EXECUTIVE SUMMARY

CLIMATE ADAPTATION FINANCE FOR AGRICULTURE: DONOR AND INVESTOR GUIDANCE DOCUMENT

FEED THE FUTURE MARKET SYSTEMS AND PARTNERSHIPS (MSP) ACTIVITY

MAY 2024
ACKNOWLEDGMENTS

This executive summary is part of an engagement between USAID and the Feed the Future Market Systems and Partnerships (MSP) Activity to work with donors and fund managers to develop best practices and tailored guidance for investing in climate adaptation in agriculture in emerging markets. MSP partner ISF Advisors led this work, which included assessing how investors approach adaptation investment and developing criteria and impact metrics for donors looking to deploy concessional capital.

This Executive Summary was prepared by ISF Advisors for DAI.

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Despite a recent focus from donors and investors, climate adaptation investment for agriculture remains severely underfunded due to a lack of standardized guidelines and approaches.

In recent times, the global conversation on climate change has become increasingly focused on climate adaptation, in addition to climate mitigation. However, despite the increased attention, climate adaptation remains vastly underfunded, with climate adaptation finance comprising only a meager 5% of total climate finance, or $63 billion in 2021/2022 according to the Climate Policy Initiative (CPI), 1 far short of the estimated $387 billion per year needed for developing countries. 2

This immense funding gap highlights the urgent need for more public and private investment in climate adaptation to protect vulnerable communities, especially smallholder farmers and agri-small and medium enterprises (SMEs) in Sub-Saharan Africa, from the worst impacts of climate change and build resilience to future climate events. However, to address the issue of climate adaptation at scale, more catalytic capital from donors and other stakeholders is needed to help crowd in the necessary amounts of private investment needed to sufficiently adapt the agriculture sector to the new realities of climate change. To do this, donors and investors need more standardized and comparable guidelines and approaches for identifying, assessing, and measuring potential investment opportunities in climate adaptation-focused agriculture investment funds.

As a result, USAID’s Feed the Future Market Systems and Partnerships (MSP) Activity has engaged ISF Advisors to build upon existing adaptation frameworks and develop a set of standardized selection criteria and impact metrics that donors can use to: i) calibrate catalytic investments in climate adaptation-focused agriculture investment funds and ii) measure the results and impact of these investments. Furthermore, in coordination with AgFunder and the Gates Foundation, ISF Advisor developed this work alongside a parallel report, “Climate Capital: Financing Adaptation Pathways for Smallholder Farmers,” which provides agriculture investors with guidance on climate adaptation investment opportunities and pathways at the enterprise level.

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1 Climate Policy Initiative (CPI), Global Landscape for Climate Finance, 2023
2 United Nations Environmental Program, Adaptation Gap Report 2023, 2023
As a result, MSP has developed a guidance document, which stakeholders can use to identify, assess, and measure investment opportunities in adaptation-focused agriculture investment funds.

This Executive Summary is a short version of a longer guidance document that provides stakeholders, particularly donors and investors, with a detailed framework for identifying, assessing, and measuring investments in climate adaptation-focused agriculture investment funds. While this summary serves as a reference and introduction to the framework, readers should consult the full guidance document, which serves as a practical tool that donors and investors can integrate into their due diligence processes to better evaluate and compare investment funds through a climate adaptation lens. Additionally, the framework summarized in this document can help adaptation-focused agri-businesses align with best practices and adopt best-in-class impact metrics. Lastly, based on extensive research and stakeholder interviews, the framework aims to address the sector’s key challenges, specifically the need for more standardized assessment approaches, local context-specific investment strategies, and measurable and comparable impact standards.

Stakeholders should assess adaptation-focused agriculture investment funds along three components: i) local context and geography, ii) a solutions-led approach to adaptation investing, and iii) intentionality and additionality of the investment fund.

Firstly, we emphasize the importance of incorporating the local context and geography into the investment process. Given that the effectiveness of adaptation solutions depends heavily on the local context, we recommend that donors and investors prioritize investment funds that utilize science-based climate risk assessments throughout the investment selection process, specifically when developing their initial pipeline and originating deals. Secondly, we recommend that donors and investors prioritize investment funds that utilize science-based climate adaptation solutions to inform their investment thesis.

While donors and investors should ultimately invest in adaptation solutions that fit their own impact objectives, they can use industry-leading adaptation taxonomies such as the UN’s Food and Agriculture Organization (FAO), Lightsmith’s Adaptation SME Accelerator Project (ASAP), and the UN’s Climate Technology Center and Network (CTCN) as a starting point. Lastly, donors and investors should consider investing in funds with strong governance policies that ensure their adaptation investments are intentional and additional. Funds should assess intentionality3 at the investee level by aligning with the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Rio Markers for Climate Handbook and ensuring investees possess or are developing comprehensive Environmental and Social Management System (ESMS) capabilities. Similarly, funds should assess additionality4 at the fund level by aligning with leading frameworks such as Impact Management Project (IMP)’s Investor Contribution Strategies or the Multilateral Development Bank (MDB)’s Harmonized Framework for Additionality.

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3 According to the Global Impact Investing Network (GIIN)’s Core Characteristics of Impact Investing, intentionality is defined as an investor’s “intentional desire to contribute to measurable social or environmental benefit.”

4 According to MDB’s Principles to Support Sustainable Private Sector Operations (2012), additionality refers to an investment or support which “makes a contribution that is beyond what is available, or that is otherwise absent from the market.”
**Table 1: Overview of Selection Criteria and Best Practices for Assessing Climate Adaptation Funds**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Assessment question</th>
<th>Best practices for donors and investors when assessing climate adaptation-focused agriculture funds</th>
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| **Local context and geography**      | Does the fund focus on investing in high-priority geographies and consider the local context in its investment strategy? | • Invest in funds that use **science-based climate risk assessments** to inform their investment decisions  
• Target funds that invest in **highly vulnerable geographies** per the Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index (see Annex 6 in the full guidance document)  
• Emphasize **local presence or experience** within the fund’s team |
| **Solutions-led approach**            | Does the fund invest in accepted and science-based adaptation practices?            | • Invest in funds that use a set of **science-based climate adaptation solutions** to inform their investment thesis  
• As a starting point, donors can consider the adaptation solutions outlined by **FAO, ASAP, and the UN CTCN taxonomies**  
• However, donors must ultimately select a set of solutions that aligns best with their **theory of change and impact objectives** |
| **Intentionality and additionality**  | Does the fund have processes for assessing the intentionality and additionality of an investee’s contribution to adaptation? | • Prioritize funds with the ability to assess **intentionality** at the investee level by aligning with the **DAC Rio Markers** and ensuring investees possess or are developing comprehensive **ESMS** capabilities  
• Prioritize funds with the ability to assess **additionality** at the fund level by aligning with either the **IMP’s Investor Contribution Strategies** or the **MDB’s Harmonized Framework for Additionality** |
Donors and investors should use a four-part framework to comprehensively measure and monitor the contribution of their investments to climate adaptation.

We suggest that donors and investors use the following four-part framework to assess the climate adaptation impact of potential funds.5

1. **Reach of impact**—describes the extent of climate-adaptive services or products supplied by the enterprise, such as the number of individuals trained, the number of farmers with access to climate adaptation information, and the value of physical assets made climate resilient. These metrics tend to be the least intensive to measure since they are largely already tracked by portfolio companies as operational metrics.

2. **Proxy metrics**—impact metrics, specifically around soil health, water usage, and inputs, which serve as a proxy for climate adaptation. These metrics tend to be measured at the investee level and may differ depending on the investment vertical. Examples include total water consumed, amount of pesticides used, and severity of soil erosion.

3. **Perceived adaptation**—the degree to which investees feel better adapted to existing and future climate impacts. These metrics tend to be delivered as surveys by third-party providers such as 60 Decibels and include questions such as “Has the company affected how prepared you feel for an unexpected weather event?”

4. **Results of actual shocks**—the change of production and/or income of agri-SMEs or smallholder farmers as a direct result of actual climate events. These metrics tend to be the most difficult and costly to collect, requiring appropriate sampling, thoughtful questionnaire design, and complex logistics.

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5 While this framework was designed with funds in mind, the guidance summarized in this Executive Summary is also relevant for assessing direct investments.
As a best practice, climate adaptation investment funds should measure the “reach of impact” across their portfolio and specific “proxy metrics” at the individual investee level. Where possible, donors should consider providing grant funding to encourage and support funds to measure “Perceived adaptation” and “results of actual shocks” when relevant.

The criteria and metrics frameworks outlined in the full document act as a guide for investors and donors on how to prioritize investments in adaptation-focused agriculture funds.

This Executive Summary provides readers with a concise overview of the framework outlined in the full guidance document. This framework provides guidance to donors and investors on evaluating and measuring climate adaptation investment funds in agriculture based on best practices rather than a one-size-fits-all solution. While the way donors and investors assess and prioritize investment opportunities will depend heavily on their own internal impact objectives, donors and investors can use the guidelines and best practices provided in the full guidance document to develop bespoke scorecards that capture these best practices while reflecting their own internal impact priorities. The table on the next page provides an example of a scorecard for assessing investment opportunities, which incorporates this guidance.
Adaptation Fund Assessment Scorecard (illustrative only)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Assessment question</th>
<th>Weighting</th>
<th>Scoring</th>
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| Local context and geography  | 1) Does the fund conduct **climate risk assessments** at the country and regional levels to determine where and what the fund will invest in? | 10%       | **2 points** - Yes, the fund conducts climate risk assessments which inform the fund's investment strategy  
**1 point** - Yes, the fund conducts climate risk assessments to justify a potential investment at due diligence  
**0 points** - No, the fund doesn’t conduct any climate risk assessments |
|                              | 2) Does the fund target **highly vulnerable geographies** according to the ND-GAIN Country Index? | 10%       | **2 points** - Yes, the fund targets at least one country in the bottom 10% of vulnerable countries  
**1 point** - Yes, the fund targets at least one country in the bottom 20% of vulnerable countries  
**0 points** - No, the fund doesn't target any countries in the bottom 20% of vulnerable countries |
|                              | 3) Does the fund’s management team have a **local presence or local expertise?**     | 15%       | **2 points** - Yes, the fund’s management has more than 20 years of experience in the region and at least one partner is based in the region  
**1 point** - Yes, the fund’s management has more than 20 years of experience in the region but none of the partners are based in the region  
**0 points** - No, the fund’s management has less than 20 years of experience in the region |
| Solutions-led approach       | 4) Does the fund use a set of **science-based climate adaptation solutions** to inform its investment thesis? | 15%       | **2 points** - Yes, the fund uses a set of adaptation solutions that are derived from a leading institution such as FAO, ASAP, or the UN CTCN  
**1 point** - Yes, the fund uses a proprietary set of adaptation solutions that are not based on a leading institution  
**0 points** - No, the fund doesn’t have a set of climate adaptation solutions that inform its investment strategy |
| Intentionality and additionality | 5) Does the fund assess **intentionality** at the investee level? | 25%       | **2 points** - Yes, the fund aligns with the DAC Rio Markers and ensures investees have comprehensive ESMS capabilities  
**1 point** - Yes, the fund ensures investees have comprehensive ESMS capabilities but doesn’t align with the DAC Rio Markers  
**0 points** - No, the fund doesn’t align with the DAC Rio Markers and doesn’t ensure its investees have comprehensive ESMS capabilities |
|                              | 6) Does the fund assess **additionality** at the fund level?                          | 25%       | **2 points** - Yes, the fund aligns with either the IMP’s Investor Contribution Strategies or the MDB’s Harmonized Framework for Additionality  
**1 point** - Yes, the fund measures additionally using their own proprietary methodology but doesn’t align with either the IMP’s Investor Contribution Strategies or the MDB’s Harmonized Framework for Additionality  
**0 points** - No, the fund doesn’t assess additionality at the fund level |

The scorecard above serves strictly as an example for readers to demonstrate what a potential fund-scoring tool could look like. Donors could adapt this framework to suit their priorities or theory of change.