Livelihoods Carbon Fund 3 (LCF3)

Review PIF and Make a recommendation

Basic project information

GEF ID

10500

Countries

Global

Project Name

Livelihoods Carbon Fund 3 (LCF3)

Agencies

CI

Date received by PM

3/18/2020

Review completed by PM

4/15/2020
Program Manager

Avril Benchimol Dominguez
Focal Area

Multi Focal Area
Project Type

FSP

PIF

Part I – Project Information

Focal area elements

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

Secretariat Comment at PIF/Work Program Inclusion

The GEF secretariat decided to consider this project a LD and BD project only. As a Class B investor (i.e. GEF is repaid in cash after the carbon credits are sold) we are not able to claim any climate change results against our GEF7 corporate scorecard targets.

The LD benefits are the most obvious. Because of the importance of smallholder farmers and agroforestry, we suggest focusing on the LD1.1 objective for SLM and LD1.3. for forest landscape restoration. We will suggest then to incorporate a number of ha under the core indicator 4.3 (for SLM), and proportionally reduce the number under the indicator 3.1 (agriculture land restored).

- To be eligible under the BD focal area, we would need to see an explanation about the nature of global important biodiversity (Key-Biodiversity Areas for instance), and the eligibility under the focal area needs also to be reiterate the importance of productive landscape and smallholder farmers. Without knowing the considered areas, ecosystems, and species, it is difficult to be fully convinced about the benefits of the approach for global important biodiversity. The BD benefits may however be useful to target mangroves, wetlands, and coastal areas, not eligible under the LDFA.
- Text on Biodiversity Focal Area and Impact Programs (p.33): The NGI is not an Impact Program. All the justifications related to the Impact Programs are irrelevant (FOLUR and SFM).
- The GEF BD strategy targets global important biodiversity – enriched soils, carbon, above and ground biomass are not a valid justification (text p33).

ADDITIONAL NEW COMMENTS as of 03/30: The Agency should include the estimated GHG emission reductions/avoidances as per common practice, and outline such information in the descriptive part of the results section of the PIF, but not include such volumes under indicator 6. I suggest to include a footnote in lieu of the number amount, explaining this.

Rio Markers: we should still use 2 for CC mitigation. The fact that we are not claiming the emission reductions against GEF targets does not mean that this financing is not directed towards mitigation. Rio Markers are used to define financial flows from donors and DFIs towards development projects, and this project definitely has climate mitigation as primary objective, regardless of who ends up with the carbon offset certificates.

·

Agency Response

CI-GEF Agency 03/26/2020:

Climate change has been removed. Text on BD has been included in the section on alignment with focal area strategies but was not included in Table B. In the end, the project is best aligned with the LD focal area.

<u>CI-GEF Agency 04/09/2020:</u>

After reading the comments on LD and BD, the project approach was re-evaluated and alignment with the LD and BD focal areas was kept. However, biodiversity mainstreaming targets are not established, since project site location cannot be known ex-ante (i.e. prior to the development of LCF3 project pipeline). Criteria for selecting projects during the implementation phase were included (both, primary and secondary criteria). Illustrative, general examples related to mangrove restoration and NBS initiatives, without specific biodiversity targets were included. (see updated text in Section 4: Alignment with Focal Area and/or Impact Program Strategies "Biodiversity Focal Area").

In terms of alignment with LD objectives, the project is focused on objective 1 ("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), and have updated the core indicators.

A comment on the geographic distribution of LCF3 investments across Africa, Asia and Latin America was included, ensuring that GEF's funding will not be in any case deployed in full in Latin America also included in Section 4. Specific text, "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."

Reference to the NGI program has been removed from Section 4.

Volumes of GHG emission reductions/avoidances have been deleted from core Indicator 6 (see page 7 – Table F "Project's target contributions to GEF-7 core indicators") and the following footnote as been added to the Core Indicator section of the portal.

"LCF3 investments will 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. As a Class B investor, GEF is repaid in cash after the carbon credits are sold. Therefore to avoid double counting, 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".

Rio Markers updated.

Indicative project/program description summary

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

Secretariat Comment at PIF/Work Program Inclusion

· Table B, describes the entire project without differentiating between the project elements. This does not allow analysis of the respective project amounts or co-financing for each element. For example, it is not clear that several of the project elements can be supported with GEF non-grant and must be supported only by co-financing.

Agency Response

Co-financing has been updated. In terms of differentiating between elements, the project includes 1 component for which the GEF funding will be disbursed. At this stage, it will be difficult to differentiate further.

CI-GEF Agency 04/09/2020:

The USAID guarantee is now included in the co-financing amounts.

Co-financing

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

Secretariat Comment at PIF/Work Program Inclusion

· Table C provides co-financing of 96 million which is an adequate co-fi ratio of 1:7. However, the Table C does not provide any co-financier names. It should be updated to include indicative co-financing partners.

Agency Response

The names of co-financiers has been uploaded as a separate document. Please keep this confidential.

GEF Resource Availability

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The STAR allocation?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The LDCF under the principle of equitable access

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Impact Program Incentive?

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Project Preparation Grant

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Core indicators

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

Secretariat Comment at PIF/Work Program Inclusion

NEW COMMENTS AS of 3/30

Core Indicators: I note that the 20 million tons CO2 of avoided/reduced emissions are still listed in the indicators section. I also note the language added by the Agency in the last sentence of the additional explanation provided just after the indicators section, where it is mentioned that GEF will not claim such ERs volumes against corporate targets.

I would think that the numbers should not be included under indicator 6, and 6.1 and 6.2, otherwise they will automatically be picked up by the system. Instead I would suggest we have 0 (zero) tons, and a footnote repeating the explanation already included below.

COMMENTS THAT WERE INCLUDED IN THE WORD DOCUMENT OF March 13:

- The LD benefits are the most obvious. Because of the importance of smallholder farmers and agroforestry, we suggest focusing on the LD1.1 objective for SLM and LD1.3. for forest landscape restoration. We will suggest then to incorporate a number of ha under the core indicator 4.3 (for SLM), and proportionally reduce the number under the indicator 3.1 (agriculture land restored).

- Without knowing the considered areas, ecosystems, and species, it is difficult to be fully convinced about the benefits of the approach for global important biodiversity. The BD benefits may however be useful to target mangroves, wetlands, and coastal areas, not eligible under the LDFA.

Agency Response

CI-GEF Agency 03/31/2020:

Numbers on Indicator 6 have been removed.

In terms of alignment with LD objectives, the project is focused on 1.1, 1.2and 1.3 and have updated the core indicators. Core Indicators are ex-ante estimations of LCF3 future portfolio of projects, based on LCF1 & LCF2's investments track record. The share of hectares allocated to Core Indicator 3.1 and 4.3 has been made based on whether the majority of the intervention operates across individual farms (Indicator 3.1) or whether it operates across several production systems that go beyond the individual farm at landscape level. With the support of the GEF, LCF3 will be able to further scale-up / replicate successful landscape initiatives. Therefore, we can expect this ratio to move towards a higher percentage of investments falling under Core Indicator 4.3.

CI-GEF Agency 04/09/2020:

In terms of alignment with LD objectives, the project is focused on 1.1, 1.2 and 1.3. The project is aligned with the biodiversity focal area. Selection criteria for BD projects is now included. See Section 4. Alignment with Focal Area and/or Impact Program Strategies.

CI-GEF Agency 04/20/2020:

Core Indicators 3 and 4 updated.LV only considers the area of land within an individual farm where the LCF3 project will have a direct impact. While, most farmers will own larger farms and might implement e.g. SALM across the whole farm, LV's M&E system doesn't include the application of new agricultural practices outside the project perimeter. That is the reason why the targets in agriculture cannot be modified to a large extent. In addition, the project incorporated an increased number of hectares from wetland projects."

The project targeted 2 indicators under Core indicator 4, Indicator 4.3 (Area of landscapes under improved management to benefit biodiversity) moving from 12,000 Ha to 12,240 Ha (not a bit increase, but still) and Indicator 4.4 (Area of High Conservation Value Forest (HCVF) loss avoided). Now this indicator is in our case linked in part to cookstoves project. When we re-evaluated the indicators we made the decision of reducing even more the number of cookstove projects to be financed by LCF3, hence the decrease in Indicator 4.4. To achieve our goals in terms of carbon credit generations, we increased the number of mangrove projects (from 8,000Ha to 16,5000Ha) (Core Indicator 3.4).

The number of direct beneficiaries has decreased to 475,500 (from 568,000), it reflects the reduction of rural energy/cookstove projects to more mangrove projects where the number of direct beneficiaries is lower.

Project/Program taxonomy

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

Secretariat Comment at PIF/Work Program Inclusion

ADDITIONAL COMMENTS SENT BY WORD word on 03/13/2020 due to portal problem:

· From a GEF vision, it is difficult to consider aquaculture as a valid value chain to generate global environment benefits, except if you can demonstrate that the aquaculture activities will serve to protect surrounding global important ecosystems.

· Afforestation is a land-use change and cannot be developed anywhere.

· Application of biodiversity mainstreaming to this – it really matters where the activities are happening. The protection/restoration of mangroves and wetlands is easier to justify for BD as those are often very limited in area with high importance for BD. However, we would want to see relatively large patch sizes (not just small scattered areas totaling together) to justify the biodiversity benefit.· The GEF does not support the use of exotic species, because of the risks of being invasive.

Agency Response

CI-GEF Agency 03/31/2020:

The example on the aquaculture value chain has been removed from Point 6 ("Global environmental benefits (GEFTF) and / or adaptation benefits (LDCF/SCCF)" point C ("568,000 direct beneficiaries increase income as a direct result of participating in and benefiting from the portfolio of projects financed by LCF3).

The term afforestation is related to the name of the carbon methodology used to certify carbon offsets, which also includes reforestation. See explanation of afforestation under the Core Indicator section.

A key driver across our portfolio of investments it to promote natural and resilient ecosystem restoration models with a high biodiversity value and enriched soil microorganisms. This is achieved thanks to the promotion of native species, as evident across our entire portfolio to-date of 4 large-scale mangroves projects to-date, representing more than 20,000 hectares of native species plantation, as well as productive species that bring social and economic benefits to the livelihoods of smallholder farmers.

CI-GEF Agency 04/09/2020:

BD is now included as a focal area, including selection criteria for projects that align with the BD focal area. See Section 4.

Part II – Project Justification

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

3. Does the proposed alternative scenario describe the expected outcomes and components of the project/program?

Secretariat Comment at PIF/Work Program Inclusion

COMMENTS in WORD sent to AGENCY on 3/13 given a problem with the portal:

1. This is the third Livelihoods Carbon Fund: so, the natural question for the GEF is what the innovation is with this third fund? what is new? and why is the GEF needed. With successful previous two phases, we may think that the family of Livelihoods Carbon Funds is now well known by the financing community, and public funds less needed. One of the possible responses is the exploration of nature-based solutions at scale to maximize global environment benefits and reduce transaction costs. More information on the strategy of doing would be welcome.

2. The LCF has been extant for 9 years, with two phases. The project proposes a GEF investment in phase 3. The project description should better describe the GEF added value in helping launch phase 3 when two other phases have already proven successful. Additionally, the project proposal should clarify how capitalizing on existing portfolios of projects does not constitute re-financing or an exit strategy for investors in previous LCF funds.

Agency Response

A comment on LCF3's innovation potential and why GEF's support is needed has been included under Section 4 of the PIF ("Alignment with GEF focal areas and/or Impact Program strategies").

Further, text under sections 5 ("Incremental/additional cost reasoning and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and co-financing") 7 ("Innovation, sustainability and potential for scaling up") have been updated to better explain the need for GEF's support and the innovation potential for LCF3.

A brief summary of the explanations provided are:

- Innovation: **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**.
- Additionally of GEF's support: 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.

Project description has been updated to include more information on the GEF value add. Clarifications include: that LCF3 investments will be entirely new and separated projects from previous LCF portfolio of projects, how this constitutes an opportunity to LCF3 investors to tap into de-risked carbon projects to further scale up NBS initiatives. The project portfolio and pipeline map have also been updated (see section on Project Map and Coordinates)

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

ADDITIONAL COMMENTS 03/30/2020

Section “6. Global Environmental Benefits (GEFTF)”: at the moment there are three sections under this heading: 1) Showcasing the feasibility of an accelerated deployment of natural cap investments…., 2) Increase the area of restored and conserved…, and 3) 300k direct beneficiaries…,. There should be an additional section under this heading, (before the beneficiaries one) mentioning the climate change GEBs. The CC section should explain how GHG GEBs are achieved, verified and certified through carbon crediting. It should also mention 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 of the GEF will contribute to derisk the generation of such credits, thus contributing to strengthening the supply side of carbon markets, but that GEF will not however count such GHG offsets volumes towards the GEF climate change targets to avoid double counting.

Additional comments as of 0401

Please add the following wording in the explanation provided:

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

Agency Response

Global environmental benefits section updated. "to avoid double counting of mitigation outcomes" has been included.]

CI-GEF 04/20/2020: global environmental benefits section updated to reflect the changes to the core indicators.

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Project/Program Map and Coordinates

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Stakeholders

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

Secretariat Comment at PIF/Work Program Inclusion

1. The PIF includes a very comprehensive description of the engagement and further consultation that will take place between PIF and CEO Endorsement. However, the Agency ticked all the boxes regarding stakeholders that were consulted during the project development, indicating that Indigenous Peoples and Local Communities, civil society and private sector participated in those consultations, but a description about those consultations is missing. Please note that the Policy on Stakeholder Engagement requires that at PIF stage 'Agencies provide a description of any consultations conducted during project development…'

Agency Response

CI-GEF response 04/20/2020:

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.

An example of prior experience with Indigenous Peoples was included in the Stakeholder table.

Gender Equality and Women's Empowerment

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Private Sector Engagement

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Risks

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

Secretariat Comment at PIF/Work Program Inclusion

COMMENTS INCLUDED IN WORD DOCUMENTS SHARED WITH AGENCY AS OF 03/13/2020 DUE TO PORTAL PROBLEMS:

On the Risk section, please elaborate on the possibility for funding diversion and if there are some type of consequence/action for breaching the use of proceeds of the projects. Please explain numbers in mitigation section M1.1. Payment installments and result based payments.

Additional Comments 04/20

Section 5 of the PIF show that risks screening has taken place, but they should be able to, at this stage, provide the completed "SAFEGUARD SCREENING ANALYSIS AND RESULTS" with explanation of risk screening. Please ask CI to attach that screening checklist and or indicate more clearly the preliminary overall risk classification of the project as well as the types and risk classification of any identified risks and impacts including any preliminary measures to address identified risks and potential impacts.

1.

Agency Response

An explanation on what is meant by funding diversification and provided additional clarification on the numbers included in M1.1 in Section 5 ("Risks")

CI-GEF response 04/20/2020: Risk section updated to include risks related to COVID-19. Safeguard Screening analysis uploaded

Coordination

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Consistency with National Priorities

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Knowledge Management

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Part III – Country Endorsements

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

Termsheet, reflow table and agency capacity in NGI Projects

Does the project provide sufficient detail in Annex A (indicative termsheet) to take a decision on the following selection criteria: co-financing ratios, financial terms and conditions, and financial additionality? If not, please provide comments. Does the project provide a detailed reflow table in Annex B to assess the project capacity of generating reflows? If not, please provide comments. After reading the questionnaire in Annex C, is the Partner Agency eligible to administer concessional finance? If not, please provide comments.

Secretariat Comment at PIF/Work Program Inclusion

- Annex A. The included term sheet is very long on project descriptors and fund structure which are better left to other Annexes. The term sheet should selectively present the financial terms and considerations. The term sheet should be enhanced to discuss risks of loss.
- On the project Financing please classify by Class A and Class B shares. The co-financing ratios do not match what was mentioned in the text (1:7). Additionally, please clarify if the co-financing includes USAID guarantee or not.
- The termsheet should include a section that describes the offtake agreements as source of cash for the investors.
- Financing instruments to be used for individual projects are too vague as they include loans/equity/guarantees. Since the investments are not expected to generate any of these interest/ returns/premiums, please explain how you estimate carbon offsets equivalency.
- **Remuneration of General Partners section:** Please clarify the concept of Total Expected Project investment and especially the section “all amounts in (i), (ii) and (iii) available for investment but not yet invested”. Can the Total Expected Project Investment exceed at any time the amount of the total financing of the fund (GEF financing+Co financing). If that is the case, you should include that in the section of the termsheet called Project Financing.
- Please explain how the admin costs and investment fees are excluded from the Fund Total Expected Project investment; who pays them?
- The capacity of the General partner to increase investment fees at its sole discretion after Board ratification is not market practice. We should discuss.
- Governance of the fund: we would appreciate a better understanding of the governance of the fund, and the absence of an investment committee and the role of the Board. The GEF would also like to discuss a potential investment from the GP.
- Annex B. Properly describe the reflows associated with an estimated 5% IRR.

Additional comments after conf call with Livelihood Funds and CI on 04/03

On top of the feedback submitted to you via review sheet and after the call we had today, the proposal should be updated including clarity on the governance structure, and investment flow (through NGOs to final farmers). Additionally, the termsheet should be updated with information provided during the call including fee structure, use of proceeds, type of products offered by the fund etc.

On the BD aspect, please update the proposal with the suggestion from BD on the mainstreaming language sent by email on 04/06 and discussed over a phone call with GEF on 04/07

Additional Comments as 04122020

•P22, in the description of outcomes (see below), someone added the mention of "facilitate access to rural energy" – it was not discussed and a little surprising as the GEF contribution now focuses on LD and BD – to be removed;

•P24, the spelling of LD objectives (not D objectives!) is surprising: LD1.1: SLM, LS1.2: SFM (for agroforestry), LD1.3 for landscape restoration. Please, correct.

•The wrong formulation of GEF LD objectives is also reflected in the financing annex, p 5.

LCF3 will build an innovative and replicable investment-model to support community-based solutions to restore natural ecosystems, facilitate access to rural energy[1], and establish agroforestry 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:

Additionally, please note that the GEF will still require legal DD ahead of CEO endorsement on the governance structure. The scope of that due diligence not only will provide analysis and opinion on the Fund legal compliance with regulations of all countries involved but on the risks of the structure including any concerns on the responsibilities born by each of the parties (including Livelihoods funds). We are interested in understanding the legal responsibilities born by each party, namely LF and Mirova as investment advisor of the Fund given that LF is not an Asset Manager.

On important last aspect , what is the role of CI in all the structure? Is CI representing our interest through the advisory or investment committee? Please clarify.

Agency Response

1) Annex A: The term sheet has been reviewed taking into account the request to shorten it and dedicate it to key financial terms. Furthermore, 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, for a range of reasons specified under point 5) of the PIF document ("Risks").

IRR sensitivity analysis:

Loss of offsets vs real case projects

Offset price ($/t CO2e)	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%

2) Sources of Co-financing, Name of Co-financier and type of co-financing (Part I section C of the PIF/PFD)

1) Private Sector – Corporate Company – Equity (Class A) - $21.58 million
2) Private Sector – Corporate Company – Equity (Class A) - $10.79 million
3) Private Sector – Corporate Company – Equity (Class A) - $5.39 million
4) Private Sector – Corporate Company – Equity (Class A)- $4.32 million
5) Private Sector – Corporate Company – Equity (Class A)- $5.39 million
6) Private Sector – Corporate Company – Equity (Class A)- $3.24 million
7) Private Sector – Private Bank – Equity (Class A) - $2.16 million
8) Government – Development agency – Equity (Class B) - $16.18 million
9) Private sector – private bank – Equity (Class B) (pending due diligence) - $10.79 million
10) Private Sector – Corporate Company – Equity (Class A) - $10.79 million

11) Private Sector – Corporate Company (Class A) – Equity - $5.39 million
Total co-financing of the project: US$96 million. For names of co-financiers please refer to the confidential document disclosed as part of this submission.

GEFTF – Equity (Class B) – $13,5 million (including Project Management Costs.

Total Project Financing: $109.5 million in equity (including GEFTF participation) + $15.00 million de-risking instrument dedicated to private financial investors in the form of a pari passu partial credit guarantee expected to be provided by the U.S. International Development Finance Corporation (DFC) and supported by the US Agency for International Development (USAID) (pending due diligence). Please note that the US$96 million co-financing does not include the US$15 million USAID guarantee.

3. 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 offtakers, who may be historic investors of LCF1 & LCF2 or third parties.

Subject to the final outcome of the purchasing negotiation between corporate offtakers 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:

- 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.

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 ERPAs signed with Project Developers, ii) investment related costs which comprise costs directly related to Projects investment and functioning but that are generally not included into the ERPA 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.

The COST+ pricing formula shall be negotiated to provide Class B investors with the opportunity to tap into a > 5% IRR.

- LCF3's offtaking agreements shall also include an upside sharing mechanism in the eventuality of either of 2 events occurring:

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 offtakers or other offset buyers at the COST+ pricing formula.

With the aim to limit LCF3's exposure to the market risk of monetization of Class B investors' carbon offsets, LCF3 shall secure back-to-back purchasing commitments from corporate offtakers or other offset buyers, in alignment with the contractual terms stipulated in the offtake agreement between LCF3 and Class B investors.

4. 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.

5. The Total Expected Project Investment may not exceed at any time the amount of the total financing of the fund (GEF financing+Co financing). The purpose of defining the term "Total Expected Project Investment" is solely for the sake of calculating the remuneration of the GPs which will reflect a percentage investment fee applied to the "Total Expected Project Investment", as opposed to the total fund cost.

6. All LCF3's administrative costs, as well as the Investment Fee itself, are excluded from the Fund Total Expected Project Investment calculation for the purpose of calculating the remuneration of the GPs. Nonetheless, LCF3's administrative costs and investment fees form an integral part of LCF3's total fund costs, as previously detailed under the offtake agreement section, and are therefore financed by LCF3's Class A & Class B investors.

7. Please note the text has been clarified follows: The General Partners are entitled, on an annual basis, to a Fee Amount superior to or inferior to the Actual Investment Fee of LCF3's Total Expected Project Investment 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: Actual Investment Fee (in %) x LCF3's Total Expected Project Investment (in € m) x number of years of LCF3's life

8. The Fund's governance will be defined to consider the expectations of both, corporate and financial investors, namely:

- The protection of the interests of both Class A and Class B investors;

- 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.

The governance of LCF3 is therefore expected to include the following:

§ Board of Directors of the Fund to set the strategy of the Fund and control its management;

§ Fund Manager (AIFM), appointed by the Board of Directors, to manage the Fund;

§ Investment Committee, within the Fund Manager, to decide on the investments upon the advice of the Advisory Committee;

§ Investment Advisor (Livelihoods Venture) to source and implement the projects upon decision of the Fund Manager;

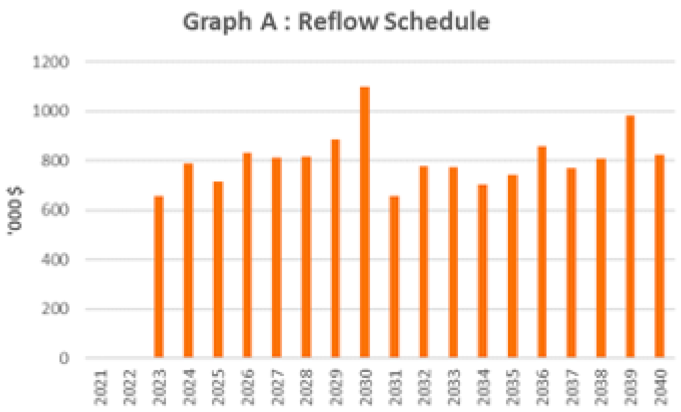
§ Advisory Committee, including the investors and Livelihoods Venture, to advise the Fund Manager and its Investment Committee;

§ Risk Management Officer;

§ Administrator of the Fund; and

§ Depositary and Paying Agent of the Fund.

Please refer to below graph A which assumes a purchasing price per carbon offset of $6.15 and 10% loss in carbon offset volumes in line with low case scenario of above-mentioned return sensitivity analysis.



04/20/2020:
LD objectives updated and spelling errors corrected.

Rural energy: We have clarified throughout the PIF that while the fund includes cookstove initiatives/rural energy, the GEF funding will not be directed towards these cluster of projects.

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.

Safeguard screening analysis uploaded

GEFSEC DECISION

RECOMMENDATION

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

Secretariat Comment at PIF/Work Program Inclusion

The PIF is recommended for technical clearance.

ADDITIONAL COMMENTS

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

Secretariat Comment at PIF/Work Program Inclusion

The GEF will require legal DD ahead of CEO endorsement on the governance structure. The scope of that due diligence not only will provide analysis and opinion on the Fund legal compliance with regulations of all countries involved but on the risks of the structure including any concerns on the responsibilities born by each of the parties (including Livelihoods funds). We are interested in understanding the legal responsibilities born by each party, namely LF and Mirova as investment advisor of the Fund given that LF is not an Asset Manager.

Review Dates

	PIF Review	Agency Response
First Review		
Additional Review (as necessary)		
Additional Review (as necessary)		
Additional Review (as necessary)		
Additional Review (as necessary)		

PIF Recommendation to CEO

Brief reasoning for recommendations to CEO for PIF Approval

1. Conservation International; Project Financing: US$ 15,000,000; Co-financing US$ 111,031,000. This project will build an innovative investment model that invests in community-based solutions to restore natural ecosystems (NBS) and establishes agroforestry and regenerative agriculture systems in developing countries, with a view of generating high quality, cost-effective certified carbon offsets for climate-responsible corporates. The fund invests directly into in carefully selected projects instead of buying carbon assets already issued by third parties on the secondary market. Carbon offsets will be verified by Gold Standard and Verra, the leading assurance services providers in the market, thus ensuring the environmental integrity of the scheme. The investment strategy places local communities at its center, as the key actors of the management and conservation of local natural ecosystems. LCF3 aims to showcase NBS as a new investable asset class and the GEF early stage equity share will play a decisive role to remove barriers for private financial investors and unlock capital at scale. The Fund investment model enables financial investors to monetize returns through a carbon offset mechanism offered to participating corporate investors. The project will result in at least 65,460 ha of degraded land being restored of which 16,500 will be wetlands. It will also result in 22,490 ha of land to be placed under improved management practices. The GHG emission reduced or avoided are expected to be equivalent to 20,000,000 tCO_2eq. However, as the GEF a will be repaid in cash after the carbon credits are sold, these mitigation outcomes will not be accounted for against the GEF-7 corporate targets to avoid double-counting.