

G7 Progress Report: Adaptation & Resilience Investors Collaborative

May 2023



Adaptation &
Resilience Investors
Collaborative

Prepared by:



The Adaptation & Resilience Investors Collaborative (“the Collaborative”) is an international partnership of development finance organisations (DFIs) working together to accelerate and scale up private investment in climate adaptation and resilience in developing countries. To unlock investment in climate adaptation and resilience, we build know-how, tools and join forces to develop pipelines of bankable investments.

This report shows our progress to date and previews our activities over the remainder of 2023. It also provides a deep-dive into the work we have been doing to develop climate adaptation & resilience (A&R) impact measurement metrics.

THE COLLABORATIVE'S PURPOSE

Increasing the climate resilience of communities, businesses activities, physical and natural assets against the adverse effects of climate change is an urgent priority. Action, however, is not taking place at the scale and pace required.

Collaboration is essential to deliver the systemic change needed to overcome these barriers and failures and close the adaptation finance and action gap.

The Collaborative was set up with this aim. It is an initiative that aims to accelerate and scale-up investments, particularly from the private sector, to achieve the adaptation goals of the Paris Agreement. We want to improve collaboration and action to help overcome systemic barriers hindering investments in adaptation and climate resilience in developing and emerging economies. The Collaborative was launched at the [Finance in Common Summit in 2020](#), bringing together founding partners:

- Agence Française de Développement (AFD)
- British International Investment (BII)
- Foreign, Commonwealth and Development Office of the United Kingdom
- Global Center on Adaptation (GCA)

The Collaborative has since grown in membership and ambitions. It now consists of 16 members, largely bilateral DFIs, working together to deliver on a set of [ambitious commitments](#) put forward to the G7 in May 2021 and reiterated at COP26. Their overarching a common goal is to: “Accelerate and scale up private investment in adaptation and resilience of socioeconomic and natural systems.”

DEVELOPMENT FINANCE INSTITUTIONS



finnfund



Swedfund

MULTILATERAL DEVELOPMENT BANKS



OTHER ORGANISATIONS



DEVELOPMENT AGENCIES



The Collaborative has established three technical workstreams to deliver on this objective, and enable progress on critical areas needed to build and demonstrate the business case for investing in climate adaptation and resilience; these are:

- i. **Physical climate risks assessment:** to enable the systematic identification of opportunities for building climate resilience.
- ii. **Investor-relevant metrics for adaptation and resilience:** to measure and demonstrate the benefits of investing in climate adaptation and resilience building solutions.
- iii. **Capital mobilisation approaches:** to increase awareness about business models, financing structures and avenues through which generating pipelines of bankable adaptation and resilient investments.

The workstreams include the potential for learnings to be shared among private sector financial institutions and impact investors. These workstreams will strive to achieve our [pledge at COP26 in Glasgow](#) to:

- Adopt common principles for tracking finance for climate adaptation and resilience in line with best practice for a stepwise process-based approach, granularity, and conservativeness.
- Disclose the volume of finance committed for climate adaptation and resilience on an annual basis, following different implementation timelines for each institution and continue progressing towards harmonization through peer learning and engagement.
- Continue collaboration towards the adoption of standardised approaches for measuring the contribution of their investments towards adaptation and resilience impact goals.
- Develop common good practice approaches for identifying, assessing, and managing physical climate risk, including common tools for engaging with counterparties.

KEY PROGRESS TO DATE

In late 2022, we made significant strides to establish a long-term structure with the formation of a steering committee, launch of a secretariat to enable the delivery of our work plan, and a strategy to ensure a sustainable model of funding.

STEERING COMMITTEE

The Collaborative is now overseen by a formal steering committee, currently chaired by BII and comprising five other organisations that meet quarterly with the intention to rotate annually. Their role will be to approve the annual workplan and provide strategic guidance, while providing regular oversight, monitoring, and evaluation of the technical workstreams.

SECRETARIAT

Following a competitive Request for Proposals process, we appointed the United Nations Environment Programme Finance Initiative (UNEP FI) as our secretariat. Since January 2023, UNEP FI is now running our day-to-day management, including organising and convening technical workstreams, developing the workplan and strategy, identifying and implementing communications opportunities, and managing the administrative side of the Collaborative, including membership, documents, financing, contracts, and newsletters.

UNEP FI's appointment provides us with a greater opportunity to link our work with private financial institutions, building on the connections already made with impact investors. This will broaden our engagement to more mainstream financial institutions, such as banks in emerging markets and developing economies which often act as financial intermediaries for DFI climate investment activities and are key to reach underserved segments. Three areas of UNEP FI's activity are particularly relevant to deliver on the Collaborative's overarching goal:

- 1.** UNEP FI also hosts the secretariat of the Principles for Responsible Banking (PRB), which convened a Working Group on Climate Adaptation in March 2023 comprising 26 banks from across the globe to develop guidance on target setting for climate adaptation. There are strong synergies between our work and the work of the PRB. This should facilitate capacity building and learning between the two initiatives, particularly around adaptation metrics and capital mobilisation.
- 2.** Supporting financial institutions on climate risk identification, assessment and management has been a key pillar of UNEP FI's work on climate change since 2018. The work of the ongoing Climate Risk Programme, now in its fifth year, could provide important inputs for our physical risk workstream.
- 3.** UNEP FI is also the secretariat of the Principles for Sustainable Insurance. Insurers can play a pivotal role in mitigating the risks posed by the impacts of climate change. UNEP FI also hosts the secretariat of the V20 Sustainable Insurance Facility, which is focused on developing the pipeline of climate risk insurance products that can leverage concessional finance to support climate-resilient investments in micro-, small- and medium-sized enterprises (MSMEs).

TECHNICAL WORKPLAN

Over the last year, the Collaborative's members worked across three technical workstreams as set out in our [2022 Progress Report](#): i) physical climate risks, ii) investor-relevant A&R metrics, and iii) investment vehicles and approaches. Key highlights of the progress made in 2022 include:

- Piloting draft physical risk guidance developed in early 2022, with a particular focus on agriculture and food systems. This guidance will also help to Collaborative members to identify areas for further work.
- Advancing our work programme on adaptation and resilience metrics, including through the engagement of private investors and practitioners.
- Learning from the investment vehicles incubated or catalysed with the support of the [Global Innovation Lab for Climate Finance](#) by fostering direct engagement with proponents, and scoping avenues for building pipelines. The setup of a 'matchmaking' platform is one of the key avenues identified and called for by members. To this end, we have been engaging since its inception with the [ClimateShot Investor Coalition](#), which aims to develop a pipeline of agrifood small- and medium-sized enterprises (SMEs) with a climate and nature positive impact, and connect these to potential investors.
- Participating in and contributing to relevant fora, such as Finance in Common 2022 and COP27, to identify avenues for deepening collaboration among public actors and among public and private actors to bridging the adaptation investment and action gap. At COP27, we brought together private investors, financiers such as The Lightsmith Group and BlackRock, and entrepreneurs such as those that founded SOURCE Global and Apollo Agriculture, to present investment opportunities offered by tech-enabled solutions for managing climate risk and impacts, and practical measures for identifying, boosting and scaling relatively nascent climate adaptation and resilience solutions.¹

Finally, it is also worth noting that members have also individually [worked on various initiatives](#) focused on building a bankable pipeline of adaptation and resilience investment, and on advancing support for public-private collaboration.

Building on this work, and related workplan, we have developed a detailed workplan for 2023–2024 for each of the work streams.

¹ The Collaborative also contributed to Proparco's [Private Sector & Development magazine](#), in a dedicated issue on private investments in climate adaptation and resilience solutions. (See [Private Sector & Development Magazine: Latest Issue Dedicated To Climate Change Adaptation for more insights](#)).

FOCUS ON ADAPTATION AND RESILIENCE METRICS

CONTEXT

The Collaborative committed to the development and application of standardised and consistent approaches for measuring the contribution of investments towards adaptation and resilience impact goals to the G7 and at COP26 (November 2021).

In June 2022, our Progress Report to the G7 identified as a priority the production of “...guidance regarding a ‘menu’ of A&R outcome metrics and a related analytical approach to ensure consistent measurement... hypothetical use cases of member investments to test approaches... a practical toolkit to support measuring and reporting on relevant metrics”.

It also set out our plans for a systematic and transparent approach to defining clear, consistent, and comparable A&R metrics. This included surveying relevant existing approaches to identify key features and analytical underpinnings, and outlining a proposed framework and preliminary high-level menu of metrics. This took account of the challenges and options associated with measuring adaptation impact, including the heterogeneity and diversity of physical climate risks and A&R responses, long time horizons and the inherent uncertainties and trade-offs between simplicity, aggregability and implementation.

ACTIVITIES ON ADAPTATION METRICS DURING 2022–23

With the leadership of BII, and inputs from the Collaborative’s members and other relevant stakeholders, and the support of UNEP FI, we are delivering this work under a dedicated work stream. Since September 2022, this work has been supported by [Cadlas](#), a consultancy firm specialising in climate resilience financing, and has led to the delivery of analysis and recommendations that have advanced a shared understanding on A&R impact metrics.

Over this period, the working group has focused on developing an A&R metrics approach that enables Collaborative members and their private investor partners, to collect, analyse and share, as appropriate, information about the positive A&R impacts of their investments. This approach, which is intended for a wider range of investors and financial institutions, aims to enable the consistent and comparable measurement of A&R impacts across a broad range of investments, sectors and financing modalities. Specifically, it enables investors to:

- Measure the A&R impact of investments systematically, transparently, consistently, across different organisations.
- Move beyond established input metrics (such as A&R finance commitments) to express the A&R impact of investments.
- Integrate A&R impact into investment decision-making, including by pricing in A&R benefits in addition to physical climate risks, to mobilise A&R investment.
- Facilitate co-financing by providing investors with a common frame of reference on A&R impact.

Developing this approach has involved extensive consultations and technical discussions between Collaborative members, supported by the secretariat and by Cadlas. It has also involved a wider range of stakeholders such as private investors

from our members' networks (for example, impact investors, private equity and venture capital), multilateral development banks and industry associations, and other specialised agencies in the areas of impact reporting and results management. These efforts have focused on meeting the needs of investors to understand, assess and share information about positive A&R impacts in their investment operations. This calls for A&R impact metrics that allow investors to identify the positive reasons for investing in A&R, to pursue opportunities for investments that respond to the growing A&R needs across the economies in which they invest, and to identify and measure financing flows that contribute towards A&R.

The Collaborative's efforts have resulted in:

- **A practical model for the definition and application of A&R metrics**, based on an impact pathway approach that accommodates the wide diversity of A&R investment needs while leading towards more comparable and aggregable results reporting.
- **Elaboration of potential use cases for the application of A&R metrics**, covering adaptation finance determination, investment prioritisation, testing investment hypotheses, improving investee physical climate risk management, and reporting to stakeholders on investment contributions to A&R.
- **Illustrations of the application of A&R metrics** across a representative range of sectors and investment themes, detailing how they may be applied and how A&R results may be measured at different stages of the investment cycle.
- **Outline guidance on 'how to measure'** to achieve comparable measurements across different types of activities and investment approaches.
- **Real-world investment case studies** prepared in collaboration with private investors for a cross-industry workshop showing how the proposed A&R metrics approaches relate to current investor practices, and the implementation gaps to be addressed.

FURTHER ACTIVITIES: 2023 ONWARDS

Our work on A&R metrics has also identified some areas where further analysis and development is needed. To help achieve the objectives presented to the G7, we want to build further consensus with all relevant stakeholders on A&R metric development and application. Specifically, this includes:

- Further piloting of our emerging A&R metrics approach on real-world investments to test, refine and expand the approach across a broader range of investment themes and approaches.
- Engagement and alignment with wider processes and initiatives for defining A&R metrics and their application in investment activities.

Therefore, to ensure the consensus and maintain the momentum of our A&R metrics work, WS2 activities will continue throughout 2023 with other relevant stakeholders. This is especially relevant given the growing interest in A&R impact measurement and reporting demonstrated across various sections of the investment community. For example, the Global Impact Investment Network (GIIN) is working to develop a set of climate adaptation and resilience indicators as part of the influential IRIS+ impact investing measurement framework.

THE 2023–24 WORK PROGRAMME

2023–24 is a key year for the Collaborative to build on our objectives and accelerate progress across the three workstreams by:

1. Supporting the use of **physical risk** assessment to not only identify risks but also opportunities for originating and scaling finance. This will include:
 - a. Supporting financial intermediaries with accessing and applying open-source climate and asset data to measure risks and identify opportunities.
 - b. Exploring more rigorous risk assessments by incorporating secondary and concurrent risks
 - c. Using risk assessments to identify opportunities and originate investments.

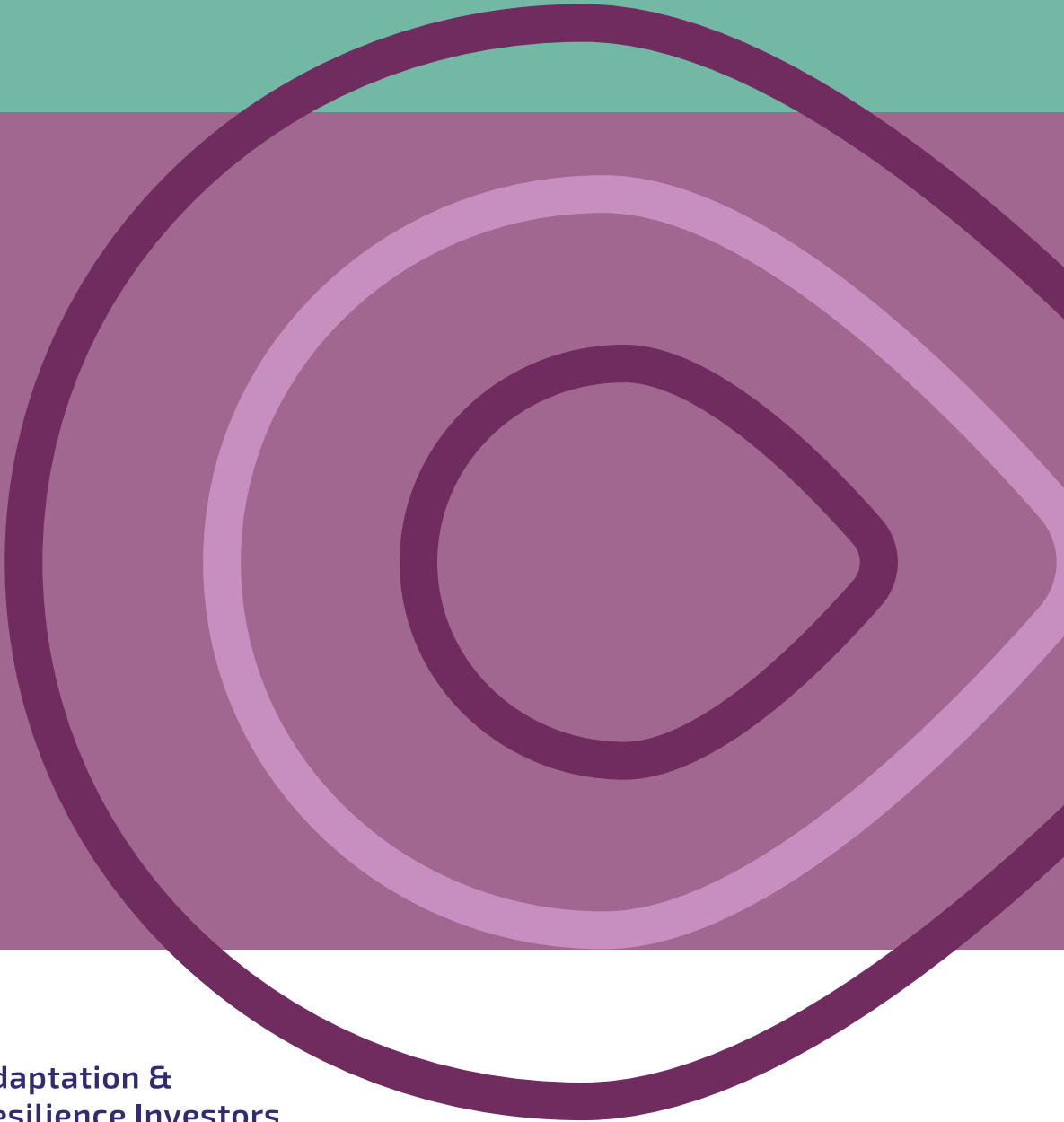
2. **Measuring adaptation and resilience outcomes** for direct and indirect investments by our members and also by investees and financial intermediaries:
 - a. Piloting and reviewing the draft methodology developed in 2022–23 for direct investments.
 - b. Expanding the draft methodology to indirect investments and exploring use cases with financial intermediaries.
 - c. Engaging with other measurement frameworks developing A&R outcome metrics, such as the Global Impact Investor Network (GIIN) and the Climate Bonds Initiative (CBI).

3. Linking our members to platforms and initiatives that are driving and **accelerating financing for adaptation and resilience**, including:
 - a. Engagement with identified adaptation and resilience financing platforms.
 - b. Sharing case studies and experience between Collaborative members.
 - c. Exploring approaches for scaling indirect investments in adaptation and resilience via financial intermediaries such as banks.

It is important to note that the three technical workstreams have a common goal to “accelerate and scale up private investment in adaptation in order to build resilience of socio-economic and natural systems”. Therefore, building links across the three technical workstreams is highly critical, as well as building links with private investors and financial institutions.

The activities carried out to date have already seen the involvement of private investors and financiers. More recently, the Collaborative has engaged private investors under the workstream on A&R metrics to discuss how they measure and evaluate their impact on climate adaptation and resilience. Follow-up work on metrics and on capital mobilisation aims to enhance the involvement of private investors because they are key to the Collaborative’s objective to scale private climate adaptation financing.

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