and regulating services in the face of climate change: provision of clean water, erosion prevention, flood control, reduction of load on land increase of forest and crop species diversity as well as leading to co-benefits such as carbon storage. This increased resilience to climate change will have a positive impact on livelihoods, acting as soft infrastructure against extreme events.

The Programme will support, through its Technical Assistance component, changing attitudes towards adaptation to climate change with an approach to conservation and sustainable use of natural resources, through the implementation of adaptation measures.

Gender co-benefits

The Gender dimension is an integral part of the Programme and is incorporated and applied as a cross-cutting approach, and as an analytical instrument and object of research.

The Programme's Gender Approach will be based on CABI's Gender Equality Policy, which incentive gender and women's autonomy. It was adopted in 2010 and establishes the guidelines that have been considered in the design of

CABEI Institutional Strategy 2015-2019 to implement this approach across the different instances of the Bank. The Policy strengthens the work with member countries to promote equality and the empowerment of women through the implementation of a gender perspective in their operations.

All the actions included in the Gender Action Plan (GAP) seek the visibility of women as main actors to enhance processes of adaptation to climate change. Through the GAP, the Programme will develop gender capacities both in the IFIs as in MSMEs, with special consideration of women who lead these institutions.

This Initiative will help:

- Increase knowledge and **awareness in the community about climate change and its impacts** - which are higher in the face of women's vulnerability -, and help create consciousness on environment protection that will provide healthy and sustainable livelihoods.
- Improve access to credit for women, considered within groups of risk. Considering there is little interest by the traditional financial system to manage small credits, which entails high administrative costs, and in activities deemed of high risk, and even more so in the case of women, this initiative intends to provide credit to those groups of risk, with **gender mainstreaming**.
- Improve access to credit for women, by **including micro-businesses**. As micro-businesses seem to be seen by rural women as a common alternative to escape poverty, and a high percentage of them falls within this line, as compared with small and medium-sized enterprises, the fact that this Initiative will include micro-businesses is important to reach impoverished rural women
- Promoting access to women by **providing higher percentages of Adapt-awards** for projects from women-led MSMEs.
- Improve access to credit and adaptation measures by women, **through Technical Assistance**: one of the challenges mentioned by women concerning access to credit is the lack of experience, both in the activity for which they require resources, and in the use and handling thereof (accounting, development of profitable projects, etc.). These sorts of topics will be addressed by the Programme 's Technical Assistance, which will be especially careful when the Programme will be promoted, with the purpose of encouraging women participation. Specific resources for supporting women on the field and participation in programme activities have been budgeted.
- Promote gender equality and representation by women. The fact of **promoting women participation** in technical assistance activities will attempt to counteract the typically limited access to training services, related to lower literacy levels than men. And workshops with women leaders and employees on adaptation to climate change have been planned. Both MSMEs and IFIs will receive specific training in gender issues.
- Lessons learned on gender issues: the Gender Action Plan includes as well one **systematization** of adaptation experience focused on gender perspective, and one study of insertion of women and young people in the processes in year 3.

The GAP includes indicators to show the women's access to the Programme 's benefits and their participation in training and workshops.

Please refer to the **Gender Assessment and Gender Action Plan in ANNEX IV** for further details on these topics.

E.4. Needs of the Recipient

Vulnerability and financing needs of the beneficiary country and population

E.4.1. Vulnerability of country and beneficiary groups (Adaptation only)

The **Feasibility Study** presents a detailed description of the scale and intensity of vulnerability of the countries and of the beneficiary groups where the Programme will be implemented.

A brief description of the impacts and vulnerabilities by country have been summarized in Section C.1. Below, the major recent climate changes, projections, impacts and vulnerability at the regional level is presented.

Climate change is heightening Central America's social and economic vulnerability and it will have an increasingly strong influence on its economic growth, since weather-related factors have a decisive impact on many of its production activities, such as agriculture and hydropower generation.

Significant trends in precipitation and temperature have been observed in Central America with high confidence of the estimations. Also, changes in climate variability and extreme events have severely affected the region.

Climate projections suggest increases in temperature and variations in precipitation for Central America by 2100. Changes in streamflow and water availability have been observed and projected to continue in the future, affecting already vulnerable regions. The second half of the 20th century was associated with changes in precipitation. Risk of water supply shortages will increase due to precipitation reductions and evapotranspiration increases in semi-arid regions, thus affecting the water supply for cities, hydropower generation, and agriculture. Current practices to reduce the mismatch between water supply and demand could be used to reduce future vulnerability.

Sea level rise (SLR) and human activities on coastal and marine ecosystems pose threats to fish stocks, corals, mangroves, recreation and tourism, and control of diseases. SLR varied from 2 to 7 mm per year between 1950 and 2008. Frequent coral bleaching events associated with ocean warming and acidification occur in the Mesoamerican Coral Reef. In Central America, the main drivers of mangrove loss are deforestation and land conversion to agriculture and shrimp ponds.

Changes in weather and climatic patterns are negatively affecting human health in Central America, by increasing morbidity, mortality, and disabilities, and through the emergence of diseases in previously non-endemic areas. With very high confidence, climate-related drivers are associated with respiratory and cardiovascular diseases, vector- and water-borne diseases (malaria, dengue, yellow fever, leishmaniosis, cholera, and other diarrheal diseases), hantaviruses and rotaviruses, chronic kidney diseases, and psychological trauma. Air pollution is associated with pregnancy-related outcomes and diabetes, among others.

Vulnerabilities vary with geography, age, gender, race, ethnicity, and socioeconomic status, and are rising in large cities. Climate change will exacerbate current and future risks to health, given the region's population growth rates and vulnerabilities in existing health, water, sanitation and waste collection systems, nutrition, pollution, and food production in poor regions.

The evidence suggests that climate change is already having significant impacts in Latin America and the Caribbean and that, in all probability, its impacts will be even greater in the future. The effects in the region are unevenly distributed, non-linear and are positive in some cases and for some periods, although the long-term effects are primarily negative. For example, there is evidence of major impacts on agricultural activities, water resources, biodiversity, sea levels, forests, tourism, the population's health and the region's cities.

E.4.2. Financial, economic, social and institutional needs

Economic and social development level of the participant countries has been described in the **Feasibility Study** (see Section 2, Programme Context).

During 2011, approximately 41.0% of the regional population was under the poverty line, with Honduras (67.6%) and Guatemala (53.7%) featuring the highest percentages. Thus, 16.8% of the population lives in conditions of extreme poverty, with Honduras (43.9%) featuring the highest percentage. Studying the poverty statistics broken down per rural

and urban poverty, we can observe that in each one of the seven countries, the highest percentage poverty is located by far in rural areas. Some of the biggest contrasts are found in Nicaragua, with 63.3% more poverty in the rural medium, as compared with 26.8% in cities; in Guatemala, there is 76.1% in rural medium as opposed to 42.1% in cities; or in Panama, where the poverty index is among the region's lowest, but a considerable variation occurs between rural poverty and urban poverty (almost 50.0% vs. 13.8%). Healthcare, education, labor sector, food security and nutrition characteristics of the seven countries, reach highly significant gaps.

As introduced in the Market Overview section, in most of Central American countries, credit to the agricultural sector accounts for roughly 3.0% of total credit offered by regulated financial systems (Costa Rica, El Salvador, Honduras, Panama, Dominican Republic), with a higher percentage in Guatemala (8.0%) and Nicaragua (10.0%). Even so, there is a significant number of microfinance institutions (MFIs) devoted to serving the rural sector that is present in the territory. However, they face the following problems: on the supply side, MFIs do not have permanent long-term financing, methodologies or trained employees to implement financial products and services that better meet client needs. On the other side, there is an unmet demand on the part of rural clients regarding higher amounts of credit to invest in productive assets, longer-term loans (between 26 and 48 months) and different modalities and mechanisms that facilitate the use of resources when necessary (i.e., credit line).

As regards small-scale agriculture conducted by business organizations, the Central American Agriculture Policy 2008-2017 states the need for the measures of the Central American Agricultural Policy to acknowledge the specificities of the small-scale agricultural producers and to consider, when applicable, the instruments that allow to face the limited capabilities, the technological lagging, the little access to financing, the high exposure to risks and the frailty in the resource availability on the part of a substantial part of this sector. "Effective mechanisms must be established to allow the small-scale, enterprise-based agriculture to have access to public and private services, and this way improve their capabilities, ease up their competitive market insertion, and use natural resources in a sustainable manner."

Some of the key actions that must be developed according to this Policy, include the following: i) promote a greater presence of the financial system in the rural medium, ii) regulate the operation of non-banking rural financial intermediaries, and iii) develop standards for the intermediation of non-financial companies in the rural medium.

The gender aspects are important to highlight, since as far as access to credit is concerned, women have been excluded from traditional financial systems due to a series of factors: macro-economy policies orienting most of the funds to the agro-industrial sector, where relatively few women share in at a business level; little interest from the traditional financial system to manage small credits, which entail high administrative costs, and in activities deemed of high risk; lack of experience; absence of real estate as collateral, added to other demands regarding sums, installments, terms and credit lines, that do not conform to women's conditions and interests; low levels of literacy; among others.

Please refer to **Feasibility Study** for further details on the relevance of MSMEs in the agricultural sector, the situation of MSMEs and access to credit in Central America and Latin America, the general tendencies in the financial sector in the promotion of MSMEs, as well as the gender considerations vis-a-vis the access to credit for women in the region.

How the Programme addresses the identified needs

The financial instruments proposed in the Programme will allow reducing the obstacles to investment in adaptation actions in a sector that has currently very limited access to credit, and a significant lack of knowledge on the impacts on climate change and the potential solutions for increasing resilience of the productive systems. Barriers to banking and business need to be removed, and an enabling environment that catalyses resilient investments in micro-small and medium-sized enterprises needs to be created.

The programme will promote access to lending through financial and non-financial services to install and spread the adaptation technologies, and in parallel to establish incentives under the form of awards in order to encourage IFIs to develop this kind of programmes, and MSMEs to adopt good quality of adaptation projects as well as credit behaviour.

This initiative will reduce barriers to credit for 5,000 MSMEs for implementing adaptation measures, and will increase awareness among IFIs of potential market opportunities, having a target of at least 7 IFIs that operate programmes for

adaptation investments. Both MSMEs and IFIs will receive incentives for adopting this scheme (1,340 projects will be granted Adapt-awards); and training will build capacities of MSMEs to manage credits and of IFIs to implement a financial product that responds adequately to MSMEs' needs and to reduce their perception of MSMEs as a high risk has across the region.

E.5. Country Ownership

Beneficiary country (ies) ownership of, and capacity to implement, a funded project or programme

E.5.1. Existence of a national climate strategy and coherence with existing plans and policies, including NAMAs, NAPAs and NAPs

A detailed description of the alignment to regional and national strategies is provided in the **Feasibility Study**. A summary of the main points is presented in this section.

The present initiative is **aligned regionally** with:

- 2008-2017 Central American Agricultural Policy (PACA), approved by the Council of Ministries of the CAC and Heads of State and Government of the Countries of the Central American Integration System (SICA).
- 2009-2024 Regional Strategy on Agro-Environment and Health (ERAS).
- The 2010-2030 Central American Strategy of Territorial Rural Development (ECADERT), whose ultimate purpose is to strengthen creative and innovating capacities of the rural population, public institutions and organizations of the civil society in the Region's territories and to establish inclusive mechanisms that allow access to development leading to social and territorial cohesion.
- The 2012-2032 Food and Nutrition Security Policy for Central America and the Dominican Republic. In this framework, the Sustainability principle aims to promote regional actions in benefit of the development of a food and nutrition system that is sustainable in political, economic, social, cultural, educational and environmental terms.

Strategies at the national level are highlighted below:

Guatemala:

- Law on Climate Change, enacted on September 9th, 2013, stresses the need for an action plan for adaptation and mitigation in the face of climate change, expressly stating that one of the adaptive measures or actions should be implementing financial tools to help comply with adaptive actions or biodiversity conservation.
- Nationally Determined Contribution to the Mitigation of Climate Change (NDC) before the UNFCCC: The Government of Guatemala promotes and proposes reduction of vulnerability and improvement of adaptation processes all across key sectors. As regards agriculture and food security, priority is given to those actions with a direct effect in food production, mainly for self-consumption and subsistence in top priority areas.
- Integrated Coastal Area Management Plan of Guatemala, which contemplates the climate change variable.
- National Strategy for Biological Diversity (2012-2022): promotes the integration of biological diversity in the adaptation of climate change.
- 2032 K'atun National Development Plan: one of the main development focus of the plan is 'Natural Resources today and onwards', that proposes that sustainable development cannot be thought of without appropriate environment and natural resources management.

El Salvador:

- National Climate Change Plan: Outputs 2, 3 and 4, are directly aligned with the objectives of this Programme: protection of public finances and reduction of loss and damage associated with the adverse effects of climate change; biodiversity and ecosystem management for the adaptation to and mitigation of climate change; transformation and diversification of agricultural, forestry and agro-forestry practices and activities.

- Nationally Determined Contribution to the Mitigation of Climate Change (NDC) before the UNFCCC: Given the weight of the agricultural sector in El Salvador's economy and in water and food security and given the need for reducing vulnerability thereof in the face of climate change, urgent actions are required for such sectors to continue to be economically viable under the anticipated climate change scenarios. By 2030, El Salvador will have established and managed one million hectares through "Sustainable and Resilient Landscapes to Climate Change".
- 2014-2019 Five-Year Development Plan: adopts the Good Life rationale as national value, course and horizon, which demands a different way of understanding and making public policies. Among its commitments, there is moving towards a responsible type of management, which is respectful of the natural resources.
- 2013 National Biodiversity Strategy: recognizes that the 2 principal factors contributing to the loss of Biodiversity are environmental degradation and Climate Change.

Honduras:

- Law and Action Plan for Adaptation to Climate Change: The Republic of Honduras deems adaptation to climate change a top priority to reduce the country's vulnerability.
- Nationally Determined Contribution to the Mitigation of Climate Change (NDC) before the UNFCCC: The agri-food sector has prioritized adaptation measures such as the implantation of "Quesungual" agro-forestry systems, which promotes less use of fertilizers; the use of slow-absorption organic fertilizers; changes in the calendar of crops; incentives to produce introduced seeds adapted to local conditions; introduction of insect-repealing plants in consolidated crops; modification or abatement of inappropriate agricultural burning practices; measures to fight erosion; programmes of low volume irrigation in slope agriculture practice; practices of biological control of pests and diseases; development of organic fertilization systems; and promotion of incentives for organic agricultural production, including tax and financial incentives.
- Law of Agro-forestry for Rural Development: pending approval, it articulates the public policy in several paramount focuses oriented to a low-carbon development resistant to the effects of climate change promoting adaptation and bringing co-benefits to the population.
- Biodiversity National Strategy and action Plan 2010-2022, and Aichi goals: in their diagnosis, the impact of Climate Change on biodiversity is the most important of the factors.

Nicaragua:

- National Environmental Climate Change Strategy (ENACC): spearheaded by the Ministry of Environment and Natural Resources (MARENA), constitutes the general framework for the adaptation to climate change.
- Plan for Adaptation to Climate Variability and change in the Agricultural, Forestry and Fishing Sectors: strategic instrument that will contribute to the strengthening of the production capacity of such sectors and of such producers with a 20-year horizon.
- 2002 Biodiversity National Strategy and Strategic Plan 2011-2020: identifies Ecosystem based Adaptation as one of the key actions to maintain biodiversity.

Costa Rica:

- National Climate Change Strategy (ENCC) Action Plan: whose express objective includes "while promoting sustainable development through the economic growth, social progress and the environmental protection via initiatives of mitigation and adaptive actions so that Costa Rica will improve the life quality of its inhabitants and its ecosystems". Two Specific objectives are in line with the present proposal's objectives: 1) Enhance the adaptive capacity of the communities and ecosystems most vulnerable to the impacts of Climate Change on water resources; 2) Reduce vulnerability of women and men agricultural producers in the face of the impacts of CC.
- Nationally Determined Contribution to the Mitigation of Climate Change (NDC) before the UNFCCC: The country is currently designing a road map for its National Adaptation Plan, and is committed to develop it before 2018. The country will continue with its Green and Inclusive Development policy through local actions in

adaptation, such as, inter alia, the strengthening of conservation programmes and expanding the environmental services payments programme to include Ecosystem based Adaptation.

- 2015-2018 National Development Plan: The purpose of this plan is to impact competitiveness, economic growth, production chains, strength qualified labor, and diversify sources capable of generating wealth at national and territorial levels.
- Biodiversity National Strategy and Action Plan (ENB2) 2016-2025: identifies Climate Change as one of the factors on which actions must be taken to maintain biodiversity.

Panama:

- National Climate Change Strategy: One of the lines of actions leading to meet this objective is to reduce vulnerability of the communities with the highest exposure to adverse climate change effects through financial instruments and specific national funds for adaptation to climate change.
- Nationally Determined Contribution to the Mitigation of Climate Change (NDC) before the UNFCCC: The working focus outlines a set of actions which will allow Panama to responsibly decrease its vulnerability in the face of the adverse effects of climate change, by prioritizing and implementing specific adaptation measures.
- Governmental Strategic Plan (PEG) for 2015-2019: prescribes, among other measures, "to consider the battle against climate change and its effects as a fundamental focus of the governmental action, by stopping deforestation and restoring the vegetative cover to prevent desertification and by reducing the existing vulnerability through the development and application of adaptation and mitigation measures".
- Integrated Development Plan for Aboriginal Peoples of Panama: promotes actions related to political participation, monitoring of human development plans, conflict prevention, poverty reduction, access to information, among others.
- 2008 Biodiversity National Policy Strategy and Action Plan: integrate the group of 7 national policies of the Participative Strategic Plan, as well as the Climate Change Policy.

Dominican Republic:

- National Strategy for Adaptation to Climate Change in the agricultural sector Dominican Republic 2014-2020: policies and adaptation measures that support food security of the population and promote low carbon development.
- Nationally Determined Contribution to the Mitigation of Climate Change (NDC) before the UNFCCC: adaptation is a constitutional-ranking priority. The sectors identified as the most vulnerable are: Water for Human Consumption, Power for the National System of Protected Areas, Human Settlements and Tourism.
- 2010-2020 Sectoral Strategic Plan of Agricultural Development: focuses on the consolidation of the reform and modernization process; productivity and competitiveness; domestic consumption and domestic trading; development of rural and service infrastructure.
- Law 1-12. 2013 National development strategies: Section 10. Fourth Focus, seeking for an Environmentally Sustainable Production and Consumption Society Adaptive to Climate Change
- 2011 Biodiversity National Policy Strategy and Action Plan 2011-2020: consider that maintaining the natural biodiversity is an action to adapt to and mitigate climate change.

Contents of laws and strategies of the seven participant countries have been further developed in the Feasibility Study.

CABEI's Institutional Alignment

To prioritize the investments anticipated by this initiative, an institutional alignment will need to be guaranteed. For this reason, the present proposal is directly connected to CABEI's Institutional Strategy and its Country's Strategy, which are planning instruments aligning each country's concerns with CABEI's concerns.

In this regard, from CABEI's strategy, it can be derived that environmental sustainability is a strategic axis and part of its development policies for the region. In countries less developed, this problem is more severe, as there is a direct

relationship between poverty levels and degradation of natural resources and the environment. That is why it is essential to acknowledge the role the public and private sectors must play, as established in a genuine commitment to adopt measures and policies in benefit of the environment, being aware that long-term benefits will translate into a better life quality of the Central American population. Based on the above, the characteristics of the new development plans of the region's countries must be oriented to promote free trade, improve inclusion, develop sustainable public policies, prompt mechanisms to reduce the inherent vulnerability in the face of economic clashes and natural disasters, and promote greater economic growth and job creation.

CABEI carries out its activity based on the application of the Institutional Strategic Framework (MEI). The main purposes of MEI are to guarantee an integrated view of the region and country at the level of Bank's operations and to strengthen the institutional evaluation framework. To such end, an appropriate alignment is sought for in the strategic and operational propositions deriving from the Institutional Strategy, the Country's Strategies, the sectoral intervention frameworks, and the Annual Operating Plan (POA). The Institutional Strategy is a proposal that defines the mission and priority objectives of the Bank for the region, executed through instruments oriented to assist the development needs and priorities. The sectoral intervention frameworks speed up the understanding of and assistance to those areas of greater relevance for the region. Short-term operating plans propose interventions that will be conducted by the Institution within 1-year term. Such MEI is evaluated through a result-oriented management system to ensure alignment with the goals and priorities established.

CABEI's MEI has established a governance structure that reflects the Bank's alignment with the Central American Integration System (SICA), consolidates CABEI's preferential creditor treatment, strengthens CABEI's capital base and increases the diversification of its loan portfolio, enabling the possibility to provide financing to all non-regional member countries.

E.5.2. Capacity of accredited entities and executing entities to deliver

CABEI's experience with intermediation schemes

CABEI is the multilateral organization with the largest network of strategic intermediaries to channel resources in the Central American region. This network comprises 98 intermediate financial institutions (IFIs): 9 Public Banks, 36 Private Banks, 14 Finances companies, 27 Non-Banking Financial Institutions (IFNB), and 12 Cooperatives. Please see table in Section C.4 to see the composition of this network, per country.

Since 1996, through intermediation, **US\$ 6,858.3 million** have been disbursed through ongoing applicable programmes.

It is worth stressing that all financial intermediation programmes of CABEI keep the same operative rationale, which allows the Bank to know with the best possible detail, and efficiently and reliably, all projects and persons benefiting from the resources that CABEI channels through the IFIs of the region, public and private.

CABEI has achieved positive and tangible results, by engaging in the financial sector. As of June 2016, 722,341 businesses employing 1,350,918 people have received support. Opportunities have been provided for progress to low-income households by strengthening their efforts with loans of US\$ 740.0 on average for micro-sized enterprises and US\$ 41,805 for SMEs.

Likewise, through microfinance institutions, CABEI has managed to progressively extend its effect towards poorest households, towards rural areas, and towards the most vulnerable sectors. Through the programme of Support to MSMEs, US\$ 662.7 million have been channeled towards production activities in rural areas, US\$ 161.2 million of which have been related to agriculture and livestock. Please refer to the **Feasibility Study** to see the list of programmes of financial intermediation programmes with emphasis on MSMEs.

CABEI's experience with the agricultural sector

The Bank's support to the sector has been through its own resources and with resources of cooperative partners, among which the following must be mentioned: the European Union (EU), KfW Development Bank of Germany, among others, with which the Bank has entered into cooperation agreements. Since the year 2007, this cooperation has become stronger with contributions from the Global Environmental Fund (GEF), to establish a programme of Investment in Biodiversity in the Central American region through the Programme CAMBio and its different components to strengthen MSMEs.

Given the weight of the MSME sector in the countries' economic and social development, CABI is a key actor for the short-term strengthened access of MSMEs to its financial services in order to direct its resources towards Central American population's more needy layers and through different approaches.

Please find below a list of the programmes conducted by the CABI as regards the MSMEs of the agricultural sector in the participating countries of this Programme.

FINANCIAL INTERMEDIATION PROGRAMMES	
Small, Medium and Micro-sized Enterprise Support Programme	The purpose of the programme is to provide funding for urban and rural SMME through intermediary financial institutions. Investments are financed to promote business activity to continue contributing to job creation and business growth.
Support Programme with an Energy Efficiency Approach	The purpose of these programmes is to contribute to climate change through MSME in the region.
Support Programme with a Renewable Energy Approach	
Support Programme for MSMEs Affected by Natural Disasters	The purpose of this programme is to stimulate business activity in areas that have been affected by natural disasters. This programme is designed for responding to situations when disaster has already happened, as opposed to the present proposal, which deals with prevention.
Biodiversity SMME Support Programme	The programme aims to facilitate financing to MSMEs that incorporate the protection and conservation of biodiversity in their business, products and services.

CABI's experience with the Programme CAMBio

With regards to the project with most of the similarities with the proposed programme, *Proyecto regional "Mercados Centroamericanos para la Biodiversidad (CAMBio)"* and its prolongation, "Biodiversity friendly MSMEs", a total of 22 IFIs has participated, having disbursed more than USD\$ 56.0 million. The majority of the participating IFIs have corresponded to non-banking institutions.

CAMBio has granted 12,107 loans to date, reaching a total of 26,036 beneficiaries. 60.0% of the more than USD\$ 56 million disbursed have been awarded to medium-sized enterprises, 26.0% medium and 14.0% small. However, in terms of quantity of loans granted, the clear majority, 92.0%, have been granted to small businesses. This responds to a logic of credit decision capacity for different types of businesses: it is important to note that a significant portion of the loans was micro scale.

Further information on CAMBio has been included in the **Feasibility Study**.

CABI's experience with other topic-related projects

As background for the topics related to this proposal, the following paragraphs introduce projects in which CABEL was involved:

- PROARCA (Central American Regional Environmental Programme) and ARECA (Accelerating Renewable Energy in Central America and Panama, end date December 2015), had the Central American Commission for Environment and Development (CCAD, for its acronym in Spanish) and CABEL as partners in one or more of their components, with the intention of promoting green economies in vital areas of conservation.
- From PROARCA/CAPAS (Central American Regional Environmental Project / Central America Protected Area System), the project strategy inherits the continuation of tourism and agro-forestry efforts in the peripheries of Protected Areas, and the promotion of green markets for organic coffee.
- The other project in CABEL that provided operative experience was ZONAF (Central American Border Zones Development Program), financed by the EU.
- SIGMA implemented a model that introduced financing and technical assistance to small and medium enterprises to reduce pollution. Working with IFIs, this initiative provided risk guarantees for banks to catalyze investments on a commercial basis.
- Through a small Global Environmental Facility (GEF) project, Nicaraguan research and development institute NITLAPAN and Local Development Fund FDL developed a financial product known as *Paquete Verde* ("Green Package"), targeting the introduction of sustainable practices on farms receiving microcredits.

Equally important was the transfer of experience that the Tropical Agricultural Research and Higher Education Center (CATIE) gained while implementing the Mesoamerican Agro-Environmental Programme (MAP) funded by Scandinavian donors. In alliance with many regional partners, this initiative has been providing training and innovation in sustainable production practices to Central American farmers, in coffee, cacao, and other agroforestry commodities.

E.5.3. Engagement with NDAs, civil society organizations and other relevant stakeholders

In this section, the description of the engagement with relevant stakeholders has been organized according to stages: A) engagement during formulation stage and B) engagement during project implementation.

A) Stakeholder engagement during the formulation stage

The engagement with NDAs, civil society organizations and other relevant stakeholders has been developed in two main stages:

- ✓ The first one, before the submission of the Concept Note.
- ✓ The second one, after the submission of the Concept Note to the GCF, which allowed the completion of the consultations under a multi-stakeholder engagement process.

Both processes are summarized down below; please refer to **Annex II – Stakeholder engagement** -, for a complete description of the interviews, records and outputs, including climate change impacts observed and recommendations for a new initiative, as well as supporting documentation of the meetings.

1. Consultations made prior to the design of the Concept Note

1.a With CAMBio beneficiaries

A series of interviews to CAMBio beneficiaries were performed between the 23rd and the 26th of August 2016: 8 MSMEs, 1 IFI and 2 Technical Assistance Providers were consulted. They were asked about the functioning of their

organizations/ MSMEs, their production, their experience with the programme, the impacts of climate variability they are already enduring, and the adaptation needs they identify including gender aspects.

With regards to climate variability that is affecting them most, the majority identified the change in precipitation patterns, that has significant consequences: apart from the natural lower productivity and the different agricultural cycles, these changes are among the causes of epidemics like rust (please refer to Section 2.2.iii 'Climate change and the agricultural sector' of the **Feasibility Study** for further detail on plagues); also, very strong droughts are causing water shortages.

Please refer to Annex II for records and outputs.

1.b With beneficiaries from other CABEL's programmes.

In parallel, CABEL took the opportunity of making consultations about vulnerability to climate change, barriers for the access to credit, and needs of a potential new initiative focused on adaptation measures, during workshops organized by other programmes that work with IFIs and MSMEs.

- ❖ Workshops with IFIs: Under the *Training on Financial Intermediation Programmes* held with representatives from 5 Financial Institutions from Honduras and El Salvador on October 19, 2016, interviews were held aimed at evaluating the needs of the IFIs and their perception of MSMEs' needs, as regards climate change and variability impacts.
- ❖ Workshops with MSMEs: during trainings in Honduras, El Salvador and Guatemala, under the programmes *CAMBio* and *Biodiversity-friendly MSMEs*. It is important to highlight that the beneficiaries of these trainings in Guatemala were from Indigenous communities.

2. Multi-stakeholder engagement for the formulation of GCF's FP

From the 26th of July to the 3rd of August 2017, meetings with stakeholders from Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica were held; during September and October 2017, interviews here undertaken with stakeholders in Panama. The objective was to inform them about the Programme and gather their opinions so to consider them in the design. In total, 11 IFIs, 13 MSMEs and 3 NGOs were consulted. Meetings with the NDAs of the 7 countries were also held with the objective of sharing the stages of this process and confirm the alignment of the objectives of the Programme with the national climate change strategies and commitments.

3. Summary of consulted stakeholders

In total, 13 IFIs, 21 MSMEs, 2 Technical Assistance Providers and 3 NGOs were consulted for the design of this Programme. Please refer to the list of consulted stakeholders in ANNEX II.

4. Responses obtained during the consultations

Following is a summary of the responses obtained during the consultations. For more information regarding each of the interviews please refer to the briefings in Annex II.

4a. IFIs

Meetings and conference calls were held with 13 private and public banks, as well as non-financial institutions. Please find records and outputs of the consultations in **Annex II- Stakeholder engagement**. Follows a summary of the main outputs:

- All the IFIs consider that the impacts of climate change are already affecting rural MSMEs and that both IFIs and MSMEs need to be trained in this topic.
- They demand experience exchanges as the ones organized during the Programme *CAMBio*, to work on the barriers to credit for MSMEs (support for legalization of land tenure, access to markets, project preparation, and financial education).

- The majority of the IFIs recognize the need of support for supervising environmental and social safeguards of the projects.
- In general, they declare having a high percentage of women as clients (around 50%), although having more barriers than men. Women need to be supported in terms of confidence, administrative capacities, commercialization strategies, credit and business management, facilitation of guarantees.

4b. MSMEs

Meetings and conference calls were held with 21 MSMEs from different scales (individuals, associations, cooperatives) and production systems (family agriculture, forestry, for export organic products, and others). Please find records and outputs of the consultations in Annex II. Follows a summary of the main outputs:

- Main climate change impacts: droughts and heat waves – water scarcity, change in rain patterns, lower quality of the products due to higher temperatures or excessive humidity, floods, pests, strong winds, colder temperatures and displacement of dates in higher altitudes, interrupted access ways due to landslides or floods, hurricanes.
- Successful Adaptation options identified: crop diversification, diversification with activities such as eco-tourism, reforestation and plantation of high grasses for shelter and diversification, wells for access to groundwater, reservoirs, improvement of roads and bridges, resistant seed varieties
- Difficulties with accessing credits: collaterals, presentation of financial situation, changing prices of the products, fear of banks.
- Strategies for accessing credits: group credits, work plans, regularization of land ownership.
- Capacity building needs: climate change scenarios for their regions, climate information, financial education, administration, commercialization, project inception and formulation

4c. NGOs

Meetings were held with 3 NGOs, one in Nicaragua, one in Honduras and one in Guatemala. Please find records and outputs of the consultations in Annex II. Follows a summary of the main outputs:

- Guatemalan Center for a Cleaner Production: the country is particularly vulnerable to climate change. There are no credit lines for adaptation in commercial banks and there is no offer of credit lines for small scale producers. Environment degradation worsens vulnerability conditions. Need of capacity building.
- FUNDER, Honduras: Small scale producers in Central America are the most vulnerable and very little funding accessible for this sector. Need to work in access to water, pests, resistant seeds, agro-forestry for restoring woods. Recommendation of promoting associations and considering long-term investments.
- Centro Humboldt, Nicaragua: Country's vulnerable areas: everything is grouped along the Dry Corridor, but the rest of the areas in the country are undergoing an increase in temperatures. A 16.0% decrease in precipitation is expected. The sectors most affected will be: fishing, shrimps, peanuts, sesame, cane, tourism. Need for information on which varieties will be more tolerant to new climate conditions. For producers to adapt, they need information (EWS).

d. Technical Assistance Providers (TASPs)

Two TASPs were interviewed, from the Dominican Republic and Nicaragua. They declare that the adaptation to climate change approach is necessary and urgent. Water, forest coverage, and diversification topics are key regardless of the area: deal with food security and reduction of disaster risks. As main solutions, they emphasize the need of considering insurance schemes, resistant species, shades, windbreaks, improved grasses, and emergency response to hurricanes. Among the recommendations for a new programme, they highlight the need for access to financing, which is a major problem for the small-scale agricultural sector; the need for Technical Assistance to make changes more effective, credits more advantageous and for the award to drive and foster producers to follow the path of the project; consider

crop cycles for the payments; forge stronger bonds with the markets; promote collective efforts. They highlight the prevailing role of women and the need of implementing a gender approach.

4.d Interviews with NDAs

Meetings and conference calls were held with the seven NDAs. The Programme concept was explained and open to questions and discussion. Each of the NDA confirmed the alignment with the climate change national strategies and provided recommendations for the improvement of the proposal. The stages for the attainment of the No Objection Letters (NOLs) were explored, and next steps were agreed. Please find the NOLs of the seven countries in **Annex I**.

B) Stakeholder engagement during the implementation stage

A matrix for stakeholder identification has been generated, to analyze their engagement and flow of required information for each stage of the Programme.

Matrix of stakeholder participation per Programme stage

Stakeholder	Participation per Programme stage		
	Design	Information upon Implementation / supervision / monitoring	Evaluation
National governments: Ministries of Environment, Agriculture, Development, Finances and/or any other as may apply.	Consultation process	Delivery of information on Programme progress/ Systematization of experiences/	Sharing the results of the Mid-Term and Final Evaluation / Impact/ Project results
CCAD	Consultation process	Provide guidance on the alignment of the project activities with regional strategies. Provide opportunities of regional coordination.	Sharing the results of the Mid-Term and Final Evaluation / Impact/ Project results
Local governments: department/municipal	Consultation process	Delivery of information on the Programme progress: coverage indicators / Study chances of collaboration upon implementation (TASP or as recipient of training to technicians working in the matter / Agreements to ensure installed capacity and action sustainability	Sharing the results of the Mid-Term and Final Evaluation
National Institutes for Agricultural Technology	Consultation process	Delivery of information on the Programme progress / Study chances of collaboration upon implementation (TASP or as recipient of training to technicians working in the matter / Agreements to ensure installed capacity and action sustainability	Sharing results of Mid-Term and Final Evaluation
Field technicians (institutions working with TA and Training for producers	Consultation process	implementation/ supervision / monitoring	Participation at Mid-term and Final evaluation
Women associations	Participatory diagnosis	Informative campaign on the Programme // Control of the resources (loans) and decision-making // Training workshops	Participation at Mid-term and Final evaluation

Indigenous groups	Participatory diagnosis	Informative campaign on the Programme // Control of the resources (loans) and decision-making // Training workshops	Participation at Mid-term and Final evaluation
Associations of local producers, organizations and cooperatives of rural producers.	Participatory diagnosis	Informative campaign on the Programme // Control of the resources (loans) and decision-making // Training workshops	Participation at Mid-term and Final evaluation
Traders associations (MSMEs)	Participatory diagnosis	Informative campaign on the Programme // Control of the resources (loans) and decision-making // Training workshops	Participation at Mid-term and Final evaluation
Intermediary Financial Institutions	Consultation process	Informative campaign on the Programme // Exchange network // information platform for IFIs / training	Participation at Mid-term and Final evaluation
Technical Assistance Service Providers	Consultation process	Implement Component 2 / monitoring	Participation at Mid-term and Final evaluation
Regional Center for the promotion of MSMEs (CENPROMYPE)	Consultation process	Delivery of information on the Programme / outcomes/ impact / studies/ systematizations	Delivery of evaluation information
Universities	-	Delivery of information on the Programme / outcomes/ impact / studies/ systematizations. Participation in Technical Assistance activities. Consultation related to climate change impacts / climate rationale of the sub-projects.	Delivery of evaluation information
NGOs working in rural finances / projects in the region	-	Collaboration upon implementation. Articulation of activities.	-

E.6. Efficiency and Effectiveness

Economic and, if appropriate, financial soundness of the project/programme

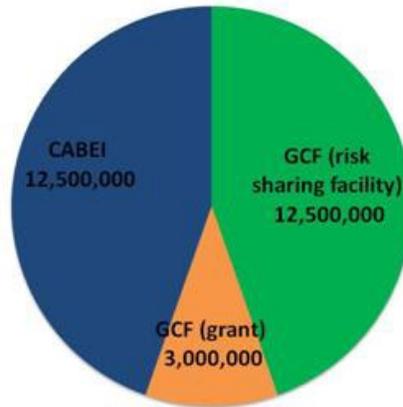
E.6.1. Cost-effectiveness and efficiency

As established in the Budget (see Annex V), CABEL proposes a scheme that entails the request of funds from the GCF of USD\$ 12.5 million for the establishment of a Risk Sharing Facility in which CABEL would match GCF funds. This total of USD\$ 25 million will be used for providing credits to MSMEs through intermediation under Component 1.

Additionally, CABEL is requesting USD\$ 3.0, as Grant, to be used as non-refundable activities: USD\$ 1.84 for Capacity building activities; 0.29 for Advocacy and Knowledge Management; 0.73 for Adapt-Awards; and 0.14 for Programme management costs (0.91% of GCF proceeds).

Therefore, 80.6 % of the funds requested to the GCF are requested for establishing the Risk Sharing Facility; 19.4% of GCF resources is requested as grant; and CABEL's counterpart accounts for 44.6% of the Programme. This distribution is shown in the figures below.

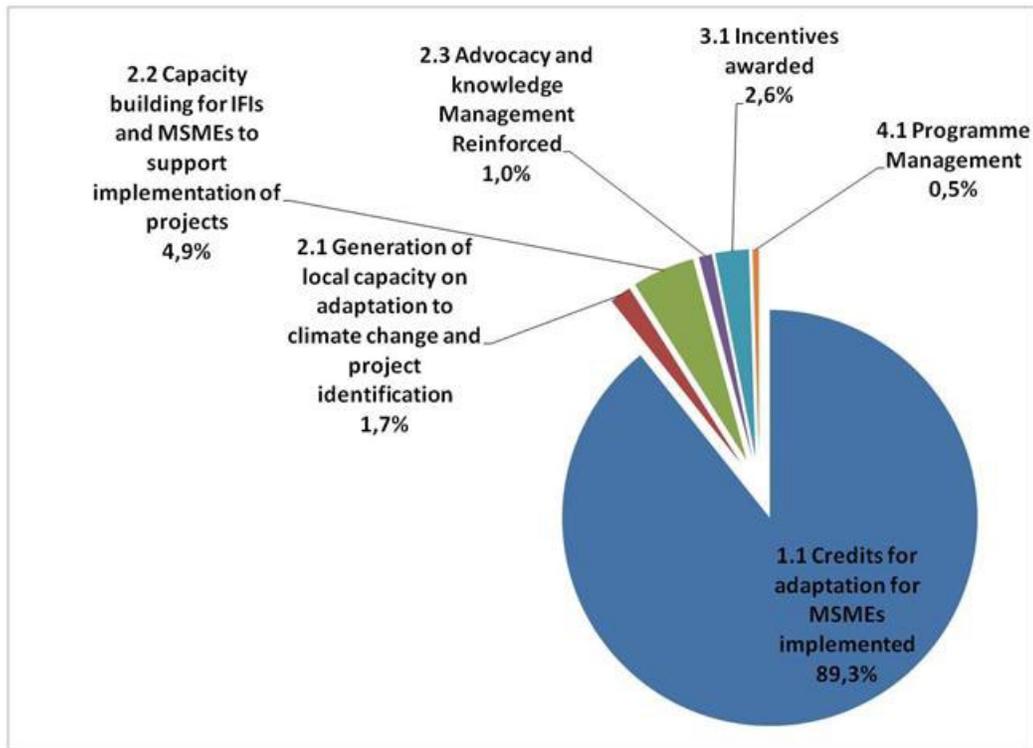
Programme Finance Distribution (USD \$)



With regards to the distribution between the Outputs of the Programme, the proportion is 89.3% for credits, 7.6% for Technical Assistance activities, 2.6% for Adapt-Awards and 0.5% for Programme Management (0.91% of GCF proceeds). This distribution is considered cost-effective, taking into account that the most important part of the funds is directed to the credits and the rest of the activities are complementing, as catalyzers for breaking the barriers to financing for adaptation that the MSMEs face.

The proportion of the budget assigned to each Output is shown in the figure below.

Proportion of budget assigned to each Output



Cost Efficiency

The cost-effectiveness of the proposed Programme relies on many factors, which are summarized below.

- **Ecosystem services:** the type of adaptive measures contained in the Programme will aim to strengthen ecosystem services and achieve resiliency in food production systems as a means to reduce the vulnerability of rural communities. This has multiple benefits that will greatly exceed the costs in the short, medium and long-term. Management of ecosystems within interlinked social-ecological systems will enhance ecological processes and services, essential for resilience to multiple pressures.
- On another view, it is essential to consider the cost **of avoided production/productivity losses** due to climatic events, and to take into account that the adaptation technologies and practices proposed in this Programme will be adapted to the reality of MSMEs, constructed from local knowledge, designed for strengthening production systems in the long term, catalyzing new business and job creation.
- **Stakeholder participation** at all project levels will contribute to the cost-effectiveness of the Programme. Participation will ensure adequate planning and implementation of activities in line with the Programme objectives and with the local development and stakeholder priorities, as well as complementarity with ongoing and planned programmes and projects.
- The **regional approach** is key to bring communities and financial institutions to learn much more than in a scenario of isolated adaptation projects. There are many activities, through which exchanges between countries will be undertaken, whether as a consequence of results dissemination, or as a product from the Capacity Building Component, that will connect MSMEs from the different countries in sectorial events or event trainings designed especially for the purpose of sharing adaptation experiences. One of the main benefits of this regional approach is the possibility of connecting MSMEs which may be otherwise isolated by geography or lack of resources.

CABEI has proven expertise in financial intermediation with a regional scope, as shown in the background / context section in the **Feasibility Study**. The scheme proposed for this Programme has been largely tested and has proven to be the most cost-effective for reaching the rural MSMEs effectively and with the lowest transaction and management costs.

To generally support the concepts about cost-effectiveness of the Programme components, data extracted from “*The economics of climate change in Latin America and the Caribbean*”, report developed by ECLAC, have as well been analyzed in the **Feasibility Study**.

Please also refer to **ANNEX VIII Economic Analysis**, for further development of the financial balance of the Programme, as well as considerations related to environmental and social benefits.

E.6.2. Co-financing, leveraging and mobilized long-term investments (mitigation only)

Not applicable

E.6.3. Financial viability

Without the Fund's support the project would probably not be undertaken due to the constraints of funding availability to finance MSMEs. Therefore, without the Programme support, underinvestment in strategies to adapt to the negative impacts of climate change is likely to occur. The programme will use the Fund support to implement a new credit line, allowing greater concessionality for final beneficiaries and the rotation of the self-revolving fund.

Under the proposed structure of a risk sharing facility, CABEI and GCF take shared risk of IFIs. IFIs bear full risk of credit to MSMEs. Each institution contributes to the funding of loans to IFIs equally and therefore becomes responsible for their portion of loans to IFIs. CABEI will be the lender of record and manage all the outflows and reflows of loans to

IFIs and will reflow principal and interest of the GCF loan portion to GCF. This structure allows for a greater concessionality of loans and allows CABEL not to bear full credit risk of the IFIs.

From the socio-economical perspective, according to the cost benefit analysis of a previous investment of MSMEs in CAMBio I and under the assumptions made, the adjusted IRR is 45 per cent (at 10 per cent social discount rate and 10% for reinvesting the profits). The NPV averages US\$20.8 million. Therefore, the project is economic justified. In comparison with the WOP scenario, the results show higher NPV and IRR. The expected socio-economic benefits to the farmer and the society will exceed the estimated costs, mainly due to the multiple benefits in different areas. A sensitivity analysis was conducted, by changing a) the social price of carbon with lower projections; b) decreasing the price of sells by 10% yearly from year 2018 on; c) decreasing the production assuming shocks affecting more than 50% of the yields and with a lower recovery time, and in all cases, the NPV was still positive and higher than the results obtained in the WOP situation

Financial viability in the long term beyond the Fund's intervention

In the long run, the financial viability of the Programme is guaranteed through the nature of the intervention, which will work as revolving-fund and will be able to multiply its effects across time, allowing IFIs and CABEL to continue the revolving of funding to cover the demand and promoting adaptation strategies. The proposed structure of the programme seeks to ensure the appropriate engagement at each stage of the programme of the key institutional stakeholders of each country and to institutionalize certain practices at the governmental level, aligning the programme with national and regional strategies.

The main economic benefits for the beneficiaries will be the strengthening of productive systems, due to the adoption of new adaptation technologies and strategies to increase MSMEs resilience and adapt to the negative impacts of climate change. It is expected that the operation and maintenance cost of the technologies, will be borne by the MSMEs, who will obtain substantial benefits as a result of the reduction in production damage and losses related to climate events.

The long term financial viability of the programme is guaranteed by the following aspects of the proposal:

- Loans will work as a self-revolving fund, which will continue to revolve after the programme is finished. The repayment rate is estimated to be 98%, which is the historical average in CABEL for similar operations in the region.
- CABEL has an outstanding financial performance, and holds the best credit rating in the Central American region.
- CABEL selects its intermediaries (IFIs) based on a rigorous financial analysis, where CABEL assess financial performance and operation procedures before accrediting the intermediary financial entity.
- IFIs perform a financial and economic analysis of the proposed investments of MSMEs and assess their capacity of repayment and the adequation of the proposed project to the programme, prior to granting the loan. Thus, the approval of loans is based on the repayment capacity of the MSME, economic viability of the project, and the compliance with the eligibility criteria. To this end, international standards such as a positive NPV and an appropriate IRR are used.
- Central American countries have approximately 2.1 million MSMEs, which are underserved due to the barriers to access to credit, so a high demand on credit is expected as climate change will continue to negatively impact the agriculture sector in the Region.
- Capacity building and incentives for IFIs and MSMEs: Adapt-awards and Technical Assistance activities are proposed as transitional tools to incentive the setting up of long-term adaptation credit facilities in the seven countries. This Programme proposes working these two instruments to change the current practices of IFIs and MSMEs, assuming that they will no longer be necessary after 5 years of implementation.

GCF's financial exit strategy in case of private sector operations

As described in previous sections, this initiative will find financial sustainability by:

- A new programme related to adaptation measures for MSMEs, will be available within CABEL's Global Credit Line (GCL). This programme will continue operating and will remain operational to the extent that there will be

demand from the FIs. Successful demonstration by the programme in arranging commercial financing into resilient MSMEs would set the stage for larger scale financing by IFIs using non-CABEI funds.

- With the revolving nature of the GCL, the IFI may keep channeling resources granted by the CABEI to cover its demand and thus reach sustainability by promoting adaptation measures, since revolving credits would be re-invested in adaptation activities under the same credit line. The programme CAMBio was very successful in providing a threefold increase in the initial funds. This Programme is expected to reach at least 1.5 times of threefold.
- Institutional capacity developed by CABEI to implement this kind of programmes will be installed.
- The proposed intermediary scheme is a novelty in adaptation to climate change strategies; the success of this initiative can be taken by other regional or multilateral agencies for effectively enable adaptation solutions by reducing barriers to financing from the rural MSMEs.

E.6.4. Application of best practices

The adaptation technologies and practices proposed in this Programme are adapted to the reality of MSMEs, constructed from local knowledge, strengthening production systems in the long term, catalyzing new business and job creation.

The implementation of best practices and improved investments will be favored, and support will be found in the Technical Assistance Providers and in the exchange with the national technical public institutions. This will promote the generation of businesses willing to prepare themselves to adequately face climate variability, and at the same time preserving natural resources and assets.

The main objective of gaining lessons learned is to identify successful cases in order to systematize information on the factors that got to promote best practices and be able to replicate them.

Please refer to section F.2. Technical Evaluation.

E.6.5. Key efficiency and effectiveness indicators

Estimated cost per t CO₂ eq, defined as total investment cost / expected lifetime emission reductions (mitigation only)

Not applicable

GCF
core
indicators

- | | |
|---|---------------------------------------|
| (a) Total project financing | US\$ _____ |
| (b) Requested GCF amount | US\$ _____ |
| (c) Expected lifetime emission reductions overtime | _____ tCO ₂ eq |
| (d) Estimated cost per tCO₂eq (d = a / c) | US\$ _____ / tCO₂eq |
| (e) Estimated GCF cost per tCO₂eq removed (e = b / c) | US\$ _____ / tCO₂eq |

Describe the detailed methodology used for calculating the indicators (d) and (e) above.

Please describe how the indicator values compare to the appropriate benchmarks established in a comparable context.

	<p>Expected volume of finance to be leveraged by the proposed project/programme and as a result of the Fund's financing, disaggregated by public and private sources (mitigation only)</p>
	<p><i>Not applicable</i></p> <p><i>Describe the detailed methodology used for calculating the indicators above.</i></p> <p><i>Please describe how the indicator values compare to the appropriate benchmarks established in a comparable context.</i></p>
<p>Other relevant indicators (e.g. estimated cost per co-benefit generated as a result of the project/programme)</p>	

** The information can be drawn from the project/programme appraisal document.*

F.1. Economic and Financial Analysis

The analysis of the projected financial cash-flow of the intervention shows the projected financial income and expenses of CABI and IFIs for a total timeline of 15 years with the structure of a Risk Sharing Facility, where CABI and the GCF share the risk of IFIs in the operation. The analysis considers the different outputs of the project expenses as well as the main costs for both institutions: interests to pay for the loans received; and the administrative, personnel, insurance and operation costs of administering the Programme implementation. The financial cash-flow simulates how the revolving fund is expected to evolve during and after the programme implementation finishes.

Based on the assumptions on historical data of CABI with previous programmes and the results of the projected cash-flow, it is assumed that the funding for the project will be able to revolve approximately 1,5 times by the end of year 9. Under the assumptions made, GCF and CABI will contribute to USD\$ 12,5 million each for loans directed at MSMEs. This way, the first 5 years 25 million USD will be allocated and from year 6 to year 9 additional 12,5 million USD from the revolving process will be allotted. Thus, after 10 years, a total of USD\$37,5 million is expected to be allocated to IFIs for loans to MSMEs. The repayment of IFIs is assumed to be with a total maturity of 10 years and 98% repayment rate for the loans allocated until year 6. From year 7 onwards, the analysis assumes a decreasing maturity of one year until year 9 to keep the total lifespan of the programme to 15 years. Thus, loans allocated in year 9 have a total maturity of 6 years and the last loan will be repaid by the end of year 15. Approximately USD\$ 0.75 million are estimated in the analysis as potential loss from the total allocation of credits of USD\$ 37,5 million, from which half of the money is assumed as a potential loss by the GCF and half by CABI (USD \$0,375 million each).

The analysis considers both the net operation margin of CABI and IFIs, without the financing expenses; and the net financial margin, including the expected financing expenses for both institutions. For CABI the net operation margins are positive from year 7 onwards and the net financial margin from year 10 onwards. The cumulative net financial margin is positive from year 12 onwards.

Under the assumptions made, IFIs net operation margins and net financial margins are always positive, which is essential for the financial viability of the proposal.

Economic and financial justification or the concessionality that GCF provides

Climate change in the region is already negatively impacting the economy and food security of the region, and this impact is even worse in the most vulnerable communities, increasing poverty in subsistence farmers. Family agriculture produces about 50.0% of the total agricultural production of the region and produces over 70.0% of the Central American food. According to FAO figures (FAO, 2016) in developing countries, agriculture absorbed 25.0% of the impact of economic losses and physical assets damage of climate-related disaster between 2003 and 2013. Different scenarios for the region, suggest that yield in grain production could drop up to about 35.0%, 43.0% and 50.0% for maize, beans and rice, respectively. These potential losses would have a direct impact on producers, most of whom operate as family businesses at subsistence levels.

Through the Programme, 5,000 MSMEs will have access to credit and technical assistance to implement and adopt strategies to adapt to climate change. Therefore, the main social and economic benefits will be the reduction of damage and losses due to climate-related events, which in turn, has a great impact in the sustainability of the economy of the most vulnerable farmers of the region. Moreover, it allows increasing food security and preventing poverty increase. The region is the origin of many plants forming the basis of the world's food. As a result, maintaining the agrobiodiversity is key not only to the region but has also an impact on the world. The expected benefit is the stabilization of the availability and access to food for 69,720 smallholders.

Without the Fund's support, the Programme is unlikely to be implemented, barriers to access credit will remain a constant and there will not be adequate incentives to promote investment in the adoption of technologies for increased resilience and adaptation, maintaining thus underinvestment in the sector.

The amount of GCF grant requested is aimed to cover the technical assistance, the incentive scheme for promoting best practices through Adapt-awards for MSMEs and IFIs; and management of the Programme -including monitoring, evaluation and learning activities. This represents a small amount of the total cost and is substantiated in the consideration that all these activities foster adaptation and increased resilience for vulnerable groups of smallholders and are not income generating.

Concessionality will consist of reduced pricing compared to CABEL pricing and market finance to attract FIs. It will also drive competition between FIs in each market who can use the concessional pricing to pass on benefits to their clients with the aim of increasing market share in climate adaptation measures.

The amount of funds requested to GCF for providing credits to MSMEs will be matched with CABEL's resources, therefore leveraging funding to meet the demand of IFIs and MSMEs in the region.

F.2. Technical Evaluation

Please provide an assessment from the technical perspective. If a particular technological solution has been chosen, describe why it is the most appropriate for this project/programme.

An assessment of the priorities established by the countries' national adaptation strategies and of the priorities expressed by the beneficiaries during the Stakeholders consultations has been included in Section 2.4 of the Feasibility Study. These prioritizations per country will be considered for the implementation of the Programme.

It is important to bear in mind that successful adaptation measures are characterized for being site-specific; that the Programme will be working sometimes with isolated communities, sometimes with indigenous peoples, traditional farmers, who can be proposing technologies unknown issued from traditional knowledge, that must be incorporated and promoted. For this reason, the Programme proposes a typology of eligible projects (where tradition and innovation will meet) and lists priority criteria.

The Draft OM submitted with this proposal includes a consideration on the list of eligible adaptation measures, , the results of the prioritization of adaptation measures per country in the agriculture sector included in national official document plans publicly available; as well as the adaptation measures mentioned as priority by stakeholders during public stakeholder consultations. The final OM will include further precisions about priority measures per country / sub-region, according to the best available accuracy in terms of climate change projections.

- ❖ The Programme will use validated technologies in the region. References of validated technologies, guidelines, and reference manuals for the Programme's investment decisions are listed below: **PASOLAC. Program for Sustainable Agriculture in the Slopes of Central America.** This program has validated sustainable agriculture technologies with participative systematization. E.g. in the series of publications "Technologies" there are highly valuable documents such as "Soil and water management - Technologies and methodologies validated for improving food security in dry zones of Honduras". Among the validated technologies: water harvesting, efficient irrigation, water channeling, organic fertilizers, etc.
- ❖ **FAO and Colombian Government. Guide to good practices for the Management and Sustainable Use of Soils in Rural Areas** (2018). Participative construction of soil diagnosis. Design of intervention plans. Sustainable management of soils.
- ❖ **FAO - Global Water Partnership - Technologies for the Sustainable Use of Water: a contribution to food security and adaptation to climate change** (2013). Guidelines on technologies such as soil conservation practices and integrated management of crops for irrigation and moisture; protection of water sources; technologies for water catchment and storage; technologies for water distribution for agriculture and farming purposes; bombing systems; water reutilization.
- ❖ **FAO: Technologies and practices for small agricultural producers (TECA).** TECA is a web-based platform for documenting and sharing sustainable technologies and practices to help small agricultural producers in the field.

TECA combines an internet based Knowledge Base where users can find practical information on agricultural technologies and practices with a forum for interaction and joint learning (Exchange Groups) between various actors of the agricultural innovation systems.

- ❖ **The Madeleña Project** has produced a considerable amount of forest, silvicultural, socio-economic and extension information. In particular, the study of multiple-use trees is one of the most complete and easily available sets of forest knowledge adapted to the Region. Above all, it has generated a unique regional model for sharing forest information among neighboring countries.
- ❖ **FAO - Special Programs for Food Security (PESA) in Central America** have gone through several processes of identification, development and institutionalization of good practices for Food and Nutrition Security.
- ❖ **FAO and the World Bank: Farming Systems and Poverty - Improving Farmer's Livelihoods in a Changing World.** John Dixon and Aidan Gulliver with David Gibbon.

The Programme will ensure that the identification of the technologies to invest on are the most appropriate to the needs, the scale, the beneficiaries' capabilities, the geography and the impacts of climate change, that they include measures for sustainability over time (appropriate M&O, for example). At the end of the approval line, an Adaptation Specialist, that will be selected based on capabilities to implement an EbA approach, and a Socio-Environmental Specialist, with demonstrated experience in Gender approach, within the Project Management Unit will have the responsibility of ensuring that an assessment of best available options has been performed for the sub-projects. Aspects related to environmental, gender and cultural issues related to the technology will also be analyzed, ensuring that a systemic and sustainable decision is taken. Procedures for the assessment and approval of projects are described in the Draft OM submitted with this proposal.

Knowledge of the most appropriate adaptation technologies will be shared during the Lessons Learned activities foreseen during the Programme. This will allow the exchange of good experiences and the evolution and further adaptation to the case by case situations, of the technologies themselves. Please refer to detail on the Lessons Learned activities described in the **Feasibility Study**.

F.3. Environmental, Social Assessment, including Gender Considerations

According to the objectives and planned activities, the Programme will generate low negative environmental and social impacts, providing important positive impacts on the environment and the community. Based on this assumption, the Programme has been classified as category C.

Considering that the proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and social impacts, the level of intermediation has been set to I3.

Please refer to the **Annex IV** to view the ESMF, which entails in its Appendixes, an Exclusion list, a model of an E&S Analysis Form; a model of a E&S certificate, project classification criteria, and the environmental regulations of each of the seven countries.

1. Environmental and social impacts of the Programme

The Programme activities are oriented to protect natural habitats, preserving biodiversity, preventing contamination and favouring the efficient use of resources, preserving soil, among others. Therefore, changes in the environment will tend to be positive; however, low negative environmental impacts could be generated at a local level and in many cases for short periods of time, e.g., the construction phase works (small scale).

The stages of project formulation, evaluation and classification are key steps to ensure an adequate environmental and social performance of the Programme (well designed, considering the needs and interests of the community, evaluating the possible negative impacts that the activities can generate in the environment and people and include the measures necessary to avoid them, reduce them to the maximum or eliminate them when possible). CABEI's Environmental and

Social Risk Identification, Evaluation and Mitigation System (SIEMAS, in Spanish) procedures ensure that these principles are met.

Thus, the potential adverse effects that have been identified would be related to the potential bad design of the adaptation measures. Potential negative impacts and their mitigation measures have been typified in the ESMF Document based on examples of possible project activities that could be implemented by the MSMEs: access to water, small-scale construction works, productive projects, eco-tourism.

A screening of the social and environmental benefits of the Programme has been included in the ESMF Document.

2. Environmental and social safeguard assessment

The different activation scenarios of the Performance Standards are summarized below. Please refer to the ESMF Document for a detailed description.

Performance Standard	Description of the Performance Standard	Activation Scenarios for the Programme
PS 1 Assessment and management of Environmental and social risk and impacts	An environmental assessment is required for every proposed project to be socially and environmentally sustainable.	Each project shall comply with a risk and impact assessment in accordance with the procedures of their category.
PS 2 Labor and working condition	Recognizes that the pursuit of economic growth through employment creation and income generation should be accompanied by protection of the fundamental rights of workers.	The hiring of personnel for any activity conducted in the Programme framework will abide by the current labor laws.
PS 3 Resource efficiency and pollution prevention	Recognizes that increased economic activity and urbanization often generate increased levels of pollution to air, water and land, and consume finite resources in a manner that may threaten people and the environment at the local, regional and global levels	Projects involving a significant level of air, water or soil permanent contamination will not be eligible.
PS 4 Community health, safety and security	Recognizes that the Programme activities, equipment and infrastructure can increase community exposure to risks and impacts. In addition, communities that are already subject to impacts from climate change may also experience an acceleration and/or intensification of impacts due to project activities.	The Programme has a responsibility to avoid or minimize the risks and impacts to community health, safety and security that may arise from project related-activities, with particular attention to vulnerable groups.
PS 5 Land acquisition and involuntary resettlement	Involuntary resettlement shall be avoided or reduced to a minimum. For this to occur, all shaping variables must be scrutinized. In those cases where resettlement is unavoidable, necessary measures shall be taken to ensure that those uprooted	Not Applicable. Projects entailing resettlement according to the scope of the Resettlement Policy Framework of the Project will not be eligible.

	<p>people are fully informed of their rights and possibilities. They must be able to choose between economically and technically different options. A proper and swift compensation should be granted before, during and after resettlement. Further compensations for the development of sources of income or subsistence.</p>	<p>All projects will be on private land belonging to credit applicants. Therefore, there will be no involuntary resettlement projects.</p>
<p>PS 6 Biodiversity conservation and sustainable management living Natural Resources</p>	<p>The Programme supports the protection, conservation and rehabilitation of natural habitats and their functions, specifically in those natural habitats already degraded and in critical state.</p>	<p>Projects with activities in or nearby protected natural areas or natural habitats in critical condition with special consideration towards wetlands and sources of micro-watersheds.</p>
	<p>Assistance is provided to borrowers towards forest restoration and sustainable management of crops.</p>	<p>Projects concerning forests, which involve natural forests or operations in forest areas in critical condition.</p> <p>Projects that may involve a significant conversion or deterioration of forestry areas in critical conditions, or natural habitats in critical condition related to it will not be funded.</p> <p>Although it should not happen since the Programme promotes the adoption of EbA measures, the safeguard is activated in a preventive way.</p>
	<p>A strategy will be supported for the promotion of the use of integrated management methods, such as biological control or ecological methods, growth practices and use of agricultural varieties resistant to plagues and cutting down the dependence on synthetic chemical pesticides that affect the agricultural activity or public health.</p>	<p>Projects containing plague control or that involve the use of chemical control methods and biological control methods, which have not been reliably justified, will not be eligible.</p>
<p>PS 7 Indigenous Peoples</p>	<p>It is required that a previous, open and informed consultation for all those Projects involving Indigenous Peoples is performed.</p>	<p>Based on the fact that Indigenous Peoples will be beneficiaries of the Programme, and that adaptation measures promoted will be designed with an EbA - agroecological approach that inherently respects their cultural relationship with the territory, it is assumed that Indigenous Peoples would not be affected.</p> <p>Although projects should not affect Indigenous People, the safeguard is activated in a preventive way, solely due to their presence in the territories.</p>

<p>PS 8 Cultural Heritage</p>	<p>Projects that preserve and safeguard peoples' cultural heritage and their location and design is aimed at preventing possible damages will be promoted.</p>	<p>Not Applicable.</p>
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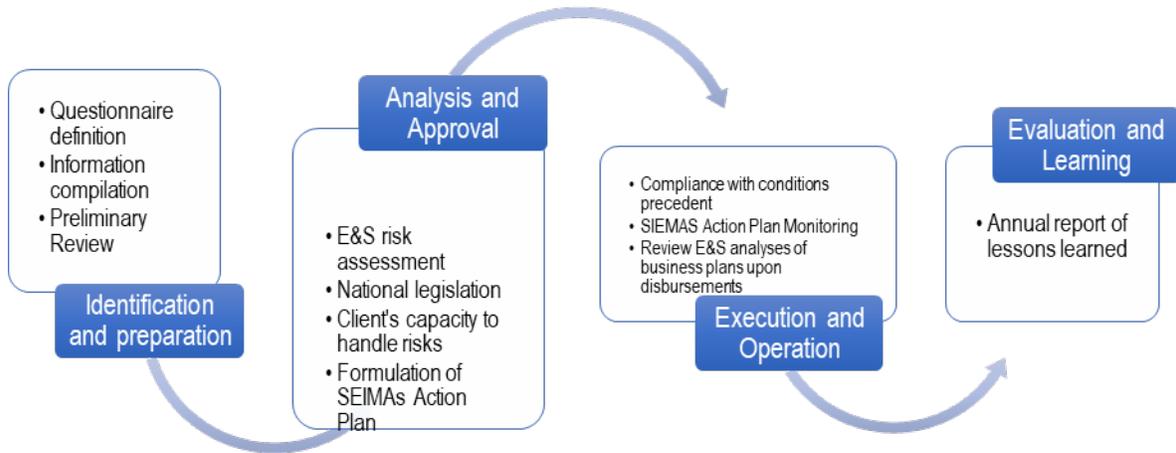
3. Environmental and social procedures of the Programme

The procedures to be applied during the identification, formulation, evaluation and execution of projects have been developed in detail in the Environmental and Social Management Framework, with the objective of ensuring that Programme's investments maximize environmental benefits and prevent, control and / or mitigate the negative effects on natural resources and the welfare of the community.

CABEI has an Environmental and Social Risk Identification, Evaluation and Mitigation System (SIEMAS, in Spanish) in place. This system is defined as the instrument that will allow identifying and protecting against any environmental and social risks as well as taking any mitigation measure established in the projects' environmental and social assessments, integrated into CABEI's project cycle.

SIEMAS is based on environmental and social standards according to best practices. In this regard, it guarantees compliance with the environmental and social legislation of the applicable countries and the minimization, mitigation or compensation included in the environmental and social action plans of the projects and monitoring instruments to carry out an efficient monitoring thereof. To such end, SIEMAS includes the Equator Principles.

SIEMAS is included in CABEI's Project Cycle according to the detail presented in the following figure.



In the case of this initiative, where projects are expected to reach as maximum Category C, the IFIs will be required to meet the GCF guidelines so they cascade down to the MSMEs for fulfillment thereof. It shall be guaranteed that these IFIs that will use the resources of this initiative have a system of environmental and social management applying to the selection of MSMEs and to the projects they submit.

Please refer to the ESMF in **ANNEX IV** for a detailed description of the stages of preparation, analysis, portfolio categorization, approval and signing, monitoring and supervision, and disbursement process. In order to verify the

effectiveness of the system and keep it updated according to best practices, CABI may conduct independent annual reviews on compliance with E&S standards established in the E&S Plans or conduct independent reviews on SIEMAS.

The ESMF details as well the applicable E&S procedures at each project phase (formulation, E&S analysis and evaluation, execution and monitoring), and establishes the responsible staff and the expected results for each phase.

4. Indigenous Peoples Planning Framework

The regional Indigenous communities' context has been developed in the ESMF. It is important to highlight that the Programme is an open and inclusive Programme that will consider the potential beneficiaries languages and dialects, as well as their contributions during the Programme formulation phase. Indigenous Peoples and vulnerable minorities will benefit from Technical Assistance through capacity building, which will enable them to develop and execute projects related with climate changes, entrepreneurship based on an Ecosystem based Adaptation (EbA) approach, considering the different cultural and language barriers of the potential beneficiaries.

The nature of this Programme - adaptation measures with an approach of conservation and sustainable use of natural resources - will promote the conservation where these communities live. It will also help addressing the issue of lack of financial resources and technical expertise.

5. Grievance redress mechanism

CABI will use the same mechanism as in all its other SIEMAS operations. See ESMF for the details of the procedures.

4. Programme 's gender approach

The gender strategy must be contemplated from the design of the project actions, through their execution and implementation, and their monitoring and evaluation thereof.

The Gender strategy will entail the permanent consideration of situations of gender inequality, working with different tools at each component, action or activity and will develop the means of adjustment or affirmative action to attain equal opportunities for men and women. This entails, also, advice, accompaniment and training activities for technical equipment and decision-makers of the Project, including IFIs (CABI will ensure that IFIs incorporate CABI's and GCF's Gender policy and principles, as well as the Programme's Gender Action Plan), and the Programme's beneficiary organizations and institutions.

Gender's aspects and considerations are incorporated and applied as a cross-cutting approach, as an analytical instrument and as the subject of research, which allows accounting for the inputs and the different demands or needs of men and women.

The application of instruments and methods for the incorporation of gender approach will have a different concrete expression depending on each component. The GAP reflects these tools. Please refer to the **Gender Assessment and Gender Action Plan in ANNEX IV** for further details.

F.4. Financial Management and Procurement

As demonstrated by its accreditation as Accredited Entity to the GCF, CABI has extensive expertise in working with international funds and has a good track record in implementing programmes using international financial management practices. For this Programme, CABI will be responsible for the fiduciary aspects and will be accountable for all financial and investment activities.

The procurement of goods and services (including consultants' services) for activities financed by the GCF will be carried out following CABI's standard practices and procedures, which are aligned to the GCF and national laws, including its procurement and consultants' guidelines. Please refer to the **Procurement Plan in ANNEX VII** for further

details on the procurement of goods and services that are foreseen in this Programme, as well as CABEL's Procurement procedures that will be applicable.

CABEL shall provide to the GCF:

- Annual progress reports on the status of the Programme implementation, including the disbursements made during the relevant period or more frequent progress reports if requested by the GCF;
- Annual audited financial statement of the specific account, prepared by an independent auditor or evaluation body.

CABEL will observe the highest ethical standards during the procurement and execution of this Programme. CABEL will ensure the substantive quality of the Programme implementation; the effective use of both international and national resources allocated to it, and (iii) the proper coordination among all Programme stakeholders, in particular national, sub-national and local partners.

G.1. Risk Assessment Summary

The main risk factors that have been identified are related to:

- Environmental and Social Risks associated to agricultural projects and IFIs capacity to manage these projects risks.
- Penetration on new countries where CAMBio Initiative were not implemented.
- Lack of technical capacity of MSMEs and IFIs.
- Capacity of the Executing Entity.

G.2. Risk Factors and Mitigation Measures

Selected Risk Factor 1 - Environmental and Social Risks associated to agricultural projects and IFIs capacity to manage these projects risks.

Description	Risk category	Level of impact	Probability of risk occurring
The projects could negatively affect local communities and ecosystems through its impact on critical environment and social aspects. IFIs have not the capacity to establish environmental and social action plans based on best practices.	Social and environmental	Medium (5.1-20% of project value)	Low

Mitigation Measure(s)

CABEI has an Environmental and Social Policy which includes an Identification, Evaluation and Mitigation System for Environmental and Social Risks (SIEMAS, for its acronym in Spanish) that it is applied to programmes and projects financed by CABEI and it is based on environmental and social best international standards. As part of the analysis process, the relevant documents on environmental and social aspects of the IFI are reviewed to study and mitigate environmental and social risks. Such analysis considers two types of impacts: direct and indirect. Direct impacts derive from the institution's activities and indirect impacts stem from the projects included in the loan portfolio of the IFI, the latter defining the level of such institution's environmental and social risk.

The environmental and social risk analysis for financial institution reviews and mitigate against the size and probability of direct and indirect impacts of the IFI, the category of environmental and social risk is defined, the existing controls to mitigate the risks are determined, and any additional measures are established relative to the minimization, mitigation or compensation of risks. This last process is conducted through the preparation of an Environmental and Social Action Plan, which establishes the measures that allow the IFI to manage the risks and/or impacts stemming from the operations with its clients based on international best practices.

The environmental and social credit and impact analysis for the Global Credit Line (GCL) to be granted to the IFI is submitted to the credit committee, which is comprised of different technical areas of CABEI. After approval by the credit committee, such analysis must be submitted for approval by CABEI's Executive Presidency and Board of Directors.

The environmental and social analysis is part of the documents submitted to the decision-making spheres for the GCL to be granted to the IFI together with the credit and financial risk assessment. The Environmental and Social Action

Plan is an integral part to the loan agreement and its fulfillment is mandatory. In addition, such Action Plan provides a monitoring frequency for the environmental and social aspects during the execution stage of the GCL. With regards to Gender, CABEL will ensure that IFIs incorporate CABEL's and GCF's Gender policy and principles, as well as the Programme's Gender Action Plan.

Selected Risk Factor 2 - Penetration on new countries where CAMBio Initiative were not implemented

Description	Risk category	Level of impact	Probability of risk occurring
With the inclusion of Panama and The Dominican Republic, this Programme will face different regulatory frameworks, and dissimilar market conditions. The limited presence of CABEL in these countries, and the fact that there is only one IFI in each of them, may increase the challenge for project execution.	Technical and operational	Medium (5.1-20% of project value)	Medium

Mitigation Measure(s)

Previous experience deemed that this Programme has the potential to be geographically extended beyond the Central American countries. Also, in June 2016, CABEL modified its constitutive agreement, which expanded its members to include Panama and the Dominican Republic. This allowed CABEL to provide additional benefits to these countries, hence, in the years to come the Bank will be increasing its position in these markets. In line with this situation, CABEL has opened a regional office in Panama on the 31st of January 2018 and expects to open one in The Dominican Republic in 2019.

Selected Risk Factor 3 Lack of technical capacity of MSMEs and IFIs

Description	Risk category	Level of impact	Probability of risk occurring
Technical and financial skills of some producers are limited as well as the capacities of some IFIs on delivering financial services to finance adaptation measures. Most of the producers do not have the knowledge and the experience applying the systems and technologies to adapt their production to climate change effects. Additionally, most of the IFIs do not have the qualified personnel to undertake more advanced project analysis in this sector.	Technical and operational	Low (<5% of project value)	Medium

Mitigation Measure(s)

It is mainly through Component 2, Capacity Building for the Development of Production Models Resilient to Climate Change, that learning activities will be provided, through training, awareness-raising and information activities that include adaptation measures based on strengthening ecosystem resilience, and technical and commercial capacities of MSMEs. These activities will seek to build and install local and regional technical capacities, in addition to national capacities, related to awareness raising and training in Climate Change issues and resilient and sustainable production. These acquired capacities will empower over time the activities of the participating institutions, strengthening the existing ones and creating new ones, on the understanding that the relationship between climate change and small-scale agricultural production is still a neglected area.

The Programme will support the creation of an enabling environment by promoting collaboration and participation of public and private sectors, as well as academic and research institutions existing in the region, during the timeframe of the Programme. The exchange of information and the lessons learned processes will provide the input for all the

knowledge sharing between the different actors. The sustained participation of the different actors will be pursued to create conditions for Programme ownership from its start and over time and will be actively promoted by a Stakeholder engagement during the implementation stage. For further details, see Section E.2.3.

Selected Risk Factor 4 Capacity of the Executing Entity

Description	Risk category	Level of impact	Probability of risk occurring
Previous experiences when programmes start implementation show significant delays linked with the structuring of the Executing Programme Unit such as: integration of the programme's goals and objectives within the Executing Entity administration procedures and hiring of technical personnel for the unit.	Technical and operational	Low (<5% of project value)	Medium

Mitigation Measure(s)

The current implementation arrangements have been designed taking into consideration previous experience and lessons learned from CAMBio. The Programme Management Unit (PMU) will be located within the Strategic Programmes and Procurement Department (PREA) in CABEL. PREA will be responsible for assisting to link the PMU to the rest of CABEL's departments, offices and programmes. PMU will work with the FINAM structure to coordinate specific activities to be agreed during the project inception phase.

Selected Risk Factor 5 AML/CFT Risk

Description	Risk category	Level of impact	Probability of risk occurring
Cases of money laundering/financing terrorism are identified within IFIs or MSMEs.	Financial	Medium (5.1-20% of project value)	Low

Mitigation Measure(s)

According to the AMA, the Programme will apply CABEL's AML/CFT policy.
It is important to emphasize that CABEL does not evaluate this risk by Programmes, Components or activities, but by client (by IFI).
AML/CFT due diligence is included as part of the annual accreditation of the IFIs by CABEL and is therefore part of the eligibility conditions.
In the case of MSMEs, due diligence is performed by the IFIs. In the case of regulated IFIs, they are obliged by law to perform this due diligence to all of their MSMEs. CABEL's Compliance Department requires to all IFIs they perform this due diligence to all their clients.
In summary, the control strategy for this risk is the performance of the AML/CFT due diligence, both at the moment of IFIs' eligibility and the moment of annual re-accreditation.
It is important to note that this due diligence process is included in the contract agreement with each of the IFIs.

Other Potential Risks in the Horizon

Please describe other potential issues which will be monitored as "emerging risks" during the life of the projects (i.e., issues that have not yet raised to the level of "risk factor" but which will need monitoring). This could include issues related to external stakeholders such as project beneficiaries or the pool of potential contractors.

H.1. Logic Framework.

H.1.1. Paradigm Shift Objectives and Impacts at the Fund level⁶

Paradigm shift objectives						
Expected Result	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term (if applicable)	Final	
<p>Paradigm shift objectives</p> <p><i>Increased climate-resilient sustainable development</i></p> <p>Programme's objective: to increase resilience to climate change of MSMEs from Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and The Dominican Republic by removing financial barriers to access financial and non-financial services adopting and implementing climate change best adaptation measures.</p> <p>This objective will be attained through:</p> <p>Component 1: the project will reduce the obstacles to credit access for MSMEs providing financial and non-financial mechanisms that will allow reducing the risk inherent to all production activities.</p> <p>Component 2: the project will strengthen beneficiaries' capacities from training and technical assistance services to develop best adaptation measures for production models</p> <p>Component 3: The project will promote ecosystem-based adaptation measures providing an incentive scheme that increase MSMEs resilience so that they adequately face climate variability, and at the same time preserve natural resources and assets.</p>						
Fund-level impacts						
	Total number of direct and indirect beneficiaries	Programme M&E reports and records. Data collection on the Project field assessment and supporting documents of MSMEs	0	27,888	69,720	
	Total number of direct beneficiaries, among which:		0	6,972	17,430	Based on statistics from the Programme CAMBio, taking into account that part of the strategy of the Programme will incorporate a higher percentage of cooperatives
	<i>Male</i>		0	4,671	11,678	
	<i>Female</i>		0	2,301	5,752	
	Total number of indirect beneficiaries (individuals), among which:		0	20,916	52,290	Based on the trends of the Programme CAMBio
	<i>Male</i>		0	14,014	35,034	Based on FAO's experience in Honduras where through financial and no financial mechanisms is possible to generate three jobs under this
	<i>Female</i>		0	6,902	17,256	

⁶ Information on the Fund's expected results and indicators can be found in its Performance Measurement Frameworks available at the following link (Please note that some indicators are under refinement):

<http://www.greencimate.fund/documents/20182/239759/5.3 - Performance Measurement Frameworks PMF .pdf/60941cef-7c87-475f-809e-4ebf1acbb3f4>

						combination of elements.		
	Percentage of beneficiaries relative to total population							
	Percentage of direct beneficiaries relative to total population, among which:	Programme M&E reports and records compared to national census data of total population		0	0.012%	0.031%	Based on the trends of the Programme CAMBio. Based on average percentage of the women population obtained from the last census of the seven countries participating in the Programme	
	<i>Male</i>		0	0.017%	0.042%			
	<i>Female</i>		0	0.008%	0.020%			
	Percentage of indirect beneficiaries (individuals) relative to total population, among which:		0	0.037%	0.09%			
	<i>Male</i>		0	0.051%	0.127%			
	<i>Female</i>		0	0.024%	0.059%			
<i>A1.0 Increased resilience and enhanced livelihoods of the most vulnerable people, communities and regions</i>	1.2 Number of males and females benefiting from the adoption of diversified, climate-resilient livelihood options (including fisheries, agriculture, tourism, etc.)		Programme M&E reports and records & Surveys and qualitative studies Field visit					
	1.2.1 Number of direct beneficiaries, among which:			27,888	69,720		Macroeconomic stability in the region and no major climate disasters	
	<i>Male</i>			6,972	17,430			
	<i>Female</i>			4,671	11,678			
	1.2.2 Number of indirect beneficiaries, among which:				2,301	5,752		Disaggregation of indicator 1.2
	<i>Male</i>				20,916	52,290		
				14,014	35,034		Disaggregation of indicator 1.2	

	<i>Female</i>			6,902	17,256	
<i>A2.0 Increased resilience of health and well-being, and food and water security</i>	2.1 Area (ha) of agricultural land made more resilient to climate change through ecosystem based adaptation practices	Programme M&E reports and records	Some regions are already adopting ecosystem-based adaptation practices, but there is limited knowledge among farmers and barriers to access financing for these technologies. No figures available. To be updated with the information provided by MSMEs at the beginning of the Project.	25,510.49	63,776.22	There is continuous interest of MSMEs in taking up credits for ecosystem-based adaptation
	2.2 Number of food secure households in periods at risk of climate change impacts, among which:	survey and field assessment of changes in farmers' risk of climate change impacts	One of the main challenges identified by ECLAC ⁷ in the region is the impact on food security. Climate change directly impacts availability, access and the stability of subsistence of smallholders. No figures available, baseline to be provided with the Project indicators.	27,888	69,720	
	<i>Female-headed household</i>			9,203	23,007	
	<i>Male-headed household</i>			18,685	46,712	
	2.3 Number of males and females with year-round access to reliable and safe water supply despite climate shocks and stresses.	Progress reports Qualitative assessment through questionnaire	Most parts of the region experience changes in rain patterns, increased variability temperature and rain patterns, and changes in water availability. No figures	1.568 total and 33% female	5,229 total and 33% female	

⁷ The negative impacts of climate change on food security include deficits in the availability of the basic grains. Even the annual rates of production in the last decades experienced growth, the demand for consumption was not entirely covered, especially rice and maize. Regarding access, the average inflation of food prices is between 3 to 11% in the region for the period comprising 1996 to 2013. This situation is even worse when there are climate-related disasters and affects primarily the poorest. The inequality and poverty of the region represent additional barriers to access basic grains, impacting even more negatively the stability of the smallholder farmers.

		es and surveys	available, baseline to be updated after project starts with the baseline scenario of MSMEs participating in the project and completing information on indicators of the Project.			
<i>A4.0 Improved resilience of ecosystems and ecosystem services</i>	4.1 Extent of ecosystem and ecosystem services restored, protected or made more resilient to reduce negative impacts of climate variability and change	Progress reports indicators of area of land protected and restored through restoration practices, agroforestry, soil conservation	Limited areas are subject to active conservation or restoration, and traditional agroforestry practices based on natural regeneration are currently applied in some regions: no baseline figure available	24,191	60,478	Area (ha) of land estimated to be made more resilient by programme-funded activities.
						Estimation based on impacts of successful cases that identify producers who received agroforestry-coffee credits, cardamom, silvopastoral systems and forest management, with native tree species for shade planting, forest conservation, etc.

H.1.2. Outcomes, Outputs, Activities and Inputs at Project/Programme level

Expected Result	Indicator	Means of Verification (MoV)	Baseline	Target		Assumptions
				Mid-term (if applicable)	Final	
Project/programme outcomes	Outcomes that contribute to Fund-level impacts					
A7.0 Strengthened adaptive capacity and reduced exposure to climate risks	7.1 Number of vulnerable households, communities, business and public-sector services using tools, instruments, strategies and activities to respond to climate change and variability	Survey - Data collection system to aggregate information from MSMEs Project M&E reports and field assessment of effective use of adaptation tools by farmers	At the moment there is limited access of MSMEs to financing strategies to respond to climate change and variability. Most financing in the region focuses on traditional agriculture and only represents 3% of total lending. There is no information available to provide quantitative baseline, but it will be updated with the baseline information on MSMEs project indicators.	1,000	5,000	Assuming 100% of MSMEs use tools, instruments, strategies and activities to respond to climate change and variability
	<i>Male</i>		0	670	3,350	Based on the trends of the Programme CAMBio
	<i>Female</i>		0	330	1,650	
	7.2 Number of farmers that adopted at least three good practices focused on nature resource management (soil, water, forest and biodiversity)	survey Data collection system to aggregate information from MSMEs Project M&E reports and field assessment of effective use of adaptation tools by farmers	Traditional agroforestry practices based on natural regeneration applied in some areas: no baseline figure available	3,137	7,843	Assuming 45% of direct beneficiaries
	<i>Male</i>		0	2,102	5,255	Based on the trends of the Programme CAMBio
	<i>Female</i>		0	1,035	2,588	
A8.0 Strengthened awareness of	8.1 Number of males and females made aware of climate threats and related	Programme M&E reports and records.	small farmers have limited access to climate services, climate information	1.650	5,150	There is continuous interest in participating in workshops

climate threats and risk-reduction processes	appropriate responses, among which	Data collection system to aggregate information from Project M&E reports. Data collection: Surveys - qualitative assesment of awareness of climate change impacts and appropriate responses	and training opportunities. Furthermore, adaptation to climate change and adaptation measures are not widely spread among MSMEs and IFIs considering that there is not much financing available for the implementation of these technologies. No figures available, but a baseline scenario will be provided with information of MSMEs participating in the programme.			
	Number of farmers of MSMEs, among which		0	1,500	5,000	
	<i>Male</i>		0	1,005	3,350	
	<i>Female</i>		0	495	1,650	
	Number of technical staff of IFIs, among which		0	150	150	
	<i>Male</i>		0	100	100	
	<i>Female</i>		0	50	50	
Project/programme outputs	Outputs that contribute to outcomes					
1.1 Credits for adaptation for MSMEs implemented. 5,000 MSMEs receive credit.	1.1.1 Number of MSMEs receiving credits for adaptation strategies, among which	Programme M&E reports and records of loan allocation (F1)	0	2,000	5,000	There is continuous participation and support from the local government and organizations. Breakdown by country and IFI will be reported to GCF
	Men-led MSMEs		0	1,340	3,350	
	Women-led MSMEs		0	660	1,650	
	1.1.2 Volume of loans allocated to MSMEs		0	USD 8,750,000	USD 25,000,000	

	1.1.3 Number of IFIs operating the credit line		0	4	7	
2.1 Generation of local capacity on adaptation to climate change and project identification	2.1.1 Number of participants to the inception workshops with enhanced capacities to implement the Programme	Programme M&E reports and records Survey before-after training reports	0	15	50	There is interest in the development of business plans for adaptation to climate change among MSMEs
	2.1.2 Number of IFIs with technicians with enhanced capacities to effectively select, assess and monitor adaptation to climate change projects	Programme M&E reports and records Survey before-after – qualitative assessment to provide effective support for programme implementation	0	30	30	
	2.1.3 Number of MSMEs with enhanced capacities to design and implement climate resilient measures	Qualitative assessment and survey to assess appropriation of adaptation to climate change approach knowledge	0	1,500 (33% female-led MSMEs)	5,000 (33% female-led MSMEs)	
	2.1.4 Number of workshops focused in adaptation to climate change	Programme M&E records and training reports	0	42	140	
	2.2.1 Number of pre-investment activities support with business plans approved	Programme M&E reports and records	0	20	65	There is active participation of the MSMEs and IFIs in the workshops
<i>Male</i>		0	14	44		
<i>Female</i>		0	6	21		
2.2.2 Number of MSMEs trained in	Programme M&E reports and records		60	120		

	organizational capacities	Trainig reports				
	<i>Male</i>			40	80	
	<i>Female</i>			20	40	
	2.2.3 Number of MSMEs trained in adaptation measures to climate change	Programme M&E reports and records	0	100	200	
	<i>Male</i>	Trainig reports	0	67	134	
	<i>Female</i>		0	33	66	
	2.2.4 Number of MSMEs trained in gender issues	Programme M&E reports and records	0	88	175	Assuming at least 5 MSMEs participating in each activity of training in gender issues
	<i>Male</i>	Trainig reports	0	49	122	
	<i>Female</i>		0	21	53	
	2.2.5 Number of IFIs trained in elaboration of adaptation to climate change measures and the development of adaptation programmes	Programme M&E reports and records Trainig reports	0	2	7	Breakdown by country shall be informed to the GCF
	2.2.6 IFIs trained in gender issues	Programme M&E reports and records Trainig reports	0	2	7	Breakdown by country shall be informed to the GCF
	2.2.7 Number of activities for training in gender issues aimed at MSMEs	Programme M&E reports and records Trainig reports	0	7	15	Continuous interest of MSMEs in participating in workshops in the different countries
2.3 Advocacy and knowledge Management Reinforced	2.3.1 Number of events for programme promotion organized	Programme M&E reports and records of the PMU	0	18	35	Continuous interest of stakeholders in the Programme
	2.3.2 Number of systematization of experiences and theme studies		0	1	3	
	2.3.3 Number of exchange		0	0	2	

	experiences implemented					
	2.3.4 Number of workshops for dissemination of lessons learned and exchange among stakeholders		0	2	12	
3.1 Incentives awarded	3.1.1 Number of adapt-award granted to MSMEs, among which:	Programme M&E reports and records of the PMU		402	1,340	
	Women-led MSMEs		0	133	442	
	Men-led MSMEs			269	898	
	3.1.2 Number of IFIs receiving incentives for the successful adoption of adaptation measures by MSMEs	Programme M&E reports and records of the PMU	0	7	21	
Activities	Description	Inputs		Description		
1.1.1 Credits provided to MSMEs	IFIs/CABEI identify the demand of MSMEs, verifying the eligibility for the programme. MSMEs develop productive projects for the implementation of EbA measures and apply for the credit scheme of Cambio II. IFIs receive the loan request, analyze the proposed projects, eligibility for the programme and payment capacity and allocate credits to MSMEs. It is expected to allocate 5,000 credits to MSMEs, which are then entitled to receive technical support. This way, barriers to financing for MSMEs are reduced, and they strengthen their adaptive capacity to face the negative impact of climate change.	USD\$ 25,000,000		Loans		
2.1.1 Inception workshop	One initial workshop at CABEI's Headquarters in Tegucigalpa will be organized during the first month of the implementation of the Programme to be attended by all relevant stakeholders. The workshop will establish the execution and implementation mechanisms, as well as the finalization of the necessary agreements between the different	Covered with AE fee				

	<p>parties to ensure transparency and efficacy in carrying out the Programme. Strategic partners with expertise in adaptation to climate change will be convened to introduce the climate change subject, its threats and the ecosystem-based adaptation approach for framing the programme to all participants.</p>		
2.1.2 Start-up workshops for the IFIs' network	<p>Start-up Workshops for IFIs will have the objective to set strong foundations for the optimal implementation of adaptation projects by the IFIs by providing key information on Climate Change, adaptation measures to climate change as well as concrete examples of how and what they can finance in order to support the efforts to adapt to climate change.</p>	USD \$51.250	Training, workshops, transportation
2.1.3 Start-up workshops for MSMEs	<p>objective of providing basic and adapted content on projected climate change impacts and the appropriate technologies that would be most suitable for MSMEs to face them. These workshops will provide MSMEs with the basic knowledge about climate change threats as well as proven and suitable technologies to increase their resilience to climate change. Additionally, during the workshops the MSME's will get information on how to access to financing through the IFIs, the financial conditions for the loans, loans requirements, as well as the incentives the Programme provides to MSMEs in terms of pre-investments and technical assistance on climate change.</p> <p>Besides, the workshops will generate MSMEs awareness on climate change, and will strengthen its linkage with the IFIs fostering the demand for credits to finance the implementation of adaptation measures to climate change.</p>	USD \$ 420.000	Training, workshops, transportation
2.2.1 Technical assistance for pre-investment for MSMEs	<p>IFIs/CABEI identify MSMEs in the need of support for the development of the projects such as; environmental assessments, financial analysis, technical studies or any complementary study for developing the proposal. It is expected that at least 65 MSMEs are supported with</p>	USD812.000	Professional / contractual services

	technical assistance activities for pre-investment, 18 pre-investment activities funded per year. In the long term, it is expected to increase knowledge on EbA measures and adequate development of business models resilient to climate change and climate variability.		
2.2.2 Capacity building activities for MSMEs during implementation	2.2.2. a) MSMEs receiving credits from the programme are entitled to request capacity building activities to support the implementation of the projects and ensure long-term outcomes. More than 200 MSMEs are expected to completed capacity building activities with up to USD\$ 5,000 per MSME. 14 activities funded per year for capacity building on climate change adaptation and organizational development for increasing resilience***	USD\$ 227,500	Training, workshops, transportation
	2.2.2. b) MSMEs receiving credits will also be trained in gender issues. There will be 3 ongoing formation on gender issues for MSMEs - average of 3 activity per year and specific resources will be offered to support the participation of women on the field in programme activities. This way it is expected to ensure the equal participation of women on the Programme and further strengthen capacities in MSMEs to promote equal access of women to financial inclusion benefits and information on climate change adaptation.	USD\$ 33,750	Training, workshops, transportation
	2.2.2 c) Specific workshops for women of MSMEs -leaders, workers and partners- on adaptation to climate change and financial services. To further develop gender issues capacities on MSMEs, 2 workshops per year will be organized with women leaders and employees, on adaptation to climate change and financial services.	\$15,000	Training, workshops, transportation
2.2.3 Capacity building activities for IFIs during implementation	2.2.2 a) IFIs requesting disbursements of the Programme, are enabled to receive training in the climate change adaptation as well as in EbA measures to better implement the programme and to further develop financing products incorporating the	USD\$ 110,250	Training, workshops, transportation

	<p>approach. At least 1 IFI per country per year with completed capacity building activities. Up to USD\$ 28,000 per IFI. This activity will contribute to the long-term sustainability of the programme by promoting the increased knowledge of IFIs on the negative consequences of climate change and understanding the adaptive measures needed to face it.</p>		
	<p>2.2.2 b) IFIs receive training on gender issues to strengthen capacities on the approach and to promote equal access on financing for women. It is expected to train at least 1 IFI per country per year in the approach. Complementary support for travel expenses for capacity building activities.</p>	USD \$78,750	Training, workshops, transportation
2.3.1 Events for dissemination of adaptation measures	<p>The PMU will organize events for dissemination of adaptation measures (at least 1 event per country per year) This way the activity will contribute to the knowledge management strategy that is expected to promote best practices through the dissemination of selected experiences of adaptation to climate change. Replication of best practices and lessons learnt will contribute to the strengthening of adaptive capacities and increase resilience of MSMEs.</p>	USD\$ 148,750	Training, workshops, transportation
2.3.2 Promotion and lessons learned	<p>The PMU will be responsible of elaborating all communication materials of the project: video recording, web platform for the IFIs network, logo design, publications in magazines, newspapers, banners on the project, brochures and promotional material.</p> <p>As part of the activities, 3 workshops for dissemination of successful experiences and best practices or lessons learned will be carried out.</p> <p>The PMU will also promote the systematization of 3 experiences of projects, from which: 1 will be about women's access to credit for climate change.</p> <p>Halfway through the programme, 7 participatory workshops will be organized to analyze the performance</p>	USD\$ 137,250	Training, workshops, transportation, Professional/contractual service

	<p>of the projects and how to better achieve the proposed outcomes. These participatory workshops will contribute to the adequate dissemination of experiences and the promotion of knowledge management among different stakeholders of the project</p> <p>Additionally, 2 experience exchanges for IFIs and MSMEs will be organized, to come together to learn from each other while they visit successful adaptation projects. This will contribute to the strengthening of capacities and awareness on climate change and adaptation measures.</p> <p>There will be 2 workshops organized for analyzing the participation of women/young people in the ongoing processes. And • 1 study of women / young people and adaptation on climate change and financial services. This will contribute to the strengthening capacities of both institutions to implement the gender approach promoting the long-term increase resilience of women and young people in MSMEs.</p>		
<p>3.1.1 Awarding of Incentives</p>	<p>Incentives will be given to MSMEs and IFIs based on goal achievements on adaptation indicators of the Projects. It is expected to award 1,340 MSMEs for adopting EbA. This activity is expected to contribute to better implementation of projects and contribute to the long-term sustainability of the proposed measures.</p>	<p>USD\$ 734,500</p>	<p>Grants</p>
<p>4. Programme management</p>	<p>A PMU (Programme Management Unit) will be created within CABEL for the general administration of the programme, guaranteeing that all administrative arrangements meet CABEL and GCF requirements. The PMU will ensure that all expected results will be achieved on time and within budget overseeing that activities are carried out, according to the programme design and in compliance with the regulations of CABEL and GCF. The PMU will work closely to the M&E specialist (covered by the AE) to oversee the general</p>	<p>USD\$ 140,500</p>	<p>Professional/ contractual service, operative expenses, travel, general supervision.</p>

	<p>progress of the project. Some of the activities mentioned such as the awarding of incentives, some of the capacity building activities and knowledge management of lessons learned will be direct responsibility of the PMU. This way, it is expected that this unit will ensure that the objectives and targets of the Programme are fulfilled at each stage and in a smooth manner, articulating with the different stakeholders in the 7 countries.</p>		
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H.2. Arrangements for Monitoring, Reporting and Evaluation

The monitoring and evaluation activities will include the following:

- Inception workshop:**

An initial workshop will be organized during the first month of the implementation of the Programme to be attended by the IFIs, representatives of the MSMEs, Technical Assistance providers, the PMU, and the staff acting in CABEL as Accredited Entity. The workshop will establish the **execution and implementation mechanisms**, as well as the finalization of the necessary agreements between the different parties to ensure transparency and efficacy in carrying out the Programme. In the inception workshop, the **guidelines for the monitoring and evaluation** of the Programme will be provided to all relevant stakeholders and the indicators will also be analyzed and discussed with them to ensure appropriation of the M&E System, and the importance to comply with the guidelines provided to learn and ensure the correct follow-up of the Programme. Also, the **Gender Action Plan and the Environmental and Social Management Framework** will be presented with its indicators, to guarantee that all the parties involved in the execution of the Programme do an adequate monitoring and evaluation in these fields

Strategic partners with expertise in adaptation to climate change will be convened to introduce the climate change subject, its threats and the ecosystem-based adaptation approach along with priority sectors and adaptation measures for each country for an adequate programme framing of participants.

 - M&E Records and monitoring arrangements**

IFIs will be trained on climate change adaptation aspects as well as monitoring and evaluation of adaptation measures and the implementation arrangements at the beginning of the project in start-up workshops specifically directed at them and provided by strategic partner with expertise in the field. They will have ongoing trainings throughout the Programme to guarantee their capacity for the effective selection, assessment and monitoring of projects. Start-up Workshops for IFIs will have the objective to set strong foundations for the optimal implementation of adaptation projects by the IFIs by providing key information on Climate Change, adaptation measures to climate change as well as concrete examples of how and what they can finance in order to support the efforts to adapt to climate change.

The M&E Specialist within CABEL along with the PMU will be responsible for the development of the different registration tools and will develop practical guidelines for the adequate operationalizations of indicators and filling-in of the report templates developed by the PMU. These tools will facilitate the monitoring of Projects on the ground and its dissemination among IFIs and will be developed prior to the Programme Inception Workshop to present them and make final adjustments after this event. .

During the first year the M&E specialist, along with the Adaptation Specialist and the Social and Environmental Specialist will train IFIs on the registration tools developed by CABEL to comply with: eligibility criteria of the Programme, assessment

criteria of Projects and M&E of impacts of climate change. CABEL country officers will also be trained to be able to provide more direct support to IFIs throughout the programme.

The first year of programme implementation will rely on important capacity building of IFIs, so CABEL as Accredited entity will provide support to the PMU during this period to ensure the adequate training of IFIs and CABEL country officers in each country. To this end, there will be different departments available within CABEL that will support the programme: human resources, communication, 5 specialists of the Environmental and Social Office, legal affairs, international relations, and FOPROY.

For the approval of projects, as part of the pre-assessment of project approval, IFIs perform field-visits to MSMEs to verify the project and eligibility criteria. IFIs will have to send to the PMU the following documents, which will also compile useful information for the M&E system:

- a) **F1 template** with information on the client, financial information of the requested loan; and eligibility criteria, including all supporting documentation for the validation of the assessment criteria to the PMU;
- b) **Project document** with all the information requested for complying with the assessment criteria, baseline indicators as well as the selected indicators for impact assessment with the goal set to achieve.

The information/indicators provided of each MSME project as well as the selected indicators for assessing the impact potential, will allow the PMU to gather data on the sector and climate exposure of production and ecosystems, which will allow to develop a **baseline scenario** with the ex-ante situation of MSMEs per country and the overall programme. The baseline information will allow to update the baseline of the Logical Framework. This information will also be a valuable tool for assessing the programme when it finishes and will provide the basis for the monitoring of progress and indicators throughout the implementation of the programme.

a) IFIS and MSMEs

IFIs will be responsible of performing regular visits to MSMEs and filling-in together with MSMEs the Project monitoring reports to be sent to the PMU every six-months (30th June and 30th December) in a timely and complete manner. The registration tools developed for supporting the monitoring of projects will include information on overall project progress

In each visit, IFIs will assess progress on project investments and the effective implementation of the adaptation measures, as well as verify the information provided by IFIs.

The registration tools developed for supporting the monitoring of projects will include the following information:

- 1) Information on the project progress with description of implementation of the planned investments and adaptation solutions, difficulties experienced during the period, climate threats affecting the system during the reported period; description of perceived outcomes in terms of gender, socio-economic outcomes, enhancement of ecosystem services, mitigation co-benefits, enhancement of adaptive capacity outcomes, productive outcomes; and natural resources conservation outcomes; vulnerabilities of MSMEs and training received in the period.
- 2) Information on positive and negative environmental externalities identified through project implementation.
- 3) When it applies, progress on the selected indicators of the project (see Annex XII for List of indicators per adaptation measure), As the biological cycle or productive cycle might not coincide with the reporting period, this section might not be updated in every report).
- 4) Credit devolution compliance

Data collection methods for this section of the report will consist on self-reporting of MSMEs for qualitative assessments of progress, MSMEs records to track progress on some indicators, field inspections to track progress and verification on the ground; in-depth interviews of MSMEs farmers for qualitative assessment of effective adoption of practices, and IFIs reports on credit devolution compliance (for more detailed description, please refer to the Operations Manual of Loans, section Monitoring and Evaluation).

b) PMU and CABEI M&E

The M&E Specialist will perform regular visits at least once a year to each country, randomly selecting MSMEs projects to monitor on the field and will cross-check on the ground the veracity of the information provided by IFIs and MSMEs in the six-month project monitoring reports.

In each field-visit the M&E specialist will collect qualitative data on the outcomes and difficulties experienced in the project through focus group discussions with different beneficiaries, as well as in-depth interviews with key stakeholders.

The PMU will additionally visit IFIs and projects on a regular basis to provide support for the implementation of the programme and monitor the overall progress of the operations and the adaptation solutions on the ground. They will share information with IFIs and the M&E specialists on the projects visited and all of them will ensure that each time a project is visited all the field inspections and verifications are made to guarantee the adaptation solutions are effectively being implemented.

After each visit, the PMU will write a report regarding the field visits, detailing the progress of the project and clearly identifying the main milestones, best practices implemented to address climate change adaptation impacts, improvement areas of the project and environmental and social results of the monitoring, The PMU will also make recommendations to achieve effective adaptation to climate change based on the field visit to be shared with the MSME and IFI, when it applies and will closely monitor potential areas of improvements when needed.

If a visited project is found to be non-eligible based on the investments made or non-eligible activities are found, the PMU will declare the investment non-eligible and it will not be considered as part of the Programme. IFIs will have to allocate the credit with other programmes or with their own funding.

The M&E Specialist will have to write an **annual report** to be sent to the GCF Secretariat with the aggregated information of the Programme provided by IFIs about the evolution of the expected outputs and results included in the logical framework, along with a description of the different activities performed, difficulties experienced within the period and the evolution of the projects.

To this end, the list of indicators by adaptation technology, can be aggregated for the adequate tracking progress on Logical framework indicators. For the aggregation of outcome indicators, each project will have to inform on indicators from the Logical Framework and additional impact indicators. A monitoring plan for each project indicator is included in the Operations Manual (Appendix III: List of indicators and monitoring plan). The monitoring plan identifies indicators at project level, which will serve to report to the Logical Framework by indicating the number code of the LF indicator. It includes key questions to clarify the information on the indicator, source of the data, data collection methodology, responsible for data collection and frequency of reporting.

The monitoring plan will be supported by guidelines for IFIs that will include description of the adaptation measures quality control, and further development of the operationalization of indicators. These guidelines will be developed prior to the inception workshop and validate within the event. This way, it is expected that IFIs work on the ground will be facilitated through the supporting manuals as well as practical tools (such as platform for eligibility assessment) and guidelines to be developed during programme implementation.

Additionally, the progress monitoring of outcomes will be supported by the case studies, and best practices identification during the third and fifth year and included in the subcomponent of advocacy and knowledge management reinforced.

An important consideration is that there is no unitary, quantifiable measure of adaptation to climate change that is applicable across technologies and sectors. Thus, in most cases a variety of indicators will be combined to assess effective adoption of climate resilient technologies, strengthen capacities of smallholders and increased resilience of their livelihood, health and well-being, as well as increased resilience of ecosystems.

By collecting information on these different indicators from the beginning, at programme completion an important data base will be stored, which will be able to provide useful information to understand the situation of MSME as baseline and their improvements related to risk reduction to climate change impacts.

Each project financed by this Programme will be registered in the CABEL's digital system "FENIX" as a supporting M&E tool. There will be a specific questionnaire for each MSME, in which baseline data will be of high value to assess eligibility but also to increment the possibilities of measuring changes at the end of the Programme.

The M&E specialist will closely follow the progress of the projects and ensure all the information registered in the system is disaggregated according to gender, age and if people belong to indigenous communities or any vulnerable group.

- **Reports:**

Different reports will be elaborated in different time schedules. Six-monthly Programme reports will be elaborated for the PMU to help supervising the progress both physical and financially. These reports will be shared with the FINAM Responsible and Country Offices to share information on the global and country progress of the Programme in each of the proposed outputs and main milestones. The reports will also be shared with IFIs, stating the progress of the projects of each country, and The PMU will include information on the Programme Reports about the latest projections of climate change impacts regionally and will give its feedback to the IFIs and MSMEs on the information provided in the project reports to guarantee ongoing projects at the local level are consistent with the programme requirements and are on-track to achieve the expected outcomes. When significant delays or deviations from the planning arise, the PMU will also give recommendations and additional support to guarantee achievement of programme's results.

Annual Reports are to be submitted to the GCF as established in the AMA along with Annual Gender Reports elaborated by the Environmental and Social Specialist of the PMU. As determined in the AMA, the annual reports, will be submitted to the Secretariat annually for the period ending on 31st December, within sixty days after the end of the relevant annual report.

CABEL Monitoring

CABEL as Accredited Entity will also perform supervision missions from year 2 onwards, selecting 3 countries each year and visiting MSMEs project on the field.

As AE, CABEL will ensure quality and oversight of the project. To this purpose, CABEL has a robust fiduciary and technical oversight and quality assurance systems such as the Evaluation Office, commercial officers in each country, the FOPROY Unit and the FINAM Unit.

This process will allow for an independent project oversight and monitoring and CABEL relies on the institutional support of its own structure to effectively monitor the programme in the 7 countries.

Additionally, CABEL has a Credit Supervision Department, which oversees the use and destination of funds disbursed to the IFIS. As part of the monitoring of this department, approximately 10% of disbursements are monitored each year. Thus, it is expected that, apart from the PMU and AE monitoring visits, this Department will review the compliance with Programme requirements.

- **Evaluations:**

As per the AMA, an external and independent evaluation in the middle of its term of completion will be performed. Once the project is terminated, a Results Evaluation and a Final Report will be elaborated. Evaluations will comply with the GCF guidelines and international standards. The interim evaluation will include an assessment of the progress made towards the GCF investment criteria, intended results and targets, and analyze any risks that might hinder progress

towards the defined objectives. Additionally, it will include recommendations to correct actions, when needed, to ensure the results and impacts expected are met.

Final evaluation will assess the overall performance of the programmes against the international criteria of programme evaluation (OECD standards) as well as the investment criteria of GCF as part of the effectiveness and efficiency criteria. More importantly, evaluations will not only assess the expected results and impacts but also unexpected outcomes and co-benefits, best practices and lessons learned, replicability and sustainability of the actions. Evaluations will ensure learning and knowledge management among stakeholders and the dissemination of lessons learned.

Regarding methodologies, evaluations shall make use of qualitative as well as quantitative data analyses, including interviews to all relevant stakeholders, analysis of monitoring reports, and data provided by the M&E system of the programme, along with participative workshops and focus-groups with beneficiaries to promote participative learning.

- **Case studies:**

It will be promoted to identify good practices in the management of natural resources, adaptive and mitigation strategies and to document them with participatory systematizations and specific case studies. One of the case studies will be on women empowerment and climate change, as a good practice related to Programme's gender strategy.

- **Qualitative analysis:**

Some of the indicators included in the logical framework are qualitative in nature. Therefore, apart from analyzing M&E reports and records, along with surveys and field visits, the methodology of scorecards will be developed to gain a deeper understanding of the extent to which rural smallholders are effectively using adaptation strategies and tools.

I. Supporting Documents for Funding Proposal

- NDA No-objection Letter
- Feasibility Study
- Integrated Financial Model that provides sensitivity analysis of critical elements (xls format, if applicable)
- Confirmation letter or letter of commitment for co-financing commitment (If applicable)
- Project/Programme Confirmation/Term Sheet (including cost/budget breakdown, disbursement schedule, etc.) – see *the Accreditation Master Agreement, Annex I*
- Environmental and Social Impact Assessment (ESIA) or Environmental and Social Management Plan (If applicable)
- Appraisal Report or Due Diligence Report with recommendations (If applicable)
- Evaluation Report of the baseline project (If applicable)
- Map indicating the location of the project/programme
- Timetable of project/programme implementation

** Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.*

San Jose, Costa Rica, July 11, 2018
DM-300-2018



REPÚBLICA DE COSTA RICA
Ministerio de Ambiente y Energía
Despacho del Ministro

To: The Green Climate Fund ("GCF")

Re: Funding proposal for the GCF by the Central American Bank for Economic Integration regarding the Productive Investment Initiative for Adaptation to Climate Change (CAMBio II).

Dear Madam, Sir,

We refer to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic as included in the funding proposal submitted by the Central American Bank for Economic Integration to us in the month of August 2017.

The undersigned is the duly authorized representative of the Ministry of Environment and Energy, the National Designated Authority/focal point of Costa Rica.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the project as included in the funding proposal.

By communicating our no-objection, it is implied that:

- (a) The government of Costa Rica has no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal;
- (b) The project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with Costa Rica's national priorities, strategies and plans;
- (c) In accordance with the GCF's environmental and social safeguards, the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with relevant national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the project.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,


M.Sc. Carlos Manuel Rodríguez

Minister of Environment and Energy of Costa Rica





Ministerio de Medio Ambiente y Recursos Naturales
República Dominicana
“Año del Fomento de las Exportaciones”

To: The Green Climate Fund (“GCF”)

Santo Domingo, Dominican Republic

Re: Funding proposal for the GCF by the Central American Bank for Economic Integration regarding the Productive Investment Initiative for Adaptation to Climate Change (CAMBio II).

Dear Madam, Sir,

We refer to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic as included in the funding proposal submitted by the Central American Bank for Economic Integration to us on August 17th, 2017.

The undersigned is the duly authorized representative of the Ministry of Environment and Natural Resources, the National Designated Authority/focal point of the Dominican Republic.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the project as included in the funding proposal.

By communicating our no-objection, it is implied that:

- (a) The government of the Dominican Republic has no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal;
- (b) The project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with the Dominican Republic’s national priorities, strategies and plans;
- (c) In accordance with the GCF’s environmental and social safeguards, the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with relevant national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the project.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,

ANGEL ESTEVEZ
MINISTER OF ENVIRONMENT AND NATURAL RESOURCES





Ministerio de Medio Ambiente y Recursos Naturales
República Dominicana

"Año del Fomento de las Exportaciones"

Para: Fondo Verde del Clima

21 AGO 2018

Santo Domingo, República Dominicana

Tema: Propuesta de financiamiento al FVC por parte del Banco Centroamericano de Integración Económica con respecto a la Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II).

Estimada/o Sra/Sr.

Nos referimos al proyecto Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II) en Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panamá y República Dominicana, como se incluye en la propuesta de financiamiento presentada por el Banco Centroamericano de Integración Económica para nosotros el 17 de agosto de 2017.

El abajo firmante es el representante debidamente autorizado del Ministerio de Medio Ambiente y Recursos Naturales, la Autoridad Nacional Designada / punto focal de la República Dominicana.

Conforme a decisión del FVC B.08/10, damos fe de haber revisado el contenido, y comunicamos nuestra no objeción conforme a la propuesta de financiamiento.

Al comunicar nuestra no objeción, se entiende que:

- (a) El gobierno de la República Dominicana no tiene objeción al proyecto Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II) conforme a lo incluido en la propuesta de financiamiento;
- (b) El proyecto Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II) incluido en la propuesta de financiamiento está conforme con las prioridades nacionales, estrategias y planes de la República Dominicana;
- (c) De acuerdo a las salvaguardas ambientales y sociales, el proyecto Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II) incluido en la propuesta de financiamiento está conforme a las leyes y regulaciones nacionales.

También confirmamos que se cumplieron con nuestros procesos nacionales para brindar la no-objeción de la Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II) conforme a que fue incluido en la propuesta de financiamiento.

Hacemos constar que la presente nota estará disponible al público en la página web del FVC.

Muy atentamente,

ÁNGEL ESTÉVEZ
MINISTRO DE MEDIO AMBIENTE Y RECURSOS NATURALES





MINISTERIO DE MEDIO AMBIENTE Y RECURSOS NATURALES
UNÁMONOS PARA CRECER

MARN-DE-060-2018

San Salvador, El Salvador August 20th, 2018

To: The Green Climate Fund ("GCF")

Re: Funding proposal for the GCF by the Central American Bank for Economic Integration regarding the Productive Investment Initiative for Adaptation to Climate Change (CAMBio II).

Dear Madam, Sir:

We refer to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic as included in the funding proposal submitted by the Central American Bank for Economic Integration to us on August 17th, 2017.

The undersigned is the duly authorized representative of the Ministry of Environment and Natural Resources, the National Designated Authority/focal point of El Salvador.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the project as included in the funding proposal.

By communicating our no-objection, it is implied that:

- (a) The government of El Salvador has no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal;
- (b) The project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with El Salvador's national priorities, strategies and plans;
- (c) In accordance with the GCF's environmental and social safeguards, the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with relevant national laws and regulations.

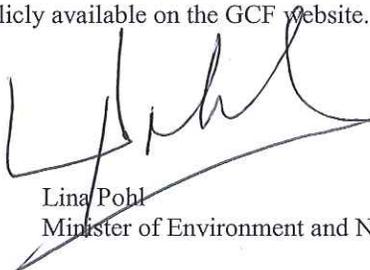
We also confirm that our national process for ascertaining no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the project.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,




Lina Pohl
Minister of Environment and Natural Resources



MINISTERIO DE MEDIO AMBIENTE Y RECURSOS NATURALES
UNÁMONOS PARA CRECER

MARN-DE-060-2018

San Salvador, El Salvador, 20 de agosto de 2018

Señores Fondo Verde del Clima

Asunto: Propuesta de financiamiento al FVC por parte del Banco Interamericano de Integración Económica con respecto a la Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II).

Estimados señores:

Nos referimos al “Proyecto Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II)” en Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panamá y República Dominicana, como se incluye en la propuesta de financiamiento presentada por el Banco Centroamericano de Integración Económica el 17 de agosto de 2017.

El abajo firmante es el representante debidamente autorizado del Ministerio de Medio Ambiente y Recursos Naturales, la Autoridad Nacional Designada / punto focal de El Salvador.

Conforme a decisión del FVC B.08/10, damos fe de haber revisado el contenido, y comunicamos nuestra No Objeción conforme a la propuesta de financiamiento.

Al comunicar nuestra No Objeción, se entiende que:

- (a) El gobierno de El Salvador no tiene objeción al Proyecto “Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II)”, conforme a lo incluido en la propuesta de financiamiento;
- (b) El Proyecto “Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II)”, incluido en la propuesta de financiamiento está conforme con las prioridades nacionales, estrategias y planes de El Salvador
- (c) De acuerdo con las salvaguardas ambientales y sociales, el Proyecto “Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II)” incluido en la propuesta de financiamiento está conforme a las leyes y regulaciones nacionales

También confirmamos que se cumplieron con nuestros procesos nacionales para brindar la No Objeción de la Iniciativa de Inversión Productiva para la Adaptación al Cambio Climático (CAMBio II), conforme a lo que fue incluido en la propuesta de financiamiento.

Hacemos constar que la presente nota estará disponible al público en la página web del PVC.

Atentamente,



Lina Pohl
Ministra de Medio Ambiente y Recursos Naturales



Ministro

**MINISTERIO DE AMBIENTE Y RECURSOS NATURALES
GUATEMALA, C.A.**

Guatemala February, 13th 2018
Oficio MI-177-2018/ARAV-ve

MINISTERIO DE AMBIENTE
Y RECURSOS NATURALES
RECIBIDO

14 FEB 2018

VICE-DESPACHO
Hora: 10:27 h FIRMA: *[Signature]*

To: The Green Climate Fund ("GCF")

Re: Funding proposal for the GCF by Central American Bank for Economic Integration (CABEI) regarding Productive Investment Initiative for Climate Change Adaptation (CHANGE II) programme.

Dear Madam, Sir,

We refer to the Productive Investment Initiative for Climate Change Adaptation (CHANGE II) programme in relation to Guatemala, as included in the funding proposal submitted by Central American Bank for Economic Integration (CABEI) to us on August 17th, 2017.

The undersigned is the duly authorized representative of Ministry of Environment and Natural Resources the National Designated Authority/focal point of Guatemala.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the programme as included in the funding proposal.

By communicating our no-objection, it is implied that:

- (a) The government of Guatemala has no-objection to the programme as included in the funding proposal;
- (b) The programme as included in the funding proposal is in conformity with Guatemala national priorities, strategies and plans;
- (c) In accordance with the GCF's environmental and social safeguards, the programme as included in the funding proposal is in conformity with relevant national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the programme as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the programme.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,



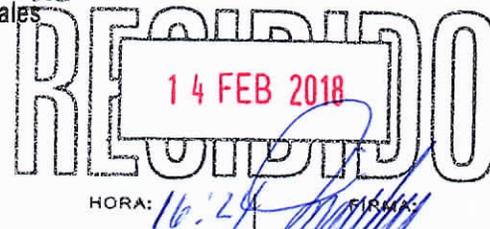
[Signature]
Lic. Alfonso Rafael Alonzo Vargas
Ministro
Ministerio de Ambiente y Recursos Naturales



UNIDAD DE COOPERACIÓN INTERNACIONAL
Ministerio de Ambiente y Recursos Naturales

c.c.: Archivo

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20 Calle 28-58 Zona 10 Edificio MARN
PBX: 2423-0500
<http://www.marn.gob.gt>





Tegucigalpa 06 de Noviembre 2017

OFICIO No. DMA- 1053-2017

To: The Green Climate Fund ("GCF")

Ref: Funding proposal for the GCF by the Central American Bank for Economic Integration regarding the Productive Investment Initiative for Adaptation to Climate Change (CAMBio II).

Dear Madam, Sir,

We refer to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic as included in the funding proposal submitted by the Central American Bank for Economic Integration to us on August 17th, 2017.

The undersigned is the duly authorized representative of the Ministry of Energy Natural Resources Environment and Mines, the National Designated Authority/focal point of Honduras.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the project as included in the funding proposal.

By communicating our no-objection, it is implied that:

- (a) The government of Honduras has no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal;
- (b) The project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with Honduras national priorities, strategies and plans;
- (c) In accordance with the GCF's environmental and social safeguards, the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with relevant national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the project.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,

ING. JOSE ANTONIO GADDAÑES
SECRETARIO DE ESTADO



JAG/JMG
C. ARCHIVO.



Gobierno de Reconciliación
y Unidad Nacional

El Pueblo, Presidente!

2018

UNID@S EN POR GRACIA
VICTORIAS! de DIOS!

Mr. Howard Bamsey
Executive Director
G-Tower, 24-4 Songdo-dong,
Yeonsugu Incheon City, Republic
of Korea

February 23, 2018

DGCP-UPA-0203-02-2018

Page: 1/2

Subject: Funding proposal for the GCF by the Central American Bank for Economic Integration regarding the Productive Investment Initiative for Adaptation to Climate Change (CAMBio II).

Dear Mr. Bamsey,

We refer to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic as included in the funding proposal submitted by the Central American Bank for Economic Integration to us on August 17th, 2017.

The undersigned is the duly authorized representative of the Ministry of Finance and Public Credit, focal point of Nicaragua.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the project as included in the funding proposal.

By communicating our no-objection, it is implied that:

- a) The government of Nicaragua has no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal;
- b) The project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in

conformity with Nicaragua's national priorities, strategies and plans;

- c) In accordance with the GCF's environmental and social safeguards, the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with relevant national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal has been duly followed.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,


R. Uriel Pérez

Director General of Public Credit
Ministry of Finance and Public Credit-Nicaragua

 MINISTERIO DE HACIENDA Y CRÉDITO PÚBLICO
DIRECCIÓN GENERAL DE CRÉDITO PÚBLICO

Panama. July 24th, 2017.
DM – 1247 – 2018

To: The Green Climate Fund (“GCF”)

Re: Funding proposal for the GCF by the Central American Bank for Economic Integration regarding the Productive Investment Initiative for Adaptation to Climate Change (CAMBio II).

Dear Madam, Sir,

We refer to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) in Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic as included in the funding proposal submitted by the Central American Bank for Economic Integration to us on August 17th, 2017.

The undersigned is the duly authorized representative of the Ministry of Environment, and the National Designated Authority/focal point of Panama.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the project as included in the funding proposal.

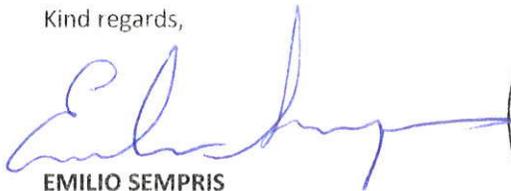
By communicating our no-objection, it is implied that:

- (a) The government of Panama has no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal;
- (b) The project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with Panama’s national priorities, strategies and plans;
- (c) In accordance with the GCF’s environmental and social safeguards, the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal is in conformity with relevant national laws and regulations.

We confirm that our national process for ascertaining no-objection to the project Productive Investment Initiative for Adaptation to Climate Change (CAMBio II) as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the project above mentioned. And we acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,



EMILIO SEMPRIS
Minister of Environment



ES/BZ/AF

Environmental and social report(s) disclosure

Basic project/programme information	
Project/programme title	Productive Investment Initiative for Adaptation to Climate Change (CAMBio II)
Accredited entity	Central American Bank for Economic Integration (CABEI)
Environmental and social safeguards (ESS) category	Intermediation 3 (I3) <i>Note: Environmental and social report disclosure not required for Category C projects and Intermediation 3 programmes.</i>
Specific project location or target country/ies of the programme, as the case may be	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama

Note: This form was prepared by the accredited entity stated above.
