



Livelihoods Carbon Fund 3 (LCF3)

Part I: Project Information

GEF ID

10500

Project Type

FSP

Type of Trust Fund

GET

CBIT/NGI

☐ CBIT

☐ NGI

Project Title

Livelihoods Carbon Fund 3 (LCF3)

Countries

Global

Agency(ies)

CI

Other Executing Partner(s)

Executing Partner Type

Other Executing Partner(s)

Livelihoods Ventures

Executing Partner Type

Others

GEF Focal Area

Multi Focal Area

Taxonomy

Focal Areas, Climate Change, Climate Change Mitigation, Agriculture, Forestry, and Other Land Use, Financing, Land Degradation, Land Degradation Neutrality, Land Productivity, Land Cover and Land cover change, Carbon stocks above or below ground, Sustainable Land Management, Sustainable Livelihoods, Income Generating Activities, Integrated and Cross-sectoral approach, Sustainable Forest, Biodiversity, Protected Areas and Landscapes, Species, Mainstreaming, Agriculture and agrobiodiversity, Deploy innovative financial instruments, Influencing models, Stakeholders, Local Communities, Civil Society, Community Based Organization, Non-Governmental Organization, Type of Engagement, Consultation, Information Dissemination, Partnership, Participation, Indigenous Peoples, Beneficiaries, Private Sector, Financial intermediaries and market facilitators, Large corporations, SMEs, Project Reflow, Non-Grant Pilot, Gender Equality

Rio Markers**Climate Change Mitigation**

Climate Change Mitigation 2

Climate Change Adaptation

Climate Change Adaptation 0

Duration

240 In Months

Agency Fee(\$)

1,211,532

Submission Date

2/27/2020

A. Indicative Focal/Non-Focal Area Elements

Programming Directions	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
LD-1-1	GET	3,141,009	25,907,200
LD-1-3	GET	3,141,009	25,907,267
LD-1-2	GET	3,141,009	25,907,233
BD-1-1	GET	4,038,441	33,309,300
Total Project Cost (\$)		13,461,468	111,031,000

B. Indicative Project description summary

Project 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, 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. (While the Livelihoods Carbon Funds include carbon avoidance activities through rural energy / cookstove initiatives, GEF funding will not be directed towards this cluster of projects.)

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
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Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
Component 1.1: 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><u>Indicator 1.1:</u> 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><u>Target 1.1:</u> At least US\$76 [1] million of capital raised by end 2020.</p> <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><u>Indicator 1.2.1:</u> Number of Ha of agricultural land under sustainable land management.</p> <p><u>Target 1.2.1:</u> 48,960Ha.</p> <p><u>Indicator 1.2.2:</u> Number of hectares of avoided deforestation.</p> <p><u>Target 1.2.2:</u> 10,700Ha of avoided deforestation.</p> <p><u>Indicator 1.2.3:</u> Number of hectares of wetland restored and protected.</p> <p><u>Target 1.2.3:</u> 16,500Ha.</p> <p><u>Indicator 1.2.4:</u> Number of hectares of landscapes under sustainable land management in production systems.</p> <p><u>Target 1.2.4:</u> 12,240 Ha</p> <p><u>Indicator 1.2.5:</u> Number of Ha of land restored through wetland restoration, implementation of sustainable land</p>	<p>Output 1.1.1: LCF3 financing secured and consisting of at least 75% private sector contributions & 25% financial sector (public & private contributions.)</p> <p>Output 1.1.2: At least US\$27 million of financial investors' commitments in equity to LCF3 are structured for an investment horizon spanning across at least 10 years (until 2030).</p>	GET	13,461,468	111,031,000

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
				Sub Total (\$)	13,461,468	111,031,000
Project Management Cost (PMC)						
GET						
				Sub Total(\$)	0	0
				Total Project Cost(\$)	13,461,468	111,031,000

C. Indicative 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(\$)
Private Sector	Corporate Company	Equity	Investment mobilized	21,580,000
Private Sector	Corporate Company	Equity	Investment mobilized	10,790,000
Private Sector	Corporate Company	Equity	Investment mobilized	5,395,000
Private Sector	Corporate Company	Equity	Investment mobilized	4,316,000
Private Sector	Corporate Company	Equity	Investment mobilized	5,395,000
Private Sector	Corporate Company	Unknown at this stage	Investment mobilized	3,237,000
Private Sector	Private Bank	Equity	Investment mobilized	2,158,000
Others	Development Agency	Equity	Investment mobilized	16,185,000
Private Sector	Private Bank (pending due diligence)	Equity	Investment mobilized	10,790,000
Private Sector	Corporate Company	Equity	Investment mobilized	10,790,000
Private Sector	Corporate Company	Equity	Investment mobilized	5,395,000
Others	Government/USAID-DFC	Guarantee	Investment mobilized	15,000,000
Total Project Cost(\$)				111,031,000

Describe how any "Investment Mobilized" was identified

“Investment Mobilized” refers to additional funding that will be deployed over GEF’s 20-year investment period to support the Livelihoods Carbon Fund 3 investment strategy, catalyzed by GEF’s investment. The “Investment Mobilized” is composed of: i) Equity commitments from corporate investors keen on sourcing in-kind certified carbon offsets, as

generated by LCF3, to compensate their uncompressible carbon footprint. These corporate investors represent both, historic LCF1 & LCF2 investors as well as newly entrant corporate investors attracted by LCF’s track-record of delivery of high quality & competitively priced carbon offsets. ii) Equity commitments from social impact investors which can be a financial institution, a fund, a Development Finance Institution (DFI) or any other private or public entity investing with the intention to generate a social and/or environmental benefit in addition to a financial return. The ten-year investment track-record to-date of LCF1 in delivering an attractive financial return as well as generating positive social &/or environmental impacts for rural communities in developing countries serves to illustrate a strong investment case in carbon projects. LCF3 also represents an opportunity to invest in an innovative investment model to accelerate financial capital allocation to finance the private sector’s transition towards carbon neutrality and climate action at scale. iii) A US\$15 million guarantee provided by the U.S. International Development Finance Corporation (DFC) and supported by the US Agency for International Development (USAID) to de-risk the investment of private financial investors in relation to carbon projects’ implementation (as specified in section 5) and their impact on the volume of carbon credit generation generated by LCF3. This guarantee, coupled with the catalytic capital brought by public financial investors (e.g. GEF), will serve to incentive first-mover private financial investors to join LCF3. The guarantee, is dedicated to private financial investors and has been included in the table above (“Indicative sources of co-funding for the project”). It is expected that, by the end of 2020, LCF3 will have secured at least 70% of this “Investment Mobilized” for a first financial closing towards a total fund-size of ~US\$109 million (figures do not include the US\$15 million guarantee). All LCF3 monetary targets are originally expressed in EUR. Figures in this concept note have been converted into US\$ using the 1.079 US\$/EUR exchange rate published by the European Central Bank on February 20, 2020

(https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-usd.en.html) ----- Figures on the “Sources of co-financing” table provide an indication of the interest / appetite we have received from the different organisations we are currently in discussions with.

D. Indicative 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	GET	Global	Multi Focal Area	NGI	13,461,468	1,211,532	14,673,000
Total GEF Resources(\$)					13,461,468	1,211,532	14,673,000

E. Project Preparation Grant (PPG)

PPG Required

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PPG Amount (\$)

300,000

PPG Agency Fee (\$)

27,000

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
CI	GET	Global	Multi Focal Area	NGI	300,000	27,000	327,000
Total Project Costs(\$)					300,000	27,000	327,000

Core Indicators

Indicator 3 Area of land restored

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

Indicator 3.1 Area of degraded agricultural land restored

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

Indicator 3.2 Area of Forest and Forest Land restored

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 shrublands restored

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

Indicator 3.4 Area of wetlands (incl. estuaries, mangroves) restored

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

Indicator 4.2 Area of landscapes that meets national or international third party certification that incorporates biodiversity considerations (hectares)

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

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)
12,240.00			

Indicator 4.4 Area of High Conservation Value Forest (HCVF) loss avoided

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
10,700.00			

Documents (Please upload document(s) that justifies the HCVF)

Title	Submitted			
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)
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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 Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment

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

Part II. Project Justification

1a. Project Description

.1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed (systems description);

In 2015, Governments at COP21 in Paris made a historic agreement on “holding the global average temperature to well below 2°C above pre-industrial levels” (Art.2), pursuing efforts to limit the increase to 1.5°C, and pledging action to address climate change. However, human-induced warming has already reached 1°C. According to the Intergovernmental Panel on Climate Change (IPCC), if this warming rate is to continue the world might reach the 1.5°C rise by 2040.[\[1\]](#)¹

Global warming and climate change are already having profound consequences on many countries and communities in many parts of the world where livelihoods, food security and sources of income are highly dependent on the carbon cycles in agriculture, landscape and natural resources. Degradation or enhancement of these ecosystems have direct impacts on people’s economic and social condition as well as on the overall carbon balance.

While signatory countries of the UNFCCC[\[2\]](#)² 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 potential of terrestrial and marine ecosystems to tackle climate change, both in terms of mitigation and adaptation, has not been fully taken into account even if e.g. emissions from agriculture, forestry and other land-use related activities alone contribute around a quarter of the total GHG emissions.[\[3\]](#)³,[\[4\]](#)⁴

Nature-Based Solutions (NBS)[\[5\]](#)⁵ 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[\[6\]](#)⁶ (see Figure 1), 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.[\[7\]](#)

Figure 1: UN's estimation of NBS' contribution to the fight against climate change[\[9\]](#)



Farmland Restoration⁵¹

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 Agriculture⁵²

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



Afforestation⁵³

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



Silvopasture⁵⁴

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

Multilateral organizations and academia are sending clear messages on the need to establish more concrete, evidence-based targets for NBS, to secure robust enabling conditions supporting NBS, as success in reaching the collective GHG's goals depends on transformational actions of different organizations (incl. financial institutions, corporations, civil society, etc.) and beyond industry and energy sectors. Further, long-term, effective, and enhanced international financial flows are needed to secure progress and implement NBS in developing countries at larger scales, to ensure their sustainability, and to bridge the existing gap between financing institutions and smallholders / local communities.

Root causes and their impact

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)[\[8\]](#)⁷. Overall, the process is already impacting 3.2bn people, with associated annual costs to the global economy estimated in US\$18-20 trillion[\[9\]](#)⁸. Below there is a brief description of some of the most important drivers behind natural resources degradation:

1. Demographic pressure. Sustained population growth, currently increasing at an annual rate of 1.05% worldwide[\[10\]](#)⁹, puts pressure on production systems, space, and demand for fuel and can lead to the depletion of natural resources (land, water, ecosystem services, etc.), increased disposal of harmful waste into the environment, and urbanization.

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[\[10\]](#). Cities consume over 65% of the world's energy, produce more than 70% of global GHG emissions, and therefore play an important role in the fight against global warming and climate change[\[11\]](#)¹⁰. Furthermore, 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[\[9\]](#) 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, and the mechanism to cope with higher consumption levels from a larger population, 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)[\[12\]](#)¹¹: 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 33.1t of CO2, the highest rate of growth since 2013, and 70% higher than the average increase since 2010.

2. Unsustainable land management practices, such as the expansion of monoculture croplands, increased use of inputs, unsustainable / selective logging practices, replacement of natural forest with intensively managed plantations of exotic tree species, etc., are key drivers of land degradation, including reductions in biomass stock, bringing significant loss of soil biodiversity and fertility, and therefore a decrease in the soil's capacity to sequester carbon.

With a growing population, expected to reach 9.7bn by 2050[13]¹² the carrying capacity of the planet is at risk: the global food production needs to increase by 50% compared to current levels in order to feed the people expected to live on our planet. This situation has historically led to the conversion of native vegetation into crop and grazing land, the intensification of farming practices, with a heavy reliance on mechanization, pesticides and chemical inputs, to soil erosion, depletion, reduced capacity to sequester CO₂, eutrophication of water bodies from agricultural runoffs, 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[9]. Carbon stocks in forests alone have decreased by almost 11 Gt in the past 25 years[14]¹³. Over 50% of the 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 US\$12bn and up to US\$17bn in irrigated lands (losses that will have a direct impact on the income of the farmers affected)[15]¹⁴. On the other hand, sustainably managed land has the potential to deliver up to US\$1,4 trillion in increased crop production, while enhancing carbon storage and increasing food and water security [15].

3. 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, reduced 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 already food waste accounts for 8% of the global GHG emissions[16]¹⁵. According to the Intergovernmental Panel on Climate Change (IPCC), even in a 1.5°C warming scenario, 178 million people will suffer from water scarcity and desertification by 2050[16].

Barriers

1. Knowledge gaps to design and implement NBS addressing the complexity of natural systems, so solutions are resource-efficient and adapted to the conditions of the local communities. Expertise in NBS remains in siloes, 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 progresses, 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.

2. Existing NBS initiatives still tend to take place at a relatively small scale, which results in relatively high transaction costs and struggle to attract and comply with the requirements of potential investors. Besides, 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),

3. Insufficient long-term financial support for the implementation and maintenance of NBS initiatives (currently, NBS are planned rather than implemented, and in the case of developing countries, they are conditional on the availability of financial support). Only around US\$50bn of conservation finance is achieved annually (i.e. approximately 1/6 of the funding needed worldwide according to the latest estimations), with 80% of the bulk figure coming from public and philanthropic sources, and not from financial markets^[17]¹⁶. Some of the root causes associated to the lack of financial flows in support of NBS projects include:

a. *Low availability of innovative blended finance mechanisms* with a high share of the capital coming from the private sector, supporting a system that stimulates and rewards sustainable land use, reduce risks for investors and kick-start market development.

b. *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, making less appealing 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.

c. *Return expectations*. 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.

d. *Existing financial models lack the flexibility* to accommodate different stakeholders' needs, such as the different exit strategies of corporate and financial investors.

4. 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).

1) *the baseline scenario and any associated baseline projects,*

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^[18]¹⁷. Moreover, 2018 witnessed forestry & land use transacted volumes of 50.7 t CO₂e far outpacing the 23.8 t CO₂e of renewable energy offsets.

A summary of projects funded by LCF 1 and 2 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 (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
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 (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
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 the entire operations 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 (US\$5,699), a remarkable breakthrough as the local banks are now willing to finance its credit needs.</p>

PROJECT NAME	YEARS (START-END)	BUDGET (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
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.^{[19]¹⁸} The project is expected to sequester 2.2 million t of CO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START-END)	BUDGET (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
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 agro-forestry 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. 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 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 years); Rubber (starting in years 6-7); and timber (years 12-15; and years 20-23). The project is expected to sequester 0.6 million tCO2e over its lifetime.</p>

PROJECT NAME	YEARS (START-END)	BUDGET (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
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 all 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.</p> <p>The project is expected to avoid 1 million t CO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START-END)	BUDGET (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
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 t CO₂e over its lifetime.</p>

PROJECT NAME	YEARS (START-END)	BUDGET (US\$)	DONOR(S)	OBJECTIVES/BRIEF DESCRIPTION OF HOW IT IS LINKED TO THIS GEF PROJECT
Mangrove in Indonesia	2019 - 2042	Confidential but information available upon request	Livelihoods Carbon Fund 2	<p>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.</p> <p>All along the coast of Aceh & North Sumatra, there were many lands that were opened to convert into shrimp ponds, intensive aquaculture. Most of these opened lands were undertaken in mangrove areas leading a large-scale deforestation of mangrove forests. Though the initial production in these farm ponds were high, the repeated production losses led to these being abandoned. 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. This option is heavily influenced by the causes of failure of the pond operations and the conditions which remain in the pond after disuse. The project is expected to generate 2.5 million t CO₂e over its lifetime.</p>
Agroforestry in Rwanda	2020 - 2042	Confidential but information available upon request	Livelihoods Carbon Fund 2	<p>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.</p> <p>The project is expected to generate 2.2 million tons of t CO₂e over its lifetime.</p>

2) *the proposed alternative scenario with a brief description of expected outcomes and components of the project;*

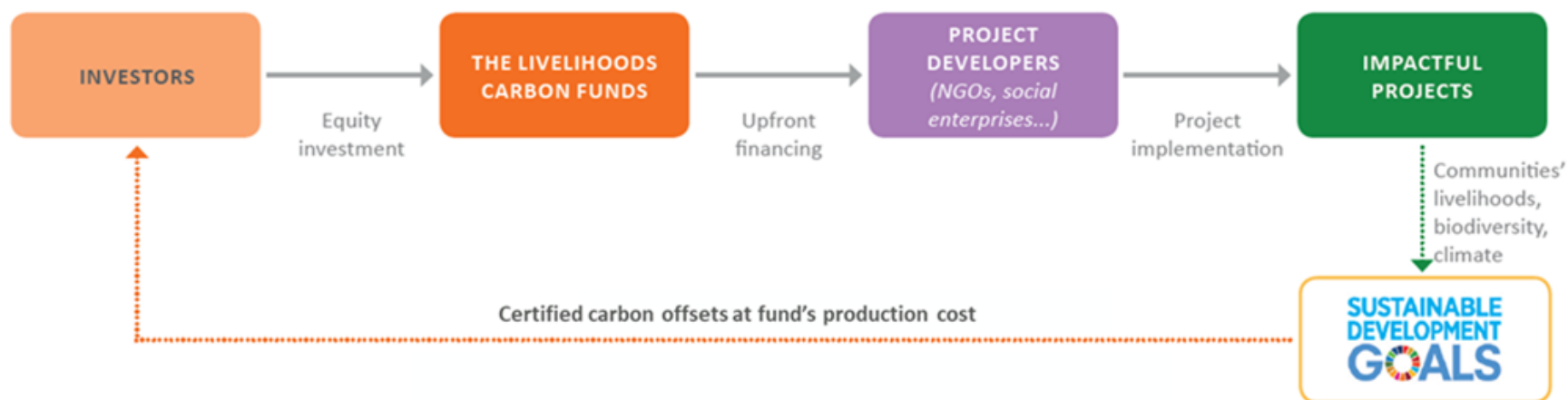
Project Objective: The Livelihoods Carbon Fund 3 (LCF3) will build an innovative and replicable investment-model that will invest in community-based solutions to restore natural ecosystems, and establish agroforestry and regenerative agriculture systems in developing countries that will ultimately reduce 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.

Rooted in the commitment made by private sector pioneers in the context of the COP21 and the SDGs to reduce scope 1-2-3 emissions and offset part or whole of their remaining GHG emissions, the LCF initiative was born under the conviction that NBS are an essential component of the overall global effort to achieve the goals of the Paris Agreement on climate change: LCF dynamic is driven by the convergence of global concerns for corporate responsibility, action against climate change, environmental protection and the need to empower the poorest rural communities so as to enable them to adapt and mitigate the impacts of climate change on their livelihoods.

LCF was initiated by Danone in 2011 and subsequently joined by 11 additional equity investors, both corporate and financial institutions^[20]¹⁹. The initiative was originally driven by its investors' strategy to (a) control their carbon offset supply, (b) make sure they comply with the highest standards and (c) share resources and risks among them:

- i. LCF was created as an investment vehicle that invests directly into carbon projects through carefully selected project developers, instead of buying already issued carbon offsets from third parties. The Fund's advisor, Livelihoods Venture (LV) co-designs projects with a local developer, the costs of which will be covered in exchange for high quality, tailor-made carbon offsets at production cost. Investment decisions are based on the same principles as industrial companies apply in their operations: cost efficiency, results-focus and hands-on management.
- ii. LCF certifies its carbon offsets under the most trusted and demanding 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^[21]²⁰.
- iii. LCF investors diversify their sourcing of carbon offsets across a large portfolio of nature-based carbon projects in order to reduce and mutualize their investment risks. As a return on investment, each investor gets its share in each project's proceeds that correspond to its equity stake in the Fund, thus enabling a mutualization of offsets.

FIGURE 2: LCF1 & LCF2'S INVESTMENT MODEL



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. 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 by at least 20%. LCF1 & LCF2's key features are summarized in Figure 3 below.

FIGURE 3: LCF1 & LCF2 KEY FIGURES TO DATE



119M

US dollars to be invested

US\$84 million already invested
or committed



3,5M

people to be impacted

1,5 million already impacted



170M

trees to be planted

130 million already planted



250K

**households to be equipped
with efficient cookstoves**

120,000 already equipped



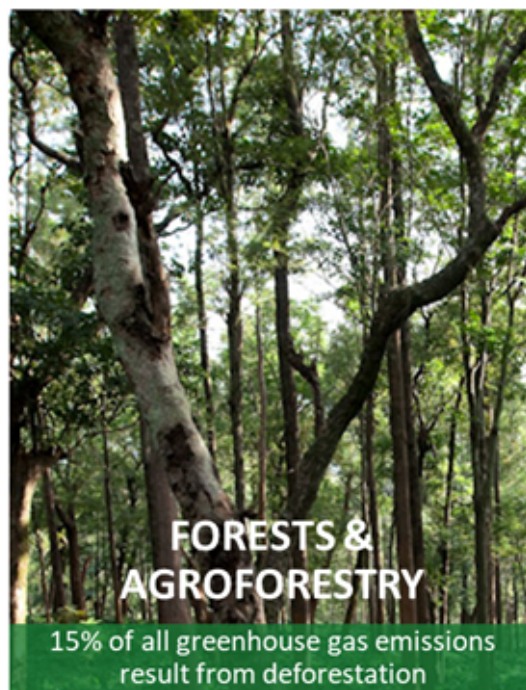
24M

**tons of GHG to be avoided or
stored in natural & agricultural
ecosystems**

20 million already scheduled

LCF has so far developed an investment expertise in carbon sequestration and avoidance across three carbon generating clusters1:

FIGURE 4: LCF'S CURRENT MAIN AREAS OF INVESTMENT



Livelihoods Carbon Fund 3: A scalable investment model to meet corporate & financial investors' appetite for nature-based investments

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 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. New investors will have the possibility to opt for an investment model allowing a monetized return through a guaranteed carbon offset purchasing mechanism by corporate investors.

LCF3 will build on previous LCF1 & LCF2 unique investment models by:

- Enabling investors progress toward carbon neutrality, diversify their sourcing of carbon offsets across a large portfolio of nature-based carbon projects in order to reduce and mutualize 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 tap into monetized returns on their carbon investments;
- enabling financial investors to securely tap into negotiated carbon markets' 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.

LCF3 investments will be entirely new and separated projects from previous LCF portfolio of projects; this constitutes an opportunity to LCF3 investors to tap into de-risked carbon projects to further scale up NBS initiatives. The vast majority of LCF1 & LCF2 investments to date have targeted countries in Africa and Asia, including LDCs (See Figure 6:LCF1 and LCF2 Project Portfolio and Pipeline Map). LCF3 is expected to follow a similar diversification strategy. However, the Livelihoods Carbon funds also seek to maximize their impact on biodiversity restoration and protection, and therefore some of LCF3 investments might be directed to LAC countries, such as Colombia, given their high biodiversity potential. LCF3 will continue to allocate its investments globally, both in 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 of carbon projects and scale-up proven investment models. In fact, LCF2 has already invested in 2018 in 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.

ii) Replicate current LCF models in other geographies

Based on the knowledge that has been accumulated by LCF on the 3 clusters, LCF3 will also explore 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 will also continuously explore 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.

LCF3 aims for a first financial closing end of 2020. Below is a diagram illustrating this new investment model for LCF3.

FIGURE 5: LCF3 INVESTMENT MODEL



Project outcomes

LCF3 will build an innovative and replicable investment-model to support community-based solutions to restore natural ecosystems, and establish agroforestry, facilitate access to rural energy and regenerative agriculture models in developing countries that will ultimately increase carbon sequestration, reduce GHG emissions, 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 to 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.

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 up on 10 years of experience and a unique investment model that will: 1) support corporate investors in their pursue towards carbon neutrality through risk mutualization & risk sharing mechanisms; 2) enable direct annual sourcing of in-kind carbon offsets certified under rigorous international carbon accounting standards at production costs; 3) incorporate 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) deliver additional social, economic and environmental impact to rural communities.

With the objective to raise US\$109m in equity commitments (of which at least US\$76m will be raised by end of 2020), LCF3 will be mostly supported by private capital, with min. 25% of the fund equity coming from the financial sector (both, private and public) and 75% 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.

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.

Ecosystem degradation is a disruptive force contributing to climate change and poverty, while increasing the risk of natural disaster occurrence and reducing the reserves of natural capital assets. The pressure of human activity on fragile ecosystems is ever amplifying land degradation and soil erosion, deforestation, and loss of biodiversity. While the “green revolution“, during the 70s-80s, had sharply increased the agricultural productivity for some regions of the South through the massive use of chemical fertilizers and pesticides, the more generalized or widespread application of its practices could not be implemented without further aggravating the ecological crisis.

LCF3 acts primarily on the restoration and conservation of ecosystems upon which the food security of communities, the welfare or surrounding populations and cities, and the sustainable economic activity of industries are based. LCF3 initiatives will be based on, but not limited to, the following:

Agro-forestry systems, such as wetland mangrove forests, mixed forests combining forestry with agriculture crop production under a forest cover, integrated or sustainable forest management, cultivation of export crops (e.g. coffee, cocoa, etc.) and food crops, etc. These systems allow for the reconstitution of organic matter and biodiversity which is necessary for the development of agricultural crops and fish resources.

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, plough-less tillage, etc., allow soil to regain their fertility and water resources to be protected.

Sustainable energy technologies¹. 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.

Projects under the third Livelihoods Carbon Fund will restore and conserve 88,400 Ha of degraded land through the promotion of sustainable land management on agricultural lands (48,960 Ha), landscapes in production systems (12,240Ha), avoided deforestation (10,700 Ha), and wetland restoration (16,500 Ha). These activities will in turn help to prevent the release of at least 20 million tCO₂eq into the atmosphere, through a mix of avoided GHG emissions or increased C sequestration in biomass, soil, and sediments (out of the 20 million tCO₂eq, 13.8 million tCO₂eq are expected to come from forestry, agroforestry, and mangrove restoration activities. The remaining 6.2 million tCO₂eq will be generated through rural energy initiatives, not supported by GEF).

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.

Of the 1.2 billion people who suffer from malnutrition, nearly 80% are farmers, small breeders and fishermen who are poor and whose resources are directly linked to the ecosystems within which these communities reside. These poor producers provide the bulk of the world's food supplies accounting for 1.5 billion small farmers and operators whose future condition will be a determining factor in the struggle for food security, poverty reduction and the migration of rural populations towards cities in the South and North. Access to local and regional markets is presently a major economic challenge for rural production output. It is also an opportunity if producers are able to better organize themselves so as to ensure their own food security and enhance their production capabilities by feeding rapidly growing urban populations.

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 will seek to maximize the number of people benefitting from its investments and place social impacts derived from its initiatives at the heart of any initiative in both, project design and implementation. LCF3 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 project 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.

Through LCF3 initiatives, at least 100,000 smallholder farmers will receive training on sustainable land management practices, 70% of whom will have access to a sourcing agreement with one or several commercial entities. Further, 650 collective organizations will receive support from LCF3, with no less than 100,000 new members coming from our initiatives.

Finally, special attention is paid to the condition and status of women and young girls, and consequently LCF3 investments will 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 and aim to have at least a 50–50 parity representation across the project governance bodies.

4) alignment with GEF focal areas and/or Impact Program strategies.

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 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 will 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 investments target those communities that are most severely affected by land degradation through the scale-up of long-term NBS across the Agriculture, Forestry and Land Use (AFOLU) sector. Further, LCF3 facilitates the engagement between local communities and the private sector (at least 70,000 beneficiaries will have access to a sourcing agreement with one or several commercial entities), and supports a min. of 650 collective organizations to take joint action to tackle negative environmental externalities and improve their livelihoods.

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 48,960 Ha of degraded agricultural land, place 12,240 Ha of landscapes in production systems under sustainable land management, and avoid further deforestation across 10,700 Ha 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 only 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 for the BD Focal Area: LCF3 investments will target globally recognized areas of high biodiversity importance such as Key Biodiversity Areas (KBAs) and protected areas. 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 change biodiversity outcomes.

In addition, LCF3 will consider an additional set of secondary criteria, such as global carbon storage and empowerment of Indigenous People and Local Communities.

An illustrative example on how LCF3 will support biodiversity mainstreaming is through its investments in mangrove restoration and conservation activities.

Mangroves ecosystems are important for biodiversity conservation: with a total of 110 mangrove species recognized (including true and associated species) and because they occupy intertidal zones, mangroves provide a unique habitat for the fauna and flora of both, aquatic and terrestrial species. Consequently, mangroves are essential for the conservation of biological diversity (incl. endangered mammals, reptiles, amphibians and birds), the provision of habitat, spawning grounds and nutrients for a variety of fish and

shellfish, or the protection of coral reefs and sea-grass beds[22]²¹. Further, mangroves provide goods and services which are critical to the livelihoods, well-being and security of coastal communities. They are carbon-rich environments: despite representing only 0.7% of tropical forests, mangroves carbon stock is ~6.5bn tons (t) (i.e. 57% of blue carbon stocks)[23]²². Over 100m people live within 10km of mangrove forests and depend on them for their livelihoods[24]²³. However, mangroves are endangered ecosystems (340,000–980,000Ha are destroyed annually)[25]²⁴.

Mangrove restoration and conservation activities are expected to be part of LCF3 investments, and therefore to bring multiple benefits for biodiversity conservation, habitats and species protection. At current state, and based on LCF2 & LCF2 investment track record, Livelihoods estimates that LCF3 initiatives will restore and protect a min. of 16,500Ha of mangrove ecosystems.

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 saving the release of at least 20 million tCO₂-eq emissions into the atmosphere through GHG avoidance mechanisms or increased carbon sequestration in biomass, soil, and sediments.

LCF3's innovation 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.

5) *incremental/additional cost reasoning and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and co-financing;*

As the 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°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[26]²⁵. 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[27]²⁶, 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.

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.

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. As a public development financial institution committed to combating climate change, the **funds from the GEF will be instrumental materialize an innovative investment model to explore and invest in NBS at scale.** GEF early stage equity share (making up for 12% of the 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.

GEF’s support coupled with DFC – USAID’s risk mitigation instrument (a pari passu partial credit guarantee to cover qualified project defaults for private financial investors – Livelihoods and DFC are in due diligence. The constitution of “default” is currently under negotiation), 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 within the impact investing space, as opposed to the more classical PPPs. Thanks to a balanced risk-allocation, this PPP will amplify both public & private parties' positive impact on environmental topics and climate change.

6 *global environmental benefits (GEFTF) and/or adaptation benefits (LDCF/SCCF).*

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.

The global environmental benefits expected to be generated by LCF3 can be categorized as follows:

A. Showcasing the feasibility of an accelerated deployment of natural capital investments with social, environmental, and financial returns by launching an innovative climate-finance investment vehicle (LCF3) supported by financial and corporate investors.

There is a growing awareness of the multiple benefits NBS provide in terms of climate change mitigation, biodiversity restoration & conservation, and improvement of the livelihoods of people. This trend will be further amplified by the discussions on biodiversity and the role of green infrastructure expected from the COP 15 of the CBD that will be held in China at the end of 2020.

The picture is stark when looking at the financing of these NBS. 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[28]²⁷. On the other hand, we have 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[29]²⁸.

It is within this dynamic context that LCF3 aims to catalyze the financial and political will of private corporates and financial investors, both public and private, into an investment vehicle dedicated to investing into NBS. Corporate investors are expected to provide ~75% of the equity capital towards a US\$109m-sized carbon fund over 24 years, with financial investors committing to min. 25% of the capital with an investment horizon spanning across at least 10 years. LCF3's unique investment model will capitalize on financial investors' appetite for sustainable investments, especially for financing climate action at scale, and corporates' accelerating commitments towards carbon neutrality.

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. As such, the commitment of financial investors to develop the carbon offset market growth would contribute to the maturity of the market, notably by drawing-in other potential financial actors such as pension funds, insurance companies, etc. In this mature market, corporate investors would act as long-term clients to source high-quality carbon offsets to meet their climate engagements.

This investment model will build a strong case for the financial attractiveness of investments in NBS and help unlock much needed financial capital from the private financial sector to further amplify corporate commitments by enabling new corporate investors to join nature-based investment funds via the mechanism of carbon offset purchasing.

B. Increase of the area of restored and conserved natural ecosystems and avoid deforestation by at least 83,000Ha, due to investments of the LCF3 fund over a time span of at least 20 years.

LCF3's portfolio of projects is expected to include a mix of 1) carbon avoidance from avoided deforestation initiatives (10,700Ha) including amongst others, rural energy, REDD+, or methane avoidance projects; and 2) carbon sequestration projects from mangrove & coastal habitat (16,500Ha), agroforestry and sustainable agriculture (60,000Ha in total composed of 48,960Ha of agricultural land and 12,240Ha of landscapes in production systems) to generate at least 20 million tons of CO₂e over 24 years (out of the 20 million tCO₂eq, 13.8 million tCO₂eq are expected to come from forestry, agroforestry, and mangrove restoration activities. The remaining 6.2 million tCO₂eq will be generated through rural energy initiatives, not supported by GEF).

As such, at least 74 million trees are projected to be planted across the portfolio of projects, with the type of trees selected will be based on inputs during design phase from various stakeholders (farmers, local economic actors, agronomical or scientific experts, etc.) on the merit and utility of the tree species. For example, in disaffected fish ponds, 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 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 & enhancing farm land productivity, provide a natural habitat for the local biodiversity, protect watersheds and wetlands buffer zones, and provide farmers' with a diversified and increased income from agriculture.

Within the scope of its climate change adaptation investments, at least 100,000 farmers are expected to have completed a training on sustainable agriculture land management. Depending on the project context, the training will include multiple training components from the following range of 9 categories: 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 a carbon 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 on-site training through demonstration farms/plots of farmers and theoretical training.

C.Climate change: Prevent the release of at least 20 million tCO₂eq into the atmosphere, through a mix of avoided GHG emissions (6.2 million tCO₂eq) or increased C sequestration in biomass, soil, and sediments (13.8 million tCO₂eq). 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 derisk the generation of such credits, thus contributing to strengthening the supply side of carbon markets. As a Class B investor, GEF is repaid in cash after the carbon credits are sold. Therefore, to avoid double counting of mitigation outcomes, GEF is not able to claim any

climate change results against GEF7 corporate scorecard targets through Core Indicator 6 and will not account for the estimated volumes of emission savings to be generated by the project

Livelihoods has been adopting innovative carbon certification methodologies with the most trusted and demanding carbon certification bodies, like Gold Standards or VCS, to verify and certify its targets with regards to GHG emissions and the generation of carbon offsets. Depending on the project type, a range of carbon methodologies may be used such as to name a few:

□ AR-ACM0003: Afforestation and reforestation of lands except wetlands --- Version 2.0 : This methodology under the CDM is also applicable under Verra and allows afforestation and reforestation of any land that does not fall into the category of wetland.

<https://cdm.unfccc.int/methodologies/DB/C9QS5G3CS8FW04MYYXDFOQDPXWM4OE>

□ AR-AM0014 “Afforestation and reforestation of degraded mangrove habitats”, v. 3.0 : This methodology under the CDM is also applicable under Verra and is valid to large scale afforestation and reforestation projects defined as generating more than 16 kilotons of CO₂ per year. This methodology allows afforestation and reforestation of wetland that constitutes degraded mangrove habitat whereas degraded mangrove habitat is defined as wetlands where, in their natural state, mangrove vegetation can grow and have soil or sediment that is usually water-logged with water that is saline or brackish, and that were subjected to impacts resulting in decrease of forest cover below that reported by the host Party to the CDM Executive Board according to paragraph 8 of annex to Decision 5/CMP.1 (A/R CDM modalities and procedures).

<https://cdm.unfccc.int/methodologies/DB/KMH6O8T6RL3P5XKNBQE2N359QG7KOE> and https://www.ipcc-nggip.iges.or.jp/public/gpglulucf/gpglulucf_files/Glossary_Acronyms_BasicInfo/Glossary.pdf

The methodology allows the use of mangrove species and non-mangrove species, but in case of more than 10 per cent area being covered by planting of non-mangrove species it prohibits changes in the hydrology of the project area. The methodology restricts the extent of soil disturbance in the project to be no more than 10 per cent. Project activities applying this methodology may choose to exclude or include accounting of any of the carbon pools of dead wood and soil organic carbon but cannot include the litter carbon pool.

□ VM0017 Adoption of Sustainable Agricultural Land Management, v1.0 . The methodology quantifies the GHG emission reductions of sustainable land management practice activities that enhance aboveground, belowground and soil-based carbon stocks of agricultural areas. The methodology applies input parameters to analytic, peer-reviewed models to estimate the organic soil carbon density at equilibrium in each of the identified management practices in each land use category. The methodology is applicable to projects that introduce sustainable management practices to an agricultural landscape where the organic carbon in the soil would have remained constant or decreased in time without the intervention of the project. <https://verra.org/methodology/vm0017-adoption-of-sustainable-agricultural-land-management-v1-0/>

□ Smallholder Dairy Methodology: Methodology for GHG Emission Reductions from Smallholder Dairy Production Systems . This Gold Standard methodology covers project activities that decrease the GHG emissions intensity of milk production on smallholder dairy farms in a defined geographic region to achieve GHG emission reductions. Sources of GHG emission reduction can emanate from enteric methane emissions, emissions from manure management and/or emissions embodied in feed per kg of fat and protein

corrected milk produced. The methodology is applicable to dairy production operations, specifically from cattle and buffaloes only (not sheep, goats, or others). https://www.goldstandard.org/sites/default/files/documents/gs_dairy_methodology.pdf

D. 475,500 direct beneficiaries increase income as a direct result of participating in and benefiting from the portfolio of projects financed by LCF3.

The social, economic and environmental impacts generated by LCF3 will range depending on the type of carbon project and the local context.

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 among the many players that are progressively committing to offsetting. As such, LCF3 carbon offsets will i) focus on NBS; ii) generate positive social and economic impacts for rural communities in developing countries; and iii) be verified by best-in class carbon standards, Verra & 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 spill overs.

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.

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[30]²⁹.

With a project portfolio expected to include at least 16,500Ha of mangrove and coastal habitat restoration & 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 (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[31]³⁰). When also factoring in benefits associated with avoided emissions projects, LCF3 is expected to benefit 217,500 people through lower exposure to health hazards and injuries over a period of at least 7 years.

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, LCF3's 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 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 would 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.).

Illustrative examples of potential value chain related investments taken from LCF2's portfolio of projects can be seen below.

Eco-tourism under a mangrove restoration and conservation initiative

The development of ecotourism activities around the mangroves holds multiple benefits. It provides local villages with an income generation opportunity generated from entrance fee, parking fee, souvenirs sales, tourist activities and food sales. These opportunities contribute to the reinforcement of the community-based mangrove protection activities, not only to safeguard their livelihoods, but also a source of community pride in its preserved ecosystem and enriched biodiversity.

Inputs for
Eco-tourism sites :
Mangrove plantation
sites near riverbanks

Labor for construction
and maintenance of eco-
tourism sites, as guides
to visitors, other services
in hospitality

Value directly captured by communities

Value aggregation:

The project will look at
transformation(s) that
can add value:

- Advertising and
promotion
- Improving quality of
services

Marketing:

The project will look at
developing markets

- International market?
- Domestic market?

Value creation, indirectly benefitting the
communities

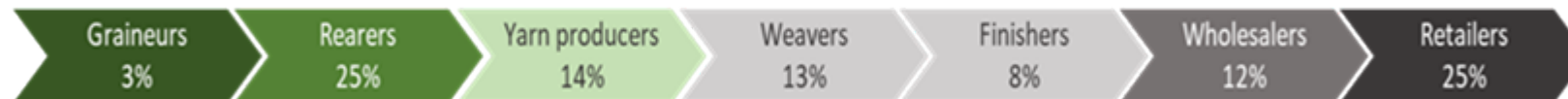
Silk production from an agroforestry initiative



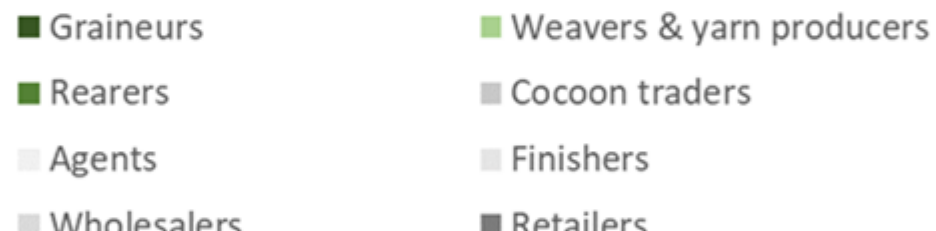
Improve value chain

- Shorten the value chain
- Integrate the yarn producers in the communities

Innovative value chain



Improve the value sharing for producers



6) *innovation, sustainability and potential for scaling up.*

Innovation

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) will 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 & LCF2 where carbon offsets were distributed as in-kind dividend only, LCF3 will adopt a dual dividend distribution mechanism to enable DFIs and impact investors to receive cash dividends. Two classes of shares will be 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 enter into long-term offset sale agreement with one or more buyer(s) among LCF3 corporate investors or others.

This set-up establishes synergetic strategies between the two sorts of investors. Corporate investors will commit to a VERs offtake contract in favor of financial investors on the basis of a volume of carbon offsets and an offtake price. In exchange for a long-term offtake agreement at an agreed pricing formula, financial investors will 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 investor will not be subject, however, to a supply or pay clause.

The role of financial investors (Class B) would be to pre-finance the generation of carbon offsets, thanks to their equity participation in LCF3, which the in-kind investors (Class A) would 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 and potential for scaling up

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 will capitalize 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.

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.**

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1b. Project Map and Coordinates

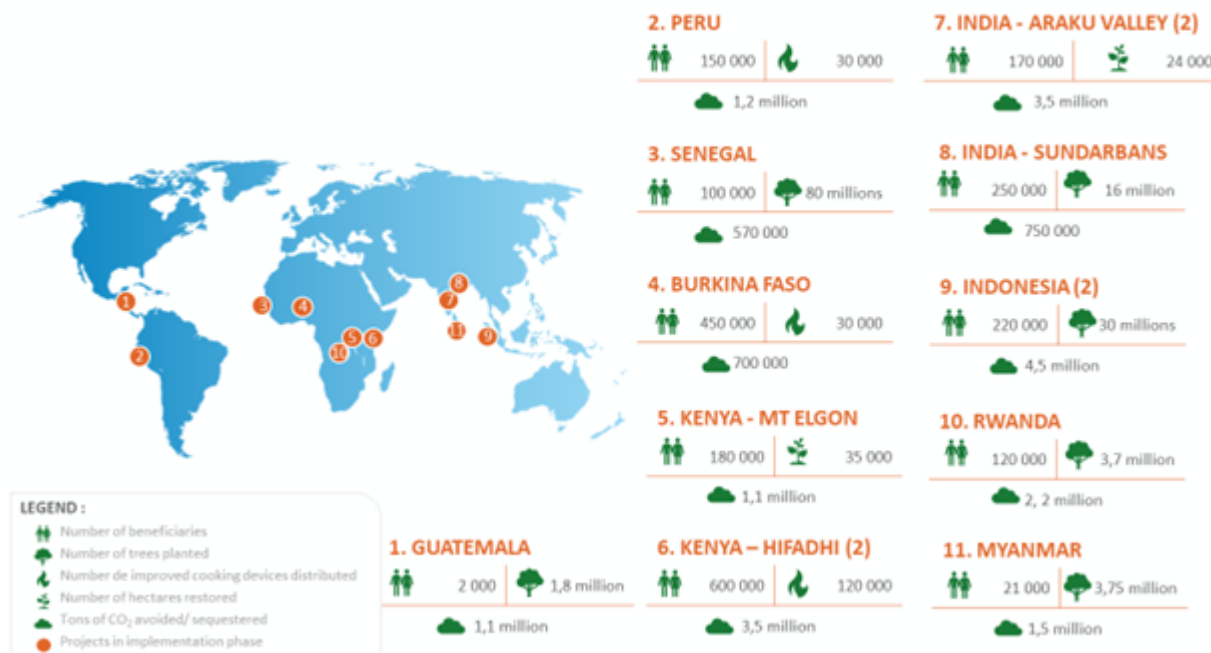
Please provide geo-referenced information and map where the project interventions will take place.

1b. Project Map and Coordinates. Please provide geo-referenced information and map where the project interventions will take place.

LCF1 & LCF2 has successfully invested to-date in 14 large scale projects across the 3 above-mentioned clusters, in Africa, Asia and Latin America. All investments have the ability to reduce emissions and/or sequester large amounts of CO₂, while delivering impact at the same time.

The project portfolio of LCF1 & LCF2 to-date is depicted in the below map.

FIGURE 1: LCF1 & LCF2 PROJECT PORTFOLIO & PIPELINE MAP



•As depicted in the above graph, one common characteristic between LCF1 and LCF2 carbon projects' is their geographical concentration in the tropics where 1) imported deforestation (cacao, palm oil, soya, etc.) is more pronounced (e.g. between 2000–2011, 40% of tropical deforestation came from commodity crop production[28]); 2) trees grow faster and terrestrial biodiversity is richer[29]; 3) fuelwood sourcing is more concentrated (inhabitants are estimated to consume c.1,400 million m³ of fuelwood per year[30] out of a total 1,954 million m³ of global fuelwood production in 2020[31]); and 4) poverty levels are higher[32]³¹.

LCF3 will continue to allocate its investments globally 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 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.

ii) Replicate current LCF models in other geographies

Based on the knowledge that has been accumulated by LCF on the 3 clusters, LCF3 will also explore 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 will also continuously explore 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.

[1] 2018 Intergovernmental Panel on Climate Change Report.

[2] United Nations Framework Convention on Climate Change (UNFCCC).

[3] "Nature-Based Solutions in NDCs" – IUCN and University of Oxford, 2019.

[4] "Only around 17% of NDCs with current or planned actions involving NBS for adaptation (i.e. ecosystem- based adaptation) set quantifiable and robust targets. Similarly, although over 70% of NDCs are estimated to contain references to efforts in the forest sector, only 20% of these include quantifiable targets, and only 8% include targets expressed in tons of carbon dioxide equivalent." – [NBS in NDCs](#) report.

- [5] The IUCN defines NBS as ‘actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits’ - [WCC-2016-Res-069](#).
- [6] [UN Global Compact](#)
- [7] Statement from IUCN Acting Director General, Dr Grethel Aguilar.
- [8] [FAO, Action Against Diversification website](#) - last accessed Feb. 2019.
- [9] “[Land in numbers 2019: Risks and opportunities](#)” – UNCCD, 2019
- [10] “[World Urbanization Prospects](#)” - UN, 2018
- [11] “[Urban Development](#)” – The World Bank website, last accessed in February 2020.
- [12] “[Global Energy & CO2 Status Report](#)” – International Energy Agency, 2019
- [13] “[World population prospects](#)”, UN 2019
- [14] “[Joint Atlas of Desertification](#)” - Joint Research Centre of the EC website, last accessed in February 2020.
- [15] “[Desertification and agriculture](#)” – European Parliament, 2020
- [16] “[Climate change and land](#)” – IPCC, 2019
- [17] “[Making finance serve nature: From the niche of conservation finance to the mainstreaming of Natural Capital approaches in financial systems](#)” – Finance Watch, 2019
- [18] The increase is 342% for A/R offsets
- [19] “[Mangroves Shielded Communities Against Tsunami](#)” - World Wildlife Fund, ScienceDaily. ScienceDaily, 28 October 2005.
- [20] Danone, Crédit Agricole, SAP, Caisse des Dépôts et Consignation, Voyageurs du Monde, La Poste, Schneider Electric, Hermès International, Michelin, Firmenich, Eurofins Scientific, Crédit Agricole Nord-Midi Pyrénées.
- [21] [Livelihoods Charter](#)
- [22] NOTE: While LCF include a focus on carbon avoidance through energy / cookstove projects, GEF funding will not be directed towards this cluster of projects.
- [23] “[Scaling-up Nature-Based Solutions for Mitigation, Resilience and Adaptation](#)” – UNEP website, last accessed Feb. 2020
- [24] “[At COP 25, corporate climate movement grows exponentially as new companies announce plans to align with a 1.5°C future](#)” – Science Based targets, 2019.
- [25] “[Gender quotas increase the equality and effectiveness of climate policy interventions](#)” - Cook, Nathan J., Grillos, Tara and Andersson, Krister P. 2019, Nature Climate Change. 9, 330–334 (2019).
- [26] “[Mangroves Shielded Communities Against Tsunami](#)” - World Wildlife Fund, ScienceDaily. ScienceDaily, 28 October 2005.
- [27] Aqua-silviculture’ is a multiple use system that promotes a harmonious co-existence between fishery species and mangrove tree species in a semi-enclosed system while providing coastal protection and maintenance to the ecosystem” (Bacongus 1991).
- [28] “Trading forests: land-use change, and carbon emissions embodied in production and exports of forest-risk commodities” - Henders S, Persson U M and Kastner T 2015, Environ. Res. Lett. Vol. 10 Number 12
- [29] “Tropical rain forests: An ecological and biogeographical comparison” Corlett, Richard T. and Primack Richard B. 2005. Blackwell Science Ltd.

[30] “How can emissions from woodfuel be reduced?” in Realising REDD+: National Strategy and Policy Options” - A. Angelsen, M. Brockhaus, O. Hofstad, G. Kohlin, and J. Namaalwa, M. Kanninen, E. Sills, W. D. Sunderlin, and S. Wertz-Kanounnikoff, Eds., pp. 237–249, Center for International Forestry Research, Bogor, Indonesia, 2009.

[31] “Past trends and future prospects for the utilization of wood energy” - J. Broadhead, J. Bahdon, and A. Whiteman, Annexes 1 and 2. “Global Forest Products Outlook” - FAO, 2001.Study Working Paper No. GFPOS/WP/05.

[32] “Tropical underdevelopment” - Sachs, Jeffrey D., Working paper 8119.

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2. Stakeholders

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

Indigenous Peoples and Local Communities No

Civil Society Organizations No

Private Sector Entities No

If none of the above,please explain why: Yes

Indigenous peoples civil society and the private sector were not directly consulted in the design of LCF3 as the fund is still in the design phase. However, LCF3 will build on the stakeholder engagement done through LCF1 and LCF2. The table below describes how the different stakeholders will be consulted throughout the life of the project. In addition, a stakeholder engagement plan developed during the PPG phase that complies with the CI-GEF safeguard policies.

In addition, provide indicative information on how stakeholders, including civil society and indigenous peoples, will be engaged in the project preparation, and their respective roles and means of engagement.

LCF3 is a multi-stakeholder platform bringing together civil society organisations, local communities, private corporations, financial investors (both, public and private) and governments. Stakeholder consultation and engagement is the cornerstone of LCF3 innovative model, and the tool to establish a dialogue with interested parties and offer them maximum visibility into LCF3 processes and investments. Below, a summary of LCF3’s key stakeholders and associated means of engagement.

STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
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STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
Project developer (CSOs)	Project developers are typically local Civil Society Organizations (CSOs), in charge of the implementation of the LCF3 projects with local communities.	Direct approach during the development of LCF3's project pipeline (project sourcing and design) as they will be involved in a co-creation process with LV. The Free, Prior and Informed Consent framework shall be implemented through the respective local project developers and thanks to a contractual commitment, with this respect, with the project developer at the onset of project launch.	Responsible for the dissemination of LCF3 activities and outcomes (in charge of producing communication and dissemination activities, reports, etc.) in collaboration with LV and / or investors. Direct participation in communication and dissemination activities as deemed necessary.

STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
Indigenous Peoples and Local Communities	<p>Indigenous Peoples and Local Communities are the end-beneficiaries of LCF3 projects. LCF3 advocates for an early, direct engagement of project beneficiaries and their active involvement during project implementation to facilitate local ownership of the project. Local Communities are fully aware of their commitments under the project through a Free, Prior and Informed Consent framework.</p> <p>As it was the case with previous carbon funds, LCF3 projects involving indigenous peoples will seek to build sustainable livelihoods models rooted in indigenous' culture and the values. As an illustrative example, the LCF1 Araku project in India is based on a thorough understanding of the very deep and ancestral link between the Adivasis (the inhabitants of the Araku valley where the project is currently being implemented) and nature, soil, trees, plants, water, etc.</p> <p>With the objective of stopping land degradation, restoring soil fertility, and diversifying sources of income for local communities without eroding these people's values, LCF1 supported the implementation of an integrated model including bio-dynamic farming practices, strengthening of farmers' organizations and social programs, and building upon the social dynamics of the community.</p> <p>During the design process, and with the support of our project implementer (the Naandi Foundation) farmers expressed their motivation to bring back their ancient coffee production practices into the valley with Naandi's support. Naandi mobilized 25,000 women and men Adivasi farmers to plant 6 million trees to restore their forest and increase their food security with 18 varieties of fruit trees per hectare on small plots across</p>	Local stakeholders' inputs and dynamics are incorporated in the design of the project through direct consultation, in collaboration with project developers. The Free, Prior and Informed Consent framework shall be implemented through the respective local project developers and thanks to a contractual commitment, with this respect, with the project developer at the onset of project launch.	Direct communication with project developer and the private sector (LV and / or their investors). Direct participation in communication and dissemination activities as deemed necessary.

STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
Private Sector Entities	Private sector entities are at the of the LCF initiative and will engage in LCF3 as equity investors and/or offtakers (of carbon credits and project commodities).	As investors & carbon credits offtakers, LV engages directly with private sector entities during the sourcing and structuring of the investment fund. Engagement and negotiations with private sector entities have already commence. As offtakers[1] of the project commodities, corporations will be engaged as deemed necessary on a project per project basis, and according to the specific objectives of the initiative (either during project's design or implementation).	Direct communication with LCF3. Progress and annual reports. Direct participation in communication and dissemination activities as deemed necessary.
Financial Investors	Financial investors (private – impact investors – and public – DFIs) will engage in the LCF3 coalition as equity investors, obtained a financial return thanks to the monetization of their carbon offsets by one or more historic &/or newly entrant corporate investors.	As equity investors, LV engages directly with financial investors during the sourcing and structuring of the investment fund. Engagement and negotiations with financial investors have already commence.	Direct communication with LCF3. Progress and annual reports. Direct participation in communication and dissemination activities as deemed necessary.
Governments	The changed rational 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.

STAKEHOLDER	MEANS OF CONSULTATION/INVOLVEMENT DURING PROJECT EXECUTION	THE MEANS AND TIMING OF ENGAGEMENT	THE MEANS OF INFORMATION DISSEMINATION
Co-funding / financing organizations (public and/or private)	External sources of funding (grants, loans, equity) will be sought as needed, to provide additional start-up finance to emerging local economic activities and / or to increase the development impact of LCF3's initiatives. Typical co-funding partners will be Development Agencies, Private Foundations, Multilateral institutions, etc.	Engagement with co-funding partners will be studied on a project per project basis, according to specific needs. Engagement will be done either at project design or implementation stage, depending on specific needs.	Typically, a specific communication and dissemination plan will be developed in collaboration with co-funding partners, to comply with their own dissemination requirements. However, dissemination of information will also take place through direct communication with LCF3, progress and annual reports, and direct participation in communication and dissemination activities (if needed).
Certification entities	LCF3 will mobilize external expertise in relation to the carbon certification processes and monitoring methodologies in the project's target areas, as carbon offsets are certified and issued under the most trusted and demanding carbon offset standards (Gold Standards or Verra).	Direct engagement at project design (to evaluate the project's carbon offsetting potential) and implementation (for monitoring and certification).	Direct communication where appropriate and online material.

[1] LCF3 equity investors and offset offtakers will not be in any way obliged to source commodities from the project. However, LV will support the development of market linkages between project beneficiaries and the private sector, whenever feasible.

3. Gender Equality and Women's Empowerment

Briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis).

One of the main goals of LV Fund's investments is the improvement of the social and economic conditions of farming families where both, men and women contribute to income and resilience. LV is in the process of developing a gender policy that applies to all funds, to ensure a systematic approach to gender equality and women empowerment across the portfolio of projects.

LV's gender policy aims to have a easy to follow approach to describe those processes that project managers and developers need to follow to a) avoid gender bias in project decision making; b) avoid activities that could generate gender inequalities; c) promote and support empowerment pathways; and d)

assure equity in project opportunities. Within this policy, farming families will be considered as the main economic and social reproduction unit on which the impacts are evaluated.

Projects across all Livelihoods Funds will generate tangible socio-economic benefits that are identified during the initial design process, to ensure that they are accessible to all, men, women and young people. Investments must consider the specific social and cultural context as well as the needs of the families and communities involved in the project. This approach is particularly important to avoid unplanned, negative impacts of projects such as the unequal access to land by men and women, and the inherent risk of excluding women and youth from the project benefits and activities.

Empowerment index pilot application.

Livelihoods Venture is currently evaluating the suitability of establishing an empowerment index rooted in: 1) understanding women's workloads and use of time in domestic and productive activities; 2) women's access to resources, in particular natural resources, land, agriculture and food security; 3) women's participation and leadership in community groups and training spaces; 4) household income; and 5) women's ability to make decisions without fear. This index could be included in the project cycle, so project indicators are defined based on such considerations.

The table below shows how LCF3 could approach gender mainstreaming across the project cycle based on the latest version of the LV's gender policy.

PROJECT DESIGN	
Concept note	Project discovery phase includes a request of the description of the potential project benefits segregated by sex.
Project coalition and co-design	Encouragement for engaging women and men from technical partners and from the community members in project design.
Selection of project activities	Gender analysis and participatory consultations with the communities are conducted in the project area, and include a description of a) access and control of natural resources; b) position of men and women in the community and local organizations; c) needs and knowledge of project topics by gender; and d) use of time of women and men. Secondary data on women and men social and economic conditions could be also collected.
Investment Committee Project Document	Definition of the activities and benefits for men and women. A gender equality outcome and indicators are also described as part of the theory of change of the project. Gender equality impact goal is based on the empowerment index. Process indicators are defined for outputs and outcomes.

IMPLEMENTATION AND MAINTENANCE	
General	Selection of project staff should consider equal opportunities for women and men professionals for technical aspects and managerial positions. A reference person for gender and social issues must be appointed by the project manager.
<i>Current practices and guidance for the LCF3 project types</i>	
Agroforestry projects	Men and women have equal access to information about the project activities and goals. Men and women have specific inputs into the agroforestry system and benefits are clear for the family. Women are empowered to access capacity building opportunities and decision-making positions.
REDD	REDD projects must have a human rights approach so no project should be considered if access to natural resources for livelihoods is prevented.
Mangroves	Men, women and youth are encouraged to participate in mangrove restoration activities. Project should include livelihoods components in areas such as fisheries, ecotourism and other non-timber forest products promoting gender equity and participation.
PROJECT MONITORING	
Technical monitoring of carbon offsets	Women and men should be considered as part of the technical teams for carbon measurements.
Activities to incentive permanence and maintenance	Project partners leverage additional opportunities to support the long-term permanence of the project. In this phase, young people and women are targeted as the main beneficiaries.

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; and/or Yes

generating socio-economic benefits or services for women. Yes

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

Yes

4. Private sector engagement

Will there be private sector engagement in the project?

Yes

Please briefly explain the rationale behind your answer.

Private sector engagement is at the core of the LCF3 initiative: The Livelihoods family of investment funds is rooted in the commitment made by many private sector companies in the context of the COP21 and the SDGs defined by the United Nations. LCF3 embodies a growing trend among corporates across the world that increasingly and publicly commit to reducing their scope 1-2-3 emissions and offsetting part or whole of their remaining GHG emissions, through science-based emission reduction commitments (Science-Based Target Initiative). LCF was initiated by the private sector – Danone, a French multinational food-products corporation – and subsequently joined by 11 additional equity investors from the private sector (both corporate and financial institutions). LCF3 will be supported by some of the Livelihoods' historic corporate investors, and newly entrants from both, the corporate and financial sectors.

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 (table format acceptable)

The project recognises that the Corona Virus Pandemic (COVID19) may cause delays and/or slow down implementation of project activities due to delays in stakeholder consultations, in ability to travel, in recruiting staff and consultants. At the beginning of the PPG phase, the project will design appropriate mitigation measures to address COVID-19. In addition, project staff should avoid travel and follow CI-GEF COVID guidelines (provided as a separate attachment).

The LV team has identified & assessed risks associated to LCF3 investments & activities and defined the most appropriate response to mitigate and communicate them. 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 continuing; 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.

RISKS	RISK RATING (HIGH, SUBSTANTIAL, MODEST, LOW)	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>M1.1. <u>Payment instalments and results-based payments.</u> Out of a theoretical estimated project cost of 100, the investment profile dynamic is growing so that the first plantation campaign is smaller than the subsequent ones, representing ~15% of total project costs. Out of this first-year investment (15 % of total project costs), only 30% - 40% is disbursed as advanced payments before an actual result can be measured and the risk is therefore limited (approximately 4.5% to 6.5% of total project costs). In other words, 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>M1.2. <u>Bank account.</u> 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.</p>
<p><i>R2. Project management.</i></p> <p>Inadequate / Insufficient technical expertise of the project developer's team and/or adaptation of agronomic planning and/or funding diversion.</p>	M	<p>M2.1. <u>Due diligence (pre-investment) and monitoring (implementation).</u> 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 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.</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>

RISKS	RISK RATING (HIGH, SUBSTANTIAL, MODEST, LOW)	RISK MITIGATION MEASURES
<p><i>R3. Financial viability.</i></p> <p>Likelihoods that the project is self-sustained rapidly or that it secured 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 on 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 dispute 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 the value created. Land tenure and land use rights are addressed at project design stage. The project is protected by a legally binding agreement which allows to continue project activities 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). The project generates net positive impacts on the social and economic well-being of the local communities who derive livelihood from the project area. 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 to ensure 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 even cause project interruption.</p>	M	<p>M6.1. <u>Due diligence, research and political risk analysis at project sourcing stage.</u> Furthermore, LV will confirm 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. Natural hazards.</i></p> <p>Natural hazards such as fire, pest, hurricanes, earthquakes etc. can have adverse impacts and/or even cause project interruption.</p>	H	<p>M7.1. <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 in respect with 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. In the case of e.g. LCF2, the fund can't invest unless if given Board approval, more than 30% in the same Project, or with same Project Developer or within the same country or state within a federal system. Additionally, LCF will evaluate the viability of including monitoring. M7.2. <u>Contingency budget.</u> On a project per project basis, LCF3 will evaluate 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. Additionally, LCF3 will evaluate the suitability of implementing early warning and response measures on a project per project basis.</p>

6. Coordination

Outline the institutional structure of the project including monitoring and evaluation coordination at the project level. Describe possible coordination with other relevant GEF-financed projects and other initiatives.

Across all of its investment portfolio, LCF3 will comply with the same managerial principles which guided investment decision & monitoring for the LCF1 & LCF2 to-date, namely (i) a hands-on management of the projects to ensure an efficient, impactful & sustainable project design and a smooth long-term implementation, and (ii) the allocation of roles across the various project phases of design, implementation and monitoring, evaluation & maintenance as follows:

i. 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. Spread across 4 departments, Technical & Innovation, Development, Finance and Communication, LV's team brings the following set of niche expertise:

- 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, LV has successfully launched 3 impact investing funds, with 12 French, German, American, Belgian and Swiss private sector investors across a wide range of industries ranging from food processing, to banking and industrial manufacturing.

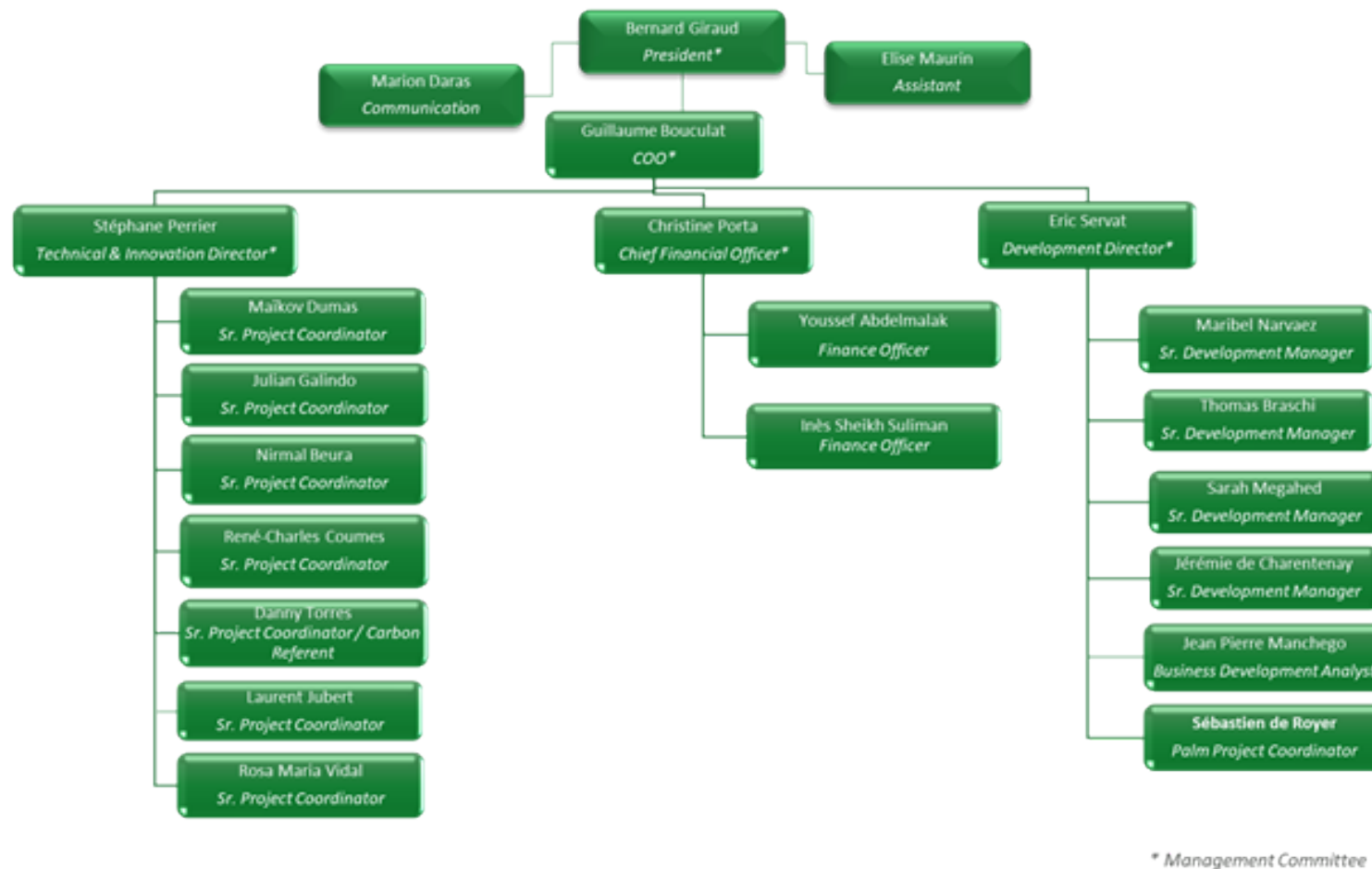
- Investing in the land-use and forestry sector:** The investment team holds a strong academic and professional track-record in agronomy with specialties in forest carbon, landscape protection, the diffusion of sustainable farming practices, smallholder farmer economics, tropical agronomy, last-mile 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.

- 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.

- 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.

Financial management and co-financing: auditing, financial statement analysis, compliance due-diligence, financial modelling and securing co-financing. LV has obtained more than US\$11 million

FIGURE 1: LIVELIHOODS VENTURE ORGANISATION CHART



- i. **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 & socio-economic challenges faced by the local communities. They are generally a driving force for change, trusted by local communities & 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 & 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 & 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) and that throughout the project life. During the monitoring phase, with some support from LV, the project developer collaborates with the carbon auditors in order to generate the internationally certified carbon offsets: defining a data sample, physical data measurement, etc.

ii. 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 a third-party independent consultant 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.

iii. 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 (ex: for designing an online database) 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.

Coordination with other relevant GEF-financed projects and other initiatives:

LCF3 will seek to coordinate its activities with other projects or initiatives supported by GEF. An initial selection of these are presented on the table below.

INITIATIVE	COORDINATION
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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 to 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 targeting market gap for affordable finance for 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, Côte 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.

7. Consistency with National Priorities

Is the Project consistent with the National Strategies and plans or reports and assesments under relevant conventions

Yes

If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, INDCs, etc

LCF3 will allocate its resources globally across multiple geographies in developing countries and countries in transition. Specific regions to be targeted through LCF3 investments will be known as the pipeline of projects is developed within the first 4 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 the following conventions:

- The Convention on Biological Diversity (CBD).
- The Nagoya Protocol on Access to Genetic Resources.

- The United Nations Framework Convention on Climate Change (UNFCCC).
- Sustainable development goals (SDGs).

Consequently, LCF3 is expected to be aligned with the National Bio Strategy Action Plan (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.

LCF3 seeks to mainstream biodiversity conservation and sustainable use across the agriculture and forestry sectors 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.

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.

LCF3 will mobilize financial resources of US\$108, with over 75% coming from the private sector (both, corporations and financial institutions), and thus help to streamline private sector investment in natural capital.

Thanks to LCF3 investments, 88,400 Ha of land will 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).

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.

Further, 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 tCO₂eq. 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).

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 ii) create measured social and environmental value connected with SDGs.

At fund level, we are still in the process of designing LCF3 reporting system and its contributions towards the SDGs. However, it will at minimum have a similar structure to the one develop for LCF1 and LCF2 (see [Figure 3](#)).

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. Here follows, as an illustration, an SDG analysis of active projects in LCF1:

FIGURE 8: AGROFORESTRY PROJECT IN KENYA (30,000 PEOPLE - 20,000Ha)



FIGURE 9: MANGROVE PROJECT IN INDONESIA (20,000 PEOPLE - 5,000Ha)



8. Knowledge Management

Outline the Knowledge management approach for the Project, including, if any, plans for the Project to learn from other relevant Projects and initiatives, to assess and document in a user-friendly form, and share these experiences and expertise with relevant stakeholders.

- 1) Overview of existing lessons and best practices that inform the project concept with proper references/links to relevant documents.

A knowledge management approach relying on 10 years of experience in impact financing

Since the launch of its first Carbon Fund in 2011, Livelihoods' mission has been defined as follows: "support the efforts of agricultural and rural communities to live in sustainable ecosystems which serve as the foundation of their food security and provide the resources that ensure their sustainability". In that sense, Livelihoods is a coalition of actors joining forces to provide the means to restore or preserve degraded natural ecosystems that are vital both to tackle climate change and the lives of local communities. To

achieve this goal, Livelihoods acts as an impactful-driven network that brings together economic actors, institutions and organizations to achieve measurable and high-scale environmental, social and economic impact. By leveraging the carbon economy, the Livelihoods Carbon Funds are helping corporates and financial partners reduce their carbon footprint thanks to high-added value carbon offsets on the one hand and provide local communities with vital resources on the other hand.

The above Livelihoods Funds mission has been defined in the [Livelihoods Funds Charter](http://www.livelihoods.eu/wp-content/uploads/2017/11/Livelihoods_Funds_Charter_V2015.pdf) (http://www.livelihoods.eu/wp-content/uploads/2017/11/Livelihoods_Funds_Charter_V2015.pdf) and shared regularly through its network (investors, partners, media, greater audience). For 10 years, our knowledge sharing approach and communication strategy have been focusing on monitoring the advances and challenges of our projects in the field, share experience and key learnings with our investors and partners in full transparency. Livelihoods has also been leveraging the media and wider audience to showcase concrete examples of carbon projects that have proved to be efficient in the field. In the overall context of urge to accelerate climate action, Livelihoods communicates on measured impact and paves the way towards an economic model where the private and the public sector can join forces to accelerate climate action in a win-win partnership.

A communication strategy focusing on paving the way towards impactful carbon compensation

In a context of existing criticism on the carbon compensation market, the Livelihoods Carbon Funds reminded in January 2020 its positioning to drive impactful carbon projects. This positioning relies on the results of the concrete impacts driven in the field through LCF1 and LCF2. Read more about [the Livelihoods 7 pillars for impactful carbon compensation](http://www.livelihoods.eu/carbon-compensation-livelihoods-point-of-view/) (<http://www.livelihoods.eu/carbon-compensation-livelihoods-point-of-view/>) published on January 30th.

Aligned with previous communication strategies implemented under LCF1 and LCF2, LCF3 knowledge management will rely on sharing the results and achievements but also key learnings of the funds' innovative investment model (coupling carbon compensation with strong social, environmental and economic benefits in Asia, Africa and Latin America).

Leveraging external knowledge, scientific research, awareness campaigns

Within Livelihoods, knowledge management is a key lever to raise awareness about the carbon projects we are implementing, to follow-up their impacts in the field, and provide its stakeholders with full visibility, but also link them to the wider context of climate change acceleration, biodiversity decline and increasing pressure from young populations, consumers and scientists towards governments and the private sector to build resilience.

Beyond communicating on its projects' achievements and impacts, Livelihoods also leverages external momentums and scientific research material to help its network better understand complex issues (including climate change adaptation, mitigation, agroforestry models, research on biodiversity preservation). Livelihoods is also building crossed-communication campaigns to valorize its investors' progress work on addressing climate change, farmer poverty, sustainable supply chains, carbon neutrality. LCF3 communication strategy will have a similar approach to that implemented across LCF1 and LCF2. Below, a short summary of the fund's campaigns.

Previous Livelihoods communication campaigns on transversal topics include:

- Campaign on the key learnings from the [IPCC report on Climate Change and Land](#) – September 4th 2019:

- o Includes [key learnings from Livelihoods Carbon projects for land restoration](http://www.livelihoods.eu/cop14-4-questions-bernard-giraud-land-restoration/) (<http://www.livelihoods.eu/cop14-4-questions-bernard-giraud-land-restoration/>)
- o Includes website, social media and newsletter content (8,000 subscribers to the Livelihoods newsletter).
- o This campaign was launched during the [United Nations Convention Combat Desertification - COP14](https://www.unced.int/conventionconference-parties-cop/cop14-2-13-september-new-delhi-india) (<https://www.unced.int/conventionconference-parties-cop/cop14-2-13-september-new-delhi-india>) held in New Delhi, where Livelihoods participated in conferences to showcase concrete results and key learnings from the field.
- Campaign on the [launch of One Planet Business for Biodiversity coalition](http://www.livelihoods.eu/op2b-coalition-launch-un-climate-week-biodiversity/) (<http://www.livelihoods.eu/op2b-coalition-launch-un-climate-week-biodiversity/>) (OP2B), of which Livelihoods is an active member, during the UN Climate Week, September 2019.
 - o Includes [An interview with Emmanuel Faber, CEO of Danone](http://www.livelihoods.eu/emmanuel-faber-interview-op2b-coalition/) (<http://www.livelihoods.eu/emmanuel-faber-interview-op2b-coalition/>): Danone world food company is a key investor in the Livelihoods Carbon Funds and active member of OP2B coalition.
 - o Includes an article from Livelihoods on [key learnings from the latest IPBES report on biodiversity loss](http://www.livelihoods.eu/biodiversity-loss-6-things-to-know/) (<http://www.livelihoods.eu/biodiversity-loss-6-things-to-know/>).
 - o This campaign includes website, social media, newsletter content as well as the participation of Livelihoods at the UN Climate Week, in New York, during which the launch of OP2B coalition was announced.
- Campaign on the [Farmer Income Lab from Mars Incorporated](http://www.livelihoods.eu/farmer-income-lab-innovative-approach-mars/) (<http://www.livelihoods.eu/farmer-income-lab-innovative-approach-mars/>)(Mars is a key investor in the Livelihoods Funds), in October 2019.
 - o Includes an [interview with Barry Parkin](http://www.livelihoods.eu/barry-parkin-interview-farmer-income-lab/) (<http://www.livelihoods.eu/barry-parkin-interview-farmer-income-lab/>), Mars Chief Procurement and Sustainability Officer.
 - o Includes [key learnings from the Livelihoods Funds to address farmer poverty](http://www.livelihoods.eu/poerty-farmer-income-big-debate/) (<http://www.livelihoods.eu/poerty-farmer-income-big-debate/>).

2) Plans to learn from existing relevant projects, programs, initiatives & evaluations with proper references/links to relevant documents.

Beyond project monitoring, field visits addressed to our stakeholders and a wider audience:

Livelihoods Carbon projects are complex as they address climate, social and economic for the benefit of farmer and vulnerable rural communities simultaneously. Its communication strategy has therefore focused on collecting the data from the field in their monitoring and carbon verification phases, but also organizing field visits to help a wider audience experience the Livelihoods Carbon projects in the ground. Livelihoods is organizing conventions and field trips addressed to its Board of Directors but also its investors employees and the media.

Key annual momentums to ensure the projects monitoring and impact measurement:

The achievements, challenges, key learnings and impacts of the Livelihoods carbon projects are discussed and shared with its stakeholders several times a year. The Livelihoods Carbon Investment Committee takes place 3 times a year, while its Board of Directors meets twice a year to provide a detailed overview of the projects' investments, impacts, roadmap and challenges.

Reports are filled in with our partner NGOs, coordinated by dedicated Livelihoods projects managers in the field and in most cases with the support of consultants to ensure expertise in measuring the impacts and results of our projects.

For every Livelihoods Carbon Fund project, these evaluations include carbon verifications, project activities implementation, activity baseline and monitoring surveys, changes in the farmers livelihoods (and their families), reduction and removal of GHG emissions.

In addition, 10 years after its launch, Livelihoods led a study to measure the social and economic impacts of its first mangrove restoration project in Senegal. Read more about the [Results of the study on the social impacts of the largest mangrove restoration project of the Livelihoods Carbon Fund in Senegal](http://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/) (<http://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/>).

Similar studies can be conducted to measure the impacts generated by the Livelihoods Carbon Fund 3.

3) Proposed processes to capture, assess and document info, lessons, best practice and expertise generated during implementation.

During implementation, key learnings, best practices and generated impacts will be evaluated and shared through specific reports (yearly) and a dedicated dashboard that will be updated on a regular basis.

Share of knowledge will be conducted with our local project implementers (NGOs) through project reports but also communication material that will tackle transversal issues addressed across several projects. These topics will include farmer poverty, climate action acceleration, gender equality, and income generating activities for younger farmers.

Livelihoods will share the key learnings and progress of each one of the LCF3 projects through the following communications material:

- A dedicated webpage on Livelihoods [website portfolio of projects](http://www.livelihoods.eu/portfolio/) (<http://www.livelihoods.eu/portfolio/>).
- [Key impacts and figures](http://www.livelihoods.eu/projects/yagasu-indonesia/) (<http://www.livelihoods.eu/projects/yagasu-indonesia/>) on every project to be updated regularly in coordination with the project developers of Livelihoods and the project implementers (NGOs).
- Specific articles and focuses on the [income generating activities](http://www.livelihoods.eu/indonesia-mangroves-spurring-new-businesses/) (<http://www.livelihoods.eu/indonesia-mangroves-spurring-new-businesses/>) through each project when there will be key progress to share.
- A dedicated video coverage for each new project being supported by the Livelihoods Carbon Fund 3 (each LCF project has [video material](https://www.youtube.com/channel/UCsPjxPugtJEeNAOz8R3_3KQ) https://www.youtube.com/channel/UCsPjxPugtJEeNAOz8R3_3KQ to reach a wide audience).

- Dedicated newsletter material at the launch of every new carbon project within LCF3 and to deliver key learnings during implementation.
- Key learnings will also be shared on transversal impacts: example with [addressing water challenges \(http://www.livelihoods.eu/water-challenges-for-resilient-cities-the-solution-is-also-out-of-town/\)](http://www.livelihoods.eu/water-challenges-for-resilient-cities-the-solution-is-also-out-of-town/) through different carbon projects.
- Aligned with its current communication strategy, Livelihoods will publish these documents, progress and key learnings through its social media channels, key annual conferences and events with its stakeholders and a wider audience (media included).

4) Proposed knowledge outputs to be produced and shared with stakeholders (at both program and project levels if a PFD):

LCF3 projects will help illustrate how the fund's partners will work on impactful solutions for carbon compensation but also delivering social, environmental and economic impact. As projects involve multiple partners, Livelihoods will continue to build a consistent communication plan to preserve the image of each stakeholder increase visibility of the Livelihoods Funds.

Livelihoods will valorize crossed communication content with its stakeholders, such as crossed interviews, videos and written reports to increase visibility on the projects impacts. Livelihoods will also provide its support to its financial and corporate investors during the writing of their annual sustainability reports, to provide with guidance and clarification on the data collected in the field.

5) A brief discussion on how knowledge and learning will contribute to overall project/program impact and sustainability:

With a ten-years lookback on implementing high-scale carbon compensation projects with strong environmental, economic and social impacts, Livelihoods will position its third carbon fund as a dedicated investment vehicle to help corporates and financial investors join forces to accelerate climate action.

Livelihoods will leverage its key networks (Finance for Tomorrow, financial partners, OP2B coalition to name a few) too increase visibility on the fund's key learnings and evolution during the whole duration of the fund (20 years).

Livelihoods will valorize its work and progress among external networks, but also inhouse. The creation of a dedicated Livelihoods Academy in 2020 (currently in its design phase) will build key momentums to share collectively key learnings on specific projects, workstreams and innovating work methods to review and improve our current methodologies.

On the overall impact and sustainability levels of LCF3, Livelihoods will valorize a story-telling approach to give the word to the direct beneficiaries of the fund (local communities). A similar approach is already on its way, with the current communication campaign of Livelihoods that gives the word to our local NGO partners:

1. [Carbon Offsets: real impact or greenwashing? THE VOICES OF THE LEADERS OF CHANGE](https://us3.campaign-archive.com/?u=502c861191cde970c84fdf578&id=2fcb4bd93d) published on January 30th (<https://us3.campaign-archive.com/?u=502c861191cde970c84fdf578&id=2fcb4bd93d>)

- o Includes an article on the [Livelihoods Funds point of view on Carbon Offsets \(http://www.livelihoods.eu/carbon-compensation-livelihoods-point-of-view/\)](http://www.livelihoods.eu/carbon-compensation-livelihoods-point-of-view/).

- o Includes an [interview with Ajanta DEY](http://www.livelihoods.eu/interview-with-ajanta-dey-news/), key leader of NEWS NGO in India (<http://www.livelihoods.eu/interview-with-ajanta-dey-news/>).

2. **Carbon Offsets: real impact or greenwashing? THE WORD TO A VISIONARY NGO IN INDONESIA** published on February 14th (<https://us3.campaign-archive.com/?u=502c861191cde970c84fdf578&id=9de5d4437c>)

- o Includes an [interview with Bambang Suprayogi](http://www.livelihoods.eu/interview-with-bambang-suprayogi-yagasu/), visionary leader of Yagasu NGO in Indonesia (<http://www.livelihoods.eu/interview-with-bambang-suprayogi-yagasu/>).
- o As well as a reminder of the positioning article from Livelihoods on carbon offsets: [Livelihoods Funds point of view on Carbon Offsets](http://www.livelihoods.eu/carbon-compensation-livelihoods-point-of-view/) (<http://www.livelihoods.eu/carbon-compensation-livelihoods-point-of-view/>).

6) The strategic communication plan on Livelihoods Carbon Fund #3

A communication plan is already being implemented to announce the creation of the fund. In November 2019, Livelihoods announced the launch of LCF3 through a dedicated newsletter, media content, social media, and 2 key events for impact finance:

- [Paris for Tomorrow Week](https://financefortomorrow.com/paris-for-tomorrow-week/) that gathered from November 25 to 29 2019 the financial and business community as well as civil society, local and public authorities (<https://financefortomorrow.com/paris-for-tomorrow-week/>).
- [Global Landscape's Forum in Luxembourg](https://events.globallandscapesforum.org/luxembourg-2019/), November 30th, 2019 (<https://events.globallandscapesforum.org/luxembourg-2019/>).
- Press release on the launch of LCF3: [Livelihoods is launching a third carbon fund to accelerate climate action](https://livelihoodsventure-my.sharepoint.com/personal/mdaras_livelihoods-venture_com/Documents/Livelihoods%20is%20launching%20a%203rd%20Carbon%20Fund%20to%20accelerate%20climate%20action) (https://livelihoodsventure-my.sharepoint.com/personal/mdaras_livelihoods-venture_com/Documents/Livelihoods%20is%20launching%20a%203rd%20Carbon%20Fund%20to%20accelerate%20climate%20action).

Livelihoods will leverage key international events and conferences in impact finance, climate and biodiversity preservation to communicate on LCF3. These include:

- International forums on sustainable agriculture
- The [IUCN Congress in Marseille](https://www.iucncongress2020.org/) (<https://www.iucncongress2020.org/>), June 2020, in partnership with OP2B coalition.
- [COP15 in Kunming](http://sdg.iisd.org/events/2020-un-biodiversity-conference/) (<http://sdg.iisd.org/events/2020-un-biodiversity-conference/>), China on biodiversity (October 2020).
- The [UNFCCC's COP26](https://sdg.iisd.org/events/2020-un-climate-change-conference-unfccc-cop-26/) (<https://sdg.iisd.org/events/2020-un-climate-change-conference-unfccc-cop-26/>) in Glasgow (November 2020).

In addition, Livelihoods will organize a special event gathering key stakeholders in December 2020 to celebrate 10 years of achievements of the Livelihoods Carbon Funds. This will be a key momentum for the announcement of LCF3 ambitions and first investors.

Part III: Approval/Endorsement By GEF Operational Focal Point(S) And Gef Agency(ies)

A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S): (Please attach the Operational Focal Point endorsement letter with this template).

Name	Position	Ministry	Date
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ANNEX A:

Instructions. Please submit an indicative termsheet in this section. The NGI Program Call for Proposals provided a template in Annex A 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. Termsheets submitted should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. Please ensure that by copying the termsheet in the section of the PIF/PFD, the format allows reviewers to read the content.

Annex A: Template for Indicative Financial Termsheet

Disclaimer:

The CI-GEF Project Agency has conducted a pre-liminary review and assessment of the proposed non-grant instruments (NGI). Additional due diligence of the NGI proposal will be conducted by the CI-GEF Project Agency during the PPG phase.

All investments are speculative in nature and involve substantial risk of loss. Much of the information and indicative terms submitted by the CI-GEF Project Agency is derived directly from information provided by the project proponent, which we believe is reliable/reasonable. CI does not warrant the completeness or accuracy of such information and does not provide any representations or warranties as to the success of financial returns to be generated by the NGI or whether the NGI would be deemed to be in line with market terms and conditions.

GEF – INDICATIVE TERMSHEET

Project/Program Title	Livelihoods Carbon Fund 3 (LCF3)
Project/Program Number	10500
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 energy[1], 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
Project Financing	<p>Please include:</p> <p>A. Sources of Co-financing, Name of Co-financier and type of co-financing (Part I section C of the PIF/PFD)</p> <ol style="list-style-type: none"> 1) Private Sector – Corporate Company – Equity (Class A) - \$21,580,000 2) Private Sector – Corporate Company – Equity (Class A) - \$10,790,000 3) Private Sector – Corporate Company – Equity (Class A) - \$5,395,000 4) Private Sector – Corporate Company – Equity (Class A)- \$4,316,000 5) Private Sector – Corporate Company – Equity (Class A)- \$5,395,000 6) Private Sector – Corporate Company – Equity (Class A)- \$3,237,000 7) Private Sector – Private Bank – Equity (Class A) - \$2,158,000 8) Government – Development agency – Equity (Class B) - \$16,185,000 9) Private sector – private bank – Equity (Class B) (pending due diligence) - \$10,790,000 10) Private Sector – Corporate Company – Equity (Class A) - \$10,790,000 11) Private Sector – Corporate Company (Class A) – Equity - \$5,395,000 12) Government – DFC - USAID Guarantee - \$15,000,000 <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>B. Indicative Trust Fund Resources Requested under the NGI Program (Part I section D of the PIF/PFD)</p> <ol style="list-style-type: none"> 1) GEFTF – Equity (Class B) – US\$13,461,468) <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>
Currency of the Financing	Dollars (\$)
Currency risk	N/A
Co-financing ratio	<p>Every GEF 1USD mobilizes 8,248 USD</p> <p>Every GEF 1USD mobilizes 5.931 USD of private sector financing</p>

<p>Financial additionality of GEF resources</p>	<p>Please specify (i) the financing barriers addressed with the GEF blended finance resources; and (ii) quantification of financial additionality.</p> <p><i>(i) the financing barriers addressed with the GEF blended finance resources</i></p> <p>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.</p> <p>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 2007–2016 [2]. Failure to do so would exacerbate already witnessed extreme weather events and more so for the world’s poorest with limited climate adaptation resources.</p> <p>With less than 1% of climate finance allocated today towards Nature-Based Solutions[3], 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.</p> <p>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), <u>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.</u></p>
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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.

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.

(ii) quantification of financial additionality

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.

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.

Use of proceeds

Provide a description of the use of the resources of the guaranteed instruments and their alignment with GEF Focal areas/Investment Programs.

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:

- a. Coastal habitat and mangrove restoration projects, and
- b. 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).

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.

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.

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....

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.

LCF3 is expected to align with the following GEF focal areas (for additional information and specific targets, please see point 4 of the PIF: "*Alignment with GEF focal areas and/or Impact Program strategies*").

a) 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

Financing instruments	<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>(a) <u>For Equity:</u> (b) <u>Fund strategy:</u></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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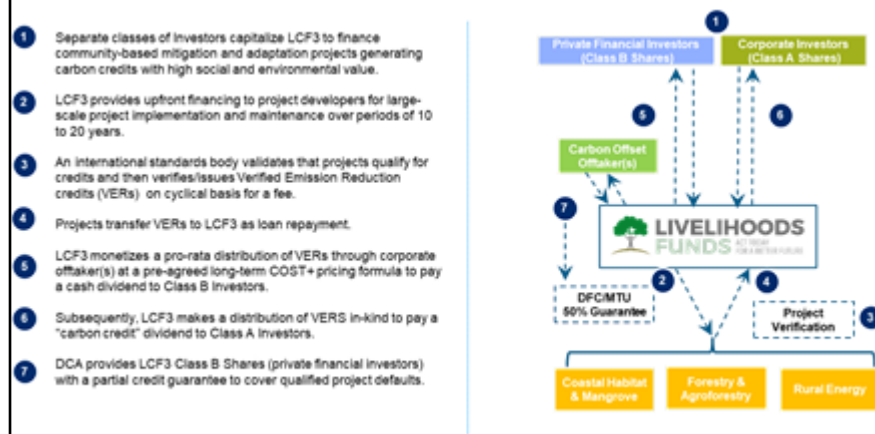
Financing instruments In addition, LCF3 will mobilize a US\$15 million pari passu partial credit guarantee from the U.S. International Development Finance Corporation (DFC) supported by the US Agency for International Development (USAID), as a risk mitigation instrument for private financial investors. 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).

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.

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.

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.

Below is a schematic of the DFC- USAID guarantee mechanism:



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

Terms and conditions for the financing instruments	<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>1. 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> <p>2. Deliver strong co-benefits for local communities</p> <p>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.</p> <p>3. Co-investment or co-funding</p> <p>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>
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<p>Terms and conditions for the financing instruments</p>	<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>4. Diversify the type of carbon assets</p> <p>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>5. Managing the risk of funding diversion</p> <p>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 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.</p> <p>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.</p> <p>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.</p> <p>(*) NOTE: While the Livelihoods Carbon Funds include carbon avoidance activities through rural energy / cookstove initiatives, GEF funding will not be directed towards this cluster of projects.</p>
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Terms and conditions for the financing instruments

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.

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.

(a) Fund structure:

The Fund may be either:

- a stand-alone investment company organized as a public limited company "société anonyme" under the laws of the Grand Duchy of Luxembourg and qualifies as an investment company with variable capital "a Société d'Investissement à Capital Variable" ("SICAV") and as a specialized investment fund "a Fonds d'Investissement Spécialisé" ("FIS"), or

- 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.

(b) Targeted IRR: > 5% IRR

The following is a sensitivity analysis reflecting IRR fluctuations around two variables which may impact the return of financial investors:

- 1- the pricing of carbon offset purchases from financial investors, and
- 2- 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").

IRR sensitivity analysis:

Loss of offsets vs real case projects

	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%

Offset price (\$/t CO₂e)

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, disclose information consistent with LCF3's strategy and asset

Terms and conditions for the financing instruments	<p><u>For Investors holding Class B Shares</u></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 offtake agreement between LCF3 and Class B investors shall be governed by the following principles:</p> <ul style="list-style-type: none"> - 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>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> <ul style="list-style-type: none"> - LCF3's offtaking agreements shall also include an upside sharing mechanism in the eventuality of either of 2 events occurring: <ol style="list-style-type: none"> 1. 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. 2. 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>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 off-takers or other offset buyers, in alignment with the contractual terms stipulated in the offtake agreement between LCF3 and Class B investors.</p> <p>Carbon Asset Pricing for Class A Shares</p> <p>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>
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<p>Terms and conditions for the financing instruments</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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).</p> <p>In other words, Total LCF3 Fund Size = total financing of the fund (GEF financing + Co-financing) = Use of Proceeds + Governance & Administrative Costs + Investment Fees.</p> <p>Where:</p> <p>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.</p> <p>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.</p> <p>Governance & Administrative Costs reflect legal, governance, fund structuring, audit and administrative costs of LCF3.</p> <p>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. 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>Terms and conditions for the financing instruments</p>	<p>LCF3's Total Expected Project Investment is calculated at LCF3 inception and, for the purpose of the Investment Fee, may be revised, upwards or downwards, after a period of five (5) years according to the updated amounts constituting LCF3's Total Expected Project Investment, and every two (2) year thereafter. However, if one or more subsequent closing(s) occur before expiration of the five-year (5) period, LCF3's Total Expected Project Investment shall be updated upon each closing and cause an updated calculation of the Fee.</p> <p>The General Partners are entitled, on an annual basis, to a Fee Amount superior to or inferior to the Investment Fee of LCF3's Use of Proceeds in order to adjust to the fund's expected level of activity and cost ramp-up. The Fee Amount shall be subject to Board approval, as part of LCF3's annual budget approval process. It is understood, however, that over LCF3's life, the sum of all Fee Amounts paid every year to the General Partner shall not exceed:</p> <p><i>Investment Fee (1.5-2 % p.a.) x LCF3's Use of Proceeds (in € m) x number of years of LCF3's life (min. 24 years)¹</i></p> <p>Note: ¹ The fund's investment term is defined for 24 years with the expectation to add in the prospectus of the fund a mechanism allowing for possible term extensions of LCF3. Subject to Board approval, the first term extension may be for a maximum of two (2) years, with further extensions to be approved by a general meeting of Shareholders.</p> <p>(c) Pipeline of projects:</p> <p>LCF3's sourcing strategy for a pipeline of projects is based on the following principles:</p> <p>i) Capitalize on the Livelihoods Carbon Fund existing portfolio of projects</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 are located 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 of carbon projects and scale-up proven investment models. In fact, LCF2 has already invested in 2018 in 3 new large-scale projects in agroforestry, mangrove & rural energy 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>
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<p>Terms and conditions for the financing instruments</p>	<p>ii) Replicate current LCF models in other geographies</p> <p>Based on the knowledge that has been accumulated by LCF on the 3 clusters (rural energy, agroforestry, and mangrove & coastal habitat), LCF3 will also explore 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.</p> <p>iii) Invest in new clusters</p> <p>LCF3 will also continuously explore 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.</p> <p>(d) Governance of LCF3</p> <p>The Fund's governance will be defined to take into account the expectations of both corporate and financial investors, namely:</p> <ul style="list-style-type: none"> - The protection of the interests of both Class A and Class B investors; and - The inability/unwillingness of some investors to participate in the Fund's Board of Directors or Investment Committee; and - The appetite for some corporate investors as well some impact investors to obtain a deeper perspective on the portfolio of carbon projects and reflections around the projects' design and implementation.
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<p>Terms and conditions for the financing instruments</p>	<p>The governance of LCF3 is therefore expected to include the following:</p> <ul style="list-style-type: none"> Ø Board of Directors of the Fund to set the strategy of the Fund and control its management; Ø Fund Manager (AIFM), is a regulated entity, appointed by the Board of Directors, to manage the Fund. He is in charge of the management of the Fund, in line with the strategy set out by the Board of Directors and the prospectus, and under the control of the Board of Directors. The Fund manager is in charge of i) management of the assets of the Fund, ii) management of the Fund; and iii) administration of the Fund; Ø Investment Committee is a body of the Fund Manager in charge of examining the investment projects of the Fund and approving or rejecting them, after obtaining the advice from the Advisory Committee on such projects, as well as monitoring the implementation of the investment projects of the Fund. The Fund Manager appoints the members of the Investment Committee which shall 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. The Investment Committee takes decisions by consensus, provided, that in any event, no investment decision could be imposed on the Fund Manager's representatives at the Investment Committee; Ø Investment Advisor (Livelihoods Venture) to source and implement the projects upon decision of the Fund Manager; Ø Advisory Committee, including the investors 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; Ø Risk Management Officer; Ø Administrator of the Fund; and Ø Depositary and Paying Agent of the Fund.
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[1] **NOTE:** While the Livelihoods Carbon Funds include carbon avoidance activities through rural energy / cookstove

initiatives, GEF funding will not be directed towards this cluster of projects.

[2] IPCC. 2019 Climate and land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems. See <https://www.ipcc.ch/report/srccl/>

[3] Nathalie Seddon, Alexandre Chausson, Pam Berry, Cécile A. J. Girardin, Alison Smith and Beth Turner. 2020.

Understanding the value and limits of nature-based solutions to climate change and other global challenges. Phil. Trans. R. Soc. B37520190120. See

<https://royalsocietypublishing.org/doi/pdf/10.1098/rstb.2019.0120>

ANNEX B:

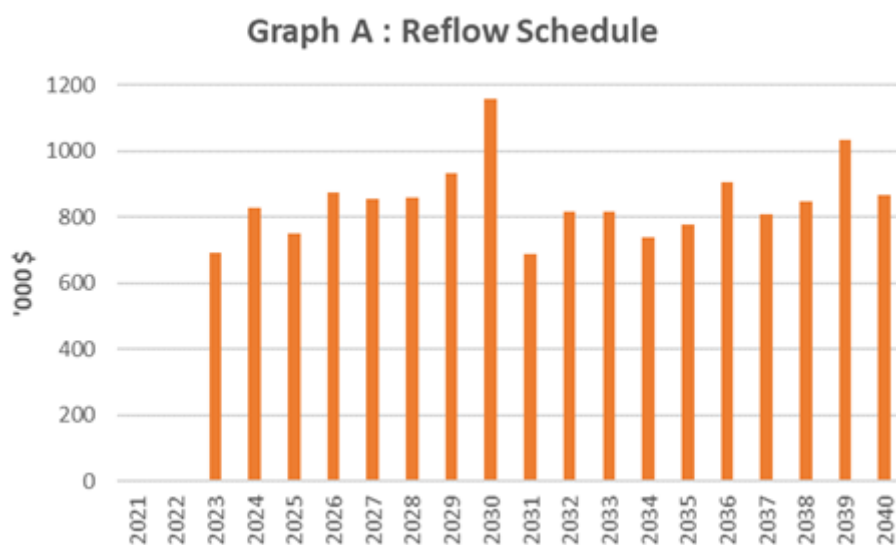
Instructions. Please submit a reflows table as provided in Annex B of the NGI Program Call for Proposals. Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.

Annex B: Reflows table

*Instructions. Any financial returns/gains/interests earned on non-grant instruments, 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.*¹⁷

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	Q1 2021
Amount of investment (USD GEF funds)	15,000,000 total amount requested 13,461,468 to be invested after Agency fees and PPG amount.
Amount of investment (USD co-financing)	\$ 111,031,000 million
Estimated interest rate/return	> 5%
Maturity	20 years

Estimated reflow schedule	Please refer to below graph A which assumes a purchasing price per carbon offset of \$6.15 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	2023 ^[1]
First repayment amount	\$ 0.693 million
Final repayment date	2040
Final repayment amount	\$ 0.865 million
Total principal amount to be paid- reflowed to the GEF Trust Fund	\$ 13.461 million
Total interest/earnings amount to be paid-reflowed to the GEF Trust Fund	\$ 1.8 million



[1] First repayment date corresponds to first carbon verification, even though LCF3 would have been generating carbon prior to that date.

ANNEX C:

The GEF Agency submitting the PIF or PFD is required to respond to the questions in Annex C of the NGI Program Call for proposals in order to demonstrate its 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).

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.