



Part I: Project Information

GEF ID

10500

Project Type

FSP

Type of Trust Fund

GET

CBIT/NGI

CBIT **No**

NGI **Yes**

Project Title

Livelihoods Carbon Fund 3 (LCF3)

Countries

Global

Agency(ies)

CI

Other Executing Partner(s)

Livelihoods Ventures

Executing Partner Type

Others

GEF Focal Area

Multi Focal Area

Sector

Taxonomy

Focal Areas, Forest, Forest and Landscape Restoration, Climate Change, Climate Change Adaptation, Livelihoods, Climate finance, Private sector, Climate resilience, Climate Change Mitigation, Agriculture,

Forestry, and Other Land Use, Biodiversity, Protected Areas and Landscapes, Community Based Natural Resource Mngt, Productive Landscapes, Biomes, Mangroves, Mainstreaming, Forestry - Including HCVF and REDD+, Land Degradation, Sustainable Land Management, Community-Based Natural Resource Management, Income Generating Activities, Sustainable Livelihoods, Sustainable Agriculture, Influencing models, Deploy innovative financial instruments, Stakeholders, Type of Engagement, Partnership, Private Sector, Large corporations, SMEs, Capital providers, Local Communities, Gender Equality, Gender Mainstreaming, Gender-sensitive indicators, Gender results areas, Participation and leadership, Integrated Programs, Food Security in Sub-Sahara Africa, Land and Soil Health, Gender Dimensions, Diversified Farming, Agroecosystems, Food Systems, Land Use and Restoration, Sustainable Food Systems, Integrated Landscapes, Food Value Chains, Landscape Restoration, Commodity Supply Chains, High Carbon Stocks Forests, Smallholder Farmers, Capacity, Knowledge and Research, Capacity Development, Innovation

Rio Markers

Climate Change Mitigation

Significant Objective 1

Climate Change Adaptation

Significant Objective 1

Biodiversity

No Contribution 0

Land Degradation

No Contribution 0

Submission Date

4/14/2023

Expected Implementation Start

8/1/2023

Expected Completion Date

7/31/2043

Duration

240In Months

Agency Fee(\$)

1,211,532.00

A. FOCAL/NON-FOCAL AREA ELEMENTS

Objectives/Programs	Focal Area Outcomes	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
LD-1-1	Maintain or improve flow of agro-ecosystem services to sustain food production and livelihoods through Sustainable Land Management (SLM)	GET	3,141,009.00	38,919,250.00
LD-1-2	Maintain or improve flow of ecosystem services, including sustaining livelihoods of forest-dependent people through Sustainable Forest Management (SFM)	GET	3,141,009.00	38,919,351.00
LD-1-3	Maintain or improve flows of ecosystem services, including sustaining livelihoods of forest-dependent people through Forest Landscape Restoration (FLR)	GET	3,141,009.00	38,919,299.00
BD-1-1	Mainstream biodiversity across sectors as well as landscapes and seascapes through biodiversity mainstreaming in priority sectors	GET	4,038,441.00	50,039,100.00
Total Project Cost(\$)			13,461,468.00	166,797,000.00

B. Project description summary

Project Objective

The Livelihoods Carbon Fund 3 (LCF3) is an innovative and replicable investment-model that invests in community-based solutions to restore natural ecosystems, and establish agroforestry and regenerative agriculture systems in developing countries that will ultimately reduce GHG emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards SDGs while delivering a steady and positive financial return to financial investors.

Project Component	Financi ng Type	Expected Outcome s	Expected Outputs	Tru st Fu nd	GEF Project Financing (\$)	Confirmed Co- Financing(\$)
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Project Component	Financing Type	Expected Outcomes	Expected Outputs	Trust Fund	GEF Project Financing (\$)	Confirmed Co-Financing(\$)
Component 1: The Livelihoods Carbon Fund 3	Investment	<p>Outcome 1.1.: Launch of an innovative climate-finance investment vehicle (Livelihoods Carbon Fund 3) supported by financial and corporate investors.</p> <p>Indicator 1.1.A.: Amount of public & private capital raised from corporate and financial investors (public and private) to invest in community-based solutions that restore natural ecosystems, endorse agroforestry and regenerative agriculture models.</p>	<p>Output 1.1.1.: A blended finance model and structure for LCF3 is completed and launched.</p> <p>Indicator 1.1.1.: # of models completed and deployed.</p> <p>Target 1.1.1.: 1 model.</p> <p>Output 1.1.2.: Financial investors' commitments in equity to LCF3 are structured for an investment horizon spanning across at least 10 years (until 2030).</p> <p>Indicator 1.1.2.: Total financial investors' equity commitments structured for a 10+ year investment horizon.</p> <p>Target 1.1.2.: At least USD27 million (including USD13 million from GEF).</p> <p>Output 1.1.3.: LCF3 yields financial returns for financial investors.</p> <p>Indicator 1.1.3.: LCF3 Internal Rate of Return to financial investors.</p>	GE T	13,381,468.00	166,797,000.00

Project Component	Financing Type	Expected Outcomes	Expected Outputs	Trust Fund	GEF Project Financing (\$)	Confirmed Co-Financing (\$)
		Target 1.1.A.: At least USD109 million of capital raised (USD14 million from financial investors, USD82 million from corporate investors, USD13 million from GEF).	Target 1.1.3: IRR of at least 5% achieved by each financial investor.			
			Output 1.2.1: Trees planted leading to the restoration of mangrove and enrichment of agricultural land.			
			Indicator 1.2.1.: Number of trees planted.			
			Target 1.2.1.: At least 74 million trees.			
			Output 1.2.2: Training provided by LCF3 on sustainable management.			
		Outcome 1.2.: Increase in the area of restored and conserved natural ecosystems and avoided deforestation due to investments of the LCF3 fund over a time span of at least 20 years.	Indicator 1.2.2.: Number of farmers receiving training.			
			Target 1.2.2.: 100,000 farmers.			
			Output 1.2.3.: Community-based restoration, agroforestry, and regenerative agriculture projects receive LCF investment.			
			Indicator 1.2.3.: Number of community-based			

Project Component	Financing Type	Expected Outcomes	Expected Outputs	Trust Fund	GEF Project Financing (\$)	Confirmed Co-Financing (\$)
		Indicator 1.2.A.: Number of hectares of agricultural land restored.	restoration, agroforestry, and regenerative agriculture projects that receive LCF investment. Target 1.2.3.: At least 12 projects.			
		Indicator 1.2.B.: Number of hectares of avoided deforestation.	Output 1.3.1.: Households within project perimeter have access to training/knowledge/resources made available under the project.			
		Indicator 1.2.C.: Number of hectares of wetland restored.	Indicator 1.3.1.: Percentage of households. Target 1.3.1.: At least 60%.			
		Indicator 1.2.D.: Number of hectares of landscapes under sustainable land management in production systems.	Output 1.3.2.: Women are represented on LCF3 project governance bodies worldwide. ⁴ Indicator 1.3.2.: Percentage of positions on project governance bodies held by women. Target 1.3.2.: At least 50%.			
		Target 1.2.A.: At	Output 1.3.3.: People have lower exposure to			

Project Component	Financing Type	Expected Outcomes	Expected Outputs	Trust Fund	GEF Project Financing (\$)	Confirmed Co-Financing (\$)
		least 48,960 ha of agricultural land restored.	health hazards and injuries over a period of at least 7 years. Indicator 1.3.3.: # of people. Target 1.3.3.: At least 217,500.			
		Target 1.2.B.: At least 10,700 ha of avoided deforestation.	Output 1.3.4.: Beneficiaries have a sourcing agreement with one or several commercial entities.			
		Target 1.2.C.: At least 16,500 ha of wetlands restored.	Indicator 1.3.4.: # of beneficiaries. Target 1.3.4.: At least 70,000.			
		Target 1.2.D.: At least 12,240 ha of landscapes under sustainable land management in production systems	Output 1.3.5.: Collective organizations created and/or receiving support from LCF3 (e.g., farmers cooperatives, business incubators, natural resource management committees, remunerated planting groups, etc.). Indicator 1.3.5.: # of organizations. Target 1.3.5.: At least 650.			
		Outcome 1.3.: Men and				

Project Component	Financing Type	Expected Outcomes	Expected Outputs	Trust Fund	GEF Project Financing (\$)	Confirmed Co-Financing(\$)
		women increase income as a direct result of participating in and benefiting from the portfolio of projects financed by LCF3.	<p>Output 1.3.6.: Beneficiaries join collective organizations supported by LCF3.</p> <p>Indicator 1.3.6.: Number of beneficiaries.</p> <p>Target 1.3.6.: At least 100,000.</p>			
		Indicator 1.3.A.: # people benefitting from activities financed by the Livelihoods Carbon Fund 3 (disaggregated by gender).				
		Target 1.3.A: At least 475,500 direct beneficiaries, of whom at least 316,500 are women				

Project Component	Financing Type	Expected Outcomes	Expected Outputs	Trust Fund	GEF Project Financing (\$)	Confirmed Co-Financing (\$)
Monitoring and Evaluation				GET	80,000.00	
Sub Total (\$)					13,461,468.00	166,797,000.00
Project Management Cost (PMC)						
GET						
Sub Total(\$)			0.00		0.00	
Total Project Cost(\$)			13,461,468.00		166,797,000.00	

Please provide justification

C. Sources of Co-financing for the Project by name and by type

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount(\$)
Donor Agency	USAID	Guarantee	Investment mobilized	12,500,000.00
Private Sector	Private sector investors (subscribed prior to CEO Endorsement)	Other	Investment mobilized	146,204,500.00
Other	Development Finance Institutions	Other	Investment mobilized	8,092,500.00
Total Co-Financing(\$)				166,797,000.00

Describe how any "Investment Mobilized" was identified

LCF3 team has mobilized USD154,297,000 in investment from 14 investors from both the private and public sector. LCF3 investors include Bel Group, Chanel, Danone, DEG Invest, Eurofins, Hermès, L'Occitane, Mars, Mauritius Commercial Bank, McCain Foods, Orange, SAP, Schneider Electric, and Voyageurs du Monde. What is new in LCF3, is that this fund relies on an innovative business model, where corporate, financial investors and institutions join forces for the first time to invest in long-term carbon compensation projects, with strong benefits for local communities. In addition, LCF3 has secured a partial credit default guarantee from the DFC of USAID to be used as a credit mitigation instrument for private financial investors. The guarantee will become effective in the eventuality of a subsequent financial closing with private financial investors joining the fund.

D. Trust Fund Resources Requested by Agency(ies), Country(ies), Focal Area and the Programming of Funds

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GE T	Global	Mult i Foca l Area	NGI	13,461,468	1,211,532	14,673,000.00
Total Grant Resources(\$)					13,461,468.00	1,211,532.00	14,673,000.00

E. Non Grant Instrument

NON-GRANT INSTRUMENT at CEO Endorsement

Includes Non grant instruments? **Yes**

Includes reflow to GEF? **Yes**

F. Project Preparation Grant (PPG)
PPG Required **true**

PPG Amount (\$)
300,000

PPG Agency Fee (\$)
27,000

Agenc y	Trus t Fun d	Countr y	Foca l Area	Programmin g of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GET	Global	Multi Focal Area	NGI	300,000	27,000	327,000.0 0
Total Project Costs(\$)					300,000.0 0	27,000.0 0	327,000.0 0

Core Indicators

Indicator 3 Area of land and ecosystems under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
65460.00	65460.00	0.00	0.00

Indicator 3.1 Area of degraded agricultural lands under restoration

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
Cropland	48,960.00	48,960.00		

Indicator 3.2 Area of forest and forest land under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 3.3 Area of natural grass and woodland under restoration

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

Indicator 3.4 Area of wetlands (including estuaries, mangroves) under restoration

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
16,500.00	16,500.00		

Indicator 4 Area of landscapes under improved practices (hectares; excluding protected areas)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
22940.00	22940.00	0.00	0.00

Indicator 4.1 Area of landscapes under improved management to benefit biodiversity (hectares, qualitative assessment, non-certified)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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Indicator 4.2 Area of landscapes under third-party certification incorporating biodiversity considerations

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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Type/Name of Third Party Certification

Indicator 4.3 Area of landscapes under sustainable land management in production systems

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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12,240.00	12,240.00		
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Indicator 4.4 Area of High Conservation Value or other forest loss avoided

Disaggregation Type	Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
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Other forest	10,700.00	10,700.00		
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Indicator 4.5 Terrestrial OECMs supported

Name of the OECMs	WDPA-ID	Total Ha (Expected at PIF)	Total Ha (Expected at CEO Endorsement)	Total Ha (Achieved at MTR)	Total Ha (Achieved at TE)
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Documents (Please upload document(s) that justifies the HCVF)

Title	Submitted
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Indicator 6 Greenhouse Gas Emissions Mitigated

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO ₂ e (direct)	0	0	0	0
Expected metric tons of CO ₂ e (indirect)	0	0	0	0

Indicator 6.1 Carbon Sequestered or Emissions Avoided in the AFOLU (Agriculture, Forestry and Other Land Use) sector

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO ₂ e (direct)				
Expected metric tons of CO ₂ e (indirect)				
Anticipated start year of accounting				
Duration of accounting				

Indicator 6.2 Emissions Avoided Outside AFOLU (Agriculture, Forestry and Other Land Use) Sector

Total Target Benefit	(At PIF)	(At CEO Endorsement)	(Achieved at MTR)	(Achieved at TE)
Expected metric tons of CO ₂ e (direct)				
Expected metric tons of CO ₂ e (indirect)				
Anticipated start year of accounting				
Duration of accounting				

Indicator 6.3 Energy Saved (Use this sub-indicator in addition to the sub-indicator 6.2 if applicable)

Total Target Benefit	Energy (MJ) (At PIF)	Energy (MJ) (At CEO Endorsement)	Energy (MJ) (Achieved at MTR)	Energy (MJ) (Achieved at TE)
Target Energy Saved (MJ)				

Indicator 6.4 Increase in Installed Renewable Energy Capacity per Technology (Use this sub-indicator in addition to the sub-indicator 6.2 if applicable)

Technology	Capacity (MW) (Expected at PIF)	Capacity (MW) (Expected at CEO Endorsement)	Capacity (MW) (Achieved at MTR)	Capacity (MW) (Achieved at TE)
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Indicator 11 People benefiting from GEF-financed investments

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
Female	316,500	316,500		
Male	159,000	159,000		
Total	475500	475500	0	0

Provide additional explanation on targets, other methodologies used, and other focal area specifics (i.e., Aichi targets in BD) including justification where core indicator targets are not provided

Part II. Project Justification

1a. Project Description

Changes from the PIF

The project design described below contains no major changes from the PIF. Over the course of the PPG, various aspects have been elaborated compared to their presentation in the PIF. These additions serve to clarify and elaborate on the PIF contents, without making any material changes. This additional material presented in the ProDoc draws principally from the LCF3 Prospectus and the LCF3 Investment Memorandum, which covered the same areas as the PIF but with additional detail and explanation. Two areas in particular that reflect elaboration are the Implementation Arrangements (Section 5), and the Results Framework, which remains closely aligned with the project design presented in the PIF but was adjusted for clarity and also to incorporate gender mainstreaming. In addition, the Key Terms to Investors and Calendar of Expected Reflows has been revised to accommodate GEF Knowledge Management, Monitoring and Evaluation, and Environmental Social and Governance audit costs.

In October 2021 as part of CI's legal and financial due diligence, it was flagged that since LCF3 is a Euro-denominated fund, CI would not be able to enter into a subscription agreement with a commitment in Euros since the GEF funds can only be disbursed to CI in USD and following the capital call schedule, would make it difficult for CI to set up its own hedging arrangement. The Fund's Board stressed that the Fund must comply with the Luxembourg principle of mutualization requiring fair and equitable treatment of all investors to the Fund. While the Fund was able to make certain concessions to facilitate the GEF investment (limiting the GEF investment to 20 years rather than 24 years) requiring the Fund and the other investors to absorb the exchange rate costs and risk is not an accommodation the Fund's Board can approve. CI, along with LV, explored several options to determine the best way to manage the foreign exchange issue and agreed that the most viable solution is to create a new class of USD denominated shares of the Fund, which would allow CI to make the investment in USD.

In December 2022, the principle of mutualization was further reaffirmed by LCF3 investors in their last Board session of December 15th, 2022. The Board and the Investment Advisor note that mutualization has been instrumental in building the Funds' success and sense of commitment and belonging among its investors, and the Board of LCF3 continues to uphold this principle, except for geographical considerations linked to possible LCF3 investments in developed economies. Thus, the mutualization principle as it applies to the CI-GEF

investment ensures that CI-GEF shares in the risk related to cookstove projects in the Fund's portfolio and informs how to manage the foreign exchange risk that arises because the CI-GEF investment is made in US\$ (whereas the rest of the shareholders make their investments in Euros). The LCF3 Board members further highlighted that this mutualization principle is mitigated by a fund-based cap, currently set at 33% to 45% of volumes of 'avoidance' offsets generated across the entire portfolio of LCF3 investments, which may include cookstove but also REDD+ or methane-avoidance investments, and thus limiting the exposure of investors possibly less interested in cookstove investments. For a discussion of the foreign exchange risk please see the Investment Memo, Section 9.

The global environmental and/or adaptation problems, root causes and barriers that need to be addressed

Global Environmental Problems

This project seeks to address the global environmental problems of climate change, habitat loss due to fragmentation and conversion, land degradation that undermines agricultural productivity and drives further habitat loss, and consequent biodiversity decline. In the course of implementing Nature Based Solutions to climate change, the project will increase the area of restored and conserved natural ecosystems, and avoid deforestation.

The recent Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) Global Assessment Report on Biodiversity and Ecosystem Services estimates that approximately 1 million plant and animal species are threatened with extinction, and the average abundance of native species in most land-based habitats has fallen by at least 20%, mostly since 1900. Loss of intact ecosystems primarily has occurred in the tropics. The largest contributor to biodiversity loss since 1970 has been land use change, driven principally by agriculture, with negative impacts on food, feed, energy, medicines, and genetic resources. Agricultural expansion already has cleared or converted 70% of grassland, 50% of savanna, 45% of temperate deciduous forest, and 27% of tropical forests. Tropical forest loss has particularly severe impacts on biodiversity, as these ecosystems support about 70% of terrestrial plant and animal species. Degradation and forest loss are the primary causes of a more than 52% decline in global biodiversity over the last 40 years.

Land degradation contributes to both global GHG emissions and loss of ecosystem services evidenced by exposure to droughts and floods, impacts of pollutants, reduced availability of freshwater, and loss of biodiversity. It also undermines livelihoods and food security. Tropical countries lost 7 million hectares of forest per year between 2000 and 2010; conversion of forest land to agriculture comprised 73% of this land use change. As many as 24 billion tons of fertile soil are lost and 12 million hectares of land become degraded each year, at an estimated cost of USD10.6 trillion in 2017 alone. Degradation and deforestation have the most impact in rural areas, where 78% of the world's poor live.

Climate change already is having profound consequences on many countries and communities in many parts of the world where livelihoods, food security and sources of income greatly depend on the carbon cycles in agriculture, landscapes and natural resources. Degradation or enhancement of

these ecosystems has direct impacts on people's economic and social condition as well as on the overall carbon balance. Human-induced warming already has reached a global average increase of 1°C; according to the Intergovernmental Panel on Climate Change (IPCC), if this warming rate continues the world may reach an average 1.5°C rise by 2040. Nationally Determined Contributions (NDCs) of signatories to the UNFCCC mostly are focused on decarbonization of sectors such as transport, the promotion of renewable energies, etc.; much of the potential of terrestrial and marine ecosystems to help address climate change mitigation and adaptation remains unexploited, although emissions from agriculture, forestry and other land-use activities contribute around a quarter of global GHG emissions.

Root Causes

There are several underlying root causes of land degradation and biodiversity loss. About 2bn Ha of land worldwide, home to 1.5bn people, are directly affected by land degradation (47% of which is forest, while cropland accounts for 18% of the total). Overall, the process is already impacting 3.2bn people, with associated annual costs to the global economy estimated in USD18-20 trillion. Forest loss represents a major global threat to biodiversity and the supply of ecosystem services. Global forest area is continuing to decline, with net losses experienced in sub-Saharan Africa, Latin America and Southeast Asia. The main cause of deforestation in these areas is conversion to agriculture, with illegal logging, fires and fuelwood extraction also contributing.

Some of the most important drivers of land degradation and biodiversity loss are as follows:

- ? Demographic pressure: Sustained population growth, currently increasing at an annual rate of 1.05% worldwide, puts pressure on production systems, space, and demand for fuel and can lead to the degradation of natural resources (land, water, ecosystem services, etc.), increased disposal of harmful waste into the environment, and urbanization. With a growing population, expected to reach 9.7bn by 2050, global food production will need to increase by 50% compared to current levels. Increasing food production has historically led to the conversion of native vegetation into crop and grazing land. Over 55% of the world population lives in urban settings, a number that is projected to increase to 68% by 2050 if current trends are to continue. Urbanization might cause the loss of between 1.6 and 3.3m Ha of prime agricultural land per year in the period between 2000 and 2030: unplanned, unsystematic and rapid urbanization can have profound, negative impacts on vegetation and land cover, water bodies and wetlands. While industrialization has been the key driver of economic growth and prosperity worldwide, unsustainable industrial activities have played a major role in the degradation of the global environment, putting pressure on natural resources, contributing towards e.g. GHG emissions, air and water pollution, or growing volumes of waste. An example of the effect of demographic pressure, its interaction with different economic sectors and the direct impact on global warming and climate change is

reflected on latest report on Global Energy and CO₂ status report by the International Energy Agency (IEA): Higher energy demands from a larger population drove the intensification of production levels and increased global energy-related CO₂ emissions by 1.7% in 2018, reaching a record high of 33.1 Gt of CO₂e, the highest rate of growth since 2013, and 70% higher than the average increase since 2010.

- ? Unsustainable land management practices, such as the expansion of monoculture croplands, increased use of inputs, unsustainable / selective logging practices, unsustainable livestock management, conversion of mangroves to shrimp ponds, replacement of natural forest with intensively managed plantations of exotic tree species, etc., are key drivers of land degradation and biodiversity loss. In addition, the intensification of farming practices, with a heavy reliance on mechanization, pesticides and chemical inputs, leads to soil erosion, reduced capacity to sequester CO₂, and eutrophication of water bodies from agricultural runoff, thus exacerbating land degradation. Over the past two centuries soil organic carbon has decreased by 8% globally (i.e. 176 Gt C) as a consequence of land conversion and unsustainable land management practices, and projections to 2050 predict further losses of 36 Gt C from soils, particularly in sub-Saharan Africa. Carbon stocks in forests alone have decreased by almost 11 Gt in the past 25 years. Over 50% of agricultural land is moderately or severely affected by soil degradation, and if unsustainable land management practices are not stopped, FAO estimates that approximately 2/3 of arable land could be lost to desertification in Africa by 2030, putting food security of people living in the area at risk and causing losses in rainfed agriculture of USD12bn and up to USD17bn in irrigated lands (losses that will have a direct impact on the income of the farmers affected). On the other hand, sustainably managed land has the potential to deliver up to USD1.4 trillion in increased crop production, while enhancing carbon storage and increasing food and water security.

- ? Effects of climate change: While land degradation is a major contributor to global warming, extreme weather events brought by increased temperatures also have a deep impact on soil structure, erosion levels, and nutrient availability (including carbon and organic matter), thus creating a vicious cycle which exacerbates climate change and intensifies land degradation and desertification. Changing precipitation patterns alter growing seasons, contribute to significant reductions in agricultural yields, reduce freshwater availability, and put biodiversity under further stress. Increased CO₂ levels are expected to have a direct impact on the nutritional profile of agriculture crops, while more frequent severe weather events have the potential to disrupt food chains, increasing post-harvest losses and food waste in a context where food waste already accounts for 8% of the global GHG emissions. According to the IPCC, even in a 1.5°C warming scenario, 178 million people will suffer from water scarcity and desertification by 2050. According to Ward et al. (2016), climate change is likely to have a substantial impact on mangrove ecosystems, through processes including sea level rise, changing ocean currents, changes in precipitation,

and increased temperatures, storms, and CO₂. Although to date the primary driver of biodiversity loss has been exploitation of resources, climate change is projected to be a rapidly increasing additional driver for biodiversity loss.

Barriers to Addressing the Environmental Problems and Root Causes

A number of barriers prevent the realization of improved land and resource management practices (hereafter referred to as Nature-Based Solutions (NBS)) that can buffer against biodiversity loss, land degradation, and climate change. Some of these barriers include the following:

- ? Knowledge gaps to design and implement NBS that address the complexity of natural systems, in order to create solutions that are efficient and adapted to the conditions of the local communities. Expertise in NBS remains in silos, without much overlap between key stakeholders, and more specifically between the scientific and financial sectors. Because of the relatively new nature of NBS, there is not a robust framework to evaluate the impacts and benefits brought by NBS, to define suitable indicators to monitor progress, or even to collect data. Further, the lack of a reliable economic evaluation of the changes in ecosystem services brought by NBS (reliable and not uniquely based on avoided costs), is one of the key drivers for the shortage of investible projects.
- ? Existing NBS initiatives still tend to take place at a relatively small scale, which results in relatively high transaction costs and challenges to attract and comply with the requirements of potential investors. In addition, there is a need to develop reliable methods for scaling up existing projects accounting for how key project features will behave at different scales (e.g., type and value of projected impacts or the cost of the intervention).
- ? Insufficient long-term financial support for the implementation and maintenance of NBS initiatives (currently, NBS are mostly planned rather than implemented, and in the case of developing countries, they are conditional on the availability of financial support). Only around USD50bn of conservation finance is achieved annually (i.e., approximately 1/6 of the funding needed worldwide according to the latest estimations), with 80% of this amount coming from public and philanthropic sources, and not from financial markets.^[19] Some of the root causes associated to the lack of financial flows in support of NBS projects include:
 - o Low availability of innovative blended finance mechanisms with a high share of the capital coming from the private sector, that can support a system that stimulates and rewards sustainable land use, reduces risks for investors and kick-starts market development.

- o Perceived risk associated to NBS usually falls outside the appetite of institutional investors. Potential losses from extreme weather events and the lack of available tools to cover financial obligations in adverse scenarios, low market track record, reliance on innovative, unproven business models, etc. drive up the costs of investment, reducing the appeal for impact and mainstream investors alike. More risk-sharing and/or risk-reduction measures are demanded by financial investors to grow their natural capital investments.
 - o NBS? returns tend to be long-term and lower than commercial returns, and thus require patient capital. Without clear and reliable estimations of potential revenue streams, profit-seeking investors are unlikely to invest in NBS.
 - o Existing financial models lack the flexibility to accommodate different stakeholders? needs, such as the different exit strategies of corporate and financial investors.
- ? Insufficient social inclusion starting at project design to ensure inclusive outcomes (e.g., inclusive wealth for future generations from fair and equitable ecosystem management and increased access to more diverse ecosystems services).

The baseline scenario and any associated baseline Programs

With a growing population, expected to reach 9.7 billion by 2050, global food production will need to increase by 50% compared to current levels. Increasing food production has historically led to the conversion of native vegetation into crop and grazing land. Given that degradation and forest loss have been the primary causes of a more than 52% decline in global biodiversity over the last 40 years, biodiversity declines will likely continue this trajectory with further agricultural expansion. If unsustainable land management practices are not stopped, FAO estimates that approximately 2/3 of arable land could be lost to desertification in Africa by 2030, putting food security of people living in the area at risk and causing losses in rainfed agriculture in irrigated lands (losses that will have a direct impact on the income of the farmers affected). Climate change will further exacerbate these problems if current trends continue.

While signatory countries of the UNFCCC around the world took the first steps in the fight against climate change by setting their ambitions to reduce emissions through Nationally Determined Contributions (NDCs), pledges are still insufficient to limit global warming to the 2°C threshold. NDCs have mostly focused on the transition towards a low-carbon economy, mainly through the decarbonization of a variety of sectors such as transport, the promotion of renewable energies, etc. In the meantime, the level of funding for NBS is not commensurate with the potential of terrestrial and marine ecosystems to tackle climate change, both in terms of mitigation and adaptation, despite the fact that emissions from agriculture, forestry and

other land-use related activities alone contribute around a quarter of the total GHG emissions. There is a growing awareness of the multiple benefits NBS provide in terms of climate change mitigation, biodiversity restoration and conservation, and improvement of the livelihoods of people. For example, sustainably managed land has the potential to deliver up to USD1.4 trillion in increased crop production, while enhancing carbon storage and increasing food and water security. It is estimated that less than 3% of public financing goes to NBS and only 3% of the 2,000 companies reporting incorporating natural ecosystems as part of their climate change adaptation strategy. On the other hand, there are accelerating commitments from corporates, the latest of which 177 private corporates pledging to set ambitious emissions reduction targets by aligning with the 1.5°C above pre-industrial levels climate target and committing to reach net-zero emissions by 2050 at most.

With less than 1% of climate finance allocated today towards Nature-Based Solutions, without unlocking sizeable, long-term and stable sources of financing towards this emerging sector by tapping into private financial capital, the potential of NBS will remain highly underutilized. Private financial institutions (especially mainstream financial entities, but also impact investors) are still reluctant to invest in climate-related endeavors due to the combination of both real and perceived risks linked to climate investments, the opportunity costs inherent to a new market, longer payback periods, and a lack of clear evidence on financial returns moving beyond demonstration projects. To demonstrate Nature-Based Solutions as a new investable asset class and scale up existing portfolios, additional funding is required to mobilize up-front equity and help decrease risk exposure to meet the financial gap for NBS. It is not expected that the corporate sector alone can sufficiently mobilize up-front equity and increase their risk exposure to meet this growth challenge. While some corporate investors are committed to allocating funds to combat climate change in line with their own corporate needs & engagements, their primary purpose is not to commit long-term equity to source carbon offsets.

A rising demand for voluntary carbon offsetting is expected in the years to come, as we witness a continuous flow of neutrality announcements (total or partial) by many actors: Amazon net carbon neutral (2040), UK and France net zero (2050), European Union neutrality (2050), Repsol first oil major with neutrality commitment (2050), tens of countries have announced their sourcing voluntary offsets, CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) will be effective in early 2020s with needs in the tune of several 100m offsets per year. Recent trends do highlight a surge in the volume of NBS within voluntary carbon offset transactions, with Forestry and Land Use offsets volume (A/R, REDD+, improved forest management, livestock methane & grassland) increasing by 264% between 2016 and 2018 versus just 21% for other offset types. Moreover, 2018 witnessed forestry & land use transacted volumes of 50.7 million tCO_{2e} far outpacing the 23.8 million tCO_{2e} of renewable energy offsets. In order to satisfy this rising demand for offsets, a supply of investible projects and the capital to scale them up will be necessary. While a number of other funds are contributing to financing NBS, there remain critical gaps. In particular, while there is agreement about the need for long-term financial support for NBS projects, long-term investor commitments of the duration proposed by LCF3 are rare. This lack of long-term commitment threatens the sustainability of projects and associated impacts. In addition, projects that can deliver benefits at scale require pre-financing that is difficult to secure. The LCF model of providing up-front financing to Project Developers also responds to an unmet need in this space.

Associated Baseline Projects

A summary of projects funded by LCF 1 and 2, as well as funds that finance similar types of projects, is presented below as examples of baseline projects currently under implementation (or just about to go into implementation ? see Agroforestry project in Rwanda).

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Mangrove in Senegal	2009 - 2035	Confidential but information available upon request	Livelihoods Carbon Fund 1	10,000Ha of mangrove restoration on community-managed estuaries leading to reconstitution of fish stocks (+4,200 t/year), reduction in salinity in rice paddies and the sequestration of 0.8 million t of CO ₂ e over its lifetime.
Agroforestry in India	2011 - 2035	Confidential but information available upon request	Livelihoods Carbon Fund 1	Plantation of 3 million coffee and 3 million fruits trees (18 diverse species) by tribal Adivasi community in India. Their coffee is today branded ?Araku Coffee? and is marketed and sold worldwide as premium quality coffee. The project is expected to sequester 1.2 million t of CO ₂ e over its lifetime.

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Mangrove in India	2011 - 2035	Confidential but information available upon request	Livelihoods Carbon Fund 1	<p>The project restores 4,500 hectares of mangrove with farmer communities in the Sundarbans of West Bengal. As home to a significant portion of one of the world's largest contiguous block of mangrove forests, the portion under natural vegetation in Indian Sundarbans Delta holds a prominent global place and a part of it has been designated as UNESCO World Heritage site in 1987 in recognition of its high biodiversity as well as the occurrence of endangered and highly threatened species, including the only population of tigers found in a coastal mangrove habitat. The activities in the whole project cluster promote on-site biodiversity through introduction of multi-species planting models. Eight mangrove species are selected for the project including <i>Sonneratia apetala</i>, a threatened species requiring immediate conservation measure. Offsite biodiversity benefits are also positive and include increased natural regeneration of mangrove species (especially seed dispersal by currents of <i>Avicennia</i>).</p> <p>- A social business, Badabon Farmers Producer Company Limited (BFPCL), operating under the brand Badabon Harvest, has brought farmers' fresh produce from the Sundarbans to the market in Kolkata, and is embarking on a journey towards a transition to autonomy in</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
				<p>the entire operation with the support of a Kolkata based business developer to set the sourcing and sales mechanisms. Web Application for online orders of fresh fruits & vegetables ? the website https://badabonharvest.bio/ has gone live and the supply of orders received has been initiated with a coverage of home delivery across 22 pin codes and 3 drop points in Kolkata.</p> <p>- BFPCL received its first loan financing from local banks through the disbursement of vehicle loan (for home deliveries) to support its operations of Rs. 412000 (USD5,699), a remarkable breakthrough as the local banks are now willing to finance its credit needs.</p> <p>- The project is expected to sequester 0.7 million tCO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Mangrove in Indonesia	2012 - 2035	Confidential but information available upon request	Livelihoods Carbon Fund 1	<p>The restoration of 5,000Ha of mangrove in Tsunami-hit North Sumatra and Aceh region. The 18 million trees planted in a ?silvofishery? approach combine mangrove restoration with aquaculture, thus enabling the rehabilitation of fishponds by creating a natural habitat for various species such as fish, shrimp and crabs.</p> <p>The restoration of the mangrove provides multiple income opportunities such as the sale of soft-shell crab, natural dye extraction from mangrove tree for batik production and eco-tourism. Moreover, empirical and field -based studies have shown that 30 trees per 100 square meters may reduce the maximum flow of a tsunami by more than 90 percent.^[1] The project is expected to sequester 2.2 million t of CO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Agroforestry in Guatemala	2014 - 2035	Confidential but information available upon request	Livelihoods Carbon Fund 1	<p>The Cerro San Gil is the region's largest and most bio-diverse tropical rainforest in Caribbean Guatemala. Approximately 60% of lowland tropical forest was destroyed during the seventies and eighties for cattle ranching and agriculture and today, approximately 39% of original forest cover remains (National Forests Institute (INAB), Forest Cover in Guatemala 2004). The project promotes several sustainable agroforestry production systems which will deliver products and income in a phased timeline will ensure both the active interest from local farmers, the sustainable delivery of benefits, and an accelerated scaling-up of efforts across the region.</p> <p>The project has been designed in order to ensure a high level of support and endorsement from communities, based on a strategic combination of agroforestry systems that will provide support in food security, income generation and ecological restoration across the region. In this regard, cash crops such as rubber, black pepper, fruits, cardamom and coffee which are highly sought by communities-are being offered as an incentive for the simultaneous adoption and support to forest restoration and native species reforestation. All systems will incorporate maize and beans production during the first three to</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
				<p>four years; from that point on, new products will start being harvested sequentially: black pepper, cardamom and coffee (starting in years 4-6); fruits and firewood from thinning (starting in years 5-7); rubber (starting in years 6-7); and timber (years 12-15; and years 20-23).</p> <p>The project is expected to sequester 0.6 million tCO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Agroforestry in Kenya	2016 - 2026	Confidential but information available upon request	Livelihoods Carbon Fund 1	<p>The projects will work with 30,000 farmers, 15,000 of which are dairy farmers to increase their crop yields by 30% thanks to the dissemination of sustainable agricultural practices and improve their dairy production. At project launch, most of the farmers in the project area produce an average of 3l of milk per day, with an even lower level during the dry period in Kenya. The low productivity is due to inadequate access to nutritious feed, water and low producing breeds. The project aims at increasing productivity to 6 - 9 liters per day per cow. This is possible as farmers will produce fodder crops on farm to feed the cows year-round while introducing improved breeds through high quality artificial insemination. Moreover, a local milk distributor, Brookside Dairy, has committed to buying all milk produced within the project over a period of 10 years.</p> <p>The project also provides support to 15 cooperatives strengthened to become professional hubs for business and social empowerment with increased women participation. The project also includes a gender component thanks to gradual implementation of the Household Road Map to promote joint decision-making at the household level. The project is expected to avoid 1 million t CO_{2e} over its lifetime.</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Agroforestry in India	2019 - 2042	Confidential but information available upon request	Livelihoods Carbon Fund 2	<p>The project will enable the Adivasis to reconnect with their ancestral heritage as a forest-dwelling community by investing in tree planting as well as in field crops: 18,000Ha spanning across 5 plantation systems which include: pulses & millets for food and nutrition, fodder for the animals, coffee on the hill slopes, woodlots for fuelwood, and upland reforestation on barren hills. The Sustainable Agricultural & Land Management (SALM), a set of agronomic practices is an integral component of the project and is promoted across all the 5 systems to improve soil organic carbon, soil fertility and soil moisture retention while preventing soil-degradation.</p> <p>Self-organized in village-based committees, Gram Sabha, recognized under Indian state laws, farmers will take the lead to mobilize and manage their community towards a collective sustainable management of natural resources.</p> <p>By combining SALM practices and tree plantation activities, the project is expected sequester/avoid about 2.3 million tCO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
Mangrove in Indonesia	2019 - 2042	Confidential but information available upon request	Livelihoods Carbon Fund 2	The project will restore 5,500Ha of mangrove with around 90% of the restoration activities taking place across 1,000 disaffected fishponds. The pond-based mangrove plantation is thus designed to provide the feed and habitat for sustainable income-generating silvo-fishery activities. All along the coast of Aceh & North Sumatra, large areas of mangroves were converted to shrimp ponds. Though initial production was high, eventual losses led to abandonment of the ponds. The silvo-fishery model is an attempt to restore the environmental conditions for fisheries habitat within the pond site and the surrounding area, and to re-establish a productive mangrove. The project is expected to generate 2.5 million tCO ₂ e over its lifetime.
Agroforestry in Rwanda	2020 - 2042	Confidential but information available upon request	Livelihoods Carbon Fund 2	The project will plant 3.7 million agroforestry, fruit & woodlot trees and promote sustainable agricultural practices across 27,000 smallholder farmers? agricultural land in Rwanda to improve farmers? livelihoods and mitigate the impact of degraded ecosystems on soil. The project is expected to generate 2.2 million tons of CO ₂ e over its lifetime.

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
BioCarbon Fund	2013	355M USD	Germany Norway Switzerland UK USA	The BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) collaborates with countries around the world to reduce emissions from the land sector through smarter land-use planning, policies, and practices. The ISFL currently supports programs in Colombia, Ethiopia, Indonesia, Mexico, and Zambia.
Restoration Seed Capital Facility	2020	30M USD	Germany Grand-Duchy Luxembourg	The Restoration Seed Capital Facility supports early-stage development of forest restoration projects in developing countries
Forest Carbon Partnership Facility	2008	1.3B USD	17 donors	Global partnership of governments, businesses, civil society, and indigenous people's organizations focused on reducing emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries, activities commonly referred to as REDD+.
Partnership for Forest Protection and Sustainable Agriculture	2017		UN Environment / Rabobank	In Brazil Rabobank has been promoting and financing Integrated Crop, Livestock and Forestry (ICLF) farming. Working with the World Wildlife Fund and local partners we will endeavor to restore underutilized or degraded arable land under the management of Brazilian farmers owning 17 million hectares (42 million acres). AGRI3 builds on this partnership and will launch in 2021.

PROJECT NAME	YEARS (START -END)	BUDGET (USD)	DONOR(S)	OBJECTIVES
&Green Fund	2019	100M USD	NICFI, Unilever, GEF, FMO	&Green invests in commercial projects in agricultural production value chains in order to protect and restore tropical forests and peatlands and make agriculture more sustainable and inclusive. In 2019, the Fund made its first investment (USD 23.75m) by financing the development of three sustainable rubber concessions in Indonesia, covering a total area of 91,511 hectares. Natural habitat protection zones were created to benefit indigenous and local communities by ensuring protection of community livelihoods, land restoration and conservation corridors.
Eco.business Fund	2017	60M USD		The eco.business Fund is a joint initiative of investors intent on supporting the promotion of business and consumption practices that contribute to biodiversity conservation, the sustainable use of natural resources, and climate change mitigation and adaptation. The fund's current geographical scope is Latin America the Caribbean, and sub-Saharan Africa.
Arbaro Fund		110M	DEG, FMO, and GCF, Landesbank Baden- W?rttemberg (LBBW), Antonis Schwartz	The Arbaro Fund invests in sustainable forestry projects in Latin America, the Caribbean, and Sub-Saharan Africa.

LCF1 & LCF2's key features are summarized in Figure 1 below.

Figure 1: LCF1 and LCF2 Key Figures to date



The LCF3 design responds to recommendations in World Bank (2012) and subsequent learning, for example by incorporating attention to social impact evaluation linked to safeguards (e.g., through specific indicators in the M&E Framework); working through local intermediaries (Project Developers); and devoting explicit attention to transaction costs. Perhaps most importantly, the LCF3 approach is built on carbon offset projects that provide upfront financing to make participation viable for all stakeholders, which has been identified as a principal obstacle to these types of initiatives: "Access to upfront finance is essential because securing carbon finance can take a long time and carbon payments are normally ex-post. This is a major barrier for small projects." (World Bank 2012). Other lessons gathered through literature review and stakeholder consultations are reflected in the LCF3 design in the following ways:

- In addition to upfront financing, scaling up nature-based solutions will benefit from long-term investment commitments and from risk mitigation for local stakeholders; scale-up efforts are also able to build on relationships and other foundations developed under LCF1 and LCF2;
- Investments seek global environmental benefits beyond carbon sequestration through explicit pursuit of biodiversity, land restoration, and social impacts, achieved through investment selection criteria;

- ? In the event of greater-than-expected generation of carbon credits, incentive alignment and equity will be reinforced through a transparent upside sharing mechanism for Project Developers and communities;
- ? Investments are aligned with local development planning, engaging local government as a key partner in project design and planning, stakeholder engagement, and communications efforts;
- ? LCF3 has set ambitious targets for training of farmers, as improved/alternative livelihoods are a central vehicle for local benefits; there may be additional opportunities to work with Project Developers to seek co-financing that supports further relevant training and capacity building to reinforce carbon investments; and
- ? Informed by global LCF3 plans, project-level Stakeholder Engagement Plans and bespoke Accountability and Grievance Mechanisms are designed for each project after project identification, relying where and to the extent possible on trusted, existing local governance institutions.

The proposed alternative scenario with a brief description of expected outcomes and components of the project;

Nature-Based Solutions (NBS) (also called Natural Climate Solutions (NCS)) have a vital role to play in addressing the causes and consequences of climate change: they can provide around 30% of the cost-effective mitigation that is needed by 2030, while providing environmental, social and economic benefits to vulnerable communities around the world, including protection against the worst impacts of climate change and conservation of the rich diversity of life on this planet.

Through a cost analysis of NCS, Griscom et al. (2017) find that more than one-third of NCS mitigation opportunities needed to hold warming to below 2°C are low cost. The low-cost solutions are comprised of forest pathways (offering approximately 1/2 of cost-effective solutions), one quarter from grassland and agriculture pathways, and 19% from wetland pathways. They conclude that NCS are particularly important in the near term in the transition to a carbon neutral economy by the middle of this century. Figure 2 illustrates the cost savings that could be achieved through implementation of the types of NBS projects that LCF3 would invest in.

Figure 2: UN's estimation of NBS' contribution to the fight against climate change



Farmland Restoration^{S1}

Applied on 424 million acres could generate by 2050:
 14.08 gigatons reduced CO₂
 USD 72.24 Billion net implementation cost
 USD 1.34 Trillion net operational savings



Regenerative Agriculture^{S2}

Applied on 1 billion acres could generate by 2050:
 23.15 gigatons reduced CO₂
 USD 57.22 Billion net implementation cost
 USD 1.93 Trillion net operational savings



Afforestation^{S3}

Applied on 913 million acres could generate by 2050:
 18.06 gigatons reduced CO₂
 USD 29.44 Billion net implementation cost
 USD 392.33 Billion net operational savings



Silvopasture^{S4}

Applied on 554 million acres could generate by 2050:
 31.19 gigatons reduced CO₂
 USD 41.59 Billion net implementation cost
 USD 699.37 Billion net operational savings

Based on models using data from LCF1 and LCF2, LCF3's expected cost (i.e. costs of community engagement, farmer training and support for establishing cooperatives, as well as ongoing monitoring and follow-up and certification of credits, among others) for the generation of carbon offsets is an average of c. \$25 per ton. This is more than 20% below the average historical market price for LCF3's projected mix of carbon offsets, suggesting that credits can be sold at a considerable margin. This illustrates that the LCF model offers a cost-effective solution to the challenge of financing NBS. Moreover, by investing in productivity growth in agriculture and agroforestry, LCF3 projects strengthen livelihoods and thus provide the additional benefit of significant positive social impact (see Section 3E for further detail).

LCF3 is mostly supported by private capital, with equity coming from the financial sector (both, private and public) and from private corporates. Under this structure, LCF3 will be instrumental to attract larger flows of private investment into new asset classes (soil fertility, biodiversity, land use, etc.) to finance the transition toward a low-emission climate-resilient society, and to drive investments from mainstream financial institutions and private corporations into areas they have hesitated to invest in. Further, LCF3 will demonstrate that climate investment can scale-up and be replicated, and thus help accelerate climate finance.

A. Objective, Components, Expected Outcomes, Targets, and Outputs

Description of the Investment Model

LCF was created as an investment vehicle that invests directly in carbon projects through carefully selected Project Developers to generate certified carbon credits, rather than purchase already-issued carbon offsets from third parties. LCF invests in carbon sequestration and avoidance across three clusters: Mangroves and coastal habitats, Forests and agroforestry, and Energy. Project funding provided to farmers and rural communities is used for a wide range of activities such as mobilizing communities, providing or coordinating sustainable land management training, setting-up tree nurseries, purchasing seedlings, organizing the distribution of saplings to farmers, and strengthening participation in supply chains.

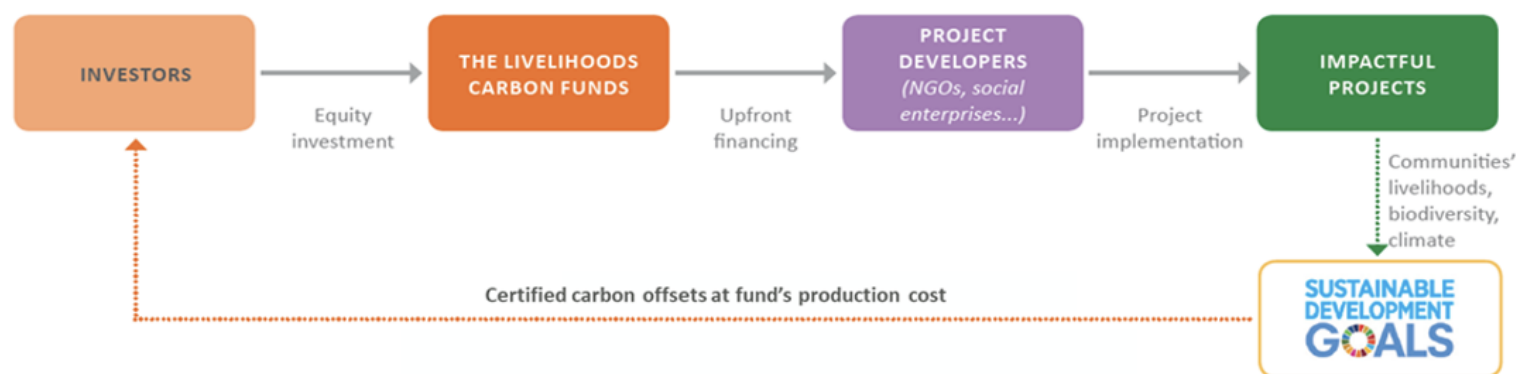
LCF3 is overseen by a Board of Directors representing the investors, which has contracted Inn pact Fund Management S.A. as Alternative Investment Fund Manager (AIFM). Inn pact, as LCF3 Fund Manager, has established an Investment Committee (to determine the selection of investments) that is guided by an Advisory Committee (to review and evaluate potential investments for inclusion in the LCF3 portfolio). LV will be Executing Agency for the project in its capacity as Investment Advisor to LCF3. The Investment Advisor is responsible for identifying projects, setting up project structures, submitting them to the Advisory Committee, organizing the implementation of projects and monitoring of projects under the control of the AIFM to ensure compliance with the LCF3 investment strategy. CI GEF Agency will participate as a member or as an observer of the LCF3 Advisory Committee, and GEF will be eligible for participation on the Board of Directors as a member or as an observer (see Section 5 for further detail on the organizational structure of LCF3).

LV is a social business that brings expertise in the following areas: sourcing, structuring and management of investment funds; investing in the land-use and forestry sector; design and execution of long-term carbon projects in developing countries; collaboration with and capacity building of civil society organizations; and financial management and co-financing. LV works with in-country Project Developers that bring field experience and deep understanding of the local cultural and socio-economic challenges faced by local communities. Most Project Developers are Non-Governmental Organizations, but they also can be social enterprises. During the design phase, LV and the Project Developer collaborate closely to co-design the project, and then during the implementation phase the Project Developer is responsible for delivering on the project's designed activities and results,

as defined in contractual agreements between the fund and the Project Developer. The Project Developer is also responsible for project maintenance after the initial implementation phase (e.g., tree replanting, cookstove repair or replacement, etc.) and throughout the project life. Also during implementation, a project Steering Committee composed of LV, the Project Developer and the project relevant stakeholders is established to monitor field progress and convene on mitigation actions when required.

LCF investment decisions are based on the same principles that industrial companies apply in their operations: cost efficiency, results-focus and hands-on management. Figure 3 illustrates the investment model applied by the LCF1 and LCF2 funds:

FIGURE 3: LCF1 & LCF2'S INVESTMENT MODEL



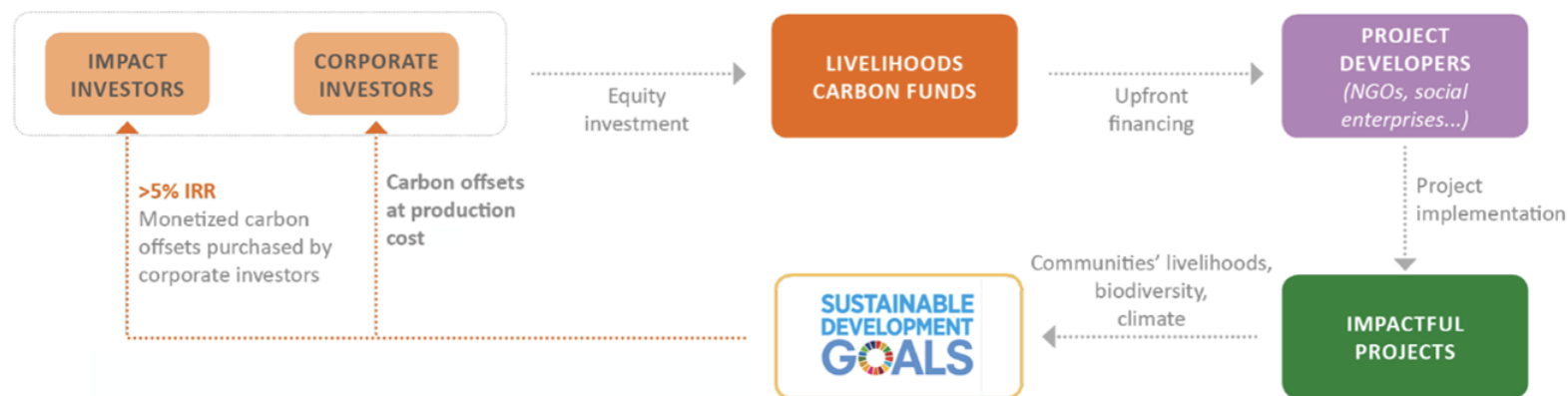
LCF investors (in any of the three funds) diversify their sourcing of carbon offsets across a portfolio of nature-based carbon projects in order to pool and reduce their investment risks. As a return on investment, each investor receives a share of carbon offsets generated at the portfolio level proportional to their equity stake in the Fund, thus enabling pooled investment in offsets. LCF certifies its carbon offsets under the most trusted and rigorous voluntary carbon offset standards (Gold Standard, Verra), but also embeds positive social and environmental impact into its core targets as stipulated in the Livelihoods Charter.

LCF1, sized c. USD43 million, is today fully invested with a portfolio of projects in monitoring phase and expected to generate more than 9m certified carbon offsets. Launched at the end of 2017, LCF2, sized USD70m, in its first investment year reached 50% of its targeted carbon offset output over the lifetime of the fund.

With a robust operational track-record and within a general context of growing appetite for investment in a new asset class with clear and measurable climate impact, LV will scale-up impact through the creation of a third carbon fund - Livelihoods Carbon Fund 3 (LCF3) - as a separate investment

vehicle, with the participation of private and public investors. In addition to the carbon offsets generated for investors in the LCF1 and LCF2 model, LCF3 offers investors financial returns from the sale of carbon offsets to corporate buyers. The diagram below illustrates this new investment model for LCF3.

Figure 4: LCF3 INVESTMENT MODEL



During project due-diligence and design phase, the Livelihoods team and its legal advisors assess project-specific carbon-title risks on the basis of the countries' Nationally Determined Contributions (NDC), and engage with the country-specific Designated National Authority (DNA) to secure the fund's carbon rights and avoid double-counting of carbon credits. The Livelihoods team is also actively involved with voluntary carbon standards, associations and Project Developers (such as Gold Standard, Verra, IETA and ICROA) in the design of alternatives enabling the private sector to continuously finance the goals of the Paris Agreement while taking into account a range of possible outcomes of international negotiations with respect to Article 6. Where needed, LCF3 explores benefit-sharing arrangements between investors and host countries. LCF1 and LCF2 experience in 12 countries in Africa, Asia and Latin America has demonstrated that this is an important but surmountable set of issues.

Defining Characteristics

The LCF3 investment model builds on the preceding LCF1 and LCF2 models by:

- ? Enabling investors to progress toward carbon neutrality and diversify their sourcing of carbon offsets across a large portfolio of nature-based carbon projects in order to pool and reduce their investment risks;
- ? Securing corporate investors' ability to directly source, on an annual basis, in-kind carbon offsets certified under rigorous international carbon accounting standards and at LCF3's production cost;
- ? Introducing a cash-based dividend distribution mechanism to allow financial investors to generate monetized returns on their carbon investments;
- ? Enabling financial investors to securely tap into negotiated carbon market returns by entering firm and long-term carbon offset purchasing agreements with one or more carbon offset buyer(s), including LCF3 corporate investors, to monetize financial investors' carbon dividends from LCF3; and
- ? Delivering additional social, economic and environmental impact to rural communities, such that the fund provides a powerful investment option to contribute towards SDG targets and climate change mitigation, all while securing a financial return.

Unlike in LCF1 and LCF2 where carbon offsets were distributed as in-kind dividends only, LCF3 has adopted a dual dividend distribution mechanism to enable DFIs and impact investors to receive cash dividends. LCF3 offers three classes of shares:

- ? Class A shares ? for investors opting for in-kind offsets dividends: equity commitment to be gradually drawn in exchange for the corresponding offsets as dividends in-kind every year after year 2-3 of the fund lifetime.
- ? Class B shares ? for investors opting for cash returns: equity commitment to be gradually drawn in exchange for the cash value of corresponding offsets as a return every year after year 2-3. In order to secure offset monetization, the fund will enter into long-term offset sale agreements with one or more buyer(s) among LCF3 corporate investors or others.
- ? Class C shares ? for investors willing to commit to purchasing carbon offsets from Class B investors as well as making an equity commitment to LCF3 in return for in-kind carbon offsets.

Investment Strategy

To finance participatory projects with significant positive social impact, LCF3 follows a differentiated strategy based on pre-financing of operations. This approach enables LCF3 to work with rural communities that have a limited financial capacity. LCF3 therefore intends to leverage carbon finance mechanisms to help rural communities restore and protect their ecosystems, thereby securing their livelihoods and contributing to their empowerment (see Section 3E). LCF3's main differentiating factors include its focus on projects with very high social and environmental impacts, and a model that includes pre-financing for long-term (~20 year) projects, reflecting a conviction that the social value of carbon assets is increasingly going to be a future driver of carbon asset prices. Therefore, LCF3 has positioned itself to:

- ? Pre-finance projects for local communities, as further detailed below;
- ? Deliver strong co-benefits for local communities to ensure they fully endorse the need to restore their ecosystems and are individually and collectively committed to caring for it on the long term;
- ? Diversify the type of carbon assets financed by LCF3, as further detailed below;
- ? Tap into co-investment opportunities across public and private project stakeholders, as further detailed below; and
- ? Share the performance of carbon asset generation with the concerned Project Developer and communities above a certain generation target.

Pre-finance projects for local communities: Through Collaboration Agreements, LCF3 provides upfront payments to Project Developers at an early stage of project development and in advance of anticipated offset delivery.

Deliver strong co-benefits for local communities: Restoring an ecosystem or an agricultural landscape through reforestation or agroforestry activities takes time. Projects have a lifetime of up to 20 years and LCF3 needs assurance that the communities living in the area will protect the ecosystem over the project's lifetime and beyond. This can only be achieved where the communities fully endorse the idea that they need to restore their ecosystem and are individually and collectively committed to caring for it on the long term. Avoided deforestation as well as restored habitat and agricultural land generates clear co-benefits for communities that help sustain ongoing incentives to maintain sustainable management (e.g. local climate stabilization, improved watershed services, and supplies of non-timber forest products). Importantly, the communities themselves are personally participating in the ecosystem restoration work of which they are the single biggest beneficiaries.

Co-investment or co-funding: For some projects LCF3 may seek partnerships with Development Agencies, philanthropic organizations, and other stakeholders to leverage additional co-funding in the form of e.g., non-reimbursable grants or technical assistance, and with the aim of increasing the development impact of the fund's investments. These partnerships can be instrumental to securing long-term co-benefits to reinforce the sustainability of our initiatives and LCF3's exit strategy.

Diversify the type of carbon assets: LCF3 mainly finances three types of projects able to generate carbon offsets through Collaboration Agreements: mangrove & coastal habitats, forests & agroforestry, and rural energy projects. LCF3 mainly invests in developing countries in Africa, Asia and Latin America (GEF funding will be directed only to projects in GEF-eligible countries). LCF3 reduces investment risk through diversification and pooling, enabling its investors to access a diversified portfolio of projects with respect to project type, geography and size.

Managing the risk of funding diversion: LV applies a thorough due diligence process prior to signing the Collaboration Agreement with the Project Developer to review their legal documentation and financial statements and verify the track record of the local management team. All carbon projects are formalized through a legal contract between LCF3 and the Project Developer. To identify/mitigate funding diversion, the contract stipulates, amongst other things: i) contractual obligations of the Project Developer including regular operational and financial reporting on project performance and the proper use of the project funding in line with mutually agreed budget lines; ii) operational and financial auditing rights of LCF3; and iii) governance provisions to track project performance. All LCF3 contracts require creation of a project dedicated bank account, which

may only be used for the project. In the event of funding diversion, LCF3 may apply a range of mitigation solutions ranging from collaborating with the Project Developer to remedy and prevent future events to contract termination and indemnification.

LCF3 investments are entirely new and separated projects from previous LCF project portfolios; this constitutes an opportunity to LCF3 investors to tap into de-risked carbon projects to further scale up NBS initiatives. LCF3 continues to allocate its investments globally, both in new and old geographies, following the fund diversification strategy. In general terms, LCF3 seeks to:

- i) Capitalize on the Livelihoods Carbon Fund existing portfolio of projects: the LCF1 and LCF2 portfolio of investments present further opportunities for project replication in the same geographies (these projects are in the same country or federal state but in different locations) and with the same Project Developers. These projects are nonetheless entirely separated, in terms of assets and liabilities, from previous LCF portfolio of carbon projects. This constitutes therefore an opportunity for investors to tap into an expanded pool of de-risked carbon projects to scale-up proven investment models through replication. In fact, in 2018 LCF2 already invested in 3 new large-scale projects each expected to generate at least 2m carbon offsets. By tapping into LCF1's scaling-up potential, LCF2 reached 43% of its carbon generation output target within its first year of investment. In practice, there are limitations to this investment strategy as it relies on the scale-up capacity of existing projects. As a result, this strategy effectively accounts for only 25% of LCF2's investment capacity, with the remaining portfolio comprising projects with new Project Developers. Not all projects present scaling-up opportunities, as they may be constrained by various factors such as available hectares of mangrove for restoration, appetite on the part of the Project Developer, and supply chain capacity.
- ii) Replicate current LCF models in other geographies: Based on the knowledge that has been accumulated by LCF on the 3 clusters of projects that LCF1 and LCF2 have invested in, LCF3 also explores opportunities to replicate investments in the mangroves and coastal habitats, forests and agroforestry, and energy clusters in other geographies and with other Project Developers. In fact, in its second investment year, LCF2 structured an agroforestry project in Rwanda with a Sustainable Agricultural and Land Management (SALM) component drawing from LCF1's portfolio project expertise and an agroforestry project in India linked with a strong silk value chain.
- iii) Invest in new clusters: LCF3 also explores new clusters combining high potential for carbon sequestration/reduction and social/environmental value creation. LV's Technical & Innovation team is already analyzing new investment clusters in order to achieve LCF3's targets, as well as processes to optimize the carbon impact on current models. These new clusters may include for example Reduced Emissions from Deforestation and Forest Degradation (REDD+) projects, distribution of biogasifiers coupled with a SALM component or blue carbon. In principle, when investigating new clusters, LV seeks projects which combine 3 main criteria: i) the conservation / restoration of natural ecosystem; ii) the generation of positive impacts for local communities which are directly engaged into project activities; and iii) the generation of carbon offsets in line with fund economics. As such, for example, we don't expect LCF3 to finance renewable energy projects as they would have a limited impact on engaging local project communities over the long-term.

Investment process and structure, including investment decision making process

The Investment Advisor relies on several channels to source new projects:

- ? New projects with any of previous LCF Fund's existing relationships with a potential Project Developer, in particular those LCF1 and LCF2 has already partnered with;
- ? Spontaneous proposals from Project Developers, attracted by the team's reputation and experience;
- ? Calls for proposals within LCF3's network; and
- ? Field and desk-based research by the team.

The following criteria are essential regarding the choice of the project, subject to review in the case of advancements in best market practices or developments in international law related to voluntary carbon offsetting: Additionality; Environmental and Social benefits for communities; Compliance with environmental and social guidelines; Methodologies; Sizing; and Carbon rights. In addition, the following criteria are assessed concerning the choice of the Project Developer: Process ability, Background, Commitment, Potential, and Financial viability.

The Investment Advisor has designed and established a thorough sourcing-to-execution process, supported by specific procedures and a focused team of carbon project specialists. A team of experienced staff members invest time on sourcing and structuring new leads in addition to their project management duties. Further details regarding project selection and implementation are contained below in the description of Output 1.2.3. (Community-based restoration, agroforestry, and regenerative agriculture projects receive LCF investment).

In addition to the Investment Advisor, several other bodies are involved in the investment process, including the Board of Directors, the AIFM, the Investment Committee, the Advisory Committee, the Administrator, and the Depositary and Paying Agent. The roles of these bodies are described in the LCF3 governance structure in Section 5A.

Investment Terms and Returns to Investors

There are three classes of shares available to investors:

- ? Class A Shares: Equity commitment to be gradually drawn in exchange for the corresponding offsets as distributions in-kind every year after year 2-3.
- ? Class B Shares: Equity commitment to be gradually drawn in exchange for the cash value of corresponding offsets as a return every year after year 2-3.
- ? Class C Shares: These are investors willing to engage in a purchasing commitment of VERs from Class B investors as well as to make an equity commitment into LCF3 in return for in-kind carbon offsets, like a Class A investor.

Carbon assets delivered to LCF3 by projects are sold for cash by LCF3 to Class C shareholders at a pre-negotiated long-term pricing formula in order to pay to Class B shareholders cash returns only.

By signing a Subscription Agreement, each investor undertakes to pay in full, as and when requested by the Board up to the aggregate amount which such Investor has undertaken to invest in LCF3 as set out in the relevant Subscription Agreement. Subscription Agreements will be accepted by the Board at a Closing. The Board may, at its sole discretion reject fully or partially any Subscription Agreement.

The minimum commitment amount for all classes of shares is 1 million EUR.

Shares will not be repurchased upon the investor's request, unless there is a unanimous consent of all the shareholders of LCF3 in this regard. In any case, apart from the shares issued upon incorporation of the company, no redemption of shares will be admitted from any shareholder during a period of six (6) years as from the date of such shareholder's initial investment in LCF3 (the "Lock-Up Period"). The lock-up period may be waived on a case-by-case basis, subject to the unanimous consent of the shareholders and the prior approval of the board.

LCF3 has a duration of twenty-four (24) years, subject to possible extensions. The first extension may be decided by the Board, at its sole discretion, for a maximum of two (2) years. Further extensions will need to be approved by a general meeting of shareholders of LCF3 subject to the quorum and majority requirements for the amendment of the Articles. Upon occurrence of LCF3's 22nd anniversary, the Board shall convene a general meeting of shareholders of LCF3 whose agenda will be to resolve upon any possible extension under the conditions set forth above.

The sole revenues for LCF3 are expected to be carbon from carbon assets. LCF3's value creation is distributed as follows to the different investors:

- ? For Investors holding Class A Shares: Carbon assets delivered to LCF3 by projects are not sold directly in the market but transferred to the Class A investors via a non-cash sales mechanism. Receivables generated at LCF3 level are then compensated by dividend distributions as decided by the Board. Once an offset is delivered to an Investor, they choose their own strategy as regards this asset: they can for example sell it immediately, hold it and sell or use it later, or use it immediately or later to offset GHG emissions. As such, Investors' revenue is modeled by multiplying the distributed assets flow by a price.
- ? For Investors holding Class B Shares: Carbon assets delivered to LCF3 by projects are sold for cash by LCF3 to Class C shareholders at a pre-negotiated long-term pricing formula in order to pay to Class B shareholders cash returns only.
- ? For Investors holding Class C Shares: Like Class A shareholders, Class C investors will derive part of their revenue through the transfer of carbon assets delivered, in-kind, by LCF3 via a non-cash sales mechanism. Receivables generated at LCF3 level are then compensated by dividend distributions as decided by the Board. In addition, Class C investors will derive a complementary part of their

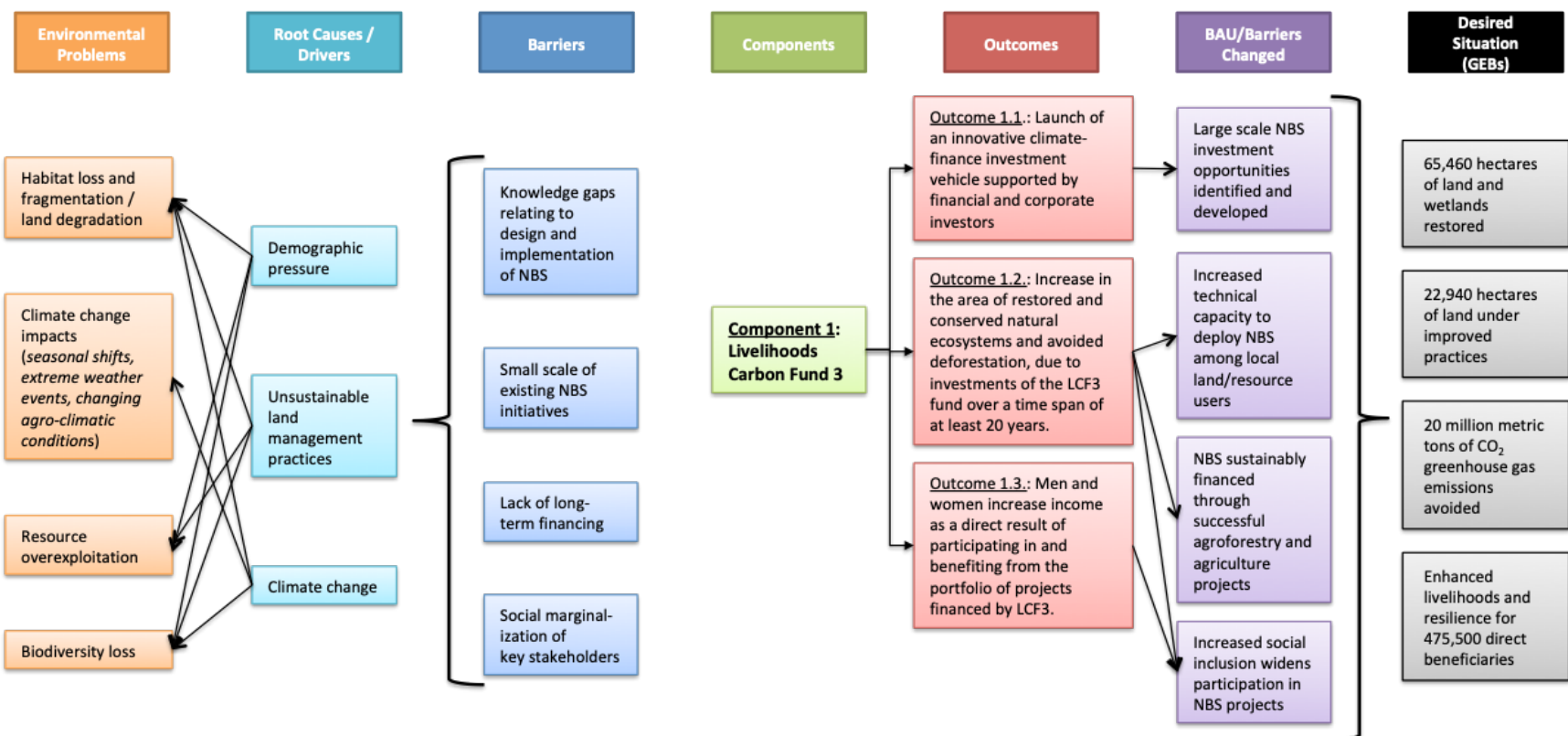
revenue from the purchase of carbon offsets from Class B investors. Once an offset is delivered to Class C investors, they choose their own strategy as regards this asset: they can for example sell it immediately, hold it and sell or use it later, or use it immediately or later to offset GHG emissions.

The project design reflects a Theory of Change based on the premise that Nature-based Solutions (NBS) have an important role in developing countries with respect to biodiversity conservation, ecosystem maintenance, and mitigation of global climate change (see Fig. 5 below). This Theory of Change posits that by investing in a portfolio of projects operating in three clusters (mangroves and coastal habitats; forests and agroforestry; and energy), LCF3 helps conserve natural habitat and biodiversity while improving local livelihoods, and in the process generate certified credits for reduced carbon emissions. The project investments will overcome knowledge gaps with respect to NBS investments, and be designed to address issues of limited scale and implementation and financing periods that pose barriers to meaningful NBS success and impact. Project identification also addresses marginalization of rural populations who are in a position to act as partners in application of NBS. By providing significant upfront finance and committing to long-term implementation support for mangrove restoration and conservation, sustainable agriculture and agroforestry development, and rural household energy solutions, LCF3 will demonstrate the viability of NBS as a return-seeking investment that also generates significant Global Environmental Benefits through habitat restoration and protection, improved land and resource management, and enhanced, resilient livelihoods. These benefits respond to environmental problems linked to habitat and biodiversity loss, climate change, and unsustainable use of resources.

LCF3 was incorporated in June 2021, with Livelihoods Venture as the fund's Investment Advisor and Innpact as Alternative Investment Fund Manager (AIFM). Between June and December 2021, 14 investors from both the private and public sector have joined LCF3, pooling USD154,297,000 in commitments across the fund's 24 years term. In addition, LCF3's Board of Directors, Investment Committee and Advisory Committee have been established with representatives of the investors, the AIFM, and the Investment advisor. Up to March 2023, 5 projects have been approved for investment. LCF3's current portfolio of projects includes a mix of agroforestry and improved cookstoves investments in countries across the Latin American, African, and Asian continents.

LCF3 was incorporated in June 2021, with Livelihoods Venture as the fund's Investment Advisor and Innpact as the AIFM. During the first financial closing, taking place between the date of the incorporation of the Fund and November 2021, 14 private and public investors joined LCF3 pooling USD154,297,000 in commitments across the fund's 24 years term. The Board of Directors, Investment Committee, and the Advisory Committee have been established. Up to February 2023, 3 projects have been approved for investment: an agroforestry project in Peru supporting the livelihoods of c. 2,000 smallholder farming households across 4,710ha of land, a rural energy project targeting c. 75,000 households in Nepal, and an agroforestry project in Indonesia supporting the livelihoods of c. 10,000 smallholder coffee farmers across 12,000 ha of land. The total volume of expected VERS from the 3 first three approved projects in 2022 will exceed 4.5m VERs. In addition, the Board of Directors of the fund has approved the review of LCF3 targeted cost per ton from its current investors' mandate of \$5/t CO₂e (+10%) to a \$5 to \$7/t CO₂e (+10%).

Figure 5: LCF3 Theory of Change



Key Assumptions (Barriers → Drivers)

- Investor appetite exists to support community-based NBS, but is blocked by market failures
- Local community appetite exists for sustainable resource management, but is blocked by constrained knowledge, capacity and finance

Key Assumptions (Outcomes → ΔBAU)

- Current co-financing commitments materialize
- Opportunities for investment (projects) can be identified
- Projects will generate expected emissions reductions that are eligible for carbon credit certification
- Projects can sustain sufficient returns to investors

Key Assumptions (ΔBAU → GEB)

- Investments in NBS result in increased benefits for participants
- New technical capacity remains in place and applied to NBS objectives
- NBS interventions are robust against other threats
- Projects will generate sufficient incentives such that communities continue to prioritize sustainable land and resource use

Project objective

The Livelihoods Carbon Fund 3 (LCF3) is an innovative and replicable investment-model that invests in community-based solutions to restore natural ecosystems, and establish agroforestry and regenerative agriculture systems in developing countries that will ultimately reduce GHG emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards SDGs while delivering a steady and positive financial return to financial investors. Expected outcomes associated with the launch and implementation of LCF3 are summarized below:

Outcome 1.1: Launch of an innovative climate-finance investment vehicle (Livelihoods Carbon Fund 3) supported by financial and corporate investors.

Indicator 1.1.A: Amount of public & private capital raised from corporate and financial investors (public and private) to invest in community-based solutions that restore natural ecosystems, endorse agroforestry and regenerative agriculture models.

Target 1.1.A: At least USD109 million of public & private capital raised from corporate and financial investors (public and private) to invest in community-based solutions that restore natural ecosystems, endorse agroforestry and regenerative agriculture models.

LCF3 is a transformative blended finance vehicle supported by public and private financial investors and corporations to identify, develop, and implement sustainable, community-based, and long-term initiatives rooted in NBS and tackling key climate adaptation and mitigation challenges, while delivering on SDGs.

LCF3 builds on 10 years of experience and a unique investment model that: 1) supports corporate investors in their pursue towards carbon neutrality through risk pooling and risk sharing mechanisms; 2) enables direct annual sourcing of in-kind carbon offsets certified under rigorous international carbon accounting standards at production costs; 3) incorporates cash-based dividend distribution mechanisms for financial investors to tap into monetized returns through negotiated carbon markets? returns by entering firm and long-term carbon offset purchasing agreements with one or more carbon offset buyer(s); and 4) delivers additional social, economic and environmental impact to rural communities.

With the initial objective to raise USD109m in equity commitments, LCF3 is mostly supported by private capital, with equity coming from the financial sector (both, private and public) and from private corporates. Under this structure, LCF3 will be instrumental to attract larger flows of private investment into new asset classes (soil fertility, biodiversity, land use, etc.) to finance the transition toward a low-emission climate-resilient society, and to drive investments from mainstream financial institutions and private corporations into areas they have hesitated to invest in. Further, LCF3 will demonstrate that climate investment can scale-up and be replicated, and thus help accelerate climate finance.

Output 1.1.1.: A blended finance model and structure for LCF3 is completed and launched.

Indicator 1.1.1.: # of models completed and deployed.

Target 1.1.1.: 1 model.

Output 1.1.1 comprises the core execution structure for the project, including the Fund and its governance, oversight, operational and administrative structures (as summarized above and described in detail in Section 5). Completion and launch of LCF3 has been evidenced by the set of Fund design documents, and documentation of legal establishment of the constituent parts of the structure. Together, these instruments constitute the concrete deployment of the blended finance model by which public and private financial investors can partner with climate-committed and experienced corporate investors.

Output 1.1.2.: Financial investors' commitments in equity to LCF3 are structured for an investment horizon spanning across at least 10 years (until 2031).

Indicator 1.1.2.: Total financial investors' equity commitments structured for a 10+ year investment horizon.

Target 1.1.2.: At least USD27 million (including USD13 million from GEF).

As noted above, LCF3 has adopted a dual dividend distribution mechanism to enable financial and impact investors to earn cash dividends. Three classes of shares have been introduced within LCF3:

- ? Class A shares ? for investors opting for in-kind offsets dividends: equity commitment to be gradually drawn in exchange for the corresponding offsets as dividends in-kind every year after year 2-3 of the fund lifetime.
- ? Class B shares ? for investors opting for cash returns: equity commitment to be gradually drawn in exchange for the cash value of corresponding offsets as a return every year after year 2-3. In order to secure offset monetization, the fund will sell their share of in-kind carbon offsets to Class C investors at a pre-negotiated purchasing formula.
- ? Class C shares? for investors willing to engage in a purchasing commitment of carbon offsets from Class B investors as well as to make an equity commitment into LCF3 in return for in-kind carbon offsets, like a Class A investor.

This investment model introduces a cash-based dividend distribution mechanism (Class B shares) to allow financial investors to securely tap into negotiated carbon markets returns by entering into firm and long-term carbon offset purchasing agreements with LCF3 corporate investors, and thus to earn monetized returns on their carbon investments. Through this design, Output 1.1.2 will be to secure at least USD27m of financial investors' equity commitments for a 10+ year investment horizon. Other elements of the model that are designed to facilitate commitments by financial investors are as follows:

- ? Incorporation of a mechanism allowing for an earlier exit of those financial investors with a shorter investment horizon.
- ? Structuring of the fund as a reserved alternative investment fund (RAIF) to respond to the need of financial investors to have an independent fund manager (i.e., alternative investment fund manager ? AIFM).

- ? Design of the pricing formula allowing financial investors to monetize their carbon returns and incorporating an upside mechanism devised for situations where the market price of carbon offsets increases significantly, so financial investors can sell a share of their carbon offsets in the real market and tap into the benefits of such increase, with the support of LCF3.
- ? A risk mitigation mechanism for financial investors to minimize the impact of corporate investors not exercising their call option over financial investors.
- ? Incorporation of financial investors? feedback on the legal documentation of the fund.
- ? Secure long-term purchasing commitments from corporate investors in need of carbon emission offsets.
- ? Due diligence processes with financial investors.

Output 1.1.3.: LCF3 yields financial returns for financial investors.

Indicator 1.1.3.: LCF3 Internal Rate of Return to financial investors.

Target 1.1.3: IRR of at least 5% achieved by each financial investor.

Returns to investors (15 investors in total at first financial closing, including the GEF) will be in the form of verified carbon credit assets, to compensate for investor?s own carbon emissions or to generate financial returns via resale. The LCF3 Output 1.1.3 target is to achieve an Internal Rate of Return (IRR) of at least 5% by each financial investor.

Outcome 1.2: Increase in the area of restored and conserved natural ecosystems and avoided deforestation due to investments of the LCF3 fund over a time span of at least 20 years.

Indicator 1.2.A.: Number of hectares of agricultural land restored.

Indicator 1.2.B.: Number of hectares of avoided deforestation.

Indicator 1.2.C.: Number of hectares of wetland restored.

Indicator 1.2.D.: Number of hectares of landscapes under sustainable land management in production systems.

Target 1.2.A.: At least 48,960 hectares of agricultural land restored.

Target 1.2.B.: At least 10,700 hectares of avoided deforestation.

Target 1.2.C.: At least 16,500 hectares of wetlands restored.

Target 1.2.D.: At least 12,240 hectares of landscapes under sustainable land management in production systems.

On-the-ground impacts of LCF3 investments primarily will be to restore and conserve ecosystems that support food security of communities, welfare of surrounding populations and cities, and sustainable economic activities. Projects under LCF3 will restore and conserve 88,400Ha of degraded land through restoration of agricultural lands (48,960Ha), promotion of sustainable land management landscapes in production systems (12,240Ha), avoided deforestation (10,700Ha), and wetland restoration (16,500Ha). These activities will in turn help to mitigate at least 20 million tCO₂e, through

a mix of avoided GHG emissions and increased carbon sequestration in biomass, soil, and sediments (out of the 20 million tCO₂e, an estimated 13.8 million tCO₂e are expected from forestry, agroforestry, and mangrove restoration activities. The remaining 6.2 million tCO₂e will be generated through rural energy initiatives). LCF3 projects will comprise a mix of 1) carbon avoidance from avoided deforestation initiatives (10,700 Ha); and 2) carbon sequestration projects from mangrove and coastal habitat management (16,500Ha), and agroforestry and sustainable agriculture (60,000Ha in total, comprising 48,960Ha of agricultural land and 12,240Ha of landscapes in production systems).

The above targets were established by using project averages from LCF1 and LCF2 investments, adjusted for the LCF3 fund size and investment period. The model is based on a ?100 million fund size assumption corresponding to LCF3 total investment and costs over its life and including 12 projects over a 4-year investment period. A project?s maximum life is 20 years, reaching a maximum fund term of 24 - 26 years (subject to extension by the Board as described in the fund?s prospectus). Based on the average project impact areas and numbers of beneficiaries extrapolated from LCF1 and LCF2, the goals for LCF3 are ambitious but achievable, as project selection processes will construct a portfolio of investments deliberately composed to meet the targets. Thus, the targets reflect an assumption that LCF3 project characteristics will be comparable to those across the LCF1 and LCF2 portfolios.

LCF3 initiatives are based on, but not limited to, the following:

- ? Agro-forestry systems, (wetland mangrove forests; crop production under forest cover; integrated or sustainable forest management; export crops (e.g. coffee, cocoa, etc.); and food crops). These systems allow for continued agricultural and fisheries production by reconstituting organic matter, and also are compatible with biodiversity conservation.
- ? Livestock farming or production models that promote the regeneration of degraded soils, pastures and cultivated fields, having lost their carbon content and soil fertility. Various agronomic protocols such as restoration or deferred grazing, crop cultivation under vegetation cover, and no-plough tillage, allow soils to regain their fertility and water resources to be protected.
- ? Sustainable energy technologies. In developing countries, access to energy (heating and lighting) is a significant expenditure item, a heavy cost in terms of time and a major cause of deforestation. Improved and efficient cookstoves and other alternatives adapted to small farms (e.g. based on biomass production) that are currently available and contribute to environmental protection will be supported by LCF3 investments.

Output 1.2.1: Trees planted leading to the restoration of mangrove and enrichment of agricultural land.

Indicator 1.2.1.: Number of trees planted.

Target 1.2.1.: At least 74 million trees.

At least 74 million trees are projected to be planted across the portfolio of projects, with the type of trees selected based on inputs during design phase from various stakeholders (e.g., farmers, local economic actors, and agronomic or scientific experts) on the merit and utility of the tree species, and

subject to screening for ecological compatibility. For example, in disaffected fishponds, rhizophora with its root structure being ideal for crabs and facilitates plankton growth, may be planted in blocks while on the ponds' edge, avicenna may be promoted as its leaves can decompose when falling into the pond, thus constituting a natural antibiotic for silvo-fishery aquaculture and having a positive impact on the economics of silvo-fishery aquaculture.

In agroforestry projects, the tree species selected play multiple functional roles: they restore degraded ecosystems by reducing soil erosion, sequestering above and below-ground biomass thus providing soil nutrients and enhancing farmland productivity; provide natural habitat for local biodiversity; protect watersheds and wetlands buffer zones; and provide farmers with diversified and increased agricultural income.

With a project portfolio expected to include at least 16,500Ha of mangrove and coastal habitat restoration and conservation, LCF3 is expected to enhance the resilience and adaptation of coastal communities facing extreme weather events as exacerbated by climate change (empirical and field-based studies have shown that 30 trees per 100 square meters may reduce the maximum flow of a tsunami by more than 90 percent).

Output 1.2.2: Training provided by LCF3 on sustainable management.

Indicator 1.2.2.: Number of farmers receiving training.

Target 1.2.2.: 100,000 farmers.

Under Output 1.2.2, LCF3 investments include training of at least 100,000 farmers (35,000 women; 65,000 men) on sustainable agriculture land management. Depending on the project context, the training will include multiple components from a range of categories, including: nutrient management, soil and water conservation, agronomic practices, agroforestry, tillage and residue management, restoration and rehabilitation, integrated livestock management, and integrated pest management. During the design phase of each project, LCF3 defines the training requirements together with the local Project Developer, who then develops training material suited to the local context (language, practices under the baseline, etc.). Trainings can be a mix between theoretical training and on-site training through demonstration farms/plots of farmers.

Output 1.2.3.: Community-based restoration, agroforestry, and regenerative agriculture projects receive LCF investment.

Indicator 1.2.3.: Number of community-based restoration, agroforestry, and regenerative agriculture projects that receive LCF investment.

Target 1.2.3.: At least 12 projects.

LCF3's portfolio of projects is expected to include 12 investments that achieve biodiversity conservation and/or restoration of degraded areas across three clusters: mangroves and coastal habitats, forests and agroforestry, and rural energy. The Fund's advisor, Livelihoods Venture (LV) co-designs projects in collaboration with a local developer. Project costs are covered in exchange for high quality, tailor-made carbon offsets at production cost. All projects pursue a triple objective of (i) contributing to climate through certified offsets; (ii) achieving measurable positive social and environmental impact connected with SDGs; and (iii) offering an attractive financial return to financial investors. Projects may include replicating existing LCF projects with the same Project Developers in new locations within the same country or federal state, replicating current LCF models in other geographies, and investment in new project types.

Project selection takes into consideration the following criteria: Business Model (cost of carbon credit generation); Technical Model (Technical relevance and level of certainty, Proof of concept, Feasibility); Social Traction (Land tenure, Tackle local needs/interests, Social context ? risk and existing capacity, Local stakeholders and legal environment); Social Impact (Households reached, Typology of producers, Beneficiaries ? gender, Income generation ? potential benefits and benefit sharing, Diversity ? inclusion, Socioeconomic profile); Project Developer (Track record, NGO technical readiness, Financial strength, Expected reliance on LCF, Governance); Carbon Feasibility; Environmental Impact (Biodiversity ? tree species, Biodiversity ? landscape/wildlife, Use of agro-chemicals, Water); and Political Risk/Security. A scoring system as well as a set of go/no-go thresholds under these criteria are presented in detail in Appendix XIV.1.

Potential projects initially may be identified through various channels such as: direct solicitation through LV?s extended network, desk review, direct approaches from Project Developers, or formal requests for proposals. Once a possible project has been identified, the selection process is as follows:

- ? LV?s LCF3 team, in LV?s capacity as Investment Advisor, leads a multi-criteria review (per the criteria listed above, with adjustments as needed) of the project idea, focusing on technical and financial assessment and carbon standard eligibility assessment, as well as consideration of up-scaling potential.
- ? If the LV LCF3 team finds the potential project to be in accordance with LCF3?s strategy and investment criteria as per the LCF3 prospectus and LV charter, they then draft a Project Brief for approval.
- ? The LV LCF3 team, as Investment Advisor, decides on whether or not to approve the project idea and, if so, qualifies it as a ?Candidate? investment and grants authorization for further structuring work and field visits.
- ? Further due diligence is conducted in collaboration with experts, internal or external. This always includes a site visit by the LV LCF3 team and in-person consultations with all stakeholders. The due diligence exercise considers:
 - Technological risk.
 - Environmental, Social and Governance risks.
 - Carbon ownership risk.
 - Carbon asset ownership and counterparty risk.
 - Carbon asset permanence risk.
 - Financial and operating capacity of the Project Developer, project investors, operators and public authorities.
 - Validation of technical assumptions (plantation conditions, implementation techniques, carbon equations).

Due diligence on the Project Developer is also performed prior to finalizing the investment proposal.

- ? If the LV LCF3 team determines that the project qualifies based on the extensive due diligence, LV management authorizes finalization of the investment proposal by the LV LCF3 team.
- ? For each investment proposal, all LCF3 investors are presented with an investment proposal prepared by the LV team. LCF3 investors have the opportunity to exchange views on its merits within the Advisory Committee.

- ? LV LCF3 team notifies and submits the investment proposal to the Investment Committee, incorporating the recommendations of the Advisory Committee.
- ? The Advisory Committee or Investment Committee may request further analysis of one or more aspects of the project by the Investment Advisor before making a final decision. No project may be selected if the Investment Committee considers that it is materially inconsistent with any legal/other requirements. The Investment Committee's decision is final.

If approved, the project enters into field implementation, which proceeds along 3 steps:

Project legal framework implementation: Negotiation and signing of a Collaboration Agreement with the implementing partner establishing the mutual obligations during the entire project, as well as any other relevant documentation for the purpose of the project, particularly, if needed, agreements with local authorities.

First phase implementation:

- ? Signature of a Collaboration Agreement between LCF3 and the Project Developer concerning the project.
- ? Registration of the project with relevant authorities.
- ? On-site implementation by the Project Developer, including activities such as awareness-raising of the communities, recruitment of people, soil preparation, nurseries, plantations, communication, etc.
- ? Operational definition of the conservation actions and local development activities.
- ? Operational definition of maintenance strategy of the ecosystems, follow-up of the environmental and social activities (monitoring).
- ? At the end of this phase, a reception process with the Project Developer according to the terms of the contracts is carried out. Contract clearance follows and payments according to predetermined, performance-based milestones are authorized.

Following phase implementation: When a project is launched and gradually paid for according to milestones completed, if successful, then subsequent phases may be considered. The deployment of a project consists in the succession of phases (e.g., planting years or household cooking devices deployment years) and lasts 2 to 4 years. Under no circumstances does the implementation of a first phase oblige LCF3 to invest in a second one if there is a blocking point.

Outcome 1.3: Men and women increase income as a direct result of participating in and benefiting from the portfolio of projects financed by LCF3.

Indicator 1.3.A.: # people benefitting from activities financed by the Livelihoods Carbon Fund 3 (disaggregated by gender).

Target 1.3.A.: At least 475,500 direct beneficiaries, of whom at least 316,500 are women.

LCF3 projects include actions to help small producers to achieve greater economic autonomy by employing appropriate agronomic and land management practices and access to technologies that ensure greater productivity and enhance the value of their products.

LCF3 seeks to maximize the number of people benefitting from its investments and prioritize social impacts in project design and implementation. LCF3 investments will directly reach at least 475,500 people (and over 1.5 million if we include indirect beneficiaries) and ensure that project resources (i.e. training, knowledge, etc.) are available to min. 60% of the projects' households to enable families to move from a position of insecurity in terms of income, nutrition, resilience, etc. towards an improved situation where they can meet their basic livelihood requirements.

The target was established by using project averages from LCF1 and LCF2 investments, adjusted for the LCF3 fund size and investment period. The model is based on a \$100 million fund size assumption corresponding to LCF3 total investment and costs over its life and including 12 projects over a 4-year investment period. A project's maximum life is 20 years, reaching a maximum fund term of 24 - 26 years (subject to extension by the Board as described in the fund's prospectus).

Output 1.3.1.: Households within project perimeter have access to training/knowledge/resources made available under the project.

Indicator 1.3.1.: Percentage of households.

Target 1.3.1.: At least 60%.

Driven by its investment model and an overall dynamic market context for carbon offsetting, LCF3's main condition for success is to keep generating high quality offsets at tightly controlled costs, and to transact them with some of the many players that are progressively committing to offsetting. As such, LCF3 carbon offsets i) focus on NBS; ii) generate positive social and economic impacts for rural communities in developing countries; and iii) are verified by best-in class carbon standards, Verra or Gold Standard, with rigorous methodologies in place. One of the key levers to keeping offset generation cost under control is to optimize direct project costs by maximizing penetration rate within the project area. As such, within the project perimeter, the expected participation rate of project beneficiaries to training/knowledge/resources made available under the project is expected to be at least 60%, incidentally creating favorable conditions for positive spillovers.

For each project, the Project Developer conducts outreach activities based on the social and cultural context. This may include dissemination of information through local organizations and committees, local government gatherings, focus groups, social communication channels, networks of extension and social promoters, self-help and Village Savings and Loan Association (VSLA) groups, and where relevant radio and other social media. The information is presented and produced in local languages and will seek gender representation and inclusion.

Output 1.3.2.: Women are represented on LCF3 project governance bodies worldwide.

Indicator 1.3.2.: Percentage of positions on project governance bodies held by women

Target 1.3.2.: At least 50%

LCF3 carbon projects can only be sustainable in the long-term if the communities' restoration effort during projects' 3-5 years implementation phase is coupled with conservation activities spanning across at least 15 years. For such conservation activities to take place, it is key to mobilize the project's communities in formal or informal organizational structures to collectively stir the management of their natural resources. For example, some communities may take the collective decision to refrain from wild grazing as it would constitute a direct threat to their newly planted fruit and timber saplings, but also indirectly impact water availability for agriculture through hill-top deforestation. To safeguard the restored natural ecosystems, Project Developers may institutionalize protection norms at the local level by entering into agreements with village governments and community groups earmarking their commitment towards ecosystem protection and community development.

LCF3 investments seek to increase women's participation at all levels of the project, and especially increase their visibility and involvement in the decision-making process. LCF3 activities will directly reach 316,500 women. Across the various project governance bodies (village committees, cooperatives, etc.), the share of female participation fostered by LCF3 projects will be at least 50%, as female participation across these bodies is a key success factor in the long-term sustainability of LCF3 projects. A recent scientific study published in Nature Climate Change has highlighted the benefits of equal gender participation in decisions pertaining to the management and conservation of natural resources.

Output 1.3.3.: People have lower exposure to health hazards and injuries over a period of at least 7 years.

Indicator 1.3.3.: # of people.

Target 1.3.3.: At least 217,500.

Nearly three billion people across the globe cook every day using open, three-stone fires, or rudimentary stoves that burn wood and/or charcoal. Cooking over open fires in poorly ventilated spaces indoors is one of the largest health risks in developing countries, exposing women and young children near them to high intra-domiciliary pollution. This indoor air pollution has devastating health effects, including chronic and acute illnesses such as early childhood acute lower-respiratory infections (including pneumonia), obstructive pulmonary disease, etc. Further, wood collection year after year further away from the household also causes health issues, due to stress, fatigue, and intrinsic hazards due to wildlife potential encounters. The low efficiency of the 3-stone stoves allows only the cooking of meals. Combined with low awareness on hygiene, this leads to very low consumption of boiled water. Instead, the large majority of people drink directly the water from the closest source, often contaminated with human or animal waste.

To lower these hazards, several types of activities are implemented through LCF carbon avoidance projects, such as awareness-raising on specific health problems associated with the use of cookstoves, trainings on the fabrication and use of efficient cookstoves out of locally available material, monitoring of best practices and cookstoves correct usage, and maintenance of cookstoves.

Based on a theoretical financial model that relies on the track record and specific project models from existing investments within LCF1 & LCF2, LCF3 is expected to benefit 217,500 people through lower exposure to health hazards and injuries over a period of at least 7 years. This is directly linked to LCF3 carbon avoidance activities through rural energy/improved cookstove initiatives following the model of two of our flagship investments in Kenya and Peru targeting 60,000 and 30,000 beneficiaries, respectively. Only direct beneficiaries (i.e., women using the cookstoves) have been accounted for when calculating the number of people having a lower exposure to health hazards and injuries.

Output 1.3.4.: Beneficiaries have a sourcing agreement with one or several commercial entities.

Indicator 1.3.4.: # of beneficiaries.

Target 1.3.4.: At least 70,000.

With an investment track-record spanning across a decade, a key learning for LCF3 projects is that, as important as it may be for itself, impact generation is the most powerful risk mitigation tool in all carbon projects over the long-term. Community-based projects will only be well stewarded and its assets (trees, etc.) well maintained over the long-run if they deliver tangible benefits for their local stakeholders. As such, through our investments 70,000 people are expected to enter into a sourcing agreement with one or several commercial entities, enabling them to capture more value across the value of chain of agricultural produce or services promoted under LCF3 projects.

Output 1.3.5.: Collective organizations created and/or receiving support from LCF3 (e.g., farmers cooperatives, business incubators, natural resource management committees, remunerated planting groups, etc.).

Indicator 1.3.5.: # of organizations.

Target 1.3.5.: At least 650.

Commercial linkages may be directly facilitated through LCF3 creating and/or providing support to 650 collective organizations such as farmers cooperatives, collective storage spaces, natural resource management committees, business incubators, remunerated planting groups, etc.

Output 1.3.6.: Beneficiaries join collective organizations supported by LCF3.

Indicator 1.3.6.: Number of beneficiaries.

Target 1.3.6.: At least 100,000.

During its community outreach activities, LCF3 projects will highlight the potential benefits associated with joining collective organizations supported by LCF3 to secure the membership of beneficiaries. At least 100,000 new members of collective organizations will result from LCF3 initiatives.

Alignment with GEF focal area and/or Impact Program strategies

LCF3 targets Objective 1 of the Land Degradation Focal Area (?Support on the ground implementation of SLM to achieve LDN?) across its three sub-objectives (LD1-1: Maintain or improve flow of agro-ecosystem services to sustain food production and livelihoods through Sustainable Land Management (SLM), LD1-2: Maintain or improve flow of ecosystem services, including sustaining livelihoods of forest-dependent people through Sustainable Forest Management (SFM), LD1-3 Maintain or improve flows of ecosystem services, including sustaining livelihoods of forest-dependent people through Forest Landscape Restoration (FLR) by harnessing investment and knowhow to 1) promote the integrated and sustainable land management and restoration of degraded production systems and forests with a landscape approach; and 2) diversify crop and livestock systems, thus employing 3 of the 6 delivery mechanisms of the LD strategy.

LCF3 supports the design and implementation of holistic and integrated solutions that endorse transformational change and maximize environmental benefits globally, while tackling key dimensions of land degradation, such as poverty, climate change, or biodiversity. As such, LCF3's investments will be an entry point for:

? Sustained management and use of food & agricultural resources through regenerative agriculture. LCF3 promotes practices that restore and maintain key functions of agro-ecological systems, enriching soils, increasing vegetation and tree coverage, improving agricultural yields or diversifying agricultural production, moving away from the reliance in monocultures, the overexploitation of natural resources, and the overuse of chemical fertilizers and pesticides. By promoting the transformation of degraded agricultural lands and landscapes into sustainable production systems for food and commodities through investments in smallholder agriculture, LCF3 helps to bridge the financial gap for smallholder farmers, while effectively contributing to food security, food sovereignty, and nutrition of rural households and communities.

? Restoration and conservation of endangered terrestrial and marine natural resources, through sustainable ecosystem use and management. LCF3 initiatives help to build resilient and productive ecosystems, delivering enhanced services and bringing back the socioeconomic benefits of the ecosystems to local populations, while increasing their resilience to adverse climate change events, promoting fair/equitable development, and reconciling biodiversity use with economic growth.

? Placing local communities as key actors in the management and conservation of local natural ecosystems/capital, through models that integrate the biophysical features of the ecosystem with people's wellbeing, their economic and sociocultural needs and values. Further, LCF3 activities enhance the conditions of rural women by improving their access to technical assistance, services and business opportunities, and by empowering them to take decisions and being better represented in decision-making bodies (LCF3 will directly reach 316,500 women, and promote a 50/50 parity representation across the project governance bodies).

LCF3 addresses objective 1 of the Biodiversity Focal Area (BD 1-1: Mainstream biodiversity across sectors as well as landscapes and seascapes through biodiversity mainstreaming in priority sectors). Even if it is not possible to define specific targets on biodiversity mainstreaming ex-ante (i.e. prior to the development of LCF3 project pipeline) as the specific location of project activities is unknown (yet key to describe the impacts on biodiversity), LCF3 uses the following criteria for selecting projects during the implementation phase:

- ? Project site selection: LCF3 investments within the BD focal area will target globally recognized areas of high biodiversity importance such as Key Biodiversity Areas (KBAs). In addition, other locations could be considered for mainstreaming purposes, such as biodiversity corridors, protected areas, buffer zones, key watersheds for Ramsar sites etc. Depending on the site selection, a focus on global important species or natural habitat will be defined (baseline + target). Based on earlier phases of LCF and current opportunities, coastal and marine areas, wetlands, including mangroves will be especially targeted.
- ? Biodiversity Governance: LCF3 supports a fair and equitable governance of biodiversity, promoting local ownership and avoiding "empty" forests, focusing on changes that will have direct impact on threatened biodiversity when possible, and working closely with beneficiaries at large scale to substantially change biodiversity outcomes.

Similarly, the NBS initiatives supported by LCF3 across forestry and agroforestry sectors will bring important biodiversity benefits. Through LCF3 activities local communities will move towards more sustainable biodiversity management practices throughout agricultural lands, forests, and production landscapes, harnessing biodiversity for sustainable agriculture and avoiding biodiversity loss due to land degradation, overexploitation or unsustainable use of land, etc.

In addition, LCF3 will support the transition towards a low-emission, climate-resilient society by a net reduction of at least 20 million tCO₂e emissions into the atmosphere through GHG avoidance mechanisms or increased carbon sequestration in biomass, soil, and sediments.

Linkages with other GEF Projects and Relevant Initiatives

Table 1: Other relevant projects and initiatives

GEF Projects Other Projects/Initiatives	Linkages and Coordination
CPIC Conservation Finance Initiative - scaling up and demonstrating the value of blended finance in conservation (GEF Project ID: 9914)	The objective of CPIC is to improve biodiversity's conservation and sustainable use through blended finance models to attract increase private investment in conservation. CPIC will produce blueprints and criteria for selecting projects and look for models that are replicable at scale. CPIC outcomes can help LCF3 to better finetune and develop its pipeline of projects in the areas of sustainable cocoa production and conservation forestry.
Risk Mitigation Instrument for Land Restoration (GEF Project ID: 9277)	Risk associated with the restoration of degraded land through the promotion of sustainable land management practices is still halting private sector investment in sustainable development. The Risk Mitigation Instrument for Land Restoration aims at catalyzing private sector investments in restoration of degraded lands by reducing financial project risk. Learnings from this initiative can help LCF3 to further develop and shape its risk management and contingency planning, better mitigate project risks, offer more risk-adjusted returns and further unlock the market for NBS.
Agtech for inclusion and sustainability: SP Ventures' Regional Fund (AgVentures II ? GEF Project ID: 10336)	AgVentures supports the consolidation and scale-up of Agtech SMEs and start-ups offering productivity, market, and/or environmental solutions for the agricultural sector across 10 countries in LAC (Argentina, Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Paraguay, Peru, and Uruguay). LCF3 will evaluate the organizations supported by Agtech and engage with them as potential solution providers, as per project need. Further, LCF3 will connect AgVentures with SMEs ? start-ups in need of further financial support and established as a result of LCF3 initiatives.
Food Securities Fund	The Food Securities Fund is a blended finance mechanism for addressing underinvestment in experienced local agricultural stakeholders operating according to best practices in established value chains. The aim of the fund is to create a scalable credit channel between qualified investors and agricultural companies in emerging market, with an initial geographical focus on (but not limited to) Burkina Faso, C?te d'Ivoire, Ghana, Indonesia, Madagascar, Nigeria, Zambia. LCF3 will evaluate the organizations supported by the Food Securities Fund and engage with them as per project need. Further, LCF3 will connect the Food Securities Fund with SMEs ? start-ups in need of further financial support and established as a result of LCF3 initiatives.

Food Systems, Land Use and Restoration (FOLUR) Impact Program (GEF Project ID: 10201)	The FOLUR IP is a USD317 million global, multi-country program implemented by the World Bank, UNDP, IFAD, WWF-US, CI, UNIDO, UNEP, FA, and host countries to advance sustainable, integrated landscapes and efficient food supply chains at scale. The themes of avoided deforestation, improved land use planning and management, strengthening sustainable supply chains, and (agricultural) land restoration are highly relevant to both FOLUR and LCF3, indicating significant potential for knowledge sharing at a global level. In addition, if there is geographic overlap between the eventual LCF3 project portfolio and FOLUR country projects, specific lessons and potential coordination will be explored, working through LCF3 Project Developers and in-country FOLUR implementers.
IFAD Adaptation for Smallholder Agriculture Program	ASAP is IFAD's flagship program for channeling climate and environmental finance to smallholder farmers. Given the similar nature and context of some of these investments, both LCF3 and ASAP will be strengthened by sharing lessons learned, and considering possible areas for co-financing in overlapping geographies. An example of particularly pertinent lessons is the role of organizing smallholders into collective bodies (e.g., cooperatives or other types of farmer associations) to facilitate access to credit and commercial relationships.
Good Growth Partnership (GEF Commodities Programme)	This global UNDP/GEF GGP project (2018-2021) seeks to remove deforestation from supply chains for beef, soy and palm oil, with demonstration projects in Brazil, Liberia, Paraguay and Indonesia. For example, in Liberia the GGP includes funding to work with a commercial oil palm concession to integrate smallholders into the supply chain, and to incentivize community-based conservation of HCV/HCS forests within the production landscape. LCF3 will analyze lessons learned through the GGP, and in relevant geographies work with Project Developers to build on relevant experience and institutions (e.g. national commodity roundtables) developed under the GGP.
Green Climate Fund	The GCF is the world's single largest multilateral source of financing for climate action. Its global portfolio includes extensive investment in nature-based solutions, as well as innovative financing. As the LCF3 project portfolio takes shape, the LCF3 team will explore possible synergies with GCF programming, as a source of technical exchange as well as potential co-financing.

Incremental/additional cost reasoning and expected contributions from the baseline, the GEFTE, LDCF, SCCF, and co-financing

As the IPCC highlighted in its 2018 and 2019 report, a fivefold increase in climate action commitments is needed to put the earth on a 1.5°C trajectory. This climate action must not only include a faster transition towards clean energy sources, but also the adoption of land-use change mitigation methods as the Agriculture, Forestry and Land Use (AFOLU) sector accounted for c.23% of total net anthropogenic emissions of GHGs during 2007-2016. Failure to do so would exacerbate the extreme weather events already witnessed, and more so for the world's poorest with limited climate adaptation resources. With less than 1% of climate finance allocated today towards Nature-Based Solutions, it is critical to unlock

sizeable, long-term and stable sources of financing towards this emerging sector by tapping into private financial capital, just as the renewable energy sector has succeeded in doing. GEF investment in this project will help unlock such financing, as reflected in the co-financing (USD166million) that has been secured.

While private corporations are increasingly engaged in driving climate action by transforming their business models and through strong investments to offset their remaining emissions in support to their commitments towards carbon neutrality (LCF1 and LCF2 have been solely supported by the equity commitments from private corporations), private financial institutions (especially mainstream financial entities, but also impact investors) are still reluctant to invest in climate-related endeavors due to the combination of both real and perceived risks linked to climate investments, the opportunity costs inherent to a new market, longer payback periods, and a lack of clear evidence on financial returns moving beyond demonstration projects. Relatively risk-tolerant and patient funding from GEF for LCF3 will enhance the appetite of private financial institutions to invest in a climate fund.

It is within this context that LCF3's overall aim is to showcase Nature-Based Solutions as a new investable asset class able to i) deliver an attractive risk-return profile to financial investors; ii) anchor subnational actors' role in accelerating their carbon compensation commitments to combat climate change by sourcing 'Nature-Based carbon offsets'; and iii) invest in climate adaptation solutions and generate a tangible socio-economic and environmental impact for vulnerable communities most exposed to the effects of climate change. Non-grant funding from GEF for LCF3 will help demonstrate the investment potential of NBS as an asset class.

To achieve its aim, LCF3 requires additional funding from the financial sector to mobilize up-front equity and help decrease risk exposure to meet the financial gap for NBS. As a development finance institution committed to combating climate change, the funds from the GEF will be instrumental in materializing an innovative investment model to explore and invest in NBS at scale. GEF early stage equity share (comprising up to 12% of the equity commitments in LCF3) will play a decisive role in removing barriers to private climate finance, reduce the perceived risk, and anchor and leverage larger pledges for climate related investment from private financial institutions. GEF funding will contribute to a strong case for the financial feasibility and merits of allocating mainstream financial capital towards NBS, as they can demonstrate a strong track-record of providing an attractive risk-return profile whilst also delivering positive and long-term socio-economic and environmental impacts for rural communities.

GEF's support coupled with DFC 's USAID's risk mitigation instrument, the commitments from large corporates (making up for 75% of the fund equity capital), and a secured market for class B shareholders reached through long-term offset sale agreement with one or more buyer(s) among LCF3 corporate investors or others, will create an enabling environment to prove that climate investments can be financially profitable and therefore, have clear commercial and financial objectives. By participating in LCF3, the GEF can make the case for a successful large-scale Public-Private Partnership (PPP) within the impact investing space. Thanks to a balanced risk-allocation, this PPP will amplify both public and private

parties' positive impact on environmental topics and climate change. Without the GEF funding and associated co-financing, a larger (USD109 million) gap between actual and potential investment in NBS by private financial institutions will persist, at least 20 million tCO₂e of GHG will be emitted rather than avoided, and at least 475,000 people will experience fewer social, economic and environmental benefits.

Global environmental benefits (GEFTF) and/or adaptation benefits (LDCF/SCCF)

With respect to Global Environmental Benefits (GEBs), the Livelihoods Carbon Funds are committed to investing in projects generating a net positive economic, social and environmental impact. By helping local communities in restoring and protecting their ecosystems, thereby securing their livelihoods, they can contribute to their empowerment and adaptation to climate change.

Livelihood Ventures and LCF3 investment activities are governed by the Environmental and Social Management System (ESMS) and the Livelihoods Charter. These instruments emphasize that LCF3 project investments contribute to the resilience of ecosystems through biodiversity enhancement, water resources, sustainable management, and regenerative agriculture. As a result of its mission and investment objective, the Fund contributes to multiple Sustainable Development Goals, primarily SDG 5 'Achieve gender equality and empower all women and girls', SDG13 'Take urgent action to combat climate change and its impacts', and SDG 15 'Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss'. The Livelihoods Charter captures these policies in the following characterization of its triple-bottom-line objectives for each investment project:

- ? Ecological: restoration / enhancement of natural ecosystems and supporting agricultural methods and livestock farming practices that effectively balance increased food resources and income, low pressure on the environment and the sustainable management of natural resources (water, soil, plants).
- ? Economic: actions to help small producers improve access to food security and greater autonomy by employing appropriate agronomic practices and access to technologies that ensure greater productivity and enhance the value of their products. Actions to provide surrounding cities and industries with clean and appropriately available water and sustainable agricultural produce.
- ? Social: the social impact of programmes is taken into account in the design and execution of Livelihoods programmes. Particular attention is paid in terms of farmers' revenue, access to essential goods and services (education, water, health, etc.), the condition and status of women and young girls, the social and cultural cohesion of communities.

The total area under improved management due to the projects under the third Livelihoods Carbon Fund will be at least 88,400Ha, due to investments of the LCF3 fund over a time span of at least 20 years. This will include the restoration of 48,960 ha of agricultural lands, the

restoration of 16,500 ha of wetlands, 12,240 ha of landscapes under sustainable land management in production systems, and 10,700 ha of avoided deforestation.

These targets were established by using project averages from LCF1 and LCF2 investments, adjusted for the LCF3 fund size and investment period. The model is based on a \$100 million fund size assumption corresponding to LCF3 total investment and costs over its life and including 12 projects over a 4-year investment period. A project's maximum life is 20 years, reaching a maximum fund term of 24 - 26 years (subject to extension by the Board as described in the fund's prospectus). Based on the average project impact areas and numbers of beneficiaries extrapolated from LCF1 and LCF2, the goals for LCF3 are ambitious but achievable, as project selection processes will construct a portfolio of investments deliberately composed to meet the targets. Thus, the targets reflect an assumption that LCF3 project characteristics will be comparable to those across the LCF1 and LCF2 portfolios.

An illustrative example on how LCF3 will support biodiversity mainstreaming is through its investments in restoration and conservation of mangroves, which are being destroyed around the world at a rate of 340,000-980,000Ha per year. Mangrove ecosystems provide unique habitat for both aquatic and terrestrial fauna and flora, and are essential for biodiversity conservation; the provision of habitat, spawning grounds and nutrients for many varieties of fish and shellfish; and the protection of coral reefs and sea-grass beds. They also are critical to the livelihoods, well-being and security of coastal communities; more than 100m people live within 10km of mangrove forests. Finally, mangroves harbor important carbon stocks. Mangrove restoration and conservation will be part of LCF3 investments, generating global environmental benefits; based on LCF2 and LCF2 investment track records, LV estimates that LCF3 initiatives will restore and protect a minimum of 16,500Ha of mangrove ecosystems.

Additional examples of how LCF3 will achieve core indicator targets are presented in Table 2.

Table 2: Sample Activities to Achieve Core Indicator Targets

Core Indicator	Example activities
CI 3. Area of land restored (65,460 ha)	Tree planting (native species) Agroforestry ? Wetland mangrove forests ? Crop production under forest cover ? Integrated or sustainable forest management ? Export crops ? Food crops
CI 4. Area of landscapes under improved practices (22,940 ha)	Regenerative agriculture ? Deferred grazing ? Crop cultivation under vegetation cover ? No-plough tillage

CI 11. Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment (475,500 people)	Training, technical support, access to inputs for: ? Increases in agricultural and fishing productivity due to ecosystem restoration ? New livelihoods from agroforestry
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These activities will in turn help to prevent the release of at least 20 million tCO₂e into the atmosphere, through a mix of avoided GHG emissions or increased carbon sequestration in biomass, soil, and sediments (out of the 20 million tCO₂e, 13.8 million tCO₂e are expected to come from forestry, agroforestry, and mangrove restoration activities. The remaining 6.2 million tCO₂e will be generated through rural energy initiatives). While the project is not maintaining alignment with the GEF climate change focal area strategy, there are climate change benefits to be obtained through carbon crediting. Note that part or all of the carbon credit volumes may be retired for voluntary or compliance obligations by the participating companies, and that the investment from the GEF will contribute to de-risk the generation of such credits, thus contributing to strengthening the supply side of carbon markets.

As a direct result of participating in and benefiting from the portfolio of projects financed by LCF3, 475,500 direct beneficiaries will have increased income, of whom at least 316,500 are women.

Further details about how LCF3 maximizes delivery of GEBs are contained in Project Document Appendix IX.

Innovativeness, sustainability and potential for scaling up

Innovativeness

LCF1 and LCF2 are impact investment funds financed by private companies since 2011, thanks to a unique investment model which leverages the low-carbon economy for the financing of natural ecosystem restoration and conservation to improve the livelihoods and resilience of rural communities who disproportionately bear the brunt of climate change.

With a robust operational track-record and within a generalized context of rising appetite for investment in a new asset class with a clear and measured climate impact, the ambition is to scale-up our investments in NBS through the creation of a third Livelihoods Carbon Fund, as a separate investment vehicle, with the participation of private and public investors for the first time. LCF3 innovation relies on one-of-a-kind investment model where new investors (public and private financial institutions) have the possibility to opt for monetized return through a carbon offset offtaking mechanism secured by the long-term commitments from corporate investors.

By investing in LCF3, public and private financial investors can partner with climate committed & experienced private corporate investors which make the historic LCF investors. The fund provides a powerful investment option to contribute towards SDG targets and climate change mitigation, all while securing a financial return.

Unlike in LCF1 and LCF2 where carbon offsets were distributed as in-kind dividend only, LCF3 has adopted a dual dividend distribution mechanism to enable DFIs and impact investors to receive cash dividends. Three classes of shares have been introduced within LCF3:

1. Class A shares ? for investors opting for in-kind offsets dividends: equity commitment to be gradually drawn in exchange for the corresponding offsets as dividends in-kind every year after year 2-3 of the fund lifetime.
2. Class B shares ? for investors opting for cash returns: equity commitment to be gradually drawn in exchange for the cash value of corresponding offsets as a return every year after year 2-3. In order to secure offset monetization, the fund will sell their share of in-kind carbon offsets to Class C investors at a pre-negotiated purchasing formula.
3. Class C shares? for investors willing to engage in a purchasing commitment of carbon offsets from Class B investors as well as to make an equity commitment into LCF3 in return for in-kind carbon offsets, like a Class A investor.

This set-up establishes synergetic strategies between the investors. Corporate investors commit to a Verified Emission Reductions (VERs) call option agreement in favor of financial investors on the basis of the volume of carbon offsets generated throughout LCF3's terms and a long-term purchasing price formula. In exchange for this visibility on the market return, financial investors assume LCF3's performance risk, which corresponds to the risk that LCF3 underdelivers or overdelivers, over its lifetime, the volume of carbon credits as initially budgeted at fund's launch. Financial investors are not subject, however, to a supply or pay clause.

The role of financial investors (Class B) is to pre-finance the generation of carbon offsets, thanks to their equity participation in LCF3, which the in-kind investors (Class A and C) commit to purchase on a regular basis as they are generated. The benefit of this mechanism is twofold: 1) it enables LCF3 to further scale-up NBS by investing in more or bigger projects; and 2) it enables the in-kind investors to anchor their commitment to combat climate change by sourcing higher quality carbon offsets with a social, economic & environmental impact.

In addition, LCF3 will play a catalytic role in channeling much needed capital investments into carbon projects in developing countries. The Paris Agreement has introduced two step-changes in the fight against climate change: first, developing countries also have emission reduction targets and secondly, before the Agreement, economic actors were requested above all to focus on reducing emissions, not particularly to protect or enhance carbon sinks (i.e., vegetation, soil, etc.). While the priority of reductions over any other climate mitigation tool is still a must, the Paris Agreement is recognizing for the first time the strategic importance of, also, sequestering CO₂ in the soil and vegetation as carbon reduction alone would not put us on a sustainable trajectory.

As such, this represents a clear opportunity for the LCF3 to play a major role in supporting the Paris Agreement goal of increasing CO2 sequestration in the soil and vegetation: for 10 years, the Livelihoods Carbon Funds have dedicated their skills and investment capacity to finance activities that sequester CO2 in the soil and vegetation in developing countries, and improve the lives of hundreds of thousand rural people. That is to say that the LCF family channel millions of dollars every year to help developing countries meet their climate objectives, protect and enhance their carbon sinks and improve people's lives. Thanks to the Paris Agreement this approach is now endorsed and officially coined one of the solutions towards the fight on climate change and the promotion of human development.

Sustainability

LCF has already built a strong base with its historic investors, some of which need more offsets than what their equity investment will deliver. LCF3 capitalizes on the private sector's accelerated commitments towards carbon neutrality to finance NBS at scale with the support of public and private financial partners, as a new investable asset class focused on climate. Several signals hint today at a rising demand for voluntary carbon offsetting as we are witnessing a continuous flow of neutrality announcements (total or partial) by many actors: Amazon net carbon neutral (2040), UK and France net zero (2050), European Union neutrality (2050), Repsol first oil major with neutrality commitment (2050), tens of countries have announced their sourcing voluntary offsets, CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) will be effective in early 2020s with needs in the tune of several 100m offsets per year, as well as several LCF investors. A large share of these entities have announced their targets but not yet started buying offsets, although many plan to entry into force in 2020 or in the following years (e.g. Easy Jet and Air France - domestic, Evian, Schneider, Bosch, GE Renewable Energy, Grohe, Kuehne+Nagel, Google - partial, etc.).

In this context, where historic investors demand LCF higher volumes of carbon offsets and new corporates are reaching out to us with an interest to enter the third fund as equity investors and/or to establish offtaking agreements to comply with their GHG emissions commitments, represents a unique opportunity that secures LCF3 sustainability and ensures its potential to scale-up.

The projects supported by the Livelihoods Carbon Funds have been built with the conviction that climate mitigation and adaptation need to be addressed in the long run to generate impact. All contracts signed with our stakeholders are established on long-term projects: 10 to 20 years. During the whole duration of the project implementation, investors receive annually the carbon credits generated by the projects, which helps them meet their carbon compensation goals.

With the support of the GEF, LCF3 will be the first successful initiative bringing together financial investors and corporations to invest in NBS at scale. By showcasing NBS as a new investable asset class able to i) deliver an attractive risk-return profile to financial investors; ii) anchor subnational actors' role in accelerating their carbon compensation commitments to combat climate change by sourcing ?Nature-Based carbon

offsets?; and iii) generate a tangible socio-economic and environmental impact for vulnerable communities most exposed to the effects of climate change, LCF3 will be a catalyst for the creation of subsequent funds to bridge the financial gap for NBS, where financial support from public financial organizations will no longer be needed.

Replicability and Potential for Scaling Up

LCF3 is based on a business model that brings together corporates and financial investors to invest in NBS initiatives at scale for the first time. Even if recent studies show a readiness to scale up climate investments, the market is still at early stages of development. While financial institutions in the private sector can move quickly where attractive returns are clear, its activities in innovative markets, such as the NBS market, are generally hampered by market and opportunity costs, and new & unfamiliar risks. It is in this context where the support of public financial institutions such as the GEF, is one the main forms of backing for climate-related projects with longer payback periods, high upfront capital costs and market uncertainties to leverage private sector financing. GEF equity participation in LCF3 will help de-risk LCF3 investments and showcase an attractive risk-return profile to private financial institutions, making NBS investments more amenable to profit-driven investors, encouraging them to provide financing and kickstart climate finance in NBS. Consequently, GEF support will help move the private financial sector along the learning curve, bridging the initial phase of uncertainty to achieve commercial maturity of the market, and thus endorse the exploration and investment in NBS at scale to maximize global environment benefits and reduce transaction costs. With the support of the GEF, LCF3 will constitute a success business case for the creation of subsequent funds where public financial support will no longer be needed.

LCF3 will continue to allocate its investments globally, in both new and old geographies, following the fund diversification strategy. In general terms, LCF3 will seek to:

i) Capitalize on the Livelihoods Carbon Fund existing portfolio of projects: LCF1 and eventually LCF2 portfolio of investment projects present further opportunities for separate project scale-ups in the same geographies (these projects are located within a different project perimeter but within the same country or federal state) and with the same Project Developers. These are projects are nonetheless entirely separated, in terms of assets and liabilities, from previous LCF portfolio carbon projects. This constitutes therefore an opportunity for investors to tap into a pool of de-risked carbon projects and scale-up proven investment models. In fact, LCF2 has already invested in 2018 in 3 new large-scale projects each expected to generate at least 2m carbon offsets. By tapping in LCF1's scaling-up potential, LCF2 reached 43% of its carbon generation output target within its first year of investment. In practice, there are limitations to this investment strategy on a fund-basis driven by the capacity for scale-ups of existing projects. For example, this investment strategy effectively represents only 25% of the investment capacity of LCF2 with the remaining portfolio reflecting carbon projects with new Project Developers. Naturally, not all projects present such scaling-up opportunities as they may be constrained by a

diverse range of factors, such as the saturation of hectares of mangrove available for restoration within the same geography, the lack of appetite by Project Developer, etc.

ii) Replicate current LCF models in other geographies: Based on the knowledge that has been accumulated by LCF on the 3 clusters of projects that LCF1 and LCF2 have invested in (rural energy, agroforestry, and mangrove & coastal habitat), LCF3 also explores opportunities to invest in the same clusters with the same models but in other geographies and with other Project Developers. In fact, in its second investment year, LCF2 structured an agroforestry project in Rwanda with a Sustainable Agricultural and Land Management (SALM) component drawing from LCF1's portfolio project expertise and an agroforestry project in India linked with a strong silk value chain.

iii) Invest in new clusters: LCF3 also explores new clusters combining high potential for carbon sequestration/reduction and social/environmental value creation. LV's Technical & Innovation team is already analyzing new investment clusters in order to achieve LCF3's targets, as well as processes to optimize the carbon impact on current models. These new clusters may include for example Reduced Emissions from Deforestation and Forest Degradation (REDD+) projects, distribution of biodigesters coupled with a SALM component or blue carbon. In principle, when investigating new clusters, LV seeks projects which combine 3 main criteria: i) the conservation / restoration of natural ecosystem; ii) the generation of positive impacts for local communities which are directly engaged into project activities; and iii) the generation of carbon offsets in line with fund economics. As such, for example, we don't expect LCF3 to finance renewable energy projects as they would have a limited impact on engaging local project communities over the long-term.

1b. Project Map and Coordinates

Please provide geo-referenced information and map where the project interventions will take place.

THE LIVELIHOODS CARBON FUNDS PROJECTS

17 restoration of key natural ecosystems, rural energy and agroforestry projects with strong local benefits



1c. Child Project?

If this is a child project under a program, describe how the components contribute to the overall program impact.

N/A

2. Stakeholders

Select the stakeholders that have participated in consultations during the project identification phase:

Civil Society Organizations Yes

Indigenous Peoples and Local Communities

Private Sector Entities Yes

If none of the above, please explain why:

Please provide the Stakeholder Engagement Plan or equivalent assessment.

In addition, provide a summary on how stakeholders will be consulted in project execution, the means and timing of engagement, how information will be disseminated, and an explanation of any resource requirements throughout the project/program cycle to ensure proper and meaningful stakeholder engagement

During the PPG phase, stakeholder engagement activities were conducted to solicit input on the LCF3 concept and design from representatives of other funds operating in climate, biodiversity and agricultural development arenas; LCF1 and LCF2 project implementers; and government in LCF1 and LCF2 geographies. Stakeholders to engage were identified by the Livelihood Venture team, and engaged to participate in online consultation teleconferences. These included:

Stakeholder Name	Date and Method of Engagement
International organizations/Funds World Bank (Dan Radack, Roy Parizat) IFAD (Julie Cheng, Gene Moses) Finance in Motion (Julian Smykalla) Restoration Seed Capital Facility (Martin Halle)	April 6-29, 2021 Teleconference
LCF2 Rwanda Agroforestry Project Vice Mayor of Rulindo District (Prosper Mulindwa)	April 28, 2021 Teleconference
LCF India Mangrove Restoration Project Joint Secretary & Programme Director, Nature Environment & Wildlife Society (Ajanta Dey)	May 12, 2021 Teleconference
LCF Kenya Cookstove Project Climate Pal (Kenneth Mwenda), EcoAct (Haron Wachira)	May 19, 2021 Teleconference
Naandi Foundation Araku Agroforestry Initiative, India, CEO (Manoj Kumar), Sr Mgmt Team (Anupama Sreeramaneni), Chief Agriculture Advisor (David Hogg)	May 20, 2021 Teleconference

Consultation teleconferences were conducted using a set of prepared questions, inviting participants to provide input on problem identification, assessment of barriers and challenges, review of LCF1 and/or LCF2 experience, and recommendations for LCF3 design. Throughout these consultations stakeholders expressed agreement on the value of the new fund, in particular due to the availability of pre-financing in advance of revenue streams from carbon credits and commitment to long-term support for implementation. Stakeholders did not express material concerns; recommendations revolved around ensuring stakeholder inclusion, attention to benefit sharing, anticipating scale-up and replication processes, and alignment with government development planning. The project design has incorporated this input by explicitly addressing benefit-sharing in agreements with Project Developers and communities, and emphasizing that government at national as well as local levels are key stakeholders and that projects must be designed within the context of wider development planning. Moreover, local stakeholder needs and interests will be addressed through project-level measures (stakeholder engagement plans, gender action plans, and grievance redress mechanisms).

To ensure that the project meets CI-GEF Project Agency's Stakeholders' Engagement Policy #9, the Executing Agency developed a Stakeholder Engagement Plan. In addition, the project monitoring plan includes tracking of and reporting on the following minimum indicators relating to stakeholder engagement:

- ? Number of government agencies, civil society organizations, private sector, indigenous peoples, and other stakeholder groups that have been involved in the project implementation phase.
- ? Number persons (sex disaggregated) that have been involved in project implementation phase.
- ? Number of engagements (e.g., meeting, workshops, consultations) with stakeholders during the project implementation phase.

Continued stakeholder engagement is central to LCF3 in several ways. This includes outreach to local communities by Project Developers; keeping relevant government agencies fully informed; and continued cultivation of links with the global investment community and others supporting work in the biodiversity conservation, climate change and agricultural development arenas, to pursue financing opportunities, programmatic synergies, and replication/scale-up. LV has accumulated considerable experience in development and application of best practices in stakeholder engagement and will select Project Developers with relevant skills and networks to apply these best practices, as reflected in the Stakeholder Engagement Plan (Appendix VI) and Monitoring Framework (Appendix III) provided.

Select what role civil society will play in the project:

Consulted only;

Member of Advisory Body; Contractor; Yes

Co-financier;

Member of project steering committee or equivalent decision-making body; Yes

Executor or co-executor; Yes

Other (Please explain)

3. Gender Equality and Women's Empowerment

Provide the gender analysis or equivalent socio-economic assesment.

During the PPG phase, a gender assessment was conducted to characterize gender dynamics that are relevant to efforts under envisioned LCF3 investments. Since specific geographies are not identified ex-ante, this assessment examined global features of gender dynamics in the types of contexts where LCF3 invests: agricultural settings in rural areas of developing countries, principally in the tropics. While every geographic context will have specific aspects, general features of these dynamics are similar in most places, as captured in the following observations:

- i. 79% of women depend on agriculture as the primary source of livelihoods in developing countries.
- ii. Agriculture is the largest economic sector for women in Oceania, Southern Asia and sub-Saharan Africa.
- iii. 2/3 of small livestock in the world are managed by women.
- iv. Gender gaps in access and control continue to exist in regards to six key resources and inputs for agriculture: land, labor, credit, information, extension, and technology.
- v. In 90 countries, laws do not guarantee the same inheritance rights for women and men. Female farmers do not have equal rights to own or access land.
- vi. Lack of security of land tenure results in lower access to credit and inputs, leading to inefficient land use and reducing yields.

vii. The estimated average proportion of land controlled and/or owned by women in the world is 20% (FAO, Gender and Land Statistics).

viii. Female farmers receive only 5% of all agricultural extension services worldwide.

The gender assessment indicates that a fund involving climate-smart agriculture and agroforestry development offers significant opportunities to address gender imbalances. By working with Project Developers to ensure a minimum level of female participation in project design and implementation, and designing interventions to explicitly address gender considerations (e.g. agricultural support services that consider gender-disaggregated impacts, with attention to implications for men and women), LCF3 can enhance women's participation and advance empowerment of both men and women in marginalized areas. Additional measures to support gender mainstreaming include ensuring minimum representation of women in project governance bodies. An explicit target of 50% has been defined in the Results Framework.

To ensure that the project meets CI-GEF Project Agency's Gender Mainstreaming Policy #8, the Executing Agency prepared a Gender Mainstreaming Plan (Appendix VI). In addition, the project monitoring plan includes tracking of and reporting on the following minimum indicators relating to gender mainstreaming:

- ? Number of men and women who participated in project activities (e.g., meetings, workshops, consultations).
- ? Number of men and women who received benefits (e.g., employment, income generating activities, training, access to natural resources, land tenure or resource rights, equipment, leadership roles).
- ? Number of women participating in community and project groups and organizations.

Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment?

Yes

Closing gender gaps in access to and control over natural resources; Yes

Improving women's participation and decision making Yes

Generating socio-economic benefits or services or women Yes

Does the project's results framework or logical framework include gender-sensitive indicators?

Yes

4. Private sector engagement

Elaborate on the private sector's engagement in the project, if any.

Private sector engagement is central to LCF3. First, LV has sought private sector investors to capitalize the fund; LCF3 in particular seeks to attract private sector financial firms that view carbon credits as an investable asset class, in addition to firms seeking credits to offset their own emissions. Thus, the purpose of this form of private sector engagement is to catalyze private sector investment in ambitious projects that generate carbon offsets through nature-based solutions that avoid emissions and sequester carbon. Second, the portfolio of LCF3 investment projects work with farmers to achieve net emissions reductions while improving livelihoods, through productivity growth and strengthening of collective organizations as market participants. These projects enhance community-level capacity to act as private sector actors and improve their ability to effectively engage other private sector entities (input suppliers, marketing agents and intermediaries, and purchasers). Thus, private sector engagement is embedded in all aspects of the project. In essence, the entire project design comprises a strategy to attract private sector capital to investment in climate change mitigation, and to strengthen and promote community participation in private sector value chains.

5. Risks to Achieving Project Objectives

Elaborate on indicated risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and, if possible, the proposed measures that address these risks at the time of project implementation.(table format acceptable):

Although it is not possible at this stage to identify project-specific risks for staff and stakeholders across future LCF3's investments, they might be exposed to unexpected contextual risks within the geographies where the Livelihoods Funds operate (including civil unrest, natural disasters, political instability, restrictions on civil and political rights, etc.). As part of the due diligence process prior to any investment decision is made LCF3, together with project stakeholders, performs a risk assessment and develop a risk management and mitigation strategy addressing project-specific risks. Such risk assessment is a key input to the investment decision-making process and therefore LCF3 might opt to not pursue a specific investment if the associated risk for its project stakeholders is too high.

All Livelihoods Carbon projects are being implemented with trusted local partners, who are close to the local community needs and who play a key role in maintaining safe implementation areas. Projects are led in coordination with local authorities to provide the safest conditions, both for the local communities and stakeholders. Previous Livelihoods Carbon projects have demonstrated that working on land restoration, sustainable farming and mangrove restoration has helped communities from different villages come together and reduce conflicts between different groups (e.g. the Livelihoods mangrove restoration project in Senegal demonstrated strong inter-communal solidarity and collaboration to restore vital mangrove forests).

The LV team has identified and assessed risks associated with LCF3 investments and activities, and defined appropriate mitigation responses. Risks are scored according to their likelihood and impact, and risk level is assessed as a combination of both. High & Substantial risks (H) require mitigation activities before proceeding with any project activity; Modest risks (M) require actions to control risk severity/likelihood, though project activity may be conducted; Low risks (L) are acceptable. A summary of key risks and mitigating measures is presented below.

Table 3: Risk Assessment and Mitigation Planning

Risks	Rating High (H), Substantial (S), Modest (M) Low (L)	Risk Mitigation Measures
<p><i>R1. Early project cash exposure.</i></p> <p>Cash is already invested in the project when the Fund becomes aware that the project is failing.</p>	L	<p><u>M1.1. Payment instalments and results-based payments.</u> Out of a theoretical estimated project cost of 100, the investment is structured so that the first plantation campaign is smaller than the subsequent ones. For a direct project investment cost of 100, typically first year plantation budget reflects c. 15% of direct project investment, out of which only 30-40% is disbursed as advance payment to the Project Developers against future contractual and auditable project-milestone achievements thus representing approximately 4.5% to 6.5% of direct project investment cost. Once the first results-based payments have been made, evidence has been given that the project is moving on as planned and steadily delivering the outputs. Then the cash exposure risk is decreasing over time and is lower in year 2 and 3.</p> <p><u>M1.2. Bank account.</u> To ensure proper monitoring of project cash movements, all LCF3 contracts require creation of a dedicated project bank account. This bank account concentrates all funds paid for a project and may only be used for this purpose by the Project Developer. At the beginning of a project, proof of this bank account must be issued by the bank to the Fund. LCF3 Depositary Bank is only allowed to use this specific account.</p>

R2. Project management.

Inadequate / Insufficient technical expertise of the Project Developer's team and/or adaptation of agronomic planning and/or funding diversion.

M

M2.1. Due diligence (pre-investment) and monitoring (implementation).

LV applies a thorough due diligence process prior to signing the framework agreement with the Project Developer to review their legal documentation & financial statements and verify the track record of the local management team. All carbon projects are formalized through a legal contract between LCF3 and the Project Developer. To enable LCF3 to monitor project implementation and identify/mitigate events of funding diversion, the contract stipulates: i) contractual obligations of the Project Developer including regular operational and financial reporting on project performance and proper use of project funding per mutually agreed budget lines, ii) operational and financial auditing rights of LCF3, and iii) governance provisions representing both parties to track and discuss project performance and take necessary decisions. In addition, at LCF3-level, project-level budgets provided the basis for regular operational and financial auditing throughout the project's lifetime. Depending on the specific circumstances of funding diversion, LCF3 may apply a range of mitigation solutions, from collaborating with the Project Developer to remedy and prevent future funding diversion events to activating contractually stipulated clauses concerning contract termination due to breach and requesting the breaching party to indemnify LCF3 for resulting direct and reputational damages. In addition, LV maintains a post-contract M&E scheme on the Project Developer's performance, to review progress against agreed program, compliance with project costs, review of project documentation, etc.

<p><i>R3. Financial viability.</i></p> <p>Likelihood that the project is not self-sustained or does not secure enough external funding on the long-term.</p>	L	<p>M3.1. <u>Long-term, binding agreement with funders.</u> LCF is an investment fund supported through long-term equity commitments (24 years for corporate partners) where capital calls are used to secure funding for projects.</p>
<p><i>R4. Land and resource tenure.</i></p> <p>Unclear and/or weak land and resource tenure rights pose a risk of disputes over their use and access, and thus has the potential to impact project implementation.</p>	L	<p>M4.1. LCF3 does not own or lease land. Prior to any investment, land tenure must be clear, documented and enforceable, and shall not hinder LCF3 access to the value created.</p> <p>Land tenure and land use rights are addressed at project design stage. The project is protected by a legally binding agreement which allows project activities to continue for the duration of the investment. The Project Developer must provide evidence that the project has resolved any potential disputes prior to signature of framework agreement.</p>
<p><i>R5. Community engagement.</i></p> <p>Risk that the concerned community has not been sufficiently sensitized and may reject the project.</p>	L	<p>M5.1. <u>Local communities are considered key stakeholders of LCF3 and therefore engaged in the co-creation process at design stage</u> (see section 2 ? Stakeholder engagement strategy).</p> <p>Projects generate net positive social and economic well-being impacts in local communities. These impacts are defined and shared with local communities to promote their engagement at an early stage. During project implementation (10-20 years), the socio-economic and environmental benefits made available through project activities play a key role in ensuring project ownership of local communities.</p>
<p><i>R6. Political unrest.</i></p> <p>Instability, social unrest, corruption, etc. can have adverse impacts and/or cause project interruption.</p>	M	<p>M6.1. <u>Due diligence, research and political risk analysis at project sourcing stage.</u></p> <p>LV confirms that the host country is involved with REDD+ discussions, readiness plans etc. or otherwise has committed to forest protection under binding frameworks.</p>

<p><i>R7. Community-level conflict</i></p> <p>Risks related to the risk of escalation of an intra- or inter-communal conflict and violence</p>	<p>L</p>	<p>M7.1. Risk profiling and assessment at regional and local level, the rating of which informs IC approval the project. (ecosystem and stakeholders? analysis).</p> <p>M7.2. Project baseline analysis to ensure that the project design is not a source of intra-communal tension and conflict (e.g., favoring one group versus another).</p> <p>M7.3. Strategic programming ensuring the project cannot be a source of reactivation of local conflicts (e.g., agro-pastoral conflicts). Conduct local assessment of the different stakeholders, evaluate potential opposition and conflict, and identify project-specific resolution strategies. If strategies cannot be identified with confidence, consider deferring investment.</p>
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<p>R8. Natural hazards.</p> <p>Natural hazards such as fire, pest, hurricanes, earthquakes etc. can have adverse impacts and/or cause project interruption.</p>	<p>H</p>	<p>M8.1. <u>Mitigation of risks related natural hazards will be addressed through a detailed project diversification strategy.</u> LCF allocates its investments across its project portfolio with respect to diversification ratios, defined at the fund's inception. These diversification ratios are established as criteria for a project's total weight in the LCF portfolio, geographies, project types and exposure to the Project Developer.</p> <p>M8.2. Risk profiling and assessment at regional and local level (the rating of which informs IC approval for the project).</p> <p>M8.3. Adaptation of the technical design to local risks, e.g., choice of locations, or choice of more resistant or resilient endemic forest species, etc.</p> <p>M8.4. <u>Contingency budget.</u> On a project per project basis, LCF3 evaluates the advisability of allocating a percentage of the project budget as contingency budget (<i>ex-ante</i>) to buffer potential losses (resources, productive capacity, etc.) from natural disasters.</p> <p>Additionally, LCF3 will evaluate the suitability of implementing early warning and response measures on a project per project basis.</p>
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<p>R.9 COVID-19.</p> <p>COVID-19 and other pandemics could lead to restrictions on movements, disrupting enterprise, and thus the timeline / duration of the project.</p>	<p>M</p>	<p>M9.1. If required according to the country-specific context and in the event of an outbreak in the project area, a specific plan of action will be developed by the Project Developer in coordination with the investment team.</p> <p>M9.2. Learning from LCF1 and LCF2 projects to design adaption and mitigation measures. Regular monitoring of the guidance given by national and local public health authorities, World Health Organization (WHO), and Centers for Disease Control and Prevention (CDC).</p>
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Climate Risk Screening

At this stage it is not possible to describe in detail climate change and natural disaster risks and hazards that are project-specific. These unexpected events however can have a significant impact on LCF3 initiatives, limiting the access to the intervention area, threatening the life and well-being of local communities and the staff working on in the project, causing the displacement to or from the intervention area, or otherwise damaging LCF3's operational capacity. As was the case in its predecessor funds, LCF1 and LCF2, the third Livelihoods Carbon Fund approaches natural disaster risk management through a risk mitigation strategy, since the likelihood of geophysical and/or meteorological hazards cannot be reduced (e.g. earthquakes, volcanic eruptions, floods, storms and hurricanes, tsunami, etc.).

LCF3 is a project explicitly designed to mitigate climate change risk by investing in community-based solutions to restore natural ecosystems and establish agroforestry and regenerative agriculture systems that will ultimately reduce GHG emissions and increase carbon sequestration. With a project portfolio expected to include at least 16,500Ha of mangrove and coastal habitat restoration and conservation, LCF3 is expected to enhance the resilience

and adaptation of coastal communities when faced with extreme weather events as exacerbated by of climate change (e.g., empirical and field-based studies have shown that 30 trees per 100 square meters may reduce the maximum flow of a tsunami by more than 90 percent). Climate-smart livestock farming or production models promote the regeneration of degraded soils, pastures and cultivated fields, after loss of carbon content and soil fertility. Various agronomic protocols such as restoration or deferred grazing, crop cultivation under vegetation cover, plough-less tillage, etc., allow soil to regain their fertility and water resources to be protected. In agroforestry projects, tree species restore degraded ecosystems by reducing soil erosion, sequestering above and below-ground biomass thus providing soil nutrients & enhancing farm land productivity.

The approach of LCF3 is to screen investments according to criteria pertaining to climate risk, mitigation measures, adaptation measures, and permanence of carbon outcomes. At project sourcing stage, LCF3 follows the measures indicated below:

Diversification

Mitigation of risks related to natural hazards are addressed through a detailed project diversification strategy. LCF allocates its investments across its project portfolio according to diversification ratios, defined upfront at the fund's inception. These diversification ratios are established along the criteria of the project's total weight in the LCF project portfolio, geographies, project types and exposure to the Project Developer.

LCF3 ensures the diversification of projects in terms of sector, geography, number, and size in order to minimize financial, political, agronomic, technical, and methodological risks, in accordance with the investment restrictions contained in the general part of the Fund's Prospectus and in the Fund's Particulars.

Contingency budget

On a project per project basis, LCF3 evaluates the advisability of allocating a percentage of the project budget as contingency budget (ex-ante) to buffer potential losses (resources, productive capacity, etc.) from natural disasters.

During project implementation, LCF3 activities can modulate the impact of climate and natural disaster events on different project components:

Agroforestry and climate resilience

LCF3 investments actively encourage farmers to implement soil and water conservation practices that increase soil quality and improve its fertility, helping local communities to increase their resilience, mitigate and adapt to climate change. Some examples of the conservation practices supported by LCF3 projects include:

- Crop rotation within the farm, to reduce soil erosion.
- Contour farming using bushes and fodder trees to slow water runoff during rainstorms and retain the water long enough so it can be absorbed into the soil, thus further preventing soil erosion.
- Planting ?cover crops,? such as oats, wheat, and buckwheat, to prevent soil erosion.
- Zero / reduced tillage to minimize soil disturbance and mulching to improve water infiltration rate and increase water storage capacity in the soil, while decreasing water evaporations.
- Water harvesting technologies in areas that are recurrently hit by drought.
- Zero wild grazing to increase soil organic carbon and nitrogen stocks, and consequently improve the soil nutrient retention, water storage, pollutant attenuation capacity.

Ecosystem restoration and climate resilience

LCF3 supports community-based restoration and conservation of mangroves ecosystems. Mangroves offer a wide range of essential ecological services; they prevent flooding (in 2018 mangroves reduced annual flooding to more than 18 million people worldwide), stabilize shorelines, act as a shield against strong winds, storm, and tsunamis, buffer salinity, or prevent shoreline erosion, to name a few. These services reduce the exposure and vulnerability of the nearby communities against climate events. Consequently, mangroves are considered especially important ecosystems for the resilience of vulnerable populations in West and East, Africa, Central America and the South Pacific. According to The Nature Conservancy, mangrove restoration is a highly cost-effective strategy for risk reduction against climate change events.

Poverty alleviation and food security

Low-income countries and economies are likely to suffer the negative impacts of climate change at a larger scale, since their population is largely dependent on weather-sensitive natural resources. In addition to the impact posed by natural disasters on natural ecosystems described above, climate events (e.g. changes in temperature and precipitation regimes, new patterns of pests and diseases, etc.) can negatively affect food distribution and availability, and therefore disrupt or decline local food supplies or even provoke failure of food systems. According to FAO, ?strengthening resilience for all vulnerable people involves adopting practices that enable them to: 1) protect existing livelihood systems; 2) diversify their sources of food and income; 3) change their livelihood strategies; and 4) migrate if there is no other option?. LCF3 investments tackle the first three points of FAO?s strategy, helping protect food supplies locally, safeguarding livelihoods, and strengthening the resilience of vulnerable rural communities to the negative impacts of climate change.

6. Institutional Arrangement and Coordination

Describe the institutional arrangement for project implementation. Elaborate on the planned coordination with other relevant GEF-financed projects and other initiatives.

A. Execution Arrangements and Partners

Livelihoods Venture (LV) will serve as the Executing Agency (EA) for this project, with responsibility for project coordination, and implementation, and management of the LCF3 portfolio of project investments. LV has established and houses a team for this purpose, overseen by an LCF3 Fund Director. Across all of its investment portfolio, LCF3 complies with the same managerial principles that guided investment decisions and monitoring for the LCF1 and LCF2 to date, namely (i) hands-on management of the projects to ensure an efficient, impactful and sustainable project design and a smooth long-term implementation, and (ii) allocation of roles across the various project phases of design, implementation and monitoring, evaluation and maintenance as follows:

Livelihoods Venture: LV is a social business that was created in 2011 by the two co-founders and a hired financial professional in order to set-up and manage LCF1. The two co-founders had spent the four previous years designing and implementing Danone's overall sustainability and carbon footprint reduction strategy. Within Danone, they designed the Group's carbon offsetting strategy and led the investment in 4 projects that were later transferred into LCF1 and are today part of its portfolio. LV's team brings the following set of niche expertise:

- o Sourcing, structuring and management of investment funds: The top management of LV has been a key promoter of several socially oriented private equity impact funds. The ability to identify the key motivations driving an investor's impact investing strategy and pool this together in a successful coalition fund over 20+ years, is a gauge of this expertise. Since 2011, and prior to the launch of LCF3, LV has successfully launched 3 impact investing funds, with 13 French, German, American, Belgian, Luxembourg and Swiss private sector investors across a wide range of industries ranging from food processing to banking and industrial manufacturing.
- o Investing in the land-use and forestry sector: The investment team holds a strong academic and professional track-record in agronomy with specialties in forest carbon, landscape protection, the diffusion of sustainable farming practices, smallholder farmer economics, tropical agronomy, last-mile distribution and supply chain transformation. LCF has also been a driving force in the proposal for adoption of innovative carbon certification methodologies with international carbon certification bodies.
- o Design and execution of long-term carbon projects in developing countries: The team has extensive field-work experience across Africa, Asia, Latin America and Oceania and draws on a multi-cultural and linguistic capital of more than 10 languages. This provides an advantage in the successful design and execution of long-term carbon projects aligning various local stakeholders such as smallholder farmers, NGOs and public authorities.
- o Collaboration with & capacity building of civil society organizations: To secure the success of an LCF carbon project, the cultural gap, often linked to different working approaches and pace, which exist between the private sector and NGOs, has to be breached. This renders

valuable the NGO experience of the investor advisor's team, which is further enriched by an expertise in NGO capacity building in emerging countries.

- o Financial management and co-financing: Auditing, financial statement analysis, compliance due-diligence, financial modelling and securing co-financing. LV also has obtained co-funding from several DFIs, public institutions and private donors, for deployment across its portfolio of projects.

Project Developer: Project Developers are mostly Non-Governmental Organizations but can also be social enterprises that bring their field experience and deep understanding of the local cultural and socio-economic challenges faced by the local communities. They are generally a driving force for change, trusted by local communities and recognized by regional stakeholders. During the project design phase, both LV and the Project Developer collaborate tightly to co-design the carbon projects with, if needed, additional support from carbon and impact experts. During this phase, LV acts as the main driver for carbon innovation. During the implementation phase, the Project Developer is responsible for delivering on the project's designed activities and results, as defined in the contractual agreements between the fund and the Project Developer. During this phase, a project Steering Committee composed of LV, the Project Developer and the project relevant stakeholders is created to continuously monitor the field progress and convene on mitigation actions when required. The Project Developer is also responsible of the project maintenance post-implementation (ex: tree replantation, or cookstove repair or replacement) and throughout the project life. During the monitoring phase, with some support from LV, the Project Developers collaborate with the carbon auditors in order to generate the internationally certified carbon offsets: defining a data sample, physical data measurement, etc.

Carbon Standards & Carbon Auditor: As Livelihoods Carbon Fund's carbon offsets are issued under the Voluntary Carbon Standards, mainly Verra and Gold Standard, they are key in the monitoring and evaluation of the projects. Carbon auditors serve as third-party independent consultants to verify the volume of carbon offsets generated under a project, with the ultimate purpose of issuing internationally certified carbon offsets. The Livelihoods carbon projects will therefore have to comply with the project certification process as defined by the Voluntary Carbon Standards and in line with the expectations and requirements of the carbon auditor. These include i) the drafting of the Project Design Document, ii) the Project Validation after a stakeholders' consultation has taken place and the validation of the project activities by the Carbon Auditor, iii) the project registration by the respective Carbon Standard in line with the project's selected carbon methodology and the opening of a dedicated account in the register of the Carbon Standard, iv) the project carbon verification with the submission of the project's verification report for approval by the Carbon Auditor following a field visit, and finally v) the issuance of the serial-numbered carbon offsets by the Voluntary Carbon Standard.

Carbon & impact experts: Carbon experts may co-develop with LV a carbon methodology in order to quantify the carbon sequestration/reduction associated with specific project activities. For example, in partnership with ILRI, ICRAF & Gold standard Foundation, we have developed new methodologies to assess carbon generated from large-scale methane avoidance projects and carbon sequestered in the soil thanks to large-scale diffusion of sustainable agricultural practices projects. This enabled LCF1 to issue certified carbon offsets from our Kenyan project spanning across 35,000Ha

and 30,000 farmers. With institutional partners, LV also developed new methodologies for the large-scale carbon assessment of mangrove replantation projects. These methodologies have enabled LCF1 to launch & generate certified carbon offsets over 29,000Ha of mangrove projects. LV and carbon & impact experts can also be tasked with providing training & technical support to the Project Developer for the regular collection of the data required by international certification bodies (Verra, Gold Standard) for the carbon certification process or other relevant data.

CI-GEF Project Agency: will provide project assurance, including supporting project implementation by maintaining oversight of all technical and financial management aspects, and providing other assistance upon request of the Executing Agency. The CI-GEF Project Agency will also monitor the project's implementation and achievement of the project outputs, ensure the proper use of GEF funds, and review and approve any changes in budgets or workplans. The CI-GEF Project Agency will arbitrate and ensure resolution of any execution conflicts.

The Fund's governance is defined to take into account the expectations of both corporate and financial investors, namely: The protection of the interests of Class A, Class B, and Class C investors; The inability/unwillingness of some investors to participate in the Fund's Board of Directors or Advisory Committee; The appetite of some corporate investors as well as some impact investors to obtain a deeper perspective on the portfolio of carbon projects and reflections around the projects' design and implementation.

The governance structure for LCF3 is comprised as follows:

Board of Directors

The Board is responsible for determining the Fund strategy, controlling the management of the Fund, and in particular for defining and implementing the investment policy according to the general guidelines set out in the Fund's Prospectus and Fund's Particulars. The Board may delegate part of its powers to committees. The Board is composed of at least six (6) and at most fifteen (15) members, appointed from time to time, in the general meetings of shareholders.

Fund Manager

The Board has contracted Inn pact Fund Management S.A., a company incorporated under the Luxembourg laws, having its registered office at 5 Rue Jean Bertels, 1230, Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Trade and Companies Register under number B238136n as its alternative investment fund manager (the "AIFM") within the meaning of the AIFM Law. The AIFM, subject to the overall supervision, approval, and direction of the Board, provides certain portfolio management, liquidity management, risk and compliance management services and such other support as agreed from time to time between the Board and the AIFM in accordance with the provisions of the AIFM Law, subject to the investment policies and objectives set out in the Prospectus and the Articles.

Pursuant to the terms of the AIFM Agreement, the AIFM is responsible for portfolio management and risk management of LCF3. The AIFM is also in charge of certain marketing services and other activities related to LCF3 assets. In the framework of its portfolio management function, the AIFM implements the objectives, policies, strategies and investment restrictions established by the Board. It takes decisions and manages assets in a discretionary manner and with the goal of reaching the LCF3 investment objectives. The AIFM also implements appropriate risk management systems in order to detect, measure, manage and follow in an adequate manner all the risks related to the LCF3 investment strategy and their effects on its risk profile; it will assign a dedicated Risk Management Officer to this end.

Investment Committee

The AIFM has established an Investment Committee to guide its management of LCF3. The Investment Committee is composed of at least five (5) members appointed by the AIFM. The Investment Committee is in charge of: (i) examining the investment projects of LCF3; (ii) approving or rejecting them; and (iii) monitoring the implementation of the investment projects of LCF3.

Advisory Committee

The Investment Committee is assisted by an Advisory Committee. The Advisory Committee is composed of at least three (3) members and at most twelve (12) members appointed from time to time by the Board.

Investment Advisor

Livelihoods Venture SAS has been appointed as the Investment Advisor to LCF3. The Investment Advisor is responsible for identifying projects, setting up projects' structures, submitting them to the Investment Committee, organizing the implementation and monitoring of projects under the control of the AIFM, ensuring compliance with the investment strategy set forth in the Prospectus. The Investment Advisor shall have no discretion in respect of the investment decisions of the Fund.

The Investment Advisor has gathered a team of complementary investment professionals with extensive knowledge of carbon market and forestry projects management. The Investment Advisor provides services through a skilled, qualified, and experienced team of people (the Advisory Team). The Advisory Team is composed of a diversified team of specialists bringing in the following range of expertise:

- Project experience in complex multi-stakeholder environments especially in emerging countries;
- Capacity to maintain and develop an international network of partners;
- Outstanding focus on process quality, results, and cost control;
- Strong operational experience in managing complex financial projects;

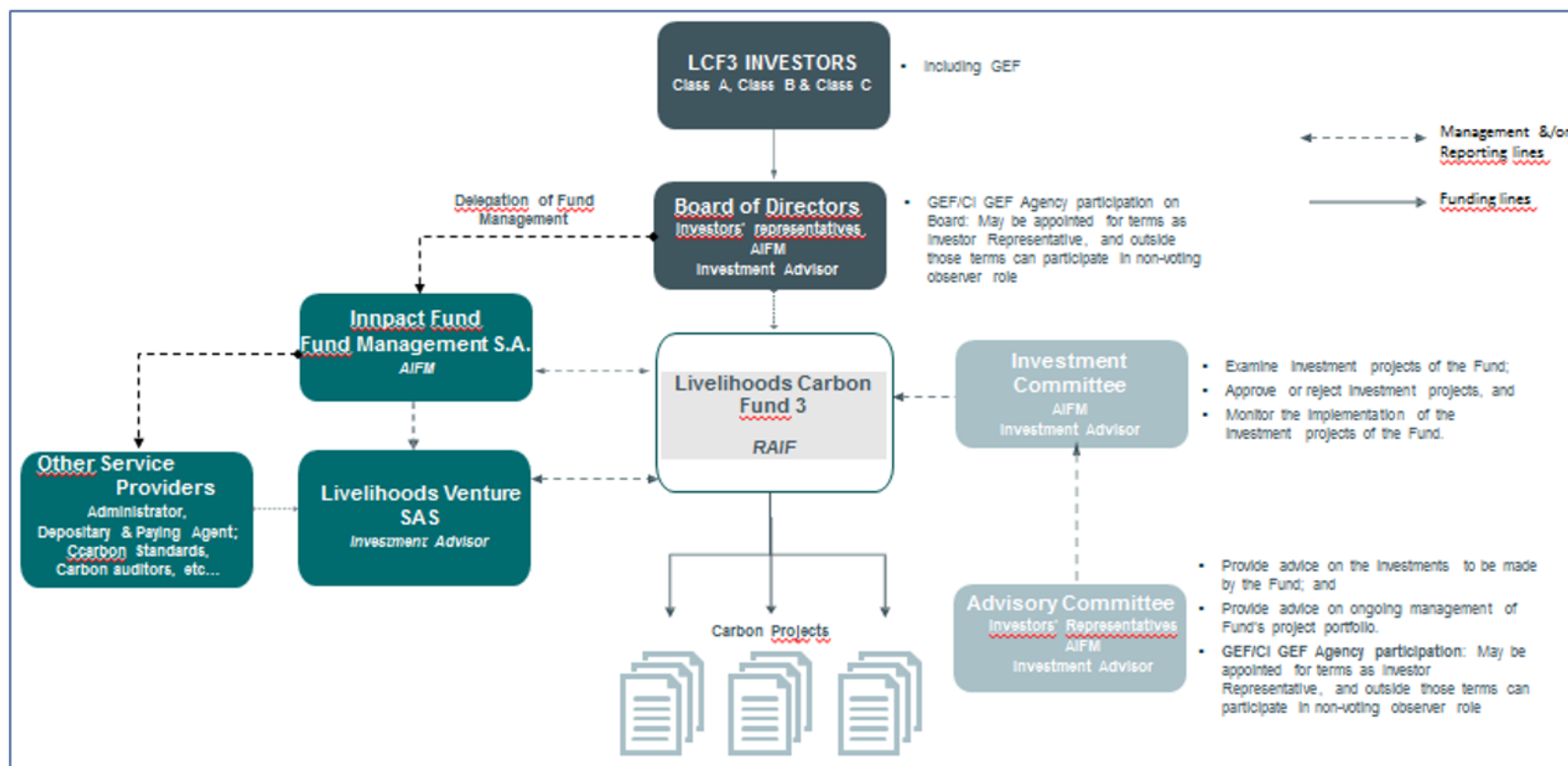
- Clear mastery of forest carbon risk issues; and
- Deep knowledge of forest carbon international networks.

Administrator

With the consent of the Board, the AIFM has appointed CACEIS Bank, Luxembourg Branch as Administrator in charge of all administrative agent duties. CACEIS Bank, Luxembourg Branch is acting as a branch of CACEIS Bank, a public limited liability company (société anonyme) incorporated under the laws of France, having its registered office located at 1-3, place Valhubert, 75013 Paris, France, registered with the French Register of Trade and Companies under number 692 024 722 RCS Paris. Administrative agent duties include (i) the book-keeping and maintenance of the accounts of LCF3; (ii) performing the calculation of the NAV; (iii) the preparation of the annual accounts of LCF3; (iv) the liaison with the auditors of LCF3. The Administrator will also be in charge of all registrar and transfer agent duties, including processing subscriptions for shares. The Administrator implements and applies on behalf of LCF3 measures against money laundering and the fight against terrorism in accordance with the laws of the Grand Duchy of Luxembourg, the applicable regulation and Luxembourg Commission de Surveillance du Secteur Financier (CSSF) circulars. The Administrator is also in charge of the collection of subscription monies in relation to the issue of shares as well as for making payments in relation to the redemption of shares, if applicable, and payments of distributions to the shareholders. The duties of the Administrator are performed pursuant to the Administrative Agency Agreement.

CACEIS Bank, Luxembourg Branch is also the Depositary and Paying Agent for the safekeeping of the assets of LCF3, to ensure a supervision duty on the assets of LCF3, in accordance with applicable laws. The Depositary's duty of supervision is a two-fold: the Depositary knows at all times how the assets of LCF3 have been invested and where and how these are available; and the Depositary supervises any third parties with which the assets of LCF3 have been deposited.

B. Project Execution Organizational Chart



7. Consistency with National Priorities

Describe the consistency of the project with national strategies and plans or reports and assessments under relevant conventions from below:

NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, INDCs, etc.

LCF3 allocates resources globally across multiple geographies in developing countries and countries in transition. Specific regions targeted through LCF3 investments will become known as the pipeline of projects develops within the first 4-6 years of the fund life. Even if at this stage it is not

possible to describe LCF3 alignment to specific national strategies, LCF3 will be fully consistent with international conventions and National Biodiversity Strategy and Action Plans (NBSAP), the CBD National Report, Nagoya Protocol National Report, UNFCCC National Communications (NC), Biennial Update Reports (BUR), National Determined Contributions (NDC), Technology Needs Assessment, and UNCCD Reporting. Before deploying funding to a site, the project will ensure that it aligns with the appropriate conventions and national policies.

Table 4: Consistency with National Priorities, Plans and Policies

National Priorities	Project Consistency
The Convention on Biological Diversity (CBD)	<p>LCF3 seeks to mainstream biodiversity conservation and sustainable use across the agriculture, forestry, and mangrove ecosystems and is in full alignment with the CBD's 3 key objectives: the conservation of biodiversity; the sustainable use of its components; and the fair and equitable sharing of benefits arising from genetic resources.</p> <p>LCF3 projects will promote a fair use of natural resources as key contributors to national competitiveness, and as a source of welfare for current and future generations. Local engagement & ownership, and the incorporation of local wisdom relevant to the conservation and sustainable use of biodiversity is secured and respected from project design.</p> <p>LCF3 will mobilize financial resources of USD109, with over 75% coming from the private sector (both corporations and financial institutions), and thus help to streamline private sector investment in natural capital.</p> <p>Thanks to LCF3 investments, 88,400Ha of land will be effectively and equitably managed, integrated into the wider landscapes and seascapes, providing essential services & contributing to the health, livelihoods and well-being of 1.5 million people (direct and indirect beneficiaries), while increasing their resilience against unexpected climate change events (e.g. mangrove forests provide storm protection and control of soil erosion & flooding).</p>
The Nagoya Protocol on Access to Genetic Resources	<p>By promoting an equitable use of natural resources and sharing of the socio-economic and environmental benefits brought by ecosystems services within local communities, LCF3 projects are consistent with the Nagoya protocol on Access to Genetic Resources. This approach will provide incentives for local communities to protect and conserve their surrounding ecosystem, and thus help to stop the conversion of land into unsustainable uses.</p>

The United Nations Framework Convention on Climate Change (UNFCCC)	LCF3 activities will help to stabilize GHG concentrations by avoiding GHG emissions or increasing carbon sequestration in biomass, soil, and sediments in the range of 20 million tCO ₂ e. This will be achieved through conservation and restoration activities contributing to climate change mitigation & adaptation, and to combat desertification, thus in full alignment with the objectives of the UNFCCC and UNCCD. LCF3 will prioritize the implementation of technologies / models that address climate change more effectively, and contribute to the country's social, environmental and economic development and fight against climate change, within two of the prioritized mitigation and adaptation sector identified under the UNFCCC technology needs assessment (Agriculture, forestry & land-use and Water).
Sustainable development goals (SDGs)	<p>LCF3 will build upon Livelihoods brand equity and focus on top quality carbon assets with tangible social and environmental benefits. All projects will pursue a dual objective that will be measured: i) contribute to climate through certified carbon assets; and ii) create measured social and environmental value connected with SDGs.</p> <p>At fund level, we are still in the process of aligning LCF3 reporting system and its contributions towards the SDGs with the requirements of its investors. However, it will cover the GEF required reporting indicators.</p> <p>At project level, LCF3 will look to increase and diversify its contribution towards the SDGs and thus evaluate the potential to report on additional SDGs, as appropriate. As an illustration, Figure 7 presents an SDG analysis of a LCF project.</p>

Figure 6: LCF Mangrove Project in Senegal



MANGROVES

Senegal

22,524 households with improved income



**+ 3 900 ha
with improved
rice fertility**



**+ 4,200 t/yr
fish, shrimp &
oyster catch**



**95% of population
report improved
nutrition**



**0.6m t CO₂e
sequestered**

Elaborate the "Knowledge Management Approach" for the project, including a budget, key deliverables and a timeline, and explain how it will contribute to the project's overall impact.

Since the launch of its first Carbon Fund in 2011, the Livelihoods knowledge sharing approach and communication strategy have focused on monitoring the advances and challenges of our projects in the field, and sharing experience and key learnings with our investors and partners in full transparency. Livelihoods also has been leveraging media to reach wider audiences and showcase concrete examples of carbon projects that have proved to be effective in the field, deliberately contributing to public awareness. Seeking to accelerate climate action, Livelihoods communicates on measurable impacts and paves the way for an economic model in which the private and public sectors can join forces to accelerate climate action in a win-win partnership. A budget allocation of USD60,000 from GEF's equity investment will support knowledge management and communications activities. Expected knowledge management activities for LCF3 are indicated in the table below:

Table 5: Indicative LCF3 communication and knowledge management activities

Knowledge Management				
Activity	Type of KM product	Timeline	Amount	Total
Dedicated newsletter per project after investment approval	Newsletter	21.12.2027	12	9,218
Regular publications on the fund's results, achievements and key learnings	Reports	21.12.2042	10	4,609
LCF3 specific website content, blog posts, social media content	Reports, blogs, social media content	21.12.2042	N/A	2,766
Participation in major international events, alliances and coalitions such as CBD, UNFCCC, GLF Forum, One Planet Business for Biodiversity, etc. (knowledge sharing and dissemination activities)	Presentations, brochures, handouts	21.12.2042	7	3,687
Dedicated video / photo shootings / podcasts of LCF3 projects ^[1]	Videos, Photos, podcasts	21.12.2042	12	13,908
Dedicated annual reports	Reports	21.12.2042	20	6,453
Dedicated dashboard of key impacts and figures, regularly updated	Online dashboard, reports	21.12.2042	12	4,609
Thematic articles on specific project activities, such as income generating activities	Articles	21.12.2042	7	5,531

Knowledge Management				
Activity	Type of KM product	Timeline	Amount	Total
Livelihoods Campus - (LCF3 specific content)	Conference	21.12.2042	12	9,218
Total				60,000

Aligned with previous communication strategies implemented under LCF1 and LCF2, LCF3 knowledge management documents results, achievements and key learnings of the fund's innovative investment model (coupling carbon compensation with strong social, environmental and economic benefits in Asia, Africa and Latin America). This builds on the Livelihoods approach as informed by concrete impacts achieved in the field through LCF1 and LCF2, synthesized in [the Livelihoods 7 pillars for impactful carbon compensation](#). Livelihoods knowledge management also leverages external momentum and scientific research materials to help its network better understand complex issues (e.g., climate change adaptation, mitigation, agroforestry models, and research on biodiversity conservation).

Communications is a key Livelihoods activity to raise awareness about the carbon projects we are implementing, to follow-up their impacts in the field, and to provide full visibility to our stakeholders. Communications also serve to situate LCF3 work within the wider context of climate change acceleration, biodiversity decline and increasing pressure from younger generations, consumers and scientists on governments and the private sector to invest in resilience. Livelihoods communication efforts also seek to reinforce its investors' progress on addressing climate change, rural poverty, sustainable supply chains and carbon neutrality. The LCF3 communication strategy will adopt a similar approach to that implemented under LCF1 and LCF2. Key elements of this strategy include:

- ? Website, social media and newsletter content (8,000 subscribers to the Livelihoods newsletter).
- ? Communications and dissemination activities linked to major international events (e.g., release of IPCC reports; relevant COP meetings of the CBD, UNFCCC, and UNCCD; UN Climate Week).
- ? Participation in relevant alliances and coalitions (e.g., [One Planet Business for Biodiversity coalition](#) ? OP2B).
- ? Support for partner/investor communications and outreach efforts (e.g., [Farmer Income Lab](#), an initiative of Mars Inc.).
- ? Support to financial and corporate investors when preparing their annual sustainability reports (e.g., interpretation of field data).

For any individual project in which LCF3 will invest, the first step in the communication strategy is the collection of data and information from the field during the project development phase. This is augmented by data and information collection over the course of monitoring and carbon verification phases. A critical complementary opportunity for generating vital communications inputs and collateral is through field visits that help a wider audience experience Livelihoods Carbon projects in the ground. To this end, Livelihoods might organize meetings and field trips involving e.g., its Board of Directors, employees of investor companies, or the media.

During implementation, key learnings, best practices and generated impacts will be evaluated and shared through annual reports and a dedicated dashboard that will be updated on a regular basis. Knowledge sharing will be conducted with our local project implementers (NGOs) through project reports but also communication material that will tackle cross-cutting issues relevant across multiple projects (e.g., [addressing water challenges](#) through different carbon projects.). These topics include farmer poverty, climate action acceleration, gender equity, and income-generating activities for younger farmers. Livelihoods will share key learnings and progress of each LCF3 project through the following communications material:

- o A dedicated webpage on Livelihoods [website portfolio of projects](#).
- o A dashboard of [key impacts and figures](#) on every project to be updated regularly in coordination with the Project Developers of Livelihoods and the project implementers (NGOs).
- o Specific articles focusing on [income generating activities](#) through each project when there will be key progress to share.
- o Dedicated video coverage for each new project being supported by LCF3 (each LCF project has [video material](#) to reach a wide audience).
- o Dedicated newsletter material at the launch of every new carbon project within LCF3, and to deliver key learnings during implementation.

Overall project and program impact and sustainability benefit from knowledge and learning accumulated over ten years of implementing large-scale carbon compensation projects with strong environmental, economic and social impacts. With this communications theme, Livelihoods will position its third carbon fund as a dedicated investment vehicle to help corporate and financial investors undertake accelerated climate action. Livelihoods will leverage its key networks (e.g., Finance for Tomorrow, financial partners and the OP2B coalition) to increase visibility of key learnings and fund evolution throughout the fund's life span. Dissemination of learnings among a widening universe of potential investors provides a foundation for expanding impact and enhanced sustainability. At the project level, dissemination of knowledge and learning with respect to best practices in the field (e.g., climate smart agriculture, nature-based solutions) will reinforce impacts and enduring change.

The Livelihoods Campus, launched in May 2020, is a series of in-house conferences available to all Livelihoods Venture employees with the aim of building momentum to share key learnings on specific projects, workstreams and innovating work methods to review and improve methodologies. Held every two months, each Campus session opens a debate on issues that are at the heart of Livelihoods' activities, such as climate, biodiversity, sustainable agriculture, and value chain transformation.

Livelihoods will continue to organize a series of 4 to 5 online/in person conferences during S1 2024. This event, called 'the Livelihoods Camp' give the word to LCF3 investors and partners on the field to give visibility to their commitments and ambitions but also have a look back to 10 years of achievements of the Livelihoods Carbon Funds in the field.

9. Monitoring and Evaluation

Describe the budgeted M and E plan

Project monitoring and evaluation will be conducted in accordance with established Conservation International and GEF procedures by the project team and the CI-GEF Project Agency. The project's M&E plan will be presented and finalized at the project inception workshop, including a review of indicators, means of verification, and the full definition of project staff M&E responsibilities.

A. Monitoring and Evaluation Roles and Responsibilities

The Investment Advisor/Executing Agency will be responsible for initiating and organizing key monitoring and evaluation tasks. This includes the project inception workshop and report, quarterly progress reporting, annual progress and implementation reporting, documentation of lessons learned, and support for and cooperation with the independent external evaluation exercises.

The project Executing Agency is responsible for ensuring the monitoring and evaluation activities are carried out in a timely and comprehensive manner, and for initiating key monitoring and evaluation activities, such as the independent evaluation exercises.

Project developers are responsible for providing any and all required information and data necessary for timely and comprehensive project reporting, including results and financial data, as necessary and appropriate.

The Board of Directors acts as the Project Steering Committee and plays a key oversight role for the project, with regular meetings to receive updates on project implementation progress and approve annual workplans. The Project Steering Committee also provides continuous ad-hoc oversight and feedback on project activities, responding to inquiries or requests for approval from the Executing Agency.

The CI-GEF Project Agency plays an overall assurance, backstopping, and oversight role with respect to monitoring and evaluation activities.

The CI General Counsel's Office with the Grants and Contracts Unit are responsible for contracting and oversight of the planned independent external evaluation exercises at the mid-point and end of the project.

B. Monitoring, Evaluation and Project Management Costs Activities

Inception meeting: A virtual project inception meeting will be held within the first three months of the CI-GEF project start with relevant members of both CI-GEF and Livelihoods Venture (LV). The Inception Workshop will be used to detail the roles of CI-GEF and LV for the duration of the project.

Inception Meeting Reports: LV will elaborate and provide the minutes of the inception meeting to the CI-GEF team within 1 month of the meeting.

Project Results Monitoring Plan (Objective, Outcomes, and Outputs): A Project Results Monitoring Plan will be developed by the Executing Agency, which will include objective, outcome and output indicators, metrics to be collected for each indicator, methodology for data collection and analysis, baseline information, location of data gathering, frequency of data collection, responsible parties, and indicative resources needed to complete the plan. Appendix III provides the Project Results Monitoring Plan table that will help complete this M&E component. In addition to the objective, outcome, and output indicators, the Project Results Monitoring Plan table will also include all indicators identified in the Safeguard Plans prepared for the project, thus they will be consistently monitored on a timely basis. The monitoring of these indicators throughout the life of the project will be necessary to assess whether the project successfully achieves its expected results. It is expected that the project will submit the Project Results Monitoring Plan simultaneously with the annual Project Implementation Report.

Baseline Establishment: In the case that all necessary baseline data (related to the Results Framework and Core Indicators) has not been collected during the PPG phase, it will be collected and documented by LV within the first year of implementation of each project as LCF3 initiates new transactions.

GEF Core Indicator Worksheet: The relevant section of the GEF Core Indicator Worksheet was updated for the CEO endorsement submission. This worksheet will also be updated annually and submitted with the PIR and will be shared with the GEF at mid-term review, and at the terminal evaluation.

Board of Directors Meetings: The Project Steering Committee (PSC) for this project will be the Fund's Board of Directors. The meetings are held semi-annually. Meetings are held to review and approve project annual budget and work plans, discuss implementation issues, and identify solutions, as well as to increase coordination and communication between key project partners. The meetings also include a review of the overall progress of the Fund towards its objectives, including the overall indicators that capture GEF's core indicators. The meetings held by the Board of Directors are monitored and results adequately reported. The reports from the semi-annual meetings will fulfil CI-GEF semi-annual monitoring requirements.

CI-GEF Project Agency Field Supervision Missions: The CI-GEF PA will conduct visits to project field sites based on a sample of the investments of the fund. Oversight visits will be scheduled and coordinated in close coordination with LV and the Project Developer, with due respect of the workload of the local Project Developers and so as to select the most appropriate investments for CI-GEF to visit on each occasion. CI-GEF visits to project sites will be organized as joint visits with the dedicated LV project management team to optimize the management of resources of the supervision teams. A Field Visit Report will be prepared by the CI-GEF PA staff participating in the oversight mission and will be circulated to the project team and the CI-GEF's members/observers of the Board of Directors within one month of the visit. To supplement these visits, CI-GEF will conduct desk reviews. CI-GEF will alternate the desk reviews and in-person visits to ensure that these do not occur in the same fiscal year.

Annual Project Implementation Report (PIR): LV, on behalf of LCF3, will prepare an annual PIR, following the format provided by CI-GEF, to monitor progress made since project start and particularly for the reporting period. The PIR will summarize the annual project result and progress and will include information on gender, stakeholder engagement, accountability and grievance and knowledge management. CI-GEF will rate the PIR and upload the document to the GEF portal.

Final Project Report: LV, on behalf of LCF3, will draft a final Project Implementation Report (Final PIR) at the end of the project.

Independent External Mid-term Review: The project will undergo an independent Mid-term Review within 30 days of the mid-point of the project term. The Mid-term Review will determine progress being made toward the achievement of outcomes and will identify course correction if needed. The Mid-term Review will highlight issues requiring decisions and actions, and will present initial lessons learned about project design, implementation and management. Findings and recommendations of the Mid-term Review will be incorporated to secure maximum project results and sustainability during the second half of project implementation.

Independent Terminal Evaluation: An independent Terminal Evaluation will take place within six months after project completion and will be undertaken in accordance with CI and GEF guidance. The terminal evaluation will focus on the delivery of the project's results as initially planned (and

as corrected after the mid-term evaluation, if any such correction took place). LV, in collaboration with the Board of Directors, will provide a formal answer to the findings and recommendations of the terminal evaluation.

Lessons Learned and Knowledge Generation: Results from the project will be disseminated within and beyond the project intervention area per communications and knowledge management provisions as described in Project Document Section N.

Financial Statements Audit: LV will submit the LCF3's annual audited financial reports carried out by an independent external auditors appointed by the Executing Agency.

Environmental and Social Governance Due Diligence: Before proposing an investment to the Advisory Committee LV, on behalf of LCF3, conducts an ESG due diligence against ESG requirements in order to systematically assess the risks and impacts of the proposed project's operations. LV elaborates a ESG due diligence report, and/or ESG Action Plan in connection with the proposed Investment, as appropriate and share with the fund's investors before proposing the investment to LCF3 Advisory Committee. During both project implementation and monitoring phase LV, on behalf of LCF3, will conduct site visits covering ESG matters and elaborate and deliver an ESG performance report to the Fund's investors. The Fund's compliance with the E&S Requirements might be reviewed and discussed during LCF3's Advisory Committee. LV ESG expert supervises and maintains LCF3 ESMS and ESMF, ensuring proper implementation and maintenance as well as compliance with ESG requirements during investment sourcing, design, implementation and monitoring phase. Further, LV ESG expert coordinates the monitoring of each LCF3 investment to report on progress towards the project specific KPIs, including GEF's core indicators, notably on Global Environmental Benefits, and ensure compliance with the Environmental and Social Safeguards (ESS). The source of funding to cover these costs is the fund management fee.

Environmental and Social Governance (ESG) Audits: To complement the ESG due diligence completed by LV and to meet the GEF NGI requirements, an Environmental and Social Governance Audit will be completed biennially during the implementation of the portfolio of projects of LCF3 (i.e., first 8 years of the life of the Fund under the current assumptions and theoretical portfolio of investments, totaling 4 ESG audits). In the case that auditors need to conduct field visits to LCF3 projects (max. 1 field visit per audit) such field visits will be organized in collaboration with LCF3 and in coordination with the regular operational audits of the specific project. The Terms of References for these specific audits will be provided by the CI-GEF PA in accordance with GEF requirements. The procurement and contracting for the independent auditors will handled by CI's General Counsel's Office. The funding for the audits will come from the project budget, as indicated at project approval.

The source of the funding for the activities under the M&E plan is USD 80,000 from the project budget, except for the CI-GEF supervision missions and desk reviews as these activities are covered by the GEF agency fee.

10. Benefits

Describe the socioeconomic benefits to be delivered by the project at the national and local levels, as appropriate. How do these benefits translate in supporting the achievement of global environment benefits (GEF Trust Fund) or adaptation benefits (LDCF/SCCF)?

Throughout the investment horizon of 10 to 20 years for each LCF project, local communities can tap into carbon projects' co-benefits as well as an upside sharing mechanism for the distribution of carbon offsets generated beyond targets. Co-benefits of LCF carbon projects can be categorized as either social or economic benefits. The projects are undertaken on smallholder farmers' land, to which LCF holds no title, and the trees financed by LCF are the property of these same smallholder farming households. Similarly, when LCF projects finance mangrove planting, both the trees and the areas where restoration projects are undertaken typically are communal property such that planting and restoration directly benefits local communities. The specific social, economic and environmental impacts generated by LCF3 varies, depending on the type of carbon project and the local context. However, based on outcomes from LCF1 and LCF2, several types of socio-economic benefits can be anticipated.

LCF1 and LCF2 projects provide numerous examples of co-benefits associated with restoration of degraded ecosystems and positive impact for livelihoods. One such example is launching of a social enterprise in India to home-deliver organic produce in Calcutta from restored mangroves of the Sundarbans. Another is doubling the milk productivity of farmers in Kenya organized in dairy cooperatives to secure more favorable bulk contracts for sale to a national major milk distributor. These types of benefits are entirely captured by the project's communities and local stakeholders and are not part of the return to LCF investors.

In addition to significant direct benefits from ecosystem restoration, communities and Project Developers are entitled to share the potential upside, on a 50-50% basis, carbon credit generation. Performance-based upside-sharing arrangements have been defined in the fund's legal documentation.

Proceeds from the performance-based mechanism will be distributed to the Project Developers to fund further development actions to the benefit of the communities. As stated in the LCF3 Prospectus: The Project Developers shall be entitled to an incentive, based on their real over-performance in the project, as defined by the Board. Any incentive allocated to the Project Developer shall be fairly shared by the Project Developer with the local communities, upon rules to be determined by the Board, taking account of the input of the Advisory Committee. The relevant excess VERs may therefore be directly allocated to the local communities by the Fund as agreed with the Project Developer.

In addition to benefits from investment in ecosystem restoration, enhanced livelihoods, and upside-sharing from carbon credits, LCF3 anticipates the following types of socio-economic benefits to accrue to communities:

Increased access to knowledge and training: One of the key levers to keeping offset generation cost under control is to optimize direct project costs by maximizing penetration rate within the project area. Therefore, within the project boundary, the expected participation rate of project beneficiaries to training/knowledge/resources made available under the project is expected to be at least 60%, incidentally creating favorable conditions for positive spillovers.

Strengthening of local institutions and governance: LCF3 carbon projects can be sustainable in the long-term only if community restoration efforts during the 3-5 years implementation phase of a project are coupled with conservation activities spanning across at least 15 years. For such conservation activities to take place, communities require mobilization in formal or informal organizational structures to collectively steer the management of their natural resources. For example, some communities may take the collective decision to refrain from wild grazing which poses a direct threat to newly planted fruit and timber saplings, and also indirectly impacts water availability for agriculture through hill-top deforestation. To safeguard restored natural ecosystems, Project Developers may institutionalize protection at the local level by entering into agreements with village governments and community groups specifying their commitments towards ecosystem protection and community development.

Participation of women in governance bodies: Across these various project governance bodies (village committees, cooperatives, etc.), the share of female participation fostered by LCF3 projects will be at least 50%, as female participation across these bodies is a key success factor in the long-term sustainability of LCF3 projects. In fact, a recently scientific study published in the Nature Climate Change journal has highlighted the benefits of equal gender participation in decisions pertaining to the management and conservation of natural resources.

Increased resilience to climate change: With a project portfolio expected to include at least 16,500Ha of mangrove and coastal habitat restoration and conservation, LCF3 is expected to enhance the resilience and adaptation of coastal communities when faced with extreme weather events as exacerbated by climate change (empirical and field-based studies have shown that 30 trees per 100 square meters may reduce the maximum flow of a tsunami by more than 90 percent).

Decreased exposure to health hazards and injuries: Health hazards from open, three-stone fires, or rudimentary stoves that burn wood and/or charcoal include chronic and acute illnesses such as early childhood acute lower-respiratory infections (including pneumonia) and obstructive pulmonary disease. Carbon avoidance activities in LCF3 through rural energy/improved cookstove initiatives are expected to benefit 217,500 people through lower exposure to health hazards and injuries over a period of at least 7 years.

Improved food security: By promoting the transformation of degraded agricultural lands and landscapes into sustainable production systems for food and commodities through investments in smallholder agriculture, LCF3 helps to bridge the financial gap for smallholder farmers, while effectively contributing to food security, food sovereignty, and nutrition of rural households and communities.

Increased financial benefits for community members: Through LCF3's investments, 70,000 people are expected to enter into a sourcing agreement with one or several commercial entities, enabling them to capture more value across the value of chain of agricultural produce or services promoted under LCF3 projects. These commercial linkages may be directly facilitated through LCF3 creating and/or providing support to 650 collective organizations such as farmers cooperatives, collective storage spaces, natural resource management committees, business incubators, remunerated planting groups, etc. During its community outreach activities, LCF3 projects highlight the potential benefits associated with joining collective organizations supported

by LCF3 to secure the membership of at least 100,000 beneficiaries. Overall, as carbon financing is not expected to provide sufficient funding capacity for all value chain required investments across the portfolio of LCF3 projects, the fund expects to finance, on a project-by-project basis, some value chain-related project activities through third party co-financing (e.g., with the support of development agencies, philanthropic organizations, etc.).

Overall, LCF3 initiatives help to build resilient and productive ecosystems, delivering enhanced services and restoring the socioeconomic benefits of ecosystems to local populations, while increasing their resilience to adverse climate change events, promoting fair/equitable development, and reconciling biodiversity use with economic growth.

11. Environmental and Social Safeguard (ESS) Risks

Provide information on the identified environmental and social risks and potential impacts associated with the project/program based on your organization's ESS systems and procedures

Overall Project/Program Risk Classification*

PIF	CEO Endorsement/Approval	MTR	TE
Measures to address identified risks and impacts			
Elaborate on the types and risk classifications/ratings of any identified environmental and social risks and impacts (considering the GEF ESS Minimum Standards) and any measures undertaken as well as planned management measures to address these risks during implementation.			
Supporting Documents			
Upload available ESS supporting documents.			

Title

Module

Submitted

ANNEX A: PROJECT RESULTS FRAMEWORK (either copy and paste here the framework from the Agency document, or provide reference to the page in the project document where the framework could be found).

Objective:	<p>The Livelihoods Carbon Fund 3 (LCF3) is an innovative and replicable investment-model that invests in community-based solutions to restore natural ecosystems, and establish agroforestry and regenerative agriculture systems in developing countries that will ultimately reduce GHG emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards SDGs while delivering a steady and positive financial return to financial investors.</p>		
Indicator(s):	<p>a. Number of hectares of land restored and under improved practices through wetland restoration, implementation of sustainable land practices and avoided deforestation (Target: at least 88,400 hectares over 20 years⁸⁸) (<i>GEF Core Indicators 3, 4</i>)</p>		
Expected Outcomes and Indicators	Project Baseline	End of Project Target	Expected Outputs and Indicators

Component 1: The Livelihoods Carbon Fund 3

<p>Outcome 1.1.: Launch of an innovative climate-finance investment vehicle (Livelihoods Carbon Fund 3) supported by financial and corporate investors.</p>	<p>Zero (or amount raised so far) (For reference, total capital raised from corporate investors by LCF2 final capital call was USD78 million).</p>	<p>At least USD109 million of capital raised (USD14 million from financial investors, USD82 million from corporate investors, USD13 million from GEF). (<i>GEF Core Indicators 3, 4, 11</i>).</p>	<p>Output 1.1.1.: A blended finance model and structure for LCF3 is completed and launched. <i>Indicator 1.1.1.: # of models completed and deployed.</i> <i>Target 1.1.1.: 1 model.</i></p> <p>Output 1.1.2.: Financial investors' commitments in equity to LCF3 are structured for an investment horizon spanning across at least 10 years (until 2030). <i>Indicator 1.1.2.: Total financial investors' equity commitments structured for a 10+ year investment horizon.</i> <i>Target 1.1.2.: At least USD27 million (including USD13 million from GEF).</i></p> <p>Output 1.1.3.: LCF3 yields financial returns to financial investors. Indicator 1.1.3.: LCF3 Internal Rate of Return for financial investors. Target 1.1.3.: IRR of at least 5% achieved by each financial investor.</p>
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<i>Indicator 1.1.A.: Amount of public & private capital raised from corporate and financial investors (public and private) to invest in community-based solutions that restore natural ecosystems, endorse agroforestry and regenerative agriculture models.</i>			
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<p>Outcome 1.2.: Increase in the area of restored and conserved natural ecosystems and avoided deforestation due to investments of the LCF3 fund over a time span of at least 20 years.</p>	<p>Zero hectares of agricultural land restored (For reference, LCF2 resulted in 21,809 Ha of agricultural land restored).</p> <p>Zero hectares of avoided deforestation (For reference, LCF2 resulted in 6,657 Ha of avoided deforestation).</p> <p>Zero hectares of wetlands restored (For reference, LCF2 resulted in 5,500 Ha of wetlands restored).</p> <p>Zero hectares of landscapes under sustainable land management in production systems (For reference, LCF2 resulted in 18,000 Ha of landscapes under sustainable land management in production systems).</p>	<p>At least 48,960 ha of agricultural land restored (<i>GEF Core Indicator 3</i>).</p> <p>At least 10,700 ha of avoided deforestation (<i>GEF Core Indicator 4</i>).</p> <p>At least 16,500 ha of wetlands restored (<i>GEF Core Indicator 3</i>).</p> <p>At least 12,240 ha of landscapes under sustainable land management in production systems (<i>GEF Core Indicator 4</i>).</p>	<p>Output 1.2.1.: Trees planted leading to the restoration of mangrove and enrichment of agricultural land. <i>Indicator 1.2.1.: Number of trees planted.</i> <i>Target 1.2.1.: At least 74 million trees.</i></p> <p>Output 1.2.2.: Training provided by LCF3 on sustainable management. <i>Indicator 1.2.2.: Number of farmers receiving training.</i> <i>Target 1.2.2.: 100,000 farmers.</i></p> <p>Output 1.2.3.: Community-based restoration, agroforestry, and regenerative agriculture projects receive LCF investment. <i>Indicator 1.2.3.: Number of community-based restoration, agroforestry, and regenerative agriculture projects that receive LCF investment.</i> <i>Target 1.2.3.: At least 12 projects.</i></p>
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<p><i>Indicator 1.2.A.: Number of hectares of agricultural land restored.</i></p> <p><i>Indicator 1.2.B.: Number of hectares of avoided deforestation.</i></p> <p><i>Indicator 1.2.C.: Number of hectares of wetland restored.</i></p> <p><i>Indicator 1.2.D.: Number of hectares of landscapes under sustainable land management in production systems.</i></p>			
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	<p>Zero direct beneficiaries (For reference: LCF2 resulted in 206,406 direct beneficiaries ? of which 166,031 are women).</p>	<p>475,500 direct beneficiaries⁸⁹, of whom at least 316,500 are women (GEF Core Indicator 11).</p>	<p>Output 1.3.1.: Households within project perimeter have access to training/knowledge/resources made available under the project. <i>Indicator 1.3.1.: Percentage of households.</i> <i>Target 1.3.1.: At least 60%.</i></p> <p>Output 1.3.2.: Women are represented on LCF3 project governance bodies⁹⁰ worldwide. <i>Indicator 1.3.2.: Percentage of positions on project governance bodies held by women.</i> <i>Target 1.3.2.: At least 50%.</i></p> <p>Output 1.3.3.: People have lower exposure to health hazards and injuries over a period of at least 7 years. <i>Indicator 1.3.3.: # of people.</i> <i>Target 1.3.3.: At least 217,500.</i></p> <p>Output 1.3.4.: Beneficiaries have a sourcing agreement with one or several commercial entities. <i>Indicator 1.3.4.: # of beneficiaries.</i> <i>Target 1.3.4.: At least 70,000.</i></p> <p>Output 1.3.5.: Collective organizations created and/or receiving support from LCF3 (e.g., farmers cooperatives, business incubators, natural resource management committees, remunerated planting groups, etc.). <i>Indicator 1.3.5.: # of organizations.</i> <i>Target 1.3.5.: At least 650.</i></p>
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			<p>Output 1.3.6.: Beneficiaries join collective organizations supported by LCF3.</p> <p><i>Indicator 1.3.6.: Number of beneficiaries.</i></p> <p><i>Target 1.3.6.: At least 100,000.</i></p>
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<p>Outcome 1.3.: Men and women increase income as a direct result of participating in and benefiting from the portfolio of projects financed by LCF3.</p> <p><i>Indicator 1.3.A.: # people benefitting from activities financed by the Livelihoods Carbon Fund 3 (disaggregated by gender).</i></p>			
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ANNEX B: RESPONSES TO PROJECT REVIEWS (from GEF Secretariat and GEF Agencies, and Responses to Comments from Council at work program inclusion and the Convention Secretariat and STAP at PIF).

Project Title	Livelihoods Carbon Fund	CI-GEF/ LCF3 Response
Date of Screening	May 26, 2020	
STAP member screener	Saleem H. Ali	
STAP secretariat screener	Guadalupe Duron	

<p>STAP Overall Assessment and Rating</p>	<p>Minor issues to be considered during project design</p> <p>STAP acknowledges Conservation International's Livelihoods Carbon Fund project. STAP appreciates the scale and scope of the Livelihoods Carbon Fund that is providing a mechanism for harmonizing multiple focal areas around climate financing while considering social development concerns.</p> <p>Overall this proposal is comprehensive and covers many of the suggested guidelines. We would suggest some linkage to the climate justice discourse. See the following article from Nature Climate Change:</p> <p>Robinson, M., & Shine, T. (2018). Achieving a climate justice pathway to 1.5 °C. Nature Climate Change, 8(7), 564-569. https://doi.org/10.1038/s41558-018-0189-7</p> <p>STAP also recommends adding a theory of change, especially with reference to linkages between the earlier work of the Bank in this arena from 2012 and how matters have changed since then in terms of lessons learned: http://documents.worldbank.org/curated/en/287981468340804935/Carbon-livelihoods-social-opportunities-and-risks-of-carbon-finance</p>	<p>A reference to the climate justice discourse is contained in Para 21 of the ProDoc</p> <p>A theory of change has been added to the CEO endorsement/portal and ProDoc. In addition, a description of how this project builds on previous work of the World Bank is contained in Par. 116 of the ProDoc.</p>
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Part I: Project Information B. Indicative Project Description Summary		STAP Response	CI-GEF/LCF3 Response
Project Objective	Is the objective clearly defined, and consistently related to the problem diagnosis?	Yes ? the objectives of linking the carbon fund to a range of specific outcomes are noted.	No response needed
Project components	A brief description of the planned activities. Do these support the project's objectives?	Provided with detail and building on earlier work by the Bank	No response needed
Outcomes	A description of the expected short-term and medium- term effects of an intervention. Do the planned outcomes encompass important global environmental benefits/adaptation benefits?	Yes 3 clear outcomes re defined	No response needed
	Are the global environmental benefits/adaptation benefits likely to be generated?	Yes ? these are particularly so in the case of carbon sequestration.	No response needed
Outputs	A description of the products and services which are expected to result from the project. Is the sum of the outputs likely to contribute to the outcomes?	Yes provided next to each of the 3 outcomes in a table with clear metrics of tree plantation, livelihoods etc.	No response needed
Part II: Project justification	A simple narrative explaining the project's logic, i.e. a theory of change.	This is missing and should be added	A narrative describing the project's logic has been included with the Theory of Change in Par. 81.

1. Project description. Briefly describe: 1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed (systems description)	Is the problem statement well-defined?	Yes	No response needed
	Are the barriers and threats well described, and substantiated by data and references?	Indirectly noted	In the ProDoc this has been elaborated directly in Section 2E.
	For multiple focal area projects: does the problem statement and analysis identify the drivers of environmental degradation which need to be addressed through multiple focal areas; and is the objective well-defined, and can it only be supported by integrating two, or more focal areas objectives or programs?	Yes ? this is provided in detail	No response needed
2) the baseline scenario or any associated baseline projects	Is the baseline identified clearly?	Yes, there is a detailed inventory of projects funded by LCF 1 and 2 provided in a table as the baseline.	No response needed

	Does it provide a feasible basis for quantifying the project's benefits?	Partially but this could be further elaborated in terms of methodologies used.	Methodology further explained in text, in para. 91: The above targets were established by using project averages from LCF1 and LCF2 investments, adjusted for the LCF3 fund size and investment period. The model is based on a ?100 million fund size assumption corresponding to LCF3 total investment and costs over its life and including 12 projects over a 4-year investment period. A project's maximum life is 20 years, reaching a maximum fund term of 24-26 years (subject to extension by the Board as described in the fund's prospectus). Based on the average project impact areas and numbers of beneficiaries extrapolated from LCF1 and LCF2, the goals for LCF3 are ambitious but achievable, as project selection processes will construct a portfolio of investments deliberately composed to meet the targets. Thus, the targets reflect an assumption that LCF3 project characteristics will be comparable to those across the LCF1 and LCF2 portfolios.
	Is the baseline sufficiently robust to support the incremental (additional cost) reasoning for the project?	Yes	No response needed
	For multiple focal area projects:		
	are the multiple baseline analyses presented (supported by data and references), and the multiple benefits specified, including the proposed indicators;	Yes	No response needed

	are the lessons learned from similar or related past GEF and non-GEF interventions described; and		
	how did these lessons inform the design of this project?	Figure 3 provides a decent lesson-drawing stats but this could be further linked to project design in current proposal that is presented in Figure 5.	A description of how the lessons from other projects and previous LCF projects (LCF1 and LCF2) have informed the design of LCF3 is included in Par. 116.
3) the proposed alternative scenario with a brief description of expected outcomes and components of the project	What is the theory of change?	This is missing and should be added	This has been incorporated into the ProDoc Section 3A (Figure 5 and Par. 81).
	What is the sequence of events (required or expected) that will lead to the desired outcomes?		
	What is the set of linked activities, outputs, and outcomes to address the project's objectives?		
	Are the mechanisms of change plausible, and is there a well-informed identification of the underlying assumptions?		
	Is there a recognition of what adaptations may be required during project implementation to respond to changing conditions in pursuit of the targeted outcomes?		

5) incremental/additional cost reasoning and expected contributions from the baseline, the GEF trust fund, LDCF, SCCF, and co-financing	GEF trust fund: will the proposed incremental activities lead to the delivery of global environmental benefits?		
	LDCF/SCCF: will the proposed incremental activities lead to adaptation which reduces vulnerability, builds adaptive capacity, and increases resilience to climate change?		
6) global environmental benefits (GEF trust fund) and/or adaptation benefits (LDCF/SCCF)	Are the benefits truly global environmental benefits/adaptation benefits, and are they measurable?	Not directly mentioned but there is a very large Appendix (Annex A which covers a lot of elements that could be considered in a GEB analysis but this should be made more explicit).	This has been addressed in the ProDoc Section 3D and Appendix IX.
	Is the scale of projected benefits both plausible and compelling in relation to the proposed investment?		
	Are the global environmental benefits/adaptation benefits explicitly defined?		
	Are indicators, or methodologies, provided to demonstrate how the global environmental benefits/adaptation benefits will be measured and monitored during project implementation?		

	What activities will be implemented to increase the project's resilience to climate change?		
7) innovative, sustainability and potential for scaling-up	Is the project innovative, for example, in its design, method of financing, technology, business model, policy, monitoring and evaluation, or learning?	Brings together investors, corporations and government to invest in Nature Based Solutions.	
	Is there a clearly-articulated vision of how the innovation will be scaled-up, for example, over time, across geographies, among institutional actors?	Yes, scaling up is a key rationale of this proposal. And the innovation noted is "monetized return through a carbon offset offtaking mechanism secured by the long-term commitments from corporate investors."	
	Will incremental adaptation be required, or more fundamental transformational change to achieve long term sustainability?	Possibly	
1b. Project Map and Coordinates. Please provide georeferenced information and map where the project interventions will take place.		Provided but not georeferenced.	Georeferencing is not possible in any meaningful way given that specific projects in which LCF3 will invest have not yet been identified; projects will be selected in the implementation phase.

<p>2. Stakeholders. Select the stakeholders that have participated in consultations during the project identification phase: Indigenous people and local communities; Civil society organizations; Private sector entities. If none of the above, please explain why. In addition, provide indicative information on how stakeholders,</p>	<p>Have all the key relevant stakeholders been identified to cover the complexity of the problem, and project implementation barriers?</p>	<p>Yes - noted</p>	
<p>including civil society and indigenous peoples, will be engaged in the project preparation, and their respective roles and means of engagement.</p>			
	<p>What are the stakeholders? roles, and how will their combined roles contribute to robust project design, to achieving global environmental outcomes, and to lessons learned and knowledge?</p>	<p>Good stakeholder analysis provided in a detailed table which also includes indigenous peoples.</p>	<p>No response needed</p>

<p>3. Gender Equality and Women's Empowerment. Please briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis). Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment? Yes/no/ tbd. If possible, indicate in which results area(s) the project is expected to contribute to gender equality: access to and control over resources; participation and decision-making; and/or economic benefits or services.</p>	<p>Have gender differentiated risks and opportunities been identified, and were preliminary response measures described that would address these differences?</p>	<p>There is a detailed section on gender empowerment but it is somewhat generic and could benefit from more clear targets.</p>	<p>Gender analysis has been expanded in Appendix VI to the ProDoc, and targets set in the Results Framework (Appendix I)</p>
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Will the project's results framework or logical framework include gender-sensitive indicators? yes/no /tbd			
	Do gender considerations hinder full participation of an important stakeholder group (or groups)? If so, how will these obstacles be addressed?	Possibly could	This has been addressed in the Gender Action Plan (ProDoc Appendix VI).

<p>5. Risks. Indicate risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and, if possible, propose measures that address these risks to be further developed during the project design</p>	<p>Are the identified risks valid and comprehensive? Are the risks specifically for things outside the project's control?</p> <p>Are there social and environmental risks which could affect the project?</p> <p>For climate risk, and climate resilience measures:</p> <p>? How will the project's objectives or outputs be affected by climate risks over the period 2020 to 2050, and have the impact of these risks been addressed adequately?</p> <p>? Has the sensitivity to climate change, and its impacts, been assessed?</p> <p>? Have resilience practices and measures to address projected climate risks and impacts been considered? How will these be dealt with?</p> <p>? What technical and institutional capacity, and information, will be needed to address climate risks and resilience enhancement measures?</p>	<p>These are not directly mentioned as the project claims to mitigate risks as its primary aim and so perhaps the proponents assume that the climate risk is a non issue. However, there could be unforeseen risks of drought or other factors which could impact implementation and the STAP risk screening document should be considering in this regard.</p>	<p>Consideration of Climate Risk has been expanded in the Safeguards Screening (ProDoc Appendix V) and the risk analysis in ProDoc Section 3F.</p>
<p>6. Coordination. Outline the coordination with other relevant GEF- financed and other related initiatives</p>	<p>Are the project proponents tapping into relevant knowledge and learning generated by other projects, including GEF projects?</p>	<p>Much of the coordination section deals with LCF projects and ?Livelihood Venture.? There should be some mention of coordination with activities related to this project at the Green Climate Fund</p>	<p>Noted in Table in Section 3L.</p>
	<p>Is there adequate recognition of previous projects and the learning derived from them?</p>	<p>Partially</p>	<p>A description of how the lessons from other projects and previous LCF projects (LCF1 and LCF2) have informed the design of LCF3 is included in Par. 116.</p>

	Have specific lessons learned from previous projects been cited?	Partially	A description of how the lessons from other projects and previous LCF projects (LCF1 and LCF2) have informed the design of LCF3 is included in Par. 116.
	How have these lessons informed the project's formulation?	No	A description of how the lessons from other projects and previous LCF projects (LCF1 and LCF2) have informed the design of LCF3 is included in Par. 116.
	Is there an adequate mechanism to feed the lessons learned from earlier projects into this project, and to share lessons learned from it into future projects?	No	A description of how the lessons from other projects and previous LCF projects (LCF1 and LCF2) have informed the design of LCF3 is included in Par. 116. The mechanism to share lessons from this project to future projects is described in the ProDoc Section 3N, particularly in Par. 184-185.
8. Knowledge management. Outline the 'Knowledge Management Approach' for the project, and how it will contribute to the project's overall impact, including plans to learn from relevant projects, initiatives and evaluations.	What overall approach will be taken, and what knowledge management indicators and metrics will be used?	Largely linked to the Livelihoods.eu portal.	Discussion of knowledge management has been refined in ProDoc Section 3N.
	What plans are proposed for sharing, disseminating and scaling-up results, lessons and experience?	Also linked to above Livelihoods.eu portal.	Discussion of knowledge management has been refined in ProDoc Section 3N.

<p>The project is highly relevant, and we support the overall ambition of the program. Nature-Based Solutions have a vital role to play in addressing the causes and consequences of climate change.</p> <p>Building on the Livelihoods Carbon Fund 1 and 2 existing portfolio of projects seems appropriate and efficient, while also considering investing in new clusters such as REDD+ projects. We urge that experiences and lessons learned from existing and past efforts are built upon.</p>	<p>Response: LCF3's investment team takes note of this request, which is in line with the investment strategy of the fund.</p> <p>Response 09/22/21: A description of how the lessons from other projects and previous LCF projects (LCF1 and LCF2) have informed the design of LCF3 is included in Par. 116 of the ProDoc.</p>
<p>In order to address the drivers of deforestation, it is not sufficient to prevent deforestation at the project level. REDD+ should be implemented at national scale- or sub-national scale as an interim step in line with the Warsaw Framework. However, recognizing that there are projects operating within landscapes at the larger scale, it is important that these projects are nested within jurisdictions in a manner that ensures high environmental integrity.</p>	<p>The project understands the preference for nested REDD+ projects to mitigate against the risk of deforestation leakage. This leakage risk will be addressed in 2 ways:</p> <ol style="list-style-type: none"> 1. Nesting REDD+ projects within jurisdictions, which LCF3 would be willing to consider if these projects also align with other LCF3's project investment criteria such as quality of project developer, generation of tangible socio-economic benefits for local communities, economic feasibility, etc. &/or 2. Relying on best-in class carbon standards whose carbon methodologies integrate the risk of leakage in their carbon estimations. Hence, while these REDD+ projects may generate a lower volume of carbon offsets, they would avoid the generation of 'hot air' from LCF3 investments.
<p>There is potentially high risk of further loss of biodiversity when new areas are being put into agri-production and forest areas become more accessible. The project needs to integrate the capability to closely monitor leakage in respect of biodiversity conservation, as unsustainable activity can easily be initiated on unprotected areas. Investor and investee commitment to zero-deforestation clauses is recommended.</p>	<p>LCF3 is a socially responsible investor and as such is committed to investing in projects generating a net positive social and environmental impact for communities in accordance with the Livelihoods charter defined on purpose (https://www.livelihoods.eu/wp-content/uploads/2017/11/Livelihoods_Funds_Charter_V2015.pdf) Investor and investee commitment to zero-deforestation clauses shall be included in LCF3's legal documentation.</p>
<p>Land tenure and land rights need to be addressed, and close adherence given to both former and future rights of community land after a concession agreement has been signed.</p>	<p>This is addressed in due diligence and risk screening in project selection, considering both the current situation and potential future scenarios.</p>
<p>Meeting market demands in terms of productivity and a focus on commercial crops should be properly balanced with the need for protecting biodiversity and ensuring local food security.</p>	<p>LCF3's investment team takes note of this request, which is in line with our investment strategy.</p>

<p>What are the expectations of the beneficiaries? How soon will they expect return for their effort? This should be clarified to avoid potential conflicts or lack of engagement by the beneficiaries. This is particularly relevant for restoration and conservation of endangered terrestrial and marine natural resources in which expected return may take several years.</p>	<p>Through the stakeholders' consultations undertaken in LCF3's projects' design phase, the project developer in collaboration with LCF3 investment team diagnose the expectations of the beneficiaries and define the project design accordingly. For example, in past LCF1 & LCF2 projects, a horticulture component was added into an agroforestry project to generate short-term income opportunities for the farmers whilst fruit trees generate a return 2-3 years from their plantation. In another example from LCF1's mangrove restoration project in Senegal, a campaign to raise communities' awareness to the negative impacts of mangrove destruction on their livelihoods during project implementation phase and the involvement of communities in the 80 million trees' replantation effort was reported in an impact survey undertaken 10 years later, as bringing a collective sense of pride to communities involved in its restoration, in addition to the long-term economic returns such as replenished fish stocks, improved agricultural yield, etc. As such, beyond LCF1's project implementation phase, 25% of the 450 villages mobilized in the Livelihoods-Senegal project continued mangrove restoration campaigns on their own initiative. And more than 70% of the villages have set up monitoring of their mangroves with rounds to protect their forests from illegal logging. More details can be read on this impact study: https://www.livelihoods.eu/the-proof-by-10-results-of-the-study-on-the-social-impacts-of-the-largest-mangrove-restoration-project-of-the-carbon-livelihoods-fund-in-senegal/</p>
<p>What is the system for benefit sharing? How will the profit be shared to ensure that it is accessible to all? We recommend adding a description of this in the PFD.</p>	<p>This is contained in Section 3E of the ProDoc.</p>
<p>The risk assessment is rather short considering the complexity of the project. The project should consider adding more risk elements. For example, there appear to be no assessments of unintended effects by the project on anti-corruption and human rights. We urge the project to assess the likelihood and severity of these issues.</p>	<p>Risk analysis has been elaborated in Section 3F of the ProDoc.</p>

For indicator 1.2.1-1.2.5 there should be identified clear criteria for what is meant by deforestation, wetland, sustainable agriculture. Some of the indicators also seem challenging to measure, such as avoided CO₂ eq and number of people with lower exposure to health hazards and injuries. We underline the importance of measurable results to be able to manage the project.

Response: Our aim is to align with GEF definition and criteria for deforestation, wetland, and sustainable agriculture. Under LCF1's portfolio of projects, avoided CO₂ eq and number of people with lower exposure to health hazards and injuries indicators have already been measured according to the scientific methodologies approved by Voluntary Carbon Standards (Verra & Gold Standard) with the measurements validated by an independent auditor.

For example, The overall reductions of GHG induced by one of LCF1's portfolio of projects has been calculated as follows:

$$ER_y = (B_{Eb,y} - P_{Ep,y}) * U_{p,y} - L_{Ep,y}$$

Where:

Baseline Emission ($B_{Eb,y}$) = $B_{b,y} * ((f_{NRB,y} * E_{Fb,fuel,CO_2}) + E_{Fb,fuel,\&nonCO_2}) * NCV_{b,fuel}$

Project Emissions ($P_{Ep,y}$) = $B_{p,y} * ((f_{NRB,y} * E_{Fp,fuel,CO_2}) + E_{Fp,fuel,\&nonCO_2}) * NCV_{p,fuel}$

Leakage ($L_{Ep,y}$)

$U_{p,y}$: Cumulative usage rate for technologies in project scenario p in year y, based on cumulative adoption rate and drop off rate revealed by usage survey (fraction)

Concerning the health hazard and injuries indicator, the same LCF1-portfolio projects undertakes an annual monitoring survey of beneficiaries to track the following parameters as a result of the adoption of the project's clean energy device compared to the baseline situation: improved air quality; reduction in burns; reduction in cuts; reduction in eye irritation; reduced coughing and sneezing; reduced chest pain; reduced shortness of breath; reduced irritation of nose and throat and reduced headaches.

<p>Nesting with high environmental integrity will be secured through the following:</p> <p>? The approach of setting the reference level must be the same for each project within a jurisdiction and must be coherent with the reference level at jurisdictional level.</p> <p>? The estimated emissions should include the same carbon pools, emission factors, activity data and methods across the nested geographies as in the jurisdiction.</p> <p>? In order to generate results in the form of emission reductions at the project level, the jurisdictional level also has to generate ERs. This entails a risk for project developers, but ensures national REDD+ strategies with environmental integrity, in line with international frameworks and mechanisms.</p> <p>? The projects must have approval from the jurisdictional level to sell emission reduction credits. ERs must be recorded in a registry and subtracted from the total emission reductions available at the jurisdictional level in order to avoid double counting.</p>	<p>See answer above regarding nested REDD+ projects. Crucially, all emission rights generated from LCF3's portfolio of projects are registered under Voluntary Carbon Standards? registries (Verra or Gold Standard) and that during project due-diligence & design phase, the LCF3 investment team and its legal advisors assess project-specific carbon-title risks on the basis of the countries? Nationally Determined Contributions (NDC) and engages accordingly with country-specific Designated National Authority (DNA) to secure LCF3's carbon rights and mitigate the risk of double counting.</p>
<p>Comments on the Funding Mechanism: Financial return for the fund is provided by private and public off-takers that pay fees to benefit from the public goods and externalities created by the project. The GEF will be repaid in cash after the carbon credits are sold. This model is an innovative solution; however, it is dependent on off-takers honoring its commitment to pay for their benefits.</p>	
<p>Guarantee: The DFC of USAID has issued a USD 15m guarantee. This guarantee will be used as a credit mitigation instrument for private investors. This is very positive and will likely help mobilize additional capital from private actors.</p>	<p>DFC of USAID and LCF3 have formalized their partnership through the agreement on the guarantee's termsheet. The partial credit default guarantee will become effective in the eventuality of a second financial closing with private financial investors joining the fund.</p>

<p>Fund performance: This is LCF's 3rd fund. Has there been an analysis of Fund I & II's track record to date? Have the funds delivered cost-efficient results?</p>	<p>LCF1, sized c. US\$43, is today fully invested with a portfolio of projects in monitoring phase and expected to generate c.10m certified carbon offsets, which is 24% above initial Business Plan (BP) expectations in terms of generation of carbon offsets. Launched end 2017, LCF2, sized US\$70m, has, within its first investment year, reached 50% of its targeted carbon output and is on its way to significantly outperform its initial BP expectations, in terms of generation of carbon offsets, by at least 20%. LCF1 & LCF2's key features are summarized in Figure below.</p> <p>In addition to the above information and graphic (which are updated in the ProDoc), LCF1 and LCF2 outcomes are described in Section 2A (Table 1) of the ProDoc. The cost-effectiveness of LCF1 and LCF2 have been described in Section 2G of the ProDoc.</p>
<p>Governance structure: The capabilities and experience of the IC, BOD, and management are unclear. It should be clarified who is represented on the IC and the BOD.</p>	<p>Please note the following regarding LCF3 governance bodies:</p> <ul style="list-style-type: none"> 1- Members of the Investment Committee include 1-2 Fund manager representative(s), 1-2 representative(s) of the Investment Advisor (Livelihoods Venture) to ensure a strong competence within the Investment Committee and possibly 1 independent member, if deemed relevant; 2- Members of Advisory Committee include LCF3 investors, if they wish to participate, and Livelihoods Venture, to advise the Fund Manager and its Investment Committee. CI as the GEF agency, will sit on the advisory committee and will follow the standard of care as required under the Financial Procedures Agreement; 3- Members of the BOD include LCF3 investors, Livelihoods Venture and 1 independent member, if deemed relevant. <p>The governance structure has been revised and is elaborated in Section 5 of the ProDoc.</p>
<p>Private sector investors: Is the private sector motivation financial or concessionary in nature? Will the Platform be profit driven? How do we ensure impartiality?</p>	<p>The private sector motivation for investing in LCF3 is three-fold: i) investing in Nature-Based Solutions, ii) generating net positive social, economic and environmental co-benefits, other than the generation of carbon offsets, for the rural communities across LCF3's perimeter of portfolio of projects and iii) securing cost-competitive carbon offsets in alignment with LCF3's target. LCF3 have the dual objective of generating a financial return as well as socio-economic and environmental impact. Impartiality will be ensured thanks to the alignment of LCF3 investors on the investment criteria of the fund.</p>

<p>Current pipeline: LCF3 will invest in projects from LCF1 and 2. Have the projects that LCF3 will be investing in been performing well? Are they in critical need of extra funding? Is topping up these projects best use of GEF funding?</p>	<p>LCF1 and eventually LCF2 portfolio of investment projects present further opportunities for separate project scale-ups in the same geographies (these projects are located within a different project perimeter but within the same country or federal state) and with the same project developers. These projects are nonetheless entirely separated, in terms of assets and liabilities, from previous LCF portfolio carbon projects, as such they do not constitute a top-up of previous investments because the projects are in critical need of extra funding or for any other distressing reason. This therefore constitutes an opportunity for investors to tap into a pool of de-risked of carbon projects and scale-up proven investment models. In fact, LCF2 has already invested in 2018 in 3 new large-scale projects each expected to generate at least 2m carbon offsets. By tapping in LCF1's scaling-up potential, LCF2 has reached 43% of its carbon generation output target within its first year of investment. In practice, there are limitations to this investment strategy on a fund-basis driven by the capacity for scale-ups of existing projects. For example, this investment strategy effectively represents only 25% of the investment capacity of LCF2 with the remaining portfolio reflecting carbon projects with new project developers. Naturally, not all projects present such scaling-up opportunities as they may be constrained by a diverse range of factors, such as the saturation of hectares of mangrove available for restoration within the same geography, the lack of appetite by project developer, etc.</p> <p>The decision to invest in scale-ups of LCF1 & LCF2 projects by LCF3, will be an arm's length decision taken in the best financial and impact generation interest of LCF3.</p>
<p>Return: Financial return for the fund is provided by private and public off-takers that pay fees to benefit from the public goods and externalities created by the project. Have these actors been identified? The business model (ability to generate a return) relies on these actors pay the fees to the fund, which in turn provide a return to the investors.</p>	<p>An updated cofinancing table is contained in the ProDoc; cofinancing letters are contained in a confidential Appendix XIV.4.</p>
<p>Key risk: Off-takers not honoring agreement to pay for benefits. This will inhibit LCF3 to pay returns to the investors and the model loses its integrity.</p>	<p>The description of this mechanism is contained in Section 3A (Par. 87, 88). The details of the mechanism are contained in a confidential Appendix XIV.2.</p>
<p>Comments from Germany</p>	<p>Response from LCF3</p>

<p>Under project objectives, the GEF contribution is given as a lump sum (\$13,461,468) rather than divided up by project outcomes. Germany suggests to re-structure the project objectives table in order to assign costs to the respective outcomes in order to provide clarity about the use of resources. Related to this, more details about what exactly GEF funds will be used for (beyond de-risking investment) would be helpful to better understand the GEF contribution.</p>	<p>After careful review, we have maintained the original results framework as this is consistent with other approaches for NGI projects. The GEF funds will be deployed to the LCF3 fund, to deliver the outcomes and targeted global environmental benefits as described on the ProDoc. GEF's equity will be used to fund carbon sequestration and avoidance projects that restore and/or preserve natural ecosystems or establish agroforestry and regenerative agriculture systems in developing countries (i.e., funds will be used for the implementation and the maintenance of the project activities). Further, as any other LCF3 investor GEF's funds will cover a share of LCF3's management fees (the share will be proportional to GEF's equity stake in the fund). Each year LCF3 Board of Directors will approve LCF3 annual budget, incorporating both the costs of projects under implementation and/or M&E and the fund's management fees.[AC1] [OS2]</p>
<p>The LCF3 investment model is based on generation of carbon offsets for corporate investors in order to compensate their carbon footprints. A fundamental risk of the scheme is a double counting of the compensations by the corporate investors and the countries where the GHG reductions are made. Germany suggests reviewing and verifying the risk of double counting of the intended investment model by considering the need for bilateral agreements between project host-countries and the GEF.</p>	<p>The changed rationale brought forward by the Paris Agreement entails a challenge linked with carbon accounting: the risk that the same carbon offset would be counted more than once. To-date, negotiation efforts have not yet set the rules for article 6 of the Paris Agreement, thus creating investment uncertainty around the role of the private sector in contributing towards climate change. During project due-diligence & design phase, the Livelihoods team and its legal advisors assess project-specific carbon-title risks on the basis of the countries' Nationally Determined Contributions (NDC) and engages accordingly with country-specific Designated National Authority (DNA) to secure the fund's carbon rights. At a macro-level, the Livelihoods team is actively involved with voluntary carbon standards, associations & project developers (such as Gold Standard, Verra, IETA & ICROA) in the design of alternatives enabling the private sector to continuously finance the goals of the Paris Agreement while taking into account a range of possible outcomes of article 6 international negotiations.</p>

ANNEX C: Status of Utilization of Project Preparation Grant (PPG). (Provide detailed funding amount of the PPG activities financing status in the table below:

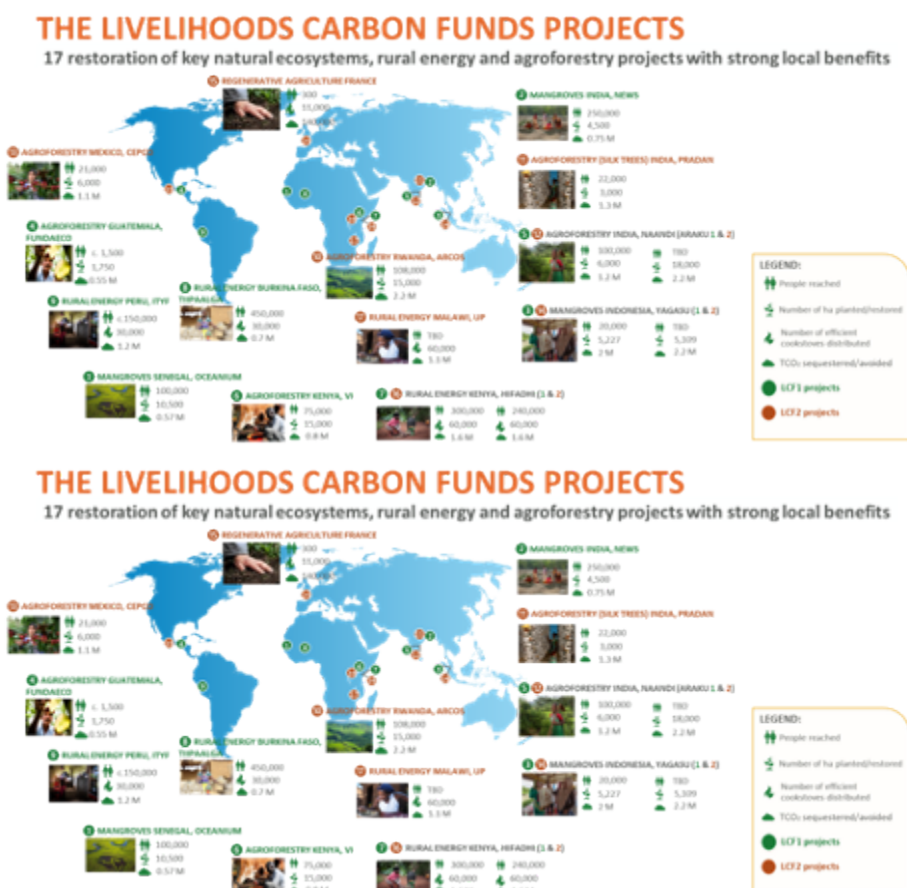
PPG Grant Approved at PIF:			
Project Preparation Activities Implemented	GETF/LDCF/SCCF Amount (USD)		
	Budgeted Amount	Amount Spent To date	Amount Committed

	300,000	81,952	218,048
<p>In addition to finalizing the ProDoc, the following activities have been implemented during the PPG Phase:</p> <ul style="list-style-type: none"> Developed Safeguards plans for Gender Mainstreaming and Stakeholder Engagement, and an Accountability and Grievance Mechanism (Appendix VI) Conducted stakeholder consultations Performed legal due diligence of the Fund 			

	300,000	81,952	218,048
Total			

ANNEX D: Project Map(s) and Coordinates

Please attach the geographical location of the project area, if possible.



ANNEX E: Project Budget Table

Please attach a project budget table.

Expenditure Category	Detailed Description	(USDeq.)		Total (USDeq.)	Responsible Entity (Executing Entity receiving funds from the GEF Agency)[1]
		Component 1 Sub-Total	M&E		
Personnel and Professional Services	Contractual Services- Biennial ESG Audits	200,000		200,000	Contractual Third Party
	Contractual Services- Mid-term Evaluation	-	40,000	40,000	Contractual Third Party
	Contractual Services- Terminal Evaluation	-	40,000	40,000	Contractual Third Party
GEF Equity Investment	Component 1 (excluding Knowledge Management)	13,121,468		13,121,468	LCF3
	Knowledge Management	60,000		60,000	
	Subtotal	13,181,468		13,181,468	
Grand Total		13,381,468	80,000	13,461,468	

ANNEX F: (For NGI only) Termsheet

Instructions. Please submit an finalized termsheet in this section. The NGI Program Call for Proposals provided a template in Annex A of the Call for Proposals that can be used by the Agency. Agencies can use their own termsheets but must add sections on Currency Risk, Co-financing Ratio and Financial Additionality as defined in the template provided in Annex A of the Call for proposals. Termsheets submitted at CEO endorsement stage should include final terms and conditions of the financing.

Project/Program Title	Livelihoods Carbon Fund 3 (LCF3)
Project/Program Number	TBD
Project/Program Objective	The Livelihoods Carbon Fund 3 (LCF3) will build an innovative and replicable investment-model that will invest in community-based solutions to restore natural ecosystems, facilitate access to rural energy¹, and establish agroforestry and regenerative agriculture systems in developing countries that will ultimately reduce GHG emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards SDGs while delivering a steady and positive financial return to financial investors
Country [ies]	Global

Agency presenting the Project	Conservation International
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<p>Project Financing</p>	<p>Please include:</p> <p>Sources of Co-financing, Name of Co-financier and type of co-financing (Part I section C of the PIF/PFD)</p> <p>Private Sector ? Corporate Company ? Equity (Class A) - \$21,580,000 Private Sector ? Corporate Company ? Equity (Class A) - \$10,790,000 Private Sector ? Corporate Company ? Equity (Class A) - \$5,395,000 Private Sector ? Corporate Company ? Equity (Class A)- \$4,316,000 Private Sector ? Corporate Company ? Equity (Class A)- \$5,395,000 Private Sector ? Corporate Company ? Equity (Class A)- \$3,237,000 Private Sector ? Private Bank ? Equity (Class A) - \$2,158,000 Government ? Development agency ? Equity (Class B) - \$16,185,000 Private sector ? private bank ? Equity (Class B) (pending due diligence) - \$10,790,000 Private Sector ? Corporate Company ? Equity (Class A) - \$10,790,000 Private Sector ? Corporate Company (Class A) ? Equity - \$5,395,000 Government ? DFC - USAID Guarantee - \$15,000,000</p> <p>Total co-financing of the project: US\$111,031,000. For names of co-financiers please refer to the confidential document disclosed as part of this submission.</p> <p>Indicative Trust Fund Resources Requested under the NGI Program (Part I section D of the PIF/PFD)</p> <p>GEFTF ? Equity (Class B) ? US\$13,461,468)</p> <p>Total Project Financing: US\$124,492,468 including equity commitments from corporates, private and public financial investors (i.e. including GEFTF participation) and the US\$15,000,000 guarantee from DFC - USAID</p>
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Currency of the Financing	Dollars (\$)
Currency risk	N/A
Co-financing ratio	Every GEF 1USD mobilizes 8,248 USD Every GEF 1USD mobilizes 5.931 USD of private sector financing

Please specify (i) the financing barriers addressed with the GEF blended finance resources; and (ii) quantification of financial additionality.

the financing barriers addressed with the GEF blended finance resources

As a development financial institution committed to combating climate change, this is an opportunity for the Global Environment Facility to support the scale-up of a new investment model, which has demonstrated its feasibility in delivering tangible successful projects over the past 10 years. Today, LCF3 is still at a critical stage of scaling-up which requires additional funding from the financial sector, and we cannot expect the corporate sector to sufficiently mobilize up-front equity and increase their risk exposure to meet this growth challenge.

As the Intergovernmental Panel on Climate Change (IPCC) has highlighted in its 2018 and 2019 report, a fivefold increase in climate action commitments is needed to put the earth on a 1.5 degree trajectory and this climate action must not only include a faster transition towards clean energy sources but also the adoption of land-use change mitigation methods as the Agriculture, Forestry and Land Use (AFOLU) sector account for c.23% of total net anthropogenic emissions of GHGs during 2007-2016². Failure to do so would exacerbate already witnessed extreme weather events and more so for the world's poorest with limited climate adaptation resources.

With less than 1% of climate finance allocated today towards Nature-Based Solutions³, it is critical to unlock sizeable, long-term and stable sources of financing towards this emerging sector by tapping into private financial capital, just as the renewable energy sector has succeeded in doing.

While private corporations are increasingly engaged in driving climate action by transforming their business models and through strong investments to offset their remaining emissions in support to their commitments towards carbon neutrality (LCF1 & LCF2 have been solely supported by the equity commitments from private corporations), private financial institutions (especially mainstream financial entities, but also impact investors) are still reluctant to invest in climate-related endeavors due to the combination of both, real and perceived risks linked to climate investments, the opportunity costs inherent to a new market, longer payback periods, and a lack of clear evidence on financial returns moving beyond demonstration projects.

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<p>Financial additionality of GEF resources</p>	
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	<p>It is within this context that LCF3's overall aim is to showcase Nature-Based Solutions as a new investable asset class able to i) deliver an attractive risk-return profile to financial investors ii) anchor subnational actors' role in accelerating their carbon compensation commitments to combat climate change by sourcing 'Nature-Based carbon offsets' iii) invest in climate adaptation solutions and generate a tangible socio-economic and environmental impact for vulnerable communities most exposed to the effects of climate change.</p> <p>To achieve this aim, LCF3 requires additional funding from the financial sector to mobilize up-front equity and help decrease risk exposure to meet the financial gap for NBS.</p> <p><i>quantification of financial additionality</i></p> <p>As a public development financial institution committed to combating climate change, the funds from the GEF will be instrumental to materialize an innovative investment model to explore and invest in NBS at scale. GEF early stage equity share (making up for 12% of the total finance equity commitments in LCF3) will play a decisive role in removing barriers to private climate finance, reduce the perceived risk, anchor and leverage larger pledges for climate related investment from private financial institutions. GEF funding will contribute to making a strong case for the financial feasibility and merits of allocating mainstream financial capital towards NBS, as they can demonstrate a strong track-record of providing an attractive risk-return profile whilst also delivering positive and long-term socio-economic and environmental impacts for rural communities.</p> <p>Through GEF's investment horizon spanning across 20 years, and with LCF3's term expected to run over 24 years, the GEF funding will provide a direct opportunity to incentivize private financial investors into a longer-term investment horizon into LCF3. Thus, first-moving private financial investors will be able to tap into an additional financial return, estimated at US\$ 3.03 million in exchange for a 24-years investment commitment towards LCF3, further strengthening the case for accelerating climate- related investments from private financial institutions.</p>
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	<p>Provide a description of the use of the resources of the guaranteed instruments and their alignment with GEF Focal areas/Investment Programs.</p> <p>GEF equity investment will be used to scale-up community-based initiatives rooted in NBS tackling key climate adaptation and mitigation challenges, while delivering on SDGs. The types of projects which will benefit from GEF financing include: Coastal habitat and mangrove restoration projects, and Forestry and agroforestry projects, including sustainable agriculture and land management, and Other project clusters such as Reduced Emissions from Deforestation and Forest Degradation (REDD+) projects or distribution of biodigesters coupled with a SALM component or blue carbon (see LCF3 investment diversification strategy).</p> <p>LCF3's Use of Proceeds shall (i) provide a loan to Project Developers for the implementation of carbon projects through Emission Purchase Agreements (ERPAs) giving LCF3 a right on a future flow of carbon assets, (ii) receive carbon assets, in the form of certified carbon offsets, and distribute them to LCF3 investors either in in-kind or monetized form, according to LCF3 investors' share class.</p> <p>The loans extended to Project Developers under the ERPAs are disbursed to final project beneficiaries (farmers, rural communities, etc.), in the form of a grant, with a repayment of the proceeds from the project developer to LCF3 taking the form of a volume of carbon offsets generated by the carbon project.</p> <p>The funding provided to farmers and rural communities will be used for a wide range of activities from mobilizing communities, providing or coordinating sustainable land management training, setting-up tree nurseries, purchasing seedlings, organizing the distribution of saplings to farmers, etc..?</p> <p>Furthermore, as LCF carbon projects are all certified under the voluntary carbon standard, Verra or Gold Standard, this implies aligning with the carbon methodologies' guidelines. This includes having a voluntary carbon standard-approved third-party carbon auditor undertake LCF's projects' carbon verifications or paying an issuance fee for every unit of carbon offset issued and certified by the projects over their lifetime. These costs shall also be included in the Use of Proceeds.</p> <p>LCF3 is expected to align with the following GEF focal areas (for additional information and specific targets, please see point 4 of the PIF: <i>'Alignment with GEF focal areas and/or Impact Program strategies'</i>).</p>
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Land Degradation Focal Area

LCF3 targets Objective 1 of the Land Degradation focal area (?Support on the ground implementation of SLM to achieve LDN?) across its three sub-objectives (D1-1: Dryland sustainable landscapes, D1-2: Diversified agro-ecological food production systems, and D1-3: Integrated landscape management and restoration) by harnessing investment and knowhow to 1) promote the integrated and sustainable land management and restoration of degraded production systems and forests with a landscape approach; and 2) diversify crop and livestock systems, thus employing 3 of the 6 delivery mechanisms of the LD strategy.

LCF3's investments will be an entry point for:

- Sustained management and use of food & agricultural resources through regenerative agriculture, transforming degraded agricultural lands and landscapes into sustainable production systems.
- Restoration and conservation of endangered natural resources, through sustainable ecosystem use and management.
- Placing local communities as key actors in the management and conservation of local natural ecosystems/capital, through models that integrate the biophysical features of the ecosystem with people's wellbeing, their economic and sociocultural needs and values.

Overall, the fund initiatives will help improve the living conditions of 475,500 direct beneficiaries and their families (reaching a min. of 1.5 million people), help protect / restore 48,960Ha of degraded agricultural land, place 12,240Ha of landscapes in production systems under sustainable land management, and avoid further deforestation across 10,700Ha of High Conservation Value Forest.

LCF3 will ensure the geographic distribution of its investments across Africa, Asia and Latin America following the diversification strategy described in point 3 above (?The proposed alternative scenario with a brief description of expected outcomes and components of the project?), and ensuring that GEF's funding will not be in any case deployed in full in Latin America.

Biodiversity Focal Area

LCF3 will address objective 1 of the Biodiversity Focal Area (*BD ? 1 ? 1: Mainstream biodiversity across sectors as well as landscapes and seascapes through biodiversity mainstreaming in priority sectors*). Even if it is not possible to define specific targets on biodiversity mainstreaming ex-ante (i.e. prior to the development of LCF3 project pipeline) as the specific location of project activities is unknown (yet key to describe the impacts on biodiversity), LCF3 will use the following criteria for selecting projects during the implementation phase:

Project site selection: LCF3 investments within the BD focal area will target globally recognized areas of high biodiversity importance such as Key Biodiversity Areas (KBAs). In addition, other locations could be considered for mainstreaming purposes, such as biodiversity corridors, protected areas, buffer zones, key watersheds for Ramsar sites etc. Depending on the site selection, a focus on global important species or natural habitat will be defined (baseline + target). Based on earlier phases of LCF and current opportunities, coastal and marine areas, wetlands, including mangroves will be especially targeted.

Biodiversity Governance: LCF3 will support a fair and equitable governance of biodiversity, promoting local ownership and avoiding "empty" forests, focusing on changes that will have direct impact on threatened biodiversity, and working closely with beneficiaries at large scale to substantially

Use of proceeds	
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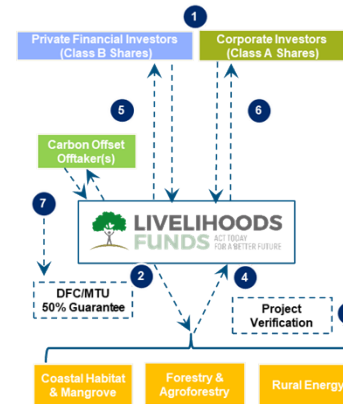
	<p>Provide a description of the financing instrument(s) to be used with GEF resources: including but not limited to (i) debt products; (ii) guarantees; and/or (iii) equity.</p> <p>The selection of one or more instruments will be require to (i) demonstrate appropriate degree of concessionality; (ii) most efficient structures to mobilize private capital.</p> <p>For Equity: Fund strategy:</p> <p>LCF3 expects to mobilize over US\$96 million in equity from development agencies, corporate, public and private financial investors, in addition to the GEF equity support (for the list of indicative equity investors, please refer to refer to the confidential document disclosed as part of this submission). This equity will be allocated towards investments in community-based solutions to restore natural ecosystems, facilitate access to rural energy¹, and establish agroforestry and regenerative agriculture systems in developing countries that will ultimately reduce GHG emissions, increase carbon sequestration, generate certified carbon offsets to climate-responsible corporates and contribute towards SDGs while delivering a steady and positive financial return to financial investors. The specific mechanisms on how equity investments will be used to pre-finance LCF3 projects can be found on the section below (?Terms and conditions for the financing instruments?).</p>
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Financing instruments	
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	<p>In addition, LCF3 will mobilize a US\$15 million pari passu partial credit guarantee from the U.S. International Development Finance Corporation (DFC) supported by the US Agency for International Development (USAID), as a risk mitigation instrument for private financial investors. As such, the total amount of co-financing for LCF3 would reach US\$111,031,000(US\$96,031,000 in equity plus US\$ 15,000,000 in USAID-DFC guarantee).</p> <p>Subject to the final outcomes of the negotiations between Livelihoods and DFC-USAID, the guarantee would be a 50% loan portfolio guarantee to cover eligible credit default risk of Project Developers for the account of private financial investors (Class B). GEF would therefore not be eligible for this partial credit guarantee.</p> <p>To comply with DFC-USAID eligibility criteria for the partial credit guarantee, the ERPAs entered into between LCF3 and the Project Developers will be converted into loan agreements extended by LCF3 to the Project Developer with repayment taking the form of volumes of carbon offsets generated. Project beneficiaries are not part of this agreement and therefore have no obligation on the repayment towards LCF3, except for recognizing the ownership title of LCF3 on the flow of carbon offsets generated from project activities.</p> <p>The guarantee is intended to assist LCF3 mobilize new private financial capital which - in the absence of the guarantee - would otherwise not invest in the fund. The indicative financial terms for the guarantee are a 1% origination fee (a one-time, up-front fee) and a 1% p.a. utilization fee on the value of the loans placed under the guarantee.</p> <p>Below is a schematic of the DFC- USAID guarantee mechanism:</p>
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- 1 Separate classes of investors capitalize LCF3 to finance community-based mitigation and adaptation projects generating carbon credits with high social and environmental value.
- 2 LCF3 provides upfront financing to project developers for large-scale project implementation and maintenance over periods of 10 to 20 years.
- 3 An international standards body validates that projects qualify for credits and then verifies/issues Verified Emission Reduction credits (VERs) on cyclical basis for a fee.
- 4 Projects transfer VERs to LCF3 as loan repayment.
- 5 LCF3 monetizes a pro-rata distribution of VERs through corporate off-taker(s) at a pre-agreed long-term COST+ pricing formula to pay a cash dividend to Class B investors.
- 6 Subsequently, LCF3 makes a distribution of VERs in-kind to pay a "carbon credit" dividend to Class A investors.
- 7 DCA provides LCF3 Class B Shares (private financial investors) with a partial credit guarantee to cover qualified project defaults.



The parties to the offset purchasing agreements are expected to be LCF3, as a legal entity where the monetization transaction of Class B investors? carbon offsets will be undertaken, and the financial investors. LCF3 will also benefit from a back-to-back agreement with corporate investors or other offset buyers committed to purchase the carbon offset share of the financial investors. The corporate investors and other offset buyers shall not be jointly and severally liable towards LCF3 for the purchasing of the financial investors? carbon offsets, in other words each corporate investor or other offset buyer shall commit to a bilateral carbon offset purchasing contract with LCF3.

GEF's financial support coupled with DFC ? USAID's guarantee, the commitments from large corporates (making up for 75% of the fund equity capital), and a secured market for class B shareholders reached through long-term offset sale agreement with one or more buyer(s) among LCF3 corporate investors or others, will create an enabling environment to prove that climate investments can be financially profitable and therefore, have clear commercial and financial objectives.

Financing instruments	
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	<p>Carbon funds seldom facilitate the development of projects by local communities in developing countries. They generally pay for carbon offsets only upon delivery, with little or no upfront finance, which means they fail to launch community-based projects with a limited access to upfront finance.</p> <p>In order to finance the most social-intensive projects, LCF3 will follow a differentiated strategy based on the pre-financing of operations. This approach enables LCF3 to work with rural communities which have a limited financial capacity. LCF3 therefore intends to leverage carbon finance mechanisms to help rural communities restore and protect their ecosystems, thereby securing their livelihoods and thus contributing to their empowerment.</p> <p>As such, LCF3's main differentiating factor relies on its focus on projects with very high social and environmental impacts, since it is believed that the social value of carbon assets is increasingly going to be a price driver of carbon assets in the future.</p> <p>As a result, LCF3 has positioned itself to:</p> <ul style="list-style-type: none">? Pre-finance projects for local communities, as further detailed below,? Deliver strong co-benefits for local communities to ensure they fully endorse the need to restore their ecosystems and are individually and collectively committed to caring for it on the long term,? Diversify the type of carbon assets financed by LCF3, as further detailed below,? Tap into co-investment opportunities across public and private project stakeholders, as further detailed below, and? Share the performance of carbon asset generation with the concerned Project Developer and communities above a certain generation target. <p>Pre-finance projects for local communities</p> <p>Through ERPAs, LCF3 will provide upfront payments to Project Developers at an early stage of project development and in advance of anticipated offset delivery. In order to align with USAID's financing criteria for the partial credit default guarantee, LCF3 is currently in the process of restructuring its ERPA contracts to ensure LCF3's financing is characterized as a debt extended to the Project Developer with an obligation for repayment by the latter thanks to the generation of carbon offsets.</p>
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Deliver strong co-benefits for local communities

Restoring an ecosystem or an agricultural landscape through reforestation or agroforestry activities takes time. Projects have a lifetime of up to 20 years and LCF2 needs assurance that the communities living in the area will protect the ecosystem over the project's lifetime and beyond. This can only be achieved where the communities fully endorse the idea that they need to restore their ecosystem and are individually and collectively committed to caring for it on the long term. Importantly, the communities themselves are personally participating in the ecosystem restoration work of which they are the single biggest beneficiaries.

Co-investment or co-funding

LCF3 will seek to establish partnerships with the likes of Development Agencies, philanthropic organizations, etc. to leverage additional co-funding in the form of e.g. non-reimbursable grants or technical assistance, and with the aim to increase the development impact of the fund's investments. These partnerships can be instrumental to secure projects' long-term co-benefits, reinforce the sustainability of our initiatives and LCF3's exit strategy.

<p>Terms and conditions for the financing instruments</p>	
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	<p>Another potential role for a co-investor can arise when there are synergies with the co-investor's business. For instance, a fruit processing company may be interested in investing in a project to secure a supply of tropical fruits or in sharing its know-how in running a fruit production and marketing business. This co-investment can be allocated towards co-funding value chain-related components of the carbon project and is not expected to have any impact on the generation of carbon offsets.</p> <p>Diversify the type of carbon assets LCF3 finances three types of projects able to generate carbon offsets and to deliver Emissions Reductions Purchasing Agreements (ERPA): mangrove & coastal habitats, forests & agroforestry and rural energy projects^(*). LCF3 invests in developing countries in Africa, Asia and Latin America.</p> <p>LCF3 will reduce investment risk through diversification and mutualization enabling its investors to access a diversified portfolio of projects in terms of project type, geography and size. LCF3 will comply with the diversification rules arising from the SIF Law and the CSSF Circular 07/309, namely that LCF3 may not invest:</p> <ul style="list-style-type: none"> More than 30% of its portfolio in one project; or More than 30% of its portfolio in several Projects put in place by the same Project Developer; or More than 30% of its portfolio in the same country or state within a federal system. <p>These ratios must be complied with from the end of the Investment Period onwards. LCF3 will ensure that the above thresholds are complied with Project by Project and for all Projects collectively.</p> <p>LCF3 intends to verify its offset generation according to the most reputable international voluntary carbon standards: to-date Verra or Gold Standard.</p> <p>Managing the risk of funding diversion LV applies a thorough due diligence process prior to signing the framework agreement with the project developer to review their legal documentation & financial statements and verify the track record of the local management team.</p> <p>All carbon projects are formalized through a legal contract entered into between LCF3 and the project developer. In order to enable LCF3 to monitor the project's implementation and identify/mitigate events of funding diversion, the contract stipulates, amongst other things i) the contractual obligations of the project developer including regular operational and financial reporting on project performance and the proper use of the project funding in line with mutually agreed budget</p>
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lines, ii) the operational and financial auditing rights of LCF3, and iii) governance instances representing both parties to track and discuss project performance and take necessary decisions.

To ensure a proper monitoring of project cash movements all LCF3 contracts will provide for the creation of a project dedicated bank account. This bank account concentrates all funds paid for a project and may only be used for this purpose by the project developer. At the beginning of a project, a proof of existence of this bank account must be issued by the bank to the Fund. LCF3 Depositary Bank is only allowed to use this specific account.

In addition, at LCF3-level, a budget is included on a project-basis to undertake regular operational (especially during project plantation phase) and financial auditing throughout the project's lifetime.

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	<p>Depending on the specific circumstances of funding diversion, LCF3 may apply a range of mitigation solutions ranging from collaborating with the project developer to remedy and prevent future funding diversion events or activate contractually stipulated clauses concerning contract termination due to breach and request the breaching party to indemnify LCF3 for resulting direct and reputational damages.</p> <p>In addition, LV puts in place a post-contract monitoring and evaluation scheme on the project developer's performance, to review progress against agreed program, compliance with project costs, review of project documentation, etc.</p> <p>Fund structure:</p> <p>The Fund may be either: a stand-alone investment company organized as a public limited company "soci?t? anonyme" under the laws of the Grand Duchy of Luxembourg and qualifies as an investment company with variable capital "a Soci?t? d'Investissement ? Capital Variable" ("SICAV") and as a specialized investment fund "a Fonds d'Investissement Sp?cialis?" ("FIS"), or</p> <p>To take into account the evolution of the Luxembourg applicable laws and practices, the Fund may possibly take the legal form of a ?reserved alternative investment fund? (RAIF), which is regulated the same way as a SICAV SIF.</p> <p>Targeted IRR: > 5% IRR The following is a sensitivity analysis reflecting IRR fluctuations around two variables which may impact the return of financial investors: the pricing of carbon offset purchases from financial investors, and the risk that LCF3 may not generate the volume of carbon offsets in line with initial BP figures, i.e. a ?haircut on project performance?, for a range of reasons specified under point 5) of the PIF document (?Risks?).</p> <p>IRR sensitivity analysis:</p>
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Loss of offsets vs real case projects					
Offset price (\$/t CO ₂ e)	20%	15%	10%	5%	0%
6,15	2,6%	3,9%	5,2%	6,4%	7,6%
6,26	3,0%	4,3%	5,6%	6,8%	8,1%
6,37	3,3%	4,7%	6,0%	7,2%	8,5%
6,47	3,7%	5,1%	6,4%	7,6%	8,9%
6,58	4,1%	5,4%	6,7%	8,0%	9,3%
6,69	4,4%	5,8%	7,1%	8,4%	9,7%

Remuneration of Limited Partners:

The sole revenues for LCF3 are expected to be carbon from carbon assets. LCF3's value creation is distributed as follows to the different investors:

For Investors holding Class A Shares

Carbon assets delivered to LCF3 by projects are not sold directly in the market but transferred to the Class A investors via a non-cash sales mechanism. Receivables generated at LCF3 level are then compensated by dividend distributions or capital buy-back as decided by the Board of Directors.

Once an offset is delivered to a Class A investor, they choose their own strategy as regards this asset: they can for example sell it immediately, hold it and sell it later, or use it to offset GHG emissions. As such, Class A investors' revenue is modelled by multiplying the distributed assets flow by a price.

ry Carbon Markets, has been used to mark the assets to market every year, as approved by the Board. The Board is responsible for determining each year the market value of all CO₂ reduction and sequestration assets. It may use the aforementioned report for as long as it is available, discloses information consistent with LCF3's strategy and asset generation, and is acknowledged by the Board as the best available third-party resource on the matter at the date of this agreement. At any point in time, the Board is however responsible for amending the market pricing sources and methodology, in whole or in part, if it becomes obvious that alternative sources and/or methodology may provide LCF3 with more accurate data.

Carbon Asset Pricing for Class B Shares

LCF3 will monetize CO₂ reduction and sequestration assets, for class B shares thanks to offtaking commitments by one or more carbon asset buyers.

Terms and conditions for the financing instruments	
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	<p>For Investors holding Class B Shares</p> <p>Carbon assets delivered to LCF3 by projects are sold for cash by LCF3. If and when LCF3 needs to monetize CO2 reduction and sequestration assets, in particular as regards class B shares, it may enter into specific selling agreement(s) with one or more carbon offset off-takers, who may be historic investors of LCF1 & LCF2 or third parties.</p> <p>Subject to the final outcome of the purchasing negotiation between corporate off-takers and/or other offset buyers, Class B investors and LCF3, the off-take agreement between LCF3 and Class B investors shall be governed by the following principles:</p> <p>The pricing formula for the purchase of carbon offsets shall be based on a COST+ pricing formula, whereby COST shall be defined as the projected LCF3 cost of generation of carbon offsets at the fund's launch.</p> <p>The cost of generation of carbon offsets, which correspond to LCF3's costs can be categorized in 3 main categories: i) direct investment costs which include all costs as referred to in the ERPA's signed with Project Developers, ii) investment related costs which comprise costs directly related to Projects investment and functioning such as carbon verification or operational/financial auditing costs and iii) 3) management and development costs which incorporate all the administrative, management and development costs supported by LCF3 such as General Partners or structuring fees.</p> <p>The COST+ pricing formula shall be negotiated to provide Class B investors with the opportunity to tap into a > 5% IRR.</p> <p>LCF3's off-taking agreements shall also include an upside sharing mechanism in the eventuality of either of 2 events occurring:</p> <p>LCF3 generates more carbon offsets than initially projected in the fund's BP. With a decade long investment track-record of LCF1 generating c.24% more volumes of carbon offsets than initially projected in fund's BPs, one can't overlook the possibility of LCF3's over-performance which entails an additional windfall for Class B investors over-and-above the return delivered by the COST+ pricing formula.</p> <p>Market carbon offset prices rally providing a bullish market perspective relative to the COST+ pricing formula. In such circumstance, Class B investors may have the right to sell a portion of the volume of their share of carbon offsets at market price while still benefitting, if they wish, from a secured sales outlet from corporate off-takers or other offset buyers at the COST+ pricing formula.</p>
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With the aim to limit LCF3's exposure to the market risk of monetization of Class B investors' carbon offsets, LCF3 shall secure back-to-back purchasing commitments from corporate offtakers or other offset buyers, in alignment with the contractual terms stipulated in the offtake agreement between LCF3 and Class B investors.

Carbon Asset Pricing for Class A Shares

Since 2012, LCF1 & LCF2's asset valuation has been based on market prices. In particular, a third-party report, Ecosystem Marketplace's yearly State of Voluntary Carbon Markets, has been used to mark the assets to market every year, as approved by the Board. The Board is responsible for determining each year the market value of all CO2 reduction and sequestration assets. It may use the aforementioned report for as long as it is available, discloses information consistent with LCF3's strategy and asset generation, and is acknowledged by the Board as the best available third-party resource on the matter at the date of this agreement. At any point in time, the Board is however responsible for

<p>Terms and conditions for the financing instruments</p>	
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amending the market pricing sources and methodology, in whole or in part, if it becomes obvious that alternative sources and/or methodology may provide LCF3 with more accurate data.

Carbon Asset Pricing for Class B Shares

LCF3 will monetize CO2 reduction and sequestration assets, for class B shares thanks to offtaking commitments by one or more carbon asset buyers.

Remuneration of General Partners:

The General Partners will be paid out an Investment Fee ranging between a minimum of one and a half percent (1.5%) p.a (exclusive any VAT or taxes) and a maximum of two percent (2%) p.a. (exclusive of any VAT or taxes) of LCF3's Total Expected Project Investment.

The Total Expected Project Investment, which is equivalent to the Use of Proceeds, will not exceed at any time the Total LCF3 Fund Size or the amount of the total financing of the fund (GEF financing + Co-financing).

In other words, Total LCF3 Fund Size = total financing of the fund (GEF financing + Co financing)
= Use of Proceeds + Governance & Administrative Costs + Investment Fees.

Where:

Total Expected Project Investment or Use of Proceeds is equivalent to the loan amount extended to the Project Developer for project implementation which is disbursed to final project beneficiaries (farmers, rural communities, etc..) in the form of a grant, with a repayment of the proceeds taking the form of a volume of carbon offsets generated by the carbon project.

As such, the purpose of defining the term 'Total Expected Project Investment' or Use of Proceeds is solely for the sake of calculating the remuneration of the GPs which will reflect a percentage investment fee (1.5-2% p.a.) applied to the 'Total Expected Project Investment', as opposed to the Total LCF3 Fund Size.

Governance & Administrative Costs reflect legal, governance, fund structuring, audit and administrative costs of LCF3.

Investment Fees reflect the remuneration of LCF3's GPs for services associated with LCF3 fund management as well as sourcing, structuring, implementation and monitoring of carbon projects.

	<p>The investment fee reflects a 1.5-2% per annum fee calculated on the basis of LCF3's Use of Proceeds amount.</p>
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<p data-bbox="310 251 651 316">Terms and conditions for the financing instruments</p>	
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Please see attached Term Sheet Annex for additional information.

ANNEX G: (For NGI only) Reflows

Instructions. Please submit a reflows table as provided in Annex B of the NGI Program Call for Proposals and the Trustee excel sheet for reflows (as provided by the Secretariat or the Trustee) in the Document Section of the CEO endorsement. The Agency is required to quantify any expected financial return/gains/interests earned on non-grant instruments that will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee. Agencies are welcomed to provide assumptions that explain expected financial reflow schedules.

Item Data	Item Data
GEF Project Number	10500
Estimated Agency Board approval date	TBD

Investment type description	Equity Investment
Expected date for start of investment	S2 2023
Amount of investment (USD GEF funds)	15,000,000 total amount requested 13,121,468 to be invested after Agency fees, PPG amount, Monitoring and Evaluation, Knowledge management, and ESG
Amount of investment (USD co-financing)	\$?166,797,000 million
Estimated interest rate/return	> 0.9%

Maturity	20 years
Estimated reflow schedule	Please refer to below graph A which assumes a starting purchasing price per carbon offset of \$9.85 and 10% loss in carbon offset volumes (haircut in LCF3 performance) in line with low case scenario of above-mentioned return sensitivity analysis.
Repayment method description	Monetized carbon return
Frequency of reflow payments	Annual dividend distribution
First repayment date	2029

First repayment amount	\$ 0.263 million
Final repayment date	2041
Final repayment amount	\$ 0.786 million
Total principal amount to be paid- reflowed to the GEF Trust Fund	\$ 13,121,468 million
Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	\$ 0.885 million

Item Data	Item Data
GEF Project Number	10500
Estimated Agency Board approval date	Jun-23
Investment type description	Investment

Expected date for start of investment	Q3-Q4 2023
Amount of investment (USD GEF funds)	<p>USD 14,673,000 total amount requested</p> <p>USD 13,461,468 to be invested after Agency fees and PPG amount</p>
Amount of investment (USD co-financing)	USD 180,258,468* - estimated total investment in the fund (USD 166,797,000 in cofinancing including DFC's partial credit guarantee and excluding GEF investment)
Estimated interest rate/return	Between 1 - 5.8% (allocated, not distributed - estimated return upon full investment of the Fund)
Maturity	20 year investment period . Redemption possible after 6 years , in line with the Terms and Conditions of the Fund.
Estimated reflow schedule	Subject to future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc. The estimated reflow schedule for best, base, and worst case scenarios can be seen on the graphs below.
Repayment method description	Profits allocated or retained/re-invested subject to future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc. until final repayment date

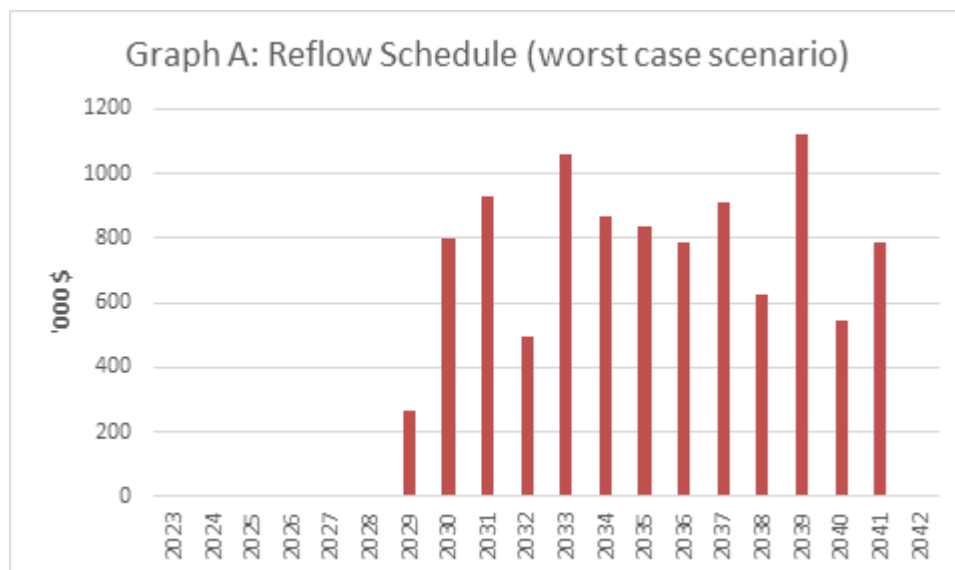
Frequency of reflow payments	<p>Subject to future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc. The frequency of the reflow payments to CI-GEF is expected to happen annually after year 5, 6, or 7 (base, best, and worst case scenario, respectively) as generated by the projects and the fund*</p>
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First repayment date	<p>Subject to future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc. the date for first repayment is estimated at:</p> <ul style="list-style-type: none"> - December 2028 on best case scenario. - December 2027 on base case scenario. - December 2029 on worst case scenario.
First repayment amount	<p>Subject to future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc. the first repayment amounts are estimated at:</p> <ul style="list-style-type: none"> - USD 184K on best case scenario. - USD 37K on base case scenario. - USD 263K on worst case scenario.
Final repayment date	<p>Estimated at:</p> <ul style="list-style-type: none"> - December 2041 on best, base, and worst case scenarios.

Final repayment amount

	<p>Final repayment amounts estimated at:</p> <p>? Base case ? USD 786k</p> <p>? Best case ? USD 1.04M</p> <p>? Worst case ? USD 786k</p> <p>The final repayment amount are estimates. They are based on a number of assumptions including future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc.. They are therefore subject to change.</p> <p>Note, final repayment amounts are expected to be realized after full investment in the fund. In all cases, projections are only estimates of future results, based upon a current information and future assumptions including future development, growth, and dynamics of the portfolio of projects, FX development throughout the life of the investment, market price of VERs, the fund's investment period, etc. They are therefore subject to change and are not guaranteed.</p>
Total principal amount to be paid- reflowed to the GEF Trust Fund	13,461,468

Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	<p>Subject to future development, growth, and dynamics of the portfolio of projects, taking into account FX effects throughout the life of the investment, market price of VERs, the fund's investment period, etc. the total earnings amounts are estimated at:</p> <ul style="list-style-type: none"> - USD 5.96M on best case scenario - 5.8% IRR. - USD 4.57M on base case scenario - 4.5% IRR. - USD 0.89M on worst case scenario - 1% IRR.
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ANNEX H: (For NGI only) Agency Capacity to generate reflows

Instructions. The GEF Agency submitting the CEO endorsement request is required to respond to any questions raised as part of the PIF review process that required clarifications on the Agency Capacity to manage reflows. This Annex seeks to demonstrate Agencies' capacity and eligibility to administer NGI resources as established in the Guidelines on the Project and Program Cycle Policy, GEF/C.52/Inf.06/Rev.01, June 9, 2017 (Annex 5).

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as described below:

Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;

Conservation International (CI) has ability to receive financial returns and to transfer such returns to the GEF Trust Fund. CI is currently managing one GEF-6 Non-grant Instrument. We have established a segregated GEF bank account to receive funding from the GEF and from grantees and NGI beneficiaries. Further, our accounting system transparently tracks cash inflows by source, by type of inflow, and by GEF project.

Ability to monitor compliance with non-grant instrument repayment terms;

CI is able to monitor the compliance of Non-grant Instruments through contractual terms in agreements with NGI beneficiaries, financial and technical site visits, full audit reports, structured reporting requirements built into quarterly financial and impact reports and analytic reviews thereof.

Capacity to track financial returns (semester billing and receiving) not only within its normal lending operations, but also for transactions across trust funds;

CI has the capacity to monitor financial returns of NGI recipients and implements this oversight in various ways depending on the nature of the NGI. In general, CI will evaluate the projected /anticipated cash flow from NGIs based on their business plan, develop a pro forma repayment schedule with the recipient, monitor actual results against projections and ensure timely collection of reflows via the monitoring procedures described above. In addition, CI's accounting system and procedures enable us to track and report on inflows and outflows across each project and by GEF Trust Funds.

Commitment to transfer reflows twice a year to the GEF Trust Fund;

During the PPG phase, CI will work with project proponents to define a suitable schedule of payments. However, CI can establish reflow repayment schedules with the NGI recipients, require semi-annual repayment of reflows to CI and remit amounts collected along with relevant support to the GEF Trust Fund on a semi-annual basis.

And, in case of NGI for private sector beneficiaries: Track-record of repaid principal and financial returns from private sector beneficiaries to the GEF Agency.

CI will employ the methods described above to track and record NGI principal and financial returns. CI's GEF Agency currently has one NGI (equity/investment fund) in its portfolio, which is still in its investment period and as such has not started to distribute fund proceeds to the investors. However, CI has implemented several NGI programs over its history. CI has engaged in over 100 deals, totaling \$30 million in responsibly invested eligible sustainable enterprises through Verde Ventures, and more recently through CI Ventures has continued to successfully implement NGIs, secure repayment of principal and interest.

And, in case of concessional finance for public sector recipients: Track-record of lending or financing arrangements with public sector recipients; g) Established relationship with the beneficiary countries? Ministry of Finance or equivalent.

CI has supported public sector entities mainly through grants and have established strong relationships with governments through our country programs. The NGIs that CI is proposing would be established with private sector beneficiaries and do not involve concessional finance directly to governments.