STAP SCREENING TEMPLATE

GEF ID	**11062**
Project title	**Natural Capital Fund (NCF): Investing in Nature-Positive Agri-Food Enterprises in Asia and the Pacific**
Date of screen	**June 16, 2023**
STAP Panel Member	**Mark Stafford Smith**
STAP Secretariat	**Guadalupe Duron**

1. Summary of STAP's views of the project

STAP acknowledges the Asian Development Bank's (ADB) Non-Grant Instrument (NGI) proposal "Natural Capital Fund (NCF)". STAP welcomes the effort to develop innovative finance, technological, and business models, which the project embraces to influence transformative change in agriculture, including improving the management of chemicals and waste in this sector.

However, the proposal is presented chaotically and repetitively, which makes it hard to read, with the fund structure talked through 4 times (best in the NGI annex), with too little space then given to the logic of delivering GEBs, and to the monitoring and learning systems that will ensure that the Fund quickly learns which types of investments will successfully deliver enduring GEBs and which should not be repeated.

STAP strongly recommends that ADB provides a more comprehensive theory of change, which captures an accurate representation of the project's complexity. The logic chain is oversimplified in the PIF diagram, and inadequately elaborated in the surrounding narrative to identify key assumptions that need testing. Working further on the theory of change for this NGI project, as well as for each of the Natural Capital Fund investments, will help articulate concretely the GEB problems (currently unspecified); reveal the vast number of stakeholders and beneficiaries that are essential for achieving GEB outcomes, some of whom will be outside the GEF's accountability; and help define critical assumptions that need testing/validating to solve the complex GEB, socio-economic, and financial challenges the projects is focused on. Developing and analysing a theory of change for the delivery of GEBs from an investment should be part of the investment criteria for the Fund. Learning rapidly and embedding this knowledge back into the theory of change will be critical for the additionality, scaling, and transformative nature of this project to succeed.

Because the Asia and Pacific region are highly susceptible to climate change, will experience population growth, and possibly undergo other changes that will affect agricultural productivity, improved livelihoods, and financial reflows, STAP urges ADB to develop simple plausible futures for this NGI project which could help ensure that investment choices are robust with respect to future uncertainty.

STAP acknowledges a strong commitment by ADB in response to a draft STAP screen to handle the issues identified in here before the project is finalized, particularly with regard to monitoring and learning about the investments under this model that successfully deliver GEBs and those that do not.

Note to STAP screeners: a summary of STAP's view of the project (not of the project itself), covering both strengths and weaknesses.

STAP's assessment*

- □ Concur - STAP acknowledges that the concept has scientific and technical merit
- ■ Minor - STAP has identified some scientific and technical points to be addressed in project design
- □ Major - STAP has identified significant concerns to be addressed in project design

Please contact the STAP Secretariat if you would like to discuss.

2. Project rationale, and project description – are they sound?

See annex on STAP's screening guidelines.

The Project Rationale section provides some brief (and ok) background on the need for sustainable agri-food systems (p.10), but then (p.11-12) simply outlines the proposed fund – this is not a *rationale* for the Fund; such details should be in the Project Description and NGI annexes (where it is in fact repeated).

In the Project Description, it would help to explain first how the Fund is responding to what is called for in the Rationale, then provide the theory of change, and hence the structure of the Fund. Instead, the focus is first of all on the fund structure, as if it is a solution looking for a problem. The project is reasonably based on the Natural Capital Fund (NCF) filling a financial gap, de-risking investments, and crowding in additional capital to support small-medium enterprises (SMEs) to implement climate smart agri-food projects that should deliver GEBs in Asia and the Pacific.

P.13 asserts "With the right access to finance and technical assistance, SMEs can contribute greatly to GEBs…" – whilst this might be true, it is a big assumption that simply supplying finance and TA will result in enduring GEBs. This logic needs to be unpicked much more in the proposal, or at least acknowledged so that there is a committed process for unpicking it in regard to the individual investments that are considered. To this end, the commitment to creating a theory of change for each investment is welcome, though these need to be far more realistic than the overall theory of change presented (p.14) for the whole project – the steps of logic between the Outputs and Outcomes column are largely missing, both in the diagram and (more importantly) the surrounding narrative, hiding many assumptions that need to be tested. (It is also unlikely that the list of barriers provided are the only barriers to delivering GEBs – there could be policy issues, perverse incentives, inequality, population pressures, etc – not all can be dealt with but recognizing the potential other factors means they can be addressed in the context of specific investments.) The logic of these causal pathways needs to be elaborated more in the narrative surrounding the theory of change for the whole project.

It is excellent that there is a robust pipeline of projects (p.14), but a robust appraisal of the potential of each to deliver GEBs is also needed – not necessarily in the PIF but here there needs to be a commitment to a process for ensuring this, such as committing to developing a good theory of change for each before investing in it, and thence identifying what will need to be monitored for each investment to confirm that the assumptions related to delivering those GEBs are supported (or to learn that some types of investment are not good for this mode of support).

P.17 starts to explain that NCF will 'try to ensure' that investments are selected that will address environmental issues; this is good, but this is not an add-on to 'try'! it should be the primary purpose of the whole Fund from a GEF perspective, and hence (i) it should be clear in the theory of change, and (ii) it should contain a clear strategy for monitoring what works and what doesn't in terms of different types of investment, which is not mentioned here. P.18 mentions that the "*NCF's investment strategy is to encourage innovative natural capital oriented business models that generate positive cash flows and thus a positive return on investment*" which is fine as far as it goes, but they must also succeed in delivering GEBs, not just being natural capital 'oriented'. This must be a core part of the strategy in the theory of change.

Table 1 and the following descriptions are very useful, in that it is possible to see types of investment that seem more or less likely to deliver enduring GEBs. For example, increasing water use efficiency is probably good, but could still drive leakage through expanding areas irrigated due to cheaper water; recognizing this would allow the investment to be targeted to regions where there is good overall land use planning (e.g.). Novel potato tubers sound very plausible. Mangrove restoration is likely to deliver GEBs providing there is no leakage of lost mangroves elsewhere. For Pakistan flood assistance it is easy to see excellent social benefits, but harder to see enduring GEBs, especially in a time of increasing extremes. In short, these sorts of descriptions indicate that a theory of change could be articulated for each investment, and that it could then identify assumptions to be monitored and learned from.

p.31-32 – STAP totally acknowledges the need to invest for more than GEBs alone (as long as the GEBs are achieved), and strongly supports the excellent effort to identify prerequisite and incidental co-benefits in Table 4 (p.32-3) – this is a very useful table, which also adds understanding to a potential theory of change for each investment by identifying (testable) pre-requisite co-benefits that may provide the incentives to product users to seek GEBs. Once again, STAP appreciates that the PIF cannot show everything, but it should clearly articulate the intent to complete this sort of analysis to inform a theory of change and monitoring schema for each investment **as part of the investment criteria** once the project begins, rather than having the criteria largely focused on financial attributes. (It would be good to add a serious appraisal of risks to the durability of the intended GEBs as delivered by each investment to this analysis, whether through leakage, loss of interest or undermining by the changing global environment. This should also address whether there are conflicting policies (policy incoherence) in the target sales area that may undermine GEBs. This would all help identify *robust* investments.)

Note: provide a general appraisal, asking whether relevant screening guideline questions have been addressed adequately – not all the questions will be relevant to all proposals; no need to comment on every question, only those needing more attention, noting any done very well, but ensure that all are considered. Comments should be helpful, evaluative, and qualitative, rather than yes/no.

3. Specific points to be addressed, and suggestions

(up to about 600 words)

p.7-8 Indicators 2 and 3 - the *number* of investments is not much of an indicator of the related outcomes in terms of agrifood systems being sustainable; this depends on the success of the investments in delivering enduring GEBs.

p.15 it is not clear whether the Investment Readiness entity is providing technical assistance to the NCF, to its investees, or to those using the products of the investees; and to what extent 'technical' means business skills or ability to deliver GEBs or both? This could also be clarified in Fig.4

p.16 the fund structure is provided here helpfully (Fig.4); however, this does not address the fund's governance, which is later indicated in the NGI annexes – the key elements, showing how there will be a reliable selection and monitoring of investees likely to deliver GEBs would be helpful as part of the discussion of the theory of change around here. This gradually emerges from the investment criteria and the description of the different committees (Fig.on p.69, p.75-76); it would help to have a short summary of these governance arrangements here, and in particular address *who* will ultimately make the decisions about what to investment on the basis of what advice, and particularly *how* this will bring in aspects related to achieving durable GEBs, and *who* will be responsible for monitoring the assumptions related to these.

p.19 Fig 5 – it is good to have a summary of these, but the themes are too broad to be testable or measured. It might help to provide a next level typology of business types, more along the lines of what appears later in the 7 examples in Table 4, which get close to assumptions that might be monitored and the success (or otherwise) of which would help rule subsequent investments in or out. This could, for example, create another line that is more relevant to the process of delivering GEBs that could appear in Fig.6. Once the investment themes have been specified, metrics to measure and monitor the impacts (positive and negative) of the NCF on GEBs should be identified. The Taskforce on Nature-related Financial Disclosures's risk assessment may be a useful resource (see link below).

p.28 Fig.8 – this is fine on the finance side but it would be good to see audited measures of GEBs delivered also, where this is appropriate, since STAP would see that this is a part of the current project that is at least as hard as the financing side.

p.43 the roles of Investment Readiness are slightly more expansive here than earlier, especially item (ii) – it would be useful to be more explicit about this in describing the theory of change; even so, *who* will be responsible for monitoring success of this project development is not clear.

p.44 – the fact that the project is responding to climate does *not* remove implementation risks from extreme weather!! (e.g. a drought event destroying a key investment crop, or good rains in a competing country damaging an export market, or Pakistan being hit by more floods before recovery). This row needs a better approach, since the risk will often NOT be low, and indeed rarely is in agriculture. (In fact a more integrated way of approaching all environmental and other risks coherently can be to use STAP's Simple Future Narratives guidance.)

p.45 the many issues presented within one row makes this very hard to understand, here and later in the Risk Table.

p.50ff – section C does not address the question of whether there are policies that contradict intended GEB outcomes in the target investment areas; of course, this mostly won't be known yet, but a commitment to assess this and some indication of how it may affect the investment criteria would be desirable.

p.58 – this asserts that KM&L has been clearly described, but 'knowledge management' appears nowhere in the document (other than in the GEF text) and 'learning' only once. There is the claim that the investment process "would be designed for learning and enhancing the pipeline" which is good, but no explanation of how. This should be rectified. STAP strongly suggests this should be liked in with testing assumptions (which need to be articulated) in both the project level theory of change, and those at the individual investment level.

p.56 and p.69ff – the governance details gradually emerge in this section, but it would be good to have a short summary of the key elements of this in the main project description, particularly as regards the delivery and monitoring of GEBs.

Using simple narratives to ensure durability of GEF investments: https://stapgef.org/resources/policy-briefs/using-simple-narratives-ensure-durability-gef-investments

Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.4 Annex 4.6 Guidance on LEAP: Methods for assessing nature-related risks: https://framework.tnfd.global/wp-content/uploads/2023/03/23-23882-TNFD_v0.4_Annex_4.6_v2-2.pdf

Risk and Opportunity Management and Disclosure Framework Beta v0.4 Annex 4.9 Draft Guidance on Engagement with Affected Stakeholders: https://framework.tnfd.global/wp-content/uploads/2023/03/23-23882-TNFD_v0.4_Annex_4.9_v7-1.pdf

Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.4 Annex 4.10 Additional guidance on scenario analysis: https://framework.tnfd.global/wp-content/uploads/2023/03/23-23882-TNFD_v0.4_Annex_4.10_v4.pdf

Note: number key points clearly and provide useful information or suggestions, including key literature where relevant. Completed screens should be no more than two or three pages in length.

*categories under review, subject to future revision

ANNEX: STAP'S SCREENING GUIDELINES

1. How well does the proposal explain the problem and issues to be addressed in the context of the **system** within which the problem sits and its drivers (e.g. population growth, economic development, climate change, sociocultural and political factors, and technological changes), including how the various components of the system interact?

2. Does the project indicate how **uncertain futures** could unfold (e.g. using simple **narratives)**, based on an understanding of the trends and interactions between the key elements of the system and its drivers?

3. Does the project describe the **baseline** problem and how it may evolve in the future in the absence of the project; and then identify the outcomes that the project seeks to achieve, how these outcomes will change the baseline, and what the key **barriers** and **enablers** are to achieving those outcomes?

4. Are the project's **objectives** well formulated and justified in relation to this system context? Is there a convincing explanation as to **why this particular project** has been selected in preference to other options, in the light of how the future may unfold?

5. How well does the **theory of change** provide an "explicit account of how and why the proposed interventions would achieve their intended outcomes and goal, based on outlining a set of key causal pathways arising from the activities and outputs of the interventions and the assumptions underlying these causal connections".

    - Does the project logic show how the project would ensure that expected outcomes are **enduring** and resilient to possible future changes identified in question 2 above, and to the effects of any conflicting policies (see question 9 below).
    - Is the theory of change grounded on a solid scientific foundation, and is it aligned with current scientific knowledge?
    - Does it explicitly consider how any necessary **institutional and behavioral** changes are to be achieved?
    - Does the theory of change diagram convincingly show the overall project logic, including causal pathways and outcomes?

6. Are the project **components** (interventions and activities) identified in the theory of change each described in sufficient detail to discern the main thrust and basis (including scientific) of the proposed solutions, how they address the problem, their justification as a robust solution, and the critical assumptions and risks to achieving them?

7. How likely is the project to generate global environmental benefits which would not have accrued without the GEF project (**additionality**)?

8. Does the project convincingly identify the relevant **stakeholders**, and their anticipated roles and responsibilities? is there an adequate explanation of how stakeholders will contribute to the development and implementation of the project, and how they will benefit from the project to ensure enduring global environmental benefits, e.g. through co-benefits?

   How will the stakeholders be informed of actions, progress and lessons learnt through the lifecycle of the investment/project? Through which reporting mechanisms?

9. Does the description adequately explain:

   - how the project will build on prior investments and complement current investments, both GEF and non-GEF,
   - how the project incorporates **lessons learned** from previous projects in the country and region, and more widely from projects addressing similar issues elsewhere; and
   - how country policies that are contradictory to the intended outcomes of the project (identified in section C) will be addressed (**policy coherence**)?

10. How adequate is the project's approach to generating, managing and exchanging **knowledge**, and how will lessons learned be captured for adaptive management and for the benefit of future projects?

11. Innovation and transformation:

   - If the project is intended to be **innovative:** to what degree is it innovative, how will this ambition be achieved, how will barriers and enablers be addressed, and how might scaling be achieved?
   - If the project is intended to be **transformative:** how well do the project's objectives contribute to transformative change, and are they sufficient to contribute to enduring, transformational change at a sufficient scale to deliver a step improvement in one or more GEBs? Is the proposed logic to achieve the goal credible, addressing necessary changes in institutions, social or cultural norms? Are barriers and enablers to scaling be addressed? And how will enduring scaling be achieved?

12. Have **risks** to the project design and implementation been identified appropriately in the risk table in section B, and have suitable mitigation measures been incorporated? (NB: risks to the durability of project outcomes from future changes in drivers should have been reflected in the theory of change and in project design, not in this table.)