The Food Securities Fund: A fund to finance sustainable supply chains at scale in Emerging Markets

Review PIF and Make a recommendation

Basic project information

GEF ID

10322

Countries

Global

Project Name

The Food Securities Fund: A fund to finance sustainable supply chains at scale in Emerging Markets

Agencies

CI

Date received by PM

8/26/2019

Review completed by PM

11/7/2019

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

Yes. but additional information required as described in Part I question II.

Agency Response

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

Agency Response

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

Considering the level of co-financing that may be available to the fund, a detailed description of financial and environmental added value provided through GEF financing and a clearer description of how GEF funding is necessary to catalyze further investment is requested.

Agency Response

<!-- /* Font Definitions */ @font-face {font-family:Wingdings; panose-1:5 0 0 0 0 0 0 0 0 0; mso-font-charset:2; mso-generic-font-family:decorative; mso-font-pitch:variable; mso-font-signature:0 268435456 0 0 -2147483648 0;} @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-

font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} p.MsoCommentText, li.MsoCommentText, div.MsoCommentText {mso-style-noshow:yes; mso-style-priority:99; mso-style-link:"Comment Text Char"; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:10.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} p.MsoListParagraph, li.MsoListParagraph, div.MsoListParagraph {mso-style-priority:34; mso-style-unhide:no; mso-style-qformat:yes; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi; mso-ansi-language:EN-GB;} p.MsoListParagraphCxSpFirst, li.MsoListParagraphCxSpFirst, div.MsoListParagraphCxSpFirst {mso-style-priority:34; mso-style-unhide:no; mso-style-qformat:yes; mso-style-type:export-only; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi; mso-ansi-language:EN-GB;} p.MsoListParagraphCxSpMiddle, li.MsoListParagraphCxSpMiddle, div.MsoListParagraphCxSpMiddle {mso-style-priority:34; mso-style-unhide:no; mso-style-qformat:yes; mso-style-type:export-only; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi; mso-ansi-language:EN-GB;} p.MsoListParagraphCxSpLast, li.MsoListParagraphCxSpLast, div.MsoListParagraphCxSpLast {mso-style-priority:34; mso-style-unhide:no; mso-style-qformat:yes; mso-style-type:export-only; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi; mso-ansi-language:EN-GB;} span.CommentTextChar {mso-style-name:"Comment Text Char"; mso-style-noshow:yes; mso-style-priority:99; mso-style-unhide:no; mso-style-locked:yes; mso-style-link:"Comment Text"; mso-ansi-font-size:10.0pt; mso-bidi-font-size:10.0pt;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} /* List Definitions */ @list l0 {mso-list-id:401560169; mso-list-type:hybrid; mso-list-template-ids:-1110641318 367183422 134807555

134807557 134807553 134807555 134807557 134807553 134807555 134807557;} @list l0:level1 {mso-level-number-format:bullet; mso-level-text:; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:Wingdings; color:#10137E;} @list l0:level2 {mso-level-number-format:bullet; mso-level-text:o; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:"Courier New";} @list l0:level3 {mso-level-number-format:bullet; mso-level-text:; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:Wingdings;} @list l0:level4 {mso-level-number-format:bullet; mso-level-text:; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:Symbol;} @list l0:level5 {mso-level-number-format:bullet; mso-level-text:o; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:"Courier New";} @list l0:level6 {mso-level-number-format:bullet; mso-level-text:; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:Wingdings;} @list l0:level7 {mso-level-number-format:bullet; mso-level-text:; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:Symbol;} @list l0:level8 {mso-level-number-format:bullet; mso-level-text:o; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:"Courier New";} @list l0:level9 {mso-level-number-format:bullet; mso-level-text:; mso-level-tab-stop:none; mso-level-number-position:left; text-indent:-.25in; font-family:Wingdings;} ol {margin-bottom:0in;} ul {margin-bottom:0in;} -->
this information has been included in the Section 5: Incremental/additional cost reasoning of the PIF)

I. Financial value added. The GEF's investment into the Food Securities Fund adds value in three ways: 1) by enabling it to achieve economies of scale already in the first year of operations; 2) by stabilizing its investor base; and 3) by sending an invaluable signal to other potential investors and stakeholders.

1) Economies of scale - the Food Securities Fund is a regulated vehicle in Luxembourg, with all the characteristics required to attract institutional investors and thereby achieve impact at scale. This structure, however, results in considerable fixed costs and forces the Fund to achieve a reasonable size at launch (or soon after that). While considerable interest and commitments have already been secured from investors, the GEF's investment clearly strengthens the Fund's capital base and should allow it to reach a capitalization of USD 50m within the first 12 months of operations.

2) Stable investor base - Clarmondial has structured the Fund in consultation with leading institutional investors, who indicated that they strongly prefer investment funds with at least quarterly subscription and redemption opportunities, and linked with this, quarterly valuation. Although these institutional investors are unlikely to come-and-go each quarter, we require a longer-term view in order to plan for adequate budget and liquidity of the Food Securities Fund, in particular in the first two years where the Net Asset Value (NAV) is likely to be smaller. The GEF's commitment to remain invested in the Fund for eight years provides a solid foundation on which to grow, and improves the Fund's ability to build a stable, well diversified portfolio of investments.

3) Signal effect - The Food Securities Fund uses an innovative blended finance strategy to address a critical gap faced by responsible agriculture companies in emerging markets. The GEF's investment will constitute an invaluable signal to other potential investors that are considering an investment, and thereby help mobilize private capital at scale. Other stakeholders, including the Luxembourg regulator, potential investees, and service providers, also value the GEF's investment as a strong sign of support.

II. Environmental value added. The GEF's investment is critical to the launch of the Food Securities Fund, allowing it to create environmental value added through its investments. In particular, the Fund will (a) provide incentives for improved agricultural production and generation of environmental benefits; (b) create a robust base for impact monitoring, reporting and generation; and (c) ensure impact creation in the long term.

Response to The 'how' of this isn't really clear yet. Is it by encouraging them to use CSA techniques and then self-monitoring the environmental results?:

On every potential transaction, the Food Securities Fund will conduct desktop and on-site due diligence, where the availability and quality of relevant baseline information related to Global Environmental Benefits (GEBs) will be assessed. The borrower (Aggregator) will be required to report on impact indicators that track progress on the GEBs, including: Area of degraded land restored, Area of landscapes under SLM in productive systems and GHG emissions mitigated

Area of degraded land restored and Area of landscapes under SLM in productive systems will be tracked in reference to a project-specific baseline that will established by Clarmondial in the course of its initial due diligence and agreed with the borrower as part of the loan agreement. Impact Advisory Board members may be requested to provide guidance, such as indicating additional sources of baseline information for a specific landscape, and on what can be considered "improved practices".

Quarterly borrower self-reporting will be complemented with company information that forms part of their existing operating practices and can be verified (e.g. receipts, contracts). Where available, certification and third-party standard documentation will be used to monitor performance. These include reports from Rainforest Alliance / UTZ, Global GAP, and Fairtrade, for example. Clarmondial will conduct follow-up visits prior to loan renewal to verify progress on GEBs. Where possible, independent third-party data and services will be integrated (e.g. satellite data produced as part of national reduced deforestation and degradation targets).

In summary: the initial baseline is set by Clarmondial in the course of its due diligence. Borrowers self-report quarterly on impact, supplemented by information from third-party certification agencies where available. This information is assessed on-site at least annually by Clarmondial before loan renewal takes place. The information gathered in the follow-up due diligence may inform a new baseline for the following loan period.

a) The Food Securities Fund will provide season-long working capital loans to responsible agriculture companies in emerging markets. In accordance with the Fund's ESG Policy, loans are tied to transparency and performance on pre-agreed financial and non-financial Key Performance Indicators (KPIs). By monitoring these KPIs, Clarmondial can track and support the borrowers' improvements. In the absence of sufficient improvements, the Fund may decide not to renew a loan. This is in contrast to other financial institutions, who typically have no (or weak) requirements related to non-financial performance. In effect, the loans provided by the Fund provide effective financial incentives for agriculture companies to continually improve their performance on environmental, social and governance (ESG) metrics. Additionally, as the Fund grows, it will benefit from economies of scale to provide cheaper funding, which will further increase additionality and the interest of the borrowers in meeting or exceeding environmental and social impact targets. The Food Securities Fund should also have a demonstration effect for other investors, corporates and policy makers.

Response to question on non-financing KPIs:

The Food Securities Fund has committed to tracking the following GEF core indicators that are associated with the GEBs:

- 3.1 – area of degraded agricultural land restored;
- 4.3 – area of landscapes under sustainable land management in production systems;
- 6.1 – carbon sequestered or emissions avoided in the AFOLU sector;
- 11 – number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment

In addition to tracking the Core Indicators, the Fund has a list of quantitative impact metrics (IMs) and qualitative metrics ("Assessment Factors – AFs"), some which are required for all transactions. This is to have a flexible approach tailored to specific environmental issues within a sourcing area, yet one that results in a consistent set of information that can be gathered on the portfolio. Tracking of IMs can help estimate contribution to GEBs. For example:

- Tracking the geographical sourcing area, practices, input use, soil management, and areas of set-asides as well as replanting can help to track contributions to area of land restored and area of landscapes under improved practices.
- Combining the aforementioned information with proxies (e.g. in the FAO EX-ACT worksheet), and further operational information (e.g. on energy use) can help to estimate greenhouse gas emissions mitigated.
- The Fund tracks numbers of beneficiaries by gender directly engaged by the Aggregator (borrower) and will over time require more accurate figures on number and gender of farmers that are transacted with, including through third parties (e.g. traders, smaller cooperatives that supply the Aggregator).

The Aggregator is required to report quarterly to the Fund on these and other KPIs. Progress will be reviewed through onsite due diligence at least annually, and is a critical element in the renewal of the loans.

The impacts created, including contribution to GEBs, will be consolidated and reported to investors annually. Through the Impact Advisory Committee, Conservation International and others will review progress on impacts regularly, including in preparation for the annual report to ensure that this is a fair and balanced review of progress.

b) A major challenge to creating social and environmental impacts and considering these as material factors in lending or investment decision making is a lack of reliable and consistent data. By requiring borrowers to regularly report on a standard set of environmental and social KPIs, the Fund will enable better integration of impact factors (e.g. to set appropriate sectoral and geographical baselines). Clarmondial is committed to sharing its learnings, as described in the Food Securities Fund ESG Policy.

KPIs and claims reported by borrowers can be ascertained in several ways depending on their nature. For example, areas of set-asides can be assessed using satellite or drone-based information. Input use in the area can be assessed by reviewing receipts. The claims may in some cases be verified through third-party certifications. All claims will be checked regularly (and at least annually through an onsite due diligence) by the Clarmondial investment team, reviewed by the Impact Advisory Board, and the reported to investors each year.

Note that Clarmondial also intends to work with sector and regional experts who can provide guidance on “good practices”, so that self-reported claims can be contextualised. Also, as the Fund gains greater scale, a larger inhouse database on key sectors and geographies will facilitate the validation of self-reported claims.

c) Clarmondial counts on an experienced team with backgrounds in impact investing, natural sciences and private investments in emerging markets. The team has dedicated significant time to formulate the Fund’s theory of change, substantiated by the Fund’s investment criteria and ESG Policy. Clarmondial recognizes that it is important to assure investors of its commitment to generating impact and to be accountable for these. It has therefore created an Impact Advisory Board to guide the Food Securities Fund, which includes a representative from Conservation International, and one from WWF-US. Other members will be announced soon. Investors will appreciate the GEF’s commitment to the Fund as an endorsement of its ambition to create positive social and environmental impacts.

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

The total amount of NGI funding should be US$ 15 million, including agency fees and PPG.

Agency Response Total amount updated

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

Agency Response

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

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

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

It is unclear how the project will build on the existing baseline scenario. Please elaborate

Agency Response

<!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-

pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-
family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman";
mso-bidi-theme-font:minor-bidi;} p.MsoFootnoteText, li.MsoFootnoteText, div.MsoFootnoteText {mso-style-name:"Footnote Text\,Geneva 9\,Font\: Geneva
9\,Boston 10\,f"; mso-style-priority:99; mso-style-unhide:no; mso-style-link:"Footnote Text Char\,Geneva 9 Char\,Font\: Geneva 9 Char\,Boston 10 Char\,f Char";
margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:10.0pt; font-family:"Times New Roman",serif; mso-fareast-font-family:"Times New
Roman";} span.MsoFootnoteReference {mso-style-name:"Footnote Reference\,16 Point\,Superscript 6 Point"; mso-style-priority:99; mso-style-unhide:no; mso-style-
parent:""; vertical-align:super;} p.MsoListParagraph, li.MsoListParagraph, div.MsoListParagraph {mso-style-priority:34; mso-style-unhide:no; mso-style-
qformat:yes; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto; mso-pagination:widow-orphan;
font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-
theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-
bidi; mso-ansi-language:EN-GB;} p.MsoListParagraphCxSpFirst, li.MsoListParagraphCxSpFirst, div.MsoListParagraphCxSpFirst {mso-style-priority:34; mso-style-
unhide:no; mso-style-qformat:yes; mso-style-type:export-only; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-
add-space:auto; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin;
mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times
New Roman"; mso-bidi-theme-font:minor-bidi; mso-ansi-language:EN-GB;} p.MsoListParagraphCxSpMiddle, li.MsoListParagraphCxSpMiddle,
div.MsoListParagraphCxSpMiddle {mso-style-priority:34; mso-style-unhide:no; mso-style-qformat:yes; mso-style-type:export-only; margin-top:0in; margin-
right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto; mso-pagination:widow-orphan; font-size:12.0pt; font-
family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin;
mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi; mso-ansi-
language:EN-GB;} p.MsoListParagraphCxSpLast, li.MsoListParagraphCxSpLast, div.MsoListParagraphCxSpLast {mso-style-priority:34; mso-style-unhide:no; mso-
style-qformat:yes; mso-style-type:export-only; margin-top:0in; margin-right:0in; margin-bottom:0in; margin-left:.5in; margin-bottom:.0001pt; mso-add-space:auto;
mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-
family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman";
mso-bidi-theme-font:minor-bidi; mso-ansi-language:EN-GB;} span.FootnoteTextChar {mso-style-name:"Footnote Text Char\,Geneva 9 Char\,Font\: Geneva 9
Char\,Boston 10 Char\,f Char"; mso-style-priority:99; mso-style-unhide:no; mso-style-locked:yes; mso-style-link:"Footnote Text\,Geneva 9\,Font\: Geneva 9\,Boston
10\,f"; mso-ansi-font-size:10.0pt; mso-bidi-font-size:10.0pt; font-family:"Times New Roman",serif; mso-ascii-font-family:"Times New Roman"; mso-fareast-font-
family:"Times New Roman"; mso-hansi-font-family:"Times New Roman"; mso-bidi-font-family:"Times New Roman";} p.GEFFieldtoFillout, li.GEFFieldtoFillout,
div.GEFFieldtoFillout {mso-style-name:"GEF Field to Fill out"; mso-style-unhide:no; mso-style-qformat:yes; mso-style-link:"GEF Field to Fill out Char"; margin-

top:0in; margin-right:0in; margin-bottom:0in; margin-left:-.5in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:11.0pt; font-family:"Times New Roman",serif; mso-fareast-font-family:"Times New Roman"; color:black;} span.GEFFieldtoFilloutChar {mso-style-name:"GEF Field to Fill out Char"; mso-style-unhide:no; mso-style-locked:yes; mso-style-parent:""; mso-style-link:"GEF Field to Fill out"; mso-ansi-font-size:11.0pt; mso-bidi-font-size:11.0pt; font-family:"Times New Roman",serif; mso-ascii-font-family:"Times New Roman"; mso-fareast-font-family:"Times New Roman"; mso-hansi-font-family:"Times New Roman"; mso-bidi-font-family:"Times New Roman"; color:black;} span.msoIns {mso-style-type:export-only; mso-style-name:""; text-decoration:underline; text-underline:single; color:teal;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} /* Page Definitions */ @page {mso-footnote-separator:url("/Users/osamaroo/Library/Group Containers/UBF8T346G9.Office/TemporaryItems/msohtmlclip/clip_header.htm") fs; mso-footnote-continuation-separator:url("/Users/osamaroo/Library/Group Containers/UBF8T346G9.Office/TemporaryItems/msohtmlclip/clip_header.htm") fcs; mso-endnote-separator:url("/Users/osamaroo/Library/Group Containers/UBF8T346G9.Office/TemporaryItems/msohtmlclip/clip_header.htm") es; mso-endnote-continuation-separator:url("/Users/osamaroo/Library/Group Containers/UBF8T346G9.Office/TemporaryItems/msohtmlclip/clip_header.htm") ecs;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->

Added to description of the baseline scenario in PIF:

The analysis of the baseline scenario identifies several challenges affecting (or caused by) agriculture, including low productivity, limited access to high-quality inputs and improved technologies in Africa, commodity price volatility, climate change, deforestation, and biodiversity loss. It concludes additional financial services, specifically facilities dedicated to sustainable production, are required to close the prevailing credit gap and enable agriculture to meet its potential in contributing to the Sustainable Development Goals.

The capital gap for sustainable agriculture exists at all steps of the supply chain and spans long-term investment capital to relatively short-term trade finance. The International Finance Corporation (IFC) estimates the credit need of one third of SMEs in North Africa and approximately half of SMEs in Sub Saharan African are not fully met and estimates the African SME finance gap to be at more than USD 421 billion . The unmet demand for trade finance in Africa is estimated at USD 120 billion, and USD 700 billion in developing Asia . Currently, only about USD 50 billion of the more than USD 200 billion credit need is fulfilled for smallholder finance in Sub Saharan Africa, Latin America, South and Southeast Asia, and it is expected this will improve in the coming years without additional attention . A lack of available credit, in particular tied to sustainable business practices, is thus both a threat and an opportunity to achieving Global Environmental Benefits.

The Food Securities Fund proposes a strategy to address these environmental challenges as well as the credit gap. It works alongside the agricultural value chain to leverage existing relationships and commitments: large companies - Value Chain Partners (VCPs) - are used to source and de-risk investment opportunities, and local Small and Medium-sized Enterprises (SMEs) are financed to become better partners to farmers. By providing season-long loans it enables SMEs to support farmers they work with (e.g. through technical assistance, inputs or credit) in order to sustainably improve farm productivity and farmer incomes. As its loans are conditional to good environmental practices, the Fund provides a lasting incentive for local companies to become more transparent, accountable and committed to continuously improving their environmental performance. Due to its innovative de-risking approach, the Fund is not dependent on collateral from the borrower, and can therefore provide a complementary and additional source of financing alongside existing financial institutions and the baseline projects indicated in the PIF.

Good environmental practices are defined according to (i) a sectoral / geographical baseline, (ii) a “project” (internal) baseline, or a combination of the two. Ambitious yet realistic targets for each borrower will be established based on the baseline and included in the loan documentation. The baseline set in the initial loan period will be based on available information on the borrower (Aggregator) and its peers. Performance according to the baseline is tracked using indicators related to the GEF Global Environmental Benefits. This approach allows the Fund to support measurable progressive improvements on relevant indicators in successive loan periods. The Fund expects to see continuous improvement on these KPIs (indicators).

Structurally, the Fund is designed to have fewer of the restrictions faced by banks and many existing financing vehicles to address the financing gap in sustainable agriculture:

a) Commercial viability - Programs that fund responsible agriculture are often systematically dependent on the availability of concessional capital, and lack a strategy to phase out such capital over time to become commercially viable. In contrast, the Food Securities Fund is structured to attract private, commercial investors as it builds up its track record, so that concessionary investors are gradually replaced.

b) Scalability - Many investment vehicles are structured such that investors commit their capital at the beginning and are only repaid once at the end of the vehicle’s life. This prevents many institutional investors from participating in such vehicles, constraining their growth. The Food Securities Fund is different as it offers quarterly liquidity to investors (i.e. the option to invest or divest at each quarter). The Fund is also supervised by the Luxembourg regulator, which provides additional comfort to institutional investors that can bring the Fund to scale.

c) Blended finance approach - Traditional financial institutions struggle to lend to agriculture SMEs for several reasons, including their dependency on collateral which is prescribed by regulation. In line with its value chain approach, the Food Securities Fund builds on existing business relationships between SMEs and larger companies (VCPs) to de-risk transactions through partial first-loss guarantees. This is complemented by a guarantee facility from USAID. As a consequence, the Fund constitutes a new, additional source of financing that effectively addresses the prevailing credit gap in agriculture.

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

Secretariat Comment at PIF/Work Program Inclusion

Agency Response

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

Secretariat Comment at PIF/Work Program Inclusion

1-Alignment with FOLUR: linkage with FOLUR needs to be further elaborated. As specific landscapes haven't been identified it is unclear if the project intends to prioritize work where FOLUR projects are being undertaken or supplement these in other landscapes. Such a determination could also serve as part of landscape selection criteria for the allocation of GEF resources.

2- Focal areas: There seems to be an expectation that practicing CSA will provide many of the expected GEBs (CC, LD, BD) but how this will happen needs to be further elaborated. In addition, as the landscapes where the project will work haven't yet been identified, it's unclear if these areas are of important global environmental value. We suggest that global environmental importance and ability of landscapes to generate GEB be considered as part of the selection process for landscapes through the development of clear selection criteria. These criteria should be reviewed by the GEF, and, if possible, the GEF should play a role in the review and determination of the landscapes where GEF trust fund resources are to be deployed.

1. Loss of agrobiodiversity: greater connection with large scale commodity markets often encourages farmers to grow a single variety because buyers are looking for a standardized product and high yields are what are rewarded. This would contrast to local markets where buyers would distinguish on taste, quality, etc. more than large scale buyers. How will the project address this issue?

3-Higher value of land leads to greater incentive to deforest: as farmers receive higher income per hectare, it can create greater incentive to deforest available land. This can be good where degraded or marginally managed lands exist. But, there are often remaining forest patches and we know that PAs are often not adequately protected or enforced in these places. Regulatory and legislative approaches are important but often insufficient. How will the safeguards account for this is

4-Reducing food security: as farmers move to plug in to global commodity supply chains, they may be discouraged from planting crops that provide local food security. This is a reason to promote agroforestry and mixed systems (such as cacao or coffee with food crops mixed in). Please clarify how the project will address this issue.

Agency Response <!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->

1. Alignment with FOLUR - The Food Securities Fund intends to address a problem that is pervasive across rural landscapes, including those under FOLUR, i.e. the availability of unsecured, pre-harvest working capital tied to transparency and continuous social and environmental impact generation. A common intention is clear, in particular in its engagement of the private sector, and delivering significant Global Environmental Benefits. As such, Clarmondial will prioritize pipeline development where the Fund has significant overlap with the FOLUR countries and landscapes. While the FOLUR landscapes may guide investment origination, adequate conditions must exist for the Fund to transact in those landscapes (e.g. creditworthy counterparts, appropriate interest rates).

2. Focal areas - Global environmental importance and the ability of landscapes to generate Global Environmental Benefits will be considered as part of the investment origination process. In addition, the GEF can play an active role on ESG guidance through the participation of CI as the GEF Agency on the Impact Advisory Board. The Impact Advisory Board will guide the impact strategy, ensure adherence to best practice and that important initiatives including HCV and HCS mapping are integrated into the strategy. Clarmondial will regularly seek advice and input from the Impact Advisory Board.

Transactions will be selected based on both financial and non-financial aspects. Transactions that have the potential for greater contributions to Global Environmental Benefits will be prioritized - notably transactions that result in greater numbers of hectares of degraded lands restored (GEF core indicator 3.1), area of landscapes under sustainable land management in production systems (GEF core indicator 4.3), climate mitigation i.e. carbon sequestered or emissions avoided in the AFOLU sector (GEF core indicator 6.1) and more beneficiaries, in particular women (GEF core indicator 11). GEF landscapes will be prioritized in the investment pipeline against similar deals (in relation to loans amount, risk/return profile, timing, and other criteria), however, the Food Securities Fund cannot commit to only investing in GEF landscapes. With the collaboration of Conservation International, and potentially other GEF partners (e.g. WWF USA, which is also represented in the Fund's Impact Advisory Board), additional origination efforts can be directed to the GEF landscapes. Clarmondial understands that access to working capital is an issue to projects engaging private sector in GEF landscapes, therefore these should present additional investment opportunities for the Food Securities Fund. Note that GEF investment is part of the overall fund capital (i.e. there is no carve out for GEF landscapes) and a portfolio-wide restriction would be detrimental to the GEF goals by limiting the Fund's ability to scale.

Loss of biodiversity: the Fund primarily addresses large scale buyers, mainly for export, where there is a focus on consistency among other requirements (e.g. taste, quality). The Value Chain Partners with whom the Fund is engaging recognize the importance of maintaining (or improving) agrobiodiversity in order to achieve resilience. They may do this in different manners - e.g. by supporting farmer livelihood diversification and providing training. Increasing farmer livelihood diversification in most cases (and all that are being considered so far), translate into greater farm agrobiodiversity, which means that farmers have more stable incomes through the year and that there continues to be a farmer base. Engagement by the Value Chain Partners and Aggregators, e.g. in providing training, is made possible by the purchase of the main product.

3. Indeed, higher land value through improved production can and has led to increased deforestation and forest degradation. The Food Securities Fund complements regulatory and legislative approaches by requesting strong ESG commitments and detailed reporting from borrowers. The safeguards are reflected in the loan agreements, and non-compliance may lead to penalties and non-renewal of the loan for the following season. The ESG Policy (on its Annex 2) stipulates that, among

other factors, a condition for receiving loans is that the Aggregator does not promote deforestation of primary forests or biodiversity hotspots or import conservation areas.

The loan agreements will have a specific section on non-financial indicators and reporting. Aggregators will commit to them, and loans will not be renewed if the conditions related to non-financial performance are not met.

The financial penalty that the Fund can impose is the non-renewal of the loan in the following season. This is a major penalty as Aggregators in emerging markets generally do not have access to sufficient working capital, particularly to pre-harvest working capital as provided by the Fund. Not having access to the Fund will likely impair the Aggregators ability to scale their business and maintain their credibility with both the farmers that supply them and the VCPs they work with.

4. Domestic food security is of primary importance. FAO refers to four dimensions of food security: physical availability of food, economic and physical access to food, food utilization and stability of the other three dimensions over time. Technical assistance and availability of adequate inputs is often required to have enough food. However, it is often difficult for farmers to access this. While national, donor and NGO programs provide critical support, this is also often provided by the private sector where there is a link to a commercial crop. This link also helps to ensure that farmers have economic and physical access to food, including an adequate nutritional variety of food (some of which they will need to buy with cash), and that this is stable. The Food Securities Fund monitors these aspects proactively as part of its ESG Policy – indeed these are monitored at Aggregator level on at least a quarterly basis so that action can be taken, and the overall impact on domestic food security is considered on the transaction and Fund level on an annual basis where it is reported to investors using the reporting template included in the ESG Policy (see Section B in Annex 2 of this Policy). Value Chain Partners and Aggregators that contract with the Fund recognize that farmers will only produce adequate product where they have food security.

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

Considering the level of co-financing that may be available to the fund, a detailed description of financial and environmental added value provided through GEF financing and a clearer description of how GEF funding is necessary to catalyze further investment is requested.

Agency Response <!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->
This question is the same as that in #3 above, and the answer is provided below:

I. Financial value added. The GEF's investment into the Food Securities Fund adds value in three ways: 1) by enabling it to achieve economies of scale already in the first year of operations; 2) by stabilizing its investor base; and 3) by sending an invaluable signal to other potential investors and stakeholders.

1) Economies of scale - the Food Securities Fund is a regulated vehicle in Luxembourg, with all the characteristics required to attract institutional investors and thereby achieve impact at scale. This structure, however, results in considerable fixed costs and forces the Fund to achieve a reasonable size at launch (or soon after that). While considerable interest and commitments have already been secured from investors, the GEF's investment clearly strengthens the Fund's capital base and should allow it to reach a capitalization of USD 50m within the first 12 months of operations.

2) Stable investor base - Clarmondial has structured the Fund in consultation with leading institutional investors, who indicated that they strongly prefer investment funds with at least quarterly subscription and redemption opportunities, and linked with this, quarterly valuation. Although these institutional investors are unlikely to come-and-go each quarter, we require a longer-term view in order to plan for adequate budget and liquidity of the Food Securities Fund, in particular in the first two years where the Net Asset Value (NAV) is likely to be smaller. The GEF's commitment to remain invested in the Fund for eight years provides a solid foundation on which to grow, and improves the Fund's ability to build a stable, well diversified portfolio of investments.

3) Signal effect - The Food Securities Fund uses an innovative blended finance strategy to address a critical gap faced by responsible agriculture companies in emerging markets. The GEF's investment will constitute an invaluable signal to other potential investors that are considering an investment, and thereby help mobilize private capital at scale. Other stakeholders, including the Luxembourg regulator, potential investees, and service providers, also value the GEF's investment as a strong sign of support.

II. Environmental value added. The GEF's investment is critical to the launch of the Food Securities Fund, allowing it to create environmental value added through its investments. In particular, the Fund will (a) provide incentives for improved agricultural production and generation of environmental benefits; (b) create a robust base for impact monitoring, reporting and generation; and (c) ensure impact creation in the long term.

a) The Food Securities Fund will provide season-long working capital loans to responsible agriculture companies in emerging markets. In accordance with the Fund's ESG Policy, loans are tied to transparency and performance on pre-agreed financial and non-financial Key Performance Indicators (KPIs). By monitoring these KPIs, Clarmondial can track and support the borrowers' improvements. In the absence of sufficient improvements, the Fund may decide not to renew a loan. This is in contrast to other financial institutions, who typically have no (or weak) requirements related to non-financial performance. In effect, the loans provided by the Fund provide effective financial incentives for agriculture companies to continually improve their performance on environmental, social and governance (ESG) metrics. Additionally, as the Fund grows, it will benefit from economies of scale to provide cheaper funding, which will further increase additionality and the interest of the borrowers in meeting or exceeding environmental and social impact targets. The Food Securities Fund should also have a demonstration effect for other investors, corporates and policy makers.

The financial incentive is the loan in itself, and its renewal. The type of investment proposed by the Food Securities Fund is highly additional: pre-harvest unsecured loans at reasonable cost. Clarmondial is not aware of other financial institutions providing funding on these conditions. Aggregators will enjoy major benefits from these loans, as we have learned and observed onsite during the last 2+ years of pipeline development.

b) A major challenge to creating social and environmental impacts and considering these as material factors in lending or investment decision making is a lack of reliable and consistent data. By requiring borrowers to regularly report on a standard set of environmental and social KPIs, the Fund will enable better integration of impact factors (e.g. to set appropriate sectoral and geographical baselines). Clarmondial is committed to sharing its learnings, as described in the Food Securities Fund ESG Policy.

c) Clarmondial counts on an experienced team with backgrounds in impact investing, natural sciences and private investments in emerging markets. The team has dedicated significant time to formulate the Fund's theory of change, substantiated by the Fund's investment criteria and ESG Policy. Clarmondial recognizes that it is important to assure investors of its commitment to generating impact and to be accountable for these. It has therefore created an Impact Advisory Board to guide the Food Securities Fund, which includes a representative from Conservation International, and one from WWF-US. Other members will be announced soon. Investors will appreciate the GEF's commitment to the Fund as an endorsement of its ambition to create positive social and environmental impacts.

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

The information provided on GEBs requires clarification and additional work on quantification and methodology for calculating direct and indirect GEBs. The description of the activities supported by the project and their environmental objectives remain vague. Please elaborate with more details on how the activities of the project will directly generate environmental benefits.

Agency Response

<!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-

theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->
Added to Global Environmental Benefits section of the PIF

Clarmondial has taken a conservative and pragmatic approach to calculating targeted contributions to global environmental benefits. These are based on what we know from the current investment pipeline, but taking a conservative view. Impacts created by the Food Securities Fund include both qualitative and quantitative KPIs, which are summarized in the ESG Policy. This includes likely information sources for assessment.

For calculating direct contributions to GEF core indicators we have used the approaches described in the bullets below.

- Area of land restored (Ha): this is based on an estimate of the overall land that is likely to be in our portfolio in 2028, the proportion of that in loans that are renewed so they can result in restoration, and the commodity-geography mix where restoration is a particular focus of the Value Chain Partner and Aggregator. We estimate that on average each transaction will cover an area of 2,000 - 3,000 Hectares, that one third will be renewed for at least 5 cycles (consistent with the DCA guarantee), and that 15% relate to land restoration. However, we believe this is an extremely conservative estimate and that the proportion contributing to land restoration will be much higher.

- Area of landscapes under improved practices refers to the land area we expect to have under oversight of the Fund in 2028, based on similar assumptions as above. This is because we expect that all the land that comes under oversight of the Fund is under “improved practices”. However we again expect that this is an extremely conservative estimate based on the land area sizes we see associated with our current pipeline of transactions.

- Direct beneficiaries: this is based on estimates given our current portfolio. The Fund has set itself a target of at least 30% women benefitting from the Fund in 2028. We would be willing to consider revising this target based on the data from the first few years, i.e. to revise the target upwards if it is not ambitious enough.

Gender target revised to 50% women

Note also that these estimates only cover the situation in 2028, and not cumulative effects.

The approach to estimating greenhouse gas emissions mitigated the FAO EX ACT tool was done using the EX-ACT 7.2 excel calculation framework. In the "Description" tab the continent, climate, moisture regime, dominant regional soil type characteristics were selected given the expected portfolio. The implementation phase was selected as 1 year, and the capitalization phase 1 year. This is likely to be an under-estimate as in many cases the effects will be manifested over a few years as the loans are renewed. The "Cropland" and "Inputs" tabs were completed with the relevant information using estimates on prevailing and expected improved practices. However, this did not account for emissions associated with running a facility, and any improved energy management systems at facility level (also monitored and likely a requirement of Fund renewal of loans to Aggregators). In some cases the agricultural system was not covered by the FAO EX ACT tool in its current version, in this case we considered relevant scientific literature to estimate climate impacts.

It is important to note that in many of the agricultural value chains considered by the Fund, there is no high-quality baseline information. As a condition of its loan, the Food Securities Fund requires that borrowers report on impact factors on a quarterly basis. This will allow the Fund to both generate baseline information and propose realistic impact targets that can be improved upon over time as loans are renewed.

We have contacted Dr Louis Bockel from FAO, and would be willing to collaborate with him or other relevant scientific organisations to improve the EX ACT tool, including the value chain tool, so that it can better account for all the commodity-geography combinations we are considering and also be used to consider a portfolio approach, rather than having to estimate each commodity-geography system on a case by case basis in the excel set-up.

<!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-

latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->

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

Secretariat Comment at PIF/Work Program Inclusion

Yes.

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

No. Only reference to SSA.

Agency Response

<!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->

The Food Securities Fund can invest across all emerging and developing markets. Initially the Fund will focus on Sub Saharan Africa. The exact composition (enabling investment geo-reference) depends on the results of further financial and non-financial due diligence on potential borrowers.

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

Agency Response

Gender Equality and Women's Empowerment

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

Secretariat Comment at PIF/Work Program Inclusion

It is important to remember that the GEF's approach on gender is "do good" rather than "do no harm". Each agreement will need to include the proactive inclusion of women and the inclusion of activities, crops, and other areas where women work. It will be important to go beyond saying that a cooperative simply does not discriminate in who receives loans but rather actively seeks women out in design, decision making, and as beneficiaries. Women may be more active in the cultivation of certain crops or in processing and it is important that these differences recognized and supported. Please clarify and address.

Agency Response

<!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-

pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->
Added to the Gender section of the PIF

The Food Securities Fund intends to “do good” rather than “do no harm”. However, in order to “do good”, adequate baseline information is required. The Fund requires borrowers (Aggregators) to collect gender impact information as a condition to its loan (see the ESG Policy, in particular Impact Metrics under Part I, and Section B). While the Fund will consider this in its initial loan decision (e.g. comparing to any available baseline information on the geographical area or sector), we believe it will be difficult to set a target before engaging with the borrowers. The borrower may already be required to demonstrate certain improvements with respect to gender within the first loan cycle - e.g. increasing the number of women farmers trained. However, this will be agreed on a case by case basis.

The Food Securities Fund may require Aggregators to improve on gender considerations in the following aspects as appropriate in a particular situation:

a) Farmers: the Fund will require an estimate of farmers that the Aggregator sources from (gender split), and the number of women farmers engaged. As a condition of its loan, the Fund may require that the Aggregator increase the number of women farmers (women led farming households) that are engaged.

b) Farmer training: many Aggregators providing training and technical assistance for farmers. The Aggregator will be required to report on the gender split in such training. The Fund may require that the Aggregator increases its training to women farmers.

c) Rural jobs and job-related training: the Fund requires Aggregators to track the number of women employed (full time and part time), and women in managerial positions. The Aggregators may be required to track training of female staff, and to provide information on relevant policies (e.g. maternity leave, access to child care). The Fund may require the Aggregator to improve on these job-related aspects.

Progress on this impact dimension will be tracked by Clarmondial on a quarterly basis and considered in the context of loan renewal at least annually to ensure that adequate progress has been made. The Impact Advisory Board will also review the results, and a summary update report provided to investors on an annual basis.

Note that Clarmondial itself is a majority women-owned and -led business, which is unusual among investment advisors / fund managers, even in the impact space.

<!-- /* Font Definitions */ @font-face {font-family:"Cambria Math"; panose-1:2 4 5 3 5 4 6 3 2 4; mso-font-charset:0; mso-generic-font-family:roman; mso-font-pitch:variable; mso-font-signature:-536870145 1107305727 0 0 415 0;} @font-face {font-family:Calibri; panose-1:2 15 5 2 2 2 4 3 2 4; mso-font-charset:0; mso-generic-font-family:swiss; mso-font-pitch:variable; mso-font-signature:-536859905 -1073732485 9 0 511 0;} /* Style Definitions */ p.MsoNormal, li.MsoNormal, div.MsoNormal {mso-style-unhide:no; mso-style-qformat:yes; mso-style-parent:""; margin:0in; margin-bottom:.0001pt; mso-pagination:widow-orphan; font-size:12.0pt; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} .MsoChpDefault {mso-style-type:export-only; mso-default-props:yes; font-family:"Calibri",sans-serif; mso-ascii-font-family:Calibri; mso-ascii-theme-font:minor-latin; mso-fareast-font-family:Calibri; mso-fareast-theme-font:minor-latin; mso-hansi-font-family:Calibri; mso-hansi-theme-font:minor-latin; mso-bidi-font-family:"Times New Roman"; mso-bidi-theme-font:minor-bidi;} @page WordSection1 {size:8.5in 11.0in; margin:1.0in 1.0in 1.0in 1.0in; mso-header-margin:.5in; mso-footer-margin:.5in; mso-paper-source:0;} div.WordSection1 {page:WordSection1;} -->

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

Please elaborate on additional risks identified in section III under the comments to the termsheet and financial structure.

Agency Response The term sheet and financial structure have been updated.

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 Financial Structure.

1. Please elaborate how value chain partners (VCPs) will support the transaction, that is, how will the proposed risk sharing mechanism effectively work?

2. Please elaborate on the DCA guarantee mechanics: when is guarantee called, that is, does it cover defaults of interest rates and/or principal? How is the guarantee reimbursed? If the guarantee covers only one borrower, which borrower would that be? Please explain the value of the DCA credit guarantee as credit enhancement to the overall structure given it covers a single borrower.

3. Currency considerations: What hedging instruments will be purchased? Is the fund planning to use swaps as a hedging strategy?

4. Maturity of underlying investments: are agricultural loans of 6-12 months matching agricultural cycles? In many crops, changes in climate, rain patterns, soil quality, etc are causing longer repayment periods. What mechanism is foreseen in case refinancing is required?

5. Revolving feature of fund: Please elaborate on the cash management strategies of the fund as underlying investments are short term (6-12 months) but the life of the fund is open ended. Please identify the planned exit strategy and timing.

6. Legal contracts and jurisdiction: Who is in charge of drafting legal documents at the fund level but also at investment level? Will loan contracts signed with aggregators be under under local law or US law / EU law?

Fund Structure as defined in section 3 of the PIF Proposed alternative scenario:

7. The Fund structure, governance and remuneration scheme raise concerns on the lack of strong alignment of interests and adequate incentives for the different parties involved. Although there are no GPs or LPs per se, there is a need of pipeline generation and active role of fund manager in analyzing and selecting projects. This is different from certain financial structures in which administrators are remunerated with flat fees, such as ETFs, that track existing underlying or SPVs that serve as warehousing vehicles of already originated assets. Please explain how a flat fee would incentivize pipeline identification and sound selection of projects.

Additionally, the split in responsibilities between due diligence (valuation) and investment decisions is a weak link in the structure. We recommend adjusting the structure to align incentives and ensure “skin in the game” of the different key parties. A direct participation of Clarmondial in the investment committee, and a direct contribution/financing participation in the fund would also be welcomed.

8. Composition of the investment committee: how many members? Please provide CV of Fund Manager and key executives.

9. Fund Investment Strategy: does the investment policy include concentration limits per investments/countries? Does the investment policy include integrity review of underlying investments as well as AML considerations if the aggregator is a financial intermediary (i.e., cooperatives)? Are there any activities that are excluded from investment according to agency's policies?

10. Credit analysis: please elaborate on the selection process of. As the nature of those aggregators is vast please elaborate on credit considerations when selecting the "agricultural SME" (processing companies, traders and cooperatives) . Also, please elaborate on how the aggregators will select loan recipients (i.e. based on their internal data/credit history, will there be a threshold established?).

11. Exit Strategy: please explain the fund manager experience in negotiating exit strategy.

12. In the partnership agreement (or similar legal agreement) between the parties we are interested in the ability of LPs or investors to (i) replace Fund Manager (with or without cause), (ii) to advise, on deals with GEF funding, (iii) to approve and decide on changes to valuation methodology, (iv) to decide on any material modifications to investment policies, (v) to decide on any changes to Partnership Agreement (vi) appoint or change Fund's auditors, (vii) decide on changes to key persons, (viii) provisions for limited partners such as the GEF on voting regime, opting out investments if necessary, admission of new LPs.

Additional comments as of 11/4/2019

- Strengthen CI role in the selection of and investment in sites to ensure landscape scope of our investment. We suggest CI having a say at investment level instead of the advisory board which is one step removed from decision making.
- Auditors role in certifying global environment benefits as defined by the GEF. We suggested CI could help train the auditors.
- CI potential role as lender to the fund could conflict with their role representing us as equity investors. CI to include wording to address our concern on potential conflict of interest.

Agency Response

1) Value Chain Partners (VCPs) will help Clarmondial originate transactions for the Food Securities Fund, by recommending their suppliers (Aggregators) that match the Fund's borrower investment criteria. When making a loan to an Aggregator, the Fund will negotiate a first loss guarantee with the VCP that introduced the Aggregator. Depending on the case, this first-loss guarantee will cover 10 to 40% of the loan (principal). If the Aggregator defaults on the loan, the VCP will compensate the Fund for part of its losses. Exact terms will be negotiated on each case along the lines of to those of the USAID guarantee agreement (e.g. best effort recovery period, reimbursement upon recovery, etc.). Indicative terms sheets have been signed with Aggregators and VCPs.

Yes, the VCP guarantee is a standard feature for the loans made by the Fund.

Only in exceptional cases (and subject to the availability of collateral), can the Board of Directors can waive this requirement.

2) The agreement with USAID Development Credit Authority (DCA) and the Bureau for Food Security (BFS) covers 50% of the remaining loss, pari passu with the Fund, after the VCP first loss coverage. For example, on a USD 1m loan with a 20% (USD 0.2m) first loss guarantee from the VCP, the Fund and USAID would each bear 40% (USD 0.4m) of the credit risk. When a loan is disbursed, the Fund registers it on the USAID Credit Management System. These multiple entries can add up to USD 37.5m in USAID exposure, i.e. this is the maximum payment by USAID if all deals fail. Renewed loans are counted only at original entry. Assuming average 25% first loss covered by the VCPs, and remaining 75% exposure divided between Fund and USAID, the USAID guarantee covers a portfolio of USD 100m. The guarantee covers only the loan principal, not interest payments. Claims will be honored following a 90-day period of reasonable recovery efforts by Clarmondial, and full write-off of the loan by the Fund. Clarmondial intends to place all loans under the USAID guarantee up to the available limit (subject to country credit rating and other parameters demanded by USAID). The costs payable by the Fund to USAID are divided into a one-off origination fee and a semi-annual utilization fee.

The VCPs will provide a first loss guarantee. If such guarantee is not sufficient to cover the outstanding amount, the remaining losses will be equally divided between USAID and the Fund. The Fund will enter into specific guarantee agreements with the VCPs. The Fund has entered into a guarantee agreement with USAID – whose payment amount depends on the VCP coverage, but the actual payment is independent of the VCP reimbursement. Typically, the Fund will not require that the guaranteed amount is readily available in a cash account, due the credit worthiness of the VCPs and the cost of such approach.

Clarmondial will lead the recovery efforts on non-performing loans. We will negotiate with borrowers in default and liaise with the guarantee providers (VCPs and USAID). The USAID guarantee is paid out of the Fund's bank account.

The Fund has a maximum Total Expense Ratio equivalent to 0.5% of the Net Asset Value (NAV) per quarter. Clarmondial receives the remaining amount after all service providers (AIFM, custodian, legal advisers, etc.) are paid. In practice, the payment to USAID reduces the amounts available for Clarmondial, so one can argue that Clarmondial is responsible for all expenses.

If there is a default, the VCP guarantee covers the initial loss. Additional losses are equally divided between USAID and the Fund. Once the monies are recovered, the reverse order applies: first the Fund and USAID are equally refunded, then the VCP.

3) Mostly futures will be purchased. The fund is not planning to use swaps. Exact construction (e.g. ACC - advances on FX contracts related to exports in Brazil; or onshore OTC FX Future with a Certificate of Capital Importation in Nigeria) will be discussed with and arranged through commercial banks in each country for each loan as and when required.

4) Yes, loans will have typical tenors of up to 12 months to match a full agriculture cycle – i.e. including processing and export stages. If the borrower is not able to repay the loan on time, the Fund will assess what caused the event of default and the options available. Equity or asset ownership will be avoided.

The tenor has been discussed with potential borrowers, who confirm it matches their needs. Clarmondial has secured over USD 100m in pipeline for the Food Securities Fund under the proposed terms. The loans will be used to cover inter-seasonal working capital needs, especially those required by smallholder farmers prior to and during the harvest period. For example, this may be to advance improved seeds in the case of annuals, and technical assistance for pruning in the case of tree crops / perennials.

Longer tenors may cause a mismatch with the quarterly liquidity offered to investors. However, longer tenors may eventually be considered subject to the overall composition of the portfolio.

Due to the guarantee structure, the investment strategy is based on senior unsecured loans.

5) The Fund will try to optimize liquidity management by matching investment pipeline with subscription applications (quarterly with 30 calendar day advance notice) and redemption requests (quarterly with 60 business day advance notice). Liquidity allocation will be discussed between the Fund, the Fund Manager and the Central Administrator. The Fund aims to have a varied portfolio of loans disbursed, repaid and renewed throughout the year. Redemption requests will be served via liquidity management, i.e. by (re-)investing only the cash available net of redemption requests from investors.

Based on the prospectus, the Fund is allowed invest in various asset classes and financial products. This flexibility allows for cash management and greater flexibility in the recovery of non-performing loans.

The investment strategy is based on private loan agreements (i.e. senior unsecured loans) executed between the Fund and the Aggregator, backed by private guarantee agreements executed between the Fund and the VCPs. These agreements will be typically denominated in USD (or in EUR, or in local currency hedged back to USD).

6) Allen & Overy in Luxembourg are the legal advisers to the Fund. They review all legal documents at fund and investment levels. Loan and guarantee agreements will be executed under US / EU laws unless local regulations in investment countries require otherwise, in which case appropriate legal advice will be accessed.

The Fund has a maximum Total Expense Ratio equivalent to 0.5% of the Net Asset Value (NAV) per quarter. Clarmondial receives the remaining amount after all service providers (AIFM, custodian, USAID, etc.) are paid. In practice, the payment to legal advisers reduces the amounts available for Clarmondial, so one can argue that Clarmondial is responsible for all expenses.

7) It is correct that, unlike private equity funds, the Fund does not have a GP / LP structure and does not pay performance fees. There is nevertheless a direct alignment between investors and the Fund's service providers as the Fund offers investors quarterly liquidity: if the Fund performs poorly, investors may redeem their shares, causing the Fund's Net Asset Value (NAV) to drop. Service providers are directly affected by this as the NAV is the basis for the calculation of their fee. The Clarmondial team have made significant personal and professional contributions to developing this Fund, and sees the success of the Fund as a basis for growing the business.

The Fund has a maximum total expense ratio of 0.5% of the Net Asset Value (NAV) per quarter. Fees to service providers are paid according to the service agreements. Clarmondial is paid the remaining amount as Investment Advisor to the Fund. No service provider, including Clarmondial, is entitled to performance related fees. This point was discussed at length with institutional investors and potential anchor investors who stated that they did not think such performance related fees were appropriate for this type of structure.

Clarmondial is responsible for deal origination and assessment (due diligence), submitting proposals to its Investment Advisory Committee prior to recommendation to the Fund Manager's Investment Committee. Clarmondial has contracted experienced independent professionals to participate in the Investment Advisory Committee and on the Investment Committee. The policies and processes are and will be documented.

Clarmondial will lead the recovery efforts on non-performing loans. We will negotiate with borrowers in default and liaise with the guarantee providers (VCPs and USAID). If required, in addition to the legal advice of Allen & Overy, Clarmondial will engage local legal service providers and additional support (especially if the loan agreement includes collateral).

8) The Investment Advisory Committee is currently composed by Tanja Havemann (Founder and CEO of Clarmondial, Board member of the Fund), Christian Speckhardt (Board member of the Fund), Danny van Det (independent) and Frank Hicks (advisor to Clarmondial). Clarmondial is waiting for approvals to announce another member with extensive experience in credit to agricultural companies in emerging markets. Bios are available at www.clarmondial.com/team and www.clarmondial.com/advisory-board

9) Yes. The prospectus states that the Fund will not invest more than 30% of its gross assets in any one investment, but the internal policy is stricter: no more than 25% exposure per country, commodity, VCP or Aggregator. Also, the guarantee agreement with USAID forces the Fund into an allocation balance between country risk ratings and Feed the Future country priorities in order to optimize the usage of the guarantee. Integrity and the due diligence scope are assessed by the various investment governance bodies (Investment Advisory Committee, Investment Committee, Fund Manager) and both the Fund Manager (Vistra) and Central Administrator / Depositary (Bank Pictet Group) are subject to AML / CFT regulations. Various activities are excluded from investment, as listed in the ESG Policy.

USAID is not involved in investment decisions, but their criteria may affect the portfolio composition.

The USAID guarantee agreement lists some criteria, mechanisms and exposure limits, for example:
- The maximum USAID DCA exposure per borrower is USD 6m.
- USAID DCA does not guarantee the first 10% loss (which should be covered by the VCP).
- The loan should not have more than 75% in guarantees by the VCP or other parties.
- The maximum total exposure is USD 37.5m, of which at least USD 18.75m should be allocated by 31 March 2023 and the remaining by 31 March 2027.
- At least 25% of the cumulative USAID exposure should be allocated to Feed the Future Focus Countries.
- At least 50% of the cumulative USAID exposure should be allocated to Feed the Future Focus and Aligned Countries.
- The weighted average country risk rating of the USAID exposure should not exceed 5.0 (based on the USAID country credit score).

Once a loan agreement is executed, it will be added to the USAID web portal and automatically covered without individual approvals (except for the overall limits mentioned above).

On certain cases, the Fund may choose not to register a loan under the USAID guarantee (e.g. if the VCP provides sufficient guarantees or if other guarantors are engaged).

10) Investment criteria include financial and non-financial (ESG) components, in addition to the first loss guarantee by the VCP (which is typically an offtaker with trading history with the Aggregator). Standard requirements include (i) a suitable legal setup; (ii) annual financial statements for the previous 3 years of operation; (iii)

no defaults on financial commitments during in the previous 3 years; (iv) adequate business size / volume and equity to absorb the proposed loan; (v) commitment to comply with the Fund's ESG Policy. Clarmondial will perform off and on-site due diligence and also deploy its best efforts to evaluate the integrity of the borrowers' managers and shareholders, as well as any reputational risks associated with the proposed transaction.

11) As the Food Securities Fund provides working capital loans with a fixed tenor, it will not have to negotiate exits. Irrespectively, Clarmondial's team and the Fund's Board Members have negotiated exits from investments in the past.

12) The EA appreciates these investor protection rights and are aware of them being used for closed ended fund structures (e.g. private equity funds). For open-ended funds some of those rights may not be in place because investors have the option to redeem their shares (exit the investment) if they are not comfortable with the performance or proposed changes. In the case of the Food Securities Fund:
(i) the Fund Manager can be replaced by a super majority decision (66% of the votes) of the Fund's Board of Directors (and subject to CSSF approval of a new fund manager);
(ii) investors cannot advise on specific transactions, on deals with GEF funding or other sources;
(iii) changes to the valuation methodology must be approved by the Fund's Board of Directors and the Fund Manager;
(iv) changes to the investment policies must be approved by the Fund's Board of Directors and the Fund Manager;
(v) there is no partnership agreement. Changes to the prospectus (Confidential Offering Memorandum) and Articles of Incorporation must be approved by the Luxembourg regulator (CSSF) and a majority decision by shareholders;
(vi) Fund auditors are appointed by majority decision at the annual shareholders meeting;
(vii) to date there are no restrictions to key persons;
(viii) there are no such provisions on voting regime or investment decision to any investor. The Fund's Board of Directors may reject a subscription application if it is deemed to be against the interests and functioning of the Fund.

Note that the Food Securities Fund is regulated by the Luxembourg supervisory authority (CSSF), whose mandate it is to protect investors in Luxembourg funds.

Comments as of Oct 24th 2019

After receiving additional information on the AIFM structure, we provide the following comments to be included in the PIF for December WP. Please note the below additional comments to be included in the PIF:

• Please in the section of the Fund Structure, (i) further elaborate on the role of Clarmondial in managing portfolio delinquencies, (ii) note that the GEF requires legal due diligence (DD) before GEF CEO endorsement of the project.
• CI-GEF Response 10/20/2019: Default workouts: the VCP guarantee covers the initial loss on non-performing loans / overdue repayments. Losses that exceed the VCP guarantee are equally divided between USAID and the Food Securities Fund. Once the monies are recovered, the reverse order applies: first the Fund and USAID are equally refunded, then the VCP. Clarmondial will lead the recovery efforts on non-performing loans. It will negotiate with borrowers in default and liaise with the guarantee providers (VCPs and USAID). If required, in addition to the legal advice of Allen & Overy, Clarmondial will engage local legal service providers and additional support (especially if the loan agreement includes collateral). Text included in the term sheet.
• The result of the DD should result in detailed analysis and assessment by a law office acceptable to CI of (a) the legal and structural risks identified after analysis of the Investment Advisory Agreement; (b) a legal opinion that no additional risks arise given that Clarmondial is an advisory company (and not a portfolio manager) as well as the fact that they are based in Switzerland- and Luxembourg law does not apply there-.
• CI-GEF Response 10/20/2019: Text on due diligence being completed by CI prior to CEO endorsement has been included in the Term Sheet.
• The GEF participation in the Fund as equity investor: please confirm that the GEF can exit the Fund whenever. Please describe liquidity of the fund: i.e. I we would appreciate deeper understanding of frequency and options for investors to come in/redeem. Is there any kind of "lock up"? How would pricing be provided to investors?
• CI-GEF Response 10/20/2019: Please note that, despite of the commitment to remain invested in the Food Securities Fund for eight years, the GEF can submit a redemption request at any quarter like other investors (with 60 calendar days advance notice, as defined in the prospectus). The structure has no lock up mechanism, other than a liquidity protection (gate mechanism) that protects investors by limiting redemption payments to 10% of the NAV per quarter. Shares are redeemed at the NAV per share published for the relevant quarter, without a discount. The Fund will manage its cash / liquidity levels to address redemption requests (and subscription applications) in an efficient manner - e.g. by not extending new loans or renewing outstanding ones. Text included in the PIF under the Incremental Cost Reasoning Section

• Additional questions to CI to be specified in the PIF
- Please specify the process under which CI will undergo due diligence; Will there be CI board action/investment committee?
• CI-GEF Response 10/20/2019: Financial and legal due diligence will be conducted by CI's General Counsel's Office (GCO), Finance Division, and the Conservation Finance Division with support from external counsel. Depending on the risk level identified during the due diligence process, CI's General Counsel will consult with CI's Board before CEO endorsement.
- We would suggest that GEF has a direct role in the governance side by side with CI in the advisory board as the investment is innovative
• CI-GEF Response 10/20/2019: Agreed. As mentioned CI is part of the Investment Advisory Board and the GEF is also invited to participate. Text included in the PIF under the Global Environmental Benefits section

Responses to Comments as of November 4 2019

1. GEF: Strengthen CI role in the selection of and investment in sites to ensure landscape scope of our investment. We suggest CI having a say at investment level instead of the advisory board which is one step removed from decision making.

The Food Securities Fund will invest in landscapes that generate GEBs. To ensure that the obligations of GEF funding are met, proceeds of the GEF investment into the Fund will be given particular attention. GEF funding will be earmarked for landscapes with high global environmental benefit. Specifically for these investments, Conservation International, as the GEF agency, will review site selection prior to deployment of GEF earmarked proceeds to ensure that GEF criteria, potential to generate GEBs and core indicator targets are met. For avoidance of doubt, as long as the total of liquidity (cash & cash equivalents) and Conservation International-approved allocation is greater than the amount invested by the GEF in the Fund (i.e. the Fund is allowed to execute investments not submitted to, or approved by, Conservation International. Exact limits and procedures will be discussed during the Project Preparation phase.

2. Strengthen technical monitoring and evaluation.

CI and The Food Securities Fund commit to contracting an auditor to verify the annual GEB report covering the allocation of the GEF proceeds. Conservation International will provide training to such auditor and oversee the process. Exact procedures will be discussed during the Project Preparation phase.

3. GEF sees a potential conflict of interest in CI providing a loan to Clarmondial.

In order to address potential conflicts of interest, Clarmondial and Conservation International will discuss the potential loan with the GEF team during the Project Preparation phase. The execution of such loan agreement will require written consent from the GEF.

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

November 2019

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

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