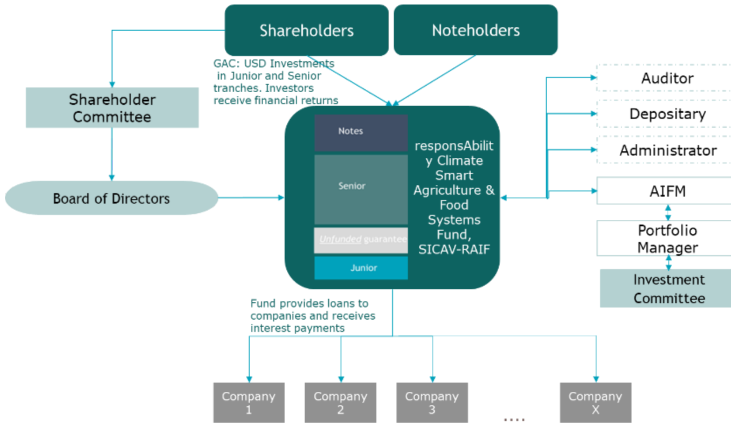
PROJECT NAME	**Climate Smart Food Fund**[1]
COUNTRY/REGION	Asia, Latin America, and Africa
SECTOR	Agriculture, Food
PROJECT/INVESTMENT AMOUNT	Target Fund size USD 200 million, Target Technical Assistance Facility USD 10 million
DEVELOPMENT PARTNER(S)/STAKEHOLDERS	GIZ, CGIAR
BENEFICIARY MINISTRY/ INSTITUTION	N/A
INVESTOR(S) AND FUNDERS	KfW seed/anchor investor DFC Credit Guarantee
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Bilateral, Multilateral & Development Finance Institution Private Institutional Investors and Asset Managers Philanthropy and Impact Investors
PROJECT OVERALL GOAL	To encourage and support practices that reduce net GHG emissions across the food system, foster climate resilience and implement adaptation actions to respond better to climate variability and change and develop more efficient use of land and inputs, increasing output per unit and boosting rural economies.
PROJECT OUTCOMES	The following desired changes to the KASP (knowledge, attitudes, skills, or practices) of our target groups are envisioned: ● Agriculture and Food businesses (SMEs), the direct investees of the Fund, experience the social, economic, and cultural benefits to their business of adopting gender-responsive, climate-smart business solutions for climate change mitigation, adaptation, and productivity, triggering increased uptake at a broader sector or industry level (change in Attitudes, Practices) ● Private capital investors (institutional investors, impact-focused private investors, philanthropic funds, social capital funds, CSR budgets of large multinationals) will be persuaded by evidence of the viability (including adequate risk/return, strong MRV systems, gender responsiveness) of investing into the Climate Smart Food Systems Fund (the Fund) as a mechanism to stimulate food system transformation directly, and accordingly, increase investment into the Fund (change in Attitudes) ● By adopting and implementing new, climate smart agriculture practices, tools, innovation, and evidence, women and men smallholder farmers, the end-beneficiaries of the Fund, enhance the environmental, social equity, and biodiversity-related value of primary production outputs (crops, food, raw materials), which then become the inputs of the SME investees (change in Knowledge, Skills, Practices)
ALIGNMENT WITH COUNTRY IDENTIFIED CLIMATE STRATEGIES, NDCS, ETC. (IF APPLICABLE)	N/A
CONTRIBUTION OF THE PROJECT TO THE UN SDGS	Directly to SDGs 2, 12 and 13 and indirectly to SDGs 1, 7, 8, 9 and 15
SOCIOECONOMIC IMPACT	Indicators: i) number of smallholder farmers reached, and (ii) 2X challenge gender indicators (the 2X challenge seeks to mobilise private sector resources that will help

[1] This case was provided by the Bill and Melinda Gates Foundation as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

	advance women's economic empowerment and gender equality), (iii) productivity (ton of product per ha or process)
Environmental Impact (on climate mitigation and/or adaptation)	Indicators i) reduction of greenhouse gas emissions (balance of GHG emissions and carbon sequestration in tonnes of CO_2 equivalent per area and product), (ii) increased water savings (litres), (iii) increased soil health (measured as hectares under sustainable practices), (iv) food loss and waste (tonnes)
Enabling Environment (Supporting Policies)	
Technical Assistance (If Provided)	Yes. Target $8 - 10 million facility. The overall goal of the Technical Assistance Facility ("TA Facility") is to provide cutting-edge research and advisory to support the Fund in effectively identifying and enabling investment transactions, reducing risks and enabling the necessary conditions to foster and multiply development impact
Financing model/approach (ex: Blended finance)	Blended Finance The Fund has a blended finance structure to mitigate the perceived risks of lending long-term in emerging markets, while leveraging concessional Funds to mobilize additional commercial financing. The goal is to achieve market-based financial returns and demonstrate that transforming the food system is scalable. The Fund structure allows for the issuance of different tranches of capital, catering to public and private investors with different risk-return profiles: Loss protection Governments, donors, and foundations play a catalytic role for the mobilization of the senior tranches by providing first loss capital. The risk waterfall structure of the Fund allows for losses to be absorbed by a loss cushion before affecting the other tranches. Given the overall portfolio risk profile and investors' expectations, a 25% loss cushion is pursued, of which from 10% to 15% will be covered by DFC's unfunded third-party guarantee. For the benefit of the Fund and the investors, it is better to have more Junior capital, instead of a guarantee, which doesn't provide the same level of protection to the Senior investors. This overall loss protection is critical to allow a risk-return profile that is aligned with the expectations of investors in the senior and notes tranches, providing them enough comfort to invest in a long-term Fund. Senior tranche The senior tranche is targeted at different categories of private investors and impact funds as well as the more commercially oriented development finance institutions (DFIs) who wish to have a positive social and environmental impact with their investments alongside financial returns. The senior tranche is expected to be between 60% to 75% of the Fund size and is based on the assumption that it will enjoy the loss protection of 25%. Notes tranche The senior notes tranche targets private institutional investors with low risk-return expectations, which normally do not invest in impact investments funds. Maturities are expected to be between 6 and 8 years and notes investors receive a fixed coupon below the return of the senior tranche. The notes tranche shall have a maximum size of 30% of the Fund.
Rationale for financing model/approach	**Catalytic effect** The blended finance structure which de-risks some of the private sector challenges serves as a model to mobilize private capital investment into sustainable, low-carbon, climate-resilient, and gender-responsive food systems projects Given the structure, it is believed that 30% to 50% of the total Fund is expected to come from private sources, mainly from institutional investors and impact focused private investors. Longer term, it is anticipated that new investors providing patient capital to agri-food SMEs across the food system will emerge as a result of the Fund showing that

	private capital in sustainable, climate resilient, and gender sensitive food systems and can meet risk, return, and impact requirements.
Financial instrument(s) (loans (commercial/ concessional), equity, guarantee)	Senior Secured Debt, Subordinated Debt, grants.

Diagram of the financing structure



Executive Summary

responsAbility Investments AG and CGIAR have partnered to launch a USD 200 million climate impact fund to help address key challenges of the global food system. The global food system encompasses the value chain from input supply and production of agricultural commodities to transportation, processing, wholesaling, and retailing to consumption and disposal. It is expected that the Fund will provide long-term expansion debt financing along with technical assistance to 20 to 30 small and medium enterprises (SMEs) operating in Asia Pacific, Latin America, and Africa.

The Fund is a reflection of two major global current concerns: first, by 2050, global food production needs to nourish two billion people more while reducing its pressure on ecosystems and biodiversity. Second, the food system represents about a third of global greenhouse gas emissions, while climate change threatens the livelihood of the most vulnerable: smallholder farmers, particularly women, in developing countries. Therefore, to match the need for increase in food production with the Paris Agreement, it is critical to also support the transition to a low-carbon, gender-sensitive and climate-resilient global food system. Climate-smart interventions such as sustainable land use, reduced food loss, renewable energy, and water efficiency, among other, can deliver a large part of the net zero emissions goal targeted by mid-century; while tailored gender-responsive climate adaptation agricultural practices can support smallholder farmers increase their resilience to climate change.

The potential market for this endeavour is large, profitable, and grossly unfunded. According to estimates, USD 350 billion of annual investment is needed to transform the global food system. However, in 2017 and 2018, only less than 3% - out of the USD 579 billion climate finance total spent - was allocated to sustainable food and land use3 in addition, after the United Nations Food Systems summit, governments are increasingly urged to reform food systems especially as COVID-19 has exposed its vulnerabilities. These disruptions create an opportunity to drive long-term transformation to the food system and enable a greener economic recovery.

The Fund plans to address this market opportunity by:

- Financing four investment themes, chosen based on responsAbility's track record in sustainable food financing and CGIARs analysis such as regional trends, risk/return and transformative potential: 1) sustainable intensification of production, 2) value adding and efficient processing and logistics, 3) sustainable and inclusive retail and food brands, and 4) climate technology and solutions providers.
- Providing long term debt financing- which is typically difficult to find in the local markets especially for growing SMEs:
    1. Financing for capital expenditure to growing agriculture and food SMEs. Supported by technical assistance, the financed businesses shall incorporate climate-smart interventions targeting mitigation and adaptation.
    2. Financing for permanent working capital to SMEs disrupting the system with innovative business models. Technical assistance will be used in these cases for scaling-up or expanding the scope of their climate-smart interventions.
- Providing technical assistance for market building exercises and for gender-tailored value chain interventions. By enhancing the investees' growth plans and strengthening the agricultural practices of farmers, the Fund expects to not only reduce their carbon footprint but also enhance the resilience to climate change impacts by farmers, particularly women, and strengthen their operations, thereby reducing the investment risk.

To apply scientific rigour and effectively incorporate climate change in the design of the investment strategy, responsAbility collaborated closely with the CGIAR. As a pioneer in the food system framework and a leader in applied research in climate resilience and mitigation in agriculture, a strategic partnership with the CGIAR is also warranted once the Fund is operational, supporting in the climate and biodiversity loss risk assessment of transactions, impact estimations, as well as post-investment capacity building linked to climate-smart solutions.

With the proposed investment strategies, the Fund targets to not only financial growth and efficiency gains (increased output per input used) in agriculture and food companies, but also gender-responsive growth plans and projects that aim to have a positive impact in mitigation (through reduced emissions), adaptation (through soil health and water productivity) and increased productivity (through reduced food loss and waste).

Analysis

What made this project successful?	The Fund has only recently been launched (February 2022) and is still seeking investors.
To what extent is this model scalable?	The potential market for this endeavour is large, profitable, and grossly unfunded; and estimated USD 350 billion of annual investment is needed to transform the global food system.
What are the necessary conditions to make it replicable in other countries/regions?	The fund plans investments in developing countries across three continents.
Constraints/Drawbacks of Financing Model	Securing concessional seed funding and credit enhancement to provide sufficient de-risking to secure private investors.
Lessons Learnt	N/A