Food and Agriculture Organization of the United Nations

Financing adaptation projects in agrifood systems

SCALA private sector engagement guidance series

November 2026

Financing adaptation projects in agrifood systems

Published by
the United Nations Development Programme
and
Food and Agriculture Organization of the United Nations

New York, 2026

Required citation:
UNDP and FAO. 2026. *Financing adaptation projects in agrifood systems.* New York. https://doi.org/10.4060/ce1032en.

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ISBN
978-92-5-140917-6
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Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AFOLU	Agriculture, Forestry and Other Land Uses
ARAF	Acumen Resilient Agriculture Fund
ARCAFIM	Africa Rural Climate Adaptation Finance Mechanism
CAR	Climate Action Review tool
CRA	climate-resilient agriculture
COP	Conference of the Parties
CPI	Climate Policy Initiative
DFI	development finance institution
ESG	environmental, social and governance
FAO	Food and Agriculture Organization of the United Nations
FI	financial institution
GAFSP	Global Agriculture and Food Security Programme
GCF	Green Climate Fund
GEF	Global Environment Facility
GGA	Global Goal on Adaptation
GSI	gender and social inclusion
GSSSBs	green, social, sustainability and sustainability-linked bonds
IDH	Sustainable Trade Initiative
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IPCC	Intergovernmental Panel on Climate Change
IUCN	International Union for Conservation of Nature
MFIs	monetary financial institutions

MSMEs	micro-, small- and medium-sized enterprises
NAP	National Adaptation Plan
NDC	Nationally Determined Contribution
NGO	non-governmental organization
PSF	Private Sector Facility
REDD+	Reducing emissions from deforestation and forest degradation in developing countries
SAFIN	Smallholder and Agri-SME Finance and Investment Network
SCALA	Scaling up Climate Ambition on Land Use and Agriculture through NDCs and NAPs
SDGs	Sustainable Development Goals
SMART	specific, measurable, achievable, relevant and time-bound
SMEs	small- and medium-sized enterprises
ToC	Theory of Change
TREPA	Transforming Eastern Province Through Adaptation
TUNZA	Transforming Livelihoods through Climate Resilient, Low Carbon, Sustainable Agricultural Value Chains in the Lake Region Economic Bloc
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

Acknowledgements

This brief was developed under the **Scaling up Climate Ambition on Land Use and Agriculture through Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) (SCALA) programme**, co-led by the Food and Agriculture Organization of the United Nations (FAO) and the United Nations Development Programme (UNDP), with support from the German Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN) through the International Climate Initiative (IKI).

The brief was authored by Shovon Kibria (UNDP) and Charles Callaghan, with contributions from Marie Raison (UNDP), Neha Rai (FAO) and Bertrand Reysset (UNDP), and technical oversight from Julie Teng (UNDP) and Sibyl Nelson (FAO). We are grateful to Nadine Valat, Coordinator of FAO's Green Climate Fund team, as well as Sergio Hinojosa Ramos (FAO), Gabriel Poggi (FAO) and Shane Harnett (FAO) for their review.

This brief is part of a guidance series developed under SCALA to enable private sector engagement in climate action for agrifood systems.

1. Introduction

Agrifood companies and relevant private sector actors (see Box 1) are key partners in advancing the global climate agenda. In addressing the challenge of increasing private sector participation, it is important to recognize that the problem goes beyond the mere availability of capital. It is equally important to identify investment and bankable projects that offer attractive risk-adjusted returns while promoting low-carbon and climate-resilient outcomes.

Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) serve as key frameworks for achieving the goals of the Paris Agreement, yet progress in implementing the NDCs remains insufficient (UNFCCC, 2023). According to FAO's analysis of NDCs submitted as of 1 January 2024, 70 percent of NDCs emphasize the importance of private sector engagement in their implementation, with 53 percent specifically highlighting the need for collaboration with private companies in the agricultural sector. However, only a small fraction (7 percent) mentions active engagement, such as a defined role in an NDC investment plan or participation in an ongoing climate initiative (Crumpler et al., 2025).

There is, thus, a clear gap between strategic climate goals and the development of actionable investment plans. To close this gap and move from planning to implementation, NDC and NAP priorities need to be transformed into tangible, investible projects capable of attracting private sector funding (FAO, 2023).

Box 1. Who is the private sector?

The term "private sector" refers to a diverse group of actors and activities operating at international, national and local levels that play different roles in the agrifood value chain and/or the investment chain. These include:

- Farmers and farmers' organizations.
- Producer organizations and cooperatives.
- Micro-, small- and medium-sized enterprises (MSMEs).
- Enterprises (including multinational and state-owned).
- Industry, trade associations and private sector consortia.
- Financial institutions.
- Philanthropic foundations.

The above is based on FAO and UNDP's definitions of the private sector provided by their respective private sector engagement strategies (FAO, 2021; UNDP, 2023).

This brief has been designed under the **Scaling up Climate Ambition on Land Use and Agriculture through Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) (SCALA)** programme, which supports decision makers to implement the agriculture priorities of their national climate plans. SCALA recognizes the critical role of the private sector in driving innovation and investment for transformative climate action in agriculture and land use.

SCALA's private sector engagement strategy (FAO and UNDP, 2022) consists of **three broad areas of intervention** (see Figure 1). This brief corresponds to SCALA intervention area three, focusing on de-risking and enabling private investments:

Figure 1. SCALA private sector engagement intervention areas



Source: *Authors' own elaboration*

This brief provides step-by-step guidance on designing transformational adaptation projects that actively engage private sector actors and accelerate adaptation outcomes. It provides country planners with practical guidance on how to conceptualize and structure projects that align with national priorities and are also able to crowd in private sector engagement and investment. It is part of a series designed to support national planners and practitioners in working with the private sector on climate-responsive agrifood systems. The series covers:

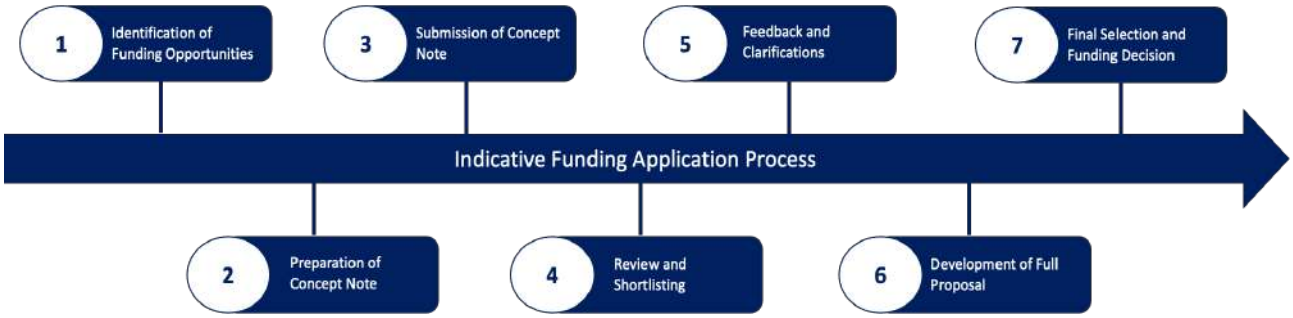
1. Private sector mapping, outreach, and engagement in climate-responsive agrifood systems.
2. Facilitating multistakeholder collaboration and private sector dialogues for climate action in agrifood systems.
3. Understanding opportunities, barriers and risks for private sector engagement in climate action for agrifood systems.
4. **Financing adaptation projects in agrifood systems.**

This guidance is organized around the development of a robust Theory of Change (ToC) as the essential starting point for project design. Rather than approaching project development as a technical compliance exercise or a simple assembly of activities, this document emphasizes a problem-driven, systemic approach based on the following steps:

- Identifying climate risks and the adaptation challenge to be addressed.
- Defining the transformation pathway and role of private sector actors.
- Designing a coherent, investment-ready set of interventions that aligns public and private sector actions.

Through this process, the guidance aims to help countries move beyond isolated, small-scale interventions and toward catalysing transformative adaptation at scale, with private sector engagement as a key driver. A core output of this project design process is the concept note, which must go beyond traditional public-sector-driven approaches and instead, integrate elements that make the project attractive for private sector investment and collaboration. In the agrifood context, this means structuring concept notes to articulate not only climate rationale and barriers, but also to highlight investment opportunities, de-risking instruments and innovative financing mechanisms that can mobilize or crowd in private capital. Designed this way, concept notes become a platform for co-developing private sector participation, whether by enabling bankable solutions, creating new business models or aligning with value chain actors. They serve not only as a bridge to a full project proposal, but also as the foundation of a financing strategy that blends public and private resources in support of climate adaptation outcomes.

Figure 2. Typical stages in the funding application process for climate projects and programmes



Source: *Authors' own adaptation of the Green Climate Fund (GCF) activity cycle (n.d.).*

In addition to serving as an initial project design output, concept notes play a critical role in testing alignment with the investment criteria of potential funders, particularly private sector actors, whose motivations, risk appetites and definitions of "bankability" can vary widely. A well-crafted concept note offers investors an opportunity to assess and provide early feedback, allowing project developers to refine the structure and financial strategy accordingly.

To do this effectively, concept note developers should closely consider the financing needs of the project and determine which types of investors and financial instruments are most appropriate. In cases where private sector engagement is sought, the presence of financial and non-financial barriers may require the integration of de-risking mechanisms or blended finance models, especially in developing country contexts. These mechanisms can help address perceived risks and improve alignment with private sector investment criteria.

Beyond investment alignment, concept notes also serve as a platform for stakeholder engagement, helping to identify risks, refine design and ensure the intervention is contextually grounded and result-oriented. Clear objectives, indicators and monitoring frameworks established at this stage contribute to transparency and effectiveness throughout the project lifecycle.

Box 2. How to use this guide?

This guide is structured in three complementary chapters, each focusing on a distinct aspect of developing bankable concept notes:

1. **Introduction**. This chapter highlights the critical role of concept notes in attracting private sector interest in financing adaptation projects.
2. **Developing project concepts that facilitate private sector engagement in priority Agriculture, Forestry and Other Land Uses (AFOLU) interventions**. This chapter explains how to structure and present the key elements of a concept note to align with investor requirements. While different investors can have unique investment criteria, several elements are consistently required within concept notes. The chapter highlights these core elements and identifies additional aspects that may be needed depending on the type of investor.

3. **Identifying the most suitable investor(s) and financial instrument(s) for the investment needs of a project**. This chapter introduces the categories of investors and types of financial instruments that can potentially finance low-carbon and climate-resilient interventions in agriculture and food systems. It provides guidance on how to identify which investor(s) and instrument(s) are most appropriate for different types of agrifood investments. This grounding ensures readers are familiar with the financing terminology and logic that underpin later stages of project design.

Together these chapters provide both the design guidance and financing lens needed to develop strong, investment-ready project concepts.

2. Developing project concepts that facilitate private sector engagement in priority AFOLU interventions

Designing a strong, bankable climate adaptation project begins with a clear articulation of the problem to be addressed and a Theory of Change (ToC) that reflects both national priorities and the potential for private sector engagement. Rather than starting from a concept note template, the process should focus on understanding climate risks and systemic barriers, identifying relevant adaptation solutions and de-risking interventions as leverage points to unlock private sector engagement. It should also ensure alignment with long-term national development and climate plans and policies, and match interventions with appropriate funding sources and instruments, taking into account the investment criteria of the relevant donor or investor. This chapter provides a step-by-step guide to ideating transformative project ideas that can attract private sector engagement and finance, and are aligned with NAPs and NDCs.

2.1. Developing a Theory of Change for transformational projects

A strong ToC forms the backbone of any transformational adaptation project. It provides a structured framework to articulate how a set of interventions is expected to lead to long-term impact, especially in systems where climate risks intersect with market failures, governance gaps and investment barriers. In the context of private sector engagement, a well-articulated ToC is especially critical: it enables project developers to clearly link public policy objectives with private investment rationale, demonstrate how different actors will contribute to change and map out the enabling conditions, including policy, finance and institutional capacity required to unlock scale.

Rather than serving as a box-ticking exercise, the ToC should be used as a practical tool to guide project design. It clarifies the logic behind a proposed intervention, helps identify the types of support required, financial and non-financial, and provides a common narrative that aligns diverse stakeholders.

2.1.1. Identifying the problem and defining the system

The starting point for project design is a clear and evidence-based identification of the problem to be addressed, with a specific emphasis on the role of the private sector. This includes:

- **Climate risks and vulnerability analysis**: What specific climate risks or vulnerabilities are affecting the sector, value chain or landscape?
- **System mapping**: What are the interlinked environmental, economic and social drivers contributing to these vulnerabilities? What are the barriers inhibiting positive adaptation outcomes?
- **Private sector role**: How is the private sector currently engaged in the system? Is it part of the problem, an existing or potential solution partner, or both? How is the private sector impacted in terms of climate vulnerability?

Problem identification should be informed by national adaptation priorities (starting with reviewing NAPs and NDCs) and by data and evidence gathered through analyses or stakeholder consultations. Several tools can support this process, including the FAO-UNDP Climate Action Review (CAR) tool (FAO and UNDP, 2024),

which provides a practical, step-by-step approach to identify actionable entry points for transformative change, drawing on adaptation actions included in NDCs and NAPs. In addition, the volume of the Private Sector Engagement guidance series, on Private sector mapping, outreach, and engagement in climate-responsive agrifood systems (FAO and UNDP, 2023) offers a structured approach to identifying and prioritizing private sector actors, and engaging them through collaborative processes or joint action, with the aim of strengthening public-private collaboration to advance NDCs and NAPs. Finally, the volume on Facilitating multistakeholder collaboration and private sector dialogues for climate action in agrifood systems (UNDP and FAO, forthcoming) provides operational advice on convening inclusive dialogues, building partnerships and developing compelling narratives to mobilize sustained private sector engagement in support of NAP and NDC implementation. Together, these tools equip adaptation practitioners and project developers with the frameworks and methodologies needed to ensure that problem identification is nationally relevant, technically robust and strategically positioned to attract both public and private investment.

2.1.2. Articulating the desired impact and change pathway

Once the problem has been clearly defined through a systemic lens, the next step is to articulate the long-term impact that the project seeks to achieve. For example, this could be “enhanced climate resilience of agricultural value chains through increased private sector investment and innovation.”

From this vision, project teams should work backwards to map the change pathway, identifying the intermediate outcomes and concrete outputs needed to achieve the desired impact. This process includes identifying:

- Behavioural changes required among private actors, farmers, financial institutions and policymakers.
- Policy and regulatory reforms needed to enable or incentivize private investment in climate-resilient technologies and/or practices.
- Capacity building and institutional support required to facilitate and sustain resilience outcomes at scale.
- Concrete interventions and investments that will be delivered through the project, such as training and capacity building on climate-resilient agricultural practices; investment in infrastructure and platforms that can enhance resilience (e.g. climate information systems, watershed management and irrigation infrastructure, or aggregation and storage facilities); deployment of Nature-based Solutions for water catchment management; establishment of blended finance facilities that offer concessional capital for investments in climate-resilient agriculture; or creation of new climate risk insurance products.

This process should clearly demonstrate how public investment and policy reform enable tangible private sector action, and how project activities directly contribute to systemic change rather than just incremental improvements. Project developers should also consider which activities serve as proof-of-concept, which have strong potential for scaling, and which can be replicated across contexts to maximize transformational impact. Once priority interventions are identified, it is essential to develop a clear investment logic that demonstrates how each activity aligns with appropriate financing instruments and appeals to specific types of investors. The investment logic should flow directly from the ToC by clearly demonstrating how public investment and policy reforms enable tangible private sector action and how project activities contribute to systemic transformation rather than incremental improvements. With this logic in place, project teams can then proceed to identify the

most suitable investor(s) and financial instrument(s) for the financing needs defined through the project's ToC and investment pathway.

2.1.3. Designing an investment logic to incentivize private sector engagement

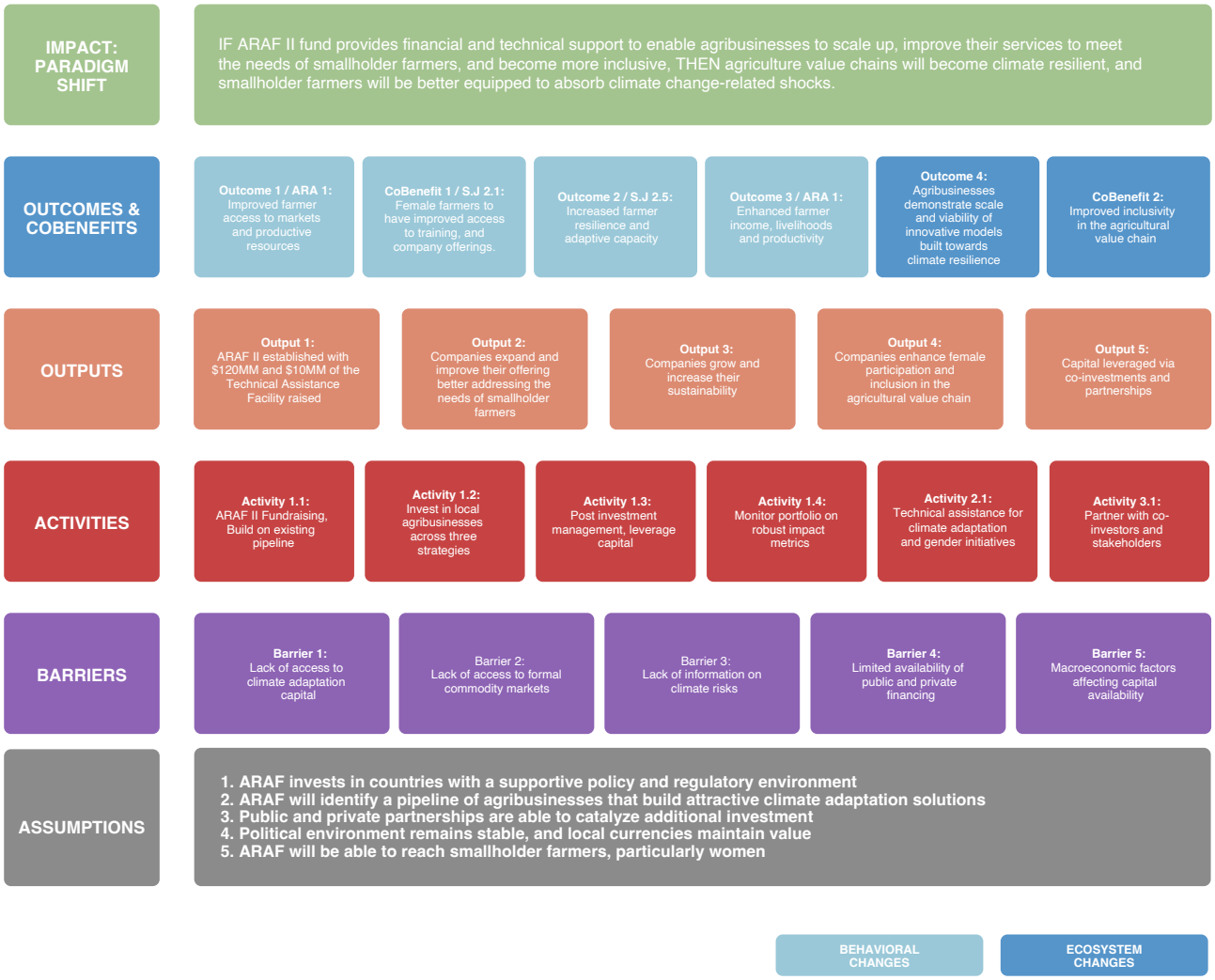
A defining feature of transformational adaptation projects is a well-articulated investment logic that clearly demonstrates how and why both public and private actors should engage. This investment logic should not be developed in isolation but rather as part of the broader participatory ToC process described above. Engagement with stakeholders, especially the private sector and financial institutions, can help clarify both the commercial viability of proposed interventions and the types of de-risking or blended finance mechanisms needed to mobilize investment.

Key elements to consider in designing the investment logic include:

- **Risk–return analysis**: A critical part of designing the investment logic is understanding how climate change affects private sector stakeholders across agrifood value chains. This includes assessing economic losses or disruptions already experienced by agribusinesses, such as crop loss, supply chain breakdowns, reduced water access or market volatility, and projecting how these risks are expected to evolve. It is critical to collect clear evidence, including loss estimates, productivity declines or shifts in input costs, which demonstrate the business case for adaptation. Building on this analysis, the investment logic should identify the specific market, climate, regulatory or political risks that must be addressed to unlock private capital, and quantify how de-risking instruments, such as guarantees, concessional lending or insurance, can reduce these barriers and crowd in bankable adaptation investments.
- **Value proposition for private actors**: Designing the investment logic requires considering how private sector participation will deliver clear value, whether financial, strategic or reputational. It is also necessary to identify business models or incentives, such as improved market access, subsidies or enabling regulations, that can help align public and private interests.
- **Blended finance opportunities**: Designing an investment logic also involves considering how public or philanthropic funding can be strategically deployed to crowd in private finance. This may include funding technical assistance, underwriting early-stage risks or offering concessional instruments to improve bankability.

By involving key stakeholders in shaping the investment logic early in the process, project developers can co-design financing strategies that respond to both public policy goals and private investor criteria. This also ensures that the investment logic is rooted in real market dynamics and grounded in systems thinking, enhancing project credibility and buy-in across actors.

Figure 3. Theory of Change diagram for the Acumen Resilient Agriculture Fund II (ARAF II)



Source: *GCF (2024).*

Box 3. Case study: Acumen Resilient Agriculture Fund II (ARAF II)

The Acumen Resilient Agriculture Fund II (ARAF II) provides a useful example of how blended and catalytic finance can be deployed to strengthen private sector engagement in support of climate adaptation. The programme is designed around the premise that targeted financial and technical support to early-stage agribusinesses can enable them to scale business models that address key constraints faced by smallholder farmers, while also strengthening the climate resilience of agricultural value chains. In practice, the fund combines concessional and catalytic capital with technical assistance to support companies providing integrated services such as access to inputs, training, irrigation, insurance, market linkages and digital solutions. Through this approach, ARAF II seeks to reduce risk for both farmers and enterprises, improve the commercial viability of climate-resilient business models, and create conditions for broader participation by private investors in adaptation-related sectors.

ARAF II is also notable for the way it uses different forms of support across the financing continuum. The fund is intended to mobilize substantial investment capital alongside a dedicated technical assistance facility, enabling equity investment in early-stage agribusinesses, complemented by grant-funded technical support to strengthen business performance, governance, market development and climate resilience outcomes. The model therefore illustrates how public and concessional resources can be used strategically to crowd in additional finance into high-risk but high-impact segments of the market. By supporting aggregator platforms, digital platforms and innovative financial solution providers, ARAF II demonstrates how private sector engagement can help address barriers related to access to finance, market access, information, extension services and risk management, while also contributing to the longer-term development of more resilient and investable agricultural systems.

Source: *GCF (2024).*

2.2. Designing key project components

Having developed a clear ToC, the next step is to design the concrete building blocks of the project. This involves identifying and sequencing activities, defining indicators and developing a financial structure that is both catalytic and sustainable.

2.2.1. Designing activities for transformational impact

To design a project that is both transformational and investment-ready, activities should be bundled across a set of mutually reinforcing components. These components should align with national priorities while also addressing the needs, incentives and capabilities of private sector actors. Key areas to consider when designing activities include:

- **Policy and regulatory reform**: such as enabling blended finance, incentivizing sustainable land use, mandating climate risk disclosure, and tax and subsidy reform.
- **Capacity building**: such as climate-resilient agriculture and financial management training for farmers and small- and medium-sized enterprises (SMEs), integration of farming units, technical assistance for banks on appraising adaptation risks, and digital extension services.

- **Technology and infrastructure**: such as climate information systems, aggregation and storage facilities, and Nature-based Solutions for watershed and irrigation management.
- **Finance and market mechanisms**: such as concessional lending, guarantees, credit scoring tools and piloting weather-indexed insurance products.
- **Knowledge sharing and advocacy**: such as facilitating multi-stakeholder learning, sharing lessons on successful private sector engagement models in adaptation, engaging business networks and trade associations in climate dialogues, and promoting policy uptake through evidence and case studies.

Each of these areas also plays a critical role in mobilizing and sustaining private sector engagement. Policy and institutional reform contribute to de-risking the investment environment for the private sector and improving the commercial viability of adaptation actions. Capacity-building efforts help improve private actors' readiness and capability to participate, particularly for agri-SMEs, financial institutions and supply chain intermediaries. Investments in technology and infrastructure often position the private sector as a delivery partner, such as agri-tech firms, irrigation equipment providers or telecom companies. Finance and market mechanisms are designed specifically to catalyse private capital by reducing risk and improving access to credit and investment opportunities. Finally, knowledge sharing and advocacy can help shift risk perceptions, build trust and facilitate collaboration between public and private stakeholders, which is crucial for scaling successful models.

The FAO-UNDP Climate Action Review (CAR) tool (FAO and UNDP, 2024) can also support this step by enabling planners and practitioners to evaluate and rank the potential contribution of proposed adaptation efforts to the transformation of climate-resilient agrifood systems.

2.2.2. Setting clear indicators

Project indicators should be Specific, Measurable, Achievable, Relevant, and Time-bound (SMART) and flow directly from the impact and outcomes defined in the ToC. For private sector-oriented adaptation projects, indicators should reflect both:

- **Climate adaptation and resilience indicators**, such as training on and adoption of climate-resilient agriculture (CRA) practices, improvement in food security metrics, hectares of land under CRA management, and institutional strengthening metrics on climate adaptation in line with the Global Goal on Adaptation (see Box 4).
- **Private sector engagement and financing indicators**, such as increased investment from agri-SMEs, increased revenue or avoided losses, amount of private finance leveraged through public funding, and expanded access to climate-resilient finance, among others.

Box 4. The Global Goal on Adaptation

Established under Article 7 of the 2015 Paris Agreement, the Global Goal on Adaptation (GGA) formally recognizes adaptation to climate change as a shared global challenge. It seeks to enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change, thereby contributing to sustainable development and ensuring an adequate global adaptation response in the context of limiting global temperature increase to 1.5°C above pre-industrial levels. At the 30th Conference of the Parties (COP30), in Belém, Parties adopted a set of 59 global indicators to track progress towards the achievement of the GGA across priority thematic areas, including indicators related to the means of implementation.

Progress under Target 9(b), which addresses the attainment of climate-resilient food and agriculture production and supply and distribution of food, as well as increasing sustainable and regenerative production and equitable access to adequate food and nutrition for all, is assessed through the following indicators:

a) Proportion of area under management for food and agricultural production utilizing practices and technologies relevant to climate change adaptation.
b) Extent of implementation of institutional frameworks for knowledge transfer, research and development, and extension services supporting climate change adaptation in the areas of food and agriculture relative to needs.
c) Level of degraded areas that are under management for food and agricultural production, including as an outcome of adaptation actions where applicable.
d) Level of food and agricultural yield in areas that are under management for food and agricultural production, including as an outcome of adaptation actions where applicable.
e) Proportion of the population with equitable access to adequate food and nutrition, including as an outcome of adaptation actions where applicable.

Source: *UNFCCC (2025a), UNFCCC (2025b). Zaidi et al. (2026)*

2.3. Engaging the private sector in projects

2.3.1. Defining the role of the private sector

Projects should clearly articulate the role(s) that private sector actors will play, based on the scope of activities and insights from stakeholder consultations. Possible roles include:

- **Implementers**: delivering services, technologies and finance to target beneficiaries.
- **Co-investors**: sharing investment risks through blended structures and directly contributing finance.
- **Beneficiaries**: accessing technical assistance, training or enabling policies that improve resilience.
- **Partners in innovation**: piloting digital services, insurance products or Nature-based Solutions.

2.3.2. Co-creation and early engagement

Private sector actors should be involved from the outset of project design, not only at implementation. Early engagement ensures that activities are aligned with market realities, investor appetite and business models. Mechanisms such as joint design workshops, industry roundtables and investment forums can secure buy-in and shape realistic and investable project structures. The UNDP-FAO brief Facilitating multistakeholder collaboration and private sector dialogues for climate action in agrifood systems (UNDP and FAO, forthcoming) offers practical tools, such as agenda templates and examples of engagement exercises, to plan and conduct these dialogues and to translate outcomes into sustained partnerships.

2.3.3. Structuring incentives

Mobilization depends on a clear value proposition. Incentives can include:

- **Financial instruments**: de-risking tools such as guarantees, concessional loans or insurance products.
- **Non-financial incentives**: capacity building, access to market information, supportive policy reforms or facilitation of partnerships.

These should be tailored to the specific barriers faced by the investor categories outlined in Chapter 3.

2.3.4. Ensuring additionality

To justify the use of public and donor resources, projects must demonstrate that private sector engagement would not occur at the same scale or speed without targeted support. This includes evidence of how concessional finance, guarantees or technical assistance de-risk participation; how SMEs or other actors are enabled to enter new markets; or how regulatory reforms open space for innovation and investment.

2.3.5. Structuring the financial architecture for impact and sustainability

Designing an effective financial structure is critical to crowding in private capital and ensuring long-term impact. Key considerations include:

- **Blended finance tools**: Structuring risk-sharing arrangements such as first-loss facilities, concessional tranches or guarantees to mobilize commercial investment.
- **Optimal instrument mix**: Determining the right balance of grants, loans, equity and guarantees according to investor type, risk-return appetite and expected outcomes.
- **Technical assistance facilities**: Linking grant-based support to investment components to strengthen capacity, improve due diligence readiness and track impact.
- **Exit strategy for public finance**: Designing revolving funds, tiered repayment models or pathways to commercial terms to ensure sustainability once concessional support phases out.

2.3.6. Embedding within broader platforms

Projects should also seek to anchor financial mechanisms within national or regional investment platforms, such as national development banks, agricultural insurers or climate investment facilities. Embedding mechanisms within these institutions enhances scalability, strengthens policy alignment and supports long-term sustainability.

2.4. Practical tips for concept note development

Building on earlier steps, the final step is to craft a coherent and well-structured project concept note. Climate funds and development finance institutions, including the Green Climate Fund (GCF) and the Adaptation Fund, provide their own dedicated templates that specify the content and structure of information required for submission. Even when targeting other donors or investors, these templates serve as valuable references, as they help frame a clear, consistent and compelling case for the project.

Drawing on the ToC and the key project components developed in previous steps, the concept note should articulate the adaptation rationale of the project while also demonstrating its potential to drive transformative change beyond the immediate interventions. It should also establish the project's additionality by showing why the proposed activities would not occur without the requested support. The specific emphasis and framing of these elements should be tailored to reflect the preferences, priorities and investment criteria of the targeted donor or investor, ensuring alignment with their mandate and decision-making framework.

2.4.1. Project or programme information

2.4.1.1. Climate context and socio-economic baseline

After defining the project location(s), the project concept note should start with an outline of the climate vulnerabilities and impacts, greenhouse gas emissions profile, and mitigation and adaptation needs of the target area. The purpose of presenting this information is to develop a baseline from which to assess the viability of the proposed project interventions, in terms of addressing climate, economic and social challenges.

For projects targeting agrifood systems, the concept note should also present an analysis of the current state of the agriculture sector. This should include a summary of the baseline at the national level, while paying particular attention to the project region(s) and specific value chain(s) targeted by the interventions. To attract private sector engagement, whether as a co-investor, beneficiary or partner, the baseline should also describe how climate change is currently affecting and is projected to affect productivity and efficient operation of these value chains.

The project concept note should be grounded in a strong climate rationale, illustrating the links between climate change, its impacts, climate action and the benefits for a society. Developing a robust climate rationale ensures that project interventions address the most critical climate risks for the relevant context, including geographic, sectoral and socio-economic factors. The climate baseline should include the following:

- Recent trends and future projections of climate impacts and hazards in the project regions.
- How these climate impacts and hazards are already affecting and expected to affect relevant agrifood value chains in the project area, including evidence of current and projected impacts on crops, livestock and infrastructure.
- How these impacts are already affecting and expected to affect the social, financial and economic well-being of individuals and businesses that are directly participating in agrifood value chains and/or depend on them for food security.

- An assessment of how current practices are contributing, both directly and indirectly, to climate change impacts and environmental challenges and/or how existing practices increase vulnerability.
- The adaptation and/or mitigation needs that the proposed interventions are trying to address.

The nature and extent of climate hazards, and the significance of their impacts, will vary according to the project area and the type(s) of agricultural value chain(s) in question. To the extent possible, it is recommended to use national-level data, such as weather databases or official communications to the United Nations Framework Convention on Climate Change (UNFCCC), or data from multilateral institutions, such as statistics provided by the World Bank. An additional useful way to visualize current and future impacts of climate change in the project area is through using maps that present spatial and temporal analyses of climate impacts. The Intergovernmental Panel on Climate Change (IPCC)'s Working Group I Interactive Atlas (Gutiérrez et al., 2021) is a particularly relevant tool for this purpose, as it enables users to explore different variables, timeframes and scenarios.

2.4.1.2. Barriers

A second sub-section should outline the key barriers that need to be addressed to strengthen value chain resilience to current and projected impacts of climate change as described above, and/or to support the transition toward resilient, low-emission and efficient operations. The UNDP-FAO Understanding opportunities, barriers and risks for private sector engagement in climate action for agri-food systems brief (UNDP and FAO, 2025) provides an overview of key categories of barriers and risks that can limit private sector participation in climate action for agrifood systems, along with step-by-step guidance for mapping and appraising these barriers and risks. To ensure completeness and relevance of the list, project proponents are encouraged to review and validate the identified barriers with any additional stakeholders engaged during the concept note preparation process.

2.4.1.3. Description of project activities and anticipated outcomes

This section should describe the ToC and the project key components established in earlier steps, including objectives, expected outcomes, and the outputs and activities through which these will be pursued. Project proponents should clearly describe how the activities and outputs have been designed and structured in a way that establishes a clear path to addressing the relevant barriers and risks, as highlighted in the section above, and leads to measurable progress in meeting climate and sustainable development priorities.

In this subsection, project proponents should also outline the anticipated impacts of the project. For adaptation projects in agrifood systems, the indicators can be measured in terms of:

- Total number of direct and indirect beneficiaries (people with enhanced adaptive capacity).
- Total area (hectares) brought under climate-resilient land-use practices.

Finally, expected financial and economic benefits should also be described, focusing on how the project activities will enhance revenue potential. Relevant factors to consider may include increased crop yields; avoided losses (preventing physical damage to crops and post-harvest losses which may have occurred under business-as-usual practices in the forecasted scenarios); enhanced ability to develop value-added products and higher export value (building capacity to meet international certification standards). These are all examples of opportunities that the project activities may unlock for private investors.

The methodology used for calculating each indicator should be described. Where data is available, it is also recommended to include benchmarks from similar interventions in comparable contexts to substantiate expected impacts.

2.4.1.4. Alignment with investment framework(s) and national / international climate and sustainable development agendas

Project proponents should highlight how and to what extent the expected outcomes of the project align with the AFOLU sector priorities, and other relevant national climate and sustainable development frameworks, such as NDCs, NAPs, NAP-Agriculture, and national development plans. Moreover, several countries have developed or are developing private sector engagement strategies for climate action. These relevant policy documents need to be harnessed to inform the project investment rationale. Finally, many climate funds and financing institutions, such as the GCF (GCF, 2022), have also developed their own private sector strategies, which can provide useful guidance for project development that includes private sector engagement and investments.

For some investors, including GCF, demonstrating alignment with national climate policies is not only beneficial but a core requirement of their investment framework. In the case of GCF, the project must demonstrate "Country Ownership" under the GCF investment framework, including the alignment with relevant national climate strategies and priorities. For this reason, project proponents should ensure meaningful and inclusive engagement to involve national stakeholders throughout the design process to ensure that projects are fully anchored in national and local priorities (see section 2.4.1.5 on stakeholder engagement).

In addition to the adaptation and mitigation benefits of the project, project proponents should outline how activities and expected impacts of the project will contribute to broader sustainable development objectives, including alignment with national and international objectives. This could take the form of a brief description of how the project will contribute to relevant Sustainable Development Goals (SDGs) and other AFOLU-related agendas such as the Bonn Challenge, REDD+, the Kunming-Montreal Global Biodiversity Framework, Land Degradation Neutrality targets and the G20 Global Land Initiative.

Climate and development financiers are consistently requiring project proponents to demonstrate how project activities are designed to maximize gender and social inclusion (GSI) benefits. For example, the GCF's Gender Policy (GCF, 2019a) requires GCF-financed activities to integrate gender considerations throughout the project cycle. GCF project proposals should include a gender assessment and Gender Action Plan, as applicable. Indicators and beneficiary data should be disaggregated by sex and other relevant characteristics, where applicable and feasible. The stakeholder engagement process is a critical mechanism for ensuring positive GSI impacts; consultations should therefore meaningfully include women's organizations, Indigenous Peoples, and representatives of marginalized or vulnerable groups.

2.4.1.5. Stakeholder engagement

Effective stakeholder engagement enables critical evaluation of the project design and strategies, ensures alignment with national and local climate and sustainable development objectives, addresses the needs of target communities, and maximizes synergies with existing initiatives.

In particular, relevant private sector actors should be identified and engaged early in the concept note design process. Lines of communication should be maintained so as to ensure that their perspectives are considered and integrated at various stages of the project formulation process, including before, during and

after concept note development. The UNDP-FAO brief Private sector mapping, outreach, and engagement in climate-responsive agrifood systems (FAO and UNDP, 2023) outlines the steps to identify relevant private sector actors who may be of relevance to the proposed project. Additionally, the UNDP-FAO brief Facilitating multistakeholder collaboration and private sector dialogues for climate action in agrifood systems (UNDP and FAO, forthcoming) offers practical tools for conducting multi-stakeholder dialogues, helping build consensus and foster partnerships between public, non-state and private sector actors. It is recommended that stakeholder engagement commence as early as possible in the project design process, and the concept note development stage is a good opportunity for initial conversations to be held.

2.4.2. Financing information, sustainability and replicability

Finally, concept notes should include a description of the project's financing needs, including an indicative project budget broken down by component and activity, as well as the financial contributions of each co-finance partners. Where multiple financial instruments are used, the distribution of instruments should be indicated by component and partner.

This section should also include a justification for the funding request. This should include:

- An explanation of how total project costs were determined, including a detailed breakdown by component and activity.
- A justification for the selected package of activities as the most cost-effective option, supported by a cost-benefit analysis.
- A rationale for the choice of investor(s), financial instrument(s) and the overall allocation of funding across them.
- Where concessional funding is requested, either in full or in part, a clear justification explaining why it is required and why the project would not be feasible without it, for example, to address a specific market failure or provide financial guarantees to attract private investors. This should explain why a specific institution was approached, such as its ability to provide concessional funding on a significant scale. Considerations may include the lack of alternative sources of funding; the extent to which the proposed level of concessionality addresses key barriers and unlocks additional sources of finance, including private capital; and the project's scalability and financial sustainability beyond the project timeframe.
- Evidence that concessional finance is used at the minimum level to maximize the efficient use of public resources, enable broader allocation across countries and projects, and avoid market distortions, such as crowding out of additional funding sources or creating an overdependence on concessional funding.

Finally, project proponents should clearly articulate how project activities and impacts are designed to be scaled up and replicated beyond the project's initial geographic scope and timeframe. There should be a clear exit strategy describing how the positive climate, environmental and socio-economic outcomes will be sustained after project completion. As noted above, financial sustainability is a central consideration, particularly when concessional funding is requested.

Project developers should be aware that climate and development finance institutions operate on the principle of minimum concessionality, providing only the level of concessional finance necessary to make a project viable. In certain types of projects or programmes, particularly investment funds and on-lending facilities, concessional funding is expected to have a multiplying effect, whereby each US $1 of concessional funding generates a set amount of co-financing from other sources.

2.4.3. Project summary and key information

Once the steps outlined above have been completed and the relevant information consolidated into a coherent narrative, a project summary should be prepared as the opening section of the concept note. This summary should concisely present the project's focus areas and targeted agricultural value chains, describing how these value chains are currently affected by climate change and how the proposed activities will strengthen their resilience and reduce their vulnerability. The summary should also highlight how the project has been developed through consultations with public and private stakeholders, and how it aligns with and contributes to national climate and sustainable development priorities, including priority targets outlined in NDCs and NAPs. In addition, it should outline key barriers to building sustainable, resilient agrifood systems and explain how the proposed interventions address these constraints. Finally, the summary should include indicative information on total project cost, the funding request (including co-finance) and the type of financial instruments sought. By consolidating this essential information, the project summary provides potential investors with a clear and well-substantiated rationale for the project's relevance, feasibility and added value, thereby strengthening its case for funding.

CHECKLIST FOR STEP 1:

- ↗ Develop a clear rationale for the project, including the climate, environmental and socio-economic context of the target system, value chain or landscape, and define the main barriers to transformational climate action and private sector engagement.
- ↗ Articulate a ToC that defines the long-term impact, expected outcomes and project interventions, and shows how these interventions work together to address barriers and deliver transformational change.
- ↗ Define clear SMART indicators that flow from the ToC and capture both adaptation/resilience results and private sector engagement and financing results.
- ↗ Describe the expected adaptation, financial, economic and social benefits of the project, including the project's additionality and potential to catalyse wider change beyond the immediate interventions.
- ↗ Clearly define the role of private sector actors in the project and explain how incentives, de-risking measures and the proposed financial architecture are designed to mobilize and sustain their participation.
- ↗ Ensure that the project is aligned with national and international climate and sustainable development agendas, as well as with the investment criteria and mandates of the targeted investor(s).
- ↗ Ensure that GSI considerations are mainstreamed into the project design, expected benefits, stakeholder engagement process and indicator framework, including disaggregation of beneficiaries where possible.
- ↗ Document the stakeholder engagement process undertaken prior to and during concept note preparation, including early engagement with relevant private sector actors, financial institutions, women's organizations and representatives of marginalized groups.
- ↗ Present indicative financing information, including total project cost, funding request, co-financing, financial sustainability, replicability and exit strategy, in a way that clearly supports the concept note.

Outcome(s): Project proponents will be able to develop a concept note for proposed AFOLU interventions that seek to engage the private sector and create a shift towards low-carbon and/or climate-resilient agricultural and land-use practices. The concept note presents key information on the project, uses viable sources and is presented in a way that demonstrates alignment with the investment criteria of the targeted investor(s).

3. Identifying the most suitable investor(s) and financial instrument(s) for the investment needs of a project

3.1. Overview of the types of investors and financial instruments that may be involved in the financing of AFOLU projects

Low-emission and climate-resilient agricultural projects often require a mix of financial resources tailored to different activities, stakeholders and risk profiles. In many cases, a single project may be best served by using a combination of financial instruments and involving a range of investors, including public donors, private financiers, development banks and national institutions. Identifying the appropriate blend of financing mechanisms early in the design process is therefore essential to structuring projects that are both bankable and inclusive.

There is a wide array of financial instruments and potential investors available to support agricultural transformation, and selecting the right combination depends on both the nature and maturity of the project and the financing needs of different actors involved, such as smallholder farmers or agri-SMEs. Equally important is ensuring that the project aligns with the investment criteria and mandates of potential financiers, who differ in terms of objectives, risk appetite and return expectations.

This chapter provides an overview of the main categories of financial instruments and sources of finance relevant for climate-resilient agricultural projects. It outlines their key features and offers guidance on which instruments are most appropriate for specific stages of the value chain, types of actors and investment purposes. Building on volumes of the SCALA Private Sector Engagement guidance series which examined private sector mapping, multi-stakeholder collaboration processes, and the identification of risks, barriers and de-risking instruments (FAO and UNDP, 2023; UNDP and FAO, Forthcoming; UNDP and FAO, 2025), this chapter provides the foundation for assessing the investor landscape and designing financial structures that can effectively attract private sector capital.

Table 1 below summarizes typical financing needs and common barriers to finance across different stages of agricultural value chains, which can help inform the financial structuring of a proposed project.

Table 1. Financing needs and challenges for different agricultural stakeholders

	Agricultural value chain				
	Inputs	**Production**	**Transport, storage and handling**	**Processing**	**Marketing and distribution**
Who needs funding?	• Input producers • Input importers • Agri-dealers • Primary producers/ farmers	• Primary producers/ farmers	• Primary producers/ farmers • Local buyers, e.g. grain operators	• Local buyers, e.g. processing companies • International companies	• Brands/retailers
What is the funding for?	• Input production • Export and import • Technical assistance • Transport and marketing	• Access to land • Equipment and transport • Labour • Inputs • Technical assistance	• Transport • Labour • Equipment • Inputs • Technical assistance	• Transport • Labour • Equipment • Inputs (goods) • Export and import • Technical assistance	• Inputs (goods) • Marketing • Labour • Equipment and transport
Main challenges to accessing funding	• Time critical • Technical expertise to optimize use • Currency • Repayment linked to primary production	• Time critical • Technical expertise • Production risks • Market risks • Availability of monetizable collateral	• Quality of local infrastructure • Time critical	• Technical expertise • Quality of local inputs (reliability, quality) • Reliability of demand • Market risks	• Market reliability • Local policies, e.g. import restrictions or price caps • Reliability of supply and demand

Source: *Adapted from Smallholder and Agri-SME Finance and Investment Network (SAFIN) (2019).*

As Table 1 illustrates, financing needs and constraints differ significantly across the value chain, from input providers and primary producers to processors and retailers. These differences directly influence the choice of financial instruments that can be most effectively deployed to address gaps. For example, smallholders may need short-term concessional credit or blended finance for inputs, while larger processors may be better suited to equity or commercial debt. To bridge these gaps, a range of financial instruments has been developed and applied in AFOLU contexts. Table 2 provides an overview of the most commonly used instruments, including debt, equity, grants and guarantees, along with their respective advantages and limitations in the context of climate-resilient agriculture.

Table 2. Key financial instruments for low-carbon and climate-resilient AFOLU projects

Financial instrument	Benefits	Disadvantages
Debt	• Fast access to capital for scaling technologies and infrastructure • Predictable repayment schedules aid planning • Enables full ownership and control to be retained by borrower • Can finance large-scale projects beyond the reach of equity or grant	• Repayment requires consistent cash flow which can be challenging for agriculture projects subject to seasonal fluctuations and market volatility • Interest payments increase costs and reduce profitability • Collateral requirements may be hard to meet for smallholders or SMEs • Foreign currency loans carry exchange rate risks, impacting repayment costs • May include restrictive terms that limit project flexibility
Equity	• Shares financial risk between investor and project owner • Flexible: no fixed repayments, which can help manage cash flow • Brings strategic benefits like investor expertise, networks and patient capital • Encourages long-term commitment from investors, which can be beneficial for agriculture sector investments that can take time before generating returns	• Dilutes ownership and potentially decision-making control • High return expectations from investors, which leads to higher costs compared to debt financing to compensate for increased risk • Complex, often lengthy negotiations to execute deals, with significant legal and administrative costs • Conflicting priorities or styles between investors and project owners can hinder execution • Limited availability of equity investors in many country contexts
Grants	• No repayment obligation: ideal for early-stage innovation, pilots or public goods • Often paired with technical assistance, training and capacity building components, which can be critical for agriculture projects that feature smallholder farmers and SMEs • Can crowd in other funding and support institutional strengthening	• Short-term and usually small-scale, not suitable for capex-intensive investments • Risk of dependency on donors and prioritization of donor requirements over long-term and systemic needs at local level • Availability of donor grants can discourage local government and private sector investments, leading to a lack of post-project sustainability • Administrative burden in application and reporting • Grant objectives may not align with local priorities or market needs • Oversight and accountability challenges can lead to inefficiencies or misuse
Guarantees	• Reduces perceived risk for lenders and investors, which can help secure domestic and international financing for agriculture projects • Useful instruments for first-mover or high-risk climate-smart solutions, and can be tied to the adoption of specific technologies or practices that support climate-smart agriculture • Financial and risk guarantees often involve government or donor backing, which can foster coordination among stakeholders and improve the likelihood of project success	• Complex to design and administer, involving risk assessment, determining premium payments and monitoring performance • May create market distortion if not targeted properly, by encouraging investment in projects that are not economically viable • Does not directly provide funding and needs complementary instruments • Risk of overreliance on external support, inhibiting development of local financial markets and self-sustaining agricultural systems • Requires strong coordination and alignment of incentives

Source: *Authors' own elaboration.*

The effectiveness of these instruments depends not only on project design but also on the type of investor engaged. Different investors approach AFOLU investments with varying motivations, profit expectations and levels of risk tolerance. Table 3 outlines these categories of investors, the instruments they typically provide, and the criteria they use in assessing bankability. The concept of bankability, introduced in a previous volume of the Private Sector Engagement guidance series on Understanding opportunities, barriers and risks for private sector engagement in climate action for agrifood systems (UNDP and FAO, 2025), remains a

critical determinant for securing investment. While the specific criteria may differ across investors, common considerations include the project's risk-return profile, climate and environmental benefits, and contribution to broader sustainable development. In AFOLU projects, socio-economic impacts such as food security, income generation and the protection of vulnerable groups, including women, smallholders and Indigenous Peoples, are also decisive factors.

Table 3. Investor categories and their approaches to AFOLU finance

	Category of investor	Examples of institutions	Primary motivation for investment	Typical profit motive	Typical risk appetite	Typical size of investment	Type of financial instruments
Public	National government or government agency	• Ministry of Economy and Finance • Ministry of Agriculture and Rural Development, Animal Industry and Fisheries	• Advancement of national climate and sustainable development agendas • Market creation and promoting inclusive economic development • Improved land management and food security • Disaster risk reduction	Low	Medium to high	Small to high	• Grants • Concessional loans • Guarantees
	Development finance institutions (national, bilateral and multilateral)	• African Development Bank (AfDB) • Asian Development Bank (ADB) • World Bank/International Finance Corporation (IFC) • International Fund for Agricultural Development (IFAD) • French Development Agency (AFD)/Proparco (France) • British International Investment (United Kingdom) • Dutch Entrepreneurial Development Bank (FMO) (Netherlands)	• Addressing climate change and environmental sustainability • Supporting the implementation of the SDGs • Market creation and promoting inclusive economic development • Catalysing private investment • Enhancing regional and international stability	Medium	Medium to high	Medium to high	• (Concessional) debt • Sustainability-linked bonds • Debt swaps • Equity • Guarantees • Grants
	Climate funds	• Adaptation Fund • Global Environment Facility (GEF) • Green Climate Fund (GCF)	• Alignment with national climate agendas and generating positive outcomes in adaptation and/or mitigation • Biodiversity and environmental benefits • Alignment with the SDGs and other international climate and developmental agendas • Market creation	Low to medium	Medium to high	Medium to high	• Concessional loans • Equity • Grants • Guarantees
	International development agencies and NGOs	• FAO • UNDP • International Union for Conservation of Nature (IUCN)	• Support implementation of NDCs and NAPs • Strengthen institutional capacity, governance and resilience of vulnerable communities • Demonstrate proof of concept for scalable and replicable climate solutions • Facilitate enabling environments and policy coherence for increased adaptation and mitigation investment	Low	High	Medium	• Grants

Table 3. Investor categories and their approaches to AFOLU finance

	Category of investor	Examples of institutions	Primary motivation for investment	Typical profit motive	Typical risk appetite	Typical size of investment	Type of financial instruments
Private	Private philanthropy	• The Rockefeller Foundation • Mastercard Foundation • Omidyar Network • Gates Foundation	• Climate and developmental objectives • Research and testing effectiveness of technologies and business models • Market creation and promoting inclusive economic development	Low	High	Low to medium	• Grants • Interest-free loans
	Commercial banks and monetary financial institutions (MFIs)	• Ecobank • Equity Bank • BRAC Microfinance • Fundación de la Mujer • Khan Bank (Agricultural Bank of Mongolia LLP)	• Financial returns • Financial inclusion	Medium to high	Low to medium		• Loans • Credit facilities
	Impact investors	• Acumen • Mirova • responsAbility	• Financial returns • Alignment with climate, environmental and developmental objectives • Alignment with Environmental, Social and Governance (ESG) principles	Varies from low to high	Medium to high	Medium to high	• Loans (concessional and non-concessional) • Equity • Grants
	Institutional investors	• Algemene Pensioen Groep (APG) • Allianz Global Investors • BlackRock • Mirova / Natixis Investment Managers	• Financial returns • Alignment with ESG principles	Medium to high	Low	Medium to high	• Loans • Equity • Green, Social, Sustainability and Sustainability-linked bonds (GSSSBs)*
	Multinational corporations	• Nestlé • Louis Dreyfus • Olam International • Unilever	• Financial returns • Alignment with ESG principles	Medium to high	Low to medium	Medium to high	• Debt • Equity

Source: *Authors' own elaboration.*

*While the green bond market still only accounts for a relatively small share of overall fixed income products globally, the market has been growing in recent years, and this trend is expected to continue. This growth in the market is driven by strong demand from investors, particularly asset managers, insurers and pension funds (World Economic Forum, 2024).

3.2. Strategic use of concessional funding to mobilize private investment for AFOLU projects

Blended finance has emerged as a key mechanism for mobilizing private capital toward climate, environmental and sustainable development objectives, particularly in developing and emerging markets where investment risks remain high. It refers to the strategic use of concessional development finance from public or philanthropic sources to mobilize additional commercial investment for SDG-related investments that would otherwise not materialize.

The three key pillars of blended finance are:

1. **The use of concessional capital**, typically provided by development finance institutions (DFIs), multilateral banks or public donors.

2. **The use of this concessional capital to mobilize non-concessional capital**, typically from private investors with commercial return expectations.
3. **The generation of additional, measurable development impacts**, particularly in sectors such as agriculture, water and climate resilience. For example, a development agency may provide a partial risk guarantee to an investment vehicle that lends to agri-SMEs with strong climate and social performance. This reduces risk and incentivizes private capital participation that would otherwise stay out (Overseas Development Institute, 2019).

Blended finance models can take many forms, involving a mix of concessional and non-concessional capital as well as grant-funded components, such as technical assistance or feasibility studies. Instruments include:

- **Concessional debt**, with lower interest rates or extended repayment periods.
- **Risk-absorbing equity**, that lowers the cost of capital for senior investors.
- **Subsidized guarantees and insurance mechanisms**, to mitigate credit or climate-related risks.
- **Grants**, to fund project preparation, pipeline development, technical assistance or capacity building.

The roles of different actors and types of instruments used in blended finance structures are summarized in Table 4 below.

Table 4. Role of development finance and typical instruments used within blended finance

Role of development finance	Sample instruments	Additionality aspects
Identify and enable new financing structures	• Grants • Concessional loans	• Research to identify opportunities • Facilitate the design of new investment structures
Seed new structures first (anchor capital)	• Equity • Debt	• Test new types of intermediation structures (i.e. proof of concept funding) and help bring a financial instrument to scale so that additional private capital can engage • Conduct professional due diligence that can be shared with potential investors • Act as a transaction lead and reference source to other investors
Risk mitigation	• Guarantees • Subordinated loans • Risk-absorbing equity	• Change the risk-return perception for private investors
Technical support	• Grants	• Provide grant funding alongside an investment to help increase chances of success (e.g. technical assistance)
Reward additional development impacts	• Grants	• Assign a financial value to an additional non-financial outcome
Market development	• Grants	• Research and publish reports on the success of different interventions • Support the development of investor incentives (e.g. policy changes) • Support the development of consistent ways to monitor financial and developmental impact to appropriately subsidize additional support and regional approaches to harmonize relevant data

Source: *Adapted from Havemann et al (2020).*

Blended finance structures often incorporate de-risking instruments to mobilize private sector investment in AFOLU and climate-resilient development. While financial de-risking mechanisms such as guarantees, concessional debt or first-loss equity help reduce commercial risk for investors, many blended finance approaches also rely on grant-funded activities to address broader enabling environment barriers. These grants can support technical de-risking, including through project preparation, feasibility studies or capacity building, or policy/institutional de-risking, including by supporting regulatory reform or market access improvements. In this way, blended finance is not only a co-financing model but can also be a delivery platform for integrated de-risking strategies, combining financial and non-financial tools to increase project bankability and impact. For further guidance on identifying and addressing project risks, including appropriate de-risking solutions, refer to the brief Understanding opportunities, barriers and risks for private sector engagement in climate action for agrifood systems (UNDP and FAO, 2025).

3.3. Varieties of blended finance models within the AFOLU sectors

According to data from Convergence, which tracks blended finance, the agriculture sector has received between 15 and 21 percent of resources mobilized through blended finance transactions (Convergence, 2023). Within the AFOLU sector, a variety of blended finance structures have been developed and deployed to enable private investment to flow at scale. While all the projects and programmes which have been funded using blended finance structures are too numerous to analyse individually in this brief, the different approaches can be grouped into several categories. These categories are introduced below, with representative case studies illustrating how each approach works in practice.

3.3.1. Technical assistance grants to develop climate-resilient agricultural and forest product markets and value chains, linked to financial products and services that enable the sustainable management of agroecological systems

Within many developing countries, limited access to finance is a barrier to the adoption of sustainable and climate-resilient business practices, including in the agricultural sector. With government budgets often constrained, the financial sector has an important role to play in facilitating economic growth through enhanced access to financial services, including investment for low-carbon and climate-resilient agricultural practices. Despite this potential, many local financial service providers have limited knowledge of climate change and experience in financing resilient agricultural production methods. This has resulted in a shortage of agricultural finance products that are fit for purpose.

One approach taken by development partners to address this barrier has been through the provision of technical assistance to local financial institutions to enhance their understanding of climate change and develop financial products that are better designed for the needs of rural communities, both smallholders and agricultural MSMEs. Such support has been increasingly included as a component of climate finance projects that seek to facilitate climate-resilient agricultural practices. A notable example is the ’Transforming Eastern Province Through Adaptation’ (TREPA) project in Rwanda (see Box 5).

Box 5. Case Study: Transforming Eastern Province Through Adaptation (TREPA) – Rwanda

'Transforming Eastern Province Through Adaptation' (TREPA) in Rwanda is a project implemented by the Rwanda Forestry Authority, the Belgian agency for international cooperation (ENABEL) and the IUCN, with funding from the GCF.

The project aims to achieve a paradigm shift in land management practices in Rwanda's Eastern Province from degraded, fragile landscapes that cannot sustain livelihoods under climate change, to restored ecosystems and landscapes through building community resilience to improve livelihoods and strengthen food and water security for the most vulnerable rural population. The project consists of three components.

1. Restored landscapes that support climate-resilient agroecological systems and livelihoods in Eastern Province.
2. Market and value chain development for climate-resilient agricultural and tree products linked to financial products and services for sustainable management of agroecological systems.
3. Strengthened enabling environment to effectively plan, manage and monitor climate adaptation outcomes from improved land use at national and decentralized levels.

Component 2 of this project is particularly relevant to engaging the private sector and, in doing so, ensuring the economic and financial sustainability of the project. Within component 2, technical assistance is provided to:

- Farmers' groups, to build knowledge and capacity to adopt climate-resilient practices and access to markets and finance.
- Local financial institutions, to diversify agricultural lending products to include short-term and long-term lending modalities combined with refined terms and conditions suited to the needs of farmers.
- Strengthened enabling environments at both national and local levels to effectively plan, manage and monitor climate adaptation outcomes from improved land use.

The Accredited Entity for this project was IUCN's regional office for Eastern and Southern Africa, with IUCN's Rwanda country office acting as an Executing Entity for certain aspects of the project. The project draws on IUCN's global programmes of work on forests, water, Ecosystem-based Adaptation and disaster risk reduction. The roles and responsibilities of IUCN and the other implementing entities are elaborated more fully in section B.4 of the funding proposal for the TREPA project.

Source: *Green Climate Fund (2021).*

3.3.2. On-lending facilities that enable access to affordable rural climate funding for smallholders and MSMEs

In many developing countries, smallholders and agricultural MSMEs face major challenges in accessing affordable, fit-for-purpose financial products to support the adoption of low-carbon and climate-resilient practices. A key constraint is the high perceived risk these borrowers represent to local financial institutions (FIs), which often lack familiarity with climate-smart agricultural models. Meanwhile, development financiers such as DFIs may be more willing to accept this risk and offer capital on more favourable terms. However, they often face logistical barriers in reaching dispersed rural actors directly.

To bridge this gap, a common approach is to establish on-lending schemes. Under these arrangements, development financiers channel funds through local FIs, which act as intermediaries. These FIs then lend to smallholders and agri-MSMEs on more attractive terms than standard market rates. This model simultaneously addresses the logistical barrier for the DFI and helps reduce perceived borrower risk for local FIs.

Over time, as rural businesses establish stronger credit histories, the intent is to improve their access to finance directly from local markets. To reinforce this trajectory, most on-lending facilities also include a technical assistance component, typically funded through grants, to build capacity among both financial institutions and borrowers, ensuring greater impact and long-term sustainability. The case study below (see Box 6) illustrates how such on-lending facilities can successfully unlock finance for climate-resilient agriculture at scale.

In general, opportunities provided to private sector actors by on-lending facilities include:

- Access to a wider variety of affordable and flexible lending products for smallholders and agricultural MSMEs.
- For the domestic banks and microfinance institutions that are participating, on-lending facilities offer the opportunity to expand their product offering and customer base, while limiting their risk exposure.
- An increased market demand for climate-related services or goods on the domestic market.

Box 6. Case Study: IFAD's Africa Rural Climate Adaptation Finance Mechanism (ARCAFIM)

The ARCAFIM programme, led by IFAD, aims to establish a scalable financing model to mobilize private sector investment in climate change adaptation for rural MSMEs and smallholders across East Africa's food systems. These actors are seen as central to driving sustainable, market-responsive change. The programme mobilizes both international and domestic finance, including contributions from regional commercial banks and local financial institutions. Total funding for ARCAFIM is $200 million, including a $55 million contribution from GCF, comprising a $45 million loan and $10 million in grants.

As the Accredited Entity for GCF, IFAD serves as the lender of record and disburses funds to selected regional Host Banks (initially Equity Bank and its subsidiaries in Kenya, Rwanda, Tanzania and Uganda). These banks co-finance the programme on a one-to-one basis, effectively doubling the available resources for on-lending to MSMEs and smallholders. All funds are ringfenced for use under the ARCAFIM programme, with IFAD responsible for oversight and compliance through robust monitoring arrangements.

ARCAFIM's design is replicable and adaptable. While Phase 1 is focused on four countries in East Africa, future phases will expand to other regions of the continent. The programme's structure and delivery model will remain consistent, with country-specific adjustments based on local climatic, financial and regulatory conditions. Ultimately, ARCAFIM aims to deliver a strong demonstration effect, proving the viability of private sector lending for rural adaptation at scale and catalysing a broader shift toward climate-resilient financing for the rural poor.

IFAD is acting as both the Accredited Entity for this GCF programme, and as Executing Entity for Output 2.3 ("Improved enabling environment of climate change adaptation through application of taxonomy and best practices by climate finance ecosystem"). For further details on the roles and responsibilities of each institution, please refer to section B.4 of the Funding Proposal for ARCAFIM in East Africa.

Source: *Green Climate Fund (2023).*

3.3.3. Using public international climate finance within an investment-fund structure to catalyse international private investment

The global cost of transitioning agrifood systems to achieve emission reduction and climate resilience targets under the Paris Agreement is estimated at $1.1 trillion per year through 2030 (Climate Policy Initiative (CPI) and FAO, 2025). Public budgets alone will not meet this financing need. Mobilizing private investment at scale is critical, especially from institutional investors who collectively manage more than $70 trillion in assets (CFA Institute, 2026). However, current private investment flows into low-carbon and climate-resilient agri-commodity production remain limited due to real and perceived risks, long investment horizons and uncertainty in policy environments.

Several funds have been established with the objective of creating the business case for wide-scale investment in sustainable production models, and enabling a paradigm shift away from business-as-usual practices in agri-commodity markets. Such funds use blended finance structures, where concessional funding from bilateral and multilateral sources is used strategically to reduce risk to private investors, thus enabling them to commit capital to these funds (and their portfolio companies). These vehicles often include a technical assistance facility to support investees in meeting investment criteria, conducting due diligence or complying with sustainability and reporting standards. In doing so, they catalyse not only private finance but also innovation and transformation in how value chains operate. Examples of such funds include the &Green Fund, the Land Degradation Neutrality Fund and the AGRI3 Fund.

Such funds present a variety of opportunities for private sector actors, such as:

- For international private investors participating in or investing alongside the fund, the concessional funding provided by development financiers allows them to gain exposure to untested markets and value chains with significant economic upside and with reduced financial and/or economic risk.
- Investee companies benefit from access to finance at lower rates and/or on terms that are more favourable and flexible than those typically available on the market. Additionally, support provided through technical assistance facilities can help investee companies meet the standards of international certification schemes for sustainable products, unlocking higher export value on international markets.

Public decision makers, particularly Ministries of Agriculture, Planning, Finance and Trade, have a vital role to play in enabling access to such funds and making their countries more attractive to blended finance vehicles. This can include:

- Establishing strong policy frameworks that signal long-term national commitment to sustainable agriculture and forest-positive development, including land-use regulation and enforcement to prevent deforestation or degradation.
- Creating enabling environments for investment by reducing regulatory uncertainty, improving land-tenure systems, and clarifying investment procedures and tax regimes.
- Engaging directly with fund managers and private investors to align pipeline development with national priorities. This includes identifying and prioritizing potential investee companies or initiatives that align with both investment and policy goals, and ensuring regular communication to share lessons learned, assess performance, and support scale-up or replication of successful interventions.

Box 7. Case Study: Transforming Livelihoods through Climate Resilient, Low Carbon, Sustainable Agricultural Value Chains in the Lake Region Economic Bloc (TUNZA) project

The GCF-funded 'Transforming Livelihoods through Climate Resilient, Low Carbon, Sustainable Agricultural Value Chains in the Lake Region Economic Bloc' (TUNZA) project in Kenya illustrates how public climate finance can help create the conditions for private investment in climate-resilient agriculture. Implemented by FAO across 14 counties in the Lake Region Economic Bloc, the project focuses on six priority value chains, dairy, poultry, coffee, tea, fruit trees and African leafy vegetables, and targets 572,000 smallholder farmers. It combines climate-resilient production and technology transfer with market development, strengthening farmer organizations and improving access to finance.

A central element of TUNZA is Component 4, which aims to scale climate-resilient, low-carbon agricultural investments through private finance. Rather than providing loans directly, GCF grant financing is used to address barriers that prevent commercial lenders from financing smallholders and agricultural cooperatives. The project works with Kenya Commercial Bank (KCB), Co-operative Bank of Kenya and Equity Bank to develop appropriate financial products, while supporting farmer organizations and cooperatives to strengthen financial management and develop bankable business plans. Participating financial institutions are expected to leverage up to $ 10 million in loan financing for eligible climate-resilient agricultural investments.

TUNZA project demonstrates how international public climate finance can de-risk and prepare the market for domestic private investment by addressing the supply and demand sides of agricultural finance. GCF resources support technical assistance, capacity building, project preparation and market linkages, while commercial banks provide lending capital. By helping transform climate adaptation priorities into bankable business opportunities for farmers, cooperatives and value-chain actors, the approach seeks to create a pipeline of commercially viable investments that can be replicated and scaled beyond the lifetime of the project.

Source: *FAO/GCF (2025a)*

In short, governments are critical actors in shaping the conditions under which these investment vehicles can succeed and ensuring that they support both national development priorities and climate objectives.

3.4. Key sources of concessional funding for mobilizing private sector investment in AFOLU projects

As outlined in Tables 2 and 3, concessional finance can take various forms and come from diverse sources. DFIs and international climate funds remain the primary providers of such capital at scale, often channelled into co-financing structures to de-risk private investment in low-carbon, climate-resilient AFOLU projects. The roles of these institutions are elaborated below.

3.4.1. Development Finance Institutions (DFIs)

DFIs provide public and private sector financing to support sustainable development, including climate resilience and low-emission transitions. Their core mandate is to generate development impact while ensuring financial viability. They typically engage in projects that show strong development potential but lack sufficient access to commercial finance.

DFIs fall into three main categories:

- **National DFIs**, which fund domestic development priorities (e.g. agriculture and MSME development).
- **Bilateral DFIs**, which are owned by a single country but invest in projects abroad aligned with that country's development and climate priorities.
- **Multilateral DFIs** (or international finance institutions), such as the World Bank and AfDB, which are governed by multiple countries and finance cross-border projects. These institutions also play a central role in accessing and deploying finance from climate funds like the Climate Investment Funds (CIF).

While DFIs aim for financial sustainability and positive returns, they are often willing to accept higher risks than commercial banks, especially where projects show strong potential for development impact. Some DFIs allocate part of their portfolios to concessional finance for high-risk, high-impact initiatives. DFIs use their strong credit ratings and shareholder backing to access capital at low cost, enabling them to offer competitive terms, especially for infrastructure, energy and large-scale agriculture projects. They tend to favour large ticket sizes, with smaller-scale initiatives typically supported indirectly through credit lines extended to local financial institutions.

To catalyse private sector engagement, DFIs also offer de-risking tools such as guarantees and political risk insurance. Organizational structures vary. Some DFIs have dedicated private-sector arms, such as IFC under the World Bank, German Investment Corporation (DEG) under KfW, Proparco under AFD, while others, like British International Investment or FMO, are fully focused on private sector financing.

Box 8. Case Study: The Global Agriculture and Food Security Programme's Private Sector Window

The Global Agriculture and Food Security Programme (GAFSP) is a multilateral financing platform dedicated to improving food and nutrition security worldwide. Since 2010, GAFSP has pooled over $2 billion in donor funds and provided financial and technical resources, including grants, technical assistance, concessional loans, blended finance and advisory services, to demand-driven projects along the food chain.

The GAFSP's Private Sector Window works with IFC, using blended finance solutions and IFC's expertise and knowledge to invest in projects that may not attract commercial funding due to perceived high risks in the agricultural sector. GAFSP funding is co-invested alongside IFC funding but the Private Sector Window takes it one step further: it seeks to address market failures by providing affordable funding with less demanding terms. This allows the Private Sector Window to invest in early stage or riskier projects in International Development Association (IDA) eligible and fragile and conflict-affected states that hold high potential for development impact and financial sustainability. This enables it to partner with companies who include smallholder farmers as part of their overall value chain, providing access to markets (at local, national and global levels), financing and storage, and increasing production and incomes for those living and working in the world's lowest income countries.

From its inception in 2013 to June 2024, the impacts of the Private Sector Window have included:

- Every $1 of Private Sector Window funding leverages $6.5 of private sector funding.
- 93 agribusiness investment projects in 29 countries, deploying $505 million.
- 106 advisory projects in 35 countries, deploying $54 million.

Source: *GAFSP (2025).*

3.4.2. Climate Funds

To facilitate the provision of climate finance, the UNFCCC established a financial mechanism to provide financial resources to developing country parties. This mechanism also serves the Kyoto Protocol and the Paris Agreement and is composed of several funds with complementary mandates, structured as follows:

- The GEF has served as an operating entity of the financial mechanism since the UNFCCC's entry into force in 1994.
- The GCF was established at COP16 in 2010.
- The Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF) are both managed by GEF.
- The Adaptation Fund was established under the Kyoto Protocol in 2001.

Each of these climate funds bundles financing from various sources under bilateral and multilateral agreements, thereby channelling funds from the contributing countries to the recipients. In this case, recipients are accredited and executing entities. The financial instruments that are mainly supported by climate funds include grants, concessional loans, guarantees and equity.

In most cases, the UNFCCC funds require approved funding to be managed by an institution that has met accreditation requirements. For each institution, details of the investment frameworks, accredited entities and availability of project formulation grants are summarized in Table 5 below.

Table 5. Climate Funds: Links to background on accredited entities, project preparation support and other relevant documents

Institutions	Accredited / Implementing Entities	Project preparation support	Investment framework and other useful materials for project preparation
Adaptation Fund	Implementing Entities	Project Formulation Grants of below $250,000 (dependent on the type and scale of project)	• The Adaptation Fund's Strategic Results Framework (SRF) • Operational Policies & Guidelines • Project Proposal Materials
Global Environment Facility	GEF Agencies	Project Preparation Grants are available for medium-and large-sized projects	• GEF Policy and Programme Cycle Policy
Green Climate Fund	Accredited Entities	The GCF's Project Preparation Facility provides grants of up to $1.5 million The Readiness and Preparatory Support Programme provides grants of up to $4 million per country to strengthen institutional capacity, climate investment planning and country-owned project pipelines, including the preparation of funding proposals.	• Investment Framework • GCF Sectoral Guides (note that for AFOLU projects, the most relevant ones are likely to be those on Agriculture and food security and Forests and land use). • GCF Project Cycle • GCF Concept Note User's Guide • The GCF Appraisal Guidance: A comprehensive guide to the tools and due diligence processes used to review and assess concept notes and funding proposals • Annex II: Concept Note Checklist

Source: *Adaptation Fund (n.d.); GEF (n.d.); GCF (n.d.).*

Box 9. Case Study: The GCF's Private Sector Facility

GCF is the world's largest climate fund. It was established by the UNFCCC with the objective of accelerating transformative climate action in developing countries through a country-owned partnership approach and use of flexible financing solutions and climate investment expertise.

GCF provides debt, equity, guarantees and grants via its Accredited Entities to:

- De-risk investments.
- Drive systemic transformation.
- Scale small projects and bundle them into larger portfolios.
- Support capacity building.
- Develop public-private climate-resilient infrastructure.
- Support innovation.

GCF has a Private Sector Facility (PSF), with the primary mission to engage both the local and global private sector to support climate change mitigation and adaptation projects in developing countries. PSF support includes:

- Private investment funds by acting as the premier anchor investor in climate investment equity and debt funds.
- Financial institutions by mainstreaming climate change mitigation and adaptation within the financial sector, including through dedicated credit lines, readiness support to green the financial sector and the establishment of green banks.

As of January 2025, GCF had provided a total of $15.9 billion in project funding across 286 projects. Of this total, $6 billion (37 percent) was allocated to 67 private sector projects.

Source: *GCF (2019b; 2025b).*

CHECKLIST FOR STEP 2:

- ↗ Assess the finance needs of the project interventions. Factors to consider should include the total volume of finance required, investment timeframes and the level of concessionality required.
- ↗ Assess which financial instrument or combination of financial instruments is most appropriate to meet the project's financing needs, taking into account the purpose of the investment, the stage of the value chain, the type of actor being financed and the project's risk-return profile.
- ↗ Identify the most suitable investor(s), or combination of investors, by considering both the needs of the project and the investment criteria, mandates, risk appetite and return expectations of prospective financiers.
- ↗ If multiple instruments or investors are required, assess the most appropriate financing structure, including the sequencing and complementarity of different sources of finance, while keeping minimum concessionality as an objective.
- ↗ Consider whether technical assistance, guarantees, concessional tranches, blended finance tools or other de-risking measures are needed to improve viability, attract investment and support implementation.
- ↗ Assess whether the proposed financing structure supports long-term sustainability, scalability and replicability, including through alignment with national or regional financing platforms where relevant.

Outcome(s): A clearer understanding of the finance needs of the project, the most suitable financial instrument(s) and investor(s), and the financing structure most likely to mobilize appropriate and sustainable finance for the proposed intervention.

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The Support Programme on **Scaling up Climate Ambition on Land Use and Agriculture through Nationally Determined Contributions and National Adaptation Plans (SCALA)** is a seven-year initiative led by FAO and UNDP, with funding from the German Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN) through the International Climate Initiative (IKI). SCALA responds to the urgent need for increased action to cope with climate change impacts in the agriculture and land use sectors. The twenty-six million euro programme supports at least twelve countries in Africa, Asia and Latin America to build adaptive capacity and to implement low emission priorities.

Country support includes strengthening policies, adopting innovative approaches to climate change adaptation and removing barriers related to information gaps, governance, finance, gender mainstreaming and integrated monitoring and reporting. To achieve this shift, the programme engages the private sector and key national institutions.

SCALA supports countries to develop the capacity to own and lead the process to meet targets set out in their National Adaptation Plans and Nationally Determined Contributions under the Paris Agreement, and to achieve the Sustainable Development Goals. The SCALA initiative builds on another FAO-UNDP led programme, Integrating Agriculture in National Adaptation Plans (2015-2020).

Food and Agriculture Organization of the United Nations
www.fao.org/in-action/scala/en

United Nations Development Programme
www.adaptation-undp.org/scala

International Climate Initiative (IKI)
www.international-climate-initiative.com

German Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety (BMUKN)
https://www.bundesumweltministerium.de/en

Supported by:

Federal Ministry for the Environment, Climate Action, Nature Conservation and Nuclear Safety

based on a decision of the German Bundestag

INTERNATIONAL CLIMATE INITIATIVE

ISBN 978-92-5-140917-6

9 789251 409176

CE1032EN/1/11.26