

The Selva Fund

Basic Information

GEF ID

10937

Countries

Regional

Project Title

The Selva Fund

GEF Agency(ies)

CI

Agency ID

GEF Focal Area(s)

Multi Focal Area

Program Manager

Avril Benchimol Dominguez

PIF

Part I – Project Informatic

Focal area elements

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Please include CC objectives as the project is going to generate CCM benefits.

Revise 'Countries' to Regional from Global.

Please revise Rio markers for both CCM (as we are going to have CCM benefits) and CCA (many of the investment would go for climate resilient agriculture projects).

Agency Response

CI-GEF 04/27/2022:

- CC objectives now included in Table A
- Countries revised to Regional
- 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

April 5, 2022

The project objective should emphasize that the fund has a focus on value chain providers and SMEs (more on the medium size than on the small size). The project description should also mention the capital markets transaction as a means to mobilize capital markets to invest in Bio-Economy and that the de-risking provided by Junior Equity holders (hence GEF investment) is needed.

Table B should have project outcomes and outputs that differ by recipient of the financing: I.e. value chain recipients/aggregators vs SME. Outcome 1: additional financing with GEF investment is OK, but please note we do not want to be the only junior equity partner so add that additional junior equity will also be raised.

The sum of 45M+30M= 75M (but the two columns on the left have a total of 87M (77M co-financing and 10 M GEF) please explain and be consistent throughout the document

Output 2: mentions providing “enabling conditions”. Please define what you mean by Enabling Conditions: policies? Institutional frameworks? How would the fund deliver this?

Target under Output indicators 2.1 mentions 136 SMEs/68 SMEs/57 SMES and whereas in the rest of the document you mention between 35-45 SMEs.

Please also note that under Outcome 3, targets also do not match: 126 loans provided by SMES (according to the description of loan Ticket size these number may need to be revisited in table B. Please consistency throughout the document.

Finally, please add value chain recipients as part of the targets throughout table B.

The Outcome indicator 3.2, mentions “existing jobs sustained”; we need to have the target jobs sustained (baseline is welcome and will help calculate the DELTA.

Please explain targets of income generating activities in terms of females. Why % is so low? Justify.

Outcome indicators of “enabling solutions” is not understood (as per comment above).

I would add in TABLE B the bond issuance as Outcome.

Agency Response

CI-GEF 04/27/2022:

- The objective was updated to include the bond program and reference to SMEs (mostly medium-sized). The Selva Fund is part of a US\$1bi SDG bond program, The Selva Fund will be one of the up to 6 blended finance impact funds of the SDG program, that will be targeting the Amazon region by providing adequate finance and technical assistance to small and medium sized enterprises operating in bioeconomy-based and sustainable commodities production in the Amazon, thus contributing to the protection and restoration of Amazon Forest whilst supporting sustainable livelihoods for local communities in the Amazon regions of Brazil, Colombia, Peru and Ecuador”

- Description of the bond is included in table C and in the project description section of the PIF. The SDG Bond program, which includes the Selva, together with other impact funds structured the same way, will be packaged together (but managed independently) and be the underlying funds for the bond program. More details of the bond structure are at this stage confidential and still under development. The impact funds, including Selva will be managed independently, and specifically in the case of Selva, GEF investment into the junior share tranche will be pari passu with other investors in that tranche.

- The Selva Fund will identify SMEs with different business models, but regardless of the business model, it will have the same outcomes and outputs. Business models can vary – it can be a smaller SME that works with one single product/value chain coming from one specific large area or, or many smaller areas sizes and in one specific land-use arrangement, or it can be an SME that sources from more than one value chain and coming from several different land-use arrangements and regions, commercializing with one or several different off-takers. But all these different modalities will have the same outcomes and outputs. There is a whole range of potential SMEs with different business models where some will be able to absorb larger loans amounts, likely because its business is connected to sustainable commodities value chains. The project objective has been updated to reflect this but we cannot differentiate between value chain recipients and SMEs, they are all considered SMEs.

- GEF will not be the only junior equity provider. The fund will raise US\$30M in jr. equity and GEF will provide US\$10M. The investors of the additional US\$20M of jr. equity investments will have same investment terms and conditions as the GEF. This explanation has been added in section 3 under outcome 1 description.

- The US\$87M is the sum of the US\$75M of the Selva Fund investment vehicle PLUS the amount that will be invested in the technical assistance sidecar: US\$12M. The \$10M of GEF investment in the junior equity tranche of the fund will leverage US\$65M more into the Selva Fund investment vehicle plus US\$12M more in the technical assistance side car. US\$77M is the co-financing of the US\$10M from the GEF. Numbers have been clarified across the PIF and this explanation is included under the co-financing table.

- Enterprises that deliver “Enabling conditions” are SMEs that provide infrastructure and technological solutions that support the range of SMEs operating in the forest protection, sustainable commodities production and restoration businesses. These businesses can provide traceability and more reliable communication services, marketplace, logistics, consistent/reliable energy and so on. This information is included in description of Output 2 in the PIF under section 3.

- The reasoning behind those numbers are that we will pursue at least 136 different enterprises, at least 68 will go under due diligence process, and we will provide approximately 57 loans, but we aim to have no more than 45 loans outstanding in the Selva portfolio. Table B has been updated to reflect this explanation.

- The 126 loans provided to SMEs will happen during the 15-year lifetime of the Selva Fund investment vehicle. Outcome 2, that has the loans target has been updated and is now consistent across the document. Outcome 3 targets are people and not loans.

- “Value Chain recipients SMEs” in sustainable commodities value chains are already foreseen in table B. Some of the SMEs can be closer to medium sized SMEs (annual revenues can go beyond US\$5M) with their business models linked to larger off takers’ in order to promote/produce and/or source sustainably produced commodities to these larger off-takers. These enterprises can work in different

commodity production and/or sourcing arrangements with land-owners (more productive livestock/ag practices or implementing agroforestry systems). Based on that, we have modified in table B the name of the Outcome 1, where before it was defined as “Increased private finance for investments into bioeconomy-based SMEs” and now it is “Increased private finance for investments into bioeconomy-based and sustainable commodities production SMEs”. We have also included in table B, Output 2, an additional SME profile, that also would be eligible to Selva Fund loans and technical assistance which are those in which their business model depends on standing forests. It should have been there in the first place.

- Outcome indicator 3.2 represents the baseline number of people directly employed by the Fund’s invested companies, at the moment of investment, which will be maintained over time. To calculate the target for this indicator, the number of estimated unique investees to which the Fund will provide financing was multiplied by the assumed average baseline number of employees within investee companies in the Selva Fund:

- $46.19 \text{ (number of estimated unique investees over the lifetime of the Fund)} \times 21,25 \text{ (assumed baseline number of employees within an investee of the Selva Fund)} = 982$

On the other hand, outcome indicator 3.1 represents the number of new jobs created within investee companies in addition to the above baseline. To calculate the target for this indicator, outstanding investments creating local employment were multiplied by the assumed number of jobs that will be created within such investee companies on a yearly basis:

- For example, for 2023: $18 \text{ (outstanding investments creating local employment or income-generating opportunities)} \times 2 \text{ (assumed number of new jobs created per investee per year)}$.

The same calculation is applied every year to define the total number of jobs that will be created within investee companies over the lifetime of the Fund. The total result is 946 new jobs created in addition to the baseline number of jobs represented by indicator 3.2

Outcome indicator 3.1 therefore represents job creation within investee companies over the lifetime of the Fund and can be used as the delta.

This information has not been included in the PIF document because is typically provided at PPG stage when we work in the full Results Framework (Annex 1) and baselines. However, please see explanation above to understand the targets.

- The Selva Fund has taken a conservative approach on gender targets related to employment and income-generating activities. Regarding the number of employees, the proportion of women has been projected based on the track record of Bamboo’s investments in businesses in emerging and frontier markets (36% women employees on average). Regarding income-generating activities, the Fund has considered the proportion of women within the producers of crops supplying to invested SMEs. Our experience of impact measurement in the agricultural sector has revealed that women tend to be under-represented in the reporting of smallholder farmers supplying their production to our investees. When a family farm is involved in the production of crops sold to a cooperative, husbands tend to be the registered member of the cooperative. This reporting bias can be corrected to some extent, through engagement with the investee cooperative or SME, however we anticipate that the proportion of women reported may be low at the beginning. For this reason, we have adopted a conservative approach on gender % for income-generating activities. To the extent possible, the Fund will try to identify any gender bias leading to a misrepresentation of women and consider the actual impact of a company on women (taking into account other elements than the number of women beneficiaries, depending on the context) to inform the investment decision. Text included in core indicator 11 explanation section

of women beneficiaries, depending on the context) to inform the investment decision. Text included in Core Indicator 11 explanation section F and in the Gender section.

- Outcome indicator 3.5 represents the estimated number of new beneficiaries of enabling solutions, year after year. This relates to the increase in number of users of these enabling solutions, as invested companies grow and scale. The projections assumed a yearly increase rate of 15%.

To calculate the target 14,937 new beneficiaries of such solutions, the yearly baseline number of beneficiaries of investee companies providing enabling solutions was calculated first.

This yearly baseline was calculated by multiplying the estimated yearly number of new unique investee companies providing enabling solutions in which the Fund will invest by an assumed average baseline number of beneficiaries per company:

- For 2022, for example: 0.62 (estimated number of new investee companies providing enabling solutions in which the Fund will invest in 2022) $\times 6000$ (assumed baseline number of users of enabling solutions per investee company) = $3,746$
- For 2023, for example: 2.62 (estimated number of new investee companies providing enabling solutions in which the Fund will invest in 2023) $\times 6000 = 15,741$

The yearly baseline number was then multiplied by an assumed yearly increase in the number of users of enabling solutions per investee company following the Selva Fund's investment, taking into account a similar increase for the investments disbursed the previous year:

- For example, for 2023: $3,746 \times 15\% = 562$ (assumed yearly increase in number of users of enabling solutions per investee company following Selva's investment).
- For 2024: $(3,746 \times (1 + 15\% \text{ (total number of number of users in 2023 of companies financed in 2022)}) \times 15\%) + (15,741 \times 15\%) = 3,007$.

The same calculation was done for each year, and the sum for all years of the Fund's lifetime provided the 14,937 target for outcome indicator 3.5.

- A reference to the Bond Issuance Program was included on the Table B (PIF) as part of project objective paragraph. It cannot be included as an outcome because SELVA is not directly responsible of the Bond Issuance and the Bond Program is in its early stages of development.

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

April 5, 2022

No, please clarify the co-financiers for the senior equity tranche considering IFIs and DFIs are not considered as private sector.

Private foundations are not Private Sector but Non-for profit. Please make this table consistent with the table in the termsheet on co-financing. Also throughout the document, it is mentioned that the SELVA structure will help mobilize “commercial finance” but we cannot locate the commercial finance in the co-financing table. Please also note that the co-financing ratios need to be calculated with pure private sector co-financing (DFIs or NGOs are not).

Please also make consistent the numbers used in Table B (total Fund size US\$ 87 M as per comment above) with co-financing table.

Agency Response

CI-GEF 04/27/2022:

- Co-financing table and termsheet have been revised and are now consistent.
- We have revised the co-financing table and included an estimate of US\$10M coming from commercial investors (senior shares tranche).
- Private Sector Co-financing ration updated in the Termsheet and Reflows document. Following GEF co-financing policy, the co-financing ratio includes all co-financing sources, including private sector but the 1:7 ratio is not purely private sector co-financing. Please refer to co-financing table. These numbers and sources will be refined during PPG phase.
- The US\$87M adds the amount that will be invested in the technical assistance sidecar. The Selva fund investment vehicle will have US\$75M and the Selva fund technical assistance sidecar will have additional US\$12M. This explanation has been added to the PIF – see co-financing table and footnotes.

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

April 5, 2022

Yes

Agency Response

The STAR allocation?

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

NA

Agency Response

The focal area allocation?

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

NA

Agency Response

The LDCF under the principle of equitable access?

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

NA

Agency Response

The SCCF (Adaptation or Technology Transfer)?

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

NA

Agency Response

Focal area set-aside?

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

NA

Agency Response

Impact Program Incentive?

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

NA

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

April 5, 2022

Please provide how PPG would be utilized in the description.

Agency Response

CI-GEF 04/27/2022:

PPG funds will be used to complete all requirements for CEO Endorsement, hiring a consulting firm to support this process and pay for the legal due diligence process of the Fund.

Core indicators

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Please provide logics and methodologies used to assess the Core Indicator 3 and 4.

The overall level of LD targets are good (CI 3 and CI 4.3). Nevertheless, the core indicator 3.2 is to capture the area of forest and forest land in which best practices for ecological restoration are being applied. According to the description of the 'Archetype 3' it is not the case. This model aims to restore agriculture/productive landscapes rather than forests. Please clarify and if needed, reconsider the distribution of the targets of the sub-indicators 3.1 and 3.2;

The project should also estimate the GHG emission mitigated as with such activities the result must be significant and needs to be captured. Please complete the expected benefits as needed (adding a result for core indicator 6.1). The target does not need to be definitive at the PIF stage. The estimated GHG emission mitigation can be calculated with the expected project activities using EX-ACT tool from FAO. Please submit the calculation of GHG emission mitigation together in the next submission (submit the Excel file of EX-ACT tool if the Agency uses this tool).

Agency Response

CI-GEF 04/27/2022:

Logic and further explanation on the methodologies used to assess core indicator 3 and 4 have been added under core indicators table.

The targets for GEF's core indicators have been revised accordingly:

- Target area of land restored (core indicator 3) = 280,806 Ha
 - o Target area of degraded agricultural land restored (3.1) = 83 151 Ha
 - o Target area of forest and forest land restored (3.2) = 197,655 Ha
- Target area of landscape under improved practices (core indicator 4) = 805,810 Ha
 - o Target area of landscape under improved management to benefit biodiversity (4.1) = 577,921 Ha
 - o Target area of landscape under sustainable land management in production systems (4.3) = 227,889 Ha

The following clarification has been added to the description of archetype 3: "Business models under this archetype restore degraded land to a state that is as close as possible to natural forest. This can include a diverse mixture of regrowth vegetation that increases both above- and below-ground biodiversity and biomass and excludes monoculture plantations"

Exact tool was used to estimate core indicator 6 target. Please refer to Table F of the PIF and explanation of ExACT tool calculations.

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 Yes.

Agency Response

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

April 5, 2022

Some of the barriers identified correspond to the available terms and conditions of the financing (i.e. lack of long tenors, should be part of the TOC and the positioning of this specific Fund vs others. The Barriers section lacks background on the rationale for providing investment to value chain providers, which seem to be a major recipient of the financing. Please address.

There is also “a missing explanation” on what exactly the TA will do and how it will coordinate with the investment fund. How will the TA achieve commitments from value chain providers for investing in the 4 Archetypes.

Since there are many initiatives that seek to address the problems described, please enhance in what this Fund is different from existing initiatives and how it complements those. Is this the only fund that has TA? Is the TA used differently from existing funds and if so, how? Are there lessons learned from other initiatives that can be embedded in this project?

Agency Response

CI-GEF 05/05/2022:

Root causes and barriers further refined.

CI-GEF 04/27/2022:

Palladium has sourced a broad pipeline of SMEs ranging from small up to medium sized enterprises operating in forest-based products and commodities value-chains. Of those, some are “value chain providers”, which are upcoming new business models with the goal to better structure large off-takers’ value chains and source sustainably produced commodities, including payment for ecosystem services such as carbon offsets for them. These are relatively new SMEs, some were born out of Palladium’s work with some off-takers in the region, that will also need access to long term finance and TA to put in place, in different land-use arrangements with landowners, agroforestry systems, sustainable cattle ranching practices and other sustainable land-use models for better soil management practices and for forest restoration and production. Moreover, in addition to implementing agroforestry systems of their own, these new SME models can also source sustainable, conversion free products to meet increased market demand from these off-takers. Palladium has access to these innovative business models by helping to structure some of them through some of the programs it has been implementing in Brazil, Colombia and Ecuador.

A differentiator of Selva from other funds is that through Palladium, Selva has greater access to opportunities such as those identified through publicly funded programs such as Partnerships for Forests which incubates and accelerates regenerative business model enterprises in the region. Similarly, opportunities will also be generated through Palladium’s engagement with large private companies with interests in supporting forest protection and the shortening of value chains. This explanation has been added to the baseline section.

Technical Assistance needs will be assessed during the SMEs due diligence phase and it will be defined which operational areas of the SME need greatest support (financial and accounting management, business model and planning, market development and commercialization, production related support to input providers, human resources management and Impact measurement and monitoring). A tailor-made TA support will be designed and implemented by Palladium or its partners.

Selva Fund is the only impact investment fund focused on medium to long term debt financing to Small-Medium companies, specifically in the Amazon Region (covering four countries), and with a flexible Technical Assistance Facility, that provides tailor-made support to this business, which is a crucial de-risking component for the Selva Fund investment vehicle. See incremental costs section.

In addition, Selva is the only fund that operates with sustainable commodities value chains and forest-based products covering most of the Amazon basin (see Table 2 in the PIF for the specific differences).

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Please elaborate how the Selva Fund would complement these existing funds and project activities in the region. Please include the types of financial instruments provided by other funds, and if TA is available in other funds, how is it being used.

Agency Response

CI-GEF 04/27/2022:

- As mentioned, Selva will be the only debt fund with a tailor-made technical assistance facility focused on SMEs operating in the bioeconomy-based / forest-based value chain and sustainable commodities produced in the region. In this way, Selva can complement with resources and lessons learned other existing funds and projects in the region. That also includes pipeline since they operate with different financial instruments, for instance Selva can coordinate with other funds, especially with those that provide equity / quasi-equity, and as such, provide complementary resources for these SMEs to scale.

This has been added to the baseline section and incremental costs section.

- We have revised and included type of financial instrument and information on TA in Table 2.

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

The Fund objective defined in this section is different from Project Objective in Table B. Please refer to the comments in Table B and address throughout the document (including this section).

Please emphasize the experience gained from “partnerships for forests” and the fact that (i) you have identified pipeline through it – 30SMEs already in pipeline- (ii) you have long term relationship on the field.

“ The fund will kick off with a \$10-20 M investment” is OK, but we also need the commitment to find other Junior Equity Participants before we make 1st disbursement.

The very brief description of the TA “ to provide business support, deepen E&S impact and mitigate default risk” is insufficient to explain how the combined investment+TA will work and how this combined approach helps address barriers in the background section. The Figure 1: Selva Fund Mechanism, does not include TA (arrow) to aggregators, please explain.

Numbers provided for fund size and portions in the junior/senior/ note tranches need to be consistent with table B and the co-financing table.

Target portfolio of 45 SMEs needs to be aligned with Table B.

The TOC should include reasoning on why the type of financing provided (TA+ debt) is a solution to existing barriers, and complements others. We will work with the team on including the capital markets transaction as part of the project description. Please provide clearer Theory of Change of the fund emphasizing 1) the overall aim of the Palladium beyond the Selva Fund, 2) the complementarity with other baseline projects targeting SMEs in advanced stage in the region as well as 3) the strategy for being part of the Bond Issuance Program.

Fund investment strategy: please state clearly the target investment on SME with a target on “medium” size by ticket and also by size of company; the fact that the fund is targeting already established businesses is missing from the explanation. This should be linked to the type of risk that the market would be ready to absorb.

Please explain how Archetype 4 can be translated into Core Indicators that the GEF monitors.

On the section SELVA Terms and Conditions:

These terms and conditions should be the same as in the Termsheet in Annex A

Please explain what you mean for GEF investment “perpetual” first loss or long maturity. The GEF investment maturity can be up to 20yrs, but needs other Junior equity holders with the same maturity.

What is the maturity of the Senior equity holders

Please explain the terms and conditions of the Notes

We would like to better understand the waterfall, with and without bond issuance. There should be two different sections to explain GEF’s risk and GEF’s exit strategy.

Please update UST+ spread based on DEc 2021 levels since the UST reference levels have increased since then.

The theory of change should be updated to include the capital markets transaction. The TOC misses the logic to involve value chain providers (that only appear in the Project Objectives).

Assumptions should include that the terms and conditions offered by the Fund match the needs of the borrowers.

Agency Response

CI-GEF 05/05/2022:

ToC updated.

Table 3 fully revised.

CI-GEF 04/27/2022:

- Fund objective has been aligned to project objective.

- Experience from P4F included in the baseline section and in the proposed alternative scenario. More than 30 SMEs have already been identified to enter Selva's pipeline. Selva is uniquely advantaged in that it is able to draw on Palladium's deep regional networks, in-country presence and experience from delivering high-impact programs that promote sustainable and regenerative business models in the Amazon, including Partnerships for Forests, CATALYZE, and the Peru Coca Alliance.

GEF won't be the only participant to do the first disbursement in the junior equity tranche. This is clarified in the description of Outcome 1 and under cofinancing table C. The KM section also outlines some of the lessons learned from the P4F and mentions that a detailed analysis of lessons learned from P4F will be incorporated in the PPG phase.

- GEF won't be the only participant to do the first disbursement in the junior equity tranche. This is clarified in the description of Outcome 1 and under cofinancing table C.

- Description of TA updated and explanations added in PIF in alternative scenario, it was already explained in the innovation and sustainability sections.

- Figure 1 has been revised.

- Table B: US\$ 87M includes the Fund size + TA sidecar.

- Co-Financing Table updated: US\$ 20M Junior Equity (+US\$ 10M GEF Investment not in table) / US\$ 15M Senior Equity / US\$ 30M Notes / US\$ 12M Technical Assistance. Table 3 in PIF – Selva Fund's Terms and Conditions: US\$ 30M Junior Equity (Catalytic Capital) US\$ 20M Junior Equity (+US\$ 10M GEF Investment) / US\$ 15M Senior Equity / US\$ 30M Notes

- In order to eliminate confusion, we have deleted any mention on 45 SMES as Selva portfolio target. If there is any specific place that we can explain that we aim to have no more than 45 loans outstanding in the Selva portfolio without causing confusion, please explain where.

- While commercial loans and donor-funded grant facilities are already available, impact finance will help address existing barriers related to the funding gap facing target SMEs in the Amazon region. While traditional grant facilities provide support for businesses especially in early stages, they don't represent a sustainable source of financing and the amounts are often unable to deliver capital at the scale that is required to achieve commercial scale. On the other hand, the tenure of commercial loans is often incompatible with the time frame needed by target investees, and their servicing costs are prohibitive. Selva's debt financing will provide medium to long term capital (3-8 years) in the form of debt, with ticket sizes adapted to the needs, to enable businesses to build their capacities and scale sustainably. Operationally, Selva's efforts towards achieving its impact goals will be optimized through tailor-made Technical Assistance (where Palladium has extensive experience in doing so in the region) provided to the SMEs that will be in Selva's portfolio. The TA can cover a range of topics: from better operational and financial management practices, market access, impact measurement and monitoring, promotion of more

from better operational and financial management practices, market access, impact measurement and monitoring, promotion of more sustainable land-use practices ensuring that the loans are applied effectively. The combination of both debt financing and technical

assistance, provided jointly and in full alignment with the Fund's objectives, will further enhance the impact of Selva on the companies supported. This text has been included under section 3 of PIF – alternative scenario.

- Included in Table B, project description and a broader SDG program explanation was included below table C. The SDG Bond Program ToC has been added under section 3 above the Selva Fund Proposal section.

The SDG Bond Program ToC has been added under section 3 above the Selva Fund Proposal section.

Beyond Selva, Palladium and BCP's goal by structuring the SDG Bond Program is to build an efficient, scalable structure to issue SDG bonds for the UN impact investing system, giving investors a place to invest in a platform that is poised for growth and successful engagement with the institutional private sector to address the SDGs. (2) Different from other existing funds, Selva focuses exclusively in the Amazon Biome and transition zones (to the extent it prevents deforestation encroaching in the Amazon biome), it encompasses SMEs in 4 countries (as opposed to only one country, or other funds that are global, or even funds that use the term Amazon in its name, but doesn't necessarily have to invest in the Amazon. Moreover it focuses on SMEs that are ranging in size and maturity level between post seed-stage up to growth stage, and it provides debt with terms ranging mostly between 3 and 8 years. Selva's focus as per previously explained complements existing impact investment funds looking for opportunities at different stages than Selva in the region. (3) The SDG Bond Program will be an opportunity for leveraging private sector capital to an evolving ecosystem of SMEs that are starting and consolidating today in the region to push the needle in terms of private enterprises that will be operating in the region with the goal of consolidating a bioeconomy and forest-based sector in the region and also structuring commodity-based value chains that will be anchored in sustainable principles and processes that prevent deforestation and consolidate livelihoods to communities in the region that promote and depend on sustainable development.

- The Selva Fund will invest in small and mostly medium sized enterprises that are promoting, sourcing and/or directly producing sustainable commodities and bioeconomy/forest-based products through different arrangements, business models and land-use techniques. This is reflected in the four archetypes mapped by the Selva fund. Moreover, Selva will source opportunities across SMEs with annual revenues ranging from US\$ 500k-10M and loan ticket sizes will range US\$ 250k up to US\$ 7M covering a broad spectrum of SMEs in the Amazon region.

The SMEs that Palladium has identified, and is also helping large off takers to structure, are not necessarily "already established businesses". These are in fact new business models that are being created to fill this gap - need to source and commercialize deforestation free sustainable commodities - that large offtakers (established companies) have. What differentiate them is not the fact that they are already established business, but that they will have a more straight forward market access as they will likely (that is their goal, as with any SME) have offtake agreements with already established companies in these commodities value chains.

- Archetype 4 refers to companies providing enabling solutions such as infrastructure or logistical support to strengthen supply chains, financing solutions for producers whose practices contribute to the reduction of deforestation, tech companies offering tools to improve producers' productivity, traceability and socio-environmental risk solutions as well as marketplaces that give markets access to

producers' productivity, traceability and social environmental risk solutions as well as marketplaces that give markets access to bioeconomy-based SMEs and sustainably produced commodities in the Amazon region. Archetype 4 companies provide enabling solutions

to producers involved in the models classified as Archetype 1, 2, and 3. Although using these enabling conditions can help restore lands or improve practices, we have adopted a conservative approach through which Archetype 4 companies do not contribute to the Core Indicators 3 and 4. However, the producers who are users of these enabling solutions are counted within, and contribute to, Core Indicator 11 (the Fund will ensure that the risk of duplicate is properly addressed, and if an invested company classified as Archetype 4 provides its solution to the producers of another portfolio company classified as Archetype 1, 2, or 3, these users will not be counted twice in the number of beneficiaries that the Fund will report). We will explore how Archetype 4 can contribute to the core indicators during PPG phase.

- Terms and conditions in PIF (table 3) aligns with term sheet and reflows annexes

- Reflows Table (Term sheet) adjusted to explicit it. Please refer to the maturity section of reflows table.

- 10 years.

- The notes (loans to the Selva Fund) are an important tool to reach profitability. Although they are riskier for the fund due to their periodic payment obligation, usually the interest rates paid are at the lower end of market rates, allowing the fund to reach operational sustainability, and therefore attracting senior share investors – commercial/private investors. The notes that Selva will issue (US\$ 30M) will have the following conditions: Term – 10y | Interest Rates: 4.2% per year paid annually (interest rates based on UST as of Apr 2022).

- GEF's Investment in Selva Fund is in the junior share (catalytic capital) so subordinated to investors in the senior shares as well as notes investors. GEF's exit strategy is redemption of its shares in 15 years (with or without the issuance of the SDG Bonds).

- Updated to Apr 2022 directly in the PIF and Term sheet and Reflows document.

- The ToC for the SDG Bond Program has been included under section 3 of PIF. With regards to the SMEs that are defined as "value chain providers", we have clarified that. Selva, as well as the other impact funds backing the SDG Bond Program are open ended funds, so with the SDG Bond Program tapping into larger sums of institutional private capital, Selva will receive an increased flow of investments from the bond program that will be directed to a greater range of SMEs aligned with its mission for the Amazon region in the medium to long term.

- The Selva Fund ToC has been updated to include the SDG Bond Program as a long term impact.

- Figure 4 - ToC in the PIF now includes this assumption.

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Yes for LD and BD. Please add CCM, as discussed.

Agency Response

CI-GEF 04/27/2022:

Alignment to CCM focal area is already in the PIF. Table A has been updated to reflect the alignment CCM focal element.

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

April 5, 2022

Partly, please also mention the incremental reasoning for the Selva fund; what are you offering that is not offered yet? Please explain this from the borrower point of view (terms and conditions, TA goals etc).

Agency Response

CI-GEF 04/27/2022:

As described in Barrier 1 – SMEs in the Amazon, inserted in bioeconomy forest-based and sustainable commodities productions value chains have limited access to capital with the appropriate terms and conditions, in line with their business models, and that will enable them to consolidate their models and scale. Designed as a blended finance vehicle, with a Technical Assistance side-car, the multidisciplinary Selva Team (strong impact asset management team, with on the ground experience in Amazon based value chains and TA provision) will be able to closely evaluate the financial and technical needs of SMEs in these sectors/value chains and provide debt with adequate terms considering the necessity of each business model. In doing so, it will be able to provide competitive terms and conditions to such SMEs. Moreover the TA Facility will be incremental by offering tailor-made support to these businesses, which is a key de-risking factor for the Selva Fund. This support will be designed and implemented by Palladium or its partners in diverse areas such as financial and accounting management, business model and planning, market development and commercialization, production related support to input providers, human resources management and impact measurement and monitoring.

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

April 5, 2022

No, here, please provide logics and methodologies used for the Core Indicator 3, 4 and 6 as discussed with the team on the call. CCM needs to be included (indicator 6). Most of the Funds activities are described to be in the sustainable management of land whereas the core indicators seem to imply a higher activity in restoration of forests. Please explain and justify.

On BD indicators: where the projects will take place (enhancing connectivity for BD, for example) is key to justify quantification of core indicators and to indicate the synergies with existing projects.

Agency Response

CI-GEF 04/27/2022:

GEB section updated to include the methodologies for the core indicator targets

Selva will direct investments into the forest frontier regions of the Amazon Forest across Brazil, Colombia, Peru and Ecuador. The forest frontier is a zone of land that occurs around deforestation hotspots, and which includes recently degraded land, land under active human cultivation and remaining standing primary forest. Landscape within the forest frontier has high potential for impact. As it is already exposed and vulnerable through recent human activity, its protection and restoration can play a key role in securing areas of primary forest that lie behind the frontier, including protected areas.

Selva's impact management process blends a top-down and bottom-up approach. During the investment process, in addition to assessing a project's impact against the Fund-level indicators, as set out in table B, we will also assess the potential context- and site-specific impact in alignment with the investment's theory of change. This can include identifying additional indicators and could be particularly relevant where investee's operations are carried out in a landscape where increasing sustainable and regenerative land use practices might result in improved connectivity between areas of standing forest or protected areas. Similarly, where activities are being undertaken in a buffer zone, this may result in strengthened protection of protected areas. Another example could be where investees promote sustainable 'extractivism' with indigenous communities collecting non-timber forest products from primary and protected forest, increasing surveillance against illegal activities and increasing the value of maintaining standing and healthy forest. In such cases, additional biodiversity impact could be demonstrated. SMEs may also already be monitoring – or working with partners to monitor and report on – environmental and social impact indicators prior to Selva investment and this would be identified during our investment process and incorporated into the impact management of that project. In such cases, additional biodiversity impact could clearly be demonstrated. However, as we do not yet know which companies Selva will invest in, it is not possible to establish projections at this stage of the Fund's development.

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Yes, through the capital markets transaction.

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

April 5, 2022

Please provide more accurate location on expected projects, which is needed to justify BD core indicators.

Agency Response

CI-GEF 04/27/2022:

BD core indicators included. Maps updated

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

April 5, 2022

Please explain how you seek to engage stakeholders from the public and private sector in all countries. An initial list (given the plethora of players already identified in the section of similar funds and initiatives) can be provided here.

PPO comment

Agency is asked to provide additional information on its consultative process with stakeholders and the 30+ SME in project design.

Agency Response

CI-GEF 05/05/2022:

Stakeholder section revised to include information on what the project has done so far with regards to stakeholder engagement. Text included below and in the PIF:

P4F and Catalyze (USAID program) were the entry points for identification of SMEs that fit the Selva Fund profile. The project teams held meetings with potential SMEs to introduce the concept and explain the development phase, understand their needs from financing and their needs in terms of technical assistance, the project teams also built understanding of SME plans with regards to scaling and moving to sustainable business practices, environmental and social impacts, land-use, working with communities. These inputs have been used to build out a potential pipeline.

The teams have engaged with potential investors and other funds (e.g Althelia Biodiversity Fund).

CI-GEF 04/27/2022:

Information on how to engage private and public stakeholders included in the PIF.

An initial list of stakeholders by category included in the PIF (private, local and international organizations, national and other local government agencies, technical assistance providers)

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

April 5, 2022

Please mention those KPIs that are gender-specific mentioned in Table B here. Please explain why gender % are so low (30%) at the baseline level. Please consider committing to increase women beneficiaries (in % terms) as results of this project.

PPO comment

Please provide additional information on gender dimensions with regards to SMEs and their role to contributing to the protection and restoration of the Amazon.

Agency Response

05/11/2022:

Gender dimensions relating to SMEs and their role to the protection and restoration of the Amazon included in the PIF (at the beginning of the gender section).

CI-GEF 04/27/2022:

The following gender-disaggregated KPIs will be collected and monitored at the output level:

- Number of women directly employed by invested entities
- Number of women producers supplying to invested SMEs

- Number of women producers supplying to invested SMEs
- Number of women users of enabling solutions

The following gender-disaggregated KPIs will be collected and monitored at the outcome level:

- Number of new women jobs created
- Number of existing women jobs sustained
- Number of new women producers benefitting from access to income-generating opportunities in supply chains
- Number of existing women producers maintained in activity
- Number of women beneficiaries of enabling solutions

- experience of impact measurement in the agricultural sector has revealed that women tend to be under-represented in the reporting of smallholder farmers supplying their production to our investees. Our experience investing in agricultural companies in emerging and frontier markets has showed us that when a family farm is involved in the production of crops sold to a cooperative, husbands tend to be the registered member of the cooperative. As mentioned, this reporting bias can be corrected to some extent, through engagement with the investee cooperative or SME, however we anticipate that the proportion of women reported may be low at the beginning, and for this reason, have adopted a conservative approach on gender %. To the extent possible, the Fund will try to identify any gender bias leading to a misrepresentation of women and consider the actual impact of a company on women (taking into account other elements than the number of women beneficiaries, depending on the context) to inform the investment decision. Deep-dive impact studies conducted on the final beneficiaries of an investment may also help correct any bias and better measure the gender impact of investments.

Private Sector Engagement

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Yes, please mention Palladium/BCP is also a private sector who would execute the project.

The GEF would suggest BCP as EA (reasoning in the Section: Coordination).

Agency Response

CI-GEF 04/27/2022:

BCP added as executing agency in this section and in the coordination section of the PIF

Risks to Achieving Project Objectives

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

Yes – can this table be copy-pasted not in a table not an image? GEF Secretariat has nevertheless the following considerations for the Risks section:

Deal Sourcing: please mention as a mitigant the existing work done with Forest For Partnerships to identify pipeline

Please re assess political risk for the success of this project: from the macro risk to the legal /institutional framework/and enforcement of law that can be insufficient to the success of this fund {additional forest clearance}

The interest rate risk needs to be further explained; the “asset liability” management of the Fund should take this risk into consideration and be built to mitigate it. Please elaborate on mitigation factors.

Currency: the termsheet and Table 3 on Terms and conditions mentions investments in USD only. Please address. Which entity will hedge the exposure? Long term hedging is usually too expensive and has many requirements of “margins” that can limit the Fund capacity to generate new business.

Price Volatility: insure of what price you mean here. The Offtakers payments are mentioned here when they have not been explained earlier in the document: once the project rationale and TOC focuses more clearly on value chains this aspect can be better understood

Credit/Default: please explain how TA can limit default rates. In our experience only TA for financial intermediaries that can deal with delinquency management can result to a lesser default. This comments ties up with the need to explain how the TA and loans will be offered and to what extent the TA will help address existing barriers

outlined and to what extent the TA will help address existing barriers.

Credit/default: please explain what you mean by guarantees (you mean collateral?) Collateral is possible for investments other than working capital. Please explain.

Continued deforestation: mitigant includes coordinate efforts with existing stakeholders. Please include which stakeholders in the Stakeholder section

COVID-19 risks: the proposal is missing a section on COVID-19 risk

Climate Change risks: according to the GEF policies, climate change risks need to be assessed following the Climate Risk assessment.

<https://www.thegef.org/events/gef-and-world-bank-training-climate-risk-screening-climate-change-knowledge-portal>

The proposal needs to include the following considerations:

Has the sensitivity to climate change, and its impacts, been assessed?

How will the project's objectives or outputs be affected by climate risks over the period 2020 to 2050, and have the impact of these risks been addressed adequately?

Have resilience practices and measures to address projected climate change and its impacts been considered? How will these be dealt with?

What technical and institutional capacity, and information, will be needed to address climate risks and resilience enhancement measures? (from the STAP's [Additional Guidance on climate risk screening with examples by GEF Focal Area, STAP](#))

Agency Response

CI-GEF 05/05/2022:

Risk section updated

CI-GEF 04/27/2022:

Risk table thoroughly revised. Climate change risk analysis included.

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

April 5, 2022

GEF Sec would like to discuss the selection of the EA: we recommend having BCP and not Palladium as executing agencies as they are the agency in charge of the selection process and investment. The whole section 6. is explained based on the fact that most governance bodies depend directly on BCP and not on Palladium (who only is part of the Advisory Board/Committee).

Please explain how decisions will be taken on matters of the fund: for example, on exit strategies and sunset of the fund. Are there any special considerations for the GPs?

Will CI be a LP of this fund with GEF investment?

Will CI consider to co-invest with GEF?

Please provide a diagram of the governance structure

Please provide CVs of the key persons in Annex.

Agency Response

CI-GEF 05/05/2022:

Institutional arrangements expanded. CVs uploaded.

CI-GEF 04/27/2022:

- Currently in the PIF, BCP is included as an EA. During PPG phase, we will explore whether BCP and Palladium can be joint Executing Agencies, given that BCP is Palladium's asset management arm and, while some activities will be performed by BCP, and others by Palladium, the two institutions will be working closely together in most of the activities, regardless of who will be leading (see Activities Chart and Responsible Party). Moreover, to clarify, Palladium will not have members only in the Advisory Committee. It will participate in the Investment Committee, Impact Committee and Fundraising efforts as well.

- The legal Private Placement Memorandum (PPM) of the fund will organize decisions on all matters of the Selva fund. The Board of the fund (not yet defined at this stage) will be the ultimate responsible for all of Selva Fund's matters (investment guidelines, appointment of fund servicers, financial statements, fund liquidation, etc.). It is the designated Fund Manager (BCP) who appoints the funds' investment committee, which will be responsible for all investment and divestment decisions.

- CI will not be an LP in the fund. The fund is being structured as a Luxembourg SICAV SIF and so CI would become a participant in the fund.

- Aside from the GEF funding, CI is not considering an additional co-investment in the SELVA Fund. CI will ensure coordination with the CI Ventures Americas portfolio to ensure any conflicts of interest are properly managed and, when possible, consider any co-investment opportunities that would further leverage the GEF funding.

- Org. Chart included

- Key person CVs attached in a separate file.

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

CI-GEF 04/27/2022:

LDN goals included

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

April 5, 2022

Yes

PPO comment

1. We well noted that the Knowledge Management Approach can be further explored and developed during the PPG phase. The PIF also provides information of existing lessons, ongoing relevant projects and initiatives, and collaboration with other organization. Please provide a summary of these information in the Knowledge Management section of the Portal. In addition, please also provide information about: 1) proposed tools and methods for knowledge exchange, learning and collaboration, 2) proposed knowledge and learning outputs/deliverables to be produced and shared with stakeholders, 3) a discussion on how knowledge and learning will contribute to overall project impact and sustainability, and 4) plans for strategic communications, as required by the Guidelines on the Project and Program Cycle Policy (2020 Update) (Annex 16, page 100).
2. Before the CEO Endorsement, the project needs to provide key deliverable, timeline, and budget of knowledge management activities

Agency Response

CI-GEF 05/05/2022: KM section further revised. A summary of lessons learned, prepared tools and methods for KM, proposed knowledge and learning outputs and plans for strategic communications and a discussion of how KM and learning will contribute to project impact and sustainability are included in the PIF.

CI-GEF 04/27/2022: The Knowledge Management section has been updated to provide further information to the extent of possible at PIF stage. New text includes lessons from P4F, proposed tools and methods for knowledge exchange, proposed KM outputs, and plans for strategic communications.

Yes. The CEO Endorsement package will include details on KM activities. This will be developed at PPG phase.

Environmental and Social Safeguard (ESS)

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

Secretariat Comment at PIF/Work Program Inclusion

The Fund design mentions a robust E&S screening and review (there is a more detailed table at the end of the document, after Coordination), please add here.

Are there any documents supporting that the project was positively screened for safeguard screening? It would be good to review them and see if they are in line with GEF policies.

PPO Comments:

1. PPO suggests that Agency provide a summary of how the project manages environmental and social risk of the projects following the GEF ESS Policy and attach an Impact & ESG Framework developed by the Selva Fund in the ESS section (8) of the Portal. We note that the PIF mentioned that "the Selva Fund will deploy a strong ESG standard and will require borrowers to report on social and environmental impact indicators [...]." In the Section 6 Coordination, the PIF also explained that "The Selva Fund has developed an Impact & ESG Framework which guides its approach and processes in terms of impact management and Environmental, Social and Governance (ESG) risk monitoring. This document aims to guide the Fund's investment decision and efforts towards achieving high impact while managing ESG risks." Please note that the Project Implementation reports need to include update of environmental and social risk management of the project including summary of the investee companies' an annual ESG progress report.

Agency Response

CI-GEF 05/05/2022:

The Safeguard Screening was uploaded in the portal. We note PPO's suggestion of including how the project manages the environmental and social risks. At PIF stage, we are unable to do analysis of the Selva Fund ESG policy with the GEF ESS standards - this can only be done during the PPG phase as part of the GEF agency review and due diligence process. In addition, we will not be able to upload the E&S screening and review as this has to be reviewed to ensure alignment with CI-GEF ESS policies and updated if there is not alignment.

CI-GEF 04/27/2022

CI-GEF 04/27/2022:

Agency Safeguards screening attached.

At PIF stage, the Agency conducts a preliminary safeguards analysis based on the Fund safeguards screening. This is attached to the portal in resubmission.

Further work on the alignment of the Selva Fund ESG policy with the GEF ESS standards will be done during the PPG phase.

art III – Country Endorsements

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

Secretariat Comment at PIF/Work Program Inclusion

April 5, 2022

The Agency is nevertheless required to inform the OFPs of the different countries where the project is expected to take place prior to submission to Council.

Agency Response

CI-GEF 04/27/2022:

CI confirms that the OFPs will be informed about this project via email prior to posting of the work program.

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

April 5, 2022

Provide project number in the term sheet.

Please use table 3 as a model for the termsheet. Please quantify concessionality of the loans (there are methodologies for it)

Project and Program objectives should be phrased the same throughout the document (table B).

Revise the co-financing table as revised following the comment provided in the Table C, and the total project financing shall be 77M + 10.9M = 80.9M or else 87M (GEF financing+co-financing)

Please clarify that the debt (note) is not a security and why you are using notes. Please explain Table 3 considerations on the Notes.

Please clarify that the GEF would be pari-passu to other junior equity investors and that other junior equity investors will have the same maturity as GEF investment

GEF max investment is 20 yrs, not perpetual. Max tenor will be dependent on the ability to find another junior investor with the same tenor as the GEF investment.

Please clarify the exit strategy (potentially, to be confirmed) when the Bond is issued. Would the Bond be an exit for GEF investment? When would GEF exit?

Please provide more details on the IRR estimation, how this number came across. Please update numbers with new levels of US Treasury.

Please explain how the GEF will intervene in the governance of the fund on matters of exit/liquidation/and other relevant matters.

Reflow table needs specific dates and expected IRRs based on (i) base case, (ii) worst case and (iii) best case scenarios.

May 9 2022

Additional feedback on Fund Sizing (at least US\$ 25M before closing); waterfall of payments- where 20% carry fee can only be paid after principal repayment of the Junior equity; events of liquidation for GEF investment- including x% renewal of Sr equity and Noteholders at year 10; and maintaining minority position at all times- and governance (Palladium /BCP) were discussed and updated in the latest version of the termsheet.

Agency Response

CI-GEF 04/27/2022:

Project number included in the term sheet

Concessionality goes in the form of:

1. Longer terms - 8, depending on the BM, could go even longer, 10year loans, plus longer grace period
2. Flexibility with guarantees

Project and Program objective have been updated in DIF

Project and Program Objective have been updated in PIF.

Co-financing table updated in the term sheet

The notes (loans to the Selva Fund) are an important tool to reach profitability. Although they are riskier for the fund due to their periodic payment obligation, usually the interest rates paid are at the lower end of market rates, allowing the fund to reach operational sustainability, and therefore attracting senior share investors – commercial/private investors.

Yes, GEF will be pari-passu and have the same maturity as other junior equity investors. Table 3 (PIF Document) and Reflows Table (Term sheet) adjusted to explicit it.

Table 3 (PIF Document) and Reflows Table (Term sheet) adjusted to explicit it. Refer to maturity section of TS.

GEF's exit strategy is redemption of its shares in 15 years (with or without the issuance of the SDG Bonds). This has been included in the TS.

(included in term sheet) IRR for junior equity is modelled considering the terms described for the three tranches and reaching US\$ 75M in its third year of operation. Loans' interest rates average 14% per year, with tenure ranging from 3 to 8 years and up to three years of grace period. There are assumptions considered on (a) loss ratios, (b) recoveries, (c) write-offs and (d) hedging costs. Although the fund is open-ended, for calculation purposes a 15-year lifespan is considered – according to the requested tenure for the junior equity tranche. Senior equity and notes, carry a 10-year tenure, and it is assumed a 90% renewal rate at maturity. IRR is calculated considering the junior equity investment in year 1 and 2 and Net Assets in year 15. Net Assets are Total Fund Assets less Notes (Principal Amount) less Senior Shares (Principal Amount).

Updated to Apr 2022 directly in the PIF and Term sheet and Reflows document.

CI representing the GEF would be sitting on the Selva Fund's Advisory Committee along side other potential LPs and experts TBD. Some of the roles of the Advisory Committee are: general oversight of the fund, consultations and guidance with regards to impact aimed by the fund and relevance of potential investments that Selva could make, conflicts of interest, consultations about co-investment opportunities and others.

The bear/base/bull scenario and the waterfall for each scenario is outlined below:

- Base Case Scenario: IRR=2,9%
- Best Case Scenario: IRR=4,7% (Improvement of 25% in loss ratios and hedging costs – compared to base case)
- Worst Case Scenario: IRR=0% - GEF (and other junior equity investors) would receive only the principal in 15 years. (50% increase in loss ratio and hedging costs – compared to base case)

Bear / Base / bull scenarios are in the TS (Reflows table and Table 3 of the PIF). About waterfall, see below:

1. Business as usual scenario

- *First, payment of the principal and interest of the Notes.*
- *Second, payment of the 5% dividend to Senior Tranche (if not available resources, dividend payments are accumulated). Please note that resources from junior equity investors principal are not used to cover senior tranche dividend payments in any case.*
- *Third, at the time of the end of the fund, the structure returns the original amount invested by Senior Tranche holders.*
- *Fourth, the structure returns the initial investment plus any potential return to Junior tranche investors (if resources are available).*

2. Default Scenario (fund is not able to repay the principal and interest of the Notes.

- *Loan providers can declare default, and should be able to declare among other things, the liquidation of the fund.*

- *If the liquidation of the fund is declared, all resources obtained are addressed to follow the waterfall as presented above in Point 1.*

Response to question from AGFE:

Yes, carry is based on the senior and junior equity but not the notes. The Selva Fund financial model was developed with carry fees paid annually and catalytic capital investors having their redemption of shares in 15 years, in line with best practices and keeping incentives for the good performance of the fund manager. We are open to discuss in more details the incentive structure with our anchor investors.

EFSEC DECISION

RECOMMENDATION

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

Secretariat Comment at PIF/Work Program Inclusion

The PIF is recommended for technical clearance. The proposed NGI project will finance bio-economy activities, forest-based products and commodities value-chains of SMEs in the Amazon region, leveraging on the deliverables of Partnerships for Forest (P4F). The Fund is being designed to be part of a highly innovative SDG Bond Program that will mobilize additional private finance through capital markets for six blended finance funds, including the Selva Fund.

The PPG is recommended for clearance and is needed for DD.

ADDITIONAL COMMENTS

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

Secretariat Comment at PIF/Work Program Inclusion

During PPG phase, recommendations on the financial structure (termsheet), result of the legal and financial DD by CI and increased information on BD impacts and quantifications of core indicators 3 and 6 need to be further reviewed with the FA specialist

Review Dates

	PIF Review	Agency Response
First Review	4/5/2022	
Additional Review (as necessary)	5/5/2022	
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

This project will provide finance and technical assistance through the Selva fund for small and medium size enterprises (SMEs) to invest in bioeconomy activities, forest-based products and commodities value-chains. The bioeconomy activities are expected to contribute to the protection and restoration of the Amazon Forest whilst supporting sustainable livelihoods for local communities in the Amazon regions of Brazil, Colombia, Peru and Ecuador. The fund structure has been designed to be part of a broader Sustainable Development Goal (SDG) Bond Program, that will seek to mobilize additional private finance through capital markets for this Fund and other 5 blended finance impact funds. The project builds on previous work of Partnerships for Forest (P4F) that supported regenerative business models across the tropical forest belt globally. The project is expected to generate 805,810 ha of landscapes under improved practices of which 577,921 ha are to benefit biodiversity; the project is also expected to generate 280,806 ha of area of forest and forest land restored and 50,595,570 tCO2 avoided. The project is expected to benefit 324,853 smallholder farmers in Brazil, Colombia, Peru and Ecuador.

