

Green Finance & Sustainable Agriculture in the Dry Forest Ecoregion of Ecuador and Peru

Basic Information

GEF ID

10852

Countries

Regional (Ecuador, Peru)

Project Title

Green Finance & Sustainable Agriculture in the Dry Forest Ecoregion of Ecuador and Peru

GEF Agency(ies)

CAF

Agency ID

CAF: CAF-GEF-038

GEF Focal Area(s)

Multi Focal Area

Program Manager

Avril Benchimol Dominguez

PIF

Part I – Project Informatic

Focal area elements

1. Is the project/program aligned with the relevant GEF focal area elements in Table A, as defined by the GEF 7 Programming Directions?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Delete CW.
2. 2. Project Executing entities: of the NGI project only. Please provide the executing entity (ies) of NGI (and not the grant/in-kind portions). Since CAF will be managing our guarantee, CAF should be part of the Execution arrangement, together with the issuers of the bond.
3. 3. Project Duration: since the documents mentions 5-6 years, please use the 72 months (instead of 60 months) to be on the safe side.

10/6/2021

1. 1. Not consistent throughout the doc: you still have sections quantifying and outcomes and outputs on this matter. These have been highlighted in the word document for you to take a decision.
2. Please include CAF as you are managing our Guarantee and will be executing it on our behalf.
3. No, please revise it to 72 months (if 6 years) or 96 months if up to 8 years

10/25/2021

Please double check that up to 96 months is inserted.

10/28/2021

Cleared

Agency Response

Agency Response (28th, Sep 2021):

1. CW has been eliminated on the GEF portal
2. CAF will be the executing entity, having COFIDE and BanEcuador as co-executing entities of NGI funds.
3. The duration of the project has been corrected on the GEF portal

Agency Response (Oct, 11th, 2021):

1. The information has been updated on the GEF portal. All quantitative information on waste has now been removed, although it has been left in qualitatively as a 'non-quantified co-benefit'.
2. The information has been included on the GEF portal.
3. The duration of the project has been corrected on the GEF portal to 8 years (96 months)

Agency Response (Oct, 26th, 2021):

96 months has been inserted in the PIF

Indicative project/program description summary

2. Are the components in Table B and as described in the PIF sound, appropriate, and sufficiently clear to achieve the project/program objectives and the core indicators?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Please consider revision with comments given to alternative scenario.
2. BD core indicator(s) need to be added and significant.

3. 3.The very small amount of the GEF contribution to component 1 and 2 needs to be explained. Since there are many components without GEF financing, please consider “collapsing/merging” some of the components with TA.
4. 4.On the components of the pilot and bond issuance: later in the document it is stated that the pilot will be financed by the Green Bond proceeds. Please make this table (or if this is not the case, change the language in the document).

10/6/2021

1. Partially, please revise the Table B following the comments provided in the word document.
2. BD core indicator(s) need to be added and significant -> the BD-related indicators (CI 3.2 and CI 4.1) are not very high but acceptable for the level of BD funding.
3. Please revise the Table B following the comments provided in the word document.
4. No, GEF investment is not included in Component 3.

10/25/2021

1. Cleared.
2. Cleared.
3. Cleared.
4. Cleared. Noting that component 3 will be funded by CAF and AFD loans.

Agency Response

Agency Response (28th, Sep 2021):

1. The alternative scenario is no GEF guarantee for Green Bond issuance. The lack of funding will make that the Ecuadorian and Peruvian Governments have less finance for Sustainable Agriculture in the ecoregion. Therefore, small land holders would keep impacting negatively the ecosystems. This reasoning is already included in the CEO -ERF
2. The core indicator information has been updated in the section F, CEO-ERF and the GEF portal.
3. The detailed description of actions from project components 1 and 2 help the review of GEF’s Focal LD experts.
4. The microfinance loans will finance activities of the pilots in component 3 and activities of sustainable agriculture described in component 2. This has been already corrected in the CEO-ERF.

Agency Response (Oct, 11th, 2021):

1. The information has been updated on the GEF portal.
2. No response needed
3. The information has been updated on the GEF portal.
4. The information has been updated on the GEF portal.

Agency Response (Oct, 26th, 2021):

No response needed

Co-financing

3. Are the indicative expected amounts, sources and types of co-financing adequately documented and consistent with the requirements of the Co-Financing Policy and Guidelines, with a description on how the breakdown of co-financing was identified and meets the definition of investment mobilized?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. The amount of co-financing in Table C should match with the co-financing amount in the termsheet in Annex A. Please include in the termsheet a line stating that the additional US\$ 8M in grant/in-kind are part of co-financing.
2. Please note that the financiers (lenders) are the bondholders and that the issuers are the borrowers. So we are effectively getting co-financing from bondholders (not from the issuers).
3. What is the purpose of having loan from CAF? Where it stands in the financial structure? This needs to be better explained in the doc. Also please include if CAF loans will count with co-financing of the LOAN (not of the bond).
4. Is the loan from AFD already reside in CAF? Then this might cause double-counting, please address.
5. The project has massive amount of Technical Assistance (component 1,2,4) with co-financing only in-kind (no investment mobilized). Please explain how this NGI is needed and "fits" in the overall grant/inkind architecture. This could be dealt with in the TOC.
6. Please revise typos/grammar in the description.

10/6/2021

1. Cleared. Please make AFD a DOnor Agency
2. Partly, please revise the source of co-financing to 'private' for private lenders/bond holders
3. Please specify how this loan will be part of the structure in the graph that explains the structure
4. In this case, we are not sure AFD loan focusing+CAF loan in component 3 has other benefits that are not aligned with the bond's mandate (sustainable agriculture), then this should not be considered as co-financing. You need to clarify and align GEBs of the loan and bond.
5. How all investments including component 3 will be executed by co-financing only comprised of recurrent expenditures?
6. Cleared.

10/25/2021

1. Cleared.
2. Please change type of co-financing from private lenders/bond holders to 'loan' instead of "other"- make sure that this table is the same as in the termsheet co-financing section under Annex A
3. Cleared.
4. Cleared.
5. Cleared.
6. NA
7. Please correct the source of co-financing from CAF from Other to GEF Agency
8. Please change the co-financing source of FAO and Conservation International from GEF Agency to "Donor Agency"
9. The grant co-financing from GGGI should be categorized as Investment Mobilized and not Recurrent Expenditures. In addition GGGI is an international intergovernmental organization so it should not be categorized as CSO but rather Other.

10/28/2021

All comments cleared.

Agency Response

Agency Response

Agency Response (28th, Sep 2021):

1. The amount of co-financing has been corrected in table C of the CEO-ERF and in the GEF portal and matches with co-financing amount in Annex A.
2. The information has been updated in table C of the CEO-ERF and in the GEF portal.
3. CAF loan will help to increase the amount of investment mobilization to pilot projects of component 3. There is a possibility that a scheme of green securitization (for Sustainable agriculture in Tumbesian forests) happens in Ecuador, therefore CAF's loan can help to that purpose.
4. The loan from AFD is already signed with CAF. The resources have a reporting system that has to be followed by CAF and AFD, focusing in climate adaptation benefits. We will avoid double counting using the MRV system designed for this project. Besides the GEB reported by this project are focusing in Biodiversity and Land Degradation.
5. A key point in relation to the GEF NGI guarantee is that considerable Technical Assistance resources are focused on Components 1 to 3 and 5. The Components are very much needed to support the successful development and implementation of the Green bonds in Component 4. This because Ecuador and (somehow) Peru have relatively limited sustainable bond experience, because the farmers and producers will need training and educating about agroforestry and green credit lines, and because obtaining relevant information on the dry forest priority areas and farmers to be targeted all require much technical assistance to undertake. The NGI GEF guarantee is needed to support and attract the other mobilized private sector bond issuance co-financing. Component 4 is totally dependent on the successful completion of all the other Components.
6. Typos & grammar have now been fully checked in the CEO-ERF and in the GEF portal.

Agency Response (Oct, 11th, 2021):

1. The information has been updated on the GEF portal.
2. The information has been updated on the GEF portal.
3. See the new figure added on the loan structure covering Ecuador and Peru.
 4. AFD resources will be aligned with the bonds mandate (sustainable agriculture) when we will make the finance individual contracts with COFIDE and BanEcuador.
 5. Component 3 will be partly funded by the green bonds & partly funded by CAF's loan and other donors' recurrent expenditures.
6. No response needed.

Agency Response (Oct, 26th, 2021):

2. Done
7. Done
8. Done
9. Done

GEF Resource Availability

4. Is the proposed GEF financing in Table D (including the Agency fee) in line with GEF policies and guidelines? Are they within the resources available from (mark all that apply):

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Yes

Agency Response No response needed

The STAR allocation?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. N/A

Agency Response

The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

N/A

Agency Response

The LDCF under the principle of equitable access?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

N/A

Agency Response

The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

N/A

Agency Response

Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

N/A

Agency Response

Impact Program Incentive?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

N/A

Agency Response

Project Preparation Grant

5. Is PPG requested in Table E within the allowable cap? Has an exception (e.g. for regional projects) been sufficiently substantiated? (not applicable to PFD)

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Yes. But the Agency needs to explain how the PPG is expected to be used/justified.

10/6/2021

1. We request that the PPG is also used to discuss with Rating Agencies on the value of the guarantees ahead of the issuance, as discussed with CAF team over the phone.

10/25/2021

Cleared

Agency Response

Agency Response (28th, Sep 2021):

PPG will be used to hire a consultant team that will help to the design the PRODOC with Peru and Ecuador stakeholders. They will help to make the Gender Action Plan to improve the demand study with small landholders in both countries, and to hire a Finance expert with experience in structuring Green Bonds in LAC countries. PPG resources will also be used for consultation and other processes in order to attain CAF-GEF E&S standards.

Agency Response (Oct, 11th, 2021):

1. This explanation is now included on the GEF portal.

Agency Response (Oct, 26th, 2021):

No response needed

Core indicators

6. Are the identified core indicators in Table F calculated using the methodology included in the corresponding Guidelines? (GEF/C.54/11/Rev.01)

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. There isn't any BD core indicator and this is not acceptable. The expected results in terms of GEBs presented in table B need to be consistent with Core Indicators table which is not the case.
2. The expected outcome should not only include those from the TA, but mainly from investment component (component 3) – with the estimation based on good rationale and pipeline of projects that is expected to be financed. For instance, as the investment component would target sustainable agricultural practices, we would expect benefits on restoration of agricultural land (core indicator 3.1). Same applicable for core indicator 4 & 11 – please provide methodology behind the calculation even now it is rough estimate.
3. Please revise or delete core indicator 9 – 9.1 (agency could not quantify the amount at the PIF stage), 9.4 & 9.5 (no project activities that will result in these indicators – please revise the alternative scenario or the core indicator table).
4. The 4,000 ha to be restored seems modest for a \$60 million plus operation. Where is this restoration taking place and what is the critical nature of that habitat? Why is the restoration so small? How does this relate to the targeted 24,500 small producers. Again, the agency mentions indicator 3.1 for restoration which corresponds to agriculture and not to forests. This needs to be clarified.
5. There are 150,000 ha of improved practices. What are the underlying assumptions as to geography (country and region). The map suggests a big geographical reach for the project.
6. 24,500 beneficiaries and 52,500 indirect beneficiaries. How is this number determined? What is the typical farmer plot? Who owns the land?

10/6/2021

1, 2, 4, 6. Please provide equation and logic behind each core indicators not only saying it was consulted with consultants, including not only Technical Assistance, but also proceeds from the Bond would contribute. It is still not clear. Also, the number under Global Environmental Benefits for two countries should match up with the core indicator table. Please revise.

The result is reported as 3.2 (which is consistent with the project description) and not as 3.1 as said in the Agency response in the review sheet. Again, the agency mentions the indicator 3.1 for restoration which correspond to agriculture and not forests. This needs to be clarified.

3. Okay.

5. Can you pinpoint where these communities locate in the map provided? Are they going to be benefited from the bond issuance?

10/25/2021

1, 2, 4, 6. The agency proposes one unique response to different comments and as a result, we don't see the response for each specific comment. Please address each comment separately.

COMMENT. PLEASE ADDRESS EACH COMMENT SEPARATELY.

The project description remains confusing in terms of indicators as the indicator 3.2 is reported (and this is correct with most of the project description) but we still find that the project will provide “restoration of degraded agricultural soils degraded in marginal zones”, which corresponds to the core indicator 3.1 (restoration of agriculture land). Please address throughout the document.

In addition, we learn that the core indicator 4.1 corresponds to “30,000 hectares of restored native vegetation -forest with Sustainable Forest Management practices”. Please clarify the difference in terms of landscapes and practices between these 30,000 ha and the 10,000 hectares of Dry Forests restored with native species and explain why the targeted areas fit in 2 different core indicators. To clarify, the agency may consider merging the 10,000 + 30,000 ha into the same core indicator 3.2 or clarify throughout the project description that the 30,000 ha correspond to conservation areas benefitting with improved management practices (rather than restoration activities).

5. Cleared

6. Core Indicators table: Indicator 9 (Reduction of chemicals) is selected without targets specified, and the PIF text explains that “...This will include the reduction of around 450,000 tons of fertilizer agrochemicals and of 10,000 tons per year of chemical biocides (by the fifth year of the project) as a project co-benefit (not as a GEB)”. – Please consider including Indicator 9 targets in Core Indicator table, as chemical-related co-benefits are verified and justified through agro practices. Otherwise please eliminate Indicator 9 from the table.

10/28/2021

1, 2, 4, 6. Cleared

6. Cleared

Agency Response

Agency Response (28th, Sep 2021):

1. BD core indicators has been included in the proposal under Indicator 3.1 and 4.1. Please look at them at CEO-ERF in GEF Portal.
2. Calculations on restoration of agricultural land and hectares benefiting from the introduction of sustainable farming practices were obtained through several interviews with ECOM’s experts on cocoa production. Those extensionists have lengthy experience helping small producers of Cacao in Ecuador and Peru to increase productivity of their lands. Besides, CAF’s consultant team had interviews with Caja Piura and BanEcuador credit officials who have long term expertise with agricultural microcredit in the project work area. A conservative calculation based on quantitative analysis of microcredit portfolio of the financial institutions helped to make our projections using experts’ best educated guess.

3.CW Core indicators have been deleted.

4. The amount of Hectares to be restored has been increased to 10,000 as core indicator 3.1 and 30,000 hectares of native dry forest created or preserved as part of set-asides, together with 140,000 additional hectares benefiting from the introduction of sustainable farming practices.

5. The project will use the existing installed capacity of ECAS (Agricultural field schools) in order to maximize impacts of national, regional and local activities of Ministries of Agriculture, Local Governments, FAO, and other specialized organizations that work in sustainable agriculture initiatives such as Bosques y Fincas, Organic agriculture, and others. For instance in Ecuador, the National Integrated Fire Management Program has ECAS in buffer zones of Protected Areas (many of them in the Tumbesian Dry Forest eco-region), and these will be used in several activities of this project. The beneficiaries of the project will mainly be farmers from Ecuador and Peru, belonging to various associations and communities, in the following list:

Table of project beneficiaries:

Country	PROVINCE	Community/Sector
Ecuador	EL ORO	<u>CARCABON</u>
-	GUAYAS	ASOCIACION DE PRODUCTORES AGROPECUARIOS 31 DE JULIO
-	GUAYAS	ASOCIACION DE PRODUCTORES AGROPECUARIOS SAN PEDRO DE VILLAGO
-	GUAYAS	GRUPO INDEPENDIENTE BELLAVISTA
-	GUAYAS	ASOCIACION AGRICOLA PROYECTO 2000
-	GUAYAS	CENTRO AGROARTESANAL NUESTRA SEÑORA DE LAS MERCEDES CAAM
-	GUAYAS	ASOCIACION DE PRODUCTORES AGROPECUARIOS LAS TRES MARIAS
-	GUAYAS	DOS REVESAS
-	GUAYAS	ASOAVANZA 2
-	GUAYAS	PREDIO LA FORTUNA
-	SANTA ELENA	Comuna San Miguel
-	SANTA ELENA	Comuna Febres Cordero
-	SANTA ELENA	Comuna Baños Termales
-	SANTA ELENA	Comuna Entre Rios
-	SANTA ELENA	Comuna Sacachum
-	LOJA	<u>Bolaspamba</u>
-	LOJA	<u>Paltahuaico</u>
	LOJA	Naraniito

-	LOJA	03 de Septiembre de Numbiaranga
-	LOJA	<u>Laguar</u>
-	LOJA	Cooperación Impulso Agropecuario San Juan de Pozul_Barrío San Vicente
-	LOJA	Cooperación Impulso Agropecuario San Juan de Pozul_Barrío Minas
-	LOJA	Cooperación Impulso Agropecuario San Juan de Pozul_Barrío Naranjito
-	LOJA	Cooperación Impulso Agropecuario San Juan de Pozul_Barrío Pueblo Nuevo
-	LOJA	Comunidad Ganadera de Celica
-	LOJA	Comunidad Ganadera Puyango
-	LOJA	Productores Agroecológicos de Puyango
-	LOJA	Comunidad de aprendizaje Valle Nuevo
-	LOJA	Comunidad de Aprendizaje Reina del Cisne
-	LOJA	Desarrollo Agropecuario de Paltas
-	LOJA	<u>ASOAGROPISA</u>
Peru	_LAMBAYEQUE	ASPROBOS
-	_PIURA	CECOBOSQUE
-	_TUMBES	Consorcio de Manglares del Noroeste de Perú
-	_LAMBAYEQUE	Comunidad campesina MUCHIK Santa Catalina

6. The number of beneficiaries was calculated using the method explain above (numeral 2). The typical farmer plot is >1ha &<10ha. Land ownership is diverse. In Ecuador and Peru there are private and "comunal" ownership. Financial institutions allies of the project have developed functional ways to work with agricultural producers with different types of ownership, including "non formal owners" category.

Agency Response (Oct, 11th, 2021):

1,2,4,6 . The benefits has been shown in section 1a.6 split by Ecuador and Peru. The calculation assumption has also been included here (based on US\$35/ hectare and 20% protection per farm).

3. No response needed

5 There is map in page 57 that highlights the communities that have ECAs (Farmer Field Schools) where the capacity building and investments from the green bonds will be focused.

Agency Response (Oct, 26th, 2021):

1. This project will provide 10K Ha of dry forest restoration (core indicator 3.1), 30K Ha of set-aside of dry forest area as part of conservation agreements (core indicator 4.1) and 140K Ha of improved agriculture land (core indicator 4.3). These figures are now consistent in Table B and Table F – and explained through the document.

2. All the benefits are now linked to Component 4 and the GEF loan guarantee assistance.

The 10,000 hectares of restored dry forest is based on other in-kind assistance that has been promised (e.g. from Guayas Provincial Government) plus other potential dry forest restoration areas that could be funded through leverage of the project and potential climate smart funds. The 170,000 hectares of overall agricultural improvement and biodiversity improvement is based on an assumed overall investment of USD 60 million and USD 355 cost per hectare. This is an indicative estimate only based on a range of other studies including:

USD 200/ha for 8 years for agroforestry systems with hedgerows in smallholder maize-bean production systems in the Guatemalan dry forests. Sain et al, (2017).

USD 230/ha for 8 years for maize based agroforestry in Africa. FAO (2020).

USD 363/ ha for Climate-smart livestock and grassland restoration in Ecuador GEF PIF project estimate. GEF (2013).

USD 1,240/ha in Peru for Cacao Alliance climate smart/agroforestry cacao project with USAID funding. FAO (2016).

Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment: is the estimated number of agriculture producers and landowners located in the indirect area of project's influence or inside the dry forest that could be direct beneficiaries of a sustainable agriculture loan. This number was obtained through interviews with Ministries of Agriculture of both countries, and Caja Piura and BanEcuador local officers in areas of the planned interventions. The typical farmer plot is >1ha &<10ha. Land ownership is diverse. In Ecuador and Peru there are private and "communal" ownership. It will be confirmed more accurately during the design phase, once the socio-economic study results are analyzed. The disaggregation by gender will also be provided at the design stage.

4. The 10,000 Ha is an indicative and hopefully under-estimate. It is based on an agreed 4,000 commitment already to be undertaken in the Guayas Province. Other opportunities to expand on this should hopefully arise through the project.

There is no direct connection to the small producers.

6. Text on C&W indicator 9 has been deleted from table F.

Project/Program taxonomy

7. Is the project/program properly tagged with the appropriate keywords as requested in Table G?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Remove Sustainable Fire Management, Chemicals and Waste, Large corporations, Education

10/6/2021

1. Chemicals and Waste is still there- do you want to keep it?

10/25/2021

1. Please see comment 6 on Core Indicator section. Please remove objectives related to CW

10/28/2021

Cleared.

Agency Response

Agency Response (28th, Sep 2021):

The taxonomy categories Remove Sustainable Fire Management, Chemicals and Waste, Large corporations, Education have been removed from the GEF portal CEO-ERF document.

Agency Response (Oct, 11th, 2021):

Chemicals and Waste has been removed in taxonomy section on the GEF portal

Agency Response (Oct, 26th, 2021):

Deleted. But the GEFportal does not allow to erase the checkmark in table

1. Has the project/program described the global environmental/adaptation problems, including the root causes and barriers that need to be addressed?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Root causes/global environmental problems remain the same from the previous version. Now the description of root causes (deforestation and forest degradation) is weak, please explain why the agricultural land is expanding and what allow the expansion (preserve incentives, land rights, poverty, ...) in particular for two countries, and targeting landscape if possible. Please add lack of integrated planning as a root causes – which would justify activities under component
2. Also, please describe the status of green bond issuance and coalition in two countries. Have there been any green bonds? Any bonds issued for land use and BD? What are the barriers for issuance? This will indicate how this project is important/relevant.
3. The justification of the project interventions on Peru's side is missing: we have indications of the environmental degradation and drivers are at national of biome scales, without any indication of what's happening in the selected 3 provinces in particular in terms of remaining tree cover and pressures. Why not considering also the province of Cajamarca?
4. Among the barriers, couldn't the lack of integrated planning capacity be also considered? This sounds logical to explain the environmental degradation and to justify some activities under component 2.
5. We are missing description of the targeted smallholder farmers in this region. Main characteristics, vulnerabilities, access to finance and training for sustainable practices?
6. When is a sustainable practice deemed accomplished? A farmer could attend training and sign the Conservation Agreement but stop adhering to the practices.
7. Please provide a graph on how the financial structure will work (with the guarantees) and on-lending.

8. WHAT IS THE HISTORY, CASE REVIEWS OF THE EFFECTIVENESS OF THE CONSERVATION AGREEMENT? THE DOCUMENT POINTS OUT THAT CI HAS USED A CA IN 17 OTHER COUNTRIES. WHAT ARE RESULTS?
9. The PIF also notes the large number of small farmers that do not own the land they farm. It would be useful to understand the implications of this on BanEcuador and COFIDE's approach to lending.
10. The document describes a quite dire situation for the Dry Forest Ecoregion with 95% loss due to land conversion. Is it too little and too late to intervene? What steps are the two governments taking to stop the continued loss of forest and habitat?
11. The word document submitted had additional sections that are not part of the PORTAL: " If ultimately required to cover loan defaults, GEF funding will be made available to the two designated development banks in Ecuador (BanEcuador) and Peru (COFIDE) for the issuance. The issuance can be carried out by public banks or by a special vehicle (SPV). These institutions will be responsible for raising US\$ 33 million in finance in total through a green bond issuance in each country, (via the capital markets). BanEcuador will raise \$ 25.7 million and COFIDE \$ 7.3 million, and they will also work with microfinance institutions to help place loans to small and medium farmers and producers located in the target area. CAF and AFD will also provide additional loans totalling USD 20.6 million using the same green credit lines agreed. The credit lines will aim for significantly reduced interest rates and longer loan periods, as a result of the guarantees, to encourage farmers to implement sustainable agriculture practices. The total project cost is estimated at USD 74.2 million
12. In addition, a further USD 8 million will be provided in technical assistance sourced in-kind by various public organizations including government Ministries and civil society organizations such as FAO, the Global Green Growth Institute (GGGI) and Conservation International. This includes various technical, providing educational materials, training farmers, reforestation, and developing incentives schemes for conservation amongst other things.
13. The project will link well with the recently approved: i) LDN Target-Setting and Restoration of Degraded Landscapes in Western Andes and Coastal areas and ii) Sustainable management and restoration of the Dry Forest of the Northern Coast of Peru (both part of the GEF-7 replenishment program).
14. _
15. With the participation of the different actors, it seeks to offer cheaper financing, which allows end users, in this case small farmers, associations or unions, that through cheaper resources, can change their conventional practices and introduce activities of sustainable agriculture, (such as the reduction of the use of chemicals, water capture and efficient management of the resource, elimination of post-harvest burning), which allows an adequate use of natural resources, having a positive impact on conservation and biodiversity forest.
16. _
17. As explained in the document, one of the limitations in the allocation of resources in the sector is the banking of the groups of farmers, since they do not have access to the financial system, either due to ignorance, lack of real guarantees, or for the reasons already explained in this document. In this context the challenge is to structure a financial mechanism that is profitable for the different actors allowing the

in this document. In this context, the challenge is to structure a financial mechanism that is profitable for the different actors, showing the financing of sustainable and long-lasting agricultural practices.

18. _
19. Initially, it was thought of creating a fund made up of the participation of the actors (international agencies, multilateral banking, public banking, others) where joint resources could be intermediated through second-tier banking, to be placed small and medium farmers. What is complicated about this structure is that to go from including donations in the co-financing, it is very difficult to offer concessional conditions, without sacrificing the profitability of the different actors. Like any business, participants seek profitability, and as explained, it is a risky sector for investors. On the farmers' side, it will take more than cheap resources to drastically reorient their practices towards those contemplated in this project.
20. _
21. Parallel to this structure, and explained in detail above, the participation of the GEF was contemplated through the constitution of a fund, so that together with the support of CAF, through the issuance of partial guarantees, they could support an issuance of social bonds, or green bonds, improving the rating of the issue, that is, making it cheaper to attract resources. This issuance in theory would offer the resources so that BanEcuador, and COFIDE, could obtain cheaper resources to substitute their own resources in the co-financing of the USD 33 MM contemplated in the financing of the project. This is the structure that is proposed throughout the document, however, as is evident, it is only an idea at the concept level that must be worked on so that it can be implemented, guaranteeing that all actors receive their respective benefits.
22. _
23. In this vein, the objective of a good structure for a project of this type is precisely to offer profitability for the actors, and investors, as well as cheap credits for small and medium farmers. How to do this in such a complex sector, and which demands a paradigm shift from farmers over their usual techniques. For this to happen, clearly the incentives must be aligned.
24. _
25. As an idea to be analysed and structured in the following phases, one of the options that could be considered is the securitization of the same loans to be placed by the banks (added to a good quality sector portfolio already established). That is, it would be required to constitute a trust, preferably public, that receives sovereign resources from both Peru and Ecuador, either as contributions from the national budget, or with loans requested from multilateral banks (in the analyses carried out, the direct participation of sovereign credits, with sovereign rates, that allow to compensate the financial conditions of other more expensive actors), plus the resources of the GEF and CAF (they can be resources to the countries, or directly to the trust as contributions in Equity or debt. These resources would be used to buy part of the portfolio to be placed by BanEcuador and by COFIDE (the other part is paid with securities) at cheaper rates, lower than those normally placed. To compensate the profitability, it is proposed to share the risk of credit with the resources of CAF, and the GEF, through the issuance of securities by private trusts (normally constituted by the same issuing banks). Or they can be launched on the market where they will acquire the senior securities (shorter term and higher profitability). The subordinated securities would be acquired by the public trust, receiving a lower return, to offset the profitability of the public bank. (The term of these titles should be the same as the term of the credit operations).
26. _
27. The income of the trust would be constituted by the payments of interest and principal of the credits, which will be sufficient to pay the expenses of the trust, and the returns of the different series of securities. In this way, BanEcuador and COFIDE will place loans at rates much lower than those of a normal microcredit (sharing the credit risk with the other actors), considering the high rates charged in microcredit precisely because of the risk assumed by the types of clients, receiving in return an attractive return on their senior securities.
28. _
29. Additionally, CAF and COFIDE, through other facilities other than loans, such as partial guarantees, can support 20% of the proposed issuance to be carried out by bank trusts, allowing them to attract cheaper resources. A fund can also be set up to guarantee the operations of farmers, allowing them to be subject to credit.

30. _

31. For this model to finish closing, and to be sustainable, it is necessary for farmers to give continuity to the new practices implemented, and not be something temporary. For this, it is necessary to support the union (training, market studies, discounts, direct subsidies), so that their crops can be marketed at competitive prices, nationally and internationally.

32. _

33. It is hoped to be able to develop this idea, or others that arise in the different stages of the project, which allow sufficiently cheaper credit resources, so that it is a real incentive for the small and medium farmer, otherwise it would not be feasible to do so.

10/6/2021

1. Overall, the flow of the proposal should be more concrete, following the instruction given in the PIF format. There are a lot of repetition and redundant sections. Please re-arrange taking the contents under the problems/root causes/barriers à proposed alternative scenario (which is aligned with the results framework) should be consistent make it to the point to address the major theory of change that the project would address. Please delete excessive description and details, focus on main ideas to address the major points with clear headings.

2. Please provide information from COFIDE and BanEcuador as main players.

3. OK

4. Not cleared: additional justification required as mentioned in the word doc.

5. Not cleared: additional justification required as mentioned in the word doc.

6. Okay but clear roles and responsibilities for TA institutions should be prepared before CEO endorsement, now it is vague. Coordination between TA activities and financing is needed; as well as the coordination amongst different providers

7. Please include.

8. Okay.

9. Okay.

10. Which authority would be responsible for such declaration? Will it be national/subnational authorities? This isn't included in the project objectives, better to mention clearly in the project document if it is already on-going, but better not to mention it if it is not clearly budgeted and planned in the project.

11. Okay.

10/25/2021

1. Not addressed: we still have the TOC and GEBs of the project under the problems section. Please focus only on the problems/causes/barriers under this section.

2. Cleared

4. Cleared

5. Cleared

6. Cleared

7. Cleared

10. Cleared

10/28/2021

1. Cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. A more comprehensive explanation of root causes and global environmental problems was incorporated in the PIF. Lack of integrated planning and Governance Institutional arrangements for Ecosystems' management was included in the CEO-EFR document – but a core root cause and driver are barriers to sustainable agriculture such as the prevalence of a short term agricultural production paradigm, and challenges implementing green credit.
2. Extensive information regarding Green bonds issuance experience in both countries is in the CEO-ERF document, pages 34-36 and 43-44.
3. The province of Cajamarca is now included for project interventions, based on biological information, map analysis and consultation with relevant country actors. Further information in order to justify project intervention in Peru's departments have been included in the in the CEO-EFR document e.g. see p16-20..
4. Lack of integrated planning capacity was included in components 1 and 2 of the CEO-EFR document.
5. Information of the targeted smallholder farmers in **Peru and Ecuador, can be found in page 33 of the CEO-EFR document.**
6. The sustainable practice will be monitored through the Credit life cycle using the MRV system produced by the project and implemented by the financial institutions. FAO & CI as TA executing agencies will supervise the sustainable practice performance of the final beneficiaries. Besides there will be annual verifications made by a third party hired by CAF with project fees. See also p44.

7. An improved graph of the financial structure is already included.

8. This is now included on p41-42. An evaluation of deforestation of areas where conservation agreements have been implemented for more than five years show that there is three times less deforestation than in sites without conservation agreements. There are 4,000 conservation agreements in place in 19 countries around the world, benefiting 30,000 people and protecting 1.8 million hectares (4.4 million acres), an area a bit smaller than the state of New Jersey. Of these agreements, 70 percent are funded and managed directly by government programs, and 30 percent are implemented by CI and partner organizations. From the more than 1,200 agreements implemented by CI and partners, 90 percent are focused on the protection of forest. Also see: [What on Earth is a 'conservation agreement'? & WCS Guatemala > Initiatives > Conservation Agreements](#)

9. As now mentioned in the PIF (p33), financial intermediaries have developed financing schemes through community credit (or collective) to help those with no title deeds. BanEcuador and CMAC Piura (or Caja Piura) have a financial product called "crédito asociativo" that precisely can reach small farmers in the project work area. The requisites are moderate and the finance conditions are well fitted for our project intentions. Please see information at: <https://www.banecuador.fin.ec/productos-ciudadanos/credito-micro/productos-microempresas/credito-asociativo/>.

10. The updated TOC describes better how the land degradation can be reversed. Pages 35 to 38 highlight a number of Government related forest initiatives. The value of endemic species in this tropical dry forest ecoregion is very high and has been well appreciated by national environmental authorities of both countries. They have prioritized actions in order to restore the landscape, but some there is a lack of coordinated actions among the two governments that needs to be improved in order to have better environmental Governance and sound integrated management of the valuable natural assets. The Project will try to create a Binational Restoration Tumbesian Dry Forest Ecoregion Plan and start the implementation of it.

11. All the sections of the word document submitted by mail were uploaded in the GEF Portal CEO-ERF.. The text indicated as not having been submitted by Portal has been included in the updated version.

Agency Response (Oct, 11th, 2021):

1. The document has been arranged in the suggested order.
2. Information from COFIDE & BanEcuador is in page 30-31, 58 and 61
3. No response needed
4. This explanation is now included on component 1, page 42 inside the GEF portal.
5. This explanation is now included in page 37 inside the GEF portal.
6. This explanation is now included inside the GEF portal.
7. Explained in page 35 at numeral 9; page 40
8. No response needed
9. No response needed
10. Understood. It is not budgeted in the project, therefore it won't be mentioned in it.
11. No response needed

Agency Response (Oct, 26th, 2021):

1. Changed now – ToC text moved to the Alternative scenario section. Note that much of the detail has been left in because in previous review exchanges a lot of additional details and supporting information have been requested to be included by GEF1. Changed now – ToC text moved to the Alternative scenario section. Note that much of the detail has been left in because in previous review exchanges a lot of additional details and supporting information have been requested to be included by GEF.

2. Is the baseline scenario or any associated baseline projects appropriately described?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Baseline does not mention GEF's signature programs (FOLUR & ASL) in two countries. Also, please revise FOLUR program's name throughout the proposal. The justification should be made based on these baseline projects how the bond issuance would complement the

on-going activities, and where are the gaps coming from. In particular the FOLUR project in Peru will take partially place in the same area (Piura). A link and potential synergy with this project should be considered somehow (especially if cocoa is confirmed in Ecuador).

2. There is a presentation of the institutional framework and potentially associated projects. Nevertheless, as in the previous version of the project, the baseline along the value chain is lacking: what are the targeted stakeholders (small producers, companies...), how are they organized, how are they supported to enhance sustainability, what are the eventual existing sustainable initiatives and schemes from the public and private sector (including companies and banks - what about the banks massively co-financing the project?). This is important to demonstrate how the project will articulate with the existing baseline and give a better idea of the project potential.

The GEF guaranties "maturity" is 5 to 6 years. Does that mean the project is wrapped up by the end of that period? **Please provide a time line for project implementation.** For example, most of the proceeds will come from two green bonds. If these financial transactions are not successful, then the project is importantly undercapitalized. When will the TA be deemed delivered? What are the project milestones?

10/6/2021

1. This section needs to be re-written to explain how the proposed project and financing will address the barriers on the background section. There was suggested wording in the word document that you may want to adopt. On FOLUR, description still lacks how this project would bring synergy – what are the gaps from these two programs and how this project would add value? Please include the language in the baseline section as well as IP section.
2. The response remains unclear. On p.54 of the CEO ER we find the incremental reasoning. We need more information of the different stakeholders involved along the value chains and notably the producers in the baseline section (currently only 2 banks are described).

This would be important for addressing the project additionality to existing projects, including FOLUR & ASL.

3. The timeline provided in the review sheet is for 5 years, please clarify since the project is delivered in 8. The timeline should be part of the project proposal -perhaps in an annex?

10/21/2021

1. Cleared

2. Addressed

3. Thank you for the table. We suggest you include it as an annex. Please explain if the TA is delivered in only 5 years and if the different tenor of the bond (8year) would create a mismatch

10/28/2021

Cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. More detailed information about FOLUR & ASL programs has been included and can be found on page 37 of the CEO-ERF. The document highlights the close synergy between potential bond issuance and the FOLUR project in relation to intentions to fund sustainable agricultural practises- of which agroforestry may significantly improve commodity value chains for regional crops (including cocoa).
2. The articulation of the project with other associated projects mentioned and the value chain is explained carefully in page 54 of the CEO-EFR section scenario with GEF investments. However the main contribution of this NGI project is to maximize synergies with projects Sustainable management and restoration of the Dry Forest of the Northern Coast of Peru (ID665981) and LDN Target-Setting and Restoration of Degraded Landscapes in Western Andes and Coastal areas (ID10184). The amount of finance mobilization of this NGI project can be critical to make a boost in promoting of innovative incentive mechanisms that encourage adoption of SLM/SFM practices in agricultural and dry forest landscapes of Peru and Ecuador.
3. The finance information has been provided in Annex A & B of the CEO-EFR document at GEF Portal. The project bond terms continue for 7 to 8 years. However, there could be a mix of terms and the disbursements are tied to the required terms. While the main project activities are scheduled for 5 years, the green bond implementation and monitoring will continue for longer.

Timetable for the implementation of activities

Overall results of activities	Year 1				Year 2				Year 3				Year 4				Year 5			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
1.1.1. Mapping potential restoration areas and identifying productive native species and low value-added crops to be converted into crops that promote land recovery.																				
1.1.2. Design, validation and implementation of the priority activities of the spatial plan, integrating the gender dimension.																				
1.2.1. Reintroduction of native species to the boundaries of farms and crop buffer zones through agroforestry and forestry projects financed by green credit lines.																				
1.3.1. Conservation and restoration, using native species, of areas connecting important biodiversity conservation areas and remaining islands of dry forest.																				
1.4.1. Restoration and connectivity indicators approved by academia.																				
1.5.1. Design of a mechanism to strengthen the incentive system chosen for the conservation of dry forest islands associated with crops.																				

degradation, including both land degradation and biodiversity (in productive landscape) and how (i) lack of adequate terms of financing and (ii) TA is needed for the project. For (i) you can say that the credit enhancement of the bond will help optimize the margins of the issuing

banks- which will be passed on to the clients? Describe how the bond issuance will allow to pass-on financial conditions that will address the financing barriers (in terms of interest rate? In terms of tenor?) Would it be competitive in the market considering high fees associated with guarantee & structuring?

3. The TA is needed for the small holder farmers to adopt these new and sustainable practices. The Banks also need TA to measure their impact. Describe the terms of a typical credit line? How do the various TA providers (FAO, CI and so forth) sort out their interventions.

Theory of Change should be strong, and reflect the project structure (components, outcomes and outputs). Refer to STAP's Theory of Change Primer here; <https://www.thegef.org/council-meeting-documents/theory-change-primer>. Also please ensure the names are the same throughout all the information provided including the Prodoc.

1. A statement is made about the important of "aligning incentives". What incentives and how do they work.
2. Are the selected micro finance organizations the principal disburser of funds? It is not clear the link between MFIs and COFIDE and BanEcuador (explain that these institutions work with MFIS? Or lend directly to smallholder farmers? What would be incentives for them to lend from the microfinance institutions? (I guess we need to know more of COFIDE and BANECUADOR business case).
3. It would be useful to see specific examples of the ways in which the COFIDE and BanEcuador financing would flow to small farmers, especially given the relatively limited experience of most of the farmers in dealing with banks and other lenders (per the description in the PIF).
4. The case is made for the important positive impact to sustainable decision making by having a lower cost of money (cheaper). Is there any evidence of this for this project?
5. Please provide a timeline for project implementation. For example, most of the proceeds will come from two green bonds. When will the TA be deemed delivered? What are the project milestones?
6. Considering all processes, would 5-6 year maturity enough? Would the project be able to wrap up by the end of this period? Please provide concrete timeline for two bond issuances and realistic maturity considering the volatile markets?

7. The figure on 2050 targets – what does it imply?
8. Provide a brief description of the green bond market in both countries. Are COFIDE and BanEcuador issuers in the local capital markets? Have they issued green bonds? How this project will help achieve the goals?
9. Who would oversight the project considering there are long list of participating organizations? What lessons learned have been brought to bear from other similar projects that involved the participating organizations in this project?
10. The document states that many/most farmers do not own the land. What issues arise from this? This should be in the **RISK table**.
11. While you can maintain a vague description of the bond issuance, please mention if you plan to do a public issuance or a private placement. In principle, who are the targeted investors? It would be good to have some kind of early market testing (or information from Cofide and BanEcuador) as to who the potential purchasers could be.
12. Is there intended to be a specific use of proceeds be described in the green instruments? It is important to know what milestones need to be achieved to consider that the smallholder farmer is implementing these conditions, who would monitor and report on them? Would the green bonds be verified?
13. As an investor providing guarantee for first-loss, there is a high likelihood to lose all GEF investment. What default rate does the CAF project? We understand there is still a lot of moving pieces and changes would be made, but please provide indicative and conservative expectation at this stage.
14. Please mention somewhere that the guarantee provided by CAF and GEF will cover both defaults on interest and principal of the bond issuance (but GEF is first loss).
15. The name of the components, outcomes and outputs are different under the alternative scenario as compared to table B. Please ensure the names are the same throughout all the information provided including the Prodoc. Please make these changes after “collapsing-merging” several components

10/6/2021

1, 2, 3. On ToC: Please revise ToC – 1) Review climate resilience/climate smart, 2) Outputs should include green lines and conservation agreements, 3) Linkages between pilots in component 3 and impact in component 4 is not clear, 4) Substitute interventions by components, 5) Include wording to say GEF and CAF guarantees to issue one or more green bonds, 6) Coordination is missing

Please note that some names are still different, and the components are presented twice: under the section 1 on problems and barriers and section 3 on alternative scenario. This needs to be revised and properly organized.

1. Can you provide evidence of this transaction will lower the cost of money?
2. Cannot find the document, is it uploaded as separate document?
3. Ok
4. Is this from any regional/national/subnational authority or is it from the CAF? Please clarify.
5. Partially, we need to know more precise conditions in two countries.
6. Please clarify the role for CI on conservation agreement. How would they be involved under this project?
7. What risk that is associated to provide lending to farmers without ownership to the land and how the project would mitigate the risk? Without collateral, risk of not paying back is higher – how would you mitigate this higher risk?
8. Ok
9. Who would bear the cost for verification and monitoring? We do not see any co-financing as investment mobilized for this matter.
10. Ok
11. Ok
12. Please make all names consistent once the revision is finalized.

There are three questions that were not answered from the previous round. Please answer.

13. A statement is made about the important of “aligning incentives”. What incentives and how do they work.
14. Are the selected micro finance organizations the principal disburser of funds? It is not clear the link between MFIs and COFIDE and BanEcuador (explain that these institutions work with MFIS? Or lend directly to smallholder farmers? What would be incentives for them to lend from the microfinance institutions? (I guess we need to know more of COFIDE and BANECUADOR business case).
15. It would be useful to see specific examples of the ways in which the COFIDE and BanEcuador financing would flow to small farmers, especially given the relatively limited experience of most of the farmers in dealing with banks and other lenders (per the description in the

PIF).

10/25/2021

Please note that the format in the responses is strange (boxes with scroll over arrow that we cannot read from our end) and needs to be addressed.

1. Cleared

2. Cleared

4. Cleared.

5. Answer provided not in full sentence due to format issues.

6. Not answered to the question, considering the conservation agreement what is the CI's role specifically? Please respond here and include in the documentl.

7. Addressed.

9. Please mention this in the PIF.

12. Addressed.

13. Addressed.

14. Addressed.

15. Addressed.

10/28/2021

All points cleared.

Agency Response

Agency Response (28th, Sep 2021):

1) TOC has been updated. It follows the logic expressed by GEF STAP document <https://www.thegef.org/council-meeting-documents/theory-change-primer>

2) The updated TOC of this project follows the general logic of the FOLUR TOC (see analysis in page 38 of CEO-EFR) and contributes to improve the volume and adequacy of finance for value chain and restauration labours. Regarding the advantages of green bond and how the

concesional conditions are passed to the final beneficiaries (small landholders of Dry forest ecoregion), further information can be found in pages 13, 36, 40 & 41 of CEO-EFR).

3) The CAF loan will help to increase the amount of investment mobilization to the pilot projects in Component 3. There is a possibility that a scheme of green securitization (for sustainable agriculture in Tumbesian forests) happens in Ecuador, therefore CAF's loan can help for that purpose.

4) There is strong evidence in Latin American countries, specially in mitigation finance products, but also some examples with successful adaptation finance products. We could cite Ecomicro, who provided technical assistance to MFIs in Latin America and the Caribbean for developing "green" financial products that will enable their clients to access clean, renewable energy, increase efficiency in energy use and make investments aimed at adapting to climate change. Since 2014, several MFIs in Latin America and the Caribbean designed green financial products that facilitate the implementation of measures in the agricultural sector for climate change adaptation

5) A timeline of project implementation was provided as annex in GEF Portal: Documents section - Roadmap.

6) Maturity was extended: 7-8 years.

7) the vision at 2050 reflects the long term agreements that both countries will seek through ecoregion restoration planning.

8) Answered in pages 13, 28, 36, 41 & 43

9) Section "coordination" in the PIF explains what organizations will participate in the oversight, and the rol of the Project Coordination Unit.

10) Risk table updated (at page 66 of PIF) incorporates that risk and its mitigation action.

11) Both COFIDE and BanEcuador possess investment grade credit rating provided by FitchRatings and PCR Pacific Credit Rating. The average bid to cover ratio for thematic bond issuances in Peru and Ecuador is 2, but recent thematic bond issuances have recorded demand as high as 3 times the offer. As a result, COFIDE and BanEcuador are well positioned to pursue either option: public issuance or private placement. At this moment it is not realistic to define the best go to market strategy as this will depend on market conditions, volume of the issuance and feedback from the investor roadshows which will become evident during the pre-issuance phase.

With regards to potential purchasers, a private placement would likely see the involvement of a regional MDB; a public issuance would see demand from a broad range of investors but mostly domestic institutional investors which already hold COFIDE's or BanEcuador's debt (e.g. pension funds, money managers, mutual funds, etc).

12) The use of proceeds of the green bonds will be closely related with sustainable agriculture practices described in the Project graph 1 (page 21). The green bond emission will be verified. The detailed mechanism of monitoring, report and verification will be design as a Project activity. please see pages 28 & 52 (description of project component 5).

13) Both COFIDE and BanEcuador possess investment grade credit rating provided by FitchRatings and PCR Pacific Credit Rating. The thematic bonds being issued will be organization-guaranteed bonds, also called "general obligation bonds", meaning that bond repayments will be serviced from COFIDE's and BanEcuador's organization-wide cash flow and will not depend on the project's repayment capacity. It follows, that the default rate corresponds to COFIDE's and BanEcuador's default rates. According to S&P Global Fixed Income Research, the default rate of BBB+ rated issuers (with BBB+ being the lowest credit rating between COFIDE and BanEcuador) ranges between 0.11% and

2.3%, for 1 and 10 year time horizons respectively.

14) Done. See information on last paragraph of page 44 and the use of proceeds of the Guarantee in the termsheets (annex A).

15) Done, in the whole PIF document.

Agency Response (Oct, 11th, 2021):

TOC has been revised.

TOC is part of the CEO ER, it was not upload as a separate document.

No response needed.

Ecomicro is a program from the IADB.

More explanation about project´s milestones are provided in the

CI will be involved in the project as a partner institution, executing TA resources.

BanEcuador and COFIDE can provide associated credits that could be paid by other members of the agriculture cooperatives. Agriculture cooperatives (such as UNOCACE and others) are buyers of small landholders´ production therefore they can reduce the risk of no payment.

No response needed.

COFIDE and BanEcuador would bear the cost of verification and monitoring.

No response needed

No response needed

Names were revised.

. The incentives of a better credit conditions for the small landholders, the incentives from the improved production capacity given by the TA and the alignment among them expressed in the Conservation Agreements.

. In Ecuador, BanEcuador will disburse directly the microfinance loans to small landholders. In Peru COFIDE will act as second tier bank and will work with Caja Piura, who will disburse directly the microfinance loans to small landholders. During the production construction we will evaluate the necessity to add one or more Microfinance institutions in both countries.

15. BanEcuador has the credit Caña Bambú is offered to finance plantations of *Guadua angustifolia*; It offers maturity of 10 years and it has attracted many producers^[1]. COFIDE has an Inclusive Rural Business Development Programme which has produced a significant amount of guidelines, manuals and didactic material for microfinance institutions in Perú. <https://www.cofide.com.pe/detalles1.php?id=38>

[1] <https://www.banecuador.fin.ec/2021/08/26/banecuador-fomenta-la-reactivacion-del-sector-forestal/>

Agency Response (Oct, 26th, 2021):

5. The Project Milestones are described in the time table, annexed in the GEFportal, section Documents of the Road Map .

6. CI is a strong partner of the project. CI will be involved in the design and monitoring of the Conservation Agreements made among the small farmers and BanEcuador, COFIDE & Caja Piura.

CI will focus on restoration activities in close coordination with FAO, whose activities will be more oriented towards climate smart agriculture and improvements in productivity. CI Ecuador and CI Perú will coordinate project actions inside the Technical Advisory Group with CAF, FAO and other notable technical and academic institutions in the project influence area. CAF and CI will sign an Agreement establishing all the activities as executor agency of the Project and in case it is needed, we will explore together different sources of additional TA resources in order to guarantee the success of the project..

9. COFIDE and BanEcuador would bear the cost of verification and monitoring. CAF's loans for both institutions will explicitly determine that option in the use of the proceeds (eligibility of the resources) in the Loan Contracts.

4. Is the project/program aligned with focal area and/or Impact Program strategies?

Secretariat Comment at PIF/WORK Program Inclusion

9/16/2021

1. No, please delete CW focal area.
2. Describe project's alignment with the FOLUR and ASL program by describing how this project would add value on the top of these two programs in two target countries.

The project appears overall as an Ag project and it is unclear what is the conservation strategy and how it will be funded. \$150k only from the GEF appears clearly earmarked for conservation (Component 1). Considering the BD FA is one of the 2 funding windows (along with LD), the BD FA should be given a higher profile and more explanation on the BD alignment is expected under the section 1.d (and not '1a.4').)

10/6/2021

1. Still there are some descriptions on CW, please revise.
2. Please provide the gap from FOLUR/ASL investment and how this project would add value by providing financing for smallholder farmers – which should be complimentary to grant funding that the GEF provides.
3. Not answered: need to embed that strategy in table B and the TOC and the logic of the problem and alternative scenario.

10/25/2021

1. No, please revise (objectives – if you're expecting as co-benefits, we do not think it's necessarily need to be stated in the objectives?)
2. Cleared.
3. The description remains confusing as already described in previous sections. Here, please focus first (in the beginning of the section) on the alignment of this project with the Focal Area strategies DB and LD.

10/28/2021

1 and 3 cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. CW has been eliminated on the GEF portal
2. The information has been included in section 1.a in the CEO-ERF and in the GEF portal.

Agency Response (Oct, 11th, 2021):

. Reference to CW is still included and an important point, They are going to remain in, but with text explaining that they will be considered co-benefits and not GEB.

. The FOLUR/ASL program has 4 components: i) Development of Integrated Landscape Management Systems, ii) Promotion of sustainable food production practices & responsible commodity value chains, iii) Restoration of Natural Habitats, iv) Program Coordination, Collaboration, and Capacity Building; and Finance sustainability is somehow mainstreaming in several components, trying to bring some finance through value chain responsible enterprises, but it is not a component by itself. Therefore, this project has a different approach trying to bring directly benefits to smallholder farmers through finance institutions and private investors that are not necessarily related to the different value chains presented in the productive landscape.

3. Done.

Agency Response (Oct, 26th, 2021):

1. All main references to C&W deleted now.
2. NA
3. BD and LD focus now at the start of this section.

5. Is the incremental/additional cost reasoning properly described as per the Guidelines provided in GEF/C.31/12?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. The additionality of the project should be given in the context of the broader transformational change that the FOLUR/ASL program aims in the region. Since these two programs are mostly grant-funded, the private capital mobilization of this project can add a great value. Therefore, align the overall project's theory of change to FOLUR/ASL program, and provide the additionality of bond issuance to attract broader private capital into this arena as incremental/additionality justification.

Under the incrementing cost reasoning, the co-financing is said to be \$50 million while it is \$59.9 million. Please correct.

10/6/2021

1. Please provide it in baseline scenario & Impact Program alignment & incremental cost reasoning.

2. Cleared.

10/21/2021

1. Cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. The PIF on p24 mentions that 'this project directly complements the transformational change that the existing GEF grant funded FOLUR/ASL programs have in the region. The private capital mobilized by this project therefore adds significant value-added to these programs which aim to move agricultural to a much more sustainable basis in particular linked to agroforestry and crops such as cacao.'

These two programs are further explained in detail in the Baseline section of the PIF under 'GEF funded projects' on p37.

Agency Response (Oct, 11th, 2021)

1. The requested information has been provided on pages 27, 49-50

2. Cleared

Agency Response (Oct, 26th, 2021):

No response needed

6. Are the project's/program's indicative targeted contributions to global environmental benefits (measured through core indicators) reasonable and achievable? Or for adaptation benefits?

Secretariat Comment at PIF/Work Program Inclusion

10/6/2021

9/16/2021

1. No, please response to the comments for Table F.

10/6/2021

1. There is still work to be done on how the financing (and not only Component 1) will deliver the GEBs; the BD indicators described need to be part of table B and alternative scenario description.

10/25/2021

1. Cleared.

Agency Response

Agency Response (28th, Sep 2021):

Done, we removed CW indicators. The BD&LD indicators have been updated, see table F in the CEO-ERF and in the GEF portal

Agency Response (Oct, 11th, 2021)

1. The CEO ER has been modified fixing the required-on components contribution to GEBs. BD indicators are in table B and alternative scenario description

Agency Response (Oct, 26th, 2021):

No response needed

7. Is there potential for innovation, sustainability and scaling up in this project?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Here, sustainability means even after the GEF's contribution ends, how it would continue or maintain the momentum of transformational change that you aimed from the Theory of Change. Here, you should mention how this bond issuance would be useful for other green bond issuance as case study, etc.
2. Please explain how you think this project can be scalable?

10/6/2021

1. Cleared.

2. Our concern in this project is that there are many players involved, and the scalability is likely to be low due to its complex structure. Please address why this structure is necessary in this case as to be a first case which needs extensive TA but likely to be reduced in next round of bond issuance thanks to legislation, lessons learned and KM materials and etc. produced by this project.

3. In the risk table you mention that this project will conflict with MFIs, if that is the case, how can this project be scalable

10/21/2021

2. we cannot find it – it is hard when you state pages. Please directly state in the review sheet. It is not mentioned in the scaling-up part.

3. Cleared.

10/28/2021

2. Cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. We have added in the PIF under sustainability: *'Even after GEF's contribution ends, it is likely that given the impact of climate change on the less resilient existing agricultural practices, and the growing international value chain demand for sustainable produce, this green bond approach will continue to be adopted much more widely. There is already considerable focus on how to make agriculture system more sustainable, and this project should act as a powerful case study to show others that it can be successful and is achievable. It is envisaged that it will become an internationally recognised successful case study for green bond issuance related to sustainable agriculture.'*

2. As stated in the PIF (slightly modified now): *The proposed financing scheme for small and medium-sized farmers, conditioned on modifying their agricultural practices to more sustainable ones, is an approach that can be readily replicated in other threatened landscapes in Ecuador and Peru, as well as within other countries within Latin America and the Caribbean and beyond. If this mechanism is proven successful, it could be a way to encourage vast numbers of farmers and producers to be more sustainable, and many national banks and associated micro-finance institutions to offer such investment opportunities and loans. The pilots that seek to make crops more technologically advanced and promote national and international certifications, may also eventually expand to other crops.*

It is considered likely that numerous micro-finance institutions will benefit from initially linking with the two national banks, and that many other will benefit by learning from and adopting this approach to green bonds for sustainable agriculture both within the same area and in

other regions in Ecuador, Peru and beyond. As mentioned above, given climate impacts and the interest in sustainable produce, it should prove to be an excellent case study for others to follow globally – thereby scaling up its impacts significantly.'

Agency Response (Oct, 11th, 2021)

1. No response needed
2. The requested explanation can be found on pages 54-55
3. Once the tested hypothesis of the project is digested. The knowledge management component will produce enough material to share with other MFIs that could adopt the good practices of the project and replicate and scale up them.

Agency Response (Oct, 25th, 2021):

Inserted in 1.a.7 - scaling up

The extensive technical assistance in Components 1 and 2 will provide an invaluable set of information that can be used in other locations too. It is a complex set up because it is tapping into a range of different expertise that is highly complementary. This structure is necessary in this case as to be a first case which needs extensive technical assistance but it is likely to be reduced in subsequent rounds of bond issuance due to the precedent set, any new accompanying legislation emanating, and in particular from the knowledge management materials and lessons learned associated with this project.

Project/Program Map and Coordinates

Is there a preliminary geo-reference to the project's/program's intended location?

Secretariat Comment at PIF/Work Program Inclusion

10/28/2021

Cleared.9/16/2021

1. The project target area seems quite broad; is there a specific target market in this area would there be specific communities or group of farmers that you'd be targeting?

10/6/2021

1. As repeated in the question in core indicators, please provide geographical pinpoint of these communities, if possible.

10/21/2021

1. Ok – but this is only for Ecuador. For CEO endorsement please add Peru if you cannot provide now

10/28/2021

Cleared.

Agency Response

Agency Response (28th, Sep 2021):

The information was already given in question 6 - COre indicators (sub-question 5).

There is a detailed list of communities around which we will focus project activities.

Agency Response (Oct, 11th, 2021):

A Map with the requested information can be found on page 57

Agency Response (Oct, 25th, 2021):

1. The LOE from Peru is going to be ready in the next coming days

.

Stakeholders

Does the PIF/PFD include indicative information on Stakeholders engagement to date? If not, is the justification provided appropriate? Does the PIF/PFD include information about the proposed means of future engagement?

Secretariat Comment at PIF/Work Program Inclusion

Yes.

Agency Response

Gender Equality and Women's Empowerment

Is the articulation of gender context and indicative information on the importance and need to promote gender equality and the empowerment of women, adequate?

Secretariat Comment at PIF/Work Program Inclusion

1. The gender aspect is missing in the document. We ask in the baseline to define the type of smallholder farmers that are in the geographic regions targeted. We should be able to know more about their gender and the specific challenges for women. There is extensive research and MFI experience with women, so this should be quantified.

10/6/2021

1. Would there be gender-related KPIs? If so, please mention it here: i.e. reach X% of women smallholder farmers.

10/21/2021

1. Cleared

Agency Response

Agency Response (28th, Sep 2021):

In 2021 CAF carried out a gender mainstreaming study in microfinance sector in Ecuador. This analysis has key information to developing inclusion and gender equity in financial products.

The information has been updated in in CEO-ERF document, pages 61 &62 and the GEF portal.

Agency Response (Oct, 11th, 2021):

At least 35% of credits will be directed to women (smallholder farmers) in both countries.

Agency Response (Oct, 26th, 2021):

No response needed

Private Sector Engagement

Is the case made for private sector engagement consistent with the proposed approach?

Secretariat Comment at PIF/Work Program Inclusion

Given the extensive involvement of BanEcuador, COFIDE, MFIs, smaholder farmers please elaborate more.

10/6/2021

1. Cleared.

10/21/2021

1. Cleared

Agency Response

Agency Response (28th, Sep 2021):

Plenty of detail has been provided in the PIF including now an additional list of potential micro-finance institutions that could be involved either in this project or in the future if this project proves to be a success and exemplar show case for other green bond issuances.

Agency Response (Oct, 26th, 2021):

No response needed

Risks to Achieving Project Objectives

Does the project/program consider potential major risks, including the consequences of climate change, that might prevent the project objectives from being achieved or may be resulting from project/program implementation, and propose measures that address these risks to be further developed during the project design?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Risk mitigation measures are generally not thorough, please revise the whole document
2. We perceive a coordination risk between TA and bond issuance. If the bond issuances are not successful, then the project is importantly undercapitalized. Please consider and provide risk mitigants
3. As the project is going to engage the government of both countries, is there a political risk – when the administrative changes, the project would get priority?
4. Please mention currency risk (and how it is mitigated via swap).
5. The document states that many/most farmers do not own the land. What issues arise from this?
6. Please mention market risk: i.e. you cannot place the bonds -even with the guarantees provided- at a price that will make sense for the proceeds to be on- lent at favorable conditions to the small holder farmers, which will make this whole model not workable/ What mitigation measure is envisaged?
7. There is not enough pipeline for projects in sustainable agriculture.
8. The COVID analysis needs to be significantly enhanced.
9. The climate risk is missing and needs to be considered with more details considering the potential climate sensitivity of the targeted area. The agency is invited to refer to the STAP Guidance on Climate Risk Screening (https://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.STAP_C.56.Inf_03_STAP%20guidance%20on%20climate%20risk%20screening.pdf).10/6/2021
 1. Partially cleared: please see comments below and additional comments in the word document,
 2. Ok.
 3. Ok.
 4. Yes, please mention it in the PIF.
 5. This isn't clear (refer to question above; What risk that is associated to provide lending to farmers without ownership to the land and how the project would mitigate the risk? Without collateral, risk of not paying back is higher – how would you mitigate this higher risk?)- please provide some more description here.
 6. These estimates should be in the PIF to justify the rationale of this project. Please provide this in the baseline/alternative scenario.
 7. Then this should be mentioned/budgeted in PPG.
 8. Is there COVID-19 impacts on the value chain? Is there more demand from local markets? What about the situation in exporting agricultural goods? Is it related to smallholder farmers that we are targeting as beneficiary? How this project would mitigate those changes?

9. Partially cleared> since the project impact is medium, please explain safeguards that would apply following CAF policies.

10/21/2021

1. Cleared

4. Cleared

5. Cleared

6. Cleared.

7. Please provide this in the note for the PPG needs.

8, 9. Climate risk and E&S risk description section in the word document isn't in the portal version. The annex provided in the roadmap is in Spanish: we ask you to provide a translated version in English.

10/28/2021

8,9 cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. Risk mitigation measures has been reinforced in the CEO-ERF, but a deeper analysis would be made during the Prodoc construction.
2. COFIDE and BanEcuador are the largest national development bank of their respective countries. The issue of a thematic bond issuance is largely a matter of willingness and commitment, not one of capacity.

The proposed project has been in the making for nearly 2 years with COFIDE's and BanEcuador's management teams being involved in the development of project activities and theory of change. The decision of prioritizing a thematic bond issuance over traditional lending is a result of COFIDE's and BanEcuador's management teams' decision. In sum, both COFIDE and BanEcuador are highly committed to a thematic bond issuance.

Additionally, the proposed project provides hand holding support to both COFIDE and BanEcuador throughout the extra-financial activities which distinguish a thematic bond issuance from a vanilla bond – including establishment of a green bond committee, Framework development, Second Party Opinion and impact reporting – thus minimizing the additional transaction costs which are the most common

barriers keeping financial institutions from issuing thematic bonds

- 3) CAF perceives that there is a political risk in every administrative changes in governmental institutions, however CAF experience of 51 years in Latin American countries, with close relationships with Ministries and operational level officials from the different public organizations, even public banks such as COFIDE and BanEcuador, mitigates the political risk. A strong stakeholders engagement plan developed during the Prodoc construction, high level meetings with national authorities and an strategic communication plan will help the project to get binational priority.
- 4) In Ecuador there is no currency risk considering that the currency is US dollar. Currency risk in Peru is mitigated with a fixed rate or swap. the price depends on the term and the rate curve calculated at the day of CAF's operation approval.
- 5) There is a explanation in the PIF's Risk Table in page 64.
- 6) According to preliminary pricing efforts based on historic pricing of domestic bond issuances from Peru's and Ecuador's national development banks, we expect the coupon rate of the thematic bond issuances to be in the range of 3-4%, lower with GEF's guarantee. For instance, COFIDE's first sustainable bond issuance with a face value of S/100 million, approx. USD 25 million, obtained a coupon rate of 3.78125%. With these conditions, COFIDE and BanEcuador would be able to on-lend resources at 4.5-5% interest rate p.a. This is a significant improvement from even the most affordable credit instruments available to small holder farmers today (e.g. Agrobanco's preferential interest rates range between 6.36% to 14.73% without considering collateral requirements, insurance cost and a 16% moratory interest rate).
- 7) Information of demand on 2019 (before COVID-19 outbreak) showed a significant demand of agricultural, agroforestry and cattle raising microfinance credits in Ecuador and a smaller demand in Peru. During 2020 we know that those numbers decrease significantly in both countries, but national government plans of both new administrations in Peru and Ecuador prioritize strong investments in agriculture production and microfinance at improved conditions for small producers. The PPG will be used partially to improve the demand studies in order to measure adequately the needs on territory.

8) is attended in the PIF. See pages 16&64 of CEO-ERF

9) is attended in the PIF. See pages 64&65 of CEO-ERF

Agency Response (Oct, 11th, 2021)

5. Answered in Risk Table on page 67 and on page 70

8. It has been developed on page 68

9. The answers are in the annex E&S risk assessment of CAF in the section Road Map

Agency Response (Oct, 26th, 2021):

7. The information has been added to the note in section E of CEO-ERF
8. The E&S risk description section has been added and the annex has been translated to English

Coordination

**Is the institutional arrangement for project/program coordination including management, monitoring and evaluation outlined?
Is there a description of possible coordination with relevant GEF-financed projects/programs and other bilateral/multilateral initiatives in the project/program area?**

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Here we expect the governance structure of the bond. Since there are many actors involved, coordination and milestones for bonds are key. Please describe how this will happen

10/6/2021

1. Please update the section with the structure figure, also provide clear roles and responsibilities for TA-related entities; FAO, CI, GGGI.

10/21/2021

1. Cleared

Agency Response

Agency Response (28th, Sep 2021):

Provided that the question is referring to the governance structure of the bond, not the governance structure of the project, CAF will pursue efforts to ensure that the pre- and post-issuance process will follow ICMA's principles and international best practices. In alignment with ICMA's principles, COFIDE and BanEcuador will establish Sustainable Bond Committees responsible for the oversight, issuance, monitoring and reporting of the thematic bonds. According to preliminary discussions with the national development banks and based on COFIDE's experience with thematic bond issuances, the Sustainable Bond Committee will be composed of the following actors: i) *Gerencia de Finanzas*. ii) *Gerencia General*. iii) *Gerencia de Riesgos*. and iv) *Gerencia de Neocios*. The structure, roles and coordination mechanisms will

...manages, my children's general, my children's education, and my children's registration. The structure, roles and coordination mechanisms will be formalized in COFIDE's and BanEcuador's Bond Framework to be developed with support from CAF and the Global Green Growth Institute. The Sustainable Bond Committee will be responsible for the defining the following aspects of the bond issuance:

- Use of proceeds: defining eligible green, and/or social, and/or sustainable categories of projects and expenses
- Process for project identification and selection: defining the decision making steps and safeguard mechanisms to guarantee a transparent allocation of proceeds
- Process for management of proceeds: to be defined based on COFIDE's and BanEcuador's liquidity management practices and policies
- Monitoring and Reporting: defining the development process and content of the annual Impact Report and Allocation Report, including impact indicators and relative methodologies

Agency Response (Oct, 11th, 2021):

The figure Governance Structure and Project Coordination Levels was included on page 60 of the PIF

Agency Response (Oct, 26th, 2021):

No response needed

Consistency with National Priorities

Has the project/program cited alignment with any of the recipient country's national strategies and plans or reports and assessments under relevant conventions?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. **National Biodiversity Plans.** The document states that this project will permit checking off various promised outcomes boxes, but what is the current situation of the two countries in accomplishing their national biodiversity goals? How did this region reach such a dire strait?
2. **What two country's plan/policy/strategy on sustainable agriculture and green bond? Is this project well aligned with it? Please mention it here.**

10/6/2021

1. Please include it in the PIF, and address how the project would fill in the gap that two countries could not meet the NBP.

2. Not answered: we provided some references in the word document that you need to include.

10/21/2021

1. Cleared

2. Cleared

Agency Response

Agency Response (28th, Sep 2021):

1) Ecuador in its target 17 of its NBP related to sustainable management of areas destined for agriculture, aquaculture and forestry, guaranteeing the conservation of biological diversity. It scored an average progress.

With regard to target 20: To improve the mobilization of financial resources to effectively implement the Strategic Plan for Biodiversity 2011-2020, its progress is medium.

And it has an average fulfillment of the target TARGET 14 that it sought by the year 2020, that ecosystems that provide essential services, including water-related services, and others that contribute to the health, livelihoods and well-being of women, indigenous and local communities and the poor and vulnerable, have been restored and safeguarded.

Peru has also non remarkable scores in most of the 20 targets of its NBP. The availability of finance for the different actions related with the objectives, the scarce flow of financial resources is one of the factors affecting the accomplishment of Aichi goals.

Agency Response (Oct, 11th, 2021)

1. It has been added in pages 72 and 73 of the CEO EF.

2. In February 2021, the Ministry of Environment of Perú (MINAM), launched the “National Road Map for Green Finance”. It is based on 6 main issues: climate change, biodiversity and ecosystem services, natural infrastructure, bio-business, circular economics and clean production.

Perú issued a first green bond on 2019 through COFIDE by PEN 140MM in order to finance diverse activities – green energy, sustainable forestry, clean transport, and sustainable agriculture.

<https://www.gob.pe/institucion/minam/noticias/340880-presentan-hoja-de-ruta-de-finanzas-verdes-en-el-peru>

<https://www.iadb.org/es/noticias/cofide-de-peru-emite-su-primer-bono-verde-con-apoyo-del-bid>

Ecuador also launched this year the “National Strategy for Climatic Finance 2020-2030 for Sustainable Projects”. It relies on 03 main strategic lines: Effective governance of climatic finance; consolidation of financial sector to integrate the climate finance; and access, management, allocation and mobilization of this resources.

In 2019, Banco Pichincha issued the first green bonds emission of the country, a total of USD 150MM (USD 50MM of IFC).

<https://www.eluniverso.com/noticias/economia/cambio-climatico-estrategia-financiamiento-ministerio-de-economia-ambiente-febrero-2021-nota/>

<https://www.comunicarseweb.com/noticia/banco-pichincha-al-frente-de-la-primera-emision-de-bonos-verdes-de-ecuador>

Agency Response (Oct, 26th, 2021):

No response needed

Knowledge Management

Is the proposed “knowledge management (KM) approach” in line with GEF requirements to foster learning and sharing from relevant projects/programs, initiatives and evaluations; and contribute to the project’s/program’s overall impact and sustainability?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. There are many activities geared to generate knowledge. Who is going to lead KM efforts? From which budget and what activities/deliverables are envisioned?

10/6/2021

1. We see all co-financing from CI. FAO GGGI is recurrent expenses, not investment mobilized – can these in-kind contributions cover all KM

1. We see direct financing from CI, FAO, GGGI is recurrent expenses, not investment mobilized. Can these in-kind contributions cover all RRM efforts and TA stated in Table B? Please clarify.

10/28/2021

Cleared.

Agency Response

Agency Response (28th, Sep 2021):

1) FAO is going to lead project's knowledge management activities that will have cofinance resources with CI, CAF, GGGI and other strategic partners. Each partner will have a specific role, for instance GGGI's cofinance will help to build training guides for banking officials and a training guide for sustainable practices in agriculture to be used by smallholders in the intervention areas, with the aim of promoting net zero deforestation and reducing forest degradation.

Agency Response (Oct, 11th, 2021)

1. Perhaps, but the role of all the project's partners, including IA, EAs, will be to keep looking for the needed funding in order to execute successfully the project. Further TA resources will be attracted by the EAs through the project execution

Environmental and Social Safeguard (ESS)

Are environmental and social risks, impacts and management measures adequately documented at this stage and consistent with requirements set out in SD/PL/03?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. If a project is expected to have medium/moderate environmental and social risks, Agency should provide indicative information regarding any Environmental and Social Risks and potential Impacts associated with the proposed project or program; and any measures to address such risks and impacts where available.

10/16/2021

10/06/2021

1. Partially answered: you need to explain safeguards and policies that would apply. Same goes for the risks identified for indigenous communities

10/25/2021

Please provide the ESS Supporting document in English (currently in Spanish).

10/28/2021

Cleared.

Agency Response

Agency Response (28th, Sep 2021):

1. The information has been included in CEO-ERF document, pages 64 &65 and the GEF portal.

Agency Response (Oct, 11th, 2021)

1. Recently CAF has successfully met all the minimum E&S, Gender, and Stakeholders engagement requirements of GEF. The E&S Risk analysis of the project is on pages 70-71 of the CEO ER.

Agency Response (Oct, 26th, 2021):

The ESS document was translated and we included relevant text in the PIF

art III – Country Endorsements

Has the project/program been endorsed by the country's GEF Operational Focal Point and has the name and position been checked against the GEF data base?

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

1. Since governments are actively involved in the project, we should expect the LOE.

10/6/2021

1 Please update status on I oF

... to add update status on LOR,

It should include GEF project financing being requested, including PPG, Agency fees to project financing. Please refer to the template (at the end of the page); <https://www.thegef.org/documents/templates>

10/25/2021

Since the last submission, CAF confirmed that in the case of BanEcuador not issuing the Bond, they would find another issuer in Ecuador. The Project would therefore be implemented in two countries.

LoEs are not required in Projects or Programs in which there are public sector beneficiaries in more than one Country.

10/28/2021

Cleared.

Agency Response

Agency Response (28th, Sep 2021):

The Ministry of Environment, Water and Ecological Transition of Ecuador will send a support letter for the project. The Ministry of Agriculture of Ecuador has already signed a support letter that is uploaded in the GEF portal. Because of new authorities in Peru, we expect to have a support letter at the end of October 2021.

Agency Response (Oct, 11th, 2021):

We have uploaded Letters of Support from the Ministry of Environment, Water and Ecological Transition of Ecuador and the Ministry of Agriculture of Ecuador

Agency Response (Oct, 26th, 2021):

In Case BanEcuador will not issue the green bonds, CAF would find another issuer in Ecuador. That issuer might be another public bank specialized in microfinance. In Case BanEcuador will not issue the green bonds, CAF would find another issuer in Ecuador. That issuer might be another public bank specialized in microfinance

Termsheet, reflow table and agency capacity in NGI Projects

Does the project provide sufficient detail in Annex A (indicative termsheet) to take a decision on the following selection criteria: co-financing ratios, financial terms and conditions, and financial additionality? If not, please provide comments. Does

the project provide a detailed reflow table in Annex B to assess the project capacity of generating reflows? If not, please provide comments. After reading the questionnaire in Annex C, is the Partner Agency eligible to administer concessional finance? If not, please provide comments.

Secretariat Comment at PIF/Work Program Inclusion

9/16/2021

Termsheet

1. Now there are two termsheets attached in the PIF. Please delete one and submit a final version in one table (second termsheet seems more complete)
2. Project ID is 10852, please include.
3. Please make co-financing amount in the termsheet same as Table C above, and revise according to the comments provided for the Table C above.
4. Financial additionality should be revised accordingly to changed amount for co-financing.
5. The beneficiary of the financing (i.e. the guarantee) are COFIDE and BANECUADOR since they will issue at better terms – and not the bondholders-
6. Please mention somewhere that the guarantee covers creditworthiness and defaults on principal, interest or both.
7. Please delete chemicals and waste of the Use of Proceeds. The Use of Proceeds should ensure the delivery of GEBS as defined by the GEF. Please include.
8. Clarify maximum guaranteed amount (US\$ 12.6M): we thought we are guaranteeing US\$ 33 M bond issuance.
9. Interest of guarantees on reimbursement obligations: when will be triggered a reimbursement obligation? The guarantee is 1.15% on top of what bond yield, and on top of what microfinance institution pricing?
10. Terms: Please provide description of indicative cashflow when default happens (available in the alternative scenario) in the termsheet (who would bear how much amount).
11. We would welcome an excel sheet with an example
12. Maturity: Revise the terms considering scheduled CEO endorsement, CAF board approval, investment start date, disbursement to microfinance institution, bond issuance...
13. Please provide concrete plan for governance of the bond –which regulator/law it should be compliant with, what would be CAF/BanEcuador/COFIDE's roles and responsibilities?

Reflow table

1. Please fill in the full table. You can put brackets in the dates so that they can be updated at CEO endorsement.
2. Estimated agency board approval date should be after the CEO endorsement, which is after project preparation period (max. 1 year after council approval). Please provide the year.

Please revise maturity based on the comments provided in the alternative scenario

10/6/2021

Termsheet: please review in depth comments in word document on the Termsheet and check the additional comments below.

1. Cleared.
2. Cleared.
3. Cleared.
4. Need to include financial additionality in terms of interest rates and tenors
5. Cleared.
6. Cleared.
7. Cleared.
8. Cleared.
9. Include this in the 'Principal Financing Agreement' in the termsheet and the trigger to activate recovery
10. Not answered.
11. Not answered.
12. Cleared.
13. Include this in the reflow table

Reflow table

1. Cleared.
2. Please revise the estimated agency board approval date and expected date for start of investment accordingly.
3. Please update with new numbers after the comments provided in the word document

10/21/2021

Termsheet

termsheet

4. Cleared.

9. Cleared.

10. Cleared.

11. Cleared.

13. Cleared.

NEW COMMENT: please make the co-financing table consistent with Table C.

Reflow table

2. Cleared.

3. Cleared.

10/28/2021

All comments cleared.

Agency Response

Agency Response (28th, Sep 2021):

- 1) we deleted the first termsheet and left just one in the CEO-ERF and in GEF Portal.
- 2) Project ID 10852 was included in all the sections of the PIF.
- 3) Done. Cofinance table C has the same information of cofinance in termsheet.
- 4) Finance additionality has been checked.
- 5) The beneficiary of the financing was corrected already in the PIF.
- 6) It was mentioned in the termsheet.
- 7) CW was deleted from the use of proceeds. It was included the following "The use of Proceeds should ensure the delivery of GEBS as defined by the GEF".
- 8) The maximum amount of guarantee was corrected in Annex A.
- 9) Warranty Execution Event: The Bank shall have the right to request a disbursement of the Guarantee when the Bank declares the occurrence of an event of default (whatever its definition) under a Financing that has authorized the Bank to expedite the payment of any

occurrence of an event of default (whatever its definition) under a financing that has authorized the Bank to expedite the payment of any amount owed and the Bank has exercised such right of acceleration.

12) Maturity was corrected to 7-8 years.

13) COFIDE has defined governance structure the information is its webpage <https://www.cofide.com.pe/detalles4.php?id=12> ; however BanEcuador will have to build it and probably the governance structure of the bond has to get the approval of the Superintendency of Securities, Insurance and Companies; besides BanEcuador should follow the recommendations in the guidelines for green bond issuance in Ecuador, made by the Quito Stock Exchange.

14) Reflow table is fully filled.

15) The estimated agency board approval date will be October 30th, 2023

Agency Response (Oct, 11th, 2021)

We have updated the term sheets of the Project

4. Financial additionality in terms of tenor and rates has been added in the CEO ER

9. Done

10. Three different scenarios were modeled when default happens

11. Done. Excel file is annexed in Documents -Roadmap section

13. The plan for governance of the bond was included in the CEO ER.

Reflow Table.

1. No response needed

2. Done.

3. Numbers updated.

Agency Response (Oct, 26th, 2021):

13 Done

EFSEC DECISION

RECOMMENDATION

Is the PIF/PFD recommended for technical clearance? Is the PPG (if requested) being recommended for clearance?

Secretariat Comment at PIF/Work Program Inclusion

ADDITIONAL COMMENTS

Additional recommendations to be considered by Agency at the time of CEO endorsement/approval.

Secretariat Comment at PIF/Work Program Inclusion

Review Dates

	PIF Review	Agency Response
First Review	9/20/2021	
Additional Review (as necessary)	10/6/2021	
Additional Review (as necessary)	10/25/2021	
Additional Review (as necessary)	10/28/2021	
Additional Review (as necessary)		

PIF Recommendation to CEO

Brief reasoning for recommendations to CEO for PIF Approval

The proposed project is highly innovative as it seeks to mobilize private sector resources through the issuance of two green bonds for sustainable land use and conservation in the capital markets of Peru and Ecuador. The financing is part of a broader and coordinated effort between several stakeholders including local governments, several GEF agencies, financial intermediaries, and other private sector actors to address both the financing and technical capacity barriers that prevent small holder farmers' adoption of sustainable agricultural practices that support the conservation of biodiversity in prioritized territories of the Dry Forests in Ecuador and Peru. The project will also seek to build capacities and transfer technology to small holder farmers.

The bonds to be issued by COFIDE and BanEcuador will benefit from guarantees provided by GEF and CAF. The GEF guarantee will be first loss to the CAF guarantee and will act as credit enhancements, thereby improving the terms of financing of the issuers, and their on-lending terms for the smallholder farmers in the region. The project is expected to generate 140,000 ha of landscapes under sustainable land management in productive systems, 30,000 ha of landscapes under improved practices to benefit biodiversity and 10,000 ha of area of forest and forest land restored. The project is expected to benefit 24,300 smallholder farmers in Peru and Ecuador.